

June 6, 2014  
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## **Notice Concerning Disposition of Trust Beneficiary Interest in Domestic Real Estate (Beacon Hill Plaza (Ito-Yokado Noukendai Store))**

TOKYU REIT, Inc. (“TOKYU REIT”) today announced that its investment management company, Tokyu Real Estate Investment Management Inc. (“Tokyu REIM”), has decided to conduct a transfer of trust beneficiary interest in domestic real estate. Brief details are as follows.

### **1. Disposition Details**

- |  |   |
|--|---|
| (A) Type of Disposition                            | : Trust beneficiary interest in domestic real estate                |
| (B) Property Name                                  | : Beacon Hill Plaza (Ito-Yokado Noukendai Store)                    |
| (C) Disposition Price                              | : ¥8,720 million  |
| (D) Book Value                                     | : ¥8,184 million (expected value as of the scheduled transfer date) |
| (E) Amount of Difference<br>from Disposition Price | : ¥535 million (expected value as of the scheduled transfer date)   |
| (F) Agreement Date                                 | : June 6, 2014 (Friday)   |
| (G) Settlement Date                                | : August 8, 2014 (Friday)   |
| (H) Purchaser                                      | : Ito-Yokado Co., Ltd   |

### **2. Rationale**

TOKYU REIT will conduct the transfer in accordance with the investment management policy stipulated in its Articles of Incorporation.

TOKYU REIT acquired Beacon Hill Plaza (Ito-Yokado Noukendai Store) (the “Property”) on August 3, 2004. 16 years have passed since its completion and efforts have been made to continuously maintain and enhance the asset value ever since the acquisition, such as by conducting renovation of the external walls during the 20th fiscal period (ending July 2013).

On the other hand, a rent revision is scheduled in June 2017 and the current contract is scheduled to end in June 2018 while additional investment in facilities and repairs, etc. to maintain and enhance its competitiveness are needed going forward. TOKYU REIT recognizes that responding to these matters are issues going forward.

Under such circumstances, TOKYU REIT was approached by a party other than the actual purchaser in the current transaction regarding a possible transfer, and thus it was confirmed with Ito-Yokado Co., Ltd., the present tenant, whether they intend to exercise their preferential negotiation right based on the agreement. Since Ito-Yokado Co., Ltd. stated their intent to exercise the preferential negotiation right, TOKYU REIT decided on the transfer to Ito-Yokado Co., Ltd. The transfer price exceeds the appraisal value at the end of the 21st fiscal period (ended January 2014) by approximately 8.2%.

Although the Property is expected to contribute to stable earnings for the time being, it is not situated in TOKYU REIT's primary investment targeted areas (Central Tokyo and Tokyu Areas). Therefore, TOKYU REIT has decided that reinvestment of the proceeds from the transfer will better contribute to the enhancement of the portfolio quality and furthermore to the enhancement of unitholder value.

### 3. Profile of Properties Scheduled for Disposition

Property Name		Beacon Hill Plaza (Ito-Yokado Noukendai Store)
Type of Specified Asset		Trust beneficiary interest in domestic real estate
Trustee Trust Period		Sumitomo Mitsui Trust Bank, Limited From March 1, 2001 to May 31, 2023
Location	Registered	Land 88-1, Noukendai-Higashi, Kanazawa-ku, Yokohama City and others
		Building 88-1, Noukendai-Higashi, Kanazawa-ku, Yokohama City and others
	Residential	3-1, Noukendai-Higashi, Kanazawa-ku, Yokohama City, Kanagawa
Access		Approximately a four-minute walk from Nokendai Station, Keikyu Main Line
Use		Retail
Area Classification		Industrial district
Land Space (Registered)	Land	17,318.78 m <sup>2</sup>
	Building	46,587.87 m <sup>2</sup>
Type of Structure(Registered)		SRC, B2/4F
Completion Date		June 1998
Type of Ownership	Land:	Ownership
	Building:	Ownership
Acquisition Date		August 3, 2004
Acquisition Price		¥9,520 million
Appraisal Value as of the Period-End (Appraisal Method)	¥8,060 million (as of January 31, 2014)	
	Appraiser: Japan Valuers Co., Ltd.	
Book Value		¥8,184 million (expected value as of the scheduled transfer date)
Disposition Price		¥8,720 million
Gain (Loss) on Disposition		¥468 million (After considering costs related to the transfer, expected value as of the scheduled transfer date)
Appraisal Value as of Property Disposition (Appraisal Method)	¥8,650 million (as of May 1, 2014)	
	Appraiser: CBRE K.K.,	

Tenants					
Number of Tenants	1				
Major Tenants	Ito-Yokado Co., Ltd.				
Revenue from Property Leasing	¥ 2,362 million (as of January 31, 2014)				
Lease Deposits and Guarantee Deposits	(Lease Deposits) ¥482 million (Guarantee Deposits) ¥1,879 million (Received amount as of January 31, 2014)				
Total Leased Area	50,285.89 m <sup>2</sup> (as of January 31, 2014)				
Total Leasable Area	50,285.89 m <sup>2</sup> (as of January 31, 2014)				
Changes in Occupancy Rate	100.0% (as of January 31, 2014)				
Occupancy Rates over the Last Five Years	As of January 31, 2010	As of January 31, 2011	As of January 31, 2012	As of January 31, 2013	As of January 31, 2014
	100.0%	100.0%	100.0%	100.0%	100.0%
Special Items	None				

#### 4. Purchaser's Profile

(1)	Company Name	Ito-Yokado Co., Ltd.
(2)	Head Office Address	8-8, Nibancho, Chiyoda-ku, Tokyo
(3)	Representative	Kazuhisa Toi, President
(4)	Business Activities	Retail business
(5)	Capital	¥40.0 billion (as of February 28, 2014)
(6)	Major Shareholder Ratio of Shareholding	Seven & i Holdings Co., Ltd.(100%)
(7)	Foundation Date	March 1, 2006 (Note) (Note)The Company was founded through a company split involving succession of almost all of the business of the former Ito-Yokado to the current Ito-Yokado on March 1, 2006. The former Ito-Yokado's foundation date was April 1, 1958.
(8)	Net Assets	¥608.4 billion (as of February 28, 2014)
(9)	Total Assets	¥807.4 billion (as of February 28, 2014)
(10)	Relationship between the Investment Corporation or its Investment Management Company and the Company	
	Capital Relationship	There is no capital relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no capital relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.
	Personnel Relationship	There is no personnel relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no personnel relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.
	Business Relationship	The Company is leasing the entire portion of the Property as the tenant. Other than that, there is no business relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no business relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.

