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Notice Concerning Acquisition (Meguro Higashiyama Building) of Domestic Real Estate

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

1. Acquisition Details

Property Name	Meguro Higashiyama Building
Location	1-4-4, Higashiyama, Meguro-ku, Tokyo
Acquisition Price	¥8,100 million (Excluding acquisition-related costs, property tax, city planning tax, etc.)
Seller	Domestic company (Please refer to “5. Seller Profile”)
Brokerage	Yes
Decision of Acquisition	March 17, 2022
Contract Date	March 17, 2022
Acquisition Date	March 24, 2022
Payment of Acquisition Costs	March 24, 2022

2. Rationale

TOKYU REIT strives to improve the quality of its portfolio, taking into consideration trends in the capital market and real estate investment market as well as the growth potential of the portfolio's cash flow in the medium to long term. The Acquisition will be conducted as part of these efforts in accordance with the "Scope and Policy of Investment Management" as outlined in the Articles of Incorporation of TOKYU REIT.

The Nakameguro area, in which Meguro Higashiyama Building (the "Asset to Be Acquired") is located, is a flourishing area with many offices of IT, apparel and entertainment companies as well as restaurants and such.

The Asset to Be Acquired is a highly visible office building facing Yamate-dori Avenue and located approximately a six-minute walk from Naka-meguro Station on the Tokyu Toyoko Line and Tokyo Metro Hibiya Line. With a total rentable area of 6,152.43 m², it is exceptionally large for an office building in the Nakameguro area. While the building is 27 years old, it is well maintained, receiving appropriate large-scale renovation work such as the replacement of air-conditioning equipment and lighting. In addition, a medium to long term increase in value of the Asset to Be Acquired can be expected thanks to its location in a priority investment target area of TOKYU REIT and in Greater SHIBUYA (Note 1), in which redevelopment led by Tokyu Group is under way.

The NOI yield for the latest one year calculated by excluding special factors based on estimated rent level and occupancy rate as of the acquisition date is 3.8%, and stable profit contribution over the medium to long term is expected.

TOKYU REIT judged the Acquisition would further stabilize cashflow and increase total returns (Note 2).

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

(Note 1) Within a 2.5-km radius of Shibuya Station

(Note 2) Total income comprising income returns (rental income, etc.) and future capital returns (sale income) of each fiscal period.

3. Details of Asset to Be Acquired

Property Name		Meguro Higashiyama Building
Type of Specified Asset		Domestic real estate
Location	Registered	Land: 1-1316-1, 1-1318-1, 1-1318-2, 1-1318-3, 1-1318-4, 1-1319-1, 1-1319-2, 1-1319-3, 1-1319-4, Higashiyama, Meguro-ku, Tokyo Building: 1-1316-1, 1-1318-1, 1-1318-2, 1-1318-3, 1-1318-4, 1-1319-1, 1-1319-2, 1-1319-3, 1-1319-4, Higashiyama, Meguro-ku, Tokyo
	Residential	1-4-4, Higashiyama, Meguro-ku, Tokyo
Access		Approximately a six-minute walk from Naka-meguro Station on the Tokyu Toyoko Line and Tokyo Metro Hibiya Line
Use		Office
Area Classification		Commercial district
Site/Floor Area (Registered)	Land:	1,572.38 m ²
	Building:	8,540.29 m ²
Structure (Registered)		SRC/S/RC, 8F
Completion Date (Registered)		March 1995
Design Company		Azusa Sekkei Co., Ltd.
Construction Company		Mitsui Construction Industry Co., Ltd.
Inspection Authority		Tokyo Metropolitan Government
Earthquake Resistance		PML (Probable Maximum Loss) of 5.0% is based on the earthquake risk assessment (detailed) report prepared by Engineering and Risk Services Corporation and OYO RMS Corporation (as of February 22, 2022). PML 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 factors and structural evaluation.
Type of Ownership	Land:	Proprietary ownership (Note 1)
	Building:	Compartmentalized Ownership (Note 2)
Acquisition Date		March 24, 2022
Acquisition Price		¥8,100 million
Appraisal Value	¥8,330 million (effective date of value: February 1, 2022)	
	Appraiser: Japan Real Estate Institute	
Building Assessment Reporter		Tokio Marine dR Co., Ltd.
Date of Building Assessment Report		February 21, 2022
Property Management Company		TOKYU CORPORATION
Security/Guarantee		TOKYU REIT has no plan to pledge collateral after the acquisition.
Special Items		<ol style="list-style-type: none"> 1. The current owner has been granted subsidies for an energy-saving promotion business from the Environmentally Symbiotic Housing Promotion Council. If the property is to be transferred, etc. during a period of 10 years from March 31, 2016, the approval of the Environmentally Symbiotic Housing Promotion Council is required. This is relevant in this case as TOKYU REIT is inheriting the position of the seller. 2. An area of the boundary between the property and an adjoining property has not been confirmed with that property's owner, but there is a boundary confirmation agreement with part of the co-owners of that property. The applicable Legal Affairs Bureau has filed a land survey map for both properties.

