

Jun 01, 2011

R&I Affirms A, Stable: BLife Investment Corp.

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

ISSUER: BLife Investment Corp.
Issuer Rating: A, Affirmed
Rating Outlook: Stable

RATIONALE:

BLife Investment Corp. (BLI) is a residential REIT, whose main sponsor is Daiwa House Industry Co., Ltd. In April 2010, BLI acquired New City Residence Investment Corp. (NCR), and its assets have expanded substantially.

BLI's portfolio consists of relatively new rental housing with competitiveness, located primarily in the central Tokyo area. Its assets exceed 180 billion yen, ranking third among residential REITs in Japan. BLI's properties and tenants are widely diversified, with 118 properties and over 8,000 leasable units. These factors, combined with low rent volatility, which is a characteristic of residential investment, will allow BLI to achieve stable cash flow over the medium to long term. Although some concern remains regarding the performance of properties with high rents, for which demand from tenants is limited, these properties represent only a small portion of BLI's portfolio. The occupancy rates of the property portfolio as of end-April 2011 reached as high as 95.3%.

After the merger, BLI is actively reshuffling its portfolio. The REIT is working to improve the quality and management efficiency of the portfolio by selling small-sized properties or properties with compartmentalized ownership it took over from NCR and acquiring new large-sized properties from its sponsor at yields higher than the yield on the current portfolio. It plans to continue the portfolio reshuffle through the utilization of earnings retained from negative goodwill associated with the merger.

Although some of BLI's properties were slightly damaged by the Great East Japan Earthquake, any damage or loss that may seriously affect its operations has not been reported. BLI has only three properties in the quake-ravaged Tohoku region, which account for just 1% of the total on an acquisition value basis. The probable maximum loss (PML) rate of the portfolio is low at 3.3%, showing future earthquake risk has been minimized.

Meanwhile, BLI's LTV ratio is as high as 61% due partly to the revaluation of NCR's assets at the time of the merger. While maintaining the highest level of dividends among residential REITs, BLI's LTV ratio has been higher than those of other REITs. This has been a major factor constraining the rating. Going forward, BLI plans to operate with a LTV ratio of 50 to 55%. The REIT aims to lower its LTV ratio by, for example, selling part of its properties and raising capital through public offerings in view of the market environment and other factors.

Supported by its stable cash flow and the creditworthiness of Daiwa House Industry, BLI's funding base is solid even with the high leverage. Maturities of the debts under a rehabilitation plan BLI assumed from NCR have been extended to 2-5 years and been staggered as a result of changes to rights prior to the merger. Interest rates on these debts are also at appropriate levels and the majority of the debts are unsecured. As such, a financial burden on BLI has been alleviated. In December 2010, BLI repaid part of the debts with unsecured long-term loans, stabilizing its funding structure further. Since BLI has also taken over losses carried forward for tax purposes from NCR, it is allowed to accumulate retained earnings, although such accumulation is normally strictly restricted for a REIT.

The Rating Outlook is Stable. BLI's major strengths lie in its stable cash flow and well-diversified portfolio, as well as strong support from the proven sponsor. The occupancy rates of luxury properties are largely improving, and the portfolio reshuffle is well underway. Even so, the high LTV ratio is constraining the rating. R&I will continue paying attention to BLI's financial strategy.

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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 the rating.

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

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

R&I RATINGS:

ISSUER:

BLife Investment Corp. (Sec. Code: 8984)

Issuer Rating

RATING:

A, Affirmed

RATING OUTLOOK:

Stable

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