Status of Classification as Related Party	The Company does not fall under the category of related party of TOKYU REIT or its investment management company. In addition, the affiliated persons or affiliated companies of the Company do not fall under the category of related party of TOKYU REIT or its investment management company.
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## 5. Brokerage

### (1) Broker Profile

(1) Company Name	Mizuho Trust & Banking Co., Ltd.
(2) Head Office Address	1-2-1, Yaesu, Chuo-ku, Tokyo
(3) Representative	Takeo Nakano, President & CEO
(4) Business Activities	Trust services, banking services, etc.
(5) Capital	¥247.3 billion (as of March 31, 2014)
(6) Foundation Date	May 9, 1925
(7) Relationship between the Investment Corporation or its Investment Management Company and the Company	
Capital Relationship	There is no capital relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no capital relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.
Personnel Relationship	There is no personnel relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no personnel relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.
Business Relationship	The Company is providing loans to TOKYU REIT. Other than that, there is no business relationship to state between TOKYU REIT or its investment management company and the Company. In addition, there is no business relationship to note between the affiliated persons or affiliated companies of TOKYU REIT or its investment management company and the affiliated persons or affiliated companies of the Company.
Status of Classification as Related Party	The Company does not fall under the category of related party of TOKYU REIT or its investment management company. In addition, the affiliated persons or affiliated companies of the Company do not fall under the category of related party of TOKYU REIT or its investment management company.

### (2) Breakdown and Amount of Brokerage Charges, Etc.

Omitted because consent for the disclosure of brokerage charges, etc. has not been received from the broker.

## 6. Payment Method

Lump-sum payment at the time of delivery

## 7. Disposition Schedule

Date of decision of disposition	June 6, 2014
Date of execution of beneficiary interest sale and purchase agreement	June 6, 2014
Date of receipt of disposition payment	August 8, 2014 (planned)
Date of trust beneficiary interest settlement	August 8, 2014 (planned)

## 8. Matters related to Forward Commitments

TOKYU REIT or the Purchaser holds the right to cancel the agreement by giving an advance notice with reasonable period when the other party violates the purchase agreement and such violation results in failure of the purpose of the agreement. The party who has exercised the right of cancellation may demand an amount equivalent to 10% of the purchase price of the other party who made the violation as a penalty incurred from the cancellation of the agreement.

Since TOKYU REIT is the Seller and is not required to procure funds, the possibility of such having a major impact on TOKYU REIT's finances, etc. is expected to be minimal.

## 9. Outlook

As a result of the transfer of the Property, gain on sale of 468 million yen is expected to arise. After considering several possibilities for the use of the gain, TOKYU REIT decided that moving up the schedule of repairs and facility construction work planned in the future to avoid the risk of rising costs of such work would be the best measure for the enhancement of unitholder value from a long-term perspective.

Therefore, with consideration given to securing preparation time for the aforementioned front-loaded work and the impact on the future balance of payments, TOKYU REIT has set a schedule to transfer the Property and receive the payment on August 8, 2014 following the conclusion of the agreement on June 6, 2014. For this reason, the gain on sale and additional repair expenses due to the front-loaded work are expected to arise during the 23rd fiscal period (ending January 2015). Furthermore, part of the work may continue into the following period (the 24th fiscal period (ending July 2015)), TOKYU REIT plans to internally retain part of the gain on sale posted in the 23rd fiscal period (ending January 2015) as reserve for reduction entry, and allocate it for repair expenses, etc. in the following fiscal period.

As a result, the expected distributions per unit for the 22nd fiscal period (ending July 2014) and the 23rd fiscal period (ending January 2015) are both 2,500 yen, unchanged from the previous forecast. For further details, please refer to "Notice Concerning Distribution Forecast and Revision to Expected Operating Condition for the Twenty-Second Fiscal Period (Ending July 31, 2014) and the Twenty-Third Fiscal Period (Ending January 31, 2015)" announced today.

### Attachment

1. Property Portfolio after Disposition of Beacon Hill Plaza (Ito-Yokado Noukendai Store) (as of August 8, 2014)
2. Transfer of Beacon Hill Plaza (Ito-Yokado Noukendai Store) and Future Measures

### [Reference]

#### Timely Disclosure Relating to Beacon Hill Plaza (Ito-Yokado Noukendai Store)

July 1, 2004

Notice Concerning Acquisition of Properties

<http://www.tokyu-reit.co.jp/eng/material/pdf/kaiji/2004/2004-0701-01.pdf>

Property Portfolio after Disposition of Beacon Hill Plaza (Ito-Yokado Noukendai Store) (as of August 8, 2014)

