



TOP REIT, Inc.



Withdrawal of Early Termination Notice and Agreement on the
Rent Revision with Ito-Yokado Co., Ltd.

Ito-Yokado Higashi-Narashino Store

August 31, 2007

- I. Contents of Memorandum of Understanding
- II. Process of the Negotiation
- III. Evaluation of Memorandum of Understanding
- VI. Forecast Operating Results for the Third and Fourth Fiscal Periods
- V. Outline of Ito-Yokado Higashi-Narashino Store

I Contents of Memorandum of Understanding

Withdrawal of Early Termination Notice from Ito-Yokado

- Ito-Yokado withdraws the notice of early termination dated February 22, 2007.
- Top REIT agrees to such withdrawal.

Agreement on the Rent Revision

Rent = Fixed Rent (minimum rent) + Sales-Based Rent

Adopt Sales-based Rent Scheme (Change in method of rent calculation)

Confirm minimum rent until the maturity of the lease agreement

Agree on Reduction in the fixed rent (Revised on August 1, 2007)
Share the plan and information to maximize property value (Business plan for the site, the annual results of sales and the number of customers who visited the site)

	Before Revision	After Revision
Fixed Annual Rent	JPY725,307,120	JPY471,449,628 (revised on August 31, 2007)
Sales-Based Rent	N/A	The sales-based rent is the amount obtained from multiplying the excess over a specific amount of annual sales generated during a period from March to February of the following year from the lots directly operated by Ito-Yokado by a specific rate. The sales-based rent will not accrue before February 2008 and can accrue from March 2008.
Leased Area		51,098.42㎡
Deposit and Guarantee		Deposit:JPY1,135mn, Guarantee: JPY1,320mn (as of July 31, 2007)
Maturity of the Lease		November 30, 2014
Rent Renewal	3-year regular review	Terms and conditions of the rent system including method of calculation of the fixed rent and the sales-based rent shall not change until November 30, 2014, the maturity of the lease agreement.
Prohibition of Early Termination		a. Termination is prohibited for the first thirteen years (until November 30, 2007) regardless of reasons therefore b. Even after the period set forth in a., early termination is prohibited unless continuation of the agreement is impracticable for unavoidable reasons.
Other Issues		Ito-Yokado should bear utilities costs and routine management expenses.
	N/A	Top REIT is entitled to request Ito-Yokado to give a reasonable explanation of its business plan for the site rented by it. Ito-Yokado shall submit to Top REIT the annual results of the sales and the number of customers.

II. Process of the Negotiation - 1

Key Factors Considered in Acquiring the Property

Acquired on June 30, 2006 (Seller: Nippon Steel Welding Products & Engineering; Trustee: Chuo Mitsui Trust and Banking)

- **Location** : A market-potential assessment was conducted by an outside expert, that concluded the following
 - Market volume is standard for a suburban area;
 - The building is a store in a rather small commercial area due to lack of bordering a wide thoroughfare ;
 - Located in a stiff competitive area, but the store is competitive because of sufficient parking spaces etc.
- **Rent:**
 - Expected reduction in rent compared to the rent at the time of acquisition.
- **Purchase Price:**
 - Purchase price was calculated based on the return calculated after taking into consideration rent reduction, the results of the location assessment and the analysis of the real estate market condition.

Until Receiving the Early Termination Notice

《After acquisition》 **Ito-Yokado** / **TOP REIT** Exchanged a opinion with each other, to build a relationship between the two parties

October 2006

Ito-Yokado Requested a substantial reduction in rent due to slump in business of the store



TOP REIT Claimed that the request is far beyond reality and therefore unable to start negotiations. Requested a reconsideration of the rent reduction request

December 2006

Ito-Yokado Requested a substantial rent reduction in writing



TOP REIT Explained in writing that according to the lease agreement, the rent revision can be justified to reflect the change in the economic environment or taxation etc. Requested reconsideration of a substantial rent reduction and continuation of negotiations

Commenced three-party talks including the Property Manager Nippon Steel City Produce; "NSCP"

February 2007

Ito-Yokado Submitted an early termination notice (requesting early termination on February 29, 2008)

II. Process of the Negotiation - 2

Actions taken after Receiving Early Termination Notice

Policy

- ① Carefully confirm and review early termination notice
- ② Consider countermeasures including subsequent tenants soliciting