Special Items	<p>3. As part of the site was sold as project land for a city planning road, the building has become a non-conforming building and therefore may not be in accord with building laws and regulations. In particular, the building's floor area ratio is at approximately 570% while the designated floor area ratio is 500%, so it is possible that the building may not maintain its current size upon reconstruction.</p> <p>4. A previous owner had conducted a soil contamination survey for the land. The results showed that the land's elution of fluorine and cyanide exceeding the standard level. In acquiring the property, TOKYU REIT commissioned Tokio Marine dR Co., Ltd. to conduct a soil contamination risk survey. The company reported that the groundwater was not found to be used for drinking and that there is thought to be little health risk as the ground surface is covered.</p> <p>5. There is a remaining registration of a building which no longer exists on the land. Procedures for registration of loss of property is currently underway and is scheduled to be completed by the day before the delivery of the property.</p> <p>6. Malfunction of an exhaust fan in the rooftop elevator machine room has been found, but this is scheduled to be resolved by the day before the delivery of the property at the seller's expense and responsibility.</p> <p>7. An outdoor advertisement permit for a first-floor tenant's outdoor advertisement could not be confirmed, but the situation is scheduled to be resolved at the seller's expense and responsibility by the end of April 2022 by ensuring that the outdoor advertisement is not in violation of any laws.</p>					
Lease Details	Total Number of Tenants	11				
	Assumed Total Rental Income	¥420 million a year				
	Lease Deposits and Guarantee Deposits	¥306 million				
	Estimated NOI	¥310 million a year				
	Estimated NOI after Depreciation	¥275 million a year				
	Total Leased Area	4,742.40 m ²				
	Total Rentable Area	6,152.43 m ²				
	Occupancy Rate	77.1 %				
	Occupancy Rates over the Last Five Years	As of January 31, 2018	As of January 31, 2019	As of January 31, 2020	As of January 31, 2021	As of January 31, 2022
	86.5 %	100.0 %	100.0 %	93.9 %	77.1 %	
<p>(Note 1) A part of the southwest side of the subject land (Approximately 100.86 m²) is used for passage as a road based on Article 42, Paragraph 2 of the Building Standards Act (Paragraph 2 road).</p> <p>(Note 2) All compartmentalized ownership of the building is scheduled to be acquired.</p> <p>*The total number of tenants, total leased area, lease deposits/guarantee deposits, and occupancy rate are as of the end of January 2022.</p> <p>*Assumed total rental income, Estimated NOI and Estimated NOI after depreciation are the estimated annual figure excluding special factors from the revenue and expenditure of the acquisition fiscal year (not the forecast figure for the current fiscal period) and are based on the following assumptions.</p> <p>(1) Total rental income is the estimated figures of total income from the property based on an expected annual average occupancy rate (95.7%) as of the acquisition date (March 24, 2022).</p> <p>(2) Taxes and public dues are projected to be the same amount as the fiscal 2021 assessment amount.</p> <p>(3) Repairs and maintenance expenses are calculated based on expected figures assumed for the next one-year period.</p>						

