Q&A Session at Explanatory Meeting for Investors and Analysts
For the 27th Fiscal Period Ended January 31, 2017
Held on March 17, 2017 (Summary)

【Q&A】

＜Questioner A＞

(Question A-1) Concerning the change of the investment policy, is it correct to understand that properties to be invested that are owned by the sponsor will be increased?

(Answer A-1) Concerning use of properties under the change of the investment policy this time around, complexes that include office or retail properties will be added to office and retail properties. As to properties owned or to be developed by the sponsor, there are complexes that partially include hotels or residences in addition to office or retail properties. Although no specific discussions concerning future pipeline support by the sponsor have started yet as of present, we will include complexes that include office or retail properties in the scope of future discussions and advance talks with an eye to them.

Furthermore, the change of the investment policy is a matter for resolution at the General Meeting of Unitholders of TOKYU REIT, and since the General Meeting of Unitholders is held once every two years, we must prepare by looking ahead two years or beyond. Therefore, we will put forward a proposal to change the investment policy at the General Meeting of Unitholders at this time, and with its approval, we will prepare toward the next property acquisition.

(Question A-2) Is it correct to understand that the volume of properties that can be acquired will not increase over the short term if the peak in real estate prices is apparent from the perspective of the basic cycle, despite the increase in properties to be invested due to the change of the investment policy?

(Answer A-2) According to the most recent transaction records, etc., the real estate transaction market may remain unchanged or become further overheated going forward, and thus acquisition of properties is expected to continue to be difficult. In addition, it is also difficult to judge when the real estate transaction market will see a peak. However, if there are acquisition opportunities even under such circumstances and if those properties fall under the criteria set by Tokyu REIT and Tokyu REIM and can expect stable cash flow, we would like to acquire them flexibly. Therefore, upon change of the investment policy this time, we relaxed the set minimum investment amount per property along with changes to use of property to expand acquisition opportunities.

＜Questioner B＞

(Question B-1) Is it correct to understand that there is no change to the Surf Plan upon change of the investment policy? When you say complexes including hotels, is the change of the investment policy made also assuming acquisition of properties with low cap rates, such as the Shibuya Station South Area Project (SHIBUYA STREAM) and Cerulean Tower?

(Answer B-1) We regard the Surf Plan as a basic investment policy, as we have so far done so. Property prices and trends are likely to continue fluctuating cyclically, but we believe the period of a single cycle of the Surf Plan will vary. Although we cannot foresee acquisition timing, we are implementing this investment policy change to be ready to respond to acquisition timing whenever it may be, in order to further expand external growth opportunities and basing it on the Surf Plan.

Further, with the partial change of the investment policy this time, properties developed by the sponsor located in the vicinity of Shibuya Station will come into our field of vision. The Shibuya Station South Area Project (SHIBUYA STREAM), for example, is said to open in fall 2018. Also for development properties in the vicinity of Shibuya Station such as this, changing the investment policy at the General Meeting of Unitholders in two years is not appropriate in terms of timing in order to advance discussions, and thus we decided to propose the change at the General Meeting of Unitholders this time. As to specific complexes owned or developed by the sponsor, please refer to page 25 in the presentation material.

(Question B-2) Concerning the outlook for distribution from the fiscal period ending January 2018 (29th fiscal period) to the fiscal period ending July 2018 (30th fiscal period) shown in the lower half of the “Distribution per Unit Level Under Normal Operations” on page 9 in the presentation material, is the DPU (distribution per unit) of 2,650 yen relatively easy to achieve or does it largely depend on uncertain items including the "increase in revenue from other existing properties +87" assumed in the fiscal period ending July 2018 (30th fiscal period)?

(Answer B-2) Breakdown for achieving the target distribution per unit level under normal operations of 2,650 yen from the fiscal period ending January 2018 (29th fiscal period) to July 2018 (30th fiscal period) is shown in the lower half of page 9 of the presentation material. Within the breakdown, Setagaya Business Square expects an income increase due to the ending of the free rent period, after factoring in the possibility of some vacancies arising after the end of the fiscal period ending July 2017 (28th fiscal period) in the assumed occupancy rate then, and thus we believe the figure for the property is quite accurate. As to the "increase in revenue from other existing properties +87," the figure is calculated based on the assumption that properties assumed to be vacant in the fiscal period ending January 2018 (29th fiscal period) will be occupied in the fiscal period ending July 2018 (30th fiscal period), factoring in a certain degree of increase in income from the refilled portion and upward rent revision. This outlook, we believe, is also highly probable. Further reflecting the decrease in interest expenses, we believe we can secure distribution per unit of 2,650 yen without reversal of reserve for reduction entry in the fiscal period ending July 2018 (30th fiscal period).

(Question B-3) Could you explain the current leasing status of Setagaya Business Square, including initial assumptions?

(Answer B-3) After the move-out of large tenant at Setagaya Business Square, we have worked to solicit new tenants for the vacated sections and have progressed almost as planned up to the fiscal period ended January 2017 (27th fiscal period). As to the fiscal period ending July 2017 (28th fiscal period), expected move-ins by new tenants for 15 sections may stand out, but contracts have been already concluded for 7 sections out of the 15. As contracts for the remaining 8 sections are either to be concluded very soon or are in the final stage of negotiation, we more or less have the new tenants determined. Therefore, move-ins by new tenants for the 15 sections in the fiscal period ending July 2017 (28th fiscal period) are quite certain. However, since Setagaya Business Square often grants 5 to 6 month-free rent, profit contributions are expected to be in the fiscal period ending January 2018 (29th fiscal period) or later, even if new tenants move in during the fiscal period ending July 2017 (28th fiscal period). This is also reflected in the income and expenditure of the financial results forecast.

(Questioner C)

(Question C-1) Concerning the “Distribution per Unit Level Under Normal Operations” on page 9 in the presentation material, is the amount referred to as “Others” a buffer or an individual item? Also could you tell us the risk factors for achieving the distribution per unit level under normal operations?

(Answer C-1) “Distribution per Unit Level Under Normal Operations” on page 9 in the presentation material describes major items of increase/decrease in comparison after preparing assumed income and expenditure for up to the fiscal period ending July 2018 (30th fiscal period), and minor items are included in “Others.” This means that a breakdown of “Others” is a collective indication of minor items of income and expenditure, and not large positive factors and negative factors in net.

Concerning risk factors in the future, since figures for the leasing terms of properties and income and expenditure based on them are relatively accurate, we believe there are no major fluctuating items. However, if I were to point out items of risk, such would include a surge in interest rates rising beyond the most recent forward rates, which we have used to calculate assumed interest rates for refinancing borrowings, and causing deviation. We believe there will be no large discrepancies in internal factors of Tokyu REIT.