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Notice Concerning Acquisition of Property (REVE Nakameguro (land with leasehold interest))

TOKYU REIT, Inc. (“TOKYU REIT”) today announced that its investment management company, Tokyu Real Estate Investment Management Inc. (“Tokyu REIM”), has decided to acquire domestic real estate. Brief details are as follows.

1. Acquisition Details
 - (1) Type of Acquisition: Domestic real estate
(Ownership of land with general fixed-term leasehold)
 - (2) Property Name: REVE Nakameguro (land with leasehold interest)
 - (3) Acquisition Price: ¥1,150 million
(Excluding acquisition-related costs, property tax, city planning tax, etc.)
 - (4) Contract Date: June 22, 2018 (Friday)
 - (5) Scheduled Acquisition Date: September 27, 2018 (Thursday)
 - (6) Seller: A domestic godo kaisha (GK) (please refer to the “4. Seller Profile”)
 - (7) Financing: Cash on hand

2. Rationale

The acquisition of the property (the “Property”) has been decided with an aim to enhance the properties located in the Tokyu Areas, the focused investment areas of TOKYU REIT portfolio, as well as to improve stability and profitability through sponsor collaboration, as the Property satisfies the “Scope and Policy of Investment Management” outlined in the Articles of Incorporation of TOKYU REIT.

The Nakameguro area where the Property stands is highly favored since it offers good access to central Tokyo and houses many IT/apparel offices as well as sophisticated shops and restaurants. In addition, the area is situated in the “Greater Shibuya” area (within a 2.5 km-radius of Shibuya), where Tokyu Corporation, the sponsor, aims to proactively obtain business opportunities going forward as its core measures described in the medium-term business plan announced in March 2018. Furthermore, with plans such as the opening of a new campus of Tokyo College of Music in April 2019, it is an area where further enhancement of value can be expected.

The Property is a land with leasehold interest located about a 4-minute walk from Naka-Meguro Station on the Tokyu Toyoko Line and the Tokyo Metro Hibiya Line; and of the land and building including the land with leasehold interest (“REVE Nakameguro”), the building with a leasehold will be acquired by Tokyu Corporation and the land with leasehold interest by TOKYU REIT as part of collaboration with Tokyu Corporation. We believe that this will contribute to further enhancement of the value of the area as well as to the expansion of the asset size of TOKYU REIT.

Furthermore, long-term stable cash flow can be expected as a result of concluding an agreement on establishment of a 50-year general fixed-term leasehold with Tokyu Corporation along with the conclusion of the purchase and sale agreement of the Property.

TOKYU REIT will continue to conduct investment management while closely monitoring trends in capital and real estate investment markets, all while adhering to its investment policy, and will strive to form a portfolio that leads to an improvement in asset value and growth of net income per investment unit.

3. Property Details

(1) Real Estate Summary

Property Name		REVE Nakameguro (land with leasehold interest)
Type of Specified Asset		Domestic real estate (Ownership of land with general fixed-term leasehold)
Location	Registered	1-202-1 Kamimeguro, Meguro-ku, Tokyo
	Residential	1-13-14 Kamimeguro Meguro-ku, Tokyo
Access		Approximately a 4-minute walk from Naka-Meguro Station, Tokyu Toyoko Line and Tokyo Metro Hibiya Line
Area Classification		Quasi-industrial district
Site/Floor Area (Registered)		497.02 m ²
Type of Ownership		Proprietary ownership
Acquisition Price		¥1,150 million
Appraisal Value		¥1,150 million (effective date of value: June 1, 2018)
		Appraiser: Japan Real Estate Institute
Security/Guarantee		None
Special Items		<p>In the real estate register under the original lot number before the Property's land plot consolidation, registration of a building still exists as of today. Registration for the loss of the building is scheduled to be completed at the responsibility and expense of the seller before the date of acquisition by TOKYU REIT.</p> <p>There is an agreement on preferential negotiation rights in case of disposition between TOKYU REIT and the owner of the building standing on the Property, who is the lessee of the Property.</p>

(Reference) Building Summary

Property name	REVE Nakameguro
Site/Floor Area (Registered)	985.66 m ²
Floor-Area Ratio	199% (200%)
Building Coverage Ratio	62% (70%)
Structure (Registered)	RC, B1/3F
Completion Date (Registered)	January, 2007
Use	Retail and apartment complex

(Note) Figures in parenthesis for floor area ratio and building coverage ratio indicate the standard floor area ratio and standard building coverage ratio, respectively.