Use	Property Name	Area	Acquisition Date	Acquisition Price (million yen)	Ratio (%)	NCF Cap Rate (based on appraisal value at the end of the 21st fiscal period) (%)*9
R	QFRONT	Central Tokyo and Tokyu Areas (Shibuya)	September 10, 2003	15,100	6.9	3.40
R	Lexington Aoyama	Central Tokyo	September 11, 2003	4,800	2.2	4.10
R	TOKYU REIT Omotesando Square	Central Tokyo and Tokyu Areas	September 10, 2003	5,770	2.6	4.10
R	Tokyu Saginuma Building	Tokyu Areas	September 10, 2003	6,920	3.1	5.40
R	Tokyu Saginuma 2 Building	Tokyu Areas	September 11, 2003	1,290	0.6	6.50
R	TOKYU REIT Shibuya Udagawa-cho Square	Central Tokyo and Tokyu Areas (Shibuya)	March 1, 2004	6,600	3.0	4.10
R	Cocoti	Central Tokyo and Tokyu Areas (Shibuya)	April 6, 2005 *1 August 2, 2005 *2	14,700 9,800	11.1	4.00
R	Shonan Mall Fill ( <i>sokochi</i> )	Other	April 28, 2006	6,810	3.1	5.40
R	CONZE Ebisu	Central Tokyo and Tokyu Areas	October 31, 2006	5,116	2.3	4.20
R	Daikanyama Forum	Central Tokyo and Tokyu Areas	April 22, 2008	4,136	1.9	4.30
R	KALEIDO Shibuya Miyamasuzaka	Central Tokyo and Tokyu Areas (Shibuya)	August 16, 2013	5,150	2.3	4.40
	Subtotal			86,192	39.2	4.22
O	Setagaya Business Square	Tokyu Areas	September 11, 2003	22,400	10.2	4.90
O	Tokyu Nampeidai-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	4,660	2.1	4.50
O	Tokyu Sakuragaoka-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	6,620	3.0	4.20
O	Tokyo Nissan Taito Building	Central Tokyo	September 11, 2003	4,450	2.0	4.90
O	TOKYU REIT Akasaka Hinokicho Building	Central Tokyo	September 10, 2003	3,570	1.6	4.40
O	TOKYU REIT Kamata Building	Tokyu Areas	September 10, 2003	4,720	2.2	5.20
O	TOKYU REIT Toranomom Building	Central Tokyo	December 15, 2004 *3 September 21, 2007 *4 September 21, 2007 *5 October 26, 2007 *6	8,630 1,100 200 140	4.6	4.40
O	TOKYU REIT Hatchobori Building	Central Tokyo	September 29, 2006	7,000	3.2	4.60
O	Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building)	Central Tokyo	January 31, 2008	8,500	3.9	4.20
O	Tokyu Ikejiri-ohashi Building	Tokyu Areas	March 28, 2008	5,480	2.5	5.10
O	Kojimachi Square	Central Tokyo	March 19, 2010	9,030	4.1	4.30
O	TOKYU REIT Shinjuku Building	Central Tokyo	March 26, 2010	9,000	4.1	4.30
O	Akihabara Sanwa Toyo Building	Central Tokyo	October 29, 2010	4,600	2.1	4.70
O	TOKYU REIT Kiba Building	Other	October 29, 2010	4,000	1.8	5.40
O	Tokyu Ginza 2-chome Building	Central Tokyo	February 15, 2011	5,010	2.3	4.30
O	OKI System Center ( <i>sokochi</i> )	Other	March 27, 2013	4,530	2.1	5.50
O	Shibuya R Sankei Building	Central Tokyo and Tokyu Areas (Shibuya)	August 16, 2013	5,270	2.4	4.60
O	Tokyu Toranomom Building	Central Tokyo	August 16, 2013	15,000	6.8	4.00
	Subtotal			133,910	60.8	4.61
	Total			220,102	100.0	4.45

# Beacon Hill Plaza (Ito-Yokado Noukendai Store)

Use	Property Name	Area	Acquisition Date	Acquisition Price (million yen)	Ratio of Property Portfolio before Disposition (%)	NCF Cap Rate (based on appraisal value at the end of the 21st fiscal period) (%)*9
R	Beacon Hill Plaza (Ito-Yokado Noukendai Store)	Other	August 3, 2004	9,520	4.1	5.40
	Total (include Beacon Hill Plaza (Ito-Yokado Noukendai Store))			229,622	100.0	4.49

\*1 Details of the 60% portion of trust beneficiary interests acquired under co-ownership.

\*2 Details of the 40% portion of trust beneficiary interests acquired under co-ownership.

\*3 Floor area: 9,688.59 m<sup>2</sup>; Interest of site rights: 73,585/100,000

\*4 Floor area: 865.14 m<sup>2</sup>; Interest of site rights: 8,579/100,000

\*5 Floor area: 139.93 m<sup>2</sup>; Interest of site rights: 1,322/100,000

\*6 Floor area: 93.93 m<sup>2</sup>; Interest of site rights: 1,166/100,000

\*7 Ratio is rounded to one decimal place. Accordingly, the subtotal and total may not exactly match the sum of relevant items.

\*8 The PML for the entire portfolio above based on earthquake risk assessment reports prepared by Engineering & Risk Services.

Corporation is 4.0%. Probable Maximum Loss (PML) refers to the expected maximum loss ratio caused by earthquakes. PML as used by TOKYU REIT is the percentage of expected damages caused by a small- to large-scale earthquake that may happen within the next 475 years to the replacement value. Calculations also include data relating to individual property surveys, assessment of building conditions, conformity to architectural design, ground conditions, surveys of local areas and structural evaluation. Damages in this instance refer to property damage and do not include secondary damages such as loss of life and damages to fixtures. In addition, damages are limited to structural damage and damages to facilities and building interior and exterior, and do not cover damages caused by earthquake fire and fire damage from surrounding facilities.

\*9 For NCF (Net Cash Flow) cap rate based on the appraisal value at the end of 21st fiscal period, NCF cap rate on the appraisal report is indicated in the individual property column, and figures calculated by TOKYU REIT's asset management company ("the sum of the relevant properties' NCFs (direct capitalization approach) ÷ the sum of the relevant properties' appraisal values at the end of the 21st fiscal period") are indicated in the "Retail Properties Total," "Office Properties Total" and "Total" columns. Since the direct capitalization approach is not used in the calculation of appraisal values at the end of the 21st fiscal period for Shonan Mall Fill (*sokochi*) and Oki System Center (*sokochi*), the discount rate using the DCF approach is indicated.

