

# TOKYU REIT

## TOKYU REIT, Inc. Semiannual Report Seventh Fiscal Period From August 1, 2006 to January 31, 2007



### QFRONT

QFRONT is a retail property located directly across from Shibuya Station, an area identified as one of Japan's busiest retail districts. QFRONT contains a rental and retail store of videos and CDs, coffee shop, movie theater and a variety of restaurants. Distinguished by the large LED advertising screen adorning the exterior, QFRONT has received considerable exposure from a variety of media.



### cocoti

cocoti is a retail property surrounded by casual brand stores and lies on the outskirts of an area known as "Ura Harajuku." Access is expected to improve with the plan of opening of the Tokyo Metro Fukutoshin Line in June 2008.

### TOKYU REIT Shibuya Udagawa-cho Square

TOKYU REIT Shibuya Udagawa-cho Square is a retail property located in the central area of Shibuya, one of Tokyo's main retail and commercial districts, and faces the major retail thoroughfares Inokashira-dori and Shibuya Center-gai.



### Setagaya Business Square

Setagaya Business Square is a use complex building situated above Yoga Station on the Tokyu Den-en-toshi Line, approximately 12 minutes from Shibuya Station. Conveniently located, it can also be accessed by National Road No. 246, Kampachi-dori, and the Yoga interchange on Metropolitan Expressway Route No.3.



### TOKYU REIT Hatchobori Building

TOKYU REIT Hatchobori Building is located in Hatchobori that has long had a high concentration of office buildings. The property have maintained competitiveness by certain refurbishments including full renovations of the design and seismic-reinforced construction since 1999.



Stable Earnings and  
Cash Distributions through  
Investment in



### CONZE Ebisu

CONZE Ebisu is restaurant complex, situated approximately two minute walk from Ebisu Station on the Tokyo Metro Hibiya Line and contains eight restaurants from the basement level to the eighth floor.

### Lexington Aoyama

Lexington Aoyama is a retail property along Kotto-dori in the Aoyama district. Like Omotesando, Kotto-dori offers a high status location in the Aoyama district, attracting the world's leading fashion brands.



Highly Competitive Properties  
in Areas with  
Strong Growth Potential

### Resona Maruha Building

Resona Maruha Building is a unique office building facing Uchibori-dori in Otemachi, one of the most highly regarded office building districts in Japan. TOKYU REIT owns eight floors of the building's upper floors.





## TOKYU REIT, Inc.

### Semiannual Report Seventh Fiscal Period

From August 1, 2006 to January 31, 2007

7<sup>th</sup>

TOKYU REIT listed its units on the Tokyo Stock Exchange on September 10, 2003.

With the ultimate goal of maximizing unitholder value, TOKYU REIT is engaged in asset investment and management based on principles of growth, stability, and transparency. TOKYU REIT is committed to securing stable earnings and cash distributions through investment in highly competitive properties in areas with strong growth potential.

TOKYU REIT invests primarily in retail and office properties located in the five central Tokyo wards (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya wards) and the Tokyu Areas, which refers to the areas serviced by the Tokyu rail network. As of January 31, 2007, the end of TOKYU REIT's seventh fiscal period, TOKYU REIT held ten retail facilities and nine office buildings, for a total of 19 properties.

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## Basic Policy of TOKYU REIT

### 1 Investment strategies that accelerate growth

- Investment in properties in central Tokyo and the Tokyu Areas – areas with strong growth potential
- Committed to continued collaboration with Tokyu Group companies
- Growth through heightened added value of the Tokyu Areas

### 2 A portfolio that secures stability

- Diversified property uses and limited investment regions
- Winning long-term contracts with well-balanced tenants
- Investment criteria aimed at low risk and steady returns

### 3 Fund structure that backs transparency

- Original establishment of rules for preventing conflicts of interest
- Independent third-party checks
- Proactive disclosure of transaction details



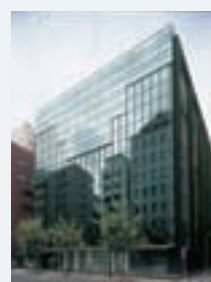
## HIGHLIGHTS

### External Growth

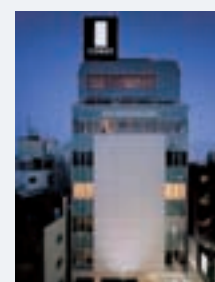
- Acquisition of Sigma Hatcobori Buliding\* (September 29, 2006).  
\*The name of the building was changed to "TOKYU REIT Hatcobori Buliding" on April 1, 2007
- Acquisition of CONZE Ebisu (October 31, 2006).

### Internal Growth

- Outstanding occupancy rate (99.8%) as of January 31, 2007, at the end of the seventh fiscal period.
- Rise by 0.6% of monthly rental income in the entire portfolio at the end of the seventh fiscal period.  
(Compared with sixth fiscal period)  
(Excluding TOKYU REIT Hatcobori Buliding and CONZE Ebisu)



TOKYU REIT  
Hatchobori Building



CONZE Ebisu

### Implementation of strict corporate governance

### Proactive IR activities

## FINANCIAL SUMMARY

	7th Fiscal Period	6th Fiscal Period
<b>Assets</b>		
Total Assets	¥183,994 million	¥172,929 million
<b>Debt</b>		
Interest-Bearing Liabilities	¥65,300 million	¥53,000 million
Total Assets Loan-to-Value (LTV) Ratio	35.5%	30.6%
<b>Income</b>		
Operating Revenues	¥6,460 million	¥7,875 million
Net Income	¥2,402 million	¥3,753 million
<b>Distributions</b>		
Cash Distribution per Unit	¥14,182	¥22,162
<b>Valuations</b>		
Average Market Price per Unit	¥958,306	¥902,435
Distribution Yield	2.94%	4.95%

## To Our Unitholders

On behalf of TOKYU REIT, Inc. (**TOKYU REIT**), I would like to express my sincere appreciation to all of our REIT unitholders for their continued support and understanding. The following pages provide an overview of the operating environment and our results for the seventh fiscal period, August 1, 2006 to January 31, 2007.

### Masahiro Horie

TOKYU REIT, Inc.  
Executive Director  
Tokyu Real Estate Investment Management Inc.  
Representative Director & President, Chief Executive Officer



### Cash Distribution of ¥14,182 Per Unit

Operating revenues for the seventh fiscal period amounted to ¥6,460 million, while net income totaled ¥2,402 million. **TOKYU REIT** allocated 100% of its net income for a cash distribution of ¥14,182 per unit. The distribution decreased significantly from the ¥22,162 per unit for the sixth fiscal period, when **TOKYU REIT** recorded a gain from the sale of a property. However, the amount is on par with the ¥14,179 per unit distribution for the fifth fiscal period.



### Implementing Increases in Rental Rates

As a result of stable investment management, 16 of TOKYU REIT's 19 properties were fully occupied as of the seventh period-end and the occupancy rate for the entire portfolio stood at 99.8%. During the seventh fiscal period, **TOKYU REIT** succeeded in contracting with tenants for the fourth floor of TOKYU REIT Omotesando Square, after being notified by former tenants of their withdrawal. In total, we attracted 11 tenants that were either new or seeking additional space to replace 11 tenants who withdrew or decreased their leasing space.

With the favorable upturn in Tokyo's real estate leasing market, **TOKYU REIT** is proceeding with upward revisions to rental rates. Among 24 tenants who reached the time to renew their contracts during the seventh fiscal period, we were able to raise rental rates for 9 tenants. Consequently, the average rental rate for our 17 properties (excluding the TOKYU REIT Hatchobori Building and CONZE Ebisu acquired during the fiscal period under review) at the end of the seventh fiscal period increased by 0.6%,

compared to the end of the previous fiscal period.

Several research agencies are forecasting rises in office rental rates, and investors appear bullish regarding REITs that focus on office buildings. In addition to office buildings, our portfolio contains a number of retail properties, and I sense a strong desire among our retail tenants to open new shops and outlets. In advance of office buildings in central Tokyo, **TOKYU REIT** has already implemented increases in rental rates for urban multi-tenant retail facilities in prime locations.

### Approach to Property Acquisition

During the seventh fiscal period, **TOKYU REIT** acquired TOKYU REIT Hatchobori Building and CONZE Ebisu, bringing the total acquisition cost of the portfolio to ¥171,736 million. The total period-end appraisal value of properties (assessed by a qualified third-party appraiser) reached ¥210,120 million. The development of the REIT market has brought a greater degree of transparency to Japan's real estate market, and both domestic and foreign

investors are increasingly interested in investing in real estate. Competition to acquire prime properties has intensified accordingly. With the aim of enhancing unitholder value, **TOKYU REIT** adheres to a policy of acquiring properties with appropriate consideration of capital procurement costs. Some unitholders may be concerned that limiting acquisitions to office and retail properties in the greater Tokyo area makes it difficult for **TOKYU REIT** to achieve external growth through increased asset scale. Nevertheless, **TOKYU REIT** has no intention of altering its portfolio management standards. (Please refer to pages 16 and 21. In February 2007, **TOKYU REIT** began using a period-end appraisal basis, rather than an investment amount basis, to calculate the share of the portfolio accounted for by property types, for which there are established targets.) This is to avoid a future drop in asset value or decrease in cash flows as a result of acquiring properties in regions with less growth potential, which could lower the quality of the asset portfolio. Although the current real estate investment market is strong, when long-term economic cycles are considered, we cannot expect asset values to rise constantly. In principle, the operation of REITs is dependent upon integrated taxation and accounting methods, and the application of impairment accounting as a result of a drop in property values could have a profound impact. **TOKYU REIT** will continue to adhere to the investment policies promised to unitholders at the time it was publicly listed, namely that of selective and sound asset management to enhance portfolio quality.



## Outlook

On March 16, 2007, **TOKYU REIT** announced distribution forecasts of ¥14,000 per unit and ¥14,500 per unit for the eighth and ninth fiscal periods, respectively. The forecasts are based upon current contracts and are

somewhat conservative in that internal and external growth is not reflected. However, the forecasts account for downward revisions to a portion of investment management fees, which shall be raised for discussion at the Third General Meeting of Unitholders scheduled for April 17, 2007.

## Changes in Investment Management Fees

Asset-based fees, cash-based fees and unit price-based fees comprise the fees payable to the Investment Management Company, Tokyu REIM, which is responsible for overall investment management operations including investment decisions, investment management and debt financing. Because asset-based fees are linked to the total appraisal value of assets under management rather than the total investment amount, Tokyu REIM is motivated to enhance the value of properties following acquisition. Moreover, cash-based fees are linked to cash flows, providing incentive to boost distributions by increasing rental income and lowering expenses. Unit price-based fees are linked with the price of investment units. In the event that the average price of investment units during a fiscal period exceeds the previous record average price, the difference is multiplied by the number of investment units issued, and 1% of the resulting figure is paid as a fee to Tokyu REIM. (This method is known as the “high water mark system.”) The fee structure is designed to provide an incentive for managers to enhance the price of investment units and thus unitholder value by improving overall investment management operations and strengthening finance, IR, governance and compliance activities. The effectiveness of this system is reflected in the attitude adopted by Tokyu REIM, which approaches its work with the knowledge that the success or failure of both it and its unitholders rests equally on the effectiveness of its actions.

**TOKYU REIT** does not employ a property acquisition fee system such as those introduced at most REITs for two reasons. First, such a system can lead to a precarious situation where making acquisitions becomes the ultimate purpose, and acquisitions are made with no regard to unitholder value. Second, if current Japanese accounting regulations are followed, acquisition fees may be recorded at book value rather than expensed, making it difficult to decipher them as costs. With this in mind, a revision to the ratio of the unit price-based fee from 1% down to 0.4% will be proposed at the General Meeting of

## Investment Management Fee

Base 1	<p>Amount of total from the following calculation about asset value at the end of previous period.</p> <ul style="list-style-type: none"> <li>■ For the portion under 200 billion yen: Asset value at the end of previous period × 0.150%</li> <li>■ For the portion exceeding 200 billion yen: Asset value at the end of previous period × 0.125%</li> </ul>
Base 2	<p>Amount of total from the following calculation about operating cash flow*<sup>1</sup> in current period.</p> <ul style="list-style-type: none"> <li>■ For the portion under 5 billion yen: Operating cash flow in current period × 6.0%</li> <li>■ For the portion exceeding 5 billion yen: Operating cash flow in current period × 5.0%</li> </ul>
Incentive	<p>Amount from the following calculation about closing price in current period.</p> <ul style="list-style-type: none"> <li>■ (Average price in current period – Record average price) × Number of investment unit × 1.0%**<sup>2</sup></li> </ul>

Notes: 1 Operating cash flow = ordinary income + depreciation and amortization of deferred assets – profit or loss from valuation

2 Changing from 1% to 0.4% subjected to approval by the Third General Meeting of Unitholders to be held on April 17, 2007.

Unitholders. Despite the fact that such a move would lower its revenues, Tokyu REIM has made the proposal with a view toward TOKYU REIT's long-term stable growth. TOKYU REIT's Board of Directors has examined and approved the proposal with the aim of setting management fees at an appropriate level, and will next present the proposal to unitholders. **TOKYU REIT** expects the revision to reduce capital costs by lowering the volatility of the investment unit price. This will contribute to external growth by enhancing unitholder value and reinforcing TOKYU REIT'S future competitiveness in terms of its capacity to acquire properties. **TOKYU REIT** and Tokyu REIM have designed the revision to secure greater earnings stability and distributions.

### Third General Meeting of Unitholders

At the time of publication, unitholders will have received a convocation notice for the Third General Meeting of Unitholders. Items to be resolved at the meeting are revisions to a portion of the Articles of Incorporation, including changes to investment management fees, as well as the appointments of one executive director, two supervisory directors and an independent auditor.

Because we aim to provide greater cash distributions and to maintain fairness to unitholders who can not attend, **TOKYU REIT** will not distribute commemorative items to those who attend the meeting.

However, we encourage unitholders to attend. Following the General Meeting of Unitholders, we are planning to hold a meeting where Tokyu REIM will report on its investment management results. Moreover, we ask that as many unitholders as possible exercise their voting rights, including those who cannot attend the meeting. We desire to reflect the opinions of a broad spectrum of unitholders in our investment activities.

### Investor Relations Activities by Tokyu REIM

In my role as President of Tokyu REIM, I am working to strengthen IR activities of **TOKYU REIT**. IR consists of continually providing unitholders with the information they need to make investment decisions in a timely and fair manner. Specifically, Tokyu REIM holds results briefings and presentations, as well as individual interviews with investors. For individual investors, in addition to the aforementioned meeting to report on investment management results following the General Meeting of Unitholders, we also host explanatory meetings at branch offices of securities companies with which we are cooperating.

For analysts and institutional investors, we hold explanatory meetings following our results briefings and hold individual interviews with institutional investors who are unable to attend such meetings. Moreover, we post materials used at such briefings and explanatory meetings on our Web

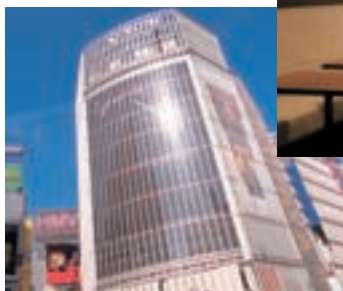
site. During 2006, we visited with more than 250 institutional investors from Japan and abroad.

We are also taking steps to improve the quality of our disclosure materials. Our Web site (<http://www.tokyu-reit.co.jp/eng/>) features information on business results (financial reports, presentation materials and data books on business results) and other timely disclosure materials, as well as securities reports, investment management reports, TOKYU REIT's Articles of Incorporation, and other corporate information from the time of public listing. The Web site and data books also contain detailed information on TOKYU REIT's portfolio. We are making efforts to provide information that facilitates investment decisions and to improve the level of transparency. **TOKYU REIT** takes pride in being among Japan's most progressive REITs in the area of disclosure. In accordance with the Investment Management Agreement, Tokyu REIM bears responsibility for IR-related costs.

### Reasons for Focusing on IR Activities

**TOKYU REIT** expends a significant amount of time and energy on IR activities for several reasons. First and foremost is the fact that **TOKYU REIT** is a financial product offered by Tokyu REIM. To Tokyu REIM, which receives investment management fees from **TOKYU REIT**, unitholders of **TOKYU REIT** are both investors and clients. In contrast to ordinary corporations, REITs are investment trusts. IR at REITs amounts to dialogue with customers, serving as a means to improve customer satisfaction and a marketing tool to stay abreast of client needs. We firmly believe that dialogue with clients forms the foundation for business activities and raises the quality of investing initiatives and management performance.

A second reason is to promote an appropriate



investment unit price. We are of the conviction that ensuring transparency through outstanding IR activities decreases the risk premium on **TOKYU REIT** investment units, preventing under-valuation by the market. Accordingly, if the price of investment units rises, this increases unitholder value and enhances TOKYU REIT's competitiveness in terms of its capacity to acquire properties by lowering capital costs.

A third reason is to reach potential investors. Having only a limited number of clients and investors can lead to uncertainty regarding the future procurement of funding. Therefore, expanding the base of **TOKYU REIT** supporters is vital for future growth. We also believe that the greater the number of investors interested in a company, the better is the prospect of that company's stock being appropriately priced. Stocks that have a broad base of potential investors have less possibility of remaining at an undervalued price, even if certain investors sell shares for their own particular reasons.

Finally, another reason is to make **TOKYU REIT** known to those who are participating in the REIT market.

Through my IR activities for **TOKYU REIT**, I have worked to raise awareness of the investment products offered by REITs to investors, including medium-risk, medium-return investors. I have promoted REITs as high-quality investment options that offer equity as well as income. I have also lauded the business model of working in collaboration with "sponsors" (Tokyu Corporation and Tokyu Land Corporation), and followed a low-cap rate portfolio strategy. I am fully devoted to increasing unitholder value for **TOKYU REIT** unitholders and to contributing to the development of the REIT market through constructive IR activities.

## Governance

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Regarding governance, the semiannual report for the previous fiscal term introduced management of TOKYU REIT's Board of Directors meetings, as well as measures against conflicts of interest. For more information concerning the Board of Directors' activities during the current term, please refer to page 11 of this report. At present, annual remuneration for each of TOKYU REIT's two supervisory directors is ¥2.4 million, but this will be raised to ¥3.0 million from May 2007. Supervisory directors are under an increasing number of time-sensitive constraints. They attend Board of Directors meetings, deliberate on proposals, debate and advise on matters at extraordinary meetings, as well as check statutory books. In addition, they audit me in my concurrent roles as executive director of TOKYU REIT and president of Tokyu REIM in order to ensure that the interests of all unitholders are protected. The weight of these responsibilities greatly exceeds the expectations we had before TOKYU REIT's public listing, leading to our decision to revise remuneration accordingly. In addition, we have made vigorous efforts to strengthen our governance systems, which we expect to create even greater responsibility for sound governance. Moreover, with regard to remuneration, TOKYU REIT has taken into consideration the compensation levels set by publicly listed companies for outside directors and outside auditors.

The next issue to discuss is the operations of outsourcing companies. TOKYU REIT has no proper legal framework for employing people aside from its executive director and supervisory directors. Because of this, practical business matters must be consigned to outside parties such as Tokyu REIM and trust banks. TOKYU REIT investigates the quality of the work of its outsourcing companies at the time it selects them, and then puts a certain degree of trust in them. However, this does not mean that TOKYU REIT is completely reliant upon outsourcing companies.

For example, TOKYU REIT submits the "Written Confirmation Regarding the Appropriateness and Accuracy of a Securities Report" to the Tokyo Stock Exchange ("TSE"). This serves as a declaration to the TSE that, in my capacity as TOKYU REIT's executive director, I am not cognizant of any errors in TOKYU REIT's Securities Report in terms of the reliability of financial reporting. Because we cannot directly participate in certain practical business matters due to legal restrictions, we obviously are in no position to make an unqualified statement that the entire report contains no errors. Consequently, Tokyu REIM submits the same type of written confirmation. Because it

cannot submit a groundless written confirmation, it prepares the confirmation after checking operational processes. I then verify the content of Tokyu REIM's written confirmation, and only then can it be submitted to the TSE. In addition to the written confirmation, Tokyu REIM must make weekly reports regarding the execution of investment management operations and quarterly business reports.

TOKYU REIT's Board of Directors also receives regular operational reports from the General Administrator and Asset Custodian, Mitsubishi UFJ Trust and Banking Corporation.

Property management operations are, in principle, outsourced to Tokyu Corporation and Tokyu Land Corporation. In addition to checks by Tokyu REIM on the performance of the property management companies, TOKYU REIT also examines surveys regarding appropriate remuneration levels for property management services.

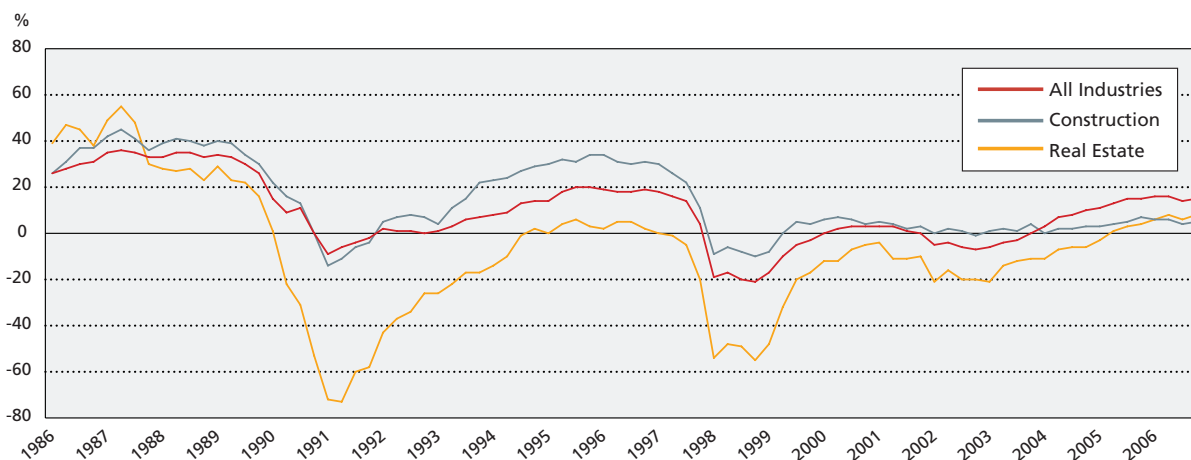
TOKYU REIT is aware that evaluation of outsourced operations is an extremely important matter in assuring the reliability of financial reporting as part of internal controls. We will work to further strengthen our evaluation capacity from this time forward.

## Approach to Financial Leverage

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TOKYU REIT takes a low-leverage strategy with the aim to limit debt financing to no more than 50%. Unlike ordinary corporations, in practice, REITs are not subject to income taxes and therefore do not receive tax benefits through debt financing. Theoretically, an optimal capital structure for maximizing corporate value is nonexistent. However, real market economies are not built precisely according to theories, and in actuality, short-term profits and cash distributions can be increased through leveraging effects if the debt ratio is increased. Several investors have voiced the opinion that TOKYU REIT should increase its interest-bearing debt ratio while historically low interest rates are still available. Nevertheless, at present, TOKYU REIT considers a low-leverage strategy to be the most effective course of action, and not simply due to concerns over a loss of financial creditworthiness. It can be added that there is great variance in the posture of financial institutions on providing real estate loans in Japan. Moreover, there is no safety net in Japan's bond market, as evidenced by the lack of improvements to the junk-bond market. TOKYU REIT's capital procurement activities are currently running smoothly. We maintain a conservative financial strategy in order to minimize risks, such as being unable to secure growth capital or financing for the repayment of mature debt in the event of a financial crisis in the overall economy.



**Lending Attitude of Financial institutions (Diffusion index of "Accommodative" minus "Severe")**

Source : Bank Of Japan "Tankan"

**An Enduring REIT**

I believe that REITs are funds that should always remain as an option. From this perspective, we aim to build **TOKYU REIT** into a successful and enduring REIT by

skillfully handling the various management issues at hand, including enhancing portfolio quality, practicing outstanding IR, strengthening governance, maintaining a healthy financial strategy, and being thorough in internal control areas such as compliance and risk management.

March 2007

**Masahiro Horie**

In his role as CEO of REIT's investment manager, Mr. Horie draws on the wealth of experience he has accumulated since entering Tokyu Corporation.

**1984**

Entered Tokyu Corporation  
Posted to Saginuma Station, conductor servicing the Denen-toshi Railway Line.

**1985**

Participated in development planning of the Tama Den-entoshi area, undertook broad-based studies of the real estate business.

**1986**

Logistical support in Japan for overseas real estate development projects located on the west coast of the United States and Hawaii. Participated in broad-based activities including investment decision making, development, management, purchase and sale of resort facilities, commercial facilities, hotels, office buildings and residential properties.

**1989**

Transferred to hotel management company domiciled in Honolulu, Hawaii. Engaged in business activities relating to finance, legal and development planning. Engaged in support work for private trustee. Served as assistant trustee.

