

JCR Affirmed AA-/Stable and AA- on Advance Residence Investment Corporation

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Rationale

- (1) Advance Residence Investment Corporation (“ADR”) is a Japanese real estate investment trust (“J-REIT”) specialized in rental housing, which was created in March 2010 when former Advance Residence Investment Corporation merged with Nippon Residential Investment Corporation to form a new company in the same name through consolidation-type merger. The main sponsor of its asset management company (“AM”) is ITOCHU Corporation, a general trading firm. Its portfolio currently consists of 190 properties, centering on single-type ones in central Tokyo, and is considered comparatively well-diversified. The total acquisition price amounts to 367.9 billion yen, the largest among J-REITs specialized in rental housing.
- (2) Occupancy rates of the current portfolio consistently exceed 95%, and rents remain stable. Given that ADR has successfully reduced costs by taking advantage of the economies of scale and secured certain NOI yields, there are no particular concerns about its current leasing management. In addition, the unrealized loss of all the properties it owns was cleared off at the end of the fiscal period ended January 31, 2012 mainly as a result of a fall in the capitalization rate. Its LTVs have been moving within the scope of the AM’s assumptions of 50-55% on the basis of total assets, and it appears that ADR secures certain financial flexibility. Nevertheless, LTVs are relatively at high levels, and JCR views that further reductions in the LTVs will be a key to further improving said flexibility. Taking all these factors into consideration, JCR affirmed the rating on ADR.
- (3) While the new supply is limited, the rental housing market remains stable thanks to steady demand. In the trading market for rental housings, J-REITs and other entities are making investments more aggressively, leading to persistently harsh conditions for acquiring properties. Under such circumstances, ADR is promoting its measures to utilize Bridge Fund and secure the channel for development projects through its sponsor in order to achieve external growth avoiding competition. Going forward, JCR will keep an eye on the outcome of these efforts, as well as on progress in external growth leveraging support from the sponsor and in improvement of the portfolio through the shuffling of properties. In the meantime, a gain on negative goodwill generated from the merger is posted in the amount of around 35 billion yen as retained earnings, which could help ADR secure freedom in asset management, including the dividend policy.
- (4) Given the scale of ADR and the number of its properties, earnings stability owing to portfolio diversification is considered adequately high. In the lender formation, mega banks that are also the shareholders of the AM are regarded as main or quasi lenders, while new lenders are invited. Transactions with financial institutions involve no specific concerns as ADR works on reducing the interest cost, fixing interest rates, and diversifying repayment terms of the interest-bearing debt, while making its residual maturity longer, thereby setting the commitment line of 20 billion yen in total, giving itself certain mobility in fund procurement. JCR will, from here on, keep a close watch on its various measures in consideration of leverage control aimed at improving financial flexibility, such as a capital increase, and on the effectiveness of such measures.

Shigeo Sugiyama, Nobuyasu Matsuda

Rating

Issuer: Advance Residence Investment Corporation (security code: 3269)

<Affirmation>

| Issue | Amount (bn) | Issue Date | Due Date | Coupon | Rating |
|-------------|-------------|----------------|----------------|--------|--------|
| bonds no.13 | Y8 | Sept. 12, 2011 | Sept. 12, 2016 | 1.27% | AA- |
| bonds no.14 | Y2 | Sept. 12, 2011 | Sept. 12, 2018 | 1.68% | AA- |
| bonds no.15 | Y4 | Apr. 26, 2012 | Apr. 24, 2015 | 0.86% | AA- |
| bonds no.16 | Y4 | Apr. 26, 2012 | Apr. 26, 2017 | 1.08% | AA- |
| bonds no.17 | Y8 | Sep. 12, 2012 | Sep. 12, 2017 | 0.87% | AA- |
| bonds no.18 | Y4 | Sep. 12, 2012 | Sep. 12, 2019 | 1.23% | AA- |



Outline of methodology for determination of the credit rating is shown as "J-REIT" (June 1, 2012) in Structured Finance, Rating Methodology on JCR's home page (<http://www.jcr.co.jp>). Rating methodologies for other ancillary points such as eligible deposit accounts and bankruptcy remoteness are also shown within the same page.

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.