4. Property Appraisal Summary

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

Property Name: Meguro Higashiyama Building	Estimation	Notes
Appraisal Firm: Japan Real Estate Institute		
Effective Date of Value	Feb. 1, 2022	-
Type of Value	Market Value	-
Appraisal Value	¥8,330,000	The value indicated by the income approach
Value Indicated by Income Capitalization Approach	¥8,330,000	The same weight on both the value indicated by the direct capitalization method and that by the DCF method.
Value Indicated by Direct Capitalization Method	¥8,380,000	-
(1) Operating Revenue (a.-b.)	¥441,137	-
a. Potential Gross Income (rental income, common area charges income, utilities reimbursement, etc.)	¥467,566	The stabilized rent and common area maintenance charges, which were based on the current rents and the market rent/CAM charges
b. Vacancy Loss	¥26,429	The stabilized occupancy rate, which was based on the past occupancy rate of the subject property and its future prediction as well as the occupancy rate of similar properties in the local market
(2) Operating Expenses (c.+d.+e.+f.+g.+h.+i. +j.)	¥112,994	-
c. Building Maintenance Cost	¥32,400	The characteristics of the subject property, its previous years' numbers, and the maintenance cost of similar properties
d. Utilities Expenses	¥20,590	The previous years' numbers of the subject property and its occupancy rate of rentable space
e. Repair Expenses	¥12,495	The past figures of the subject property in addition to its future management plan, the cost levels of similar buildings, and the annual average repair/replacement costs in the available engineering report of the subject property.
f. Property Management Fee	¥9,232	The characteristics of the subject property and the management fees of similar properties as well as the previous years' numbers of the subject property
g. Tenant Solicitation Expenses, etc.	¥2,994	The annual average amount of the subject property based on the expected turnover rate of tenants
h. Property Taxes	¥34,211	Estimated taxes payable based on the subject property's taxable assessed value, which is listed in its property tax information, and its tax increment limit
i. Property Insurance	¥446	The subject property's current premiums and those of similar properties
j. Other Expenses	¥626	The actual figure of the subject property
(3) Net Operating Income (NOI) ((1)-(2))	¥328,143	-
(4) Investment Profits from Refundable Deposits	¥3,839	(The outstanding deposit amount based on the stabilized security deposit and occupancy rate) x (An invested yield of 1.0% per annum)
(5) Capital Expenditure	¥30,230	We assumed that a constant amount for capital expenditures would be set aside on a yearly basis considering the building age of the subject property, typical annual expenditures of similar properties, and the amount of repair/replacement expenditures estimated in the engineering report.
(6) Net Cash Flow (NCF) ((3)+(4)-(5))	¥301,752	-
(7) Overall Capitalization Rate	3.6%	-
Value Indicated by DCF Method	¥8,280,000	-
Discount Rate	3.3%	-
Terminal Capitalization Rate	3.6%	-
Value Indicated by Cost Approach	¥8,200,000	-
Ratio of Land Value	90.0%	-
Ratio of Building Value	10.0%	-
Reconciliation before Arriving at the Value Conclusion	We placed the most emphasis on the value indicated by the income capitalization approach, which we judged better reflects the actual price formation process in the commercial real estate market. We used the value indicated by the cost approach for reference only.	

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

5. Seller Profile

The name of the company, etc., have not been disclosed as the seller have not provided consent. There is no capital relationship, personnel relationship or business relationship to state between TOKYU REIT or Tokyu REIM and said domestic company, and said seller is not a related party of TOKYU REIT or Tokyu REIM.

6. Status of Property Acquirers, Etc.

The Asset to Be Acquired is not an acquisition from a party that has particular vested interest in TOKYU REIT or Tokyu REIM.

