

Oct 23, 2012

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 investment. The REIT 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.

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 76% of total on an acquisition value basis. Buildings are relatively new, with the average age standing at 7.8 years (as of July 2012). Units available for lease are extremely diverse, exceeding 16,000. While the occupancy rate is trending at a high level of 95-96%, a fall in unit rent rates is small. As such cash flow is very stable.

The asset size of 367.9 billion yen suggests that ADR is the largest residential REIT. Although acquisition of quality housing has become increasingly difficult, R&I is confident that ADR will reasonably be able to attain steady external growth, by capitalizing on its sponsors' pipelines and extensive track record. At present, ADR has obtained first refusal rights to acquire properties worth 16.8 billion yen in total through several bridge funds.

ADR has set an LTV ratio guideline of 50-55%. After the public offering of investment units in January 2012, the LTV ratio stood at 53.7%. Although the ratio is controlled within the guideline, it remains somewhat high. Even so, thanks to a fall in the cap rate of the existing buildings and property reshuffles, etc., ADR has achieved unrealized gains albeit small on its assets.

ADR took over massive debts with short remaining years to maturity from NRI when they merged. Although NRI were burdened with high financing costs at the time of the merger, ADR has successfully refinanced at favorable terms, improving the debt profile significantly. The average remaining years to maturity of debts was lengthened out to about three years, and maturity dates are evened out on each year through 2019. The committed credit lines are increased to 20 billion yen. At the same time, financing costs are reduced, and this improved earnings. Note that an improvement of the debt-equity structure has been incorporated in the rating upgrade in October 2011.

The Rating Outlook is Stable. Steady cash flow, the diversified portfolio and support from the sponsor with an extensive record, among other factors, are strengths. Since most of the debts taken over from NRI are refinanced, ADR's funding base is strengthened markedly. Although the debt level is somewhat high, the REIT is able to access to the capital market at relatively favorable terms. Given that unrealized losses have been disappeared, financial risk is mitigated.

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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ISSUER: Advance Residence Investment Corp. (Sec. Code: 3269)

RATING: Issuer Rating
A+, Affirmed

RATING OUTLOOK: Stable

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

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