(2) Details of leasing

Lessee	Tokyu Corporation
Contract Type	General fixed-term leasehold
Contract Date	June 22, 2018
Contract Period	50-year
Leased Area	497.02 m ²
Annual Land Rent	42 million
Lease Deposits	31 million
Special Items	
Rent Revision	When there is an increase/decrease in the total amount of property tax and city planning tax for the fiscal year preceding the fiscal year which includes the start date of land rent calculation period (from April 1 to March 31 in the following year), the land rent of the relevant fiscal year will be revised in the amount equivalent to the increase/decrease amount.
Early Termination	Neither TOKYU REIT nor the lessee is allowed to terminate the contract early. When the lessee terminates the contract in violation of this provision, the lessee must pay a penalty of the amount equivalent to 12 months' land rent at the time of termination to TOKYU REIT and will be deemed as having waived a right to demand return of the entire deposit. When TOKYU REIT, at the fault of the lessee, incurs damage (including claims from third parties) exceeding the amount of the penalty, loss or expenses (including reasonable attorney fees), the lessee must separately pay for the damage, loss and expenses.

4. Seller Profile

The name and such are not disclosed as consent from the Seller has not been received.

There is no capital relationship, personnel relationship or business relationship to state between TOKYU REIT or its investment management company and the Seller, and the Seller does not fall under the category of related party of TOKYU REIT or its investment management company.

5. Status of Property Acquirers, etc. and Transactions with Interested Persons, etc.

The Property is not an acquisition from a party that has particular vested interest in TOKYU REIT or its investment management company.

(Note) Related parties, etc. includes interested persons, etc. specified in Article 123 of the “Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations” and refers to either of 1. through 3. below.

1. Tokyu Corporation and its subsidiaries (refers to any entity that falls under the following (i) to (iii))

(i) Tokyu Corporation

(ii) A consolidated subsidiary of Tokyu Corporation

(iii) A tokutei mokuteki kaisha (TMK) or special purpose entity (SPE) that was established based on the intention of Tokyu Corporation or a consolidated subsidiary of Tokyu Corporation and where the share of investment by undisclosed associations or other investment shares in that entity by the respective company exceeds 50%.

2. Affiliates within the scope of consolidation of Tokyu Corporation.

3. Tokyu Fudosan Holdings Corporation and its subsidiaries (refers to any entity that falls under the following (i) to (iii)).

(i) Tokyu Fudosan Holdings Corporation (“Tokyu Fudosan Holdings”)

(ii) A consolidated subsidiary of Tokyu Fudosan Holdings

(iii) A tokutei mokuteki kaisha (TMK) or special purpose company (SPC) that was established based on the intention of Tokyu Fudosan Holdings or a consolidated subsidiary of Tokyu Fudosan Holdings and where the share of investment by undisclosed associations or other investment shares in that entity by the respective company exceeds 50%

6. Brokerage

The name, etc. as well as the breakdown and amount of the brokerage fees are not disclosed as consent from the broker, which is a domestic business corporation, has not been obtained.

7. Acquisition Schedule

June 22, 2018	Decision of acquisition
September 27, 2018	Property delivery Payment of acquisition costs

8. Matters Concerning Forward Commitment, Etc.

The acquisition of the Property falls within forward commitments, etc. by investment corporations as defined in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. set forth by the Financial Services Agency. When TOKYU REIT violates agreed matters (including but not limited to provisions of representations and warranties) stipulated in the purchase and sale agreement and such violation results in failure of achieving the purpose of the purchase and sale agreement, the seller may cancel the purchase and sale agreement after notifying the violating party, unless otherwise specified in the purchase and sale agreement. When the purchase and sale agreement of the Property is canceled for reasons attributable to TOKYU REIT, TOKYU REIT must pay a penalty in the amount equivalent to 10% of the purchase/sales price including consumption taxes and local consumption taxes to the seller.

9. Settlement Method

Payment of acquisition costs for the to-be-acquired asset will be made by lump-sum settlement at the time of delivery.

10. Financing Details

TOKYU REIT intends to fund the acquisition of the Property using cash on hand.

11. Outlook

With the acquisition of the Property, operating profit for the thirty-first fiscal period (ending January 31, 2019) is expected to increase by 13 million yen. Therefore, with regard to the forecast of operating conditions announced on March 15, 2018, the acquisition will have no effect on the operating conditions for the thirtieth fiscal period (ending July 31, 2018) and have a minimal effect on the operating conditions for the thirty-first fiscal period (ending January 31, 2019), and thus there will be no change to the forecasts.

