

Jul 17, 2020

R&I Affirms AA-, Stable: Daiwa House REIT Investment Corp.

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

ISSUER: Daiwa House REIT Investment Corp.
Issuer Rating: AA-, Affirmed
Rating Outlook: Stable

RATIONALE:

Daiwa House REIT Investment Corp. (DHR) is a diversified REIT. In 2016, the former Daiwa House REIT Investment Corp. was merged into Daiwa House Residential Investment Corp. (DHI), and DHI changed its name to Daiwa House REIT Investment Corp. DHR invests mainly in logistics, residential and retail properties in Japan's three major metropolitan areas. Daiwa House Industry Co., Ltd. serves as its sponsor.

Using the sponsor's rich pipeline, DHR steadily continues its external growth. In April 2020, the company spent 70.8 billion yen to acquire three properties, including a state-of-the-art logistics facility in the Tokyo metropolitan area. Logistics facilities and residential ones account for 50% and 30% of the company's portfolio on an acquisition price basis, respectively, generating highly stable cash flow. The impact of the novel coronavirus on most of the types of assets in these property categories is small. As DHR has bought a number of relatively new properties from the sponsor, the average age of the company's properties is young at about 10 years.

The size of the company's assets has grown to about 810 billion yen, making it the fifth largest in the J-REIT industry. The portfolio is well diversified, with the largest property accounting for only 4.2%.

Logistics properties are mainly BTS (Build-to-Suit)-type facilities that are developed by Daiwa House Industry in line with tenants' requests. Since its BTS-type properties are basically operated under long-term lease agreements with powerful tenants, they are resistant to fluctuations in the leasing market. Many of the company's residential facilities are relatively new and located in Tokyo 23 wards. The facilities keep high occupancy rates, with rents rising moderately.

Retail properties constitute 15% or so of the portfolio. The coronavirus impact on these assets is small since most of them are properties managed under the guaranteed rent type of master lease agreements with the Daiwa House Group or plots of land with leasehold right. The ratio of hotels to the portfolio is even smaller. Five of seven properties, including complexes, are on a fixed rent contract with the Daiwa House Group, and hence the risk of rent reductions is low.

The LTV ratio (calculated after deducting goodwill from total assets) has been stably hovering at around 45%. While DHR is expected to continue its external growth at a fast pace, R&I assumes that conservative leverage control will be in place, given its good access to capital markets. The average remaining term to maturity of its debts exceeds five years. Most of the debts carry fixed interest rates and their due dates are spread well.

The Rating Outlook is Stable. The portfolio centered on BTS-type logistics and residential properties is highly stable and well diversified. While continuing to acquire properties aggressively by capitalizing on the sponsor's rich pipeline, DHR maintains an appropriate leverage level. Its funding base is robust, with most debts carrying long-term fixed interests.

The primary rating methodology applied to this rating is provided at "Rating Methodology for REITs". 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:****Daiwa House REIT Investment Corp. (Sec. Code: 8984)****Issuer Rating****RATING:****AA-, Affirmed****RATING OUTLOOK:****Stable**

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