

Jun 23, 2020

## 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, 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 trading market conditions. Most recently, it acquired a retail facility in Jiyugaoka along the Tokyu Railway line through an asset exchange with another REIT.

The asset size is approximately 230 billion yen on an acquisition price basis. The investment ratios by use are 63.2% in office buildings, 30.9% in retail properties, 5.4% in leasehold land, 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 2020, the average occupancy rate remained high at 99.3%. The rent increase is progressing especially in office buildings. As regards retail properties, TRE also substantially raised rents upon contract renewals at its flagship property QFRONT. While retail properties appear to be affected by the novel coronavirus outbreak, the earnings impact has been mitigated because they account for only around 30% of the portfolio and many of them are based on long-term lease contracts, with fixed rents constituting almost all of total rent income.

The LTV ratio is kept at conservative levels, standing at 41.9% as of end-January 2020. The appraisal value was 36.2% higher than the book value as of end-January 2020, thereby resulting in relatively large unrealized gains. In particular, unrealized gains on properties located in the Shibuya area show a 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 was 4.07 years as of end-January 2020. Due dates are staggered, and the amount of annual repayment is broadly kept within a committed line of credit of 18 billion yen.

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 stable. Although R&I expects the coronavirus to have only a limited impact on immediate earnings, attention will be paid to the implications of the virus for market conditions of property leasing and the financial environment in the future.

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](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

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

| <b>Unsec. Str. Bonds No.5</b> | <b>Issue Date</b>   | <b>Maturity Date</b> | <b>Issue Amount (mn)</b> |
|-------------------------------|---------------------|----------------------|--------------------------|
|                               | Mar 11, 2014        | Mar 11, 2021         | JPY 3,000                |
| <b>RATING:</b>                | <b>A+, Affirmed</b> |                      |                          |