

Oct 30, 2013

## 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 through the merger of the former ADR and Nippon Residential Investment Corp. (NRI). 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 74% of total on an acquisition value basis. Buildings are comparatively new, with the average age standing at 8.6 years (as of September 2013). Properties and tenants are extremely diverse. Occupancy rates are trending at a high level of 96-97%, resulting in very stable cash flow.

The asset size of nearly 400 billion yen suggests that ADR is the largest residential REIT. Although acquisition of quality housing has become increasingly difficult, the REIT's external growth is continuing on the back of its extensive track record in property acquisition. At present, ADR has obtained first refusal rights to acquire properties worth more than 30 billion yen in total through several bridge funds. In addition, opportunities to acquire properties developed by its sponsors will likely be available in the future.

Going forward, real estate prices may rise further, but ADR does not plan to acquire properties at the cost of portfolio profitability because its asset size is already sufficient.

ADR has set an LTV ratio guideline of 50-55%. Although this level is somewhat high, the LTV ratio fell to around 51% after the public offering of investment units in February 2013. The appraisal value of existing properties is on an improving trend, increasing unrealized gains to 14 billion yen (as of July 2013).

Funding conditions remain favorable. With efforts to raise long-term funds with a maturity of up to 10 years paying off, the average remaining term to maturity was lengthened out to 3.8 years (as of July 2013), and maturity dates have been staggered over the years through 2023. ADR has committed lines of credit totaling 20 billion yen.

The Rating Outlook is Stable. Steady cash flow, the diversified portfolio and support from the sponsors with a proven track record constitute ADR's strength. With leverage improving and its funding base strengthened, ADR's 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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