

Oct 26, 2016

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 primarily invests in highly competitive large retail facilities. While their locations are diversified across the nation, properties in the Greater Tokyo Area account for 54% of total on an acquisition price basis. The average acquisition price is high at approximately 9.0 billion yen, and the REIT's properties are relatively new, with the building age weighted by acquisition price averaging around 10 years (as of August 2016).

In June 2016, FRI sold a property in Okayama City, which had been substantially affected by the opening of a rival facility. Meanwhile, in August 2016, it additionally acquired the 50% co-ownership of "Mitsui Shopping Park LaLaport SHIN-MISATO", which had been developed by the sponsor, for 15.1 billion yen, aiming to reinforce its portfolio. With the sponsor's pipeline remaining extensive, the REIT can be expected to acquire quality properties continuously even under the difficult environment for property acquisitions.

The environment for suburban retail facilities has been increasingly challenging. FRI's portfolio, however, mostly consists of properties located in the vicinity of stations in metropolitan areas. Among the properties, large shopping malls with strong ability to attract customers constitute the core of the portfolio, while general merchandise stores represent a limited percentage. Overall, FRI's portfolio is highly competitive. Given this, along with the fact that the average remaining term of lease contracts is very long at more than 10 years, stable earnings will likely continue to be generated.

The LTV ratio (*) has been low at approximately 42%. FRI plans to manage the LTV ratio in the conservative range of 40-50%, and the sound financial profile is expected to be maintained. Its properties' appraisal value as of June 2016 was around 20% above the book value. This suggests large unrealized gains.

FRI's funding base is solid. The average remaining term to maturity of debts is as long as 4.3 years (as of June 2016) and the due dates are staggered over a long period of time. The committed line of credit was set at 15 billion yen in total, but is sufficient to cover the annual repayment. Moreover, the REIT uses tenant and security deposits received from its tenants as a long-term, low-cost fundraising means.

The Rating Outlook is Stable. FRI plans to continue to capitalize on the sponsor's pipeline, and thereby carefully choose properties and make new investments without getting involved in excessive competition. Earnings from existing properties will likely hold steady even in the harsh environment. On the financing front, the REIT is expected to maintain its conservative leverage management stance and stable funding base.

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

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.

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