

May 23, 2018

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 (J-REIT) which became a listed fund in September 2003. TRE invests in office buildings and retail facilities, or complexes that include either of the two, which are located in the Tokyo metropolitan area. Tokyu Corp. serves as TRE's sponsor.

TRE has created a portfolio consisting of relatively high quality properties by heavily investing in properties in areas with growth potential, i.e., Tokyo's five central wards and areas near Tokyu railway stations. All of its assets are located in the Tokyo metropolitan area, many of which are concentrated in the sponsor's home base of Shibuya in particular. The investment ratios by use are 62.6% in office buildings, 31.8% in retail properties, and 5.6% in other (based on the acquisition price).

The asset size is 223.5 billion yen on an acquisition price basis. In 2017, partial changes were made to TRE's Articles of Incorporation and its asset management guidelines, enabling TRE to acquire multi-purpose properties that include residence and hotels. Due to its prudent investment stance, the asset size expands at a gradual pace, but TRE intends to continue to acquire competitive properties mainly in the areas near Tokyu railway stations.

The average occupancy rate for the fiscal period ended January 2018 was 99.4%. The occupancy rate of Setagaya Business Square recovered; in addition, vacancies in Tokyu Toranomon Building were filled with no down time after large tenants moved out. Given the prospect for a small number of tenant move-outs, the extremely high occupancy rate will likely continue for the foreseeable future. The rent level continues to rise gradually with upward rent revisions at lease renewals, especially with office tenants.

The LTV ratio is kept at conservative levels, standing at 42.2% as of end-January 2018. The appraisal value was 22.6% higher than the book value as of end-January 2018, thereby resulting in a relatively large unrealized gains.

The funding environment remains favorable. TRE's debt is mainly comprised of long-term fixed rate borrowings, and the average remaining term to maturity is as long as about 3.8 years as of end-January 2018. Due dates are staggered, and the amount of annual repayment is broadly kept within a committed line of credit of 18 billion yen. Financial costs are declining, and expected to fall further given the funding environment in recent months.

The Rating Outlook is Stable. The occupancy rate of the entire portfolio is high, and the rent level is also recovering. In addition to support from the highly-creditworthy sponsor, TRE's conservative financial policy and solid funding base should underpin the rating. While a further expansion of the asset size is a medium to long-term challenge, there is little concern about it at this moment since earnings from its properties are broadly stable.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". 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: 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

Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	Feb 14, 2014	Feb 14, 2019	JPY 3,500

RATING: A+, Affirmed

Unsec. Str. Bonds No.5	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 11, 2014	Mar 11, 2021	JPY 3,000

RATING: A+, Affirmed