

May 13, 2022

R&I Affirms A+, Stable: Tokyu REIT, Inc.

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

ISSUER: Tokyu REIT, Inc.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Tokyu REIT, Inc. (TRE) is a real estate investment trust that was listed in 2003. TRE invests in office buildings, commercial facilities, residential properties, and complexes that include any of the said three types of properties, which are located in the Tokyo metropolitan area. Tokyu Corp. serves as TRE's sponsor.

TRE has created a relatively high-quality portfolio by intensively investing in properties in areas with high growth potential, i.e., Tokyo's five central wards and Tokyu Areas. In recent years, TRE has been actively pushing ahead with asset replacement under the Long-Term Investment Management Strategy (Surf Plan), increasing the percentage of properties located in the focus areas of investment, posting capital gains on disposition of existing properties simultaneously. In a series of property replacement conducted in December 2021, TRE improved the location mix of property portfolio, through disposition of Setagaya Business Square, a property located in the suburbs of Tokyo, and, simultaneously, acquisition of Aoyama Oval building in the Shibuya ward. As of the end of March 2022, the share of properties located in the five wards in Central Tokyo was 88.1%, of which the share for the Shibuya ward, the core business area of TRE's sponsor company, reached 48.0%.

In terms of use allocation, the office properties account for approximately 70%, in contrast to approximately 30% for the urban commercial facilities, on an acquisition price basis respectively. Reflecting the sluggish market, the category of office properties, a major investment target for TRE, has seen a slight decrease in occupancy rate, which, going forward, could be adversely affected by additional vacant rooms following the completion of extension/renovation work of Tokyu Toranomon Building and the termination of certain leasing contracts associated with Tokyu Ginza 2-chome Building. However, because most of the properties in the portfolio are middle-size buildings located in central Tokyo and with good potential to attract tenants, TRE projects that the office occupancy rate will recover to the 98-99% range in January 2023. Although commercial facilities are also exposed to the prolonged influence of the COVID 19 pandemic, the negative impact on rental income is limited due to a high percentage of long-term leasing contracts.

With regard to ESG management, TRE enriched environmental performance disclosure and there is also a positive outlook for massive reduction of greenhouse gas emission owing to the introduction of 100% renewable power system, which is adopted at 24 of the 30 properties under management, exclusive of land.

The LTV ratio fell to 41.6% as of January 2022. With the appraisal value in excess of the book value by 39.5% at the fiscal period end, the high level of unrealized gains remains in place, especially for the properties in the Shibuya area. In regard to the funding structure, TRE is basically dependent on the long-term and fixed-rate debt financing, and the average remaining term to maturity has reached 4.66 years, with the annual debt repayment controlled within the upper limit of 18 billion yen, which is a committed line of credit available to TRE.

The Rating Outlook is Stable. TRE is striving to strengthen the portfolio through a series of property replacement based on Surf Plan, posting capital gains simultaneously. TRE has a strong funding base, backed by the conservative leverage it maintains. However, as the occupancy rate of office properties has dropped slightly, R&I keeps a close eye on the moves of TRE toward recovery.

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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

R&I RATINGS:

ISSUER: Tokyu REIT, Inc. (Sec. Code: 8957)
Issuer Rating
RATING: A+, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	Oct 22, 2012	Oct 21, 2022	JPY 3,000
RATING:	A+, Affirmed		

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