

Feb 06, 2018

R&I Affirms A, Stable: Japan Rental Housing Investments Inc.

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

ISSUER: Japan Rental Housing Investments Inc.
Issuer Rating: A, Affirmed
Rating Outlook: Stable

RATIONALE:

Japan Rental Housing Investments Inc. (JRH) is a real estate investment trust (REIT) that invests in rental apartments nationwide. It merged with Prospect Reit Investment Corp. in July 2010. Daiwa Securities Group Inc. became its main sponsor in December 2015.

JRH makes diversified investments in major cities across the nation, with the Kanto area accounting for 52.1% (Tokyo's 23 wards represents 40.6% of the portfolio), the Kinki area 19.1% and the Tokai area 11.0%. In recent years, JRH's portfolio has improved through asset replacement and acquisition of large relatively new properties, among others. The average acquisition cost was 1.13 billion yen and the average age of buildings was 13.7 years as of September 2017.

In 2017, the REIT acquired three new properties in Osaka City for 4 billion yen in total while selling six properties for 3.1 billion yen. Despite the prolonged bleak environment for real estate acquisition, JRH has been able to acquire properties continuously by capitalizing on the network of its asset manager. The asset size was 225.9 billion yen and the number of units available for rent reached 13,300 at the end of 2017, which suggests that a diversified portfolio has been established.

The average occupancy rate of its portfolio stays high at 98% or more. JRH maintains the high occupancy rate through unique operations, including the use of the Daily Occupancy Forecasting System. It also focuses on cost reduction, particularly in building management fees and trust fees. The NOI yield is thus kept at 5.5-6.0%. Maintenance expenses are on a rise due to aging. The REIT, however, is working to sustain properties' competitiveness while controlling costs by, for example, using competitive bidding to place orders for construction works.

The LTV ratio is 50.9% at present, which is around the same level as other residential REITs. JRH intends to control the LTV ratio below the upper limit of 55% for the foreseeable future. The appraisal value of its properties exceeds the book value by 16.6%, suggesting that unrealized gains are increasing.

Under favorable relationships with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other lender financial institutions, the funding base continues improving. The average remaining term to maturity of debts was 3.5 years as of September 2017, and due dates are comparatively staggered. Given that JRH still has substantial room to cut financing cost, in R&I's view, further cost reduction will likely contribute to the performance.

The Rating Outlook is Stable. JRH has established a diverse portfolio by steadily acquiring properties and replacing assets. With a high occupancy rate maintained for a long period through its careful management, the REIT is expected to continue achieving stable earnings. Leverage is managed adequately and the debt structure has been improving.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:**ISSUER:**

Japan Rental Housing Investments Inc. (Sec. Code: 8986)

Issuer Rating**RATING:****A, Affirmed****RATING OUTLOOK:****Stable**

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