Q&A Session at Explanatory Meeting for Investors and Analysts
For the 23rd Fiscal Period Ended January 31, 2015
Held on March 17, 2015 (Summary)

【Q&A】

<Questioner A>

(Question A-1) You have entered the final phase of the acquisition period under the Surf Plan. How long do you expect the period to continue?

(Answer) That will likely depend on market price trends, but our tentative target is the six months of the 24th fiscal period (ending July 2015).

(Question A-2) In the current market conditions, do you expect to realize external growth equivalent to ROE through property acquisitions from sources other than the sponsor? Please also comment on the likelihood of property contribution from the sponsors.

(Answer) If the property contributes to increasing the value of the portfolio, we'd consider the acquisition regardless of whether it came from the sponsors or other sources. During the previous fiscal period, we acquired properties adjacent to our existing properties as well as additional compartmentalized ownership, but these types of acquisitions only became possible when real estate price is favorable and the owners moved to sell. With regard to the acquisition of properties from the sponsor, we can acquire them at favorable prices up to the appraisal value, but if the sponsor sells the property at too low a price, it would not be able to achieve accountability with its own shareholders. Going forward, TOKYU REIT will continue to look for favorably located, valuable properties while bearing in mind the terminal value.

(Question A-3) To what extent did rents increase following the adjustments made at the Tokyu Sakuragaoka-cho Building and Tokyu Nampeidai-cho Building?

(Answer) The rents have settled between the market rent and the existing rent. In the end, rents increased by around 3%.

<Questioner B>

(Question B-1) You have entered the final phase of the acquisition period under the Surf Plan. In the most recent acquisition period, there apparently were no significant property acquisitions. With regard to factors contributing to limited external growth during the period, could you please explain the reasons for the absence of acquisition, and why you chose not to acquire certain properties? Furthermore, given the experience gained from the previous acquisition period, are there existing issues such as possible adjustments to the Surf Plan to be considered?

(Answer) With the disposition of the Resona Maruha Building and Ryoshin Harajuku Building, in net terms asset size did not increase significantly, but looking at it in terms of a complete market cycle we don't feel the total acquisition price was unusually low. However, there were several cases in which we were outbid. During the upcoming acquisition period, we do feel the need to approach acquisition more aggressively, but at the same time it's important to move quickly to acquire properties in advance of a rise in real estate prices. It's also necessary for us to clearly explain our stance. When we acquired the Tokyu Toranomon Building, we received various opinions regarding the acquisition price. We will apply that accumulated experience and proactively work to achieve external growth going forward.

(Question B-2) Can you explain the motivation behind the EPS figure you've presented based on 100% occupancy and how realistic a goal you believe it is to achieve?

(Answer) Given opinions also provided by investors, we have clearly indicated the path to be taken toward achieving an EPS of 2,600 yen, and we have also explained it in a manner which could easily be understood. With regard to the upper limit of the vacancy rate, it depends on the quality of the portfolio. For instance, we cannot realistically expect occupancy rates of 100% for properties in regional areas. However, as TOKYU REIT has achieved occupancy rates of 99.9%, we don't feel that this simulation is unrealistic. The indicated EPS figure is also representative of our determination to achieve increased cash flow through high occupancy and reduced downtime.

<Questioner C>

(Question C-1) In the beginning of the session, you spoke about terminal value. What is the significance of terminal value from the perspective of TOKYU REIT? In addition, can you explain the reasoning the phrase "100-year REIT" that appears on the presentation materials?

(Answer) Since the product planning phase toward the establishment of TOKYU REIT, our philosophy has been to own and operate properties over the medium to long term, and awareness of terminal value is a part of that approach. We hope to outperform the market in terms of total return through medium- to long-term operation. The market has recently been direct-yield-oriented, and it seems that terminal value, which accounts for about 60% of total value according to the DCF approach, is not being discussed in the market. I believe this is linked to a shortening of investment periods by investors, but I also believe that property acquisition based on an overemphasis on direct yield carries with it excessive risk. I am not speaking from the lender side, but in comparison to equity investors lenders are cognizant of terminal value as they are involved in the transaction from a finance perspective as long-term lenders, and because it's necessary for them to assess the potential value, or terminal value. The phrase "100-year REIT" represents our dedication to reliable long-term management as a trustee. Terminal value is also a key element in this philosophy, and going forward we will continue to regard awareness of terminal value as a cornerstone of management.

(Question C-2) What is TOKYU REIT's view on the period following the end of quantitative easing? And what is being done in preparation for it?