Negotiations with Ito-Yokado

Top REIT

- Written declaration of intent to:
 - Claim that there is no cause for withdrawal (unavoidable circumstances) stipulated under the lease agreement
 - Request materials evidencing poor performance at individual stores
 - Explain again about willingness to continue negotiations of rental rate revisions in good faith

Top REIT & Ito-Yokado

Continuing negotiations about revisions to the rent

Countermeasure Strategy

Top REIT & NSCP

- Working with NSCP as PM to draw up a floor plan, and schedule in case of Ito-Yokado evacuating from the store

Top REIT

- Preparing countermeasures including legal action

Top REIT and Ito-Yokado Mutually Agreed to Enter into a Memorandum of Understanding

❑ **Ito-Yokado withdraws the notice of early termination**

❑ **Agreement on the rent revision**

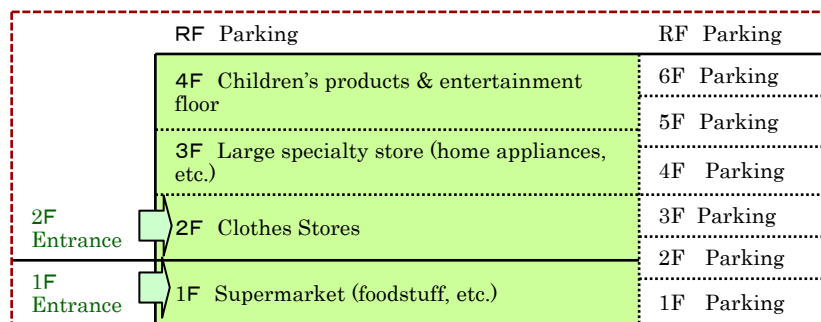
- 1) Introduction of sales-based rent (change in rent calculation method);
- 2) Determination of the new fixed-rate rent (reduction to rent before revision);
- 3) Minimum rent system (confirmed minimum rent until the maturity of the lease agreement);
- 4) Share the plan and information to maximize property value, such as the business plan for the site, the annual results of sales and the number of customers who visited the site)

III. Evaluation of Memorandum of Understanding

Evaluation of terms of agreement (1): Comparison with multiple-tenant scheme (as a result of tenant replacement)

- After receiving the early termination notice, Top REIT carried out a review of tenant replacement (from single tenant to multiple tenants) in cooperation with the PM company (Nippon Steel City Produce, Inc.). Sample floor plan for multiple-tenant scheme is indicated in the table below.
- As a result of preliminary calculations, NOI after rent reduction (in the case where the sales-based rent is zero) is approximately JPY 386 mill. (after consideration of property taxes and city planning taxes) and the NOI yield is approximately 4.3%. **Top REIT concluded that the NOI after rent reduction is highly likely to exceed the NOI after tenant replacement.**
- Top REIT concluded that the following risks are significant when it carries out tenant replacement:
Leasing risk and cash-flow fluctuation risk*
***Unlike the single tenant scheme, in the multiple tenant scheme, Top REIT will bear utilities and routine management expenses, which leads Top REIT to higher exposure to cost fluctuation risks.**
- In the multiple tenant scheme, Top REIT would bear the following additional costs:
Running costs during the period when there are no tenants, and costs for renewal construction that accrue at the time of tenant replacement

(unit: Million Yen)



	Before Agreement	After this Agreement (Preliminary calculation on the premise that sales-based rent = 0) (Expenses: 2 nd period results are converted to annual basis and property taxes and city planning taxes are added)
Rental income	725	471
Rental expenses	85	85
NOI	640	386
NOI/Acquisition price	7.2%	4.3%

Evaluation of terms of agreement (2): Introduction of sales-based rent/floor-based rent system

- Top REIT and Ito-Yokado agree to introduce a combination of fixed-rate rent and sales-based rent and **the fixed rate rent shall be the minimum rent with the condition of minimum rent***). **As a result of introduction of the sales-based rent, pursuing upside potential has become possible.**
- *While the tenant may claim rent decrease pursuant to the Article 32 of the Land Lease and House Lease Law, rent reduction risks are limited due to the condition of minimum rent.

