



Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Affirms 'A/A-1' Rating On Tokyu REIT; Outlook Stable

Tokyo, Dec. 14, 2006 – Standard & Poor's Ratings Services today affirmed its 'A' long-term and 'A-1' short-term corporate credit ratings on Tokyu REIT Inc. (TRE). The outlook on the long-term rating remains stable.

The affirmation reflects TRE's relatively strong business position and conservative financial policy. The trust has a portfolio of very well-leased office and retail buildings. TRE's asset manager, Tokyu Real Estate Investment Management, has two sponsors, Tokyu Corp. (BBB-/Stable/--) and Tokyu Land Corp. (not rated). TRE is pursuing a business model focused on owning very high quality (although potentially low NOI yield based on portfolio purchase price) office and retail buildings in central Tokyo and areas along the Tokyu Railway network, supported by its sponsors' strong real estate expertise and brand recognition through its railway, retail, and hotel businesses.

TRE has a conservative capital structure, and above average financial flexibility. These strengths are partly offset by concerns regarding tenant and property concentration risk and the relatively weaker profitability measures compared with its peers, such as ROA, NOI yield, and EBITDA margin.

As of the end of July 2006, TRE owned a portfolio of 17 office buildings and retail buildings with a total purchase price of ¥159.6 billion. The portfolio consists of eight office buildings, eight retail buildings, and one piece of land with fixed-term leasehold for commercial use ("*sokochi*"). Office buildings account for 49% of the portfolio, while the retail buildings, including the land ownership, account for 51% of the portfolio. TRE replaced a property in the portfolio by selling Yokohama Yamashitacho Building for ¥6.5 billion in March 2006 and acquiring the land for Shonan Mall Fill for ¥6.8 billion. In addition, TRE acquired Sigma Hatchobori Building for ¥7 billion and Conze Ebisu for ¥5.1 billion, bringing the total value of the portfolio to ¥171.7 billion.

TRE's strategy is to invest 60% in offices and 40% in retail properties. Geographically, its strategy is to invest 85% or more in central Tokyo and the area along the Tokyu railway network. As of the end of July 2006, the average portfolio occupancy rate was 99.9%, generating stable cash flow.

The portfolio has a degree of tenant concentration risk, as Maruha (Not Rated) contributed about 10.0% of the portfolio's annual rent income as of July 31, 2006. There is also a degree of asset concentration risk in the portfolio, with cocoti comprising 15.3% of the total portfolio value, followed by Resona Maruha building, 14.6%, and Setagaya Business square, 14.0%. However, this asset concentration risk is offset by prime locations, high occupancy rates, stable cash flows, and properties' unique competitive positions in their respective submarkets. Both tenant and asset concentration risks are expected to decline modestly over time, as TRE acquires more properties.

TRE aimed to enlarge its portfolio to ¥200 billion by January 2007. However, in response to a more heated real estate market, the company reset the target to ¥300 billion over the medium to long term, although it has not specified a target year. TRE has achieved 27% growth annually so far, which is almost on par with its peers.

In the sixth six-month fiscal period (ended July 31, 2006), TRE posted total revenue of ¥6.2 billion, a real estate sales gain of ¥1.6 billion, and net income of ¥3.8 billion. The ratio of interest bearing debt, including security deposits and Hoshokin liabilities, to the sum of interest bearing debt and shareholders equity according to Standard and Poor's definition, stood at 36.8% as of July 31, 2006. TRE's management expects to maintain a conservative capital structure, with a loan-to-value ratio averaging between 35%-45%, with a maximum of 50%. To fund future property acquisitions, TRE anticipates a strategy of timely equity issues to stabilize its leverage, as illustrated by its two public equity issues since it was listed on the market.

The trust's cash flow protection is solid, with an EBITDA interest coverage ratio, based on currently low financing costs, of about 15x in the sixth fiscal period. The ratio of funds from operations (FFO) to debt stood at 11.6%. Portfolio profitability is relatively low compared with its peers, with an ROA of 4.3% for the first six fiscal periods, reflecting the higher quality of its portfolio assets and low acquisition cap rates.

TRE's liquidity at hand is adequate, with long- and short-term credit available to meet the company's near-term debt maturities as well as expand its portfolio. As of July 31, 2006, TRE had approximately ¥13.2 billion in cash, deposits and cash equivalents, and ¥2 billion of commitment lines, sufficient to cover immediate operating expenses including security deposits and Hoshokin liabilities. TRE's financial flexibility is considered high, reflecting its established bank relationships with 14 financial institutions in Japan, from which it borrows on an unsecured basis only. Of its 17 assets, only Beacon Hill Plaza is encumbered as collateral for its Hoshokin liability, but this represents only 5.8% of total NOI.

The outlook is stable. TRE's high-quality asset portfolio should provide a stable income stream and sustainable (although comparatively low) profitability, despite the current tenant and asset concentration. TRE is expected to maintain its conservative financial profile and high quality assets. Although the company's leverage and debt coverage measures may vary as its portfolio grows, average financial measures are expected to remain in the moderate range indicated.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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