**1994**

Posted to the Finance & Accounting Division of Tokyu Corporation. Engaged in activities relating to capital markets and the issue of ordinary bonds in Japan.

**1996**

Posted to the Group Controllers Division. Participated in formulation and reorganization plans of a number of Tokyu group companies.

**1999**

Appointed to the Group Restructuring Strategy & Investor Relations Division. Engaged in restructuring Tokyu group businesses and formulating group company financial measurement indicators, M&A, share exchange and investor relations activities. Promoted REIT business proposal as part of the Tokyu Group's Management Policy announced in 2000, commenced REIT business feasibility study.

**2001**

Posted to Tokyu Real Estate Investment Management Inc. (Tokyu REIM) at the time of company incorporation. Appointed Tokyu REIM Executive vice president and representative director.

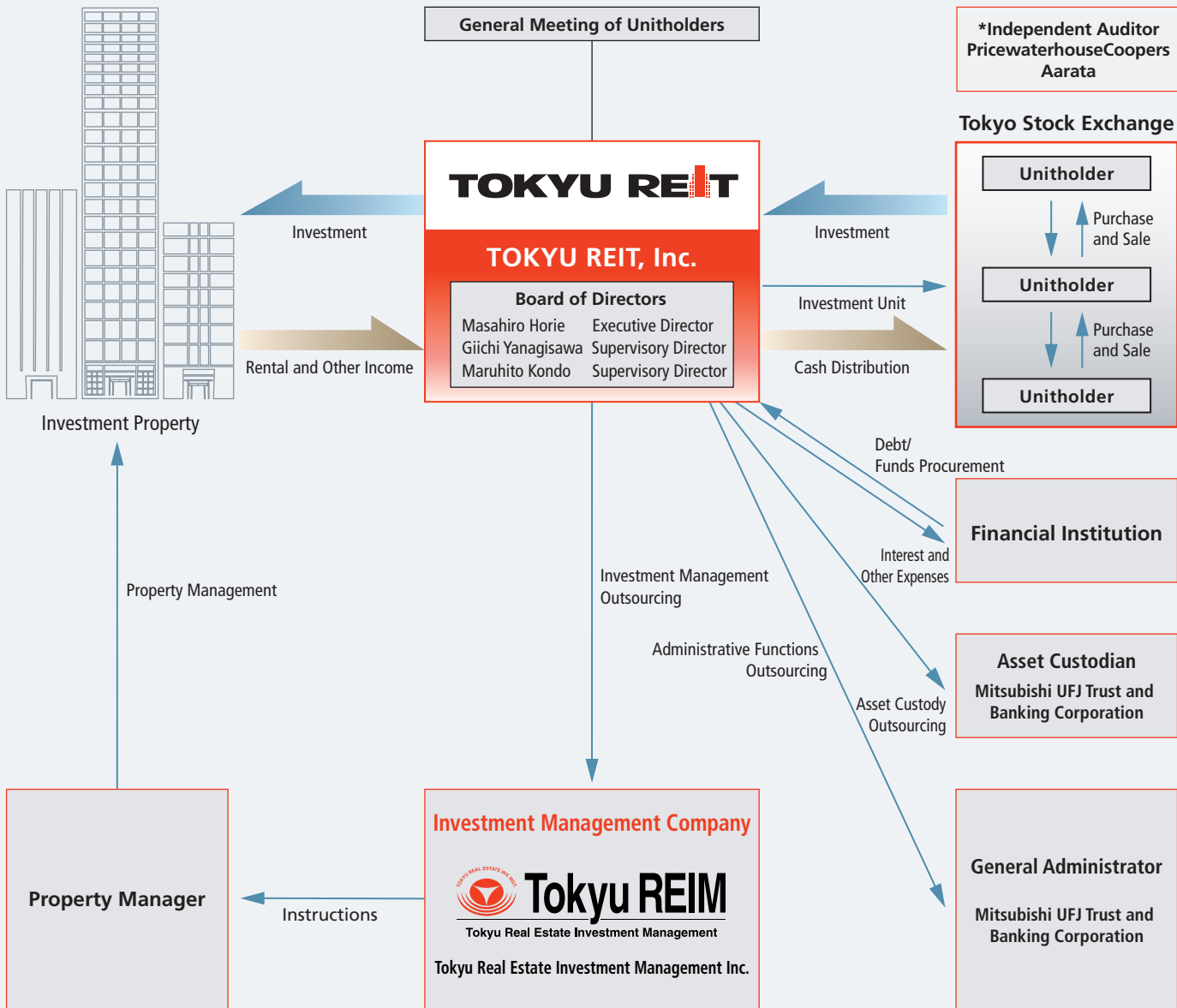
**2002**

Appointed Representative Director, President and Chief Executive Officer of Tokyu REIM.

**2003**

Obtained approval from the Financial Services Agency in order to act as an executive director of TOKYU REIT, Inc. and as a representative director, president and chief executive officer of Tokyu REIM.

TOKYU REIT Structure and External Service Providers



\*TOKYU REIT has appointed PricewaterhouseCoopers Aarata as its temporary independent auditor at its Board of Directors meeting on July 14, 2006 by resignation of Chuo Aoyama PricewaterhouseCoopers (present name: MISUZU Audit Corporation) on July 14, 2006.

**TOKYU REIT** outsources investment management, asset custody and administrative functions. Masahiro Horie serves as Executive Director of **TOKYU REIT** and Representative Director, President and Chief Executive Officer of its investment manager, Tokyu REIM, concurrently with the aim of ensuring close ties between **TOKYU REIT** and Tokyu REIM and promoting increased efficiency.

Pursuant to Article 13 of the Investment Trust and Investment Trust Corporation Law ( the Investment Trust Law ), the appointment of TOKYU REIT's Executive Director was confirmed by the Financial Services Agency on June 16, 2003.

## TOKYU REIT, Inc. Board of Directors

### The Board of Directors Meeting

TOKYU REIT's Board of Directors comprises Executive Directors that execute the operations of the investment corporation and Supervisory Directors that oversee the Executive Directors' execution of operations. The Articles of Incorporation stipulate that the Board of Directors must contain one or two Executive Directors and two or three Supervisory Directors, with at least one more Supervisory Director than the number of Executive Directors. It also limits the term of office of these directors at two years. As of the end of the seventh fiscal period, there were one Executive Director and two Supervisory Directors at TOKYU REIT.



**Giichi Yanagisawa**  
Supervisory Director



**Masahiro Horie**  
Executive Director



**Maruhito Kondo**  
Supervisory Director

#### Giichi Yanagisawa Supervisory Director

<b>March 1985</b>	Certified as a public accountant in Japan. Established Yanagisawa Certified Public Accountant Office
<b>May 1985</b>	Certified as a tax accountant in Japan (current position)
<b>June 2000</b>	Appointed representative, Shinsoh Corporation (current position)
<b>July 2001</b>	Appointed member of the Board of The Japanese Institute of Certified Public Accountants
<b>June 2003</b>	Appointed supervisory director, TOKYU REIT, Inc. (current position)
<b>July 2004</b>	Appointed Executive Board of The Japanese Institute of Certified Public Accountants (current position)

#### Maruhito Kondo Supervisory Director

<b>April 1988</b>	Admitted to the Bar of Japan (Tokyo Bar Association). Entered Ohara Law Office
<b>May 1988</b>	Studied abroad at the Chinese University of Hong Kong
<b>September 1988</b>	Studied abroad at Renmin University of China
<b>July 1989</b>	Worked at Robert Lee & Fong Solicitors in Hong Kong
<b>February 1996</b>	Opened Maruhito Kondo Law Office (current)
<b>May 1998</b>	Admitted to Daini Tokyo Bar Association
<b>June 2003</b>	Appointed supervisory director, TOKYU REIT, Inc. (current position)

Look at page9 about Masahiro Horie's career.

### Board of Directors Meeting Operation Schedule

TOKYU REIT's Board of Directors Meeting is run by the General Administrator (Mitsubishi UFJ Trust & Banking) Corporation and Legal Counsel (Mori Hamada & Matsumoto) to attend the meeting in principle. Meetings held and attendance of the period are as follows:

Name	Role	Attendance (including by phone)							Total	Rate of Attendance
		1st period	2nd period	3rd period	4th period	5th period	6th period	7th period		
Masahiro Horie	Executive Director	22	16	11	16	10	12	12	99	100%
Giichi Yanagisawa	Supervisory Director	22	16	11	16	9	12	12	98	99%
Maruhito Kondo	Supervisory Director	22	16	11	16	10	12	12	99	100%
Mitsubishi UFJ T&B	General Administrator	22	16	11	16	10	12	12	99	100%
Mori Hamada & Matsumoto	Legal Counsel	22	13	11	15	10	12	12	95	95%
meetings held		22	16	11	16	10	12	12	99	

### Supervision of Operation by Supervisory Directors

TOKYU REIT's Supervisory Directors operate as follows (apart from attendance to the Board of Directors Meetings):

- (1) Supervision of execution of duties by Executive Director under Article 111 of the Investment Trust Law, including inspection of books and site reconnaissance as needed.
- (2) In addition to a report by service providers at the Board meeting, exercise the right to inspect key service providers provided in the agreement as needed.
- (3) Investment Manager or General Administrator assists Supervisory Directors since TOKYU REIT is not allowed to hire employees following the Investment Trust Law. Board of auditors are always able to consult Legal Counsel whenever legal assistance is needed.

# Tokyu Real Estate Investment Management Inc. Investment Management Company

URL: [www.tokyu-reim.co.jp](http://www.tokyu-reim.co.jp)

Tokyu Real Estate Investment Management Inc. ("Tokyu REIM") contracted with TOKYU REIT on June 20, 2003, to act as its investment manager.

Underpinned by investment policies held in common with TOKYU REIT, TOKYU REIM strives to maximize unitholder value through business growth, stability and transparent operations.

In addition, TOKYU REIM follows strict internal rules governing conflicts of interest and takes all necessary care in transactions with Tokyu Group companies.

## ■ Name, Paid-in Capital and Business Description

Name	Tokyu Real Estate Investment Management Inc.
Paid-in Capital	¥300 million (as of September 30, 2006)
Business description	Investment management for investment corporations and consulting as regulated in Article 2-17 of the Investment Trust Law and management services.

## ■ Total Shares and Variation in Paid-in Capital

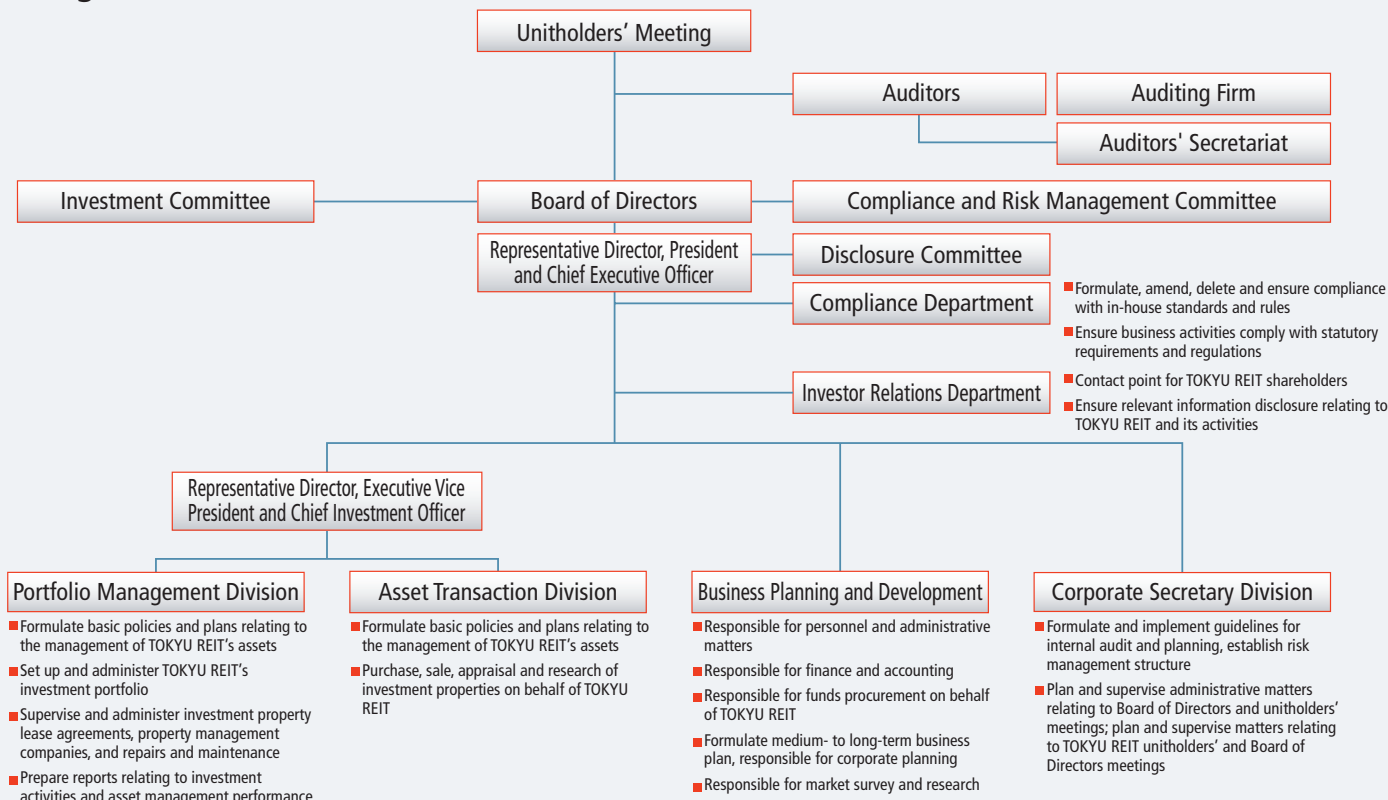
- Authorized shares (as of September 30, 2006) 10,000 shares
- Shares issued and outstanding (as of September 30, 2006) 6,000 shares
- Variation in Paid-in Capital Over the Past 5 Years

Date	Capital Increase and Decrease
September 28, 2002	Paid-in capital increased from ¥125 million to ¥300 million

## ■ Major Unitholders (as of September 30, 2006)

Name	Address	Shares Held	Ratio
Tokyu Corporation	5-6 Napeidai-cho, Shibuya-ku, Tokyo	3,600 shares	60%
Tokyu Land Corporation	1-21-2 Dogenzaka, Shibuya-ku, Tokyo	2,400 shares	40%
Total		6,000 shares	100%

## ■ Organization Chart



## ■ Board of Directors

A management structure has been implemented whereby the Board of Directors is responsible for business management, such as decision making on business strategy and other important matters relating to the execution of business operations. In addition, the Board of Directors supervises business operations undertaken by the Representative Director and Executive Officers. During the seventh fiscal period, the Board of Directors met on eleven occasions.

## ■ Investment Committee

The Investment Committee is comprised of the President (who serves as chairperson), three Non-executive Directors and a property appraiser. The Investment Committee discusses the initial drafts of, and any amendments to TOKYU REIT's management guidelines and fund management plan, portfolio asset allocation, and possible investment and disposal of a property. This information is presented to the Board of Directors with the Committee's opinion and recommendation. During the seventh fiscal period, the Investment Committee met on seven occasions.

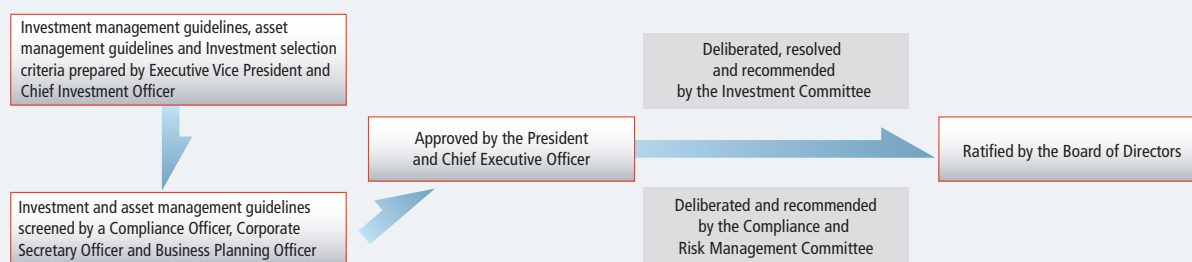
## ■ Compliance and Risk Management Committee

The Compliance and Risk Management Committee was established to ensure independent third-party checks of internal rules regarding related-party transactions. The Compliance and Risk Management Committee is comprised of two Non-executive Directors (one of whom serves as chairperson) and two external committee members. Under the guidance of the Board of Directors, the Compliance and Risk Management Committee discusses material matters relating to compliance and risk management as well as the adequacy of internal rules regarding related-party transactions. It also provides opinions and recommendations to Tokyu REIM's Board of Directors. While third-party confirmation is obtained regarding the adequacy of rules applicable to individual transactions, matters are referred to the compliance officer and forwarded to the Compliance and Risk Management Committee for discussion as required, when the third party determines the matter warrants special mention. During the seventh fiscal period, the Compliance and Risk Management Committee met on ten occasions.

## ■ Disclosure Committee

The head of the Disclosure Committee is the Investor Relations Officer. The other members of the Committee include the Compliance Officer, Corporate Secretary Officer, Business Planning Officer and other members the Committee head judged to be necessary. Of information that is disclosed on a timely basis, the Committee reviews the handling of disclosure concerning matters that occur regarding TOKYU REIT, Tokyu REIM and TOKYU REIT's assets under management. The results of the Committee's discussions are reported to the Representative Director, President and Chief Executive Officer. The Disclosure Committee met three times during the seventh fiscal period.

## ■ Decision-Making Process



Tokyu REIM's investment guidelines<sup>(1)</sup> and asset management plans<sup>(2)</sup> are formulated through collaboration among the Asset Transaction Division, Portfolio Management Division and Business Planning and Development Division, and then submitted to the Vice President, who is in charge of overseeing asset management operations. After a screening by the Compliance Officer, Corporate Secretary Officer and Business Planning Officer, the investment guidelines and asset management plans are reported to the President. After approval is received from the President, the investment guidelines and asset management plans are submitted to the Board of Directors, which when necessary requests the Investment Committee to deliberate, decide and respond to the proposals, and also the Compliance and Risk Management Committee to deliberate and respond to the proposals. Based on these responses, the Board of Directors makes a final decision and enacts the investment guidelines and asset management plans. The final investment guidelines and asset management plans are then reported to the Board of Directors at TOKYU REIT.

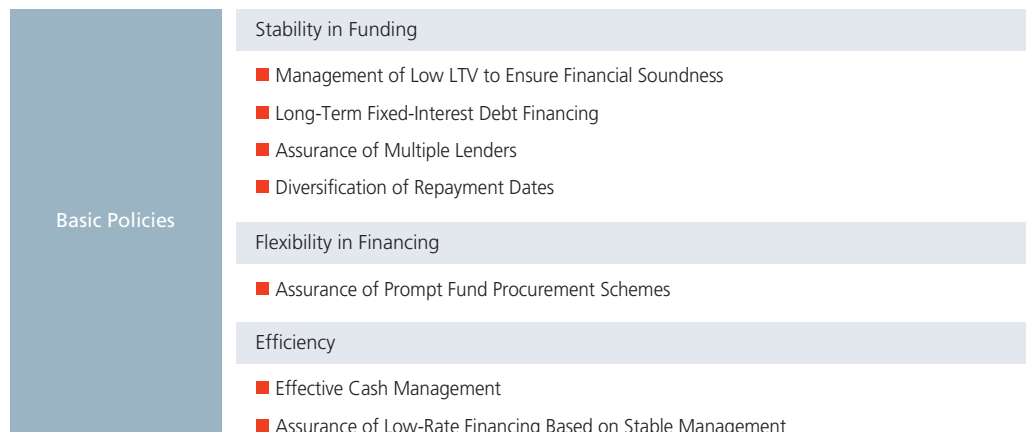
When acquiring new properties, the Asset Transaction Division and the Portfolio Management Division, which are overseen by the Vice President, conduct a detailed audit of the property, entailing an analysis of related interests in the property, building tenants, building lease agreements, maintenance history, building appraisal, and property appraisal including the surrounding areas and real estate appraisals. Properties that TOKYU REIT is able to invest in must match our investment policy and investment criteria. In order to reach an investment decision, the Asset Transaction Division and the Portfolio Management Division produce the documentation and contracts required for a property acquisition (or sale), present this material to the Vice President and then to the Board of Directors for the final decision. If a decision is made, the Vice President sets in motion initiatives to acquire the property.

Note 1: Investment guidelines are defined as the basic policies including 1) internal regulations determined by Tokyu REIM for the consigned management of TOKYU REIT's assets, 2) the particulars of fundamental policies determined in the Articles of Incorporation, and 3) other management-related matters regarding TOKYU REIT.

Note 2: Asset management plans are defined as property portfolio maintenance plans, property management plans including leasing and acquisition targets, and capital procurement plans.

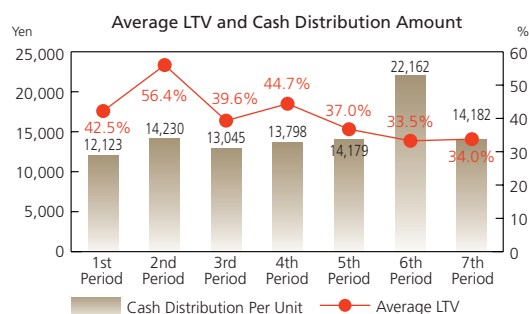
## TOKYU REIT's Financial Strategies

With its financial strategies based on stability, flexibility and efficiency, **TOKYU REIT** strives to maximize unitholder value by reducing capital costs as well as fostering external growth with minimal expenditures.



Note: LTV (Loan to Value) = (Interest-bearing debt + Security and guarantee deposits not matched by cash) / Total appraisal value as of the acquisition date or total period-end appraisal value of properties. This formula calculates the liability level to the acquired property's value. A low level (namely, less liabilities or over-valued property) is considered to indicate a high level of financial soundness.

## Average LTV and Cash Distribution Amount



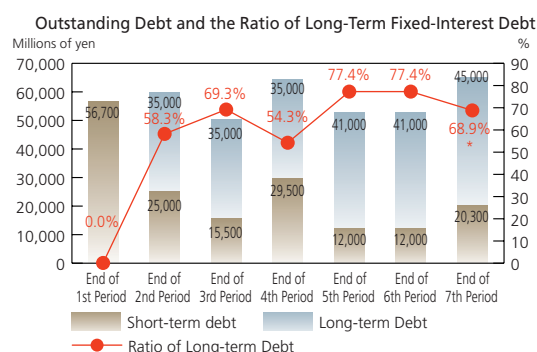
Generally, the level of cash distribution amount will increase as LTV rises by the leverage effect. An excessive increase of LTV, however, decreases financial soundness.

In light of this principle, **TOKYU REIT** implements conservative management that considers the balance between the level of cash distribution amount and financial soundness, as shown left.

Cash distribution amount increased on the sixth fiscal period by selling the property.

Notes: 1 Average LTV = (Average interest-bearing debt during the period + Average security and guarantee deposits not matched by cash during the period) / Total appraisal value as of the acquisition date or average period-end appraisal value of properties during the period.  
2 Cash distribution amount in 1st fiscal period was ¥9,488 based on the actual operating days of 144 days, but cash distribution amount of ¥12,123 recalculated based on 184 days is used in the above graph for the sake of comparison with 2nd fiscal period onwards.

## Outstanding Debt and the Ratio of Long-Term Fixed-Interest Debt



**TOKYU REIT** has been implementing a conversion to long-term fixed-Interest debt financing, as shown left. The ratio of long-term fixed-Interest debt as of the end of the seventh fiscal period is 68.9% (61.3%: excluding the long term debt maturing within a year).

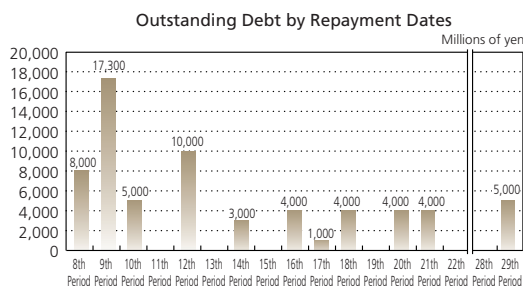
Long-term debt financing enables **TOKYU REIT** to curb any excessive burden resulting from increases in interest rates.

