

Nov 21, 2014

R&I Affirms A+, Stable: Advance Residence Investment Corp.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Advance Residence Investment Corp.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Advance Residence Investment Corp. (ADR) is a real estate investment trust (REIT) specializing in residential properties. It was established in March 2010 following the merger of the former ADR and Nippon Residential Investment Corp. ADR's main sponsors are Itochu Corp. and Itochu Property Development, Ltd.

ADR invests in relatively new rental apartments located in convenient areas primarily in Tokyo's 23 wards. Its properties in Tokyo's 23 wards account for 73% of total on an acquisition value basis. Buildings are comparatively new, with the average age standing at 9.3 years (as of August 1, 2014). Properties and tenants are extremely diversified. Since the occupancy rate is trending at a high level of 96-97%, the REIT has a very stable cash flow.

With the asset size of approximately 420 billion yen, ADR is the largest residential REIT. Making the most of its ability to acquire properties, which is backed by its extensive track record in property acquisition, ADR achieves steady external growth, avoiding competition as much as possible. At present, the REIT has obtained first refusal rights to acquire properties worth approximately 20 billion yen in total. In addition, opportunities to acquire properties developed by its sponsors will likely be available in the future.

The prices of residential properties are rising. Given that the assets size is sufficient, however, ADR intends not to acquire properties that might hurt portfolio profitability because of overly high prices.

For the management of existing properties, the REIT tries to keep high occupancy rates. At the same time, it works on the improvement of lease terms including a key money, and repairs/upgrading projects to raise property value, in efforts to maintain and raise earnings.

ADR set an LTV ratio range of 50-55%. Although this level is somewhat high as with other residential REITs', ADR's ratio has fallen to 51% as a result of public offerings three years in a row. Thanks to an improvement in the appraisal value of its existing properties and the acquisition of properties at a price lower than the appraisal value, unrealized gains expanded to 35.3 billion yen (as of end-July 2014).

Funding conditions continue to be favorable. The average remaining term to maturity of debts was lengthened out to approximately 4 years, and maturity dates staggered over the next 11 years through 2025. The total amount of cash and deposits and marketable securities is 23.7 billion yen (as of end-July 2014). This, combined with the committed line of credit of 20 billion yen, suggests that ADR secures sufficient liquidity.

The Rating Outlook is Stable. Its stable cash flow, well-diversified portfolio and support from sponsors with a track record are strengths. Since leverage is improving and its funding base is strengthened, the creditworthiness is gaining stability.

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>

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R&I RATINGS:**ISSUER:****Advance Residence Investment Corp. (Sec. Code: 3269)****Issuer Rating****RATING:****A+, Affirmed****RATING OUTLOOK:****Stable**

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