Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended July 2022 (FP 38) Held on September 15, 2022

[Q&A]

<Questioner A>

(Q: A-1) Could you share the growth potential of NOI in consideration of the current rent level and operational status regarding the acquisition of Futako Tamagawa Rise? I would like to know the future trend and risk of move-out of office tenants.

(A: A-1) Upon the acquisition, we assessed the price without factoring in unnecessary upside. Particularly, the status of sales amid the COVID-19 pandemic is assumed for the figures for rent of retail sections. However, because the system of adding variable, sales-linked rent to the minimum guaranteed fixed rent is adopted in the lease contracts for most retail sections at Futako Tamagawa Rise, an increase in income from such variable rent can be expected if the number of visitors increases and sales of retail tenants recover.

Most of the office sections are occupied by Rakuten Group, Inc. In the financial results forecast, the same amount of rent as at present is assumed for the contract period, but this level is slightly below the market rent. Therefore, we believe that there is room for a certain degree of rent increase depending on future tenant relations. In the past, Rakuten Group, Inc. expanded its occupied floors when other tenants moved out from office sections, and the same situation is assumed also in the future. As a result, the occupancy rate for office sections is expected to remain at 100%. For retail sections as well, it is expected that tenants will move in at an early stage and the occupancy rate will be nearly 100% despite there being some vacancies at present.

(Q: A-2) After the acquisition of Futako Tamagawa Rise, the LTV based on total assets will be 46.1%, which is close to the record-high level. Do you think it will be necessary to lower it? In the announcement, it appears that acquisition using short-term debt is assumed. Could you clarify whether you might consider other financing methods such as capital increase?

(A: A-2) Of the 20.2 billion yen, which is the acquisition price of Futako Tamagawa Rise, 18 billion yen will be procured through short-term debt while the remaining amount of a little over 2 billion yen will come from cash on hand. With the borrowing, the LTV based on total assets will increase to 46.1%, and such figure is believed to be at a level close to the upper limit of the allowable range for the current portfolio. There is sufficient procurement capacity as the LTV based on appraisal value is still at a low level, but there are also factors of concern such as the future interest rate trend. Therefore, we regard as the upper limit for the time being a level slightly above LTV based on total assets of 45%. If property sales that are promoted as part of initiatives on property replacement were realized in the future, the amount procured with interest-bearing debt may decrease as the funds from such sales would also be allocated to part of the acquisition funds. We will announce them in detail as soon as the contracts are concluded and also explain the revision to the financial results forecast and the change in the procured amount.

<Questioner B>

(Q: B-1) You've explained that the sales-and-replacement phase of the Surf Plan remains ongoing. Could you elaborate as to whether there are any environmental changes towards the shift from the sales-and-replacement phase to the acquisition phase compared with half a year ago and one year ago?

(A: B-1) The rise in real estate prices became conspicuous from around 2019, and TOKYU REIT started to conduct proactive sales and replacement from that period. Forecasting the timing of the end of the sales-and-replacement phase and the transition to the acquisition phase is difficult. With the COVID-19 pandemic, the rental market remains in a severe state, but there are still no signs of decrease in property prices in the transaction market. Our current stance is to make careful judgements toward the realization of individual property sales as well as property replacement in line with TOKYU REIT's policy of concentrating properties in the Shibuya area and Tokyu Areas while paying close attention to the transaction market.

(Q: B-2) Could you describe the status of the rental market for offices and urban retail facilities?

(A: B-2) With the impact of COVID-19, movements to relocate to consolidation and request rent decrease were seen prominently for offices, but such movements are gradually becoming weaker. Particularly, for offices, the impact differs by location, and vacancy rates remain high and rent levels are also on a downward trend as a whole. However, for properties located near stations on the west side of central Tokyo, the occupancy rate has recovered to a level that enables us to achieve almost full occupancy while the rent level has also bottomed out. At older properties and properties located far from stations, the rent and occupancy rates may still become weaker. Offices are also likely to be impacted by the secondary and tertiary vacancies due to the mass office supply in 2023, so our stance for the time being is to carefully select locations as well as increase and maintain occupancy rates.

As for retail facilities, sales of tenants remained severe due to the impact of COVID-19, but such impact has receded at present. Agreements on responses such as rent reduction/exemption and granting of rent holiday have also been reached, and contract periods have also been extended. Some tenants in unexpected industries wish to move into retail facilities around Shibuya Station, and cases of tenant replacement at higher rent have also been seen. Although it depends on the area, the strengths of the market regarding retail facilities in central Tokyo around Shibuya Station continue to be felt.

<Questioner C>

(Q: C-1) According to the forecast, the period-end occupancy rate will bottom out in the fiscal period ended July 2022 (end of FP 38) and recover after that. Could you share with us the possibility of future recovery in occupancy rates and the certainty of realization, including the leasing status of Tokyu Toranomon Building?

(A: C-1) Contracts have already been concluded or applications have already been received for most of the sections that are expected to be occupied in the fiscal period ending January 2023 (FP 39), and the sections for which applications have not been received now are one section at TOKYU REIT Shimokitazawa Square, multiple sections at Aoyama Oval Building and three-and-a-half floors at Tokyu Toranomon Building. As the rental market is severe, replacement at lower rent will be conducted at some sections, but replacement at higher rent has been realized at properties in the Shibuya area, and contracts have been concluded on the condition that free rent for about 0-3 months will be granted. For the fiscal period ending July 2023 (FP 40), most sections are being leased, and replacement at higher rent will be conducted for two sections at Aoyama Oval Building for which applications have already been received. With regard to the vacant section at Tokyu Ginza 2-chome Building, as a downtime of four months, free rent for six months and the occurrence of rent from August 2023 are conservatively factored in, there will be no impact on the financial results forecast even if the leasing period is delayed. We believe that the disclosed level of occupancy rate would be achieved without issue if Tokyu Toranomon Building and Tokyu Ginza 2-chome Building are leased.