Q&A Session at Explanatory Meeting for Investors and Analysts
For the 26th Fiscal Period Ended July 31, 2016
Held on September 14, 2016 (Summary)

【Q&A】

＜Questioner A＞

(Question A-1) Why does a difference occur between the total amount (-198 yen) of "Move-out of large tenants from Setagaya Business Square -119 yen" and "Move-out of other tenants from Setagaya Business Square -79 yen" with the "Increase in revenues from Setagaya Business Square +176 yen" shown in the upper graph in the "Distribution per Unit Level Under Normal Operations" on page 9 in the presentation material?

(Answer A-1) The rent level of large tenants who moved out from Setagaya Business Square this May was one rank higher than the current market rent and excessive. As the rent level of tenants who will move in in the future is assumed to be at the level of the current market rent, the difference between these rents of approximately 20 yen per unit occurs.

(Question A-2) It is explained that the occupancy rate is assumed to be 95% for Setagaya Business Square and 99% for the overall portfolio in the "level under normal operation," but is Setagaya Business Square included in the calculation of the overall occupancy rate? Also, does the occupancy rate include free rent or is it based on profit contribution?

(Answer A-2) The occupancy rate is assumed to be 95% for Setagaya Business Square, 100% for other properties, and 99% for the overall portfolio on average. The overall portfolio's occupancy rate of 99% is the same level as the occupancy rate of the fiscal period ended January 2016 (25th fiscal period) and is considered to recover to this operational status at the "level under normal operations." As for free rent, the assumption is based on a point in time when rental revenue contributes throughout the period after the impact of move-ins and move-outs disappear.

(Question A-3) "Decrease in interest expenses 1.32%→1.14%" until reaching the "level under normal operations" is mentioned, but what kind of time frame is considered concerning the period when the average interest becomes 1.14%?

(Answer A-3) As for the "decrease in interest expenses," an average interest of 1.32% is the actual result for the fiscal period ended January 2016 (25th fiscal period) and an average interest of 1.14% is the calculation assuming the fiscal period ending January 2018 (29th fiscal period). The period of profit contribution will become the focus in the future considering the speed of tenants moving into Setagaya Business Square and the status of free rent, but we will conduct leasing activities so it will make profit contributions throughout the period in the fiscal period ending January 2018 (29th fiscal period).

(Question A-4) The amount of capital expenditure is expected to be about the same as depreciation for the fiscal period ending July 2017 (28th fiscal period) but what level is expected in the future?

(Answer A-4) The amount of capital expenditure in the future is shown in "Property Competitiveness Enhancement Measures" on page 16 in the presentation material, but the amount of capital expenditure for the fiscal period ending January 2017 (27th fiscal period) and the fiscal period ending July 2017 (28th fiscal period) will increase due to construction works for value enhancement of Setagaya Business Square.

The content of the works is as shown in the lower left table of "Status of Setagaya Business Square" on page 15 in the presentation material and the amount of capital expenditure is forecasted to increase temporarily due to renewal constructions of exclusive areas and common areas in office sections, and renewal of traffic lines from station to retail sections at B1F being expected. It is considered that the level will decrease after the completion of these capital investments and the level under normal operation will be at 600 million to 700 million yen.

＜Questioner B＞

(Question B-1) Concerning "Distribution per Unit Level Under Normal Operations" on page 9 in the presentation material, I interpret that "normal operation" means remains stable, but can the occupancy rate of 95% at Setagaya Business Square be considered as "normal operation?"

Looking at the past changes in occupancy rate of Setagaya Business Square shown on page 40 in the separated Data Book, occupancy rate only remained stable at 95% or more 7-8 years ago and has not achieved 95% stably since then. What makes you think that an occupancy rate of

95% is appropriate as the level under normal operations under these circumstances?

(Answer B-1) The occupancy rate of Setagaya Business Square at the level under normal operations is considered under the assumption that it will recover to 95% which is about the same level as the actual figure of 94.6% in the fiscal period ended January 2016 (25th fiscal period) before the move-out of large tenants, and under the assumption that a vacancy rate of about 5% will always occur.

Large tenants that rented multiple sections continuously existed until the move-out of large tenants this May and the condition where attraction of new and large tenants was implemented whenever large tenants moved out has continued until then.

For the 10 sections where large tenants recently moved out, we are soliciting 10 new tenants and thus a rapid decrease in occupancy rate due to move-outs of large tenants, an unique issue for Setagaya Business Square which has continued until now, will be less likely to occur in the future.

In addition, there are tenant move-outs for 20 sections in total including the 10 sections where large tenants moved out, but the move-ins by new tenants has already been finalized for 10 sections and it is believed that the occupancy rate of Setagaya Business Square will recover to around 95% at a relatively early stage.

(Answer by General Manager, Portfolio Management)

The status of the rental market of Setagaya Business Square is very strong and is receiving a lot of inquiries. As for leasing activities, marketing has been conducted by shifting the priority from price to occupancy from this spring.

The targeted tenants were mainly IT companies and foreign companies that emphasize the working environment as well as business bases in southwest Tokyo of pharmaceutical companies and housing manufacturers since the location has excellent traffic convenience and a parking lot for as much as 300 vehicles. However, it is recently receiving a lot of inquiries from companies such as online shopping businesses and call centers that want to utilize excellent human resources residing along the Tokyu Den-en-toshi Line and local companies in Setagaya. In addition, Setagaya Business Square is occupied by many Tokyu Group companies and is considered to be able to achieve an occupancy rate of 95%.

(Question B-2) Concerning the forecast of property acquisitions in the future, currently you have indicated recognition of a selling phase, but is Tokyu REIT considering a selling phase of around three years assuming a 7-year cycle?

I believe there can be estimations that the selling phase will become longer due to the introduction of negative interest rates and that the selling phase will become unexpectedly short due to the bottoming out of cap rate, but what kind of environmental recognition and acquisition trend of properties does Tokyu REIT currently have?

(Answer B-2) Tokyu REIT has been proposing the consideration of investment activities by making the best of the selling phase, acquisition phase and preparation phase in line with the cycle of real estate prices in the "Surf Plan," but the 7-year cycle is just an example.

In addition, we firmly believe that we are amidst a selling phase from the recent trend of real estate prices but we will pay close attention to the movements of the market concerning the period when the real estate price peaks off.

We have sold three of our oldest properties in this selling phase and we believe that we've sold what should be sold. Therefore, there are currently no plans to conduct new sales activities even if the selling phase is to become longer than expected.

We will continuously implement trials for property acquisitions until the next acquisition phase but we would like to avoid a situation of being burdened with unrealized losses in the future by acquiring properties at high price. It is considered that the real estate price in the office market of central Tokyo is highly likely to peak off due to the massive supply in 2018 and 2019 but the current trend is likely to continue for two years until then. In addition, we acquired Tokyu Bancho Building through this property replacement in the transaction with the sponsor but haven't had a specific talk concerning the acquisition of other properties with sponsors at the current stage. We can't have high expectations for external growth in the next two to three years but our biggest goal is to raise the level of distribution through internal growth.