

Oct 25, 2011

## R&I Upgrades to A+, Stable, Removes from the Rating Monitor: Advance Residence Investment Corp.

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

**ISSUER:** Advance Residence Investment Corp.  
**Issuer Rating:** A+, Previously (A)  
**Rating Outlook:** Stable

### RATIONALE:

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

The rating upgrade this time reflects sustained improvement in the debt structure and an expectation that the improvement will continue. At the time of the merger, ADR took over large amounts of debts with short remaining maturities from NRI which was facing financing difficulty. Since then, improvement in the debt structure has been an issue to be addressed.

After the previous review in May, ADR released all collaterals and promoted a shift in the loan portfolio to make it comprised of long-term funds with maturities of 4-7 years. In September, ADR issued corporate bonds of 10 billion yen for the first time in the industry since the Great East Japan Earthquake occurred. The average term to maturity has now exceeded 2 years, with maturities staggered to a certain extent. The REIT seems to be resolving the issues relating to the debt structure, such as short remaining terms, a concentration of repayment dates and bond redemption burdens, which had been pointed out by R&I. Furthermore, it has worked to reduce financial costs by making new loans on relatively favorable terms, while repaying high-interest loans it has taken over from NRI. Debts exceeding 80 billion yen will mature by the end of 2012. Given financing records in recent days, however, ADR will most likely be able to achieve a sound debt structure when it completes a series of refinancing, in R&I's view.

ADR's asset portfolio is favorable. The properties in Tokyo's 23 wards, where tenant demand is robust, account for 77% of the total (on an acquisition value basis), and the average age of properties is comparatively young at about 7 years. They are widely diversified, with over 14,000 leasable units. With the occupancy rate staying high in the 96% range, a fall in rent per unit has been small. Cash flows are thus very stable.

ADR is actively reshuffling its assets through the utilization of earnings retained from negative goodwill associated with the merger. It is working to improve the quality and profitability of the portfolio by selling relatively old or low-performing properties and acquiring comparatively new properties at yields higher than the yield on the current portfolio.

ADR plans to operate with a LTV ratio of 50-55%. Its LTV ratio is nearing 55% at present. This level is slightly high, and a substantial improvement seems difficult in the foreseeable future, given trends in the investment unit market. Thanks to a decline in the cap rate for existing properties and asset reshuffles, however, unrealized losses reduced to 2.1 billion yen (as of the end of July 2011).

The Rating Outlook is Stable. Stable cash flows, well-diversified portfolio and strong support of sponsors with proven track records are among ADR's advantages. Improvement in the portfolio through asset reshuffles is also well under way. Meanwhile, a certain degree of attention should be paid to its leverage status, as well as updates on refinancing activities, which will continue for the time being.

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

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp  
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan <http://www.r-i.co.jp>

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the rating.

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

**R&I RATINGS:**

**ISSUER:** Advance Residence Investment Corp. (Sec. Code: 3269)  
**Issuer Rating**  
**RATING:** A+, Previously (A)  
**RATING OUTLOOK:** Stable

<b>Unsec. Str. Bonds No.7</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Feb 09, 2007	Feb 09, 2012	JPY 12,000
<b>RATING:</b>	<b>A+, Previously (A)</b>		

<b>Unsec. Str. Bonds No.10</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Sep 13, 2007	Sep 13, 2012	JPY 4,800
<b>RATING:</b>	<b>A+, Previously (A)</b>		

<b>Unsec. Str. Bonds No.1</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Nov 21, 2007	Nov 21, 2011	JPY 5,000
<b>RATING:</b>	<b>A+, Previously (A)</b>		

<b>Unsec. Str. Bonds No.2</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Nov 21, 2007	Nov 21, 2012	JPY 5,000
<b>RATING:</b>	<b>A+, Previously (A)</b>		

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