

Aug 09, 2017

## R&I Affirms A+, 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:** A+, Affirmed  
**Rating Outlook:** Stable

### RATIONALE:

Daiwa House REIT Investment Corp. (DHR) is a diversified REIT. In September 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.

For nearly one year after the merger, DHR has acquired properties totaling more than 90 billion yen by utilizing the sponsor's pipeline. The asset size is as large as about 570 billion yen, and the diversification of the portfolio is underway. DHR aims to expand the asset size to 800 billion yen in the future by continuing to utilize the abundant pipeline of properties.

Properties in the Greater Tokyo area account for over 70% of its portfolio. When looked at by property type, the portfolio is principally comprised of 45.3% logistics properties, 43.6% residential properties and 9.0% retail properties (including properties to be acquired). The average age of the portfolio is low at about 9 years. Given the current pipeline, the proportion of logistics properties will most likely increase.

The majority of logistics properties are BTS (Built-to-Suit) facilities that are developed by Daiwa House Industry in line with tenants' requests. Since DHR's logistics properties basically operate under long-term leasing contracts with tenants, they are less vulnerable to fluctuations in the leasing market. Stable cash flow will likely continue to be generated.

Many of residential properties are relatively new and located in Tokyo's 23 wards. They maintain high occupancy rates and continue to generate stable cash flow. The majority of retail properties are suburban shopping centers which accommodate popular specialty stores, and DHR is working to maintain their competitiveness through timely tenant replacement and other efforts.

As a result of the capital increase through a public offering in March 2017, the LTV ratio (calculated after deducting goodwill from total assets) fell to 46.9%, down around 1 point compared with the time immediately after the merger.

The average remaining term to maturity of 5.6 years as of April 2017 is very long. More than 90% of debts carry fixed interest rates, and due dates have been staggered. Backed by the creditworthiness of the sponsor, DHR has favorable relationships with major financial institutions.

The Rating Outlook is Stable. DHR's properties generate steady earnings, and the portfolio is well diversified thanks to the large asset size. While the environment for property acquisition is challenging, DHR has access to the sponsor's abundant pipeline of properties. There is no problem with the level of leverage, and the lengthening of the maturity profile has strengthened its funding base further.

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.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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**R&I RATINGS:****ISSUER:****Daiwa House REIT Investment Corp. (Sec. Code: 8984)****Issuer Rating****RATING:****A+, Affirmed****RATING OUTLOOK:****Stable**

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