Evaluation of terms of agreement (3): Sharing of measures to maximize property value

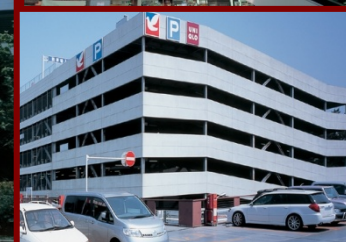
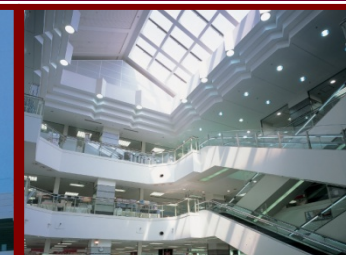
- It is stipulated in the memorandum of understanding that Top REIT is entitled to receive from Ito-Yokado the store plans, sales results and results of the number of customers visited the site.
- Top REIT believes that appropriate recognition of the situation of store operations in a timely manner, regular talks with the tenant, and sharing of measures **to maximize the value of the property as a commercial facility would be helpful to further increase of value of the property.**

IV Forecast Operating Results for the Third and Fourth Fiscal Periods

The forecast operating results for the fiscal period ending October 2007 remain unchanged

Item	Third Fiscal Period May 1, 2007 – Oct 31, 2007	Fourth Fiscal Period Nov 1, 2007 – Apr 30, 2008	Second Fiscal Period Results Nov 1, 2006 – Apr 30, 2007	Reference only (Normalized First Fiscal Period Results) ÷ 245 Days × 365 Days ÷ 2
Period of Asset Management (days)	184	182	181	182.5
Operating Revenue	¥4,698mn	¥4,634mn	¥4,526mn	¥4,037mn
Operating Expenses	¥2,584mn	¥2,509mn	¥1,878mn	¥1,610mn
Property Expenses (Excluding Depreciation)	¥1,113mn (Tax & Public Dues: ¥492mn)	¥1,049mn (Tax & Public Dues: ¥433mn)	¥515mn (Tax & Public Dues: 0)	¥485mn (Tax & Public Dues: 0)
Depreciation	¥926mn	¥931mn	¥873mn	¥730mn
Operating Income	¥2,113mn	¥2,125mn	¥2,647mn	¥2,427mn
Ordinary Income	¥1,644mn	¥1,628mn	¥2,324mn	¥2,034mn
Net Income	¥1,643mn	¥1,627mn	¥2,323mn	¥2,033mn
Number of Units Issued	155,000	155,000	155,000	155,000
Dividend per Unit	¥10,600	¥10,500	¥14,992	¥13,116
NOI(Rental)	¥3,584mn	¥3,585mn	¥4,010mn	¥3,551mn
FFO	¥2,569mn	¥2,559mn	¥3,197mn	¥2,763mn
Assumptions	Number of Properties Assumed:11 Total Number of Units Outstanding: 155,000 Outstanding Debt : ¥54.3bn after refinancing 54.4bn on June 29, 2007 Non-Operating Expenses 3 rd Fiscal Period ¥496mn (Interest Paid ¥428mn) 4 th Fiscal Period ¥497mn (Interest Paid ¥455mn)		Number of Properties:11	Number of Properties: 8

V Outline of Ito-Yokado Higashi-Narashino Store



Address	7-3-1 Higashi Narashino, Narashino, Chiba
Acquisition Price	8.9 billion yen
Site Area and Floor Space	29,854. ⁵⁷ m ² / 45,338. ³⁷ m ²
Floors and structure	1 basement floor, 4 floors above ground reinforced concrete flat Floor
Completion	October 1994
Title	Ownership

- Located approximately 30km east of central Tokyo, Higashi-Narashino is a typical suburban residential area neighboring Funabashi City (west), Yachiyo City (north) and the Hanamigawa Ward of Chiba City (east).
- Having a total sales-floor area of about 17,000m² comprised of the directly operated Ito-Yokado store and specialty shops, the property is the typical size of Ito-Yokado suburban stores and serves the community market. The property has parking for over 1,100 vehicles, and boasts sufficient competitiveness as a suburban store. Anchored by Ito-Yokado's store, the shopping center also secures specialty stores for daily life such as UNIQLO, Daiso and Shinseido.

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