Note: 61.3% (excluding the long term debt maturing within a year)

## Lenders and Outstanding Debt by Repayment Dates (as of the end of the seventh fiscal period)

Category	Lender	Amount (Millions of yen)	Interest Rate (%)	Drawdown Date	Repayment Date	Type
Short-Term Debt	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,000	0.85727	June 25, 2004	September 25, 2007	Unsecured
	Mitsubishi UFJ Trust and Banking Corporation	3,000	0.89545	April 28, 2006	April 28, 2007	
	The Sumitomo Trust and Banking Co., Ltd.	730	0.84455	September 29, 2006	September 28, 2007	
	The Chuo Mitsui Trust and Banking Company, Ltd.	730				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	730				
	Mizuho Corporate Bank, Ltd.	730				
	Mitsubishi UFJ Trust and Banking Corporation	4,380				
	The Sumitomo Trust and Banking Co., Ltd.	1,000	0.84455	October 31, 2006	October 31, 2007	
	The Chuo Mitsui Trust and Banking Company, Ltd..	1,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd..	1,000				
	Mizuho Corporate Bank, Ltd..	1,000				
	Mitsubishi UFJ Trust and Banking Corporation.	1,000				
	Sub Total	20,300	—	—	—	
Long-Term Debt	The Sumitomo Trust and Banking Co., Ltd.*	5,000	1.11625	June 25, 2004	June 25, 2007	Unsecured
	The Norinchukin Bank	4,000	1.38875		June 25, 2008	
	The Hyakugo Bank, Ltd.	1,000	1.23875		June 25, 2009	
	The Chuo Mitsui Trust and Banking Company, Limited	5,000	1.68875		June 25, 2010	
	Mitsubishi UFJ Trust and Banking Corporation	5,000	1.92750		June 25, 2012	
	Aioi Insurance Co., Ltd.	1,000				
	Daido Life Insurance Company	1,000				
	Mitsui Sumitomo Insurance Company, Limited	1,000	2.03000	June 25, 2014		
	The Development Bank of Japan	4,000				
	The National Mutual Insurance Federation of Agricultural Cooperatives	1,000	1.26250	October 25, 2005	October 25, 2011	
	The Development Bank of Japan	5,000	1.95000	January 25, 2006	January 25, 2018	
	Nippon Life Insurance Company	4,000	1.93000	July 31, 2006	July 31, 2011	
	The Dai-ichi Mutual Life Insurance Company	4,000	2.21125		July 31, 2013	
	The Dai-ichi Mutual Life Insurance Company	1,000	1.92000	January 25, 2007	January 25, 2014	
	The National Mutual Insurance Federation of Agricultural Cooperatives	3,000				
Sub Total	45,000	—	—	—	—	
Total	65,300	—	—	—	—	

Note: Repayment date is within one year.



Given changes in financial conditions, stable refinancing may not be assured if lenders and repayment dates are concentrated on a certain companies or dates.

**TOKYU REIT** reduces such risks in debt financing by diversifying lenders and repayment dates.

## Execution of Commitment Line Agreement

- Lender : The Sumitomo Trust and Banking Corporation, Ltd.  
: The Chuo Mitsui Trust and Banking Corporation, Limited
- Commitment Line Limit : ¥1,000 million, respectively
- Securities/Guarantee : Unsecured/Unguaranteed

**TOKYU REIT** has executed commitment line agreements as of April 21, 2005, as shown left. The execution of the commitment line agreement allows us to undergo debt financing at any given time up to the designated amount. To this end, a flexible and efficient fund procurement system has been assured. During the seventh fiscal period, **TOKYU REIT** undertook debt financing ¥972 million on October 11, 2006 and full amount was repaid by November 20, 2006.

## Assurance of Method for Issuance of Investment Corporation Bonds

### Acquisition of Ratings

- Rating and Investment Information, Inc. (R&I)  
:R&I Issuer Rating A+ (Rating Outlook: Positive)
- Standard & Poor's (S&P)  
:Long-Term Issuer Rating A (Outlook: Stable)  
:Short-Term Issuer Rating A-1
- Moody's Investors Service (Moody's)  
:Moody's Issuer Rating A2 (Rating Outlook: Stable)

**TOKYU REIT** acquired ratings on September 6, 2005. Brief details are shown left. **TOKYU REIT** submitted a registration application relating to the issue of investment corporation bonds (for two years from December 5, 2005, with ¥100 billion) to the Ministry of Finance, and its Board of Directors made a comprehensive resolution to the issue of investment corporation bonds (from October 27, 2006 to December 4, 2007, within ¥50 billion), thereby ensuring the flexible issuance of investment corporation bonds.



## Investment Policy: Investment in Highly Competitive Properties in Areas with Strong Growth Potential

<b>Investment Targeted Areas</b>	<ul style="list-style-type: none"> <li>Focussing Five central Tokyo wards and Tokyu Areas expected economic and population growth.</li> <li>Limited to Tokyo Metropolitan areas.</li> </ul>
<b>Investment Criteria</b>	<ul style="list-style-type: none"> <li>Limited to office and retail portfolio with lower risk and more stable return.</li> <li>Limited to the properties with prime location and large scale for assuring market competitiveness.</li> </ul>

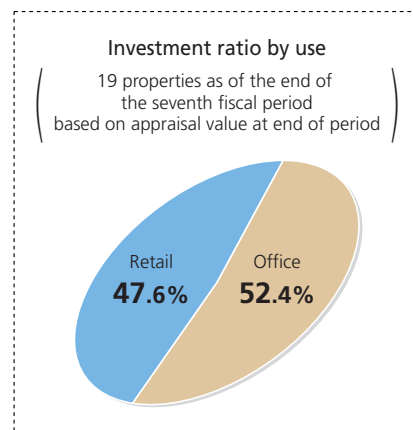
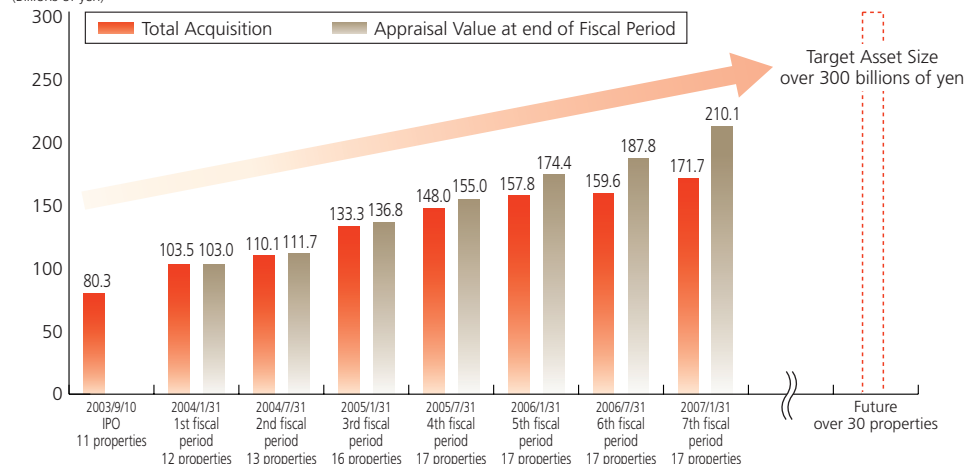
## Investment Trends

Total acquisition as of the end of the seventh fiscal period ended January 31, 2007, stood at ¥171.7 billion, and Appraisal Value at the end of fiscal period stood at ¥210.1 billion. Given TOKYU REIT's portfolio diversification, mobility of property acquisition, and liquidity of investment units, we believe that the asset portfolio should eventually reach ¥300.0 billion or more. **TOKYU REIT** will steadily expand asset size with high quality properties on proper price, not pursuing expansion of asset size only, but considering real estate market as intensification of property acquisition competition and rise of property price.

**TOKYU REIT** focuses on highly competitive office and retail properties and strives to maintain a ratio of 60% in office buildings and 40% in retail properties( based on appraisal value at the end of fiscal period ) over the long-term.

As of the end of the seventh fiscal period (19 properties), investment ratio by use based on appraisal value at end of fiscal period is as follows.

Total Acquisition (Billions of yen)





# Portfolio Overview

(As of January 31, 2007)

Use	Name of Property	Location	Total Land Area (m <sup>2</sup> )	Total Floor Area (m <sup>2</sup> )	Structure/Floors	Completion	Type of Ownership	
							Land	Building
R	QFRONT	Udagawa-cho, Shibuya-ku, Tokyo	784.26 (Compartmentalized ownership 728.30)	6,692.14 (Compartmentalized ownership 4,821.09)	SRC/S B3/8F	Oct. 1999	Proprietary ownership	Compartmentalized ownership
R	Lexington Aoyama	Minami-Aoyama, Minato-ku, Tokyo	776.59	2,342.21	S/RC B1/4F	Jan. 1998	Proprietary ownership	Proprietary ownership
R	TOKYU REIT Omotesando Square	Jingumae, Shibuya-ku, Tokyo	1,259.21	3,321.20	S/SRC B1/4F	Oct. 1985	Proprietary ownership	Proprietary ownership
R	Tokyu Saginuma Building	Saginuma, Miyamae-ku, Kawasaki City, Kanagawa	5,658.00	18,320.87	RC B1/4F	Sep. 1978	Proprietary ownership	Proprietary ownership
R	Tokyu Saginuma 2 Building	Kodai, Miyamae-ku, Kawasaki City, Kanagawa	1,807.21	4,409.50	SRC B2/4F	Oct. 1979	Proprietary ownership	Proprietary ownership
R	TOKYU REIT Shibuya Udagawa-cho Square	Udagawa-cho, Shibuya-ku, Tokyo	679.27	(Bldg. 1) 1,473.10 (Bldg. 2) 56.39	S, 3F S, 2F	Jul. 1998 Jun. 1995	Proprietary ownership Proprietary ownership	Proprietary ownership Proprietary ownership
R	Beacon Hill Plaza (Ito-Yokado Noukendai Store)	Noukendai-Higashi, Kanazawa-ku, Yokohama City, Kanagawa	17,318.78	46,587.87	SRC B2/4F	Jun. 1998	Proprietary ownership	Proprietary ownership
R	cocoti	Shibuya, Shibuya-ku, Tokyo	1,705.35	11,847.87	S/SRC B2/12F	Sep. 2004	Proprietary ownership	Proprietary ownership
R	Shonan Mall Fill (sokochi) *1	Tsujido-Shinmachi, Fujisawa City, Kanagawa	44,078.12	—	—	—	Proprietary ownership	—
R	CONZE Ebisu	Ebisu-Minami, Shibuya-ku, Tokyo	562.07	2,789.35	S/SRC B1/9F	Mar. 2004	Proprietary ownership	Proprietary ownership
O	Setagaya Business Square	Yoga, Setagaya-ku, Tokyo	21,315.68	94,373.72	SRC/RC/S B2/28F	Sep. 1993	Co-ownership (55% interest)	Co-ownership (55% interest)
O	Tokyu Nampeidai-cho Building	Nampeidai-cho, Shibuya-ku, Tokyo	2,013.28	7,003.88	SRC B2/5F	Jul. 1992	Proprietary ownership	Proprietary ownership
O	Tokyu Sakuragaoka-cho Building	Sakuragaoka-cho, Shibuya-ku, Tokyo	1,013.03	6,505.39	SRC B3/9F	Jun. 1987	Proprietary ownership	Compartmentalized ownership
O	Tokyo Nissan Taito Building	Moto-Asakusa, Taito-ku, Tokyo	1,718.45	11,373.20	SRC B2/10F	Sep. 1992	Proprietary ownership	Proprietary ownership
O	TOKYU REIT Akasaka Hinokicho Building	Akasaka, Minato-ku, Tokyo	866.61	4,058.92	RC 7F	Aug. 1984	Proprietary ownership	Proprietary ownership
O	TOKYU REIT Kamata Building	Kamata, Ota-ku, Tokyo	1,642.86	10,244.51	S/SRC B1/9F	Feb. 1992	Proprietary ownership	Proprietary ownership
O	Resona Maruha Building	Otemachi, Chiyoda-ku, Tokyo	6,893.71	74,379.30 (Compartmentalized ownership 19,542.77)	S/SRC B4/25F	Nov. 1978	Co-ownership (27% interest)	Compartmentalized ownership
O	TOKYU REIT Toranomon Building	Toranomon, Minato-ku, Tokyo	1,728.38	15,343.73 (9,688.59)	SRC/RC B2/9F	Apr. 1988	Co-ownership (73.585% interest)	Compartmentalized ownership and co-ownership of compartmentalized ownership
O	TOKYU REIT Hatchobori Building*2	Hatchobori, Chuo-ku, Tokyo	974.32	8,810.21	SRC B2/9F	Sep. 1965	Proprietary ownership	Proprietary ownership

Use	Name of Property	Area	Acquisition Costs (Millions of Yen)	Acquisition Date	Number of Tenants	Occupancy Ratio	Earthquake PML*5
R	QFRONT	Central Tokyo and Tokyu areas (Shibuya)	15,100	Sep. 10, 2003	4	100.0%	4.1%
R	Lexington Aoyama	Central Tokyo	4,800	Sep. 11, 2003	2	100.0%	2.3%
R	TOKYU REIT Omotesando Square	Central Tokyo and Tokyu areas	5,770	Sep. 10, 2003	4	100.0%	9.5%
R	Tokyu Saginuma Building	Tokyu areas	6,920	Sep. 10, 2003	1	100.0%	9.9%
R	Tokyu Saginuma 2 Building	Tokyu areas	1,290	Sep. 11, 2003	1	100.0%	9.3%
R	TOKYU REIT Shibuya Udagawa-cho Square	Central Tokyo and Tokyu areas (Shibuya)	6,600	Mar. 1, 2004	2	100.0%	7.3%
R	Beacon Hill Plaza (Ito-Yokado Noukendai Store)	Other	9,520	Aug. 3, 2004	1	100.0%	9.5%
R	cocoti	Central Tokyo and Tokyu areas (Shibuya)	14,700*3 9,800*4	Apr. 6, 2005 Aug. 2, 2005	16	100.0%	6.2%
R	Shonan Mall Fill (sokochi) *1	Other	6,810	Apr. 28, 2006	1	100.0%	—
R	CONZE Ebisu	Central Tokyo and Tokyu areas	5,116	Oct. 31, 2006	8	100.0%	4.1%
O	Setagaya Business Square	Tokyu areas	22,400	Sep. 11, 2003	58	98.3%	2.8%
O	Tokyu Nampeidai-cho Building	Central Tokyo and Tokyu areas (Shibuya)	4,660	Sep. 11, 2003	1	100.0%	7.9%
O	Tokyu Sakuragaoka-cho Building	Central Tokyo and Tokyu areas (Shibuya)	6,620	Sep. 11, 2003	2	100.0%	11.1%
O	Tokyo Nissan Taito Building	Central Tokyo	4,450	Sep. 11, 2003	12	99.0%	7.4%
O	TOKYU REIT Akasaka Hinokicho Building	Central Tokyo	3,570	Sep. 10, 2003	5	100.0%	11.2%
O	TOKYU REIT Kamata Building	Tokyu areas	4,720	Sep. 10, 2003	4	100.0%	7.7%
O	Resona Maruha Building	Central Tokyo	23,260	Jan. 15, 2004	3	100.0%	4.1%
O	TOKYU REIT Toranomon Building	Central Tokyo	8,630	Dec. 15, 2004	6	100.0%	7.2%
O	TOKYU REIT Hatchobori Building*2	Central Tokyo	7,000	Sep. 29, 2006	9	99.0%	4.0%
	<b>Total</b>		171,736		140	99.8%	4.0%

Notes: 1 'Sokochi' means ownership of land with a fixed-term leasehold for commercial use.

2 The name of the building was changed from "Sigma Hatchobori Building" on April 1, 2007.

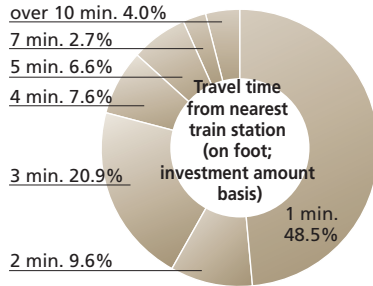
3 60% trust beneficiary interest 4 40% trust beneficiary interest

5 PML (Probable Maximum Loss) refers to the expected maximum loss ratio caused by earthquakes. As used in these documents PML is the percentage of expected loss due to small- to large-level earthquakes (those statistically calculated as possible over a 475 year period) that occur during an assumed period for the economic life of a building, to procurement cost for restoring expected damage. Calculations incorporate data relating to individual property survey, assessment of building conditions, conformity to architectural design, 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. PML was revised on January 29, 2007 in accordance with new seismic risk analysis methods adopted by Engineering &amp; Risk Services Corporation and OYO RMS Corporation, both of which were requested by TOKYU REIT to conduct an analysis.

In the acquisition of investment properties, **TOKYU REIT** considers a variety of factors, including a comprehensive analysis of forecasted revenue stream, growth potential of the area, property size, construction and facility specifications, earthquake resistance, leasing rights, occupancy and appeal to tenants, property management, the environment and foundation quality, and the property's competitiveness.

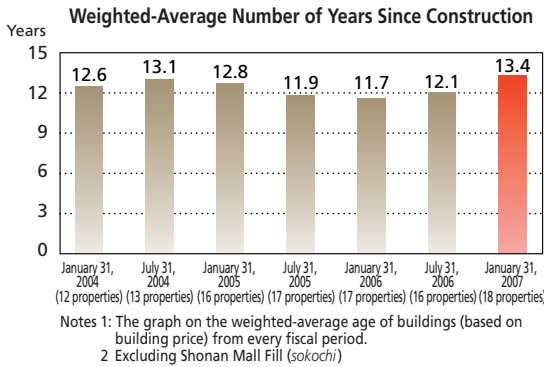
## Location



Properties conveniently located near train stations increase the stability of TOKYU REIT's portfolio. In principal, **TOKYU REIT** only considers office properties located within seven minutes walking distance from the nearest train station. **TOKYU REIT** decides to invest in retail properties based on a comprehensive analysis of the surrounding business area.

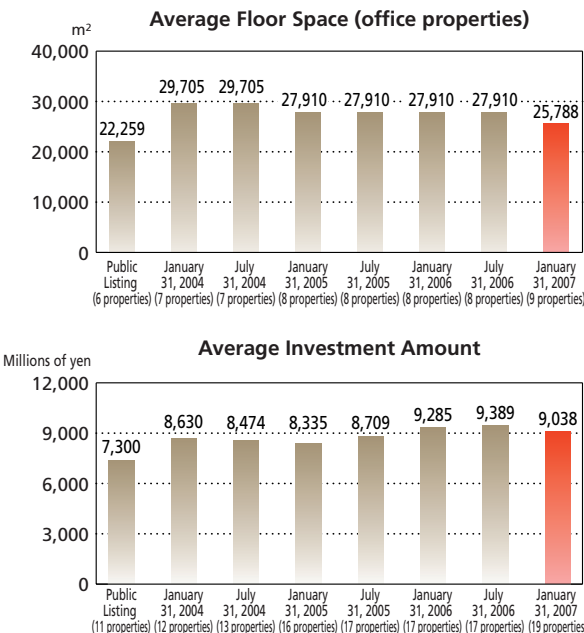
As of the end of the seventh fiscal period, approximately 80% (investment amount basis) of TOKYU REIT's properties were located within about three minutes from the nearest train station.

## Investment Property Age



The graph on the left shows the weighted-average age of buildings (based on building price) at the end of each fiscal period. Based on 18 properties as of the end of the seventh fiscal period, it can be said TOKYU REIT's portfolio consists of relatively new properties in terms of its weighted-average age of buildings (13.4 years).

## Investment Property Size



In principle, **TOKYU REIT** invests in office properties with a total floor space exceeding 5,000m² and office properties with compartmentalized ownership of 330m² or more of proprietary floor space per standard floor. Office properties owned by **TOKYU REIT** have an average floor space of approximately 25,788m².

In principle, **TOKYU REIT** invests a minimum of ¥4,000 million in each property, excluding taxes and acquisition expenses.

As of the end of the seventh fiscal period, **TOKYU REIT** had invested an average of ¥9,038 million per property. **TOKYU REIT** intends to continue investing in mainly large-scale properties.

## Top 10 Tenants by Leased Area

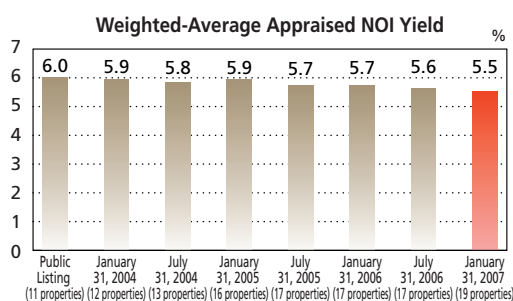
### Top 10 Tenants by Leased Area

NO	Tenant Name	Business Category	Property Name	Leased Area (m <sup>2</sup> )	Ratio (1)
1	Ito-Yokado Co., Ltd.	Retail	R Beacon Hill Plaza (Ito-Yokado Noukendai)	50,285.89	22.6%
2	Daiwa House Industry Co., Ltd.	Construction	R Shonan Mall Fill (sokochi)	44,078.12	19.8%
3	Tokyu Store Chain Co., Ltd.	Retail	R Tokyu Saginuma Building	19,610.06	8.8%
4	Maruha Corporation	Fishery and Agriculture	□ Resona Maruha Building	11,097.27	5.0%
5	Tokyu Corporation	Land Transportation	□ Tokyu Nampeidai-cho Building	7,148.18	3.2%
			□ Tokyu Sakuragaoka-cho Building	3,878.36	1.7%
6	Japan Nuclear Energy Safety Organization	Other	□ TOKYU REIT Toranomon Building	6,579.05	3.0%
7	Sun Microsystems K.K.	Information Telecommunication	□ Setagaya Business Square (*2)	5,800.76	2.6%
8	ITOCHU Techno - Solutions Corporation	Information Telecommunication	□ TOKYU REIT Kamata Building	4,253.55	1.9%
9	Tsutaya Stores Co., Ltd.	Service	R QFRONT	3,556.31	1.6%
			□ Setagaya Business Square (*2)	206.13	0.1%
10	Tonichi Carlife Group Inc.	Retail	□ Tokyo Nissan Taito Building	3,055.85	1.4%
Total leased area of top 10 tenants				159,549.54	71.8%
Total leased area of 19 properties at the end of seventh fiscal period				222,097.27	100.0%

Notes: 1 "Ratio" indicates ratio of each tenant's leased areas to total leased area at the end of seventh fiscal period (19 properties).

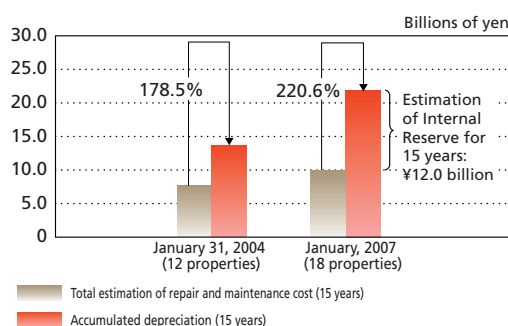
2 Leased Area of tenants in Setagaya Business Square are calculated by 55%.

## Portfolio Cap Rate



**TOKYU REIT** has acquired some properties after listing, and as of the end of the seventh fiscal period, the weighted-average appraised NOI yield fell to 5.5%. A low appraised NOI yield is considered an indicator of reduced risk of a decrease in future earnings. **TOKYU REIT** will continue efforts to build a portfolio with low risks and stable returns in the future.

## Coverage Ratio by Depreciation of Repair and Maintenance Cost Estimation



Note 1: Total estimation of repair and maintenance cost (15 years) extracted from Property Report (including expenses items).

