

Jun 07, 2017

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 (J-REIT) 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 areas along Tokyu rail lines. Tokyu Corp. serves as TRE's sponsor.

Under a basic policy of investing in highly competitive properties in areas with strong 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 the sponsor's home base of Shibuya.

No new investment has been made for the past year. The asset size is 222.3 billion yen on an acquisition price basis. In April 2017, TRE's Articles of Incorporation and its asset manager's management guideline were partially changed. The changes were aimed to expand investment opportunities by partially relaxing criteria on use, investment size, etc., with the basic policy maintained. TRE intends to continue to acquire competitive properties in cooperation with the sponsor.

The average occupancy rate for the fiscal period ended January 2017 was 97.2%. Although a large tenant vacated Setagaya Business Square, the occupancy rate of the building is expected to recover by July 2017 because the majority of vacant sections have been/will be occupied by new tenants. The rent level is gradually rising with upward rent revisions at lease renewals, especially with office tenants. A tenant is scheduled to move out from Tokyu Toranomon Building, but finding new tenants will not be so difficult since the building is relatively new and located in central Tokyo.

The LTV ratio is kept at conservative levels, standing at 42.5% as of January 2017. The appraisal value was 16.7% higher than the book value as of end-January 2017, thereby resulting in a further increase in unrealized gains.

The funding environment remains favorable. TRE's debt is mainly comprised of long-term fixed-rate borrowings, and the average remaining term to maturity is as long as 3.7 years as of January 2017. Due dates are staggered, and the amount of annual repayment is kept within a committed line of credit of 18 billion yen. Financial costs are declining, and expected to fall further given the funding environment in recent months.

The Rating Outlook is Stable. The occupancy rate of the entire portfolio is at high levels, and the rent level is also recovering. In addition to support from the highly-creditworthy sponsor, TRE's conservative financial policy and solid funding base should underpin the rating. While a further expansion of the asset size is a medium to long-term challenge, there is little concern about it at this moment since earnings from its properties are broadly stable.

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