7. Transactions with Interested Persons, Etc.

As the property management of Meguro Higashiyama Building is to be outsourced to TOKYU CORPORATION, which is categorized as a Related Party (Note) under TOKYU REIM's self-imposed Rules on Related-Party Transactions, upon implementing the procedures in accordance with the Rules on Related-Party Transactions, TOKYU REIT shall enter into a property management agreement upon acquisition of the property by TOKYU REIT as the condition precedent. As for the property management fees, a written opinion has been acquired from Urban Research Institute Corporation that confirms that the compensation is in line with the general level of fees paid by other investment corporations, etc., listed on the Tokyo Stock Exchange.

With respect to the transaction with a related party, etc., outlined above, multiple checks have been conducted based on the Rules on Related-Party Transactions, and based on the above results, they have been approved by TOKYU REIT's board of directors.

(Note) Related Party includes Interested Persons, etc., as defined in Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations, as well as any entity that falls under the following (1) to (3):

(1) Tokyu Corporation and its subsidiaries (any entity that falls under the following);

- Tokyu Corporation;
- A consolidated subsidiary of Tokyu Corporation;
- 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 silent partnership 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 (any entity that falls under the following);

- Tokyu Fudosan Holdings Corporation (“Tokyu Fudosan Holdings”);
- A consolidated subsidiary of Tokyu Fudosan Holdings;
- 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 silent partnership or other investment shares in that entity by the respective company exceeds 50%.

8. Settlement Method, Etc.

Payment of acquisition costs for the Asset to Be Acquired will be conducted at time of delivery for the property.

9. Financing Details

TOKYU REIT intends to fund the Acquisition using borrowings and cash on hand.

(Note) For details, please refer to “Notice Concerning Short-Term Debt Financing” separately announced today.

10. Outlook

Please refer to “FINANCIAL REPORT FOR THE FISCAL PERIOD ENDED JANUARY 2022” announced today for details of forecasts for the fiscal period ending July 2022 and the fiscal period ending January 2023.

Attachments

1. Property Portfolio after the Acquisition and the disposition of Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building) (assumption figure as of March 31, 2022)
2. Photograph of Meguro Higashiyama Building
3. Location Map of Meguro Higashiyama Building

Attachment 1

Property Portfolio after the Acquisition and the disposition of Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building) (assumption figure as of March 31, 2022)