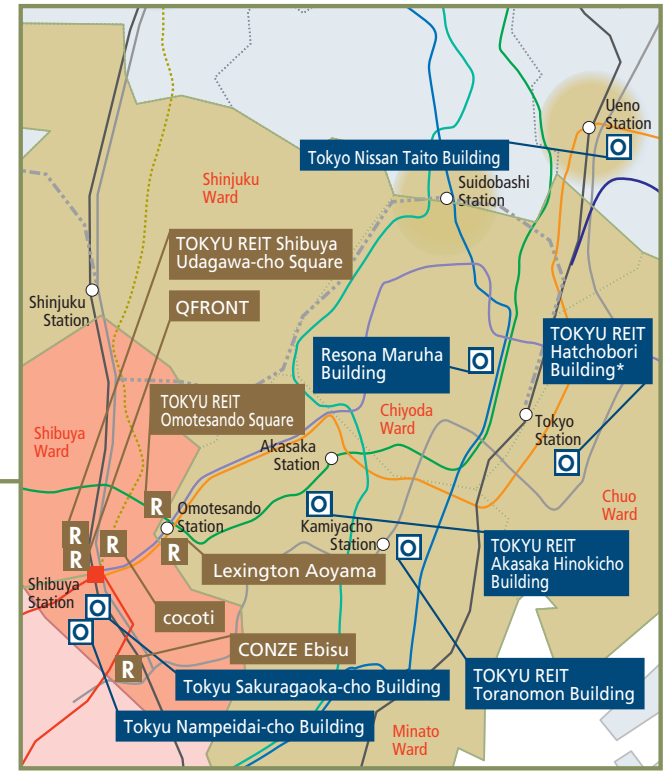
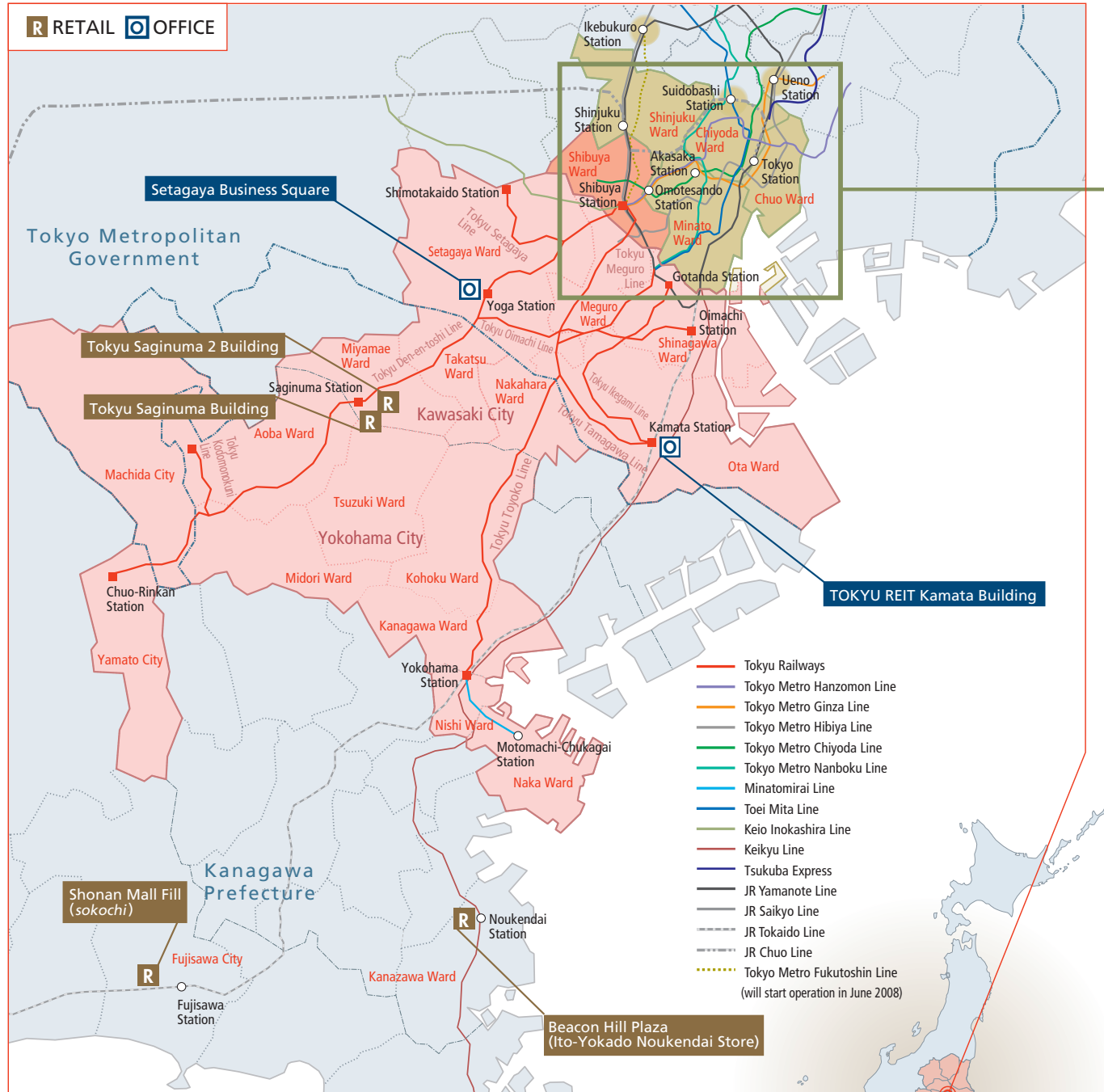
2: Accumulated depreciation (15 years) estimated by Tokyu REIM (does not include depreciation application to additional capital expenditure).

3: Excluding Shonan Mall Fill (sokochi)

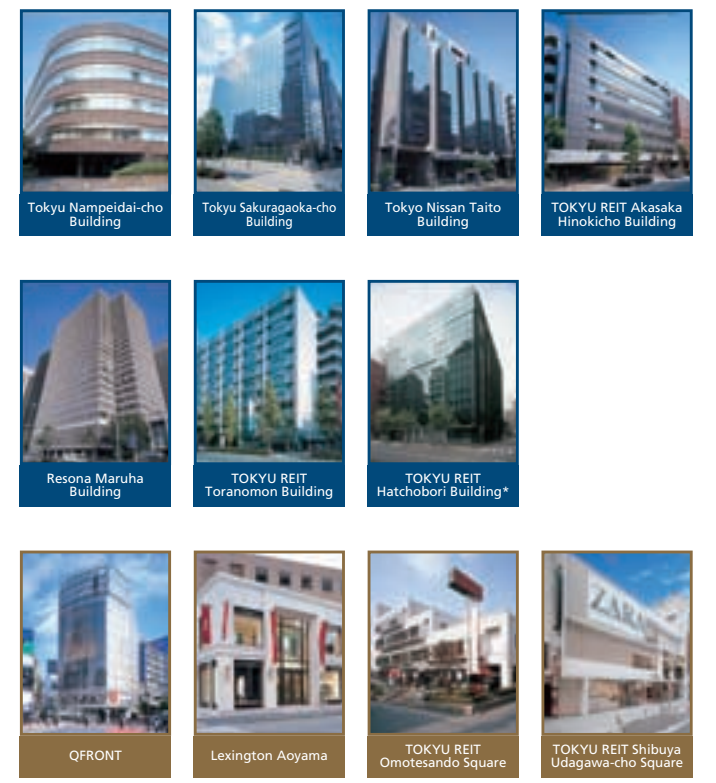
Buildings require repairs as they age. Even after recording items such as depreciation on financial statements, funds used for other intangible expenses must be replenished with additional borrowings on occasion.

As of the end of the seventh fiscal period and over the next fifteen years, cumulative depreciation for the portfolio (eighteen properties) will significantly exceed total repair and maintenance cost, for a coverage ratio of 220.6%. This figure shows that **TOKYU REIT** has secured the funds necessary for projected repair and maintenance cost.

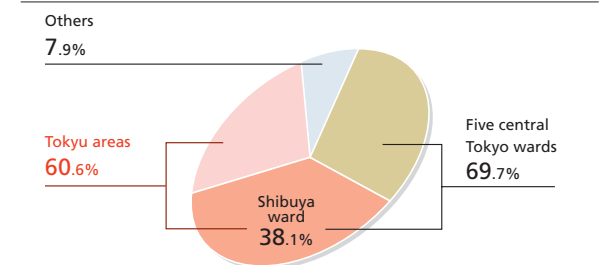
## Investment Targeted Areas



\*The property name was changed from Sigma Hatchobori Building on April 1, 2007.



### Percentage share in total portfolio by Region (19 properties based on the appraisal value at the end of seventh fiscal period)



Tokyu REIT invests primarily in properties in central Tokyo and the areas along the Tokyu railways. It does not invest outside of the Tokyo Metropolitan Area.

Area	Targeted Areas of Investment	Investment Share
Central Tokyo	Five central Tokyo wards	More than 85%
	Other major commercial and retail districts of Tokyo	
Tokyu Areas	Tokyu Rail network hub	More than 85%
	Other Tokyu rail network areas	
Other	Other districts in the Tokyo Metropolitan Area, including Kanagawa, Saitama and Chiba prefectures (excluding the separately mentioned areas above)	Less than 15%

Notes: 1. Percentage share in total portfolio is calculated based on the appraisal value of properties as of the end of the previous fiscal period and the appraisal value (obtained at the time of intended property purchase) of properties purchased during the current fiscal period.  
2. Shibuya Ward is included in both the Five central Tokyo wards and the Tokyu Areas.



## RETAIL PORTFOLIO

- QFRONT
- Lexington Aoyama
- TOKYU REIT Omotesando Square
- Tokyu Saginuma Building
- Tokyu Saginuma 2 Building
- TOKYU REIT Shibuya Udagawa-cho Square
- Beacon Hill Plaza (Ito-Yokado Noukendai Store)
- cocoti
- Shonan Mall Fill (*sokochi*)
- CONZE Ebisu

The most attractive feature of TOKYU REIT's retail portfolio is the prime location of each of its properties. Adhering to strict criteria in the selection of investment properties, TOKYU REIT has maintained a retail portfolio with an extremely high occupancy ratio since it listed on the stock market.

At the end of the seventh fiscal period, TOKYU REIT's retail portfolio comprised a total of ten properties with the acquisition of CONZE Ebisu which is located in Shibuya-ku, Tokyo. TOKYU REIT's retail properties have a total acquisition price of ¥86.42 billion and total floor space of 97,840.50m<sup>2</sup>. In the seventh fiscal period, revenues from property leasing totaled ¥2.75 billion, NOI was ¥2.11 billion, operating income from property leasing was ¥1.72 billion, and the weighted-average NOI yield was 5.0%.

The most attractive feature of TOKYU REIT's retail portfolio is the prime location. TOKYU REIT's retail properties situate in Central Tokyo and Tokyu Area, including Shibuya, Omotesando, Aoyama and Saginuma, and situate in suburbs including Noukendai and Fujisawa. Even in the event that a tenant vacates, TOKYU REIT's portfolio consists of retail properties that quickly entice new tenants to enter leasing contracts. As of January 31, 2007, an occupancy ratio of 100.0% indicates the strength of our portfolio.

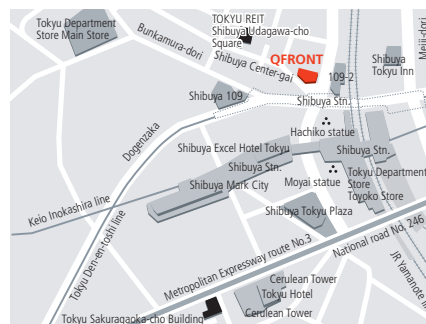
TOKYU REIT will continue to aggressively yet prudently acquire competitive properties that meet its strict investment criteria. From this approach, TOKYU REIT aims to build a retail portfolio that contributes to maximizing unitholder return over the medium- to long-term.

## R QFRONT



QFRONT is a retail property located directly across from Shibuya Station, an area identified as one of Japan's busiest retail districts. The main tenant is Tsutaya Stores Co., Ltd., a large rental and retail store of videos and CDs. QFRONT contains a coffee shop located on the first and second floors, a movie theater on the seventh floor and a variety of restaurants located on the eighth floor. The building is one of Tokyo's premier retail facilities distinguished by the large LED advertising screen which adorns the outside wall, and has received considerable exposure from a variety of media.

Address: 21-6, Udagawa-cho, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a one-minute walk from Shibuya Station—JR Yamanote line/ Tokyu Toyoko line/ Tokyu Den-en-toshi line/ Keio Inokashira line/ Tokyo Metro Ginza and Hanzomon lines  
 Total Land Space: 784.26m<sup>2</sup>  
 Total Floor Space: 6,692.14m<sup>2</sup>  
 Structure/Floors: SRC/S, B3/8F  
 Completed: October, 1999  
 Type of Ownership: Land—Proprietary ownership  
 Building—Compartmentalized ownership  
 Representative Tenants: Tsutaya Stores Co., Ltd.;  
 Tokyu Corporation;  
 Punraku Co., Ltd.



## R Lexington Aoyama



Lexington Aoyama is a retail property along Kotto-dori in the Aoyama district. Main tenants include the specialist apparel company World Co., Ltd., Alux, a restaurant managed by avex Planning & Development Inc. opened on the first underground floor in July 2006. Like Omotesando, Kotto-dori offers a high status location in the Aoyama district, attracting the world's leading fashion brands.

Address: 5-11-9, Minami-Aoyama, Minato-ku, Tokyo  
 Nearest Station: Approximately a five-minute walk from Omotesando Station—Tokyo Metro Ginza, Hanzomon and Chiyoda lines  
 Total Land Space: 776.59m<sup>2</sup>  
 Total Floor Space: 2,342.21m<sup>2</sup>  
 Structure/Floors: S/RC, B1/4F  
 Completed: January, 1998  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenant: World Co., Ltd.  
 avex Planning & Development Inc.



**R** TOKYU REIT  
Omotesando Square



TOKYU REIT Omotesando Square is a multi-faceted retail property located in Shibuya-ku within one minute's walk of Omotesando Station. The complex contains Barbacoa Grill, offering Churrasco Brazilian barbecue food operated by Wondertable, Ltd. on the first underground floor, and Royal Host, a restaurant managed by Royal Holdings Co., Ltd. on the first floor. On floors one through three, there is the GOLD'S GYM sports gymnasium, operated by Think Fitness Corporation and on the fourth floor, there is an esthetics salon Ci:z. Labo, operated by DR. CI:LABO CO., LTD.

Address: 4-3-2, Jingumae, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a one-minute walk from Omotesando Station—Tokyo Metro Ginza, Hanzomon and Chiyoda lines  
 Total Land Space: 1,259.21m<sup>2</sup>  
 Total Floor Space: 3,321.20m<sup>2</sup>  
 Structure/Floors: S/SRC, B1/4F  
 Completed: October, 1985  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Representative Tenants: Think Fitness Corporation;  
 Royal Holdings Co., Ltd.;  
 Wondertable, Ltd.



**R** Tokyu Saginuma Building



Tokyu Saginuma Building is located in Miyamae-ku, Kawasaki city, approximately 15 kilometers southwest of Shibuya. The area is a residential suburb of Tokyo with a growing population, increasing number of households and high growth potential. The entire building is leased to Tokyu Store Corporation, which uses the property as an outlet of its general merchandise store Saginuma Tokyu.

Address: 1-1-1, Saginuma, Miyamae-ku, Kawasaki City, Kanagawa  
 Nearest Station: Approximately a one-minute walk from Saginuma Station—Tokyu Den-en-toshi line  
 Total Land Space: 5,658.00m<sup>2</sup>  
 Total Floor Space: 18,320.87m<sup>2</sup>  
 Structure/Floors: RC, B1/4F  
 Completed: September, 1978  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenant: Tokyu Store Chain Co., Ltd.



**R** Tokyu Saginuma 2 Building



Tokyu Saginuma 2 Building was acquired to serve partly as a parking facility for the Tokyu Saginuma Building. Under the Large Retail Store Location Law, Tokyu Store Corporation is required to provide 84 car parking spaces for customers of Saginuma Tokyu Chain. The building comprises three floors (the first to third floors) leased to a bank and three underground floors used as a parking facility.

Address: 1-18-5, Kodai, Miyamae-ku, Kawasaki City, Kanagawa  
 Nearest Station: Approximately a one-minute walk from Saginuma Station—Tokyu Den-en-toshi line  
 Total Land Space: 1,807.21m<sup>2</sup>  
 Total Floor Space: 4,409.50m<sup>2</sup>  
 Structure/Floors: SRC, B2/4F  
 Completed: October, 1979  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenant: The Bank of Tokyo-Mitsubishi UFJ, Ltd.

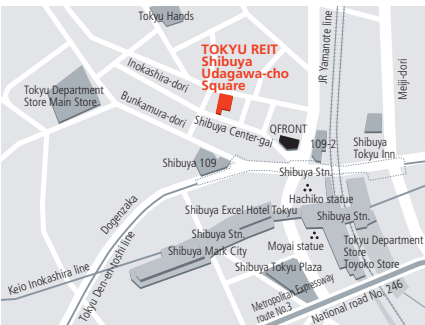


**R** TOKYU REIT Shibuya Udagawa-cho Square



TOKYU REIT Shibuya Udagawa-cho Square is located in the central area of Shibuya, one of Tokyo's main retail and commercial districts, and faces the major retail thoroughfares Inokashira-dori and Shibuya Center-gai. Comprising two buildings, ZARA, a Spain-based retailer of casual clothing, is the principal tenant of Building 1. ZARA boasts a global network of 997 stores (as of March 2, 2007). The restaurant UOGASHI NIHON ICHI operated by NIPPAN Co., Ltd. is located in Building 2.

Address: [Bldg.1] 25-10 Udagawa-cho, Shibuya-ku, Tokyo  
 [Bldg.2] 25-5 Udagawa-cho, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a two-minute walk from Shibuya Station-JR Yamanote line/Tokyo Toyoko line/Tokyu Den-en-toshi line/Keio Inokashira line/Tokyo Metro Ginza and Hanzomon lines  
 Total Land Space: 679.27m<sup>2</sup>  
 Total Floor Space: [Bldg.1] 1,473.10m<sup>2</sup>  
 [Bldg.2] 56.39m<sup>2</sup>  
 Structure/Floors: [Bldg.1] S, 3F  
 [Bldg.2] S, 2F  
 Completed: [Bldg.1] July, 1998  
 [Bldg.2] June, 1995  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenants: ZARA Japan Corporation;  
 NIPPAN Co., Ltd.



**R** Beacon Hill Plaza (Ito-Yokado Noukendai Store)



The sole tenant of Beacon Hill Plaza, Ito-Yokado Noukendai Store is a large-scale General Merchandise Store (GMS) with 7,000 *tsubo* (a *tsubo* is Japan's former unit of area and is equivalent to 3.3 m<sup>2</sup>) of shopping space and provides space for approximately 900 vehicles in its parking garage on the premises. The property is not situated in a major investment area, but was judged to be excellent for its location in a retail and commercial district that is expected to bring stable growth.

Address: Noukendai-Higashi 3-1, Kanazawa-ku, Yokohama City, Kanagawa  
 Nearest Station: Approximately a four-minute walk from Noukendai Station-Keihin Kyuko line  
 Total Land Space: 17,318.78m<sup>2</sup>  
 Total Floor Space: 46,587.87m<sup>2</sup>  
 Structure/Floors: SRC, B2/4F  
 Completed: June, 1998  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenant: Ito-Yokado Co., Ltd.

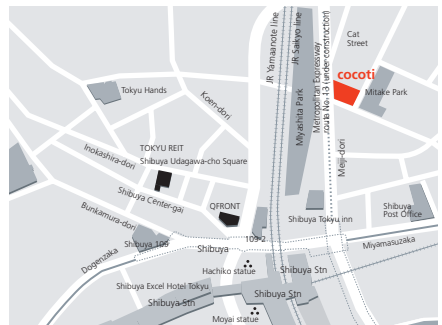


**R** cocoti



cocoti is approximately a three-minute walk from Shibuya Station and faces Meiji-dori. The property is surrounded by casual brand stores and lies on the outskirts of an area known as "Ura Harajuku." This property's tenants are comprised of brand shops, cafes, sports gyms, and other outlets and meet the various needs of a customer. In order to maintain and further improve its competitiveness, the property was re-opened on March 20, 2006.

Address: 1-23-16 Shibuya, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a three-minute walk from Shibuya Station-JR Yamanote line/Tokyo Toyoko line/  
 Tokyu Den-en-toshi line/Keio Inokashira line/  
 Tokyo Metro Ginza and Hanzomon lines  
 Total Land Space: 1,705.35m<sup>2</sup>  
 Total Floor Space: 11,847.87m<sup>2</sup>  
 Structure/Floors: S/SRC, B2/12F  
 Completed: September, 2004  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Representative Tenants: TOMORROWLAND Co., Ltd.;  
 CASSINA IXC Ltd.;  
 West Corporation



## R Shonan Mall Fill (*sokochi*)



Shonan Mall Fill is the retail property which sitsuate between Fujisawa and Tsujido Stations on the JR Tokaido Line and has achieved steady sales growth since its opening.

TOKYU REIT acquired a trust beneficiary interest in real estate (Ownership of land with a fixed-term leasehold for commercial use, namely *sokochi*).

While the property is inconsistent with TOKYU REIT's usual investment criteria, it is located an area offering stable growth potential.

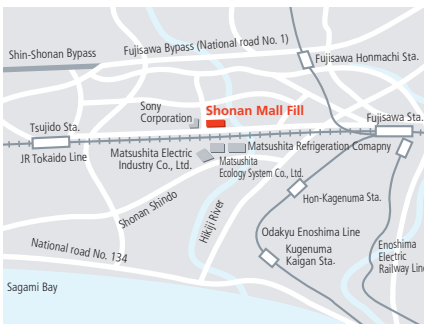
Address: 4-1-1, Tsujido Shinmachi, Fujisawa City, Kanagawa Prefecture

Nearest Station: Approximately three minutes by bus or a twenty-minute walk from Tsujido Station—JR Tokaido Line. Approximately five minutes by bus from Fujisawa Station—JR Tokaido Line, Odakyu Enoshima Line and Enoshima Electric Railway Line.

Total Land Space: 44,078.12m<sup>2</sup>

Type of Ownership: Land—Proprietary Ownership

TRepresentative Tenants: Daiwa House Industry Co., Ltd.



## R CONZE Ebisu



CONZE Ebisu is situated approximately a two-minute walk from Ebisu Station on the Tokyo Metro Hibiya Line and a three-minute walk from Ebisu Station on the JR Yamanote and Saikyo Lines, and contains eight restaurants from the basement level to the eighth floor.

Ebisu Station, which is surrounded by Hiroo, Daikanyama and Nakameguro, which attract foreign companies and companies related to fashion, this is one of the areas in Tokyo that has recently drawn a great deal of attention from various media.

The area is particularly known as an ideal site for restaurants, and shows potential for further growth.

Location: 2-3-14, Ebisu-Minami, Shibuya-ku, Tokyo

Nearest Station: Approximately a two-minute walk from Ebisu Station—Tokyo Metro Hibiya Line, a three-minute walk from Ebisu Station—JR Yamanote and Saikyo Lines.

Total Land Space: 562.07m<sup>2</sup>

Total Floor Space: 2,789.35m<sup>2</sup>

Type of Structure: SRC B1/9F

Completion Date: March, 2004

Type of Ownership: Land—Proprietary ownership  
Building—Proprietary ownership

Major Tenants: Food Scope, Inc.;  
Task;  
MYU PLANNING & OPERATORS Inc.

## R Rationale

TOKYU REIT highly evaluates the growth potential of the area and the outstanding merits and stability of the property. Given these factors, CONZE Ebisu is considered to be a major contribution to the improvement of TOKYU REIT's portfolio quality, and therefore TOKYU REIT made the decision for acquisition.

### Location

#### ■ Ideal site for restaurants

- Approximately a two-minute walk from Ebisu Station, Tokyo Metro Hibiya Line.
- Approximately a three-minute walk from Ebisu Station, JR Ymanote and Saikyo Lines.
- This is one of the areas in Tokyo that has recently drawn a great deal of attention from various media.
- The area is particularly known as an ideal site for restaurants, and shows potential for further growth.

#### ■ The outstanding merits of this area

- The outstanding merits TOKYU REIT considers this 90-tsubo (approximately 300 m<sup>2</sup>) per floor property as the area surrounding Ebisu Station has no sizable land for development.

### Tenant

#### ■ The property's credibility

- Each tenant in CONZE Ebisu has entered into a fixed-term lease contract (with no cancellation and no claim rights for reducing leasing rates) through March 2014. TOKYU REIT intends to continue this stable agreement.





## OFFICE PORTFOLIO

- Setagaya Business Square
- Tokyu Nampeidai-cho Building
- Tokyu Sakuragaoka-cho Building
- Tokyo Nissan Taito Building
- TOKYU REIT Akasaka Hinokicho Building
- TOKYU REIT Kamata Building
- Resona Maruha Building
- TOKYU REIT Toranomom Building
- TOKYU REIT Hatchobori Building

**"Stability" is the defining feature of TOKYU REIT's office portfolio. TOKYU REIT's goal is to secure a stable earnings platform by adhering to strict property acquisition criteria, securing long-term leasing agreements, and attracting tenants through active marketing.**

TOKYU REIT's office portfolio comprised a total of nine properties at the end of seventh fiscal period with the acquisition of TOKYU REIT Hatchobori Building which is located in Chuo-ku, Tokyo. During the seventh fiscal period, TOKYU REIT's office properties have a total acquisition price of ¥85.31 billion and total floor space of 232,092.86m<sup>2</sup>. Revenues from property leasing reached ¥3.70 billion, NOI was ¥2.42 billion, operating income from property leasing activities totaled ¥1.87 billion and the weighted-average NOI yield was 5.8% for the fiscal period under review.

A number of factors make up TOKYU REIT's real estate investment criteria, including the concentration of office buildings, local rental market conditions, the centrality of the nearest train station and the proximity of the property to the nearest train station in those areas earmarked for investment. In principle, TOKYU REIT will invest in large-scale properties that feature a high degree of convenience. TOKYU REIT will look toward office buildings with an acquisition price of a minimum ¥4.0 billion, total floor space exceeding 5,000m<sup>2</sup>, and individual floor space in excess of 330m<sup>2</sup>. At the end of the sixth fiscal period, approximately one-fifth of the office portfolio's total leasable floor space was subject to lease agreements with an expiry date exceeding five years. TOKYU REIT recognizes the critical requirement for long-term (anchor) leasing contracts. TOKYU REIT is also active in the promotion of leasing activities, well after property acquisition. As of January 31, 2007, the occupancy ratio of the office portfolio reached 99.4%.

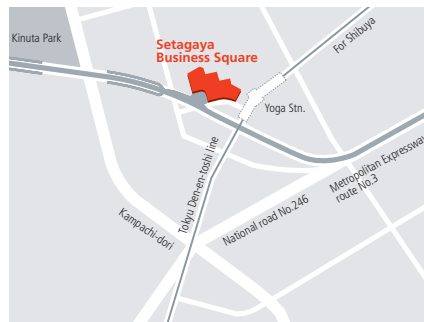
TOKYU REIT strives to further enhance earnings stability by investing in prime large-scale properties, securing long-term lease agreements, and actively promoting leasing activities.

