

Nov 02, 2018

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 properties are relatively new, with the building age weighted by acquisition price averaging around 12 years.

In March 2018, FRI acquired "Sakae Globe (60% quasi co-ownership)", a property developed by the sponsor, for 9.3 billion yen. The property is a new building with high scarcity value, located in the center of Nagoya City. With an asset size reaching 300 billion yen, the REIT is expected to continue steady external growth using the sponsor's pipeline.

The breakdown of the portfolio by property type shows that large-scale shopping centers (SCs), medium-scale SCs, urban retail facilities and land interests account for 45.0%, 26.7%, 19.6% and 8.7%, respectively. Large-scale SCs house tenants with a high ability to attract customers including "LaLaport", a shopping mall operated by Mitsui Fudosan. Urban retail facilities face onto a main street and are largely situated in good locations. Medium-scale SCs and retail facilities where FRI has a land interest are mostly community-oriented properties located in the suburban areas of the major cities and generate stable earnings.

Although the environment for suburban retail facilities is harsh, the competitiveness of FRI's retail facilities is broadly high, and efforts to maintain and improve the competitiveness are firmly underway in collaboration with tenants. Given these factors, as well as the average remaining term of lease contracts that is very long at more than 10 years, R&I expects FRI to achieve stable earnings over the medium and long term.

While the LTV ratio in FRI's definition, (borrowings and bonds + leasehold and security deposits - unrestricted cash and deposits) / (total assets - unrestricted cash and deposits), is approximately 44%, the interest-bearing debt ratio is very low at the 30-35% range. The REIT has relatively large unrealized gains, as evidenced by the appraisal value as of June 2018 exceeding the book value by about 23%.

The average remaining term to maturity is as long as 5 years (as of June 2018), 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 funding 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

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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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