Use	Property Name	Area	Acquisition Date	Acquisition Price (million yen)	Ratio(%) *1	Appraisal Value at the end of January 2022 (FP37) (million yen)
Retail	QFRONT	Central Tokyo and Tokyu Areas (Shibuya)	September 10, 2003	15,100	6.5%	37,000
	Lexington Aoyama	Central Tokyo	September 11, 2003	4,800	2.1%	6,300
	TOKYU REIT Omotesando Square	Central Tokyo and Tokyu Areas (Shibuya)	September 10, 2003	5,770	2.5%	8,460
	TOKYU REIT Shibuya Udagawa-cho Square	Central Tokyo and Tokyu Areas (Shibuya)	March 1, 2004	6,600	2.9%	12,800
	cocoti	Central Tokyo and Tokyu Areas (Shibuya)	April 6, 2005 *2	14,700	10.6%	24,200
			August 2, 2005 *3	9,800		
	CONZE Ebisu	Central Tokyo and Tokyu Areas (Shibuya)	October 31, 2006	5,116	2.2%	5,320
	TOKYU REIT Shimokitazawa Square	Tokyu Areas	April 26, 2019	2,257	1.0%	2,280
TOKYU REIT Jiyugaoka Square	Tokyu Areas	October 1, 2019 *4	1,548	1.4%	3,610	
		March 4, 2020 *5	1,611			
Retail Total				67,303	29.2%	99,970
Office	Tokyu Nampo-dai-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	4,660	2.0%	7,570
	Tokyu Sakuragaoka-cho Building	Central Tokyo and Tokyu Areas (Shibuya)	September 11, 2003	6,620	2.9%	11,800
	Tokyo Nissan Taito Building	Central Tokyo	September 11, 2003	4,450	1.9%	6,270
	TOKYU REIT Kamata Building	Tokyu Areas	September 10, 2003	4,720	2.0%	5,760
	TOKYU REIT Toranomon Building	Central Tokyo	December 15, 2004 *6	8,630	4.4%	14,000
			September 21, 2007 *7	1,100		
			September 21, 2007 *8	200		
			October 26, 2007 *9	140		
			January 21, 2015 *10	107		
	Tokyu Ikejiri-ohashi Building	Tokyu Areas	March 28, 2008	5,480	2.4%	6,350
	Kojimachi Square	Central Tokyo	March 19, 2010	9,030	3.9%	10,200
	TOKYU REIT Shinjuku Building	Central Tokyo	March 26, 2010	9,000	3.9%	13,400
	Akihabara Sanwa Toyo Building	Central Tokyo	October 29, 2010	4,600	2.0%	6,400
	Tokyu Ginza 2-chome Building	Central Tokyo	February 15, 2011	5,010	2.2%	6,510
	TOKYU REIT Shibuya R Building	Central Tokyo and Tokyu Areas (Shibuya)	August 16, 2013	5,270	2.3%	10,000
	Tokyu Toranomon Building	Central Tokyo	August 16, 2013	15,000	7.3%	22,200
			January 9, 2015 *11	1,850		
	TOKYU REIT Shinjuku 2 Building	Central Tokyo	October 30, 2015	2,750	1.2%	3,240
	Tokyu Bancho Building	Central Tokyo	March 24, 2016 *12	12,740	6.0%	15,700
			March 28, 2019 *13	1,040		
TOKYU REIT Ebisu Building	Central Tokyo and Tokyu Areas (Shibuya)	August 1, 2018	4,500	2.0%	4,910	
Shibuya Dogenzaka Sky Building	Central Tokyo and Tokyu Areas (Shibuya)	March 28, 2019	8,100	3.5%	8,670	
OKI Business Center No.5	Central Tokyo	September 28, 2020	11,900	5.2%	12,700	
TOKYU REIT Shibuya Miyashita Koen Building	Central Tokyo and Tokyu Areas (Shibuya)	March 29, 2021	6,000	2.6%	6,070	
Aoyama Oval Building	Central Tokyo and Tokyu Areas (Shibuya)	December 10, 2021	18,600	8.1%	18,800	
Meguro Higashiyama Building	Tokyu Areas	March 24, 2022	8,100	3.5%	8,330	
					*14	
Office Total				159,597	69.2%	198,880
Residence	Maison Peony Toritsudaigaku	Tokyu Areas	November 15, 2017	1,200	0.5%	1,350
	STYLIO FIT Musashikosugi	Tokyu Areas	January 20, 2021	1,500	0.7%	1,610
Residence Total				2,700	1.2%	2,960
Land with Leasehold Interest	REVE Nakameguro (land with leasehold interest)	Tokyu Areas	September 27, 2018	1,150	0.5%	1,150
Land with Leasehold Interest Total				1,150	0.5%	1,150
Total				230,750	100.0%	302,960

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

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

- *3 Details of the 40% portion of trust beneficiary interests acquired under quasi-co-ownership.
- *4 Details of the 49% portion of trust beneficiary interests acquired under quasi-co-ownership.
- *5 Details of the 51% portion of trust beneficiary interests acquired under quasi-co-ownership.
- *6 Floor area: 9,688.59 m²; Interest of site rights: 73,585/100,000
- *7 Floor area: 865.14 m²; Interest of site rights: 8,579/100,000
- *8 Floor area: 139.93 m²; Interest of site rights: 1,322/100,000
- *9 Floor area: 93.93 m²; Interest of site rights: 1,166/100,000
- *10 Floor area: 95.06 m²; Interest of site rights: 1,464/100,000
- *11 Details of the contiguous land (251.91 m²) additionally acquired on January 9, 2015.
- *12 Details of the 49% portion of trust beneficiary interests acquired under quasi-co-ownership.
- *13 Details of the 3.6% portion of trust beneficiary interests acquired under quasi-co-ownership.
- *14 Appraisal value with February 1, 2022 as the effective date of value.

Attachment 2

Photograph of Meguro Higashiyama Building



Attachment 3

Location Map of Meguro Higashiyama Building



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 pressure, 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.