## Setagaya Business Square

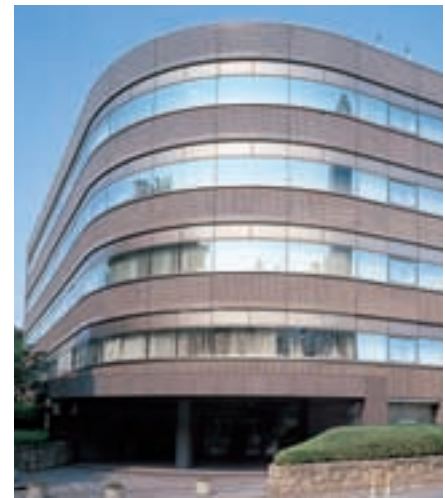


Setagaya Business Square is a large complex situated above Yoga Station on the Tokyu Den-en-toshi Line, consisting of a 28-story high-rise connected to the station, four mid-size office towers, two terraces with commercial facilities and a community center. The sight is a high-traffic area, with good road access (National road No.246, Kampachi-dori and the Yoga interchange on Metropolitan Expressway Route No.3) as well as rail (Yoga Station, approximately 12 minutes to Shibuya Station and 27 minutes to Otemachi Station).

Address: 4-10-1,2,3,4,5,6, Yoga, Setagaya-ku, Tokyo  
 Nearest Station: Approximately a one-minute walk from Yoga Station—Tokyu Den-en-toshi Line  
 Total Land Space: 21,315.68m<sup>2</sup>  
 Total Floor Space: 94,373.72m<sup>2</sup>  
 Structure/Floors: SRC/RC/S, B2/28F  
 Completed: September, 1993  
 Type of Ownership: Land—Co-ownership (55% interest)  
 Building—Co-ownership (55% interest)  
 Representative Tenants: Sun Microsystems K.K.;  
 Tokyu Community Co., Ltd.;  
 Tyco Healthcare



## Tokyu Nampeidai-cho Building



Tokyu Nampeidai-cho Building is a five-story office building located in Shibuya Ward, which Tokyu Corporation uses as its head office. A fixed-term lease contract is in effect until December 2012, contributing to earnings stability.

Address: 5-6, Nampeidai-cho, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a seven-minute walk from Shibuya Station—JR Yamanote line/ Tokyu Toyoko line/ Tokyu Den-en-toshi line/ Keio Inokashira line/ Tokyo Metro Hanzomon and Ginza lines  
 Total Land Space: 2,013.28m<sup>2</sup>  
 Total Floor Space: 7,003.88m<sup>2</sup>  
 Structure/Floors: SRC, B2/5F  
 Completed: July, 1992  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Tenant: Tokyu Corporation



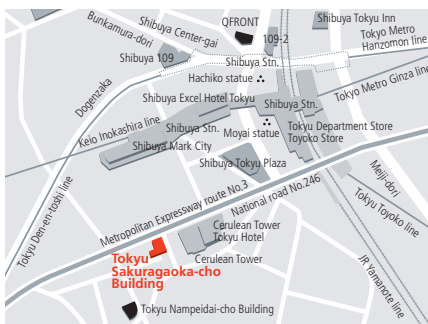
## Tokyu Sakuragaoka-cho Building



Tokyu Sakuragaoka-cho Building is a nine-story office building located in Shibuya Ward, mostly occupied by Tokyu Corporation, which the operating division uses as its head office. A fixed-term lease contract is in effect until December 2011, contributing to earnings stability.

Address: 31-2, Sakuragaoka-cho, Shibuya-ku, Tokyo  
 Nearest Station: Approximately a five-minute walk from Shibuya Station—JR Yamanote line/ Tokyu Toyoko line/ Tokyu Den-en-toshi line/ Keio Inokashira line/ Tokyu Metro Ginza and Hanzomon lines

Total Land Space: 1,013.03m<sup>2</sup>  
 Total Floor Space: 6,505.39m<sup>2</sup>  
 Structure/Floors: SRC, B3/9F  
 Completed: June, 1987  
 Type of Ownership: Land—Proprietary ownership  
 Building—Compartmentalized ownership  
 Tenants: Tokyu Corporation;  
 The Tokyo Electric Power Company, Incorporated



## Tokyo Nissan Taito Building



Tokyo Nissan Taito Building is a ten-story office building situated along Kiyosubashi-dori. The convenience of the location grew even further with the Shin-Okachimachi Station on the Tsukuba Express line of the Metropolitan Intercity Railway Company opening in August 2005 only about a four-minute walk away. A fixed-term lease contract for the first two floors and the underground parking area is in place with the principal tenant, Tonichi Carlife Group Inc., contributing to earnings stability.

Address: 2-6-6, Moto-Asakusa, Taito-ku, Tokyo  
 Nearest Station: Approximately a three-minute walk from Inari-cho Station—Tokyo Metro Ginza line, a four-minute walk from Shin-Okachi-machi Station—Toei Oedo line/Tsukuba Express line, and a ten-minute walk from Ueno Station—JR Yamanote line

Total Land Space: 1,718.45m<sup>2</sup>  
 Total Floor Space: 11,373.20m<sup>2</sup>  
 Structure/Floors: SRC, B2/10F  
 Completed: September, 1992  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Representative Tenants: Tonichi Carlife Group Inc.;  
 Ataka Construction & Engineering Co., Ltd.;  
 Nasca Corporation



## TOKYU REIT Akasaka Hinokicho Building



TOKYU REIT Akasaka Hinokicho Building is a seven-story office building situated along Akasaka-dori. The multiple large office buildings and multi-faceted retail properties in the area and the large redevelopments of Tokyo Midtown and the Akasaka 5-Chome TBS Plan (tentative name) will enliven the area and giving the building even greater potential.

Address: 6-14-15, Akasaka, Minato-ku, Tokyo  
 Nearest Station: Approximately a four-minute walk from Akasaka Station—Tokyo Metro Chiyoda line

Total Land Space: 866.61m<sup>2</sup>  
 Total Floor Space: 4,058.92m<sup>2</sup>  
 Structure/Floors: RC, 7F  
 Completed: August, 1984  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Representative Tenants: Q-TEC, Inc.;  
 Roadway Development and Reconstruction Association;  
 Rome Tile Japan Co., Ltd.



**TOKYU REIT**  
Kamata Building



TOKYU REIT Kamata Building is a nine-story office building adjacent to the Ota City Office. Kamata is an area in the center of Ota-ku, the third most populous district in Tokyo, while Kamata Station is a convenient terminal served by two Tokyu railway lines and one JR line. A proposed railway link between the Tokyu Tamagawa Line and the Keiyo Airport Line enhances the possibility that the area will become even more convenient in the future. (Council for Transport Policy Report No. 18)

Address: 5-13-23, Kamata, Ota-ku, Tokyo  
 Nearest Station: Approximately a two-minute walk from Kamata Station—Tokyu Ikegami line/ Tokyu Tamagawa line/ JR Keihin Tohoku line  
 Total Land Space: 1,642.86m<sup>2</sup>  
 Total Floor Space: 10,244.51m<sup>2</sup>  
 Structure/Floors: S/SRC, B1/9F  
 Completed: February, 1992  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Representative Tenants: ITOCHU Techno-Solutions Corporation;  
 Dai Nippon Tomyo Co., Ltd.;  
 NSP Limited

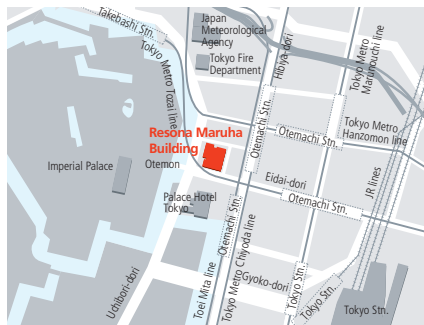


**TOKYU REIT**  
Resona Maruha Building



Resona Maruha Building is a unique office building facing Uchibori-dori in Otemachi, one of the most highly regarded office-building districts in Japan. Six of the eight upper floors that TOKYU REIT acquired are leased to Maruha Corporation. Another two floors were significantly renovated after acquisition.

Address: 1-1-2 Otemachi, Chiyoda-ku, Tokyo  
 Nearest Station: Approximately a one-minute walk from Otemachi Station—Tokyo Metro Chiyoda, Hanzomon, Tozai and Marunouchi lines/ Toei Mita line  
 Total Land Space: 6,893.71m<sup>2</sup>  
 Total Floor Space: 74,379.30m<sup>2</sup>  
 Structure/Floors: S/SRC, B4/25F  
 Completed: November, 1978  
 Type of Ownership: Land—Co-ownership (27% interest),  
 Building—Compartmentalized ownership  
 Tenants: Maruha Corporation and two companies



**TOKYU REIT**  
Toranomon Building

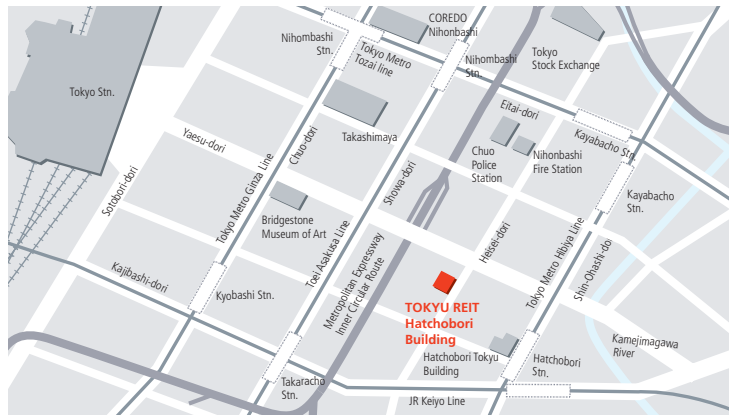


TOKYU REIT Toranomon Building is a one-minute walk from Kamiyacho Station on the Tokyo Metro Hibiya Line and faces National Route 1 (Sakurada-dori). Since its completion, occupancy has remained stable, and the property is expected to deliver competitive advantage.

Address: 3-17-1 Toranomon, Minato-ku, Tokyo  
 Nearest Station: Approximately a one-minute walk from Kamiyacho Station—Tokyo Metro Hibiya line  
 Approximately a nine-minute walk from Toranomon Station—Tokyo Metro Ginza line  
 Approximately a nine-minute walk from Onarimon Station—Toei Mita line  
 Total Land Space: 1,728.38m<sup>2</sup>  
 Total Floor Space: 15,343.73m<sup>2</sup>  
 Structure/Floors: SRC/RC, B2/9F  
 Completed: April, 1988  
 Type of Ownership: Land—Co-ownership (73,585/100,000 interest)  
 Building—Compartmentalized ownership and co-ownership of compartmentalized ownership  
 Representative Tenants: Japan Nuclear Energy Safety Organization; Takihyo Co., Ltd.;  
 Anzco Foods Japan Ltd.



## TOKYU REIT Hatchobori Building



Location: 2-7-1, Hatchobori, Chuo-ku, Tokyo  
 Nearest Station: Approximately a three-minute walk from Hatchobori Station—Tokyo Metro Hibiya Line, a six-minute walk from Kayabacho Station—Tokyo Metro Tozai and Hibiya Lines, a six-minute walk from Takaracho Station—Toei Asakusa Line, an eight-minute walk from Kyobashi Station—Tokyo Metro Ginza Line and a ten-minute walk from Tokyo Station—JR Lines.

Total Land Space: 974.32 m<sup>2</sup>  
 Total Floor Space: 8,810.21 m<sup>2</sup>  
 Type of Structure: S/SRC B2/9F  
 Completion Date: September 1965  
 Type of Ownership: Land—Proprietary ownership  
 Building—Proprietary ownership  
 Major Tenants: Tokai Kogyo Co., Ltd.;  
 Polaire Intellectual Property Corporation;  
 ITOCHU CERATECH CORP.

TOKYU REIT Hatchobori Building is located in Hatchobori that has long had a high concentration of office buildings. This building is a large office building with standard floor layout of 200 tsubo. TOKYU REIT Hatchobori Building is accessible to several stations, for example, a three-minute walk from Hatchobori Station on the Tokyo Metro Hibiya Line. The property has maintained competitiveness by certain refurbishments in terms of design including full renovations of the building's exterior, entrance and elevator hall since 1999. In addition, it has excellent earthquake resistance that far exceeds that of new structures as stipulated in the current Building Standards Law owing to its seismic-reinforced construction (intermediate seismicisolation) in 2005.

## Rationale

In light of its convenient location and office specification, **TOKYU REIT** concluded that this property can offer stable operations in the long term with appropriate rent rates and facility upgrades and made the decision for acquisition.

### Location

#### ■ Located the area that has had high concentration of office buildings

- The property is located in Hatchobori, one of the major office areas in Tokyo's Chuo Ward which is an area that has long had a high concentration of office buildings which is connected to the Yaesu area encompassing Tokyo Station.

#### ■ Accessible to several stations

- Hatchobori Station on the Tokyo Metro Hibiya Line (approximately a three-minute walk)
- Kayabacho Station on the Tokyo Metro Tozai Line and Hibiya Line (approximately a six-minute walk)
- Takaracho Station on the Toei Asakusa Line (approximately a six-minute walk)
- Kyobashi Station on the Tokyo Metro Ginza Line (approximately an eight-minute walk)
- JR Tokyo Station (approximately a ten-minute walk)



### Specification

#### ■ Office Specification with competitiveness

- Located on level ground with compartmentalized ownership standing on an entire block surrounded on all four sides by streets
- With compartmentalized ownership of a standard floor layout of 200 tsubo (approximately 3.3 m<sup>2</sup>)
- Although this building has been 41 years since construction, full renovations of the building's exterior and entrance have been completed in 1999 and seismic-reinforced construction (intermediate seismic isolation) completed in 2005.

I . Asset management report

1. Financial Highlights

(1) Result of operation and financial position

		7th fiscal period From August 1, 2006 to January 31, 2007 (184 days)	6th fiscal period From February 1, 2006 to July 31, 2006 (181 days)	5th fiscal period From August 1, 2005 to January 31, 2006 (184 days)	4th fiscal period From February 1, 2005 to July 31, 2005 (181 days)	3rd fiscal period From August 1, 2004 to January 31, 2005 (184 days)	
		Millions of yen, except per unit data or where otherwise indicated					
Result of operation	Statement of income	Operating revenues	¥ 6,460	¥ 7,876	¥ 6,344	¥ 5,685	¥ 5,045
		Operating income	¥ 2,848	¥ 4,119	¥ 2,752	¥ 2,326	¥ 2,211
		Net income	¥ 2,402	¥ 3,754	¥ 2,402	¥ 1,959	¥ 1,852
	Operating income	Revenue from property leasing (a) (Note 2)	¥ 6,460	¥ 6,239	¥ 6,281	¥ 5,685	¥ 5,045
		Rental service expenses (b)	¥ 2,867	¥ 2,912	¥ 2,937	¥ 2,777	¥ 2,323
		Depreciation and amortization (included in (b)) (c) (Note 3)	¥ (947)	¥ (970)	¥ (982)	¥ (928)	¥ (802)
		Net Operating Income (a) – (b) + (c)	¥ 4,540	¥ 4,297	¥ 4,326	¥ 3,836	¥ 3,524
	Cash flow	FFO (Funds from Operation) (d) (Note 4)	¥ 3,349	¥ 3,087	¥ 3,383	¥ 2,888	¥ 2,654
		Capital expenditures (e)	¥ 38	¥ 179	¥ 154	¥ 143	¥ 69
		AFFO (Adjusted Funds from Operation) (d) – (e)	¥ 3,311	¥ 2,907	¥ 3,228	¥ 2,745	¥ 2,585
Financial position	Balance sheet	Total assets (f)	¥ 183,995	¥ 172,930	¥ 171,791	¥ 162,180	¥ 147,231
		(Change from the preceding period)	(6.4%)	(0.7%)	(5.9%)	(10.2%)	(20.1%)
		Interest-bearing liabilities (g)	¥ 65,300	¥ 53,000	¥ 53,000	¥ 64,500	¥ 50,500
		Total unitholders' equity (Net assets) (h)	¥ 100,421	¥ 101,774	¥ 100,421	¥ 79,819	¥ 79,713
		(Change from the preceding period)	(△ 1.3%)	(1.3%)	(25.8%)	(0.1%)	(54.7%)
		Unitholders' capital	¥ 98,019	¥ 98,019	¥ 98,019	¥ 77,860	¥ 77,860
	Portfolio	Acquisition costs of properties (Note 5)	¥ 171,737	¥ 159,620	¥ 157,860	¥ 148,060	¥ 133,360
		Book value of properties (Note 5)	¥ 169,971	¥ 158,529	¥ 157,104	¥ 147,819	¥ 133,415
		Appraisal value of properties (i) (Note 5)	¥ 210,120	¥ 187,800	¥ 174,430	¥ 155,090	¥ 136,850
		Number of properties	19	17	17	17	16
		Total rentable area (Note 6)	222,653.08 m <sup>2</sup>	214,330.82 m <sup>2</sup>	179,211.29 m <sup>2</sup>	175,776.97 m <sup>2</sup>	170,785.00m <sup>2</sup>
		Occupancy ratio at the end of period (Note 6)	99.8%	99.9%	99.4%	99.1%	97.5%
Other	Distribution	Cash distribution	¥ 2,402	¥ 3,754	¥ 2,402	¥ 1,959	¥ 1,852
		Dividend per ratio (Note 7)	100.0%	100.0%	100.0%	99.9%	99.9%
	Amount per unit	Number of units	169,380 units	169,380 units	169,380 units	142,000 units	142,000 units
		Unitholders' equity per unit	¥ 592,879	¥ 600,860	¥ 592,877	¥ 562,109	¥ 561,356
		Cash distribution per unit	¥ 14,182	¥ 22,162	¥ 14,179	¥ 13,798	¥ 13,045
	Management index	Return on total unitholders' equity (annualized) (Note 8)	4.7%	7.5%	5.3%	5.0%	5.6%
		Equity ratio (h)/(f)	54.6%	58.9%	58.5%	49.2%	54.1%
		(Change from the preceding period)	(△ 4.3%)	(0.4%)	(9.3%)	(△ 4.9%)	(12.1%)
		Proportion of interest-bearing liabilities to total assets (g)/(f)	35.5%	30.6%	30.9%	39.8%	34.3%
		Proportion of interest-bearing liabilities to appraisal value at the end of period (g)/(i)	31.1%	28.2%	30.4%	41.6%	36.9%
Average market price per unit (Note 9)	¥ 958,306	¥ 902,435	¥ 766,520	¥ 726,082	¥ 690,705		

- Note 1. Consumption tax is not included in operating revenues.
- Note 2. 'Revenue from property leasing' on 5th fiscal period does not include construction fees (63 millions of yen)
- Note 3. 'Depreciation and amortization' includes Loss on disposal of property and equipment (33 millions of yen on 4th fiscal period and 29 millions of yen on 6th fiscal period)
- Note 4. Net income + depreciation and amortization + other property related depreciation and amortization - revenue from the sales of properties. Other property related depreciation and amortization was not recognized.
- Note 5. 'Properties' means investment properties held in the trust in substance, which is total assets in the trust less the money held in the trust.
- Note 6. Regarding the 'Total rentable area' and 'Occupancy ratio at the end of period', please refer to 3. Portfolio profile. (2) Major portfolio Notes 2 and 4.
- Note 7. Figures are rounded down to the second decimal place.
- Note 8.  $\text{Net income} / (\text{net assets at the beginning of the period} + \text{net assets at the end of the period}) / 2 \times 365 / \text{number of days of investment}$
- Note 9. Average price during the period (closing price) at the Real Estate Investment Trust Market of the Tokyo Stock Exchange ("Tokyo Stock Exchange") on which TOKYU REIT Inc. ("TOKYU REIT") is listed.

## (2) Development of Asset Investment Management during the Current Period

### ① Investment Environment

In the fiscal period ended January 31, 2007, Japan's economy saw modest expansion on the back of robust corporate capital spending, which supported demand in the domestic private sector in spite of weak consumption caused by unseasonable summer and winter weather. In November 2006, Japan's economy set a new record as it marked its longest period of consecutive monthly expansion in the post-WWII era, exceeding the previous record during the so-called "Izanagi boom." Reflecting population dynamics caused by migration from other areas of Japan to Tokyo as well as the influx of people into Tokyo during daytime hours, in terms of GDP, growth in the Tokyo metropolitan area outpaced that of the country as a whole. The Tokyo metropolitan area maintains its relative advantages in terms of both population and economy.

Under these circumstances, occupancy rates in the office space leasing market in Tokyo's 23 wards fell to the lowest levels seen in the past decade. In addition, advertised rents are increasing for well-located properties with appealing features as the valuation of competitive real estate continues to rise. In the market for leasing retail space, Japan's economic recovery is leading to a turnaround in sales per square meter of floor space at large retail shops, which had dropped over an extended period. In particular, sales per square meter of floor space at shops in Tokyo and Kanagawa prefecture are rising modestly.

On the other hand, the balance between supply and demand in the real estate investment market has tightened as land prices have continued upward in the Tokyo metropolitan area, and the number of transactions in the five central wards of Tokyo from July through December 2006 fell on a year-on-year basis.

### ② Investment Performance Results

#### a. Acquisition of Properties

Against this backdrop, TOKYU REIT maintained its selective investment criteria and endeavored to invest in highly competitive properties in areas with strong growth potential. On September 29, 2006, TOKYU REIT acquired a trust beneficiary interest in the TOKYU REIT Hatchobori Building (previously the Sigma Hatchobori Building) at an acquisition price of ¥7,000 million. In addition, TOKYU REIT acquired CONZE Ebisu on October 31, 2006, at an acquisition price of ¥5,116 million, bringing the total paid for the 19 properties in the portfolio to ¥171,737 million and total leasable floor space to 222,653.08 m<sup>2</sup> at period-end.

The total period-end appraisal value of properties in the portfolio stood at ¥210,120 million. As in the previous fiscal period, the period-end appraisal value exceeded book value. The difference in these two figures is the amount for unrealized gains, which reached ¥40,148 million for the seventh fiscal period. Based upon generally accepted accounting principles, unrealized gains are not reflected in TOKYU REIT's financial statements.

b. Investment Management Control

As a result of stable asset management, the occupancy rate for the entire portfolio of 19 properties stood at 99.8% as of January 31, 2007. TOKYU REIT is also working actively to increase rents. Consequently, as of January 31, 2007, the average rental rate for the 17 properties in the portfolio prior to the acquisition of the TOKYU REIT Hatchobori Building and CONZE Ebisu increased 0.6% compared with the end of the previous fiscal period.

c. Financing

TOKYU REIT undertakes financing activities under a financial policy emphasizing stability, flexibility and efficiency. Aiming to secure borrowings with fixed, long-term interest rates and to diversify repayment dates, TOKYU REIT converted a portion of its borrowings to long-term debt financing. The balance of interest-bearing liabilities as of January 31, 2007 was ¥65,300 million, consisting of ¥45,000 million in long-term debt (including ¥5,000 million of current portion of long-term debt) and ¥20,300 million in short-term debt. The weighted average interest rate was 1.42% (calculated from the annualized amount of interest payable for the seventh fiscal period divided by the average of remaining balances for each loan).

d. Countering conflicts of interest

To ensure the propriety and transparency of transactions, TOKYU REIT adheres strictly to its self-imposed measures to prevent conflicts of interest and thus followed prescribed procedures during the period under review. For example, in the course of selecting the property management companies for the TOKYU REIT Hatchobori Building and CONZE Ebisu, TOKYU REIT obtained the opinions of third parties regarding appropriate remuneration for property management services; received confirmation from an audit firm other than its regular independent auditor that the property management company selection procedure was consistent with the measures to prevent conflicts of interest; and received prior approval from the Board of Directors. By strictly following such procedures, TOKYU REIT ensures that transactions with interested parties are not detrimental to its own interests.

Moreover, TOKYU REIT received an opinion report from STB Research Institute Co., Ltd. stating that fees paid to Tokyu Group companies for property management services pertaining to properties in the portfolio at period-end were within the range set by other REITs listed on the Tokyo Stock Exchange.

