

Jun 10, 2016

R&I Affirms A+, Stable: Tokyu REIT, Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Tokyu REIT, Inc.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Tokyu REIT, Inc. (TRE) is a real estate investment trust which became a listed fund in September 2003. TRE invests mainly in office buildings and retail facilities located in Tokyo's five central wards and in areas along Tokyo rail lines. Tokyu Corp. serves as TRE's sponsor.

Under its strategy of making investment in competitive properties located in areas with growth potential, TRE has created a portfolio consisting of relatively high quality properties. All of its assets are located in the Greater Tokyo area, and many of them are concentrated in Shibuya, the sponsor's home base.

In February 2016, TRE announced a reciprocal sale and purchase with the sponsor. TRE agreed with the sponsor to dispose of its two aging assets including "Tokyu Saginuma Building (Fullel Saginuma)" and acquire "Tokyu Bancho Building", a relatively new office building located in central Tokyo. Furthermore, TRE completed the disposition of "TOKYU REIT Hatchobori Building", an aging property with an unrealized loss, in May. Benefiting from the strong real estate market, the REIT is working to rejuvenate and improve the quality of its portfolio.

As of April 2016, the occupancy rates of office buildings and retail facilities are both high, at 98.3% and 100%, respectively. Thanks to the rising occupancy rates, as well as renewal of lease contracts with higher rents and reductions of free-rent contracts, rent income is growing gradually. Going forward, earnings will likely decline temporarily because of the exit of a large tenant, but overall earnings are expected to continue recovering.

The LTV ratio is kept at conservative levels, staying below 45%. Since the term-end appraisal value was about 14% higher than the book value as of end-January 2016, unrealized gains expanded further.

The funding environment remains favorable. TRE's debt is mainly comprised of long-term fixed-rate borrowings with the average remaining term to maturity exceeding 4 years (as of end-January 2016). Due dates are staggered, and the amount of annual repayment is kept within a committed line of credit of 18 billion yen.

The Rating Outlook is Stable. The occupancy rate of the entire portfolio is at high levels, and rents are also recovering. In addition to support from the highly-creditworthy sponsor, TRE's conservative financial policy and solid funding base should underpin the rating. To expand asset size further will be a medium to long-term challenge. Since earnings from its properties are broadly stable, concern is limited at present.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:

ISSUER: Tokyu REIT, Inc. (Sec. Code: 8957)
Issuer Rating
RATING: A+, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	Oct 22, 2012	Oct 21, 2022	JPY 3,000

RATING: A+, Affirmed

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

RATING: A+, Affirmed

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

RATING: A+, Affirmed