

Apr 28, 2021

R&I Assigns AA, Stable: Nippon Prologis REIT, Inc.

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

ISSUER: Nippon Prologis REIT, Inc.
Issuer Rating: AA, Assigned
Rating Outlook: Stable

RATIONALE:

Nippon Prologis REIT, Inc. (NPR) is one of the largest real estate investment trusts in Japan that specialize in logistics facilities. It went public in 2013. Its sponsor is the Prologis Group, a global logistics real estate company.

The rating mainly factors in (1) a high-quality portfolio comprised only of Class-A logistics facilities, (2) portfolio diversification through asset size expansion, (3) full support from the sponsor in property supply and leasing and (4) very low leverage and excellent funding capabilities.

All of NPR's properties are Class-A logistics facilities developed by the Prologis Group. The portfolio is of very high quality, mainly consisting of large, relatively new, high-spec facilities at suitable locations for logistics in the Kanto and Kansai areas. It generates stable cash flow thanks to long fixed-term lease contracts with highly creditworthy tenants and a well-staggered lease expiration schedule.

NPR's asset size has reached 758.3 billion yen based on an acquisition price, with the largest property accounting for only 5.1%. Its tenant mix is also comparatively diversified because the majority of the properties are multi-tenant facilities.

Since its listing, NPR has continuously acquired assets from the sponsor, achieving average annual asset growth of more than 70 billion yen. Its external growth potential is strong on the back of an extensive pipeline from the Prologis Group, which intends to continue to develop new properties on an ongoing basis in Japan.

Benefitting from robust demand for advanced logistics facilities, NPR currently has an occupancy rate of over 99%, its historical-high level, and an upward rent trend is expected to remain in place for the time being. In leasing, NPR can receive support from the well experienced sponsor, and this would contribute to stable occupancy rates.

As of November 2020, the LTV ratio was very low at 37.5% and the appraisal-based ratio, as calculated by adding unrealized gains to total assets, was 29.8%. At present, NPR has the lowest leverage among REITs with large asset size.

Most of its debt is for long-term and with fixed interest rates, and the average remaining term to maturity was very long at 5.3 years as of February 2021. With a lender mix consisting of mega-banks and other major financial institutions, it raises funds at a relatively low cost.

The Rating Outlook is Stable. Backed by a quality portfolio, a buoyant leasing market and long-term contracts with tenants, NPR's cash flows will likely hold steady. The asset size is large, and further growth can be envisaged through property acquisitions that utilize the sponsor's rich pipeline. NPR has a solid funding base, with leverage being very low and debt maturities staggered over a long period of time.

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

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R&I RATINGS:**ISSUER:** Nippon Prologis REIT, Inc. (Sec. Code: 3283)**Issuer Rating****RATING:** AA, Assigned**RATING OUTLOOK:** Stable

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