(Answer) It's difficult to accurately forecast changes that will occur, but with the end of quantitative easing we will look to implement management and financial strategies based on the normalization of borrowing rates (increase). For instance, we are taking a balanced approach while enjoying the benefits of low borrowing rates and are setting rent renewal periods at longer durations than fixed interest rate periods. If fund procurement rates are expected to increase in the future, it would give us an advantage since we could conduct rent renewals before the interest burden increases. Additionally, beyond interest, it's necessary to consider the change in demographics in the investment area. We cannot anticipate increased rent revenue in areas where the population is declining. The determination to sell Beacon Hill Plaza during the 23rd fiscal period was based on an analysis of demographics in the area.

<Questioner D>

(Question D-1) With regard to rents for retail properties, those in the Ginza area appear to be increasing significantly but on page 38 of your financial results presentation it appears that the extent of the rent increase in the Shibuya area is not so large. Is that actually the case? Also, what is your view on rent trends going forward?

(Answer) Among retail properties, those located ground floor are seeing the most significant rent increases, and there is a marked difference in the degree of increase between ground floor and on higher floors. With regard to the rent gap for TOKYU REIT's retail properties indicated in the presentation, data for ground floor and upper-floor locations are all included, and if data for ground floor locations only were indicated the rate of increase would be more significant. Concerning trends going forward, retail tenants are regarding location with even higher importance, which means the gap in perceived value between properties will likely become even more pronounced. We intend to further strengthen our management capabilities in order to sustain a high level of performance even in such an environment. Furthermore, retail properties also involve competition among areas. In order for prospective tenants to see the appeal of and select the Shibuya area, we need to work to espouse the merits of the area.

(Question D-2) The average age of properties in your portfolio is on the rise. Can you give us your long-term view of the composition of your portfolio?

(Answer) With regard to the specifications of our properties, we believe the source of the true competitiveness of our properties is favorable location. For a property in a good location, if maintenance and repair are conducted intermittently, we feel we can maintain the property's value even as it ages. To illustrate, if you compare an S-class property situated a 10-minute walk from the nearest train station with a B+ class property only one minute from the station, TOKYU REIT would look to acquire the B+ class property. Consider a property within 10 minutes of the nearest station, if you were to draw a straight line from the station to the property and have that act as a radius, you would have to draw a straight line in the opposite direction as well to define the area encompassed. Compare that area to the area encompassed within a three-minute walk of the station and it's clear that there are significantly more properties to compete with. Furthermore, if the location is advantageous, it facilitates future reconstruction and redevelopment. This is more difficult to accomplish with roadside properties in regional areas. In cases where the acquisition of an adjacent property and redevelopment is believed to result in increased value, there may be some situations in which TOKYU REIT's investment policy does not permit such an acquisition. In such cases, the sponsor could acquire the property and joint redevelopment could be conducted. Cash flow can also be expected during the ownership period, and concerning an exit strategy, in order to invest in properties that offer potential for sale and redevelopment, we have always stressed the location and that policy will not change going forward.

All answers (except some) were made by Masahiro Horie, Representative Director & President, Chief Executive Officer of Investment Management Company, Tokyu Real Estate Investment Management Inc.

Closing Greeting: Kazuyoshi Kashiwazaki, Representative Director & Executive Vice President, Chief Investment Officer

I was appointed Executive Vice President of Tokyu REIM (Investment Management Company) effective as of March 9, and my candidacy for appointment to executive officer of TOKYU REIT will be proposed at the general shareholder's meeting in April.

When TOKYU REIT listed in 2003, at our sponsor, Tokyu Corporation, I handled investor relations duties. At the time, while members of Tokyu Real Estate Investment Management and Tokyu Corporation worked to formulate the vehicle, conflict of interest countermeasures and growth strategies were devised. I remember clearly how positively these responsibilities were approached. Furthermore, with regard to the initial contribution of properties from the sponsor, I also provided support in a variety of ways from an IR perspective. Today, in addition to the very strong bond I feel with TOKYU REIT, I am also reminded of my feelings at the time TOKYU REIT was first formed. Going forward, while steadfastly adhering to TOKYU REIT's existing investment policy, and looking back at the history of TOKYU REIT, we hope to achieve further growth of TOKYU REIT through enhancement of the investment policy. In particular, with regard to collaboration with the sponsors, as TOKYU REIT bears the Tokyu name, while paying due consideration to our relationship with the sponsor, I hope to continue to develop the REIT and achieve growth in the same direction as that of Tokyu Corporation and the Tokyu Group as a whole.