

Mar 29, 2019

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 (J-REIT) which was listed in October 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).

In November 2018, HHR announced that it will conduct a strategic asset replacement, in which three properties including Grand Front Osaka (equivalent of 4.9% co-ownership) are acquired from the sponsor group and LaLaport Koshien (site) is transferred. The acquisition of Grand Front Osaka, which is one of the trophy properties in Osaka and expected to produce substantial yields, helped improve the quality of its portfolio.

While the asset size is somewhat small, HHR aims to expand it to 200 billion yen during 2020 by continuing to acquire properties at appropriate prices in close cooperation with the sponsor group.

HHR ensures stable earnings from retail facilities, its principal investment target, by making long-term lease contracts with tenants in most properties, including flagship Hankyu Nishinomiya Gardens. HHR's properties are concentrated in the densely populated suburban areas of the nation's major cities, such as those along the Hankyu and Hanshin lines, which can be considered another positive factor.

The occupancy rate of office building Sphere Tower Tennozu rose to 100%. Although some tenants are scheduled to move out from Shiodome East Side Building, leasing will likely progress in the near future, given the buoyant office leasing market.

The level of leverage is managed appropriately thanks partly to the public offerings implemented twice in 2018. 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 fell to 40.4% and 43.5%, respectively, as of November 2018. Unrealized gains increased, with the appraisal value exceeding the book value by about 17% as of November 2018.

Under favorable relationships with domestic major banks, HHR continues stable funding. The average remaining term to maturity is as long as 4.7 years (as of November 2018), with fixed interest rates on most debts and staggered due dates.

The Rating Outlook is Stable. Thanks to support from the sponsor group with a robust business base in the Kansai region, HHR continues prudent investment and steady operation/management of properties. The level of leverage is conservative, and the funding base is solid. The asset size is somewhat small, but is of marginal concern at present, given stable earnings from the portfolio.

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

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

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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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