This notice may contain forward-looking statements, such as current plans, strategies, and future performance. These forward-looking statements are based on judgments obtained from currently available information. Please be advised that, for a variety of reasons, actual results may differ materially from those discussed in the forward-looking statements. Events that might affect actual results include, but are not limited to, fluctuations of the real estate market in Japan, general conditions of the Japanese economy, competitive pressures and relevant regulations. This notice is a translation of the original document in Japanese and is prepared solely for the convenience of non-Japanese speakers. There is no assurance as to the accuracy of the English translation. The original Japanese notice shall prevail in the event of any discrepancies between the translation and the Japanese original.

# **Transfer of Beacon Hill Plaza (Ito-Yokado Noukendai Store) and Future Measures**

**June 6, 2014**

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**TOKYU REIT**

**東急リアル・エステート投資法人**

<http://www.tokyu-reit.co.jp>



- 1. Transfer of Beacon Hill Plaza (Ito-Yokado Noukendai Store) to generate capital gains (gain on sale)**
- 2. In preparation for future soaring construction costs, capital gains will not be distributed, but rather used as the source of funds for implementing scheduled construction ahead of schedule to enhance tenants satisfaction and the asset value**
- 3. Aim to secure distribution level of ¥2,500 through internal growth, etc. with revenues at hand after the transfer**
- 4. Work to further increase the distribution level through re-investment in new properties by leveraging acquisition capacity of ¥21.3 billion**

(Note) The remaining property acquisition capacity stated in this material is the expected figures as of the end of the 23rd fiscal period (ending January 2015) after the transfer of Beacon Hill Plaza (Ito-Yokado Noukendai

# Disposition of Beacon Hill Plaza (Ito-Yokado Noukendai Store)

**\* Capital gains of ¥468 million will generate and IRR of investment in the Property will be 6.6%**

## 1. Details of Property Scheduled for Transfer

(1) Location	: 3-1, Noukendai-Higashi, Kanazawa-ku, Yokohama City
(2) Area	: Area not in “primary targeted areas” (area accounting for no more than 15% of investment)
(3) Transfer Price	: ¥8,720 million (Note 1)
(4) Appraisal Value as of Transfer (as of May 1, 2014)	: ¥8,650 million (CBRE K.K.)
(5) Appraisal Value as of Period End (as of end of Jan. 2014)	: ¥8,060 million (Japan Valuers Co., Ltd.)
(6) Book Value (expected value as of the scheduled transfer date)	: ¥8,184 million
(7) Amount of Difference from Transfer Price (expected value as of the scheduled transfer date)	: ¥535 million
(8) Capital Gains (gain on sale) (expected value as of the scheduled transfer date)	: ¥468 million (Note 2)
(9) Acquisition Price (acquired in August 2004)	: ¥9,520 million
(10) Purchaser	: Ito-Yokado Co., Ltd. (exercise of right of first refusal)
(11) Tenant	: Ito-Yokado Co., Ltd.
(12) Schedule	: Transfer contracted on June 6, 2014 and to be closed on August 8, 2014
(13) Internal Rate of Return (IRR)	: 6.6%



## 2. Background of the Transfer

(Note 1) Transfer price of ¥8,720 million, less tenant leasehold and security deposits and various costs, arriving at proceeds from transfer of ¥6,507 million  
 (Note 2) Calculated as amount of difference (of book value) from transfer price (¥535 million), less transfer-related costs

- (1) The investment environmental analysis based on the current Long-Term Investment Management Strategy (Surf Plan) is in the “Acquisition Phase.” Although property prices are on an upward trend, TOKYU REIT decided that the price level is sufficient to consider possible sales of some properties for replacement.
- (2) Continuous value-enhancing measures have been taken for the Property, such as the renovation of external walls during the 20th fiscal period (ending July 2013), contributing to the 100% occupancy rate.
- (3) Being approached for possible transfer with conditions that exceed the market value level (surpassing the appraisal value at the end of the 21st fiscal period (ending January 2014) by around 8.2%), TOKYU REIT discussed actions including approaching the tenant as to its interest in exercising the preferential negotiation right.
- (4) TOKYU REIT’s investment policy is to concentrate investments in the Central Tokyo and Tokyu Areas. Although the Property is expected to contribute to stable earnings for the time being, it is not situated in TOKYU REIT’s primary investment targeted areas (rather in an area with investment ratio of 15% or less). Furthermore, taking into consideration the transfer price, the agreement terms with the tenant (the planned rent revision in June 2017, the current agreement expiring in June 2018), etc. comprehensively, TOKYU REIT has judged that conducting the transfer of the Property will best contribute to maximizing the unitholder value from the point of total return, and thus made the decision.
- (5) While the NCF cap rate of the entire portfolio based on the appraisal value at the end of the 21st fiscal period (ending January 2014), which indicates the quality of the portfolio, is 4.49%, the NCF cap rate of the Property based on the appraisal value at the end of the same period is 5.40%. Therefore, the enhancement of portfolio quality can be expected from the transfer of the Property.

\* Comment by Tokyu REIM

# Expected Operating Condition ( Change from the Previous forecast )

		23rd Period (Ending Jan. 2015) Forecast as of Mar. 14, 2014 (184 days)	23rd Period (Ending Jan. 2015) Forecast as of June 6, 2014 (184 days)	Change
Distribution per Unit	(¥)	2,500	2,500	-
Operating Revenues	(¥ million)	7,303	7,492	188
Operating Expenses	(¥ million)	4,076	4,171	94
Operating Income	(¥ million)	3,226	3,321	94
Gain on Sale	(¥ million)	-	468	468
Net Income	(¥ million)	2,444	2,558	114
Depreciation	(¥ million)	1,099	1,029	-69
CapEx	(¥ million)	1,070	1,294	223
Repair and Maintenance Expenses (include asset retirement costs)	(¥ million)	155	355	199
Total Construction Costs	(¥ million)	1,225	1,649	424
Asset Management Fees	(¥ million)	526	514	-12
Interest expenses	(¥ million)	729	699	-29
Adjusted ROE	(%)	4.96	4.03	-0.93
NOI	(¥ million)	4,999	4,557	-441
NOI Yield	(%)	4.32	4.10	-0.22
LTV / Total Assets at End of Period	(%)	44.7	43.8	-0.9
LTV at End of Period	(%)	47.3	45.7	-1.6
Long-Term Interest-bearing Debt Ratio	(%)	100.0	100.0	-
Interest-Bearing Debt	(¥ million)	103,000	98,000	-5,000
Deemed Interest-Bearing Debt	(¥ million)	108,183	101,255	-6,928
Period End Occupancy Rate	(%)	97.4	96.3	-1.1
Retail (Urban)	(%)	96.5	96.5	0.0
Retail (Suburban)	(%)	100.0	100.0	0.0
Office	(%)	95.5	94.5	-1.0