### (3) Issuance of New Investment Units

There were no new investment units issued during the fiscal period under review, and there were no increase or decrease in the number of units issued and total unitholder's equity. Issuance of new investment units until the end of the previous fiscal period is as follows:

Date	Remark	Number of units issued		Total unitholders' equity		Note
		Unit		Millions of yen		
		Change	Total	Change	Total	
June 20, 2003	Issuance of units under private offering	400	400	¥ 200	¥ 200	(Note 1)
September 10, 2003	Issuance of units under public offering	97,600	98,000	¥ 49,918	¥ 50,118	(Note 2)
August 3, 2004	Issuance of units under public offering	42,000	140,000	¥ 26,481	¥ 76,599	(Note 3)
August 25, 2004	Issuance of units under third-party allotment	2,000	142,000	¥ 1,261	¥ 77,860	(Note 4)
August 1, 2005	Issuance of units under public offering	26,700	168,700	¥ 19,658	¥ 97,519	(Note 5)
August 26, 2005	Issuance of units under third-party allotment	680	169,380	¥ 500	¥ 98,019	(Note 6)

Note 1. Incorporated with ¥ 500,000 per unit

Note 2. Issued new investment units at offer price of ¥ 530,000 (issue price: ¥ 511,450) for the purpose of acquiring new properties

Note 3. Issued new investment units at offer price of ¥ 652,484 (issue price: ¥ 630,512) for the purpose of acquiring new properties and repayments of the short-term loans

Note 4. Issued new investment units at issue price of ¥ 630,512 for the purpose of acquiring new properties and repayments of the short-term loans

Note 5. Issued new investment units at offer price of ¥ 761,950 (issue price: ¥ 736,292) for the purpose of acquiring new properties and repayments of the short-term loans

Note 6. Issued new investment units at issue price of ¥ 736,292 for the purpose of acquiring new properties and repayments of the short-term loans

### 【Movements of Market Price】

The highest and lowest (closing price) in the Tokyo Stock Exchange, on which TOKYU REIT is listed, are as follows:

	7th fiscal period From August 1, 2006 to January 31, 2007	6th fiscal period From February 1, 2006 to July 31, 2006	5th fiscal period From August 1, 2005 to January 31, 2006	4th fiscal period From February 1, 2005 to July 31, 2005	3rd fiscal period From August 1, 2004 to January 31, 2005
	Yen				
Highest	¥ 1,150,000	¥ 1,010,000	¥ 839,000	¥ 826,000	¥ 724,000
Lowest	¥ 800,000	¥ 788,000	¥ 707,000	¥ 668,000	¥ 658,000

### (4) Distribution Information

With respect to distribution for the seventh fiscal period, TOKYU REIT determined to distribute the whole unappropriated earnings (except for the rounding amount, which is the distribution per unit of less than ¥ 1) for the seventh fiscal period to be eligible for special tax treatment (Article 67-15 of Special Taxation Measures Law (Law number 26 in 1957, including subsequent revision) that allows TOKYU REIT to deduct the maximum amount of profit distribution from its taxable income. Accordingly, distribution per unit was ¥14,182.



	7th fiscal period From August 1, 2006 to January 31, 2007	6th fiscal period From February 1, 2006 to July 31, 2006	5th fiscal period From August 1, 2005 to January 31, 2006	4th fiscal period From February 1, 2005 to July 31, 2005	3rd fiscal period From August 1, 2004 to January 31, 2005
Millions of yen, except per unit data					
Unappropriated retained earnings	¥ 2,402	¥ 3,754	¥ 2,402	¥ 1,959	¥ 1,852
Undistributed earnings	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0
Cash distributions	¥ 2,402	¥ 3,754	¥ 2,402	¥ 1,959	¥ 1,852
(Cash distribution per unit)	(¥ 14,182)	(¥ 22,162)	(¥ 14,179)	(¥ 13,798)	(¥ 13,045)
Distribution of accumulated earnings	¥ 2,402	¥ 3,754	¥ 2,402	¥ 1,959	¥ 1,852
(Distribution of accumulated earnings per unit)	(¥ 14,182)	(¥ 22,162)	(¥ 14,179)	(¥ 13,798)	(¥ 13,045)
Cash distribution in excess of accumulated earnings	—	—	—	—	—
(Cash distribution in excess of accumulated earnings per unit)	(—)	(—)	(—)	(—)	(—)

## (5) Future Policies of Investment Management

### ① Forecast of Future Movement

Driven by strong corporate performance, Japan's economy has undergone longest period of consecutive expansion seen in the post-WWII era. However, although real estate prices in certain areas of the country are recovering, there is a growing polarization between Tokyo and other regions and even within Tokyo itself. Underlying this phenomenon is the increasing link between capital and real estate markets due to the expansion of the property securitization market, which, in turn, has led to the revaluation/setting of real estate prices based upon the capitalization method and risk assessment. Consequently, we expect a further progression in the trend toward rising prices for low-risk, high-return properties and decreasing prices for other properties. In such an environment, investment in growth areas, the selection of prime properties, relevant investment policies, the ability to execute these policies and good corporate governance will become all the more important for TOKYU REIT and REITs in general.

### ② Future Policies of Investment Management and Issues to be Countered

Prior to the formal establishment of TOKYU REIT, an assessment of future investment trends based upon business growth potential was undertaken by Tokyuu REIM. Based upon this assessment, it was decided that TOKYU REIT would adopt a stance of investing in highly competitive properties in areas with strong growth potential. Specifically, TOKYU REIT will continue to focus on an investment area for the most part limited to the five central wards of Tokyo, where continued growth is expected, and to Tokyuu Areas, the areas serviced by the Tokyuu rail network.

As it builds a competitive, high-quality portfolio, TOKYU REIT will continue to adhere firmly to stringent investment criteria for selecting individual properties. Aiming to achieve external growth, TOKYU REIT will obtain a balanced mix of properties from Tokyuu Group companies and from the overall real estate market. We will work to improve portfolio quality and expand the scale of our business.

We will also endeavor to achieve internal growth by enhancing earnings stability and growth potential through collaboration with Tokyuu Group companies in the areas of property maintenance and management. Maintaining a careful watch on corporate

earnings and consumption trends, we will make every effort to manage facilities in a way that make our properties the choice of corporate tenants and visitors over the medium to long term. With the objective of raising rents, we will make strategic and appropriate renovations commensurate with the grade of the properties being improved and implement leasing activities from a medium- to long-term perspective. TOKYU REIT will also implement appropriate cost control measures with regard to maintenance fees and additional capital expenditures.

To assure transparency, Tokyu REIM will also improve external audit functions and disclosure activities so as to fulfill its responsibilities as a REIT fund manager operating according to global standards.

(6) Subsequent events

There is no matter that needs describing as of April 25, 2007.

(Information after the end of the seventh fiscal period)

The memorandum concerning partial amendments to the investment management agreement dated June 20, 2003 with the investment management company, Tokyu Real Estate Investment Management Inc. was exchanged on March 9, 2007. The amendments will affect unit price-based fee calculation methods concerning investment management fees as stipulated by the agreement. The calculation methods are scheduled for enforcement from February 1, 2007. Details of the amendments are described in the table on the following page.

The amendments, shall take effect on the condition that the proposed amendments are approved at the General Meeting of Unitholders, to be held on April 17, 2007.

Before Amendments	After Amendments
<p>(Calculation Method and Payment Period)</p> <p>The unit price-based fee is calculated as follows based on the average closing price of TOKYU REIT units as reported on the Tokyo Stock Exchange. However, in the event that TOKYU REIT aggregates or splits its units, the following calculation methods may be revised.</p> <p>[Calculation Formula]            (Average closing price of units during the fiscal period - Highest average closing price of units during the previous fiscal period) x Number of units outstanding <u>at the beginning of the fiscal period</u> x 1.0%</p> <p>The average closing price equals the aggregate sum of the closing price of units for each trading day during the fiscal period, divided by the total number of trading days during the fiscal period. Trading days with no closing price are omitted from the calculation.</p> <p><u>The unit price-based fee shall be zero yen in the event that the average closing price during the fiscal period does not exceed the highest average closing price in the past.</u></p> <p>The payment period is within two months of the end of the fiscal period.</p>	<p>(Calculation Method and Payment Period)</p> <p>(No change)</p> <p>[Calculation Formula]            (Average closing price of units during the fiscal period - Highest average closing price of units <u>over all previous fiscal periods</u>) x Number of units outstanding <u>at the end of the previous fiscal period</u> x 0.4%</p> <p>(No change)</p> <p><u>The unit price-based fee shall be zero yen in the event that the average closing price during the fiscal period does not exceed the highest average closing price of units over all previous fiscal periods.</u></p> <p>(No change)</p>

## 2. Company Profiles

### (1) Summary of unitholders' contributions

	7th fiscal period as of January 31, 2007	6th fiscal period as of July 31, 2006	5th fiscal period as of January 31, 2006	4th fiscal period as of July 31, 2005	3rd fiscal period as of January 31, 2005
Authorized units (unit)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Units issued (unit)	169,380	169,380	169,380	142,000	142,000
Unitholders' capital (millions of yen)	¥ 98,019	¥ 98,019	¥ 98,019	¥ 77,860	¥ 77,860
Number of unitholders (persons)	9,997	11,241	13,385	12,944	14,958

### (2) Details Regarding TOKYU REIT's Unitholders

The following table sets forth our major unitholders' information as of January 31, 2007.

Name	Address	Number of unitholders owned	Owner- ship
		Unit	%
Japan Trustee Services Bank, Ltd. (Trust)	1-8-11, Harumi, Chuo-ku, Tokyo	16,184	9.55
NikkoCiti Trust and Banking Corporation (Trust)	2-3-14, Higashi-shinagawa, Shinagawa-ku, Tokyo	12,046	7.11
The Master Trust Bank of Japan, Ltd. (Trust)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	8,140	4.81
Trust & Custody Services Bank, Ltd.	Harumi Island Triton Square Office Tower-Z, 1-8-12, Harumi, Chuo-ku, Tokyo	6,775	4.00
Educational Corporation Kawasaki Gakuen	577, Matsushima, Kurashiki City, Okayama	6,000	3.54
Tokyu Corporation	5-6, Nanpeidai-cho, Shibuya-ku, Tokyo	5,880	3.47
CB LONDON STANDARDLIFE ASSURANCE LIMITED	Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH, British (Standard Proxy : Citibank N.A. Tokyo Branch)	5,012	2.96
AIG STAR LIFE INSURANCE CO., LTD.	Harumi Island Triton Square Office Tower-Z, 1-8-12, Harumi, Chuo-ku, Tokyo (Standing Proxy : Citibank N.A. Tokyo Branch)	4,871	2.88
Resona Bank, Limited.	2-2-1, Bingocho, Chuo-ku, Osaka City, Osaka	4,506	2.66
Tokyu Land Corporation	1-21-2, Dogenzaka, Shibuya-ku, Tokyo	3,920	2.31
Total		73,334	43.30

### (3) Details of TOKYU REIT's Directors and Auditors

#### ① Member of the Directors and Auditor (as of January 31, 2007)

Titles	Name	Title of other companies	Total fee for each titles (Note 3) (Thousands of Yen)
Executive Director	Masahiro Horie	Tokyu Real Estate Investment Management, Inc. Representative Director & President, Chief Executive Director	— (Note 4)
Supervisory Director	Giichi Yanagisawa	Certified public accountant, Shinsoh Audit Corporation	2,400
Supervisory Director	Maruhito Kondo	Lawyer, Kondo Maruhito Law Office	2,400
Independent Auditor	PricewaterhouseCoopers Aarata (Note 2)		6,500 (Note 5)

Note 1. The executive director, the supervising directors and the independent auditor do not possess investment units of TOKYU REIT under their own name nor under another person's name. Besides, although there are cases that supervisory directors could be directors of other companies stated above, they have no particular interests in TOKYU REIT.

Note 2. TOKYU REIT has selected PricewaterhouseCoopers Aarata as its temporary independent auditor at its Board of Directors meeting on July 14, 2006.

Note 3. Amounts paid to the executive director and supervisory directors and the amount due to independent auditors are shown above.

Note 4. The executive director serves without compensation

Note 5. During the fiscal period under review, TOKYU REIT paid ¥1 million for agreed upon work other than that stipulated in the Certified Public Accountant Law (Law No. 103 of 1948, including amendments thereafter), Article, 2 Paragraph 1.

#### ② Policies Regarding the Decision of Dismissing and Not Reappointing Independent Auditors

The dismissal of independent auditors is in accordance with the Law Concerning Investment Trusts and Investment Corporations, and rejection of reappointment is examined at TOKYU REIT's Board of Directors' meetings, with consideration of audit quality, compensation and various other factors.

(4) Investment Manager, Asset Custodian and General Administrator at the end of the seventh fiscal period.

The following table sets forth information of our Investment manager, asset custodian and general administrator as of January 31, 2007.

Business to be entrusted	Name
Investment Manager	Tokyu Real Estate Investment Management Inc.
Asset Custodian	Mitsubishi UFJ Trust and Banking Corporation
General Administrator	Mitsubishi UFJ Trust and Banking Corporation

### 3. Portfolio profile

#### (1) Component of assets

Asset type	Type	Area	7th fiscal period As of January 31, 2007		6th fiscal period As of July 31, 2006	
			Total amount held	Percentage of total assets	Total amount held	Percentage of total assets
			Millions of yen	%	Millions of yen	%
Real property	Retail	Central Tokyo and Tokyu Areas	11,792	6.4	¥ 6,678	3.9
		Other	—	—	—	—
		Sub total	11,792	6.4	6,678	3.9
	Office	Central Tokyo and Tokyu Areas	8,689	4.7	8,722	5.0
		Other	—	—	—	—
		Sub total	8,689	4.7	8,722	5.0
	Total		20,481	11.1	15,400	8.9
Properties trust beneficial interests	Retail	Central Tokyo and Tokyu Areas	58,165	31.6	58,431	33.8
		Other	16,403	8.9	16,499	9.5
		Sub total	74,568	40.5	74,930	43.3
	Office	Central Tokyo and Tokyu Areas	74,922	40.7	68,199	39.4
		Other	—	—	—	—
		Sub total	74,922	40.7	68,199	39.4
	Total		149,491	81.2	143,129	82.8
Other assets		14,023	7.6	14,401	8.3	
Total assets		¥ 183,995 (¥169,971)	100.0 (92.4)	¥ 172,930 (¥158,529)	100.0 (91.7)	

Note 1. 'Total amount held' is the amount allocated in the balance sheet at the end of the period (as to properties, figures are net book value after deducting depreciation).

Note 2. Figures in brackets of 'Total assets' represent the portion of actually held properties in the target assets above.

## (2) Major portfolio

Major portfolio held by TOKYU REIT as of January 31, 2007, is as follows:

	Name of property	Book Value	Rentable area	Leased area	Occupancy ratio	Percentage of revenue from property leasing	Type
		Millions of yen	m <sup>2</sup>	m <sup>2</sup>	%	%	
R	QFRONT	¥ 14,725	4,544.07	4,544.07	100.0	9.4	Retail
R	Lexington Aoyama	4,765	2,241.76	2,241.76	100.0	2.6	Retail
R	TOKYU REIT Omotesando Square	5,762	2,702.42	2,702.42	100.0	2.7	Retail
R	Tokyu Saginuma Building	6,798	19,610.06	19,610.06	100.0	4.8	Retail
R	Tokyu Saginuma 2 Building	1,269	1,284.60	1,284.60	100.0	1.0	Retail
R	TOKYU REIT Shibuya Udagawa-cho Square	6,673	1,543.05	1,543.05	100.0	2.7	Retail
R	Beacon Hill Plaza (Ito-Yokado Noukendai Store)	9,377	50,285.89	50,285.89	100.0	4.6	Retail
R	cocoti	24,847	8,319.95	8,319.95	100.0	11.0	Retail
R	Shonan Mall Fill ( <i>sokochi</i> )	7,026	44,078.12	44,078.12	100.0	2.7	Retail
R	CONZE Ebisu	5,118	2,319.24	2,319.24	100.0	1.1	Retail
O	Setagaya Business Square	20,748	24,871.48	24,457.87	98.3	19.6	Office
O	Tokyu Nampeidai-cho Building	4,487	7,148.18	7,148.18	100.0	2.7	Office
O	Tokyu Sakuragaoka-cho Building	6,482	4,737.19	4,737.19	100.0	3.7	Office
O	Tokyo Nissan Taito Building	4,173	7,947.25	7,864.55	99.0	3.5	Office
O	TOKYU REIT Akasaka Hinokicho Building	3,528	3,206.25	3,206.25	100.0	2.3	Office
O	TOKYU REIT Kamata Building	4,419	7,337.82	7,337.82	100.0	4.2	Office
O	Resona Maruha Building	23,903	14,414.99	14,414.99	100.0	12.2	Office
O	TOKYU REIT Toranomom Building	8,689	10,038.01	10,038.01	100.0	7.0	Office
O	TOKYU REIT Hatchobori Building	7,182	6,022.75	5,963.25	99.0	2.2	Office
Total		¥ 169,971	222,653.08	222,097.27	99.8	100.0	

Note 1. The properties' trust beneficiary interests possessed the said whole of the 16 properties, except TOKYU REIT Shibuya Udagawa-cho Square, CONZE Ebisu and TOKYU REIT Toranomom Building.

Note 2. 'Rentable area' is the total area of rentable offices, stores, warehouses and land indicated in the agreements and drawing (common use space is included when leased.). With respect to Tokyu Saginuma Building, Beacon Hill Plaza and Tokyu Nampeidai-cho Building, parking lots are included. Regarding QFRONT, the fiduciary rents the partial space possessed appropriately by other owners and leases them as a block together with the entrusted property, the said space is included in it. For Setagaya Business Square, jointly owned with another owner, the stated figure is given by multiplying rentable area in the whole building by the ratio of common-use space (55%, ratio of co-ownership). For TOKYU REIT Toranomom Building, the leased area includes exclusive-use areas jointly owned with another compartmentalized owner, an exclusive area (limited to an area on the second floor) owned by another compartmentalized owner and leased by TOKYU REIT, and exclusive-use areas under proprietary ownership. The figure of Shonan Mall Fill indicates leased area of land.

Note 3. 'Leased area' is the amount of square meters actually leased, under lease contracts, out of the total square meters stated in contracts (parking lots, side signboards leased under commitments, are not included). For Tokyu Saginuma Building, Beacon Hill Plaza and Tokyu Nampeidai-cho Building, parking lots are included. Regarding QFRONT, the fiduciary rents partial space possessed appropriately by other owners and leases them as a block together with the entrusted property, and the said space is included in it. As to Setagaya Business Square, jointly owned with another owner, the stated figure is given by multiplying rentable area in the whole building by the ratio of common-use space (55%, ratio of co-ownership). For TOKYU REIT Toranomom Building, the leased area includes exclusive-use areas jointly owned with another compartmentalized owner, an exclusive area (limited to an area on the second floor) owned by another compartmentalized owner and leased by TOKYU REIT, and exclusive-use areas under proprietary ownership. The figure of Shonan Mall Fill indicates leased area of land.

Note 4. 'Occupancy ratio' is the percentage of leased areas to rentable area at the end of the period.

Note 5. 'Percentage of revenue from property leasing' is rounded off the second decimal place from this fiscal period. Therefore, sum of each item might be not corresponding to figure of 'Total'.

Note 6. 'TOKYU REIT Hatchobori Building' has been changed its name from 'Sigma Hatchobori Building' on April 1, 2007.

## (3) Details of Properties in Portfolio

Properties held by TOKYU REIT as of January 31, 2007 are as follows:

Name of property		Location	Investment Type	Rentable area	Appraisal value at the end of period	Book value		
				m <sup>2</sup>	Millions of yen	Millions of yen		
Retail	Central Tokyo and Tokyo Areas	R QFRONT	75-8, Udagawa-cho, Shibuya-ku, Tokyo	Trust	4,544.07	¥ 19,500	¥ 14,725	
		R Lexington Aoyama	5-235-7, Minami-Aoyama, Minato-ku, Tokyo	Trust	2,241.76	7,240	4,765	
		R TOKYU REIT Omotesando Square	4-3-18, Jingumae, Shibuya-ku, Tokyo	Trust	2,702.42	7,300	5,762	
		R Tokyu Saginuma Building	1-1, Saginuma, Miyamae-ku, Kawasaki City, Kanagawa	Trust	19,610.06	9,390	6,798	
		R Tokyu Saginuma 2 Building	1-18-5, Kodai, Miyamae-ku, Kawasaki City, Kanagawa	Trust	1,284.60	1,660	1,269	
		R TOKYU REIT Shibuya Udagawa-cho Square	86-2, Udagawa-cho, Shibuya-ku, Tokyo	Real property	1,543.05	8,310	6,673	
		R cocoti	1-23-1, Shibuya, Shibuya-ku, Tokyo	Trust	8,319.95	25,000	24,847	
		R CONZE Ebisub	2-3-5, Ebisu Minami Shibuya-ku, Tokyo	Real property	2,319.24	5,020	5,118	
	Sub total					42,565.15	83,420	69,957
	Other	R Beacon Hill Plaza (Ito-Yokado Noukendai Store)	88-1, Noukendai-higashi, Kanazawa-ku, Yokohama City, Kanagawa	Trust	50,285.89	9,730	9,377	
		R Shonan mall Fill (Sokochi)	4-4300-1, Tsujido Shinmachi, Fujisawa City, Kanagawa	Trust	44,078.12	6,780	7,026	
	Sub total					94,364.01	16,510	16,403
	Total					136,929.16	99,930	86,360
	Office	Central Tokyo and Tokyo Areas	O Setagaya Business Square	4-260-2, Yoga, Setagaya-ku, Tokyo	Trust	24,871.48	29,600	20,748
			O Tokyu Nampeidai-cho Building	12-3, Nampeidai-cho, Shibuya-ku, Tokyo	Trust	7,148.18	6,260	4,487
O Tokyu Sakuragaoka-cho Building			109-9, Sakuragaoka-cho, Shibuya-ku, Tokyo	Trust	4,737.19	8,760	6,482	
O Tokyo Nissan Taito Building			2-120-2, Moto-Asakusa, Taito-ku, Tokyo	Trust	7,947.25	5,160	4,173	
O TOKYU REIT Akasaka Hinokicho Building			6-1401, Akasaka, Minato-ku, Tokyo	Trust	3,206.25	4,590	3,528	
O TOKYU REIT Kamata Building			5-13-7, Kamata, Ota-ku, Tokyo	Trust	7,337.82	6,610	4,419	
O Resona Maruha Building			1-2-1, Otemachi, Chiyoda-ku, Tokyo	Trust	14,414.99	29,600	23,903	
O TOKYU REIT Toranomom Building			3-45-6, Toranomom, Minato-ku, Tokyo	Real property	10,038.01	12,300	8,689	
O TOKYU REIT Hatchobori Building			2-104-1, Hatchobori, Chuo-ku, Tokyo	Trust	6,022.75	7,310	7,182	
Sub total					85,723.92	110,190	83,611	
Total					85,723.92	110,190	83,611	
Total					222,653.08	¥ 210,120	¥ 169,971	

Note 1. 'Location' is stated as based on the description shown in the registry book. The present status of the said property might not correspond to the descriptions in the registry book.

Note 2. 'Rentable area' is the total area of rentable offices, stores and warehouses indicated in the agreements and drawings (common use space is included when it is leased.). With respect to Tokyu Saginuma Building,

Beacon Hill Plaza and Tokyu Nampeidai-cho Building, parking lots are included. Regarding QFRONT, the fiduciary rents the partial space possessed appropriately by other owners and leases them as a block together with the entrusted property and the said space is included in it. For Setagaya Business Square, jointly owned with another owner, the stated figure is given by multiplying rentable area in the whole building by the ratio of common-use space (55%, ratio of joint co-ownership). For TOKYU REIT Toranomon Building, the leased area includes exclusive-use areas jointly owned with another compartmentalized owner, an exclusive area (limited to an area on the second floor) owned by another compartmentalized owner and leased by TOKYU REIT, and exclusive-use areas under proprietary ownership. The figure of Shonan Mall Fill indicates leased area of land.

Note 3. 'Appraisal value at the end of period' is the assessed value based on the appraisal by real estate appraisers following the asset evaluation method, standards, reporting date and rules laid down in the laws and rules of the Investment Trust Association, Japan, (based on the report prepared by Japan Real Estate Institute, HIRO & REAS network, Inc., Jones Lang LaSalle IP, Inc., and Daiwa Real Estate Appraisal Co., Ltd., which adopt the period end date as the date of value estimate).

