

Oct 17, 2017

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 was listed in August 2004. The REIT specializes in retail facilities and is sponsored by Mitsui Fudosan Co., Ltd.

FRI has created a quality, highly stable portfolio by investing primarily in large retail facilities with strong competitiveness. While its properties are located across the nation, those in the Tokyo metropolitan area account for the majority of the portfolio. The average acquisition price is high at approximately 8.9 billion yen, and the properties are relatively new, with the building age weighted by acquisition price averaging around 11 years.

FRI acquired only one property (land interest) in Zama City in the past year, which reflects a sense of overheating remaining in the real estate transaction market. Given the sponsor's extensive pipeline, however, the REIT is expected to acquire quality properties continuously even in the challenging environment.

FRI's portfolio mostly consists of properties that are located in the vicinity of stations in metropolitan areas with a large population. The core of these properties is constituted by high-traffic, large-scale shopping malls, which are managed prudently by established operators such as Mitsui Fudosan. Although the environment for suburban retail facilities is harsh, R&I expects FRI to achieve stable earnings over the medium and long term, given that the average remaining term of lease contracts is very long at more than 10 years.

The LTV ratio in FRI's definition (including leasehold and security deposits, excluding unrestricted cash and deposits) is as low as approximately 42%. Since FRI plans to manage the LTV ratio in the conservative range of 40-50%, its sound financial profile will likely be maintained. The REIT has relatively large unrealized gains, as evidenced by the appraisal value as of June 2017 exceeding the book value by about 21%.

The average remaining term to maturity is long at 4.8 years (as of June 2017), with due dates staggered over a long period of time. An available committed line of credit of 15 billion yen is sufficient to cover annual repayments. As regards borrowing costs, FRI is in a more advantageous position over other REITs.

The Rating Outlook is Stable. FRI intends to continue to make new investments by carefully selecting properties utilizing the sponsor's pipeline without getting involved in excessive competition. Earnings from existing properties will likely hold steady even in the challenging environment. The leverage level is low, and the funding base is robust.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

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R&I RATINGS:**ISSUER:****Frontier Real Estate Investment Corp. (Sec. Code: 8964)****Issuer Rating****RATING:****AA-, Affirmed****RATING OUTLOOK:****Stable**

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