- While the supply-demand balance of the leasing market is expected to tighten if delays and cancellations in new development properties due to the rise in construction costs occur in the future, the increase of construction costs such as repairs and maintenance planned by TOKYU REIT is a factor to be concerned.
- For the above reason, the gain on sale will not be distributed but the schedule of the planned construction will be moved up to address the risk of future cost rises. Along with this measure, considering the possible extension of construction into the following period (the 24th period), the gain will be internally reserved for reduction entry and be reversed in the 24th period.
- Expected distribution per unit for the 23rd period (ending January 2015) will remain unchanged at 2,500 yen.

## (Operating revenues)

Gain on sale	+468 million yen
Decrease in revenues due to transfer of the Property	- 280 million yen

## (Operating expenses)

Increase in repair and maintenance expenses (include asset retirement costs)	+199 million yen
Decrease in depreciation	-69 million yen
Property and other taxes	-40 million yen

## (Implementation of construction ahead of schedule)

Gain on sale of ¥468 million to be applied to 23rd period's repair and maintenance expenses of ¥355 million and 24th period's repair and maintenance expenses of ¥255 million totaling repair and maintenance expenses of ¥610 million

## (Decrease in asset management fees)

The transfer and utilizing the gain on sale to implement construction ahead of schedule will lead to decrease in asset management fees, but judged to serve to enhance unitholder value over the medium to long term

## (Decrease in interest expenses)

Secure acquisition capacity by temporarily allocating part of proceeds from the transfer to funds for repayment of interest-bearing debt to enhance capital efficiency.

\* In calculating the forecast period-end occupancy rate as of June 6, 2014, it is assumed that spaces for which notices of cancellation were received as of May 15, 2014 will remain vacant after the move-outs of relevant tenants. Similarly, spaces that were vacant as of May 15, 2014 are assumed to remain vacant.

\* LTV / Total Assets at End of Period = Balance of Period End Interest-Bearing Debt / Period End Total Assets

\* Deemed Interest-Bearing Debt = Interest-Bearing Debt + Securities Deposit without Reserved Cash

\* LTV at End of Period = (Balance of Interest-Bearing Debt at End of Period + Balance of Securities Deposit without Reserved Cash at End of Period) / (Appraisal Value at End of Period + Balance of Cash and Deposits with Banks at End of Period)

# Implementation of Construction Ahead of Schedule

Along with preparing for future soaring construction costs,  
intended to enhance property competitiveness, tenant satisfaction and asset value (appraisal value)

## 1. Recognition of Environment (Soaring Construction Costs)

Projects on reconstruction from the Great East Japan Earthquake, increase in public works resulting from Abenomics and other factors are leading to shortage of labor force in the field.

Going forward, there are concerns of impact of further soaring construction costs on the future.

## 2. Consider Several Options Utilizing Gain on Sale

### (1) Distribution of entire amount:

With no preparation for future soaring construction costs, risk of weighing down on revenues going forward

### (2) Redemption by purchase of own investment units:

System currently does not allow this to be implemented (however, will consider if allowed in the future)

### (3) Offsetting with loss on sale: Currently have no property in need of immediate selling

### (4) Apply to implementation of construction ahead of schedule:

(a) Preparation for future soaring construction costs

(b) Enhancement of property competitiveness and tenant satisfaction

(c) Enhancement of asset value (appraisal value)

(d) Preparation for future selling phase

⇒ In light of the above, judged that applying to implementation of construction ahead of schedule would be the measure to maximize unitholder value in the long-term perspective

### <Changes in Amount of Construction>

(¥ million)

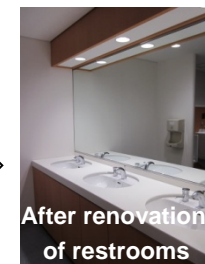
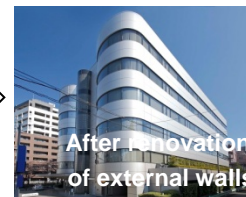
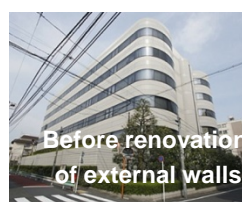
	21st Period Ended Jan. 2014 Actual	22nd Period Ending Jul. 2014 Forecast	23rd Period Ending Jan. 2015 Forecast	24th Period Ending Jul. 2015 Forecast	25th Period Ending Jan. 2016 Forecast	2-Year Total (22nd Period to 25th Period)
Repair and Maintenance Expenses (include asset retirement costs)	175	185	355	255	195	991
CapEx	228	546	1,294	927	976	3,743
Total Construction Costs	404	732	1,649	1,182	1,172	4,735
(Reference) Depreciation and Amortization	1,089	1,076	1,029	1,047	1,067	4,221

## 3. Introduction of Main Construction Implemented

(¥ million)

Name of Property	Planned Construction Content	Estimated Total Amount of Construction
Tokyo Nissan Taito Building	Renovation of external walls	178
Setagaya Business Square	Renewal of air-conditioning equipment	165
TOKYU REIT Kiba Building	Renewal of air-conditioning equipment	120
Setagaya Business Square	Replace lighting with LED lamps in common areas	82
Tokyu Sakuragaoka-cho Building	Renovation of restrooms	80

### <Past similar construction>



\*This page represents the views of Tokyu REIM 4

Aim for property acquisitions that will serve to enhance portfolio quality from the perspective of total return.  
However, funds (approximately ¥6.5 bn) to be applied to construction costs and funds for repayment of interest-bearing debt in the near time from the perspective of efficiency of funds.

