



NEWS RELEASE

Nov 06, 2020

R&I Affirms A-, Stable: Escon Japan REIT Investment Corp.

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

ISSUER: Escon Japan REIT Investment Corp.
Issuer Rating: A-, Affirmed
Rating Outlook: Stable

RATIONALE:

Escon Japan REIT Investment Corp. is a real estate investment trust (REIT) focused on commercial facilities and was listed in 2019. It invests intensively in community-oriented commercial facilities and leasehold land located in Japan's four largest metropolitan areas. Es-Con Japan Ltd. serves as its sponsor.

The REIT's portfolio consists primarily of neighborhood commercial facilities located adjacent to train stations or in residential areas in the suburbs of large cities, and solid demand from local residents is anticipated. Tenants are mostly stores selling daily necessities such as food, or those providing services closely related to local residents' daily lives. This makes these commercial facilities less susceptible to economic fluctuations, as well as to competition from e-commerce. All facilities were allowed to continue operation even under a state of emergency declared in April 2020, because the tenants handled daily necessities.

The REIT reduces the risk of tenants moving out, by concluding long-term lease contracts (average remaining lease term of over 10 years) that restrict early contract termination with creditworthy tenants mainly comprised of listed companies and their subsidiaries. For leasehold land in particular, hurdles to tenant move-outs are higher, because tenants are obliged to remove buildings. Leasehold land currently accounts for 49% of the portfolio, and the REIT plans to keep the ratio of leasehold land at around 50%.

Owing to the aforementioned characteristics of the portfolio, as well as the tenant mix, of which 99% are on fixed-rent agreements, the impact of the novel coronavirus outbreak has been limited at this juncture. For the fiscal period ended July 2020, temporary rent reduction was offered to tenants, but the amount was only about 0.2% of the operating revenue.

In February 2020, the REIT conducted a public offering and acquired two commercial facilities around train stations, which were developed by its sponsor, and a leasehold land for a total of 10.3 billion yen. While the asset size of 51.9 billion yen is still small, a certain level of pipeline for future external growth is in place, as suggested by its right to purchase eight commercial facilities at fixed prices from its sponsor Es-Con Japan and a support company Chuden Real Estate Co., Inc.

With the LTV ratio standing at 43.6% (as of July 2020) and the appraisal value exceeding the book value by 9%, the REIT has sound leverage. It has been able to raise stable funds from major Japanese financial institutions, mainly megabanks. Challenges to be addressed will be obtaining loans on an uncollateralized basis, extending debt duration and fixing interest rates.

The Rating Outlook is Stable. Benefitting from the stable portfolio consisting of commercial facilities and leasehold land for which solid demand can be expected in large metropolitan areas, the impact of the coronavirus issue is limited. R&I will continue to observe the effect of the pandemic, and also keep an eye on developments in expansion of asset size and improvement in funding terms.

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

■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:****Escon Japan REIT Investment Corp. (Sec. Code: 2971)****Issuer Rating****RATING:****A-, Affirmed****RATING OUTLOOK:****Stable**

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