### Development of Leasing Business of Properties Held by TOKYU REIT

Name of property		7th Fiscal Period From August 1, 2006 to January 31, 2007				6th fiscal period From February 1, 2006 to July 31, 2006				
		Number of tenants	Occupancy ratio	Revenue from property leasing	Percentage of revenue from property leasing	Number of tenants	Occupancy ratio	Revenue from property leasing	Percentage of revenue from property leasing	
			%	Millions of yen	%		%	Millions of yen	%	
Retail	R	QFRONT	4	100.0	¥ 606	9.4	4	100.0	¥ 601	9.6
	R	Lexington Aoyama	2	100.0	169	2.6	2	100.0	164	2.6
	R	TOKYU REIT Omotesando Square	4	100.0	176	2.7	4	100.0	173	2.8
	R	Tokyu Saginuma Building	1	100.0	310	4.8	1	100.0	310	5.0
	R	Tokyu Saginuma 2 Building	1	100.0	65	1.0	1	100.0	65	1.0
	R	TOKYU REIT Shibuya Udagawa-cho Square	2	100.0	171	2.7	2	100.0	168	2.7
	R	Yokohama Yamashita-cho Building	—	—	—	—	—	—	92	1.5
	R	cocoti	16	100.0	711	11.0	16	100.0	697	11.2
	R	CONZE Ebisu	8	100.0	71	1.1	—	—	—	—
		Sub total	38	100.0	2,279	35.3	30	100.0	2,269	36.4
Other	R	Beacon Hill Plaza (Ito-Yokado Noukendai Store)	1	100.0	300	4.6	1	100.0	300	4.8
	R	Shonan mall Fill (Sokochi)	1	100.0	174	2.7	1	100.0	90	1.4
		Sub total	2	100.0	474	7.3	2	100.0	390	6.3
	Total	40	100.0	2,753	42.6	32	100.0	2,660	42.6	
Office	O	Setagaya Business Square	58	98.3	1,266	19.6	57	99.1	1,293	20.7
	O	Tokyu Nampeidai-cho Building	1	100.0	173	2.7	1	100.0	171	2.7
	O	Tokyu Sakuragaoka-cho Building	2	100.0	241	3.7	2	100.0	237	3.8
	O	Tokyo Nissan Taito Building	12	99.0	225	3.5	13	100.0	222	3.6
	O	TOKYU REIT Akasaka Hinokicho Building	5	100.0	149	2.3	5	100.0	148	2.4
	O	TOKYU REIT Kamata Building	4	100.0	274	4.2	4	100.0	273	4.4



○	Resona Maruha Building	3	100.0	787	12.2	3	100.0	788	12.6
○	TOKYU REIT Toranomon Building	6	100.0	453	7.0	6	100.0	448	7.2
○	TOKYU REIT Hatchobori Building	9	99.0	139	2.2	—	—	—	—
	Sub total	100	99.4	3,707	57.4	91	99.7	3,580	57.4
	Total	100	99.4	3,707	57.4	91	99.7	3,580	57.4
	Total	140	99.8	6,460	100.0	123	99.9	¥ 6,239	100.0

Note 1. With respect to 'Number of tenants', this is counted cumulatively, i.e., when one tenant leases plural rooms for rent in the same property, it is regarded as one tenant, and when in plural properties, it is regarded as plural tenants.

Note 2. 'Occupancy ratio' is the percentage of leased areas to rentable area at the end of the period.

Note 3. 'Percentage of revenue from property leasing' is rounded off the second decimal place. Therefore, sum of each item might be not corresponding to figure of 'Total'.

#### (4) Other Assets

As of January 31, 2007, there are no assets targeted for investments other than those described in said above.

### 4. Capital Expenditures for Properties Held

#### (1) Plan of Capital Expenditures

Major capital expenditure for repair and maintenance works of properties held, as scheduled as of January 31, 2007, is as follows: The estimated construction costs shown below includes repair and maintenance costs to be charged to income.

Efficient repair and maintenance plans continue to be prepared for each property to maintain their competitiveness and from the view point of medium- to long-term improvements, as well as for repair and maintenance, and capital expenditure.

Name of property	Objective	Estimated period	Estimated construction cost		
			Millions of yen		
			Total	Amount paid during this period	Amount paid by the end of period
○ TOKYU REIT Hatchobori Building	Set up of air-conditioning equipment	From May 2007 to May 2007	¥ 23	—	—

#### (2) Capital Expenditures made during the Period

Capital expenditures during the current period amounted to ¥ 38 million, and together with ¥ 84 million expenses for repair and maintenance costs, ¥ 122 million was spent for these works.

#### (3) Reserve for Long-Term Repair and Maintenance Plan

##### (Reserve for Repair and Maintenance)

Subject to the mid- and long-term future schedule for repair and maintenance decided for each property, TOKYU REIT accounted for reserves for repair and maintenance from cash flow made during the period in order to pay for significant repair and maintenance plans as follows:

	7th fiscal period From August 1, 2006 to January 31, 2007	6th fiscal period From February 1, 2006 to July 31, 2006	5th fiscal period From August 1, 2005 to January 31, 2006	4th fiscal period From February 1, 2005 to July 31, 2005	3rd fiscal period From August 1, 2004 to January 31, 2005
	Millions of yen				
Reserve at the beginning of the period	¥ 208	¥ 245	¥ 331	¥ 330	¥ 276
Amount transferred to reserve in current period	212	242	108	143	204

Reversal from reserves in current period	149	279	194	142	150
Reserve at the ending of the period	¥ 270	¥ 208	¥ 245	¥ 331	¥ 330

Note TOKYU REIT took over reserves made in the trust assets that the prior proprietor accounted for at the time of trade of beneficial interests in trust accounts and for the current period, such reserves are included in the “amount transferred to reserve in current period”.

## 5. Expenses and debt

### (1) Investment management expenses

	7th fiscal period From August 1, 2006 to January 31, 2007		6th fiscal period From February 1, 2006 to July 31, 2006	
	Millions of yen			
(a) Investment management fees				
Asset-based fees	¥ 282		¥ 262	
Cash-based fees	238		227	
Unit price-based fees	95	¥ 614	230	¥ 718
(b) Asset custodian and general administration fees		60		61
(c) Director's fees		5		5
(d) Other expenses		66		61
Total		¥ 745		¥ 845

### (2) Short-term debt and Long-term debt

Short-term debt and Long-term debt from each financial institution, as of January 31, 2007, are as follows:

Category Lender	Draw-down date	Balance as of January 31, 2007	Balance as of July 31, 2006	Average interest Rate (Note 1)	Maturity date	Re-payment method	Use of funds	Remark
		Millions of yen	Millions of yen	%				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	June 25, 2004	¥ 5,000	¥ 5,000	0.80836	September 25, 2007	Bullet Payment	Refinance fund	Unsecured and Unguaranteed (Note 3)
The Sumitomo Trust and Banking Company, Limited	April 28, 2006	—	700	0.72903	April 28, 2007		(Note 2)	
The Chuo Mitsui Trust and Banking Company, Limited		—	700					
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	700					
Mizuho Corporate Bank, Ltd.		—	700					
Mitsubishi UFJ Trust and Banking Corporation		3,000	4,200					
The Sumitomo Trust and Banking Company, Limited	September 29, 2006	730	—	0.80679	September 28, 2007			
The Chuo Mitsui Trust and Banking Company, Limited		730	—					
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		730	—					
Mizuho Corporate Bank, Ltd.		730	—					
Mitsubishi UFJ Trust and Banking Corporation		4,380	—					
The Sumitomo Trust and Banking Company, Limited	October 31, 2006	1,000	—	0.80707	October 31, 2007			
The Chuo Mitsui Trust and Banking Company, Limited		1,000	—					

	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	—						
	Mizuho Corporate Bank, Ltd.		1,000	—						
	Mitsubishi UFJ Trust and Banking Corporation		1,000	—						
	Sub total		20,300	12,000						
Long-term debt	The Sumitomo Trust and Banking Company, Limited	June 25, 2004	5,000	5,000	1.11625	June 25, 2007	Bullet Payment	Refinance fund	Unsecured and Unguaranteed (Notes 3 and 4)	
	The Norinchukin Bank		4,000	4,000	1.38875	June 25, 2008			Unsecured and Unguaranteed (Note 3)	
	The Hyakugo Bank, Ltd.		1,000	1,000	1.23875				Unsecured and Unguaranteed (Notes 3 and 5)	
	The Chuo Mitsui Trust and Banking Company, Limited		5,000	5,000	1.68875	June 25, 2009			Unsecured and Unguaranteed (Note 3)	
	Mitsubishi UFJ Trust and Banking Corporation		5,000	5,000		1.92750			June 25, 2010	Unsecured and Unguaranteed (Notes 3 and 5)
	Aioi Insurance Company, Limited		1,000	1,000	June 25, 2012				Unsecured and Unguaranteed (Note 3)	
	DAIDO LIFE INSURANCE COMPANY		1,000	1,000						
	Mitsui Sumitomo Insurance Company, Limited		1,000	1,000	October 25, 2011	Unsecured and Unguaranteed (Note 3)				
	Development Bank of Japan		4,000	4,000					2.03000	
	The National Mutual Insurance Federation of Agricultural Cooperatives		October 25, 2005	1,000	1,000	1.26250			October 25, 2011	Unsecured and Unguaranteed (Note 3)
	Development Bank of Japan		January 25, 2006	5,000	5,000	1.95000			January 25, 2018	
	Nippon Life Insurance Company		July 31, 2006	4,000	4,000	1.93000			July 31, 2011	
	The Dai-ichi Mutual Life Insurance Company			4,000	4,000	2.21125			July 31, 2013	
	The Dai-ichi Mutual Life Insurance Company		January 25, 2007	1,000	—	1.92000			January 25, 2014	
	The National Mutual Insurance Federation of Agricultural Cooperatives			3,000	—					
Sub total		45,000	41,000							
Total		¥ 65,300	¥ 53,000							

Note 1. 'Average interest rate' is the weighted average interest rate during the period.

Note 2. Fund was used to purchase property and for expenditure pertaining to the purchase.

Note 3. Depending on the financial position of TOKYU REIT, it is possible that financial restraint may occur, such as addition to interest rate and cash reserve, restraint on acquisition and disposal of assets, debt load and payment, dividends, offerings of additional pledge.

Note 4. As of the fiscal period-end, the amounts are recorded in the balance sheets as "long-term debt financing due within one year" under "current liabilities."

Note 5. Initially, although TOKYU REIT implemented refinance of ¥ 6,000 million from Mizuho Corporate Bank on June 25, 2004, it transferred ¥ 4,000 million to The Hyakugo Bank, Ltd., Aioi Insurance Company, Limited, DAIDO LIFE INSURANCE COMPANY and Mitsui Sumitomo Insurance Company, Limited (¥ 1,000 million each) on the same day.

### (3) Bonds

There was no items that fall under this category.

## 6. Acquisitions and Dispositions during the seventh fiscal period

### (1) Sales and purchases of properties and asset backing securities

Asset type	Name of property		Acquisition		Disposition			
			Acquisition date	Acquisition costs	Disposition date	Transfer price	Book value	Gain (loss) on sale
				Millions of yen		Millions of yen	Millions of yen	Millions of yen
Trust	O	TOKYU REIT Hatchobori Building	September 29, 2006	¥ 7,000	—	—	—	
Real Property	R	CONZE Ebisu	October 31, 2006	5,117	—	—	—	
		Total		¥ 12,117		—	—	

Note 'Acquisition costs' do not include expenditure incurred for acquisition (such as trade agency fee, tax and public duty) and is the transaction cost of the property stated in the sales contract.

### (2) Sales and purchases of other assets

Other major assets, excluding properties above and asset backing securities, are generally deposit with banks and deposit with banks held in trust.

### (3) Research on Prices of Specified Assets

Asset type	Name of property		Acquisition date	Acquisition costs	Research price of specified assets	(Reference only) Appraisal value at the end of period
				Millions of yen		
Trust	O	TOKYU REIT Hatchobori Building	September 29, 2006	¥ 7,000	¥ 7,310	¥ 7,310
Real Property	R	CONZE Ebisu	October 31, 2006	5,117	5,020	5,020
		Total		¥ 12,117	¥ 12,330	¥ 12,330

Note 1. The Investment Trust Law requires Certified Public Accountant or other expert's investigations of real estates and derivative financial instruments when investment trusts or investment corporations acquire or transfer such specified assets. Investigation procedures were conducted by PricewaterhouseCoopers Aarata in accordance with "Investigation of Values of Specified Assets Held by Investment Trust and Investment Corporations", Industry Audit Committee Report No. 23 issued by The Japanese Institute of Certified Public Accountants, and TOKYU REIT received their report which includes methods, results and other items regarding the investigation as shown in above table. The Industry Audit Committee Report requires a practitioner to obtain comparative values for such specified assets from an investment corporation and perform other necessary procedures. Accordingly, this investigation was not an examination, a review or an audit, the objective of which would be the expression of an opinion on the values of such specified assets.

Note 2. 'Acquisition costs' do not include expenditure incurred for acquisition (such as trade agency fee, tax and public duty) and is the transaction cost of the property stated in the sales contract.

Note 3. 'Appraisal value at the end of period' is not based on the research of prices of specified assets, and is attached as reference. Appraisal methods are described in "3. Portfolio Profile (3) Details of Properties in Portfolio, Note 3".

### (4) Trading with related party

#### ① Status of trading

There are no items that fall under the category with respect to trades of specified assets with related parties during the current period.

② Amounts of commissions paid to related parties

Item	Total amounts of commissions paid (A)	Paid to related parties		B/A (%)
		Payee	Amount of payment (B)	
	Thousands of yen		Thousands of yen	
Utilities expenses	¥ 536,345	Shibuya Underground Shopping Center, Inc.	¥ 57	0.0
		Yoga District Heating and Cooling Co., Ltd.	¥ 113,217	21.1
Subcontract expenses	408,813	its communications Inc.	20,065	4.9
		Kyodo Gijutsu Center Co., Ltd.	14,974	3.7
		Tokyu Community Co., Ltd.	245,351	60.0
		Tokyu Facility Service, Co., Ltd.	20,857	5.1
Property management fees	137,788	Tokyu Land Corporation	74,200	53.9
		Tokyu Corporation	63,588	46.1
Insurance premium	17,239	Tokyu Insurance Consulting Co., Ltd.	17,239	100.0
Other rental service expenses	234,855	its communications Inc.	59	0.0
		Shibuya Underground Shopping Center, Inc.	850	0.4
		Tokyu Green System Co., Ltd.	52	0.0
		Tokyu Community Co., Ltd.	4,015	1.7
		Tokyu Facility Service, Co., Ltd.	375	0.2
		Tokyu Land Corporation	3,571	1.5
		TMD Corporation	2,799	1.2
Tokyu Corporation	1,522	0.6		
Other non-operating expenses	11,303	Tokyu Station Retail Service Co., Ltd.	2,800	24.8

Note 1. A related party is one that has a stake in TOKYU REIT and the investment manager, which is under contract with TOKYU REIT under Article 20 of Enforcement Regulation of Investment Trust Law. In addition to these, “(4) Trading with related party” includes wholly owned subsidiaries by said related party as of January 31, 2007. TOKYU REIT paid for commissions to the following parties during the seventh period: its communications Inc., Kyodo Gijutsu Center Co., Ltd., Shibuya Underground Shopping Center, Inc., Tokyu Green System Co., Ltd., Tokyu Community Co., Ltd., Tokyu Station Retail Service Co., Ltd., Tokyu Facility Service Co., Ltd., Tokyu Land Corporation, Tokyu Insurance Consulting Co., Ltd., TMD Corporation, Tokyu Corporation and Yoga District Heating and Cooling Co., Ltd.

Note 2. In addition to the commissions paid described above, TOKYU REIT paid for commissions to third parties through Tokyu Land Corporation and Tokyu Corporation ¥ 30,981 thousand and ¥ 40,355 thousand, respectively.

In addition to commissions paid as described above, the amount paid for repair and maintenance works placed to related parties are as follows (in addition to those, ¥ 1,098 thousand was paid to third parties for repair and maintenance works through Tokyu Community Co., Ltd., a related party):

Tokyu Construction Co., Ltd.	¥ 12,382 thousand
Tokyu Community Co., Ltd.	¥ 4,091 thousand
Kyodo Gijutsu Center Co., Ltd.	¥ 250 thousand
Tokyu Facility Service Co., Ltd.	¥ 1,743 thousand
Tokyu Land Corporation	¥ 696 thousand
Tokyu Corporation	¥ 1,061 thousand
Toyoko Industry Co., Ltd.	¥ 678 thousand

(5) Trading between the investment manager and TOKYU REIT where the investment manager follows other business.

The investment manager (Tokyu Real Estate Investment Management Inc.) does not carry out other business such as Securities Business, Realty Business and Specific Property Joint Undertaking as a Subsidiary Business.

## 7. Accounting

### (1) Assets, Liabilities, Unitholders' capital and Profit/Loss

See accompanying Balance Sheets, Statements of Income, Statements of changes in Unitholders' Equity and Notes.

### (2) Change in depreciation method

There is no item that falls under this category.

### (3) Change in valuation methods

There is no item that falls under this category.

## 8. Others

### (1) News

Engagement of an underwriter for an investment corporation bond offering has been made decisions by the board of directors on October 27, 2006.

#### Outline of Decisions

1. Type of investment bond offering	Domestic unsecured investment corporation bonds (two or more offerings)
2. Upper limit of sum total of each investment offering	Less than ¥50 billion (it can be issued split once or several times under different terms and conditions and issue dates)
3. Issue period	October 27, 2006, to December 4, 2007
4. Outline of information regarding lowest total payments and other payment amounts for TOKYU REIT bond offerings	Nominal par value of each TOKYU REIT bond offering: ¥100 per ¥100 Total value of each TOKYU REIT bond offering: more than ¥100 million
5. Outline of information regarding upper rate limits and other rates of TOKYU REIT bond offerings	Rate in cases of fixed-rate interest: Yen interest swap rate in which the redemption period and remaining period to maturity are equal + 1.0% (annual rate) or less Rate in cases of floating-rate interest: Three- or six-month yen LIBOR + 1.0% (annual rate) or less However, in cases where rates are fixed with interest swap agreements, fixed-rate interest and equivalent or favorable rate applies
6. Property collateral or guarantees	Investment corporation bonds are unsecured, unguaranteed and not subject to any particular reservation
7. Use of net proceeds	Acquisition of specified assets, payment of essential maintenance, operating and management expenses, refund of lease and guarantee deposits, repayment of debt, redemption of corporate bonds, and working capital

### (2) Others

In this report, unless otherwise specifically mentioned, amounts and ratios are rounded.

Report of Independent Auditors

To the Board of Directors of  
TOKYU REIT, Inc.

We have audited the accompanying balance sheets of TOKYU REIT, Inc. (the "Company") as of January 31, 2007 and July 31, 2006, and the related statements of income, changes in unitholders' equity and cash flows for the six months ended January 31, 2007 and July 31, 2006, all expressed in Japanese Yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TOKYU REIT, Inc. as of January 31, 2007 and July 31, 2006 and the results of its operations and its cash flows for the six months ended January 31, 2007 and July 31, 2006 in conformity with accounting principles generally accepted in Japan.

*PricewaterhouseCoopers Aarata*

Tokyo, Japan  
April 25, 2007

**TOKYU REIT, Inc.**  
**Balance Sheets**  
As of January 31, 2007 and July 31, 2006

	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and deposits with banks	¥ 964	¥ 1,914
Cash and deposits with banks held in trust	11,678	11,263
Tenant receivables	131	138
Consumption tax refund receivables	153	-
Other current assets	61	43
<b>Total current assets</b>	12,987	13,358
<b>Fixed assets:</b>		
<b>Property and equipment</b>		
Buildings and structures	3,264	2,246
Land	17,415	13,295
Other tangible assets	13	13
Buildings and structures held in trust	41,191	39,598
Land held in trust	112,481	106,842
Other tangible assets held in trust	961	943
Less accumulated depreciation	(5,368)	(4,422)
Total property and equipment	169,957	158,515
<b>Intangible assets</b>		
Intangible assets	1	-
Intangible assets held in trust	13	14
Total intangible assets	14	14
<b>Investments and other assets</b>		
Lease deposits	106	106
Lease deposits held in trust	874	873
Other assets	57	64
Total investments and other assets	1,037	1,043
<b>Total fixed assets</b>	171,008	159,572
<b>Total assets</b>	¥ 183,995	¥ 172,930

The accompanying notes are an integral part of these financial statements.



**TOKYU REIT, Inc.**  
**Balance Sheets, continued**  
As of January 31, 2007 and July 31, 2006

	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Short-term debt	¥ 20,300	¥ 12,000
Long-term debt due within one year	5,000	5,000
Accounts payable	840	994
Rent received in advance	1,040	988
Accrued expenses and other current liabilities	132	385
<b>Total current liabilities</b>	27,312	19,367
<b>Long-term liabilities:</b>		
Long-term debt	40,000	36,000
Tenant leasehold and security deposits	1,066	862
Tenant leasehold and security deposits held in trust	15,192	14,923
Other long-term liabilities	4	5
<b>Total long-term liabilities</b>	56,262	51,790
<b>Total liabilities</b>	83,574	71,157
 <b><u>NET ASSETS</u></b>		
Unitholders' capital:		
Units authorized - 2,000,000 units		
Units issued and outstanding - 169,380 units as of January 31, 2007 and July 31, 2006	98,019	98,019
Retained earnings	2,402	3,754
<b>Total net assets</b>	100,421	101,773
<b>Total liabilities and net assets</b>	¥ 183,995	¥ 172,930

The accompanying notes are an integral part of these financial statements.

**TOKYU REIT, Inc.**  
**Statements of Income**

For the six months ended January 31, 2007 and July 31, 2006

	For the six months ended	
	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b>Operating revenues:</b>		
Rental revenue	¥ 5,944	¥ 5,745
Gain on sale of property	-	1,637
Other	516	494
<b>Operating expenses:</b>		
Rental service expenses	(2,867)	(2,912)
Asset management fees	(614)	(718)
Other	(131)	(126)
<b>Operating income</b>	2,848	4,120
<b>Non-operating income:</b>		
Interest income	1	0
<b>Non-operating expenses:</b>		
Interest expense	(435)	(345)
Other	(11)	(20)
<b>Income before income taxes</b>	2,403	3,755
Income taxes:		
Current	(1)	(1)
Deferred	(0)	(0)
<b>Net income</b>	2,402	3,754
<b>Retained earnings at beginning of period</b>	0	0
<b>Retained earnings at end of period</b>	¥ 2,402	¥ 3,754

The accompanying notes are an integral part of these financial statements.

**TOKYU REIT, Inc.**  
**Statements of Changes in Unitholders' Equity**  
For the six months ended January 31, 2007 and July 31, 2006

**For the six months ended January 31, 2007**

	Unitholders' capital	Retained earnings	Total
		(Millions of yen)	
<b>Balance at July 31, 2006</b>	¥ 98,019	¥ 3,754	¥101,773
<b>Changes during the period</b>			
Cash distributions declared	-	(3,754)	(3,754)
Net income	-	2,402	2,402
<b>Total changes during the period</b>	-	(1,352)	(1,352)
<b>Balance at January 31, 2007</b>	¥ 98,019	¥ 2,402	¥100,421

**For the six months ended July 31, 2006**

	Unitholders' capital	Retained earnings	Total
		(Millions of yen)	
<b>Balance at January 31, 2006</b>	¥ 98,019	¥ 2,402	¥100,421
<b>Changes during the period</b>			
Cash distributions declared	-	(2,402)	(2,402)
Net income	-	3,754	3,754
<b>Total changes during the period</b>	-	1,352	1,352
<b>Balance at July 31, 2006</b>	¥ 98,019	¥ 3,754	¥101,773

The accompanying notes are an integral part of these financial statements.

**TOKYU REIT, Inc.**  
**Statements of Cash Flows**  
For the six months ended January 31, 2007 and July 31, 2006

	For the six months ended	
	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 2,403	¥ 3,755
Depreciation and amortization	947	941
Loss on disposal of property and equipment	-	29
Decrease in property and equipment due to sale	-	4,811
Interest income	(1)	(0)
Interest expense	435	345
Decrease in tenant receivables	7	1
(Increase) in consumption tax refund receivables	(153)	-
(Decrease) increase in consumption tax payable	(302)	263
(Decrease) increase in accounts payable	(154)	105
Increase (decrease) in rent received in advance	52	(9)
Other, net	(11)	(162)
Total	3,223	10,079
Interest received	1	0
Interest paid	(388)	(348)
Income taxes paid	(1)	(1)
Net cash provided by operating activities	2,835	9,730
<b>Cash flows from investing activities:</b>		
Payments for purchases of property and equipment	(5,138)	(7)
Payments for purchases of property and equipment held in trust	(7,250)	(7,196)
Payments for purchases of intangible assets	(1)	-
Payments for purchases of intangible assets held in trust	-	(2)
Proceeds from tenant leasehold and security deposits	222	1
Payments for tenant leasehold and security deposits	(19)	(1)
Proceeds from tenant leasehold and security deposits held in trust	391	398
Payments for tenant leasehold and security deposits held in trust	(123)	(790)
Payments for restricted deposits with banks held in trust	(391)	(398)
Proceeds from restricted deposits with banks held in trust	123	790
Net cash used in investing activities	(12,185)	(7,205)
<b>Cash flows from financing activities:</b>		
Proceeds from short-term debt	13,872	7,000
Repayment of short-term debt	(5,572)	(7,000)
Proceeds from long-term debt	4,000	8,000
Repayment of long-term debt	-	(8,000)
Payment of dividends	(3,752)	(2,399)
Net cash provided by (used in) financing activities	8,548	(2,399)
Net change in cash and cash equivalents	(802)	126
Cash and cash equivalents at beginning of period	3,466	3,340
Cash and cash equivalents at end of period	¥ 2,664	¥ 3,466

The accompanying notes are an integral part of these financial statements.

**TOKYU REIT, Inc.**  
**Notes to Financial Statements**

For the six months ended January 31, 2007 and July 31, 2006

**1. Organization and basis of presentation**

**(a) Organization**

TOKYU REIT, Inc. ("TOKYU REIT"), a real estate investment corporation with initial capital of ¥200 million, was formed on June 20, 2003 under the Investment Trust and Investment Corporation Law of Japan ("Investment Trust Law"). Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on July 18, 2003 in accordance with the Investment Trust Law.