## 1. Focused Properties

Property acquisitions leveraging acquisition capacity (¥21.3 bn) (focus on terminal value stability and liquidity)

(1) Office

- Consider mainly properties in favorable locations in the Tokyo Central 5 Wards and Shinagawa Ward (excluding bay area)

(2) Retail (Urban)

- Consider properties in prime locations, while watching out for sense of overheating

(3) Retail (Suburban)

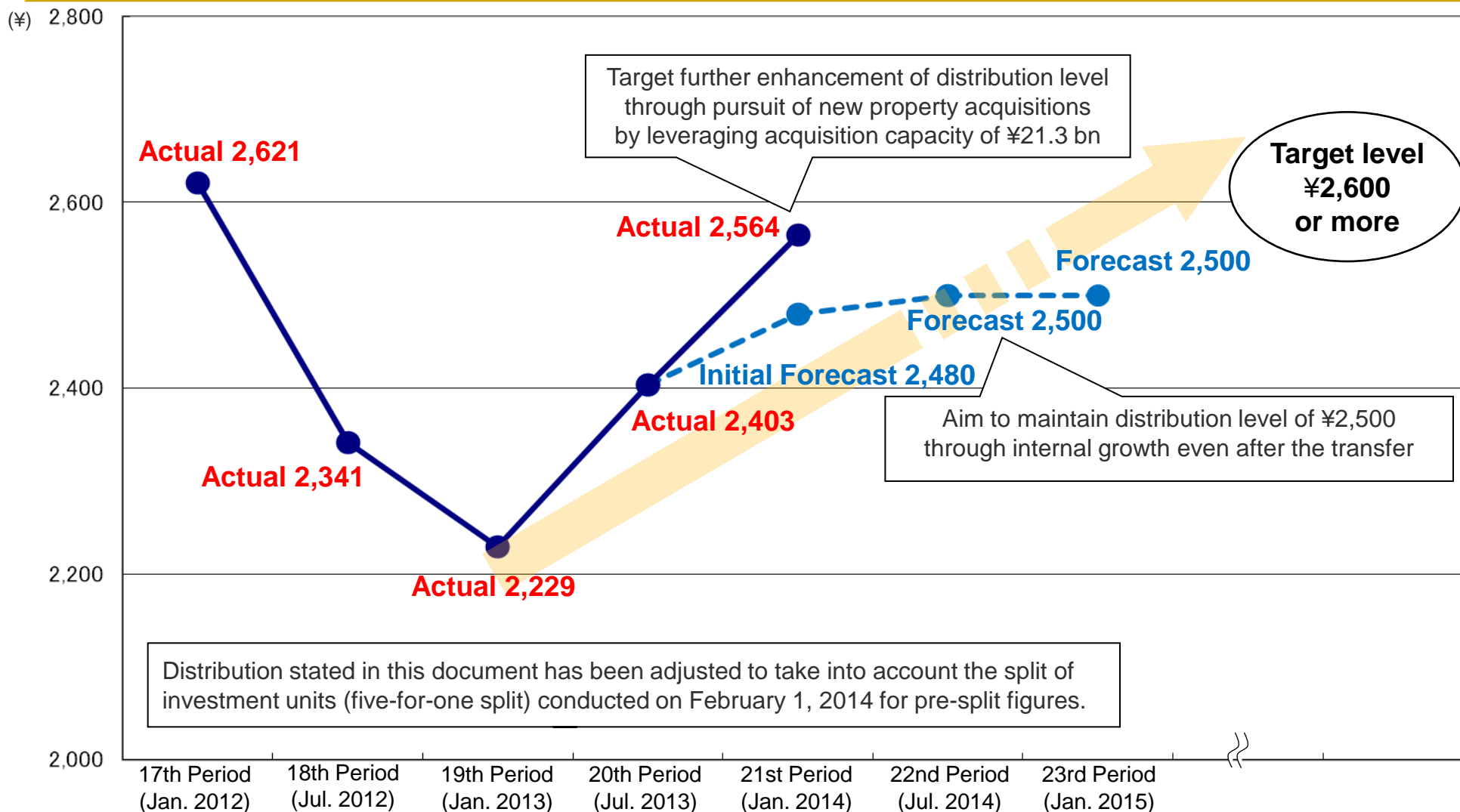
- Properties with potential replacement tenants and for which stable cash flows can be expected
- Consider highly-stable properties on a wide scale, taking note of the *sarachi* (land without buildings or liens) price, in addition to change in trade area demographics, room for new competition and rent level

## 2. Consider Transfers

- (1) With the investment environment judged to be in an acquisition phase under the Long-Term Investment Management Strategy (Surf Plan), there is room for increase in real estate prices, but there are certain properties judged to be at a price level within the range that would place properties also under consideration for sale as a target of replacement
- (2) Target properties are those properties in the portfolio that are relatively less competitive and do not incur loss on sale
- (3) Continue to consider offers of transfers at prices above market level as needed

