

Oct 28, 2014

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 commercial facilities. Their locations are diversified across the nation. However, on an acquisition price basis, properties in the Greater Tokyo Area account for approximately 51% of total. The average acquisition price is high at 8.9 billion yen, and the REIT's properties are relatively new, with the building age weighted by acquisition price averaging 8.7 years. Since most tenants have signed a long-term lease contract, the average remaining term of contracts is very long at 11.4 years (all numbers are as of August 2014).

On the back of the real estate market boom, FRI sold two properties in November 2013 in an effort to strengthen its portfolio. Its property acquisition pace is slowing at present. However, it intends to make steady property acquisitions from the sponsor's pipeline, and avoids getting involved in excessive competition. In February 2014, the REIT obtained preferential negotiating rights for the acquisition of "Mitsui Shopping Park LaLaport SHIN-MISATO".

The NOI yield in the term ended June 2014 of 5.8% suggests that FRI has maintained a relatively high earning capacity. The REIT intends to raise the ratio of urban properties going forward, in which case the NOI yield may decline somewhat from the current level. Even so, increases in quality urban properties may lead to portfolio quality enhancement.

The competitive landscape of commercial facilities continues to be harsh. Some of FRI's properties are affected by the opening of rival facilities. However, given the competitiveness of its properties and the stability of the lease contracts, there is a limited risk that FRI's overall earnings will fall. In addition to the above strengths, the REIT is actively working to maintain and enhance competitiveness through facility refurbishment.

The LTV ratio (*) is low at 39.2% as of June 2014. FRI plans to manage the LTV ratio in the conservative range of 40-50%. Considering its historical performance and good access to the capital market, the sound financial profile will be maintained going forward. Its properties' appraisal value as of June 2014 was 13% above the book value. This suggests that unrealized gains have expanded.

Its funding base is solid. FRI has been able to borrow money at favorable terms from major domestic financial institutions, and its debts' average remaining term to maturity is long at 3.6 years (as of June 2014). Given that the due dates are staggered every year through 2025, with the annual repayment being below the committed line of credit (19 billion yen in total), the REIT maintains sufficient liquidity. Moreover, it uses tenant and security deposits received from its retail facility tenants as a long-term, low-cost fundraising means.

The Rating Outlook is Stable. FRI plans to capitalize on the sponsor's pipeline and other sources, and thereby carefully choose properties that can generate stable earnings over the medium to long term. 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)

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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>

R&I RATINGS:

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