Q&A Session at Explanatory Meeting for Investors and Analysts
for the 18th Fiscal Period Ended July 31, 2012
Held on September 14, 2012 (Summary)

[Q&A]

<Questioner A>

(Question A-1) Concerning future office tenant movements, are vacating movements heading towards settling down? Or is a state in which a conservative perspective must be taken, including also the incurrence of free-rent, likely to still continue? Please describe recent tenant movements.

(Answer) The movements of tenants vacating properties have been settling down for our portfolio. Vacant compartments are becoming occupied at a faster pace and free-rent also has been decreasing compared to six months ago.

Concerning leasing, the thinking has been that the Great East Japan Earthquake would cause progress in polarization of office needs and properties that are inferior in terms of location and specifications to struggle. We thus have been stating that, in the case of our portfolio, it is expected to take time to attract tenants for Kiba Eitai Building and TOKYU REIT Kamata Building that are located in areas other than the five central Tokyo wards (18 wards). In reality, the attracting of tenants is progressing even for these properties from the beginning of summer. Even if not located in the five central Tokyo wards, properties that are close to a station or have favorable specifications have been confirmed to be leasing at a faster pace.

The risk of tenants vacating properties is thought to be lower. Long tenancy is a characteristic of our tenants. Long-term lease tenants are fond of the property on the one hand, but because the amortization of interior equipment when moving into the property has progressed, the hurdle of vacating the property is lower on the other hand. That is thought to be a negative factor in the market deterioration phase and caused vacating to stand out. In contrast, the contract cancellation rate has decreased to about 50% over the past five years. From this, we believe that, with progress in tenant replacements, it will continue to settle down.

Renovation investment is also thought to be a factor that drove the favorable turn in occupancy. Renovations were conducted immediately for not only TOKYU REIT Toranomon Building but also for the Kamata and Kiba properties that were mentioned earlier and that ended up presenting itself in the form of attracting tenants. In addition, in the operating aspect, too, the investment management company itself injected capital and human resources to individually visit potential tenants that were selected through telemarketing and make other efforts to tap customers. We will continue to advance leasing activities by enhancing competitiveness through renovations and marketing.

(Question A-2) In the section on selling policy on page 24 of the presentation material, the statement "prioritize properties to be sold" was newly added. Is it correct to understand this as a step further being taken than before? Also, for what sort of properties is the priority high?

(Answer) Not a step further considering that the replacement of properties is something we have incorporated into our strategy right from the start in the Surf Plan that we have announced. To proceed to sell properties in the phase when the market has recovered is something we consistently keep in mind in order to enhance the competitiveness of our portfolio and it is a restatement of that. The properties for which priority is high to sell are those with old building age or single-tenant risk and other properties out of the portfolio that have inferior quality in terms of location or specifications. We intend to replace these with properties of higher quality.

<Questioner B>

(Question B-1) I would like to inquire about property acquisitions. It is stated on page 24 that there were properties under consideration in the 18th fiscal period. How far in detail did talks go? Also, can we place our anticipations on the sponsor pipeline?

(Answer) As we have outlined the status of property considerations in the 18th fiscal period on also page 100 of the data book, we reviewed information on slightly over 30 office and retail properties and pursued talks, with confidentiality agreements in place, for more than five properties. In that process, there were properties that were no longer for sale due to a price discrepancy, we ended up forgoing due to location, due diligence found the value failed to reach 4 billion yen and such. There was also the case of another company getting the property. As a result, unfortunately none led to acquisitions in the 18th fiscal period.

Furthermore, concerning the sponsor pipeline, it is a discussion of the pros and cons and we pursue it when there is such a case. Tokyu Corporation also plans to make substantial investment in Shibuya. We think that, under their balance sheet policy, there will come a time when there will be a situation in which our active part is anticipated.

<Questioner C>

(Question C-1) I would like to inquire about property acquisitions. What sort do you plan to buy hereafter? What is the type and size of the properties that are actually under consideration?

(Answer) As to date, in the case of office properties, we will proceed to focus on properties that are close to a station in the five central Tokyo wards or Shinagawa Ward. In the case of retail properties, we will proceed to decide on a case-by-case basis while eyeing such factors as highly bustling areas if an urban retail property and the growth potential of the trade area if a suburban retail property. In any case, you can assume that the area will be pretty much limited to Tokyo and Kanagawa. We will also continue to stick to at least 4 billion yen in size. We have no intentions of approaching properties that are far from a station or properties that have drawbacks just because they are generating somewhat high yields now. These could turn out to be a problem in the end. We will continue to adhere firmly to our initial investment policy.