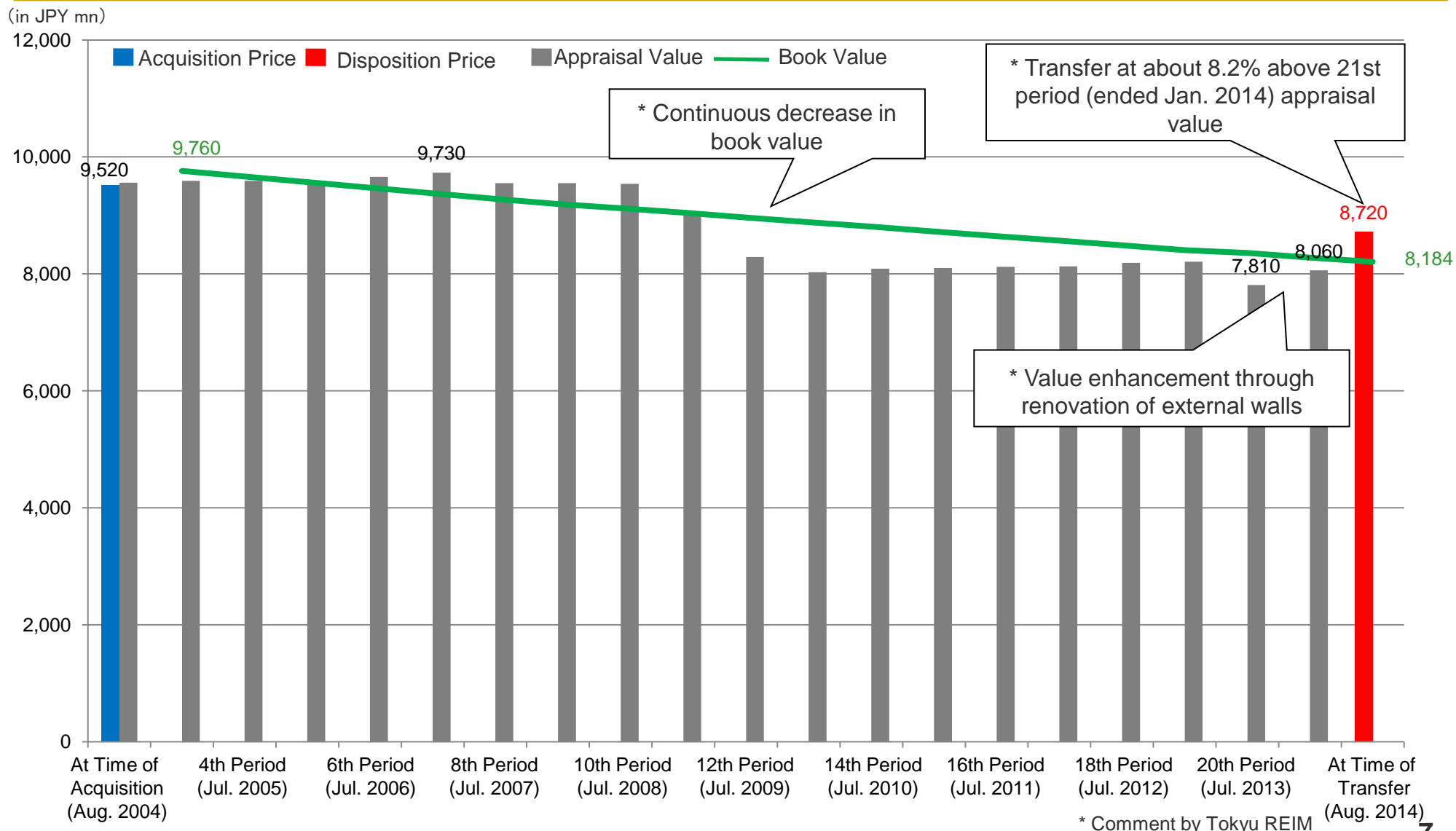
# Future Distribution

Aim for stable growth that places the 19th fiscal period (ended January 2013) as the bottom.  
The target is to have distribution recover to 2,600 yen or more.



# Changes in Appraisal Value and Book Value

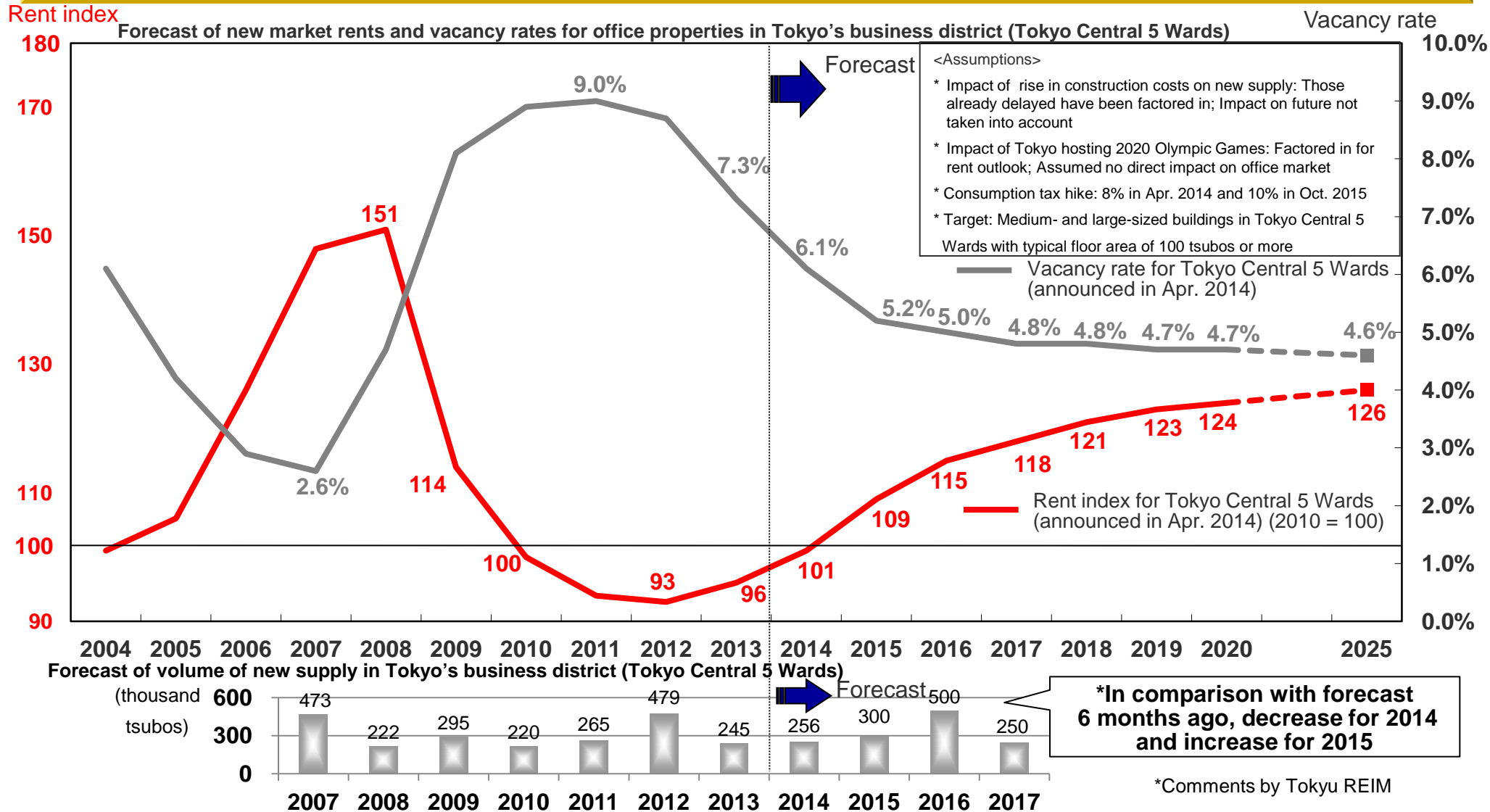
**\* Transfer at this timing is deemed to contribute to maximizing unitholder value from the perspective of total return**





