

Q&A Session at Explanatory Meeting for Investors and Analysts  
For the 24th Fiscal Period Ended July 31, 2015  
Held on September 14, 2015 (Summary)

**【Q&A】**

<Questioner A>

(Question A-1) You are expecting the move-out of a large tenant from Setagaya Business Square during the 26th fiscal period. How long do you expect it will take to fill the vacated section given the recent market environment in the area?

(Answer) As we expect the move-out to be at the end of May in the 26th fiscal period, a decrease in revenue for 2 months has been incorporated into the forecast for the 26th fiscal period. We are planning to conduct renewal construction of the large tenant's exclusive section after the move-out, and are expecting that a new move-in by a tenant will be difficult for around three months due to the construction.

At the current stage we have started pre-leasing activities in expectation of the move-out. Although at which stage the replacement tenant will be decided depends on future leasing activities, the Yoga area where the Setagaya Business Square is located is receiving more inquiries from tenants. We believe that what is important is how soon we can implement leasing in the 27th fiscal period. The situation isn't negative.

(Answer by General Manager of Portfolio Management Division I)

As for the market status of Setagaya Business Square, I believe it's at a stage where proactive leasing is possible as vacancies at large buildings in the Wangan (Coastal) area, Kamata-Omori area, Sangenjaya-Nakameguro and other areas which are especially competitive are becoming scarce while the overall office market is performing favorably. A rise in rent level can be expected by having a new tenant move in now, when the market environment is favorable, rather than having a new tenant move in and increasing the rent afterward through rent revision. I would like to conduct leasing activities by adopting a strong attitude while being aware of the downtime due to leasing activities. In addition, I would like to aim for a multi-tenant configuration looking ahead to future risk diversification.

(Question A-2) You have entered the “selling phase” but won’t it have a negative impact on the maintained LTV level or medium-term DPU target?

(Answer) Although the selection of properties to dispose and other factors are under consideration, we would also like to acquire properties of equivalent value along with the dispositions, instead of just disposing properties. We are making considerations based on the thinking that measures to lower the age of portfolio properties through property replacement, and keep the cap rate from falling as much as possible, etc. are required while reducing the negative impact on DPU for the respective periods.

<Questioner B>

(Question B-1) Six months have passed since you became the president. Are there any new challenges you are undertaking and what are the changes you have seen within the company?

(Answer) I will not change TOKYU REIT’s concept and investment policy that I succeeded from the previous president. As for new challenges, what kind of activities we should conduct during the selling phase is a completely new issue. Whether the activities conducted in the previous selling phase are appropriate for this selling phase has not yet been determined. I am reviewing such together with our staff from a fundamental standpoint of the Surf Plan, which positioned the selling phase, and by taking into consideration the entire portfolio of TOKYU REIT.

The original Surf Plan was based on the premise that DPU and LTV will decrease during the selling phase due to the disposition of properties. However, while determining once again what investors expect from us, I would like to think about how we should move during the selling phase so that TOKYU REIT can enjoy continued growth into the future and welcome its next acquisition phase in as good a position as possible, rather than just conducting dispositions.

(Question B-2) You position the current period as the Selling Phase. However, some other REITs are continuously implementing acquisition activities by incurring substantial costs. Will not TOKYU REIT conduct such activities?

(Answer) My answer partially overlaps with the answer for Question B-1, but we hope to consider property dispositions in combination with the acquisition of equivalent assets during the selling phase, not just simple disposition. I believe that the transfer of various assets between the sponsors and TOKYU REIT based on sponsor collaboration may arise, as well as transactions with third parties.

(Question B-3) At the announcement of results for the 23rd fiscal period, it was explained that if the occupancy rate reached 100% and all free-rents were dissolved, distribution per unit could reach a maximum of 2,620 yen through internal growth. Is it correct to think that the path to 2,600 yen, the future target level of distributions, has decreased due to the move-out of a large tenant?

(Answer) If we estimate using the same method, the distribution per unit (DPU) level for the 24th fiscal period will be approximately 2,640 yen, partly due to the rise in rent level. However, this amount is calculated by leveling the repair and maintenance costs. As the recent construction costs are hovering at a high level due to constructions implemented ahead of schedule until now and the concentrated constructions to be implemented mainly in the 25th fiscal period, etc., we aim for reaching the 2,600 yen level at the stage when construction costs start to level off. We believe that the 2,600 yen level will come into sight if the vacated sections of Setagaya Business Square start to be filled and repair and maintenance costs return to the same average level as in the past. Although I can't define the specific timing, I would like to achieve this in the not-so-distant future, during or after the 27th fiscal period.

<Questioner C>

(Question C-1) What is the reversal of reserve for reduction entry in the 27th fiscal period and after specifically for? Is it for the increase in repair and maintenance costs or for the decrease in revenue due to move-outs?

(Answer) We would like to use it for repair and maintenance costs. While solid considerations will be made going forward, a considerable amount of costs are expected to arise for repair and maintenance construction planned to be implemented in the 27th fiscal period. Thus, our policy is to implement a reversal of reserve for reduction entry to use it for repair and maintenance

works.

(Question C-2) Can you explain cocoti's collaboration with Shibuya Miyashitacho Project in more detail?

(Answer by General Manager of Portfolio Management Division II)

We believe that the Miyashitacho Project is a development project that also provides significant advantages for cocoti as it is planned on the land adjacent to cocoti and scheduled to have retail facilities, offices and residences. Specifically, we are considering the possibility of inter-connecting the two buildings as well as the possibility of collaborations in sales promotions, as our sponsor will join its operation. Although it's still in the consideration stage, we would like to continuously explore the possibility of collaboration as it's a project in which many of our related parties are engaged.