

Oct 23, 2012

R&I Affirms AA-, Stable: Frontier Real Estate Investment Corp.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Frontier Real Estate Investment Corp.
Issuer Rating: AA-, Affirmed
Rating Outlook: Stable

RATIONALE:

Frontier Real Estate Investment Corp. (FRI) is a real estate investment trust (J-REIT) that went public in August 2004. The Reit specializes in retail facilities and is sponsored by Mitsui Fudosan Co., Ltd.

FRI's portfolio is primarily composed of large facilities that are very competitive in the prime commercial areas of large city suburbs. While the Reit has properties nationwide, 44% of them are located in the Tokyo metropolitan area. The average acquisition price per property is as high as 9.1 billion yen, and its properties are relatively new, with the average age weighted by acquisition price standing at approximately 8 years.

In 2012, FRI acquired three properties for a total of 24.6 billion yen. Accordingly, its asset size has expanded to more than 240 billion yen. VIORO, the highest priced among the three (10.1 billion yen) and a quality property located in the center of the Tenjin area of Fukuoka City, was acquired from an external entity. FRI has steadily increased property acquisitions from external entities, while continuing to utilize its sponsor's pipeline.

The NOI yield for the term ended June 2012 was 5.8%, suggesting that FRI maintains a relatively high earning capacity. While the business environment for the retail industry remains harsh, its impact on cash flow has been mitigated because FRI's portfolio has the following strengths: (1) its properties, such as the largest store in town, are generally highly competitive; (2) many of its properties are on lease under long-term, stable contracts with highly creditworthy tenants; and (3) the asset manager and the sponsor's ability to operate retail facilities is high.

The top five properties, however, account for 43% of the portfolio on an acquisition price basis. In addition, with many properties being leased to a single tenant, concentration on certain tenants also exists. In order to reduce such risks as unexpected move-outs and rent decreases, it is essential to make the portfolio more diverse through continued steady external growth.

FRI plans to manage the LTV ratio (*) in the range of 40-50%. The ratio has been lowered to 43% as a result of the public offering of investment units and loan repayment in July 2012. The debt-equity structure is kept sound with the appraisal value of assets as of end-June 2012 10% higher than the book value.

FRI utilizes tenant and security deposits received from its retail facility tenants as a long-term, low-cost funding-raising means. Although the ratio of financing through these deposits is gradually falling with the expansion of the asset size, FRI maintains a sound debt-equity structure by raising funds on favorable terms through, for example, loans and bonds.

The loans extended to FRI have been all unsecured and unguaranteed from the start, and the Reit remains in good business relationships with domestic megabanks, trust banks and other major financial institutions. Moreover, FRI has a total of 14.5 billion yen in committed credit lines, which are all unused at present.

The Rating Outlook is Stable. FRI intends to continue selectively investing in properties that can generate stable earnings over the mid and long terms, taking advantage of its sponsor's pipeline. On the financial front, R&I expects the Reit to maintain its conservative leverage management policy and a stable funding base.

(*) LTV: (Borrowings, etc. + Tenant and security deposits - Unrestricted cash and deposits) / (Total assets balance - Unrestricted cash and deposits)

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan <http://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>. © Rating and Investment Information, Inc.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

ISSUER: **Frontier Real Estate Investment Corp. (Sec. Code: 8964)**

RATING: **Issuer Rating**
AA-, Affirmed

RATING OUTLOOK: **Stable**

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 11, 2011	Mar 11, 2016	JPY 5,000
RATING:	AA-, Affirmed		