

Oct 25, 2011

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, specializing in retail facilities. Its sponsor is Mitsui Fudosan Co., Ltd.

FRI's portfolio is primarily composed of large facilities that are very competitive in prime commercial areas in suburbs of large cities. While their locations are dispersed nationwide, a little more than 50% of its properties are located in the Tokyo metropolitan area. The average acquisition price per property is as high as 9.2 billion yen. Its properties are relatively new, with the average age weighted by acquisition price standing at approximately 7 years.

FRI has steadily achieved external growth by utilizing the pipeline from the sponsor, etc. In 2011, FRI acquired Mitsui Shopping Park LaLagarden Kasukabe and Shimura Shopping Center for 10 billion yen and 4.4 billion yen, respectively. Accordingly, its asset size has expanded to more than 220 billion yen on an acquisition price basis. R&I believes that the acquisition of these properties will contribute to further stabilization of its earnings base, since both are highly competitive in the submarket and are on lease under long-term agreements.

The net operating income (NOI) yield for the term ended June 2011 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 FRI's cash flow has been reduced, in that (1) The REIT's properties, such as a No.1 store in town, largely maintain a high competitive edge; (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 have high ability to operate retail facilities.

The top five properties, however, account for 48% of the total acquisition price, demonstrating concentration on some properties. In addition, with many properties being leased to a single tenant, concentration on certain tenants also exists. In order to reduce risks of unexpected move-outs and rent decrease and other risks, it is essential to make the portfolio more diverse through continued steady external growth.

A debt ratio (*) was 46.8% at the end of June 2011. Though slightly higher than before, the ratio has been kept within its management policy, which sets the upper limit at 50%. FRI's assets have appreciated with the assessed value at the end of June 2011 being about 8% higher than the book value.

FRI utilizes security and guarantee deposits received from its retail facility tenants as one of the effective financing means, which offers FRI financial benefits such as reduction in borrowing costs and lengthening of the maturity profile. Since the practice of providing a large amount of deposits has diminished, the ratio of financing through the deposits is most likely to fall with the expansion of its asset size going forward. It becomes more important for FRI to lengthen the maturity profile by borrowing and issuing corporate bonds. FRI is making efforts for longer maturity by financing with a maturity of and over five years at relatively low costs.

The loans that have so far been extended to FRI are unsecured and unguaranteed, and the REIT maintains good business relationships with domestic mega banks, trust banks and other major financial institutions. FRI has set the committed line of credit of 16 billion yen, totally, suggesting that the sufficient level of liquidity is ensured.

The Rating Outlook is Stable. FRI intends to continue selectively investing in properties that can generate stable earnings over the mid and long term by using the pipeline from the sponsor. On the

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financial front, R&I expects the REIT to maintain its conservative leverage management policy and continue stable funding.

(*) Debt ratio: (Loans + security and guarantee deposits - unrestricted cash and deposits) / (total assets - unrestricted cash and deposits)

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		