

Oct 16, 2020

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.

The asset size is 339 billion yen. Its portfolio is centered on large-scale shopping centers (SCs), but well balanced in terms of property type, with large-scale SCs, medium-scale SCs, urban retail facilities and land interests representing 39.4%, 26.3%, 25.7% and 8.5%, respectively. The large-scale SCs primarily 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 novel coronavirus pandemic has decreased the REIT's variable rent revenues and also caused fixed rent reductions at urban retail facilities, but the earnings impact has been limited. There is no impact on rents of large-scale SCs under master lease contracts or those of medium-scale SCs and land interests. Because its major tenants are highly creditworthy, the average remaining term of lease agreements is as long as 9.7 years, and most of them are fixed-rent contracts, earnings will likely remain stable.

Although tenants moved out from properties in Ikebukuro and Shin-Misato, leasing of the vacancy to a new tenant was completed early on. For retail facilities in Hakata, FRI successfully reduced the building age and expanded rental floor space through extension and renovation of the existing building. Steady efforts are also underway to achieve internal growth by leveraging know-how of its sponsor.

The LTV ratio in FRI's definition, (borrowings and bonds + leasehold and security deposits - unrestricted cash and deposits) / (total assets - unrestricted cash and deposits), was 47.2% as of June 2020. Meanwhile, the ratio on an appraisal value basis was low, standing at 38.5% owing to relatively large unrealized gains. The investment unit buyback of 2.5 billion yen, which was executed in the period ended June 2020, has a small financial impact.

The average remaining term to maturity is as long as 5.3 years (as of June 2020), with due dates staggered. A committed line of credit totaling 17 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. Although its earnings, particularly from urban retail facilities, have been affected by the pandemic, the impact on the entire performance is limited on the back of stable lease agreements. The level of leverage is managed conservatively, and the funding base is robust. R&I will keep an eye on the impact the coronavirus issue has on retail facilities.

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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