12. Property Appraisal Summary

(JPY in thousands) (rounded down to the nearest specified unit)

Property Name: REVE Nakameguro (land with leasehold interest)	Estimation	Notes	
Appraisal Firm: Japan Real Estate Institute			
Effective Date of Value	June 1, 2018	—	
Type of Value	Market value	—	
Appraisal Value	1,150,000	—	
Value Indicated by Income Approach	1,150,000	—	
Value Indicated by Direct Capitalization Method	1,160,000	—	
(1) Operating Revenue (a. –b. –c.)	42,823	—	
a. Potential Gross Income (rental income, etc.)	42,823	Recorded rental income based on the lease agreement	
b. Vacancy Loss	0	Taking into account the status of the lessee, etc., judged that recording of vacancy loss is unnecessary.	
c. Collection Loss	0	Taking into account the status of the lessee, etc., judged that recording of collection loss is unnecessary.	
(2) Operating Expenses (d. +e. +f. +g. +h.)	3,790	—	
d. Building Maintenance Cost	50	Recorded bank charges as expenses for administrative management.	
e. Property Management Fee	600	Property management fee, which is a consignment fee to be paid to the consignor responsible for tenant management/contract management, etc., was assessed considering the level of fees of similar properties, etc.	
f. Property Taxes	land	3,138	Took into account the taxable value and content of burden adjustment measures in documents related to property taxes, etc.
g. Property Insurance		2	Recorded the actual amount.
h. Other Expenses		0	No particular expenses to record as other expenses.
(3) Net Operating Income (NOI) ((1)–(2))	39,033	—	
i. Investment Profits from Refundable Deposits	319	Assessed investment profits from refundable deposits by multiplying the balance of lease deposits based on the lease terms by the investment yield. Considering fund management during the deposit period, assessed the appropriate investment yield as 1.0% taking into account the interest rate levels of both investment and procurement, etc.	
(4) Net Cash Flow (NCF) ((3) +i.)	39,352	—	
(5) Overall Capitalization Rate	3.4%	Assessed overall capitalization rate after taking into account future uncertainties, market cap rates of similar properties, etc. while reflecting spread attributable to the location conditions, contract conditions and other conditions (right relationship of the land, etc.) of the subject property, in addition to standard capitalization rates of different areas set by Japan Real Estate Institute.	
Value Indicated by DCF Method	1,150,000	—	
Discount Rate	3.2%	—	
Terminal Capitalization Rate	3.4%	—	
Value Indicated by the Right Ratio Method	1,100,000	—	
Vacant Land Value	1,380,000	—	
Discount Rate	80%	—	
Reconciliation before Arriving at the Value Conclusion	Deeming the value indicated by income approach that accurately replicates the pricing process from earnings aspects as more credible, employed the value indicated by income approach.		

The above appraisal value conclusion is a value opinion as of the effective date of value, indicated by the licensed real estate appraiser in conformity with the Japanese Real Estate Appraisal Act and Real Estate Appraisal Standards. A reappraisal of the same property could result in another value if it were carried out either by a different appraiser, with different methods, or at a different time. This appraisal does not guarantee or assure, at present or in the future, any sales transactions at the concluded value.

Attachments

1. Property Portfolio after Acquisition (as of September 27, 2018)
2. Photograph of REVE Nakameguro
3. Location Map of REVE Nakameguro

Attachment 1

Property Portfolio after Acquisition (assumption figure as of September 27, 2018)

(rounded down to the nearest specified unit)

