

Oct 17, 2019

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

FRI acquired three urban retail facilities (including additional acquisition) located in Japan's most prominent downtown areas for a total of 33 billion yen. The acquisition of these assets, all of which are scarce quality properties developed by Mitsui Fudosan, led to higher quality and rejuvenation of the portfolio.

Meanwhile, FRI sold a retail facility located in the suburban area of Hiroshima City, where competition has been intensifying, at 3.8 billion yen, a lower price than the book value of the property. This showed again the harsh management environment for suburban retail facilities. Nevertheless, the acquisition of the above-mentioned urban properties seems to have helped mitigate future risks.

FRI has created a well-balanced portfolio by investing mainly in large-scale shopping centers (SCs), as well as in medium-scale SCs, urban retail facilities and land interests. The large-scale SCs house tenants with a high ability to attract customers, including "LaLaport", a shopping mall operated by Mitsui Fudosan. The urban retail facilities situated in major downtown areas are in good locations on the whole, which makes it easier to find alternative tenants. The medium-scale SCs, as well as the retail facilities where FRI has a land interest, are mostly community-oriented properties located in the suburbs of big cities and can expect solid demand. The average remaining term of lease agreements is as long as about 10 years, which should also contribute to stable earnings.

The LTV ratio in FRI's definition, (borrowings and bonds + leasehold and security deposits - unrestricted cash and deposits) / (total assets - unrestricted cash and deposits), rose to 47% temporarily due to property acquisitions, but fell to the 45-46% level as a result of the subsequent public offering of investment units. The REIT has relatively large unrealized gains, as evidenced by the appraisal value as of June 2019 exceeding the book value by about 24%.

The average remaining term to maturity is as long as 4.8 years (as of June 2019), with due dates for long-term debts staggered. A committed line of credit totaling 15 billion yen will broadly 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 rich pipeline without getting involved in excessive competition. Overall earnings from existing properties are expected to hold steady even in the challenging environment. The level of leverage is managed conservatively, and the funding base is robust.

The primary rating methodology applied to this rating is provided at "Rating Methodology for REITs". 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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