Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended January 2023 (FP 39) Held on March 17, 2023

[Q&A]

<Questioner A>

(Q: A-1) Regarding the future property transaction strategy, to date you have proactively pursued replacement of properties, but will this policy be maintained going forward? I would also like to know your views on current real estate prices.

(A: A-1) Based on our recognition that real estate prices are very high, TOKYU REIT began proactively replacing properties in the fiscal period ended January 2019, and as a result of our focus on property location, we concentrated on properties in Shibuya and the Tokyu Areas.

In terms of the current real estate market environment, the rental market is severe, but buying and selling continues in the transaction market where prices remain very high. Going forward, while real estate prices remain high, we will actively consider offers to sell if there are any while simultaneously making effective use of funds from sales to continue acquiring properties in the vicinity of Shibuya and the Tokyu Areas, which are our focused investment areas.

To date, we have sold older office buildings in central Tokyo and then acquired properties in the Tokyu Areas from third parties, but we recognize that in the future it will be a matter of selling office buildings in central Tokyo and then using those funds and the sponsor pipeline to acquire sponsor-owned properties in Shibuya and the Tokyu Areas. Because real estate prices are likely to remain at the current level for a while, we continue to pursue active replacement of properties.

(Q: A-2) I would like to know about the current situation in terms of the rent gap. Compared with the previous fiscal period, the negative gap has grown for both retail and office. From the scene of revising rent with tenants, will you be able to maintain existing rent levels, or will the current situation force you to accept a certain reduction in rent levels to prioritize occupancy?

(A: A-2) For both retail and office, contracted rent currently exceeds market rent, and while there is some pressure from tenants to lower rent at the time of revision, we make it a priority in negotiations to renew leases for existing tenants based on current rent. On the other hand, when replacing tenants, it is necessary to do so based on the market rent level, so we view lowering rent for incoming tenants to be unavoidable at present.

For both retail and office, we will strive to keep our current tenants as occupants and maintain their existing rents.

<Questioner B>

(Q: B-1) For the fiscal period ending January 2024, when the occupancy rate will recover and there will be no gain on sale, the EPS will be 3,105 yen. Do you see this figure as the normalized dividend level reaching a level approaching actual performance in the future, or is there room to exceed that? Could you also clarify your view on maintaining the distribution floor of 3,400 yen?

(Q: B-1) The EPS for the fiscal period ending January 2024 will be 3,105 yen, but there will be a 66-yen revenue increase with the end of free rent at Tokyu Toranomon Building, a 54-yen decrease due to fixed property tax and city planning tax at Futako Tamagawa Rise, and an 80-yen revenue increase due to occupancy of other vacant areas and ending of free rent. We are also continuing to reverse the 59-yen reserve for reduction entry of replaced property due to depreciation for Futako Tamagawa Rise. When you take these into account, the level exceeds 3,250 yen. The area that we are currently unable to resolve is the rapid worsening of the difference in utilities income and expenses due to the surge in electricity fees, which decreased by 150 yen compared with the fiscal period ended July 2022. At present, this area is being compensated for by the reversal of reserve for reduction entry, but if the price surge eases off, the difference in utilities income and expenses will improve, and the level will be 3,400 yen when that 150 yen is added.

In the future, there will no change in our policy of continuing to replace properties, and when a gain on sale of real estate, etc. is recorded, it will be allocated instead of the reversal of reserve for reduction entry, which will keep the DPU level at 3,400 yen or higher.

<Questioner C>

(Q: C-1) In the current period of rising interest rates, could you elaborate as to if there is an awareness of any signs of a shift from the sales-and-replacement phase of the Surf Plan? Could you also clarify your thoughts on when the transaction strategy will change?

(A: C-1) At present, we are in a period of high real estate prices, and recognizing that we are in a sales-and-replacement phase, we are pursuing property replacement in accordance with the Surf Plan. The Bank of Japan's policy revision in December last year had a temporary impact, but while it maintains its policy of keeping interest rates down, the real estate transaction market will remain robustly active without cooling down. In TOKYU REIT's portfolio, there are currently no properties we are in a hurry to sell, so we will carefully judge the market conditions and move forward with replacement in accordance with the Surf Plan.

If real estate prices start to trend downward, transaction activity will stop for a time. We will proceed carefully while assessing the market so that we can make acquisitions during the phase when the cap rate increases and real estate prices drop to a level where acquisition is realistically possible.

Our approach is the same when it comes to pipeline acquisition from the sponsor: we intend to pursue our activity of acquiring properties when prices drop, with the aim of achieving future external growth and expanding our AUM.