

Oct 17, 2017

R&I Affirms AA, Changes Outlook to Negative: Japan Logistics Fund, Inc.

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

ISSUER: Japan Logistics Fund, Inc.
Issuer Rating: AA, Affirmed
Rating Outlook: Negative, Changed from Stable

RATIONALE:

Japan Logistics Fund, Inc. (JLF) is a real estate investment trust (J-REIT) that was listed in May 2005. JLF specializes in investing in logistics properties and is sponsored by Mitsui & Co., Ltd., Sumitomo Mitsui Trust Bank, Ltd. and Kenedix, Inc.

After acquiring large, quality properties through loans in 2017, leverage has increased sharply. While JLF plans to repay some of the loans with proceeds from public offerings in September, the appraisal value-based LTV ratio (interest-bearing debt / appraisal value x 100) is projected to rise to 34.9% (after property acquisitions, hereinafter the same). The book value-based LTV ratio will increase to around 44%.

The current high rating for JLF is premised on its very conservative leverage management. If leverage stays at the present level, it will become difficult to maintain the rating. The LTV ratio may improve to some degree, however, given the REIT's proven track record of financial management. R&I has therefore affirmed the rating and changed the Rating Outlook to Negative.

The properties in Shinkiba II, Souka and Yokohama Machida JLF acquired most recently are highly scarce, since they are large properties in the Tokyo metropolitan area with easy access to central Tokyo. The REIT successfully acquired these assets primarily by capitalizing on sponsor pipelines. With its asset size exceeding 260 billion yen, portfolio diversification is progressing steadily.

The occupancy rate of JLF's properties is high at 98%. Although new supply of large logistics facilities continue at a high level, the REIT's properties will likely be less affected given that they are in good locations on the whole and the average remaining term of lease contracts with tenants is as long as 6 years.

Its book value-based NOI yield dropped as a result of the most recent property acquisitions, but is still high at 5.9%. The high profitability is attributable to many properties acquired when property prices were low and the successful implementation of OBR (Own Book Redevelopment) projects.

JLF's funding base is solid. Because the REIT raises long-term fixed-rate funds from major Japanese financial institutions at relatively low costs, the average remaining term to maturity of debts is very long at 5.9 years and due dates are staggered. Given this, combined with a total of 15.5 billion yen in committed lines of credit at this point in time, there is no liquidity problem.

The Rating Outlook is Negative. The rating will likely be downgraded if leverage fails to show some improvement from the current level. The Rating Outlook will return to Stable, on the other hand, if leverage improves to a certain extent and is expected to remain at the lower level.

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

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R&I RATINGS:

ISSUER: Japan Logistics Fund, Inc. (Sec. Code: 8967)
Issuer Rating
RATING: AA, Affirmed
RATING OUTLOOK: Negative, Changed from Stable

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	Dec 27, 2013	Dec 26, 2025	JPY 3,000

RATING: AA, Affirmed

Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 12, 2014	Mar 12, 2029	JPY 3,000

RATING: AA, Affirmed

Unsec. Str. Bonds No.5	Issue Date	Maturity Date	Issue Amount (mn)
	Apr 20, 2017	Apr 20, 2027	JPY 2,000

RATING: AA, Affirmed