Q&A Session at Explanatory Meeting for Investors and Analysts
For the 25th Fiscal Period Ended January 31, 2016
Held on March 16, 2016 (Summary)

【Q&A】

<Questioner A>

(Question A-1) You have explained that redevelopment of the area surrounding Saginuma Station by the sponsor was reason behind conducting a reciprocal sale and purchase with the sponsor at this timing. However, since the sponsor had been considering the redevelopment of Saginuma for some time, was it not possible to conduct the reciprocal sale and purchase much earlier? Could it be that the progression of transaction talks at this point in time be due to changes in the relationship between Tokyu REIT and the sponsor, such as a change in the sponsor's attitude towards Tokyu REIT and such, for example?

(Answer) The background to the disposition of Tokyu Saginuma Building and Tokyu Saginuma 2 Building is that since the comprehensive partnership agreement concerning development of the Tokyu Area, which was signed by Tokyu Corporation and Kawasaki City in June 2015, included redevelopment of the area surrounding Saginuma Station, we were approached by the sponsor with a proposal for disposition. Since the investment target areas of the sponsor and Tokyu REIT are the same, we have anticipated that asset replacements by the sponsor and Tokyu REIT in line with the life cycles of properties would be part of the sponsor collaboration for some time. I believe that, in areas where the sponsor engages in redevelopment, we may see more cases of Tokyu REIT disposing properties and acquiring them back to be managed after redevelopment.

(Question A-2) According to the Long-Term Investment Management Strategy (Surf Plan) described on page 38, the cycle of acquisition, selling and preparation phases is assumed to be approximately 7 years. Regarding the selling phase that started in the 25th fiscal period ended January 2016, how long do you expect it continue in the present cycle?

(Answer) Tokyu REIT partially proposed the Long-Term Investment Management Strategy (Surf Plan) with the intent to aim for a contrarian investment approach to real estate prices that are responsive to economic conditions. Although we set a period of 7 years for one cycle on page 38 of the presentation materials, it is only a hypothetical figure. Under the current market conditions, it is difficult to project whether this 7 year-period will be extended or shortened.

As for the question of how long the selling phase will continue, we perceive that it will be until 2018 or 2019, which is the time when new market rents and vacancy rates are expected to deteriorate according to the Forecast of New Market Rents and Vacancy Rates for Office Properties Materials announced by Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.) shown on page 19 of the presentation materials. However, we think that a different phase could start thereafter.

(Question A-3) With regard to external growth following the series of property replacements, will you continue with the second stage of replacement going forward as you uphold a selling phase (internal growth phase), or will simple property acquisitions be an option by changing the direction of the policy?

(Answer) Our view of a selling phase (internal growth phase) calls for a policy to reinvest sales proceeds while bearing in mind that properties that should be sold be sold from a medium- to long-term perspective. Upon reinvestment by acquiring a replacement property for a disposed property, we would like to realize external growth in the form of replacement by acquiring a similar sized property, or a little larger property, compared to the property that was disposed. In the current selling phase, we plan to keep an eye on both dispositions and acquisitions.

<Questioner B>

(Question B-1) Does the "internal growth of existing properties" of +192 yen posted between the 25th fiscal period and the level under normal operations, shown in the bottom graph on page 6 of the presentation materials, factor in the portion for filling Setagaya Business Square, which is expecting a large tenant to move-out in May 2016? As to the "decrease in interest expenses" of +72 yen, it seems possible that the amount could further increase. Would you agree?

(Answer) The “internal growth of existing properties” of +192 yen between the “25th period actual” of 2,631 yen and “level under normal operations” of 2,650 yen, shown in the bottom graph on page 6 of the presentation materials includes the portion for filling Setagaya Business Square, which is expecting a large tenant to move-out. The portion for filling Setagaya Business Square is calculated based on the assumption that the sections vacated due to the move-out of a large tenant are leased at the same level of rent as before. We aim for a further upside as a leasing target, but that has not been factored in.

As for the “decrease in interest expenses” of +72 yen, this is the reduced portion of interest costs calculated for the case in which the average interest is lowered to 1.2%. As all interest-bearing debts of Tokyu REIT are long-term loans with fixed interest rates, the calculation was made predicting the degree of interest rate reduction at the time of refinancing when long-term loans and investment corporation bonds reach maturity. To be more precise, it is assumed that the interest rate will be as low as 1.2% in the 28th fiscal period. If the interest rate is reduced further in the future, we will be able to take the upside.

(Question B-2) The “Unrealized Gains/Losses and Total Return” slide that is now on page 48 of the presentation materials has been moved to further back in the materials. Does this suggest that there has been a change in the significance of the index in terms of measuring the performance of owned properties in the future? Data on total return is considered important when judging track records, but does not seem to indicate future activities with the accumulation of gain on sale from the past. Going forward, will you be considering benchmarks, such as growth rates of stock prices and distributions, which emphasize performance that includes factors of the market and recent events?

(Answer) The “Unrealized Gains/Losses and Total Return” slide on page 48 of the presentation materials also includes capital gain from sales conducted since the listing and such. Previously, it was important to present such figures, but we wanted to focus more on conveying changes in the portfolio and future targets of distribution levels going forward, and thus have reconstructed the materials.

<Questioner C>

(Question C-1) You said that you are expecting an NOI yield of around 4% over the medium to long term for TOKYU REIT Shinjuku 2 Building (provisional name) and Tokyu Bancho Building, which were acquired this time around. However, this yield can be realized only when rent revenue has increased about 20% from the current level. As to your expression of "the medium to long term," how long do you expect for it to take to achieve the said figure?

(Answer) One of the reasons for expecting around 4% NOI yield over the medium to long term for TOKYU REIT Shinjuku 2 Building (provisional name) and Tokyu Bancho Building is that we believe it is possible to further compress costs through Tokyu REIT taking on the management. In addition, since comparison of the current tenants' rent level and the market rent (new asking rent) level of the surrounding properties indicates room for upward rent revision, the aforementioned NOI yield can be achieved if the current rent increases to the market rent level upon rent revisions in the future.

Concerning the time it will take, provided that rent revisions will take place every two years hereafter and the current rent is raised to the market rent level at the first or the second rent revision, we aim to reach the figure in approximately two to four years.

(Question C-2) In the graph in the lower half of the Future Distribution slide on page 6 of the presentation materials, is the expected decrease in rent revenues of properties with unrealized losses that are scheduled to be disposed in the 26th fiscal period (fiscal period ending July 2016) included, or does the balance remain unchanged due to scheduled acquisitions of replacement properties with sales proceeds?

(Answer) Loss of rent revenues due to disposition of the properties with unrealized losses in the 26th fiscal period (fiscal period ending July 2016) has been factored in for the forecast figures on the Future Distribution slide on page 6 of the presentation materials.

In addition, the 2,650 yen for the "level under normal operations" is calculated with the decrease in rent revenues due to disposition of properties with unrealized losses included in internal growth of existing properties, although the disposition of specific properties has not been decided.

Furthermore, the impact of acquisitions of replacement properties with proceeds from the disposition of properties with unrealized losses on the balance has not been factored in.