

Apr 25, 2013

## R&I Upgrades to A+, Stable: Sekisui House SI Investment Corp.

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

**ISSUER:** Sekisui House SI Investment Corp.  
**Issuer Rating:** A+, Previously A  
**Rating Outlook:** Stable

### RATIONALE:

Sekisui House SI Investment Corp. (SSI) is a real estate investment trust (Reit) that invests mainly in rental housing and also in some retail facilities. SSI's sponsor was replaced by Sekisui House, Ltd. and Spring Investment Co., Ltd. in March 2010.

A rating upgrade this time reflects 1) a strong improvement in quality and size of the portfolio as a result of steady acquisitions of new properties from sponsors and external entities, and 2) leverage control through the two public offerings of investment units in the course of asset expansion, along with other factors.

SSI's asset size was smaller than other reits', and its retail facilities somewhat lacked long-term competitiveness. These used to be issues to be solved. However, as a result of the acquisitions of quality apartments from sponsors and external entities, the asset size has grown approximately 38 billion yen over the last 12 months with the percentage of retail facilities falling to 14% (after the completion of a transaction in May 2013).

SSI aims to enlarge its asset size to 200 billion yen over the medium term. The environment for acquisition of apartment buildings continues to be challenging. However, the Reit will sufficiently be able to expand the asset size given that 1) it can utilize Sekisui House's pipeline, 2) assets for which it has priority negotiation rights total approximately 14 billion yen at present, and 3) it has extensive experience in property acquisition from external entities.

While the occupancy rate stays at a high level of 95-96%, a decline in unit rent is small. Accordingly, the stability of cash flow is high. SSI has standardized "Esty Maison" as a brand name for its properties, expect for some buildings. Furthermore, it has expanded outsourcing of property management operations to Sekiwa Real Estate, Ltd.'s group companies. Those are part of efforts to improve management efficiency and enhance quality. The occupancy rate of retail properties is also trending at near 100%.

SSI conducted a public offering in October 2012 for the first time since the sponsor change, followed by another public offering in April 2013. The Reit conducted the offering for two terms in a row. As a result, the loan-to-value (LTV) ratio is controlled at 50-55%, even after aggressive property acquisitions. The amount of unrealized losses narrowed to a large extent thanks to an improvement in valuation of existing buildings and acquisition of new properties.

On the back of its sponsors' high creditworthiness, SSI has been able to raise funds steadily. As the loan terms are being lengthened, the average remaining term to maturity exceeds three years. Fixed interest rates are applied to about 90% of the loans. SSI has forged favorable relationships with megabanks and trust banks, along with other creditor financial institutions. This has lowered funding costs.

The Rating Outlook is Stable. The competitiveness of apartment buildings held by SSI is relatively high, and cash flow is stable. The asset size may increase further through steady external growth. On the back the sponsors' high creditworthiness, SSI is making good progress in funding. To control the leverage level properly in the course of asset expansion continues to be the key going forward.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning

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the rating.

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

## R&I RATINGS:

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|------------------------|--|
| <b>ISSUER:</b>         | <b>Sekisui House SI Investment Corp. (Sec. Code: 8973)</b> |
|                        | <b>Issuer Rating</b>                                       |
| <b>RATING:</b>         | <b>A+, Previously A</b>                                    |
| <b>RATING OUTLOOK:</b> | <b>Stable</b>  |

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