On September 10, 2003, TOKYU REIT was listed on the Tokyo Stock Exchange and issued 97,600 investment units for proceeds totaling ¥49,918 million through initial public offering. TOKYU REIT had acquired 11 properties with those proceeds and started its substantial operation.

In August 2004, TOKYU REIT completed its second public offering of 42,000 units and third party allotment of 2,000 units. Net proceeds totaling ¥27,743 million were utilized in the partial repayments of short-term loan and acquisition of additional 2 properties.

In August 2005, TOKYU REIT completed its third public offering of 26,700 units and third party allotment of 680 units. With net proceeds totaling ¥20,160 million, TOKYU REIT had repaid short-term debt and acquired 40% of trust beneficiary interest of cocoti .

As at January 31, 2007, TOKYU REIT's total capital has been ¥98,019 million with 169,380 units outstanding. And TOKYU REIT has been operating 19 properties at approximately 99.8% of occupancy rate. Total acquisition cost of those 19 properties is ¥171,737 million and total rentable area is 222,653.08 m<sup>2</sup>.

**(b) Basis of presentation**

The financial statements of TOKYU REIT, which is incorporated in Japan, have been prepared in accordance with the provisions set forth in the Commercial Code of Japan, the Investment Trust Law, the Securities and Exchange Law of Japan ("Securities and Exchange Law") and related regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the financial statements, which were submitted to the Director of the Kanto Local Financial Bureau of the Ministry of Finance, have been reclassified for the convenience of readers outside Japan.

The accompanying financial statements are a translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by TOKYU REIT and were filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. TOKYU REIT does not prepare consolidated financial statements, as TOKYU REIT has no subsidiaries.

TOKYU REIT's first fiscal period began on June 20, 2003, the date of incorporation, and ended on January 31, 2004. TOKYU REIT's fiscal period is a six-month period, which ends respectively at the end of each January and July of each year.

**2. Significant accounting policies**

**(a) Cash and cash equivalents** - Cash and cash equivalents consist of cash, demand deposits, cash and deposits held in trust and short-term investments which are highly liquid, readily

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

convertible to cash and with insignificant risk of price fluctuation, and which expire within three months from the date of acquisition.

- (b) Property and equipment** - Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment, except for land, is computed by using the straight-line method at rates based on the estimated useful lives of the respective assets.

The ranges of useful lives used in the computation of depreciation are generally as follows (including those held in trust):

Buildings and structures	
Buildings .....	2-50 years
Structures .....	2-52 years
Other tangible assets	
Machinery and equipment .....	3-16 years
Tools, furniture and fixtures .....	2-15 years

- (c) Intangible assets** - Amortization is computed by using the straight-line method.
- (d) Income taxes** - Income taxes are accounted for financial reporting purpose. The tax effect of temporary differences between the amount of assets and liabilities for financial statements and for income tax reporting is recognized as deferred taxes. A deferred tax asset of ¥ 19 thousand is included in other current assets as of January 31, 2007 and July 31, 2006, respectively.
- (e) Property-related taxes** - Property-related taxes (property tax, city planning tax and depreciable property tax) are imposed on property on a calendar year basis. The amount of such taxes assessed in the period is charged to income as rental service expenses. In accordance with Japanese business practice, at the time of disposal, the seller of the property is generally liable for property-related taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser of the property for the accrued property-related tax liabilities, and the amount of the settlement reflects this adjustment. TOKYU REIT is allocated the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes totals ¥6 million and ¥31 million for the six months ended January 31, 2007 and July 31, 2006, respectively
- (f) Revenue recognition** - TOKYU REIT operates retail and office properties that are rented to tenants. Revenue from leasing the retail and office space is recognized on an accrual basis over the life of each lease. Rental revenue includes fixed rental revenues, recoveries of utility charges and other income.
- (g) Accounting treatment of beneficiary interest in trust accounts, including real estate**- For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan and through which TOKYU REIT holds all of its property, all accounts of assets and liabilities within the trust, as well as all income generated and expenses incurred from assets in trust, are recognized in the relevant balance sheet and income statement accounts.
- (h) Net income per unit** - Net income per unit is computed by dividing net income by the weighted-average number of units outstanding during each period.
- (i) Accounting standard for impairment of fixed assets** - Effective August 1, 2005, TOKYU REIT adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council in Japan on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003) . The standard requires the recognition of an impairment loss on fixed assets whenever events or changes in circumstances indicate that the carrying amounts of fixed assets may not be recoverable.

**(j) Accounting standard for presentation of net assets in the balance sheet-** Effective for the six months ended July 31, 2006, TOKYU REIT adopted the new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and its implementation guidance (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005). The adoption of these standards didn't have any effect on the TOKYU REIT's financial position.

### 3. Cash and cash equivalents

Cash and cash equivalents, at January 31, 2007 and July 31, 2006 consisted of the follows:

	January 31, 2007	July 31, 2006
(Millions of yen)		
Cash and deposits with banks	¥ 964	¥ 1,914
Cash and deposits with banks held in trust	11,678	11,263
Restricted deposits with banks held in trust	(9,978)	(9,711)
	¥ 2,664	¥ 3,466

Restricted deposits with banks held in trust are retained for repayment of tenant leasehold and security deposits.

### 4. Schedule of property and equipment and intangible assets held in trust

Property and equipment and intangible assets held in trust as of January 31, 2007 and July 31, 2006 consisted of the following:

	January 31, 2007			July 31, 2006		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
(Millions of yen)						
Property and equipment						
Buildings and structures						
Buildings	¥ 3,247	¥ (207)	¥ 3,040	¥ 2,244	¥ (151)	¥ 2,093
Structures	17	(1)	16	2	(1)	1
Land	17,415	-	17,415	13,295	-	13,295
Other tangible assets						
Machinery and equipment	3	(2)	1	3	(1)	2
Tools, furniture and fixtures	10	(2)	8	10	(1)	9
Intangible assets	1	(0)	1	-	-	-
Property and equipment held in trust						
Buildings and structures						
Buildings	40,458	(4,774)	35,684	38,870	(3,947)	34,923
Structures	733	(128)	605	728	(107)	621
Land	112,481	-	112,481	106,842	-	106,842
Other tangible assets						
Machinery and equipment	721	(142)	579	707	(112)	595
Tools, furniture and fixtures	240	(112)	128	236	(102)	134
Intangible assets held in trust	17	(4)	13	17	(3)	14
Total	¥175,343	¥ (5,372)	¥169,971	¥162,954	¥ (4,425)	¥158,529

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

**5. Unitholders' equity**

TOKYU REIT issues investment units in accordance with the Investment Trust Law. All the proceeds from the issuance of new units are designated as stated capital. TOKYU REIT maintains minimum net assets of at least ¥50 million as required by the Investment Trust Law.

**6. Short-term debt and Long-term debt**

Short-term debt and long-term debt as of January 31, 2007 and July 31, 2006 consisted of the following:

	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b>Short-term debt</b>		
Unsecured loans due on September 25, 2007 with floating rate	¥ 5,000	¥ 5,000
Unsecured loans due on April 28, 2007 with floating rate	3,000	7,000
Unsecured loans due on September 28, 2007 with floating rate	7,300	-
Unsecured loans due on October 31, 2007 with floating rate	5,000	-
Sub total	<u>20,300</u>	<u>12,000</u>
<b>Long-term debt</b>		
Unsecured loans due on June 25, 2007 with fixed rate	5,000	5,000
Unsecured loans due on June 25, 2008 with fixed rate	5,000	5,000
Unsecured loans due on June 25, 2009 with fixed rate	10,000	10,000
Unsecured loans due on June 25, 2010 with fixed rate	3,000	3,000
Unsecured loans due on June 25, 2012 with fixed rate	4,000	4,000
Unsecured loans due on October 25, 2011 with fixed rate	1,000	1,000
Unsecured loans due on January 25, 2018 with fixed rate	5,000	5,000
Unsecured loans due on July 31, 2011 with fixed rate	4,000	4,000
Unsecured loans due on July 31, 2013 with fixed rate	4,000	4,000
Unsecured loans due on January 25, 2014 with fixed rate	4,000	-
Sub total	<u>45,000</u>	<u>41,000</u>
Total	<u>¥65,300</u>	<u>¥53,000</u>
Weighed average interest cost	<u>1.42%</u>	<u>1.31%</u>

On April 21, 2005, TOKYU REIT executed commitment line agreements which provided credit facilities totaling 2 billions of yen with two banks. No amount has been drawn down as of January 31, 2007 and July 31, 2006.

**7. Collateral pledged**

The net book value pledged as collateral to secure tenant lease hold and security deposits of ¥4,821 million outstanding as of January 31, 2007 and July 31, 2006 were as follows:

	January 31, 2007	July 31, 2006
	(Millions of yen)	
<b>Property and equipment held in trust</b>		
<b>Buildings and structures</b>		
Buildings	¥ 3,639	¥ 3,732
Structures	152	155
Land	5,586	5,586
<b>Other tangible assets</b>		
Tools, furniture and fixtures	0	0
Total	<u>¥ 9,377</u>	<u>¥ 9,473</u>



**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

**8. Rental revenue and expense**

Rental revenues and expenses for the six months ended January 31, 2007 and July 31, 2006 were as follows:

		For the six months ended	
		January 31, 2007	July 31, 2006
		(Millions of yen)	
Revenue from property leasing:			
Rental revenue:			
Rental revenue		¥ 4,795	¥ 4,604
Common area charges		625	629
Parking lot revenue under monthly contract		136	125
Other		388	387
Sub total		<u>5,944</u>	<u>5,745</u>
Other:			
Incidental income		461	434
Other		55	60
Sub total		<u>516</u>	<u>494</u>
Total revenue from property leasing	(a)	<u>6,460</u>	<u>6,239</u>
Rental service expenses:			
Utilities expenses		536	517
Subcontract expenses		409	409
Property management fees		138	133
Repairs and maintenance expenses		84	76
Property-related taxes		501	517
Insurance premium		17	17
Depreciation and amortization		947	941
Loss on disposal of property and equipment		-	29
Other		235	273
Total rental service expenses	(b)	<u>2,867</u>	<u>2,912</u>
Operating income from property leasing activities	(a)-(b)	<u>¥ 3,593</u>	<u>¥ 3,327</u>

**9. Breakdown of gain on sale of property**

Yokohama Yamashita-cho building was sold on April 26, 2006.

(Millions of yen)	
Revenue from sale of property	¥ 6,480
Cost of property	4,811
Other sales expenses	32
Gain on sale of property	<u>¥ 1,637</u>

**10. Income taxes**

Income taxes in Japan applicable to TOKYU REIT consist of corporate income tax, enterprise tax and inhabitant tax. The following is reconciliation between the statutory income tax rate in Japan and the effective tax rate reflected in the accompanying financial statements for the six months ended January 31, 2007 and July 31, 2006.

	January 31, 2007	July 31, 2006
Statutory income tax rate	39.39%	39.39%
Deductible cash distributions	(39.37)	(39.38)
Other	0.02	0.02
Effective tax rate	<u>0.04%</u>	<u>0.03%</u>

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

TOKYU REIT has a policy of making cash distributions in excess of 90% of distributable income as defined in the Special Taxation Measures Law of Japan ("Special Taxation Measures Law") for the fiscal period to qualify for conditions as set forth in Special Taxation Measures Law to achieve a deduction of cash distributions for income tax purposes. Based on such policy, TOKYU REIT treated the cash distributions as a tax allowable distribution as defined in Special Taxation Measures Law.

**11. Per unit information**

The following table summarizes the net income per unit for the six months ended January 31, 2007 and July 31, 2006 and the unitholders' equity per unit as of January 31, 2007 and July 31, 2006.

	For the six months ended	
	January 31, 2007	July 31, 2006
Net income per unit	¥ 14,182	¥ 22,162
Weighted-average number of units ※1	169,380 units	169,380 units

※1 Average number of units weighed by days in each fiscal period.

	As of January 31, 2007	As of July 31, 2006
Unitholders' equity per unit	¥ 592,879	¥ 600,860

Diluted net income per unit is not presented since no warrants and convertible bonds were issued during the six months ended January 31, 2007 and July 31, 2006.

**12. Leases**

TOKYU REIT leases its properties to tenants under non-cancelable operating leases. As of January 31, 2007 and July 31, 2006, the future lease revenues under the non-cancelable operating leases were as follows:

	January 31, 2007	July 31, 2006
	(Millions of yen)	
Due within one year	¥ 5,639	¥ 5,482
Due after one year	32,697	33,462
Total	¥ 38,336	¥ 38,944

As of January 31, 2007 and July 31, 2006, the future lease payments under the non-cancelable operating leases were as follows:

	January 31, 2007	July 31, 2006
	(Millions of yen)	
Due within one year	¥ 286	¥ 286
Due after one year	2,368	2,511
Total	¥ 2,654	¥ 2,797

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

**13. The financial results of each property (Unaudited)**

Details on the financial results of each property for the six months ended January 31, 2007 and July 31, 2006 were as follows: (Unaudited)

**For the six months ended January 31, 2007**

Name of building	Revenue from property leasing	Property leasing expenses (*1)	NOI (*2)	Depreciation and amortization	Operating income from property leasing activities
Millions of yen					
R QFRONT	¥ 606	¥ 234	¥ 372	¥ 60	¥ 312
R Lexington Aoyama	169	30	139	7	132
R TOKYU REIT Omotesando Square	176	33	143	9	134
R Tokyu Saginuma Building	310	52	258	26	232
R Tokyu Saginuma 2 Building	65	15	50	9	41
R TOKYU REIT Shibuya Udagawa-cho Square	171	19	152	5	147
R Beacon Hill Plaza	300	58	242	96	146
R cocoti (PICASSO347)	711	184	527	165	362
R Shonan Mall Fill (Sokochi)	174	1	173	-	173
R CONZE Ebisu	71	16	55	12	43
O Setagaya Business Square	1,266	537	729	249	480
O Tokyu Nampeidai-cho Building	173	33	140	30	110
O Tokyu Sakuragaoka-cho Building	241	49	192	22	170
O Tokyo Nissan Taito Building	225	72	153	51	102
O TOKYU REIT Akasaka Hinokicho Building	149	39	110	12	98
O TOKYU REIT Kamata Building	274	92	182	52	130
O Resona Maruha Building	787	223	564	62	502
O TOKYU REIT Toranomom Building	453	198	255	41	214
O TOKYU REIT Hatchobori Building	139	35	104	39	65
Total	<u>¥ 6,460</u>	<u>¥ 1,920</u>	<u>¥ 4,540</u>	<u>¥ 947</u>	<u>¥ 3,593</u>

**For the six months ended July 31, 2006**

Name of building	Revenue from property leasing	Property leasing expenses (*1)	NOI (*2)	Depreciation and amortization (*3)	Operating income from property leasing activities
Millions of yen					
R QFRONT	¥ 601	¥ 229	¥ 372	¥ 60	¥ 312
R Lexington Aoyama	164	31	133	7	126
R TOKYU REIT Omotesando Square	173	44	129	12	117
R Tokyu Saginuma Building	310	49	261	27	234
R Tokyu Saginuma 2 Building	65	14	51	9	42
R TOKYU REIT Shibuya Udagawa-cho Square	168	18	150	5	145
R Yokohama Yamashita-cho Building(*4)	92	29	63	37	26
R Beacon Hill Plaza	300	55	245	96	149
R cocoti	697	239	458	163	295
R Shonan Mall Fill (Sokochi)	90	1	89	-	89
O Setagaya Business Square	1,293	540	753	249	504
O Tokyu Nampeidai-cho Building	171	31	140	30	110
O Tokyu Sakuragaoka-cho Building	237	52	185	24	161
O Tokyo Nissan Taito Building	222	71	151	50	101
O TOKYU REIT Akasaka Hinokicho Building	148	35	113	15	98
O TOKYU REIT Kamata Building	272	94	178	52	126
O Resona Maruha Building	788	218	570	64	506
O TOKYU REIT Toranomom Building	448	192	256	70	186
Total	<u>¥ 6,239</u>	<u>¥ 1,942</u>	<u>¥ 4,297</u>	<u>¥ 970</u>	<u>¥ 3,327</u>

**TOKYU REIT, Inc.**  
**Notes to Financial Statements, continued**  
For the six months ended January 31, 2007 and July 31, 2006

- (Note 1) Property leasing expenses are defined as rental service expenses adjusted for depreciation and amortization.
- (Note 2) NOI represents net operating income, calculated as revenue from property leasing minus property leasing expenses.
- (Note 3) Depreciation and amortization for Setagaya Business Square, Resona Maruha Building and TOKYU REIT Toranomom Building include Loss on disposal of property and equipment. (¥28 millions)
- (Note 4) Yokohama Yamashita-cho building was sold on April 26, 2006.

**14. Related party transactions**

Masahiro Horie, who holds no voting units of TOKYU REIT, is executive director of TOKYU REIT and Representative Director & President, Chief Executive Officer of Tokyu Real Estate Investment Management. Tokyu Real Estate Investment Management, Inc. has entered into asset management agreement subject to the conditions set forth in the TOKYU REIT's articles of incorporation with TOKYU REIT. The amount of management fees incurred for the six months ended January 31, 2007 and July 31, 2006 and payable due to asset manager as of then were as follows:

	January 31, 2007	July 31, 2006
	(Millions of yen)	
Asset management fees for the period	¥ 614	¥ 718
Management fees payable due to asset manager	349	480

**15. Distribution information**

The Board of Directors of TOKYU REIT resolved on March 16, 2007 and September 14, 2006 to effect payment of cash distributions of ¥14,182 and ¥22,162 per unit to unitholders of record on January 31, 2007 and July 31, 2006, respectively. Retained earnings carried forward after the distributions are as follows:

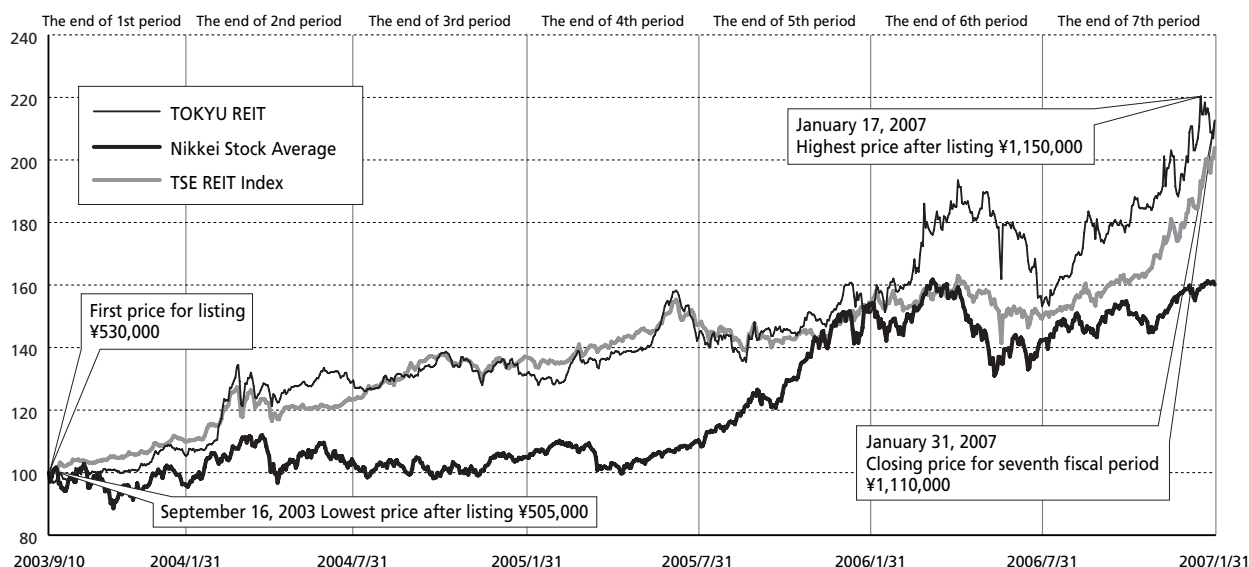
	January 31, 2007	July 31, 2006
	(Millions of yen)	
Retained earnings at end of period	¥ 2,402	¥ 3,754
Cash distributions declared	2,402	3,754
Retained earnings carried forward	¥ 0	¥ 0

**16. Subsequent events**

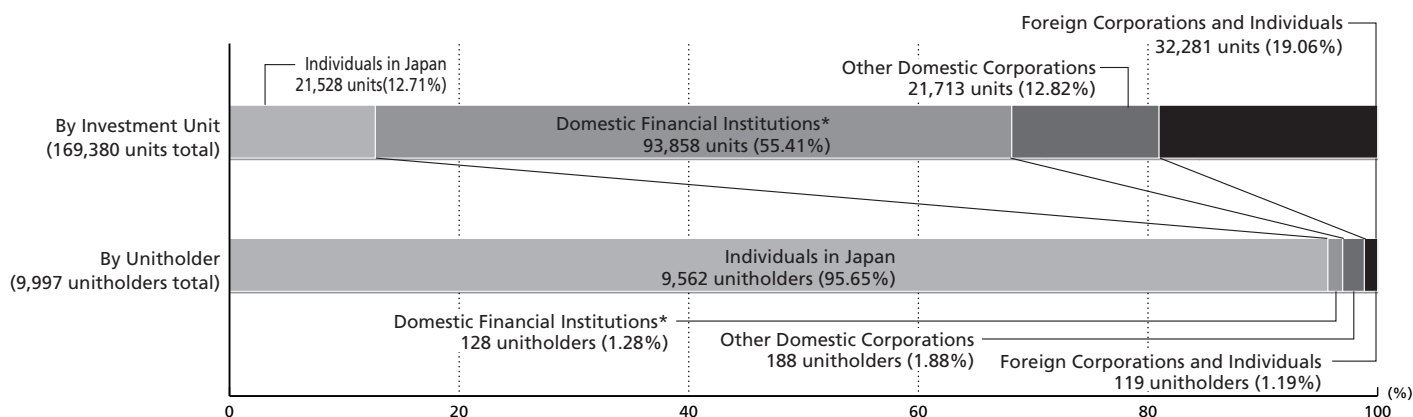
TOKYU REIT is not aware of any circumstances that may have a material impact on TOKYU REIT's financial position after the seventh fiscal period end.

# Unitholder Information

## Unit Price Chart



## Unitholder Composition



\* Securities companies are classified into "Other Domestic Corporations."

## Results Reporting Schedule

	7th Period	8th Period
Date of settlement	Jan. 31, 2007	Jul. 31, 2007
Announcement of results	Mar. 16, 2007	Mid Sep. 2007
Delivery of asset management report	Apr. 12, 2007	Mid Oct. 2007
Payment of dividends	Apr. 13, 2007	Mid Oct. 2007

**Address**

1-12-1 Dogenzaka, Shibuya-ku, Tokyo

**Established**

June 20, 2003

**Executive Director**

Masahiro Horie

**Supervisory Directors**

Giichi Yanagisawa

Maruhito Kondo

**Independent Auditors**

PricewaterhouseCoopers Aarata\*

4-2-8 Shibaura, Minato-Ku, Tokyo

**Date of Settlement**

Annually on January 31 and July 31

**Unitholders' General Meeting**

More than once every two years

**Date for Finalizing General Meeting Voting Rights**

As designated under Article 13 of the by-laws

**Date for Determining Dividend Payments**

Annually on January 31 and July 31

(Dividends paid within three months of each date)

**The Administrator of the Register of Unitholders**

The Mitsubishi UFJ Trust and Banking Corporation

1-4-5 Marunouchi, Chiyoda-ku, Tokyo

**Transfer Agent Head Business Office**

Corporate Agency Division

The Mitsubishi UFJ Trust and Banking Corporation

**Contact · Address**

7-10-11 Higashi-Suna, Koto-ku, Tokyo

Tel: 0120-232-7111 (Toll free Number)

**Transfer Agent Locations**

Nationwide branches of The Mitsubishi UFJ Trust and Banking Corporation

Nationwide head office and branch offices of Nomura Securities Co., Ltd.

**Listing**

Tokyo Stock Exchange (8957)

\*TOKYU REIT has appointed PricewaterhouseCoopers Aarata as its temporary independent auditor at its Board of Directors meeting on July 14, 2006 by resignation of ChuoAoyama PricewaterhouseCoopers (present name: MISUZU Audit Corporation) on July 14, 2006.

**■ Distributions****The Time Limit for Claiming Cash Distributions**

The Articles of Incorporation of TOKYU REIT stipulates that the time limit for claiming cash distributions shall be three years from the date on which payment commenced, at which point the right of unitholders to receive cash distributions that remain unclaimed shall be annulled.

The date on which payment commenced for the first fiscal period (ended January 31, 2004) is on April 28, 2004 and for the second fiscal period (ended July 31, 2004) is on October 19, 2004.

**TOKYU REIT**

**TOKYU REIT, Inc.**  
[www.tokyu-reit.co.jp](http://www.tokyu-reit.co.jp)