Use	Property Name	Area	Acquisition Date	Acquisition Price(million yen)	Ratio(%) ^{*8}	Appraisal Value at End of 29th Fiscal Period (million yen)
R	QFRONT	Central Tokyo and Tokyu Areas (Shibuya)	September 10, 2003	15,100	6.7%	28,500
R	Lexington Aoyama	Central Tokyo	September 11, 2003	4,800	2.1%	5,470
R	TOKYU REIT Omotesando Square	Central Tokyo and Tokyu Areas	September 10, 2003	5,770	2.6%	7,880
R	TOKYU REIT Shibuya Udagawa-cho Square	Central Tokyo and Tokyu Areas (Shibuya)	March 1, 2004	6,600	2.9%	12,400
R	cocoti	Central Tokyo and Tokyu Areas (Shibuya)	April 6, 2005 *1 August 2, 2005 *2	14,700 9,800	10.9%	21,000
R	CONZE Ebisu	Central Tokyo and Tokyu Areas	October 31, 2006	5,116	2.3%	4,940
R	Daikanyama Forum	Central Tokyo and Tokyu Areas	April 22, 2008	4,136	1.8%	3,440
R	KALEIDO Shibuya Miyamasuzaka	Central Tokyo and Tokyu Areas (Shibuya)	August 16, 2013	5,150	2.3%	7,340
	Retail Properties Total			71,172	31.7%	90,970
O	Setagaya Business Square	Tokyu Areas	September 11, 2003	22,400	10.0%	18,700
O	Tokyu Nampedai-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	4,660	2.1%	6,900
O	Tokyu Sakuragaoka-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	6,620	2.9%	9,440
O	Tokyo Nissan Taio Building	Central Tokyo	September 11, 2003	4,450	2.0%	5,410
O	TOKYU REIT Akasaka Hinokicho Building	Central Tokyo	September 10, 2003	3,570	1.6%	4,410
O	TOKYU REIT Kamata Building	Tokyu Areas	September 10, 2003	4,720	2.1%	5,240
O	TOKYU REIT Toranomom Building	Central Tokyo	December 15, 2004 *3 September 21, 2007 *4 September 21, 2007 *5 October 26, 2007 *6 January 21, 2015 *7	8,630 1,100 200 140 107	4.5%	10,800
O	Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building)	Central Tokyo	January 31, 2008	8,500	3.8%	7,250
O	Tokyu Ikejiri-ohashi Building	Tokyu Areas	March 28, 2008	5,480	2.4%	5,830
O	Kojimachi Square	Central Tokyo	March 19, 2010	9,030	4.0%	8,840
O	TOKYU REIT Shinjuku Building	Central Tokyo	March 26, 2010	9,000	4.0%	11,300
O	Akihabara Sanwa Toyo Building	Central Tokyo	October 29, 2010	4,600	2.0%	6,150
O	TOKYU REIT Kiba Building	Other	October 29, 2010	4,000	1.8%	4,020
O	Tokyu Ginza 2-chome Building	Central Tokyo	February 15, 2011	5,010	2.2%	5,030
O	TOKYU REIT Shibuya R Building	Central Tokyo and Tokyu Areas (Shibuya)	August 16, 2013	5,270	2.3%	9,180
O	Tokyu Toranomom Building	Central Tokyo	August 16, 2013 January 9, 2015	15,000 1,850	7.5%	19,800
O	TOKYU REIT Shinjuku 2 Building	Central Tokyo	October 30, 2015	2,750	1.2%	2,930
O	Tokyu Bancho Building	Central Tokyo	March 24, 2016	12,740	5.7%	14,200
	Office Properties Total			139,827	62.2%	154,530
C	Maison Peony Tonisudaigaku	Tokyu Areas	November 15, 2017	1,200	0.5%	1,200
	Complex Properties Total			1,200	0.5%	1,200
L	Shonan Mall Fill (land with leasehold interest)	Other	April 28, 2006	6,810	3.0%	6,490
L	OKI System Center (land with leasehold interest)	Other	March 27, 2013	4,530	2.0%	5,170
L	REVE Nakameguro (land with leasehold interest)	Tokyu Areas	September 27, 2018	1,150	0.5%	1150 ^{*9}
	Land Total			12,490	5.6%	12,810
	Total			224,689	100.0%	259,510

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

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

*3 Floor area: 9,688.59 m²; Interest of site rights: 73,585/100,000

*4 Floor area: 865.14 m²; Interest of site rights: 8,579/100,000

*5 Floor area: 139.93 m²; Interest of site rights: 1,322/100,000

*6 Floor area: 93.93 m²; Interest of site rights: 1,166/100,000

*7 Floor area: 95.06 m²; Interest of site rights: 1,464/100,000

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

*9 Appraisal value at the end of the fiscal period for REVE Nakameguro is the appraisal value with June 1, 2018 as the effective date of value.

*10 The PML for the entire portfolio above based on earthquake risk assessment reports prepared by Engineering and Risk Services Corporation is 3.8%. PML (Probable Maximum Loss) refers to the expected damages caused by earthquakes. Although there is no single authoritative definition of PML, it refers to the percentage of expected damages caused by a small-to large-scale earthquake that may happen within the next 475 years to the replacement value. Calculations also include data relating to individual property surveys, assessment of building conditions, conformity to architectural design, ground conditions of the relevant site, surveys of local areas and structural evaluation.

*11 As for use, properties owned by Tokyu REIT are categorized into R (retail property), O (office property), C (complexes) and L (land with leasehold interest).

Attachment 2

Photograph of REVE Nakameguro



Attachment 3

Location Map of REVE Nakameguro



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