We are in fact currently considering properties in the categories mentioned. However, it is too early to announce at this stage.

(Question C-2) I would like to inquire about the thinking on Setagaya Business Square. Earlier, there was talk on polarization in the current office market. What is the positioning of this property? By this I mean, for example, that even the largest tenant uses no more than slightly over 10% of the floor area of this building and so there are diversification effects, or there is the risk of foreign tenants vacating the building, or the per-tsubo rent is slightly high and so it will weigh down a certain degree upon replacement. Or is it somewhat rated highly for location and so you are not all that concerned? What is the thinking on Setagaya Business Square, including that over the medium term?

(Answer) Our portfolio's dependence on Setagaya Business Square or dependence on certain tenants of Setagaya Business Square was a really major issue at the time of the IPO. Nine years has passed and such dependence has decreased largely. One is that our portfolio size has grown by 2.5 times since listing. Another is that a major tenant returned considerable floor area due in part to its integration of operations. These resulted in improvement in the initial dependence with it decreasing to one-eighth of the impact. These go to show that there have been diversification effects for both the entire portfolio and Setagaya Business Square.

It was a building with many foreign tenants to begin with, but the relocation or decreased floor area of foreign tenants has resulted in Japanese and foreign tenants balancing out as well. What remains unchanged is Setagaya Business Square's so-called "advancement strategy." First tenants occupy the hills building that has small compartments and then tenants move to the tower building as their operations expand. Tenants then advance from occupying half a typical floor of the tower building to occupying one floor and then further to renting several floors. The story continues even today. The pattern of tenants growing fond of the property and increasing their floor area continues. In our product lineup, however, there is a big difference in the area of the hills building and the tower building and there are not many compartments in between. We intend to work on this point to draw in promising tenants. As there have recently been increasing cases of small- and medium-sized offices being converted into residential space, we would like to capture office relocation needs associated with use changes in the Setagaya area and along the Denentoshi Line through enrichment of our product lineup.

Another difference from the time of our listing is redevelopment of Futako Tamagawa. The Futako Tamagawa / Yoga / Sangenjaya area is gaining recognition for offices. It was a standalone state with only Setagaya Business Square in the past, but this has been resolved.

(Answer by Portfolio Management Division I General Manager)

For Setagaya Business Square, large buildings located slightly away from central Tokyo, such as Tennozu, Shinagawa Seaside and Nakano-sakaue, are targets of comparison. While these properties are in a harsh state overall, unlike these areas, Setagaya Business Square's is not one where there is fierce competition and there is thus not much drop in rent. Rent is rather high (In compare with the same degree scale building that is located in the other areas), but tenants are satisfied from the environmental aspect and relation to where employees reside. Going forward, a growing issue will be segregation with Futako Tamagawa, where the construction of buildings, including offices, is scheduled in the second phase of construction work.

[Supplementary Explanation]

To supplement overall, we would like to touch upon the room for internal growth. You hear talks of other companies having very limited room for internal growth, meaning that growth is limited to external growth through property acquisitions. In our case, the occupancy rate at the end of the 20th fiscal period will be 95.3%. Consequently, the upside in growth may be taken to be the equivalent of vacancies of 4.7%, but looking at the occupancy rate on a rent basis rather than on an area basis shows that the room for growth is much greater.

47% of our portfolio's leasable area is suburban retail properties. Since the suburban retail properties are fully occupied, even if vacancies arise in the high-rent segments, such as urban retail properties and office properties, the overall occupancy rate seems high. The occupancy rate on an area basis of 95.3% is about two points lower when converted into the occupancy rate on an earnings basis. Accordingly, if vacancies in high-rent urban retail properties and office properties become occupied, then we can expect corresponding greater growth in terms of earnings than the level of improvement in occupancy on an area basis. That is our present state.

Since the occupancy rate of our office portfolio was a high occupancy of a 99% level around the 10th fiscal period, essentially we would like to recover it to that level, but the present external environment is severe. Nevertheless, in light of such factors as we not holding a regional portfolio, not having any small properties and having a lineup of properties that are close to a station, we think that the ceiling for the occupancy rate that will be recoverable is also high. We also intend to focus on internal growth and thereby aim to increase distributions.