# Forecast of New Market Rents and Vacancy Rates for Office Properties(as announced on April 23, 2014)

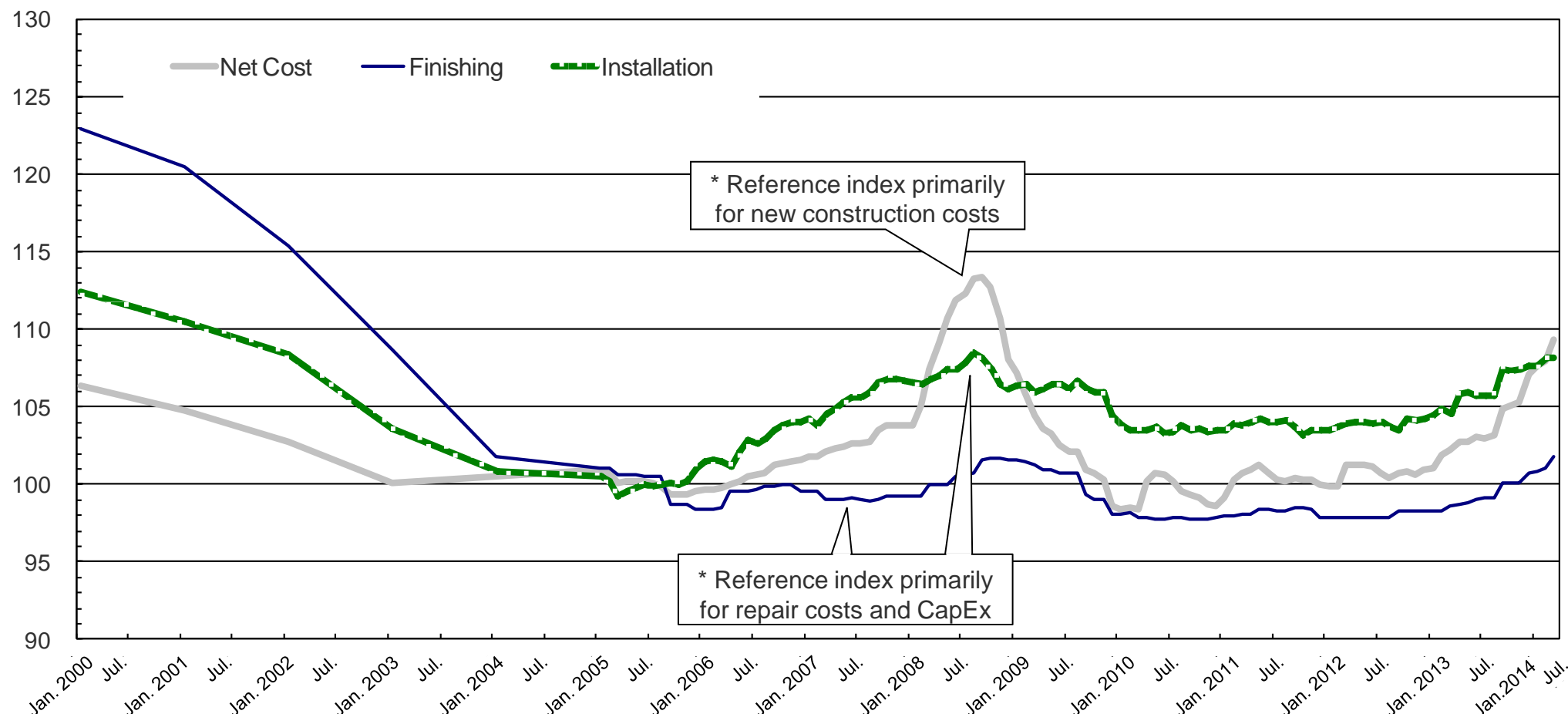
\* In comparison with forecast 6 months ago, degree of rent increase narrowing due to deteriorating macroeconomic outlook, while vacancy rate falling further due to recent favorable office market on the other hand.





# Changes in Building Construction Cost Index (Office Buildings)

\* Soaring construction costs not fully reflected in statistical data, but clearly showing an upward trend



Source: Building Construction Cost Index – Table of Time-Series Index (Table of Long-Term Linked Index) published by the Economic Studies Division, Research Center, Construction Research Institute

\* Figures are calculated with the average value of 2005 set at 100

(2005 and after: monthly data modeled on office buildings having an SRC structure)

(Up to 2004: annual data modeled on office buildings having an SRC structure, 9 floors above ground and 1-2 basement floors with floor area of 7,000m<sup>2</sup>)

\*Comments by Tokyu REIM

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