

May 20, 2019

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) that went public in September 2003. TRE invests in office buildings, retail facilities, residential properties, or complexes that include any of the three, which are located in the Tokyo metropolitan area. Tokyu Corp. serves as TRE's sponsor.

TRE has created a relatively high-quality portfolio by heavily investing in properties in areas with growth potential, i.e., Tokyo's five central wards and the Tokyu areas. In recent years, the REIT has been focusing on asset replacement in light of the overheating real estate market conditions. In August 2018, it sold an office building in Kiba while acquiring one in Ebisu. In March 2019, it acquired properties including office buildings in Shibuya through property exchange with the sponsor.

The asset size is approximately 230 billion yen on an acquisition price basis. The investment ratios by use are 64.6% in office buildings, 29.5% in retail properties, etc. 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.

In the period ended January 2019, the average occupancy rate remained high at 99.3%. Recently, there have been fewer tenant move-outs, and vacancies, if any, are filled after a short down time. The rent increase is progressing especially in office buildings and retail facilities in Tokyo's central areas. Given the market rent level that is also rising, there is room for further rent increases.

The LTV ratio is kept at conservative levels, standing at 42.5% as of end-January 2019. The appraisal value was 28% higher than the book value as of end-January 2019, thereby resulting in relatively large unrealized gains. In particular, unrealized gains on properties located in the Shibuya area show noticeable increase.

The funding environment remains favorable. TRE's debt is mainly comprised of long-term fixed rate borrowings, and the average remaining term to maturity of debt is 3.8 years as of end-January 2019. 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 rising. 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.5	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 11, 2014	Mar 11, 2021	JPY 3,000
RATING:	A+, Affirmed		