

Rating Action: TOKYU REIT, Inc.

Moody's confirms TRE's rating; outlook negative

Tokyo, April 21, 2009 -- Moody's Investors Service has confirmed the issuer and senior unsecured long-term debt ratings of A2 of TOKYU REIT, Inc. ("TRE"). The ratings outlook is negative. This concludes the review initiated on January 15, 2009.

The ratings confirmations reflect Moody's view that TRE can limit the impact of the worsening environment on its credit quality, because of stable cash flows from a highly competitive portfolio as well as conservative debt management.

The negative outlook reflects Moody's concerns that TRE's flexible financial policy may be stressed, due to tightening funding conditions and the stagnant equity market, which have led to a worsening funding environment for the J-REIT sector.

TRE's portfolio is focused on central Tokyo, in accordance with TRE's investment policy; thus, 72% (based on acquisition prices) of properties are located in Tokyo's five central wards, 92% in Tokyo's five central wards and Tokyu Rail network areas. Moody's believes that any cash flow volatility risk during this economic downturn is limited, as (1) it holds many highly competitive office properties with a scarcity premium in their submarkets, and (2) the retail properties, many of which are in Shibuya, are competitive in terms of tenant attractiveness and their leases stipulate affordable rents.

TRE's ratio of debt to total assets (including "released deposits" -- tenant deposits that can be used for temporary liquidity) is roughly 47%. TRE intends to keep its LTV (calculated as the sum of interest-bearing debt plus security deposits, divided by the sum of its acquisition prices, or appraisal value) between 30% and 50%. Moody's is concerned that TRE's already conservative financial policy may be stressed, given the high debt ratio relative to its historical leverage. However, the company's share price, as indicated by PBR (price to book value ratio), is higher than that of many other listed J-REITs, which partly mitigates Moody's concern. Also, TRE had not purchased many properties in recent years and thus still has high unrealized gains (appraisal value minus purchase price) in its portfolio for the J-REIT sector.

Long-term debt represents approximately 89% of its total debt and funding terms are long for the J-REIT sector. Moody's expects TRE to implement measures to enhance liquidity (including commitment lines), which is limited at this point. However, Moody's is concerned that TRE's flexible financial policy may also be stressed by tighter funding conditions, such as rising borrowing costs and shorter loan terms in an environment in which financial institutions are growing increasingly reluctant to extend loans to J-REITs.

Moody's previous rating action on TRE took place on January 15, 2009, when the agency initiated a review of the company's issuer and senior unsecured long-term debt ratings of A2 for a possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report, "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moody.com.

TOKYU REIT, Inc. is a J-REIT and focuses on investing in and managing retail and office properties. Its operating revenue for the fiscal half-year that ended in January 2009 was approximately JPY 7.6 billion.

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