

Apr 08, 2020

R&I Affirms A+, Stable: Hankyu Hanshin REIT, Inc.

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

ISSUER: Hankyu Hanshin REIT, Inc.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Hankyu Hanshin REIT, Inc. (HHR) is a real estate investment trust (REIT) which was listed in 2005. HHR mainly invests in real estate with retail-use/office-use zones in the Kansai region. It is sponsored by the Hankyu Hanshin Holdings Group (the sponsor group).

HHR is working to enhance the quality and profitability of its portfolio and reduce future risks through continuous asset replacement. In March 2020, the REIT announced that it will acquire three properties, including an office building in central Tokyo and an urban retail facility (site) in central Osaka, for about 8.3 billion yen and transfer two properties -- a limited service hotel in Tokyo and a retail facility (site) in the suburb of Hiroshima City -- for about 6.2 billion yen. It aims to continue to acquire properties at appropriate prices in close cooperation with the sponsor group.

HHR ensures stable earnings from retail facilities by making long-term lease contracts with tenants in most properties, including flagship Hankyu Nishinomiya Gardens. Another strength is that it focuses on densely populated areas primarily along the Hankyu and Hanshin railway lines.

As regards office-use facilities, some tenants moved out from Shiodome East Side Building. Thanks to the steady progress of subsequent leasing activities, however, the rent level of the building rose compared to that before tenant replacement. The occupancy rate of office-use zones at Sphere Tower Tennozu is trending at 100%, and HHR agreed with some tenants in the building to increase a rent.

The fixed-rent portion constitutes most of total rent income, whereas the variable-rent portion, which varies according to the sales of tenants, accounts for only 2.4% of total as of November 2019. The impact of the novel coronavirus outbreak on earnings is therefore considered to be limited.

The level of leverage continues to be managed appropriately. The LTV ratio in HHR's definition (based on an appraisal value, including security deposits and guarantees and excluding matched money to security deposits and guarantees) and the ratio of interest-bearing debt to total assets are at sound levels of 39.3% and 43.6%, respectively, as of November 2019. With the appraisal value exceeding the book value by 19.8% as of the same month, unrealized gains increased.

Under favorable relationships with domestic major banks, HHR continues stable funding. The average remaining term to maturity is as long as 5 years (as of November 2019), with fixed interest rates on most debts and staggered due dates.

The Rating Outlook is Stable. Backed by support from the sponsor group with a robust business base in the Kansai region, HHR maintains prudent investment and steady operation of properties. The level of leverage is conservative, and its funding is solid. The asset size is somewhat small, but is of marginal concern at present, given stable earnings from the portfolio. The issue of the novel coronavirus has so far exerted only a limited impact on earnings. R&I will keep a close eye on how it affects the leasing market and the financial environment in the future.

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:****Hankyu Hanshin REIT, Inc. (Sec. Code: 8977)****Issuer Rating****RATING:****A+, Affirmed****RATING OUTLOOK:****Stable**

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