

Summary of Questions and Answers at the Analyst Meeting for the 21st Period Ended January 2014, Held on March 17, 2014

[Question and Answer Session]

<Questioner A>

(Question A-1)

With regard to the Surf Plan explained on page 7 of the Financial Results Presentation, I remember that you positioned TOKYU REIT at about the sixth of ten stations to the peak of the acquisition phase in the previous analyst meeting. Which station do you think TOKYU REIT is at presently and how long do you think the acquisition phase will last hereafter?

(Answer)

We think that TOKYU REIT is currently around the seventh station in the acquisition phase. However, the acquisition phase will not last forever. We believe that, if the market continues to recover at the current pace, we will eventually enter what is called a cautious acquisition phase and a selling phase.

(Question A-2)

As property acquisitions from external sources will become increasingly difficult along with the improvement in the real estate transaction market, the sponsor pipelines will probably play a more important role. Going forward, what are your thoughts on the proportion of properties you will acquire from sponsors and from external sources?

(Answer)

Like before, we aim to acquire properties at a proportion of 50% from the sponsors and 50% from external sources as a target. When acquiring properties from external sources, we want to do so through negotiated transactions or closed-bid deals and avoid bid deals. This is partly because the market has become increasingly activated. As for the sponsor pipelines, we keep discussing with the sponsors on a continuous basis.

(Question A-3)

Looking at the composition of unitholders indicated on page 60 of the Financial Results Presentation, I notice a large decline in the investment ratio of foreigners. I understand TOKYU REIT is proactively conducting IR activities for foreign investors, but what do you consider to be the factors that have caused their investment ratio to decline?

(Answer)

There was a misconception among the U.S. investors concerning Tokyu Toranomon Building at the time of the public offering conducted in August 2013. As it was a domestic public offering, we failed to communicate with the U.S. investors, and the U.S. investors who owned TOKYU REIT investment units decreased their positions. We believe this is the major factor of the decline in the investment ratio of foreign investors. Subsequently, we communicated with the U.S. investors and, as we understand, the misconception has been corrected.

<Questioner B>

(Question B-1)

You said TOKYU REIT is currently at the seventh station of ten to the peak in terms of property acquisitions, but do you want to acquire properties by all means before you reach the tenth station, or the peak, of the acquisition phase? Or do you think it is all right not to acquire unless you agree on prices? Tell us how willing you are to acquire properties.

(Answer)

It depends on price but, if there are blue-chip properties, we want to acquire them by all means. As we have long emphasized on acquiring properties with good locations, we want to focus on properties that should allow us to expect high terminal value in the future from the perspective of total returns. In the current market where there is a strong orientation for income, a terminal value does not gather much attention although it occupies approximately 60% of the assessed value under the DCF method. We wish to acquire highly liquid properties in good locations, taking into account their terminal values while studying the balance with income.

(Question B-2)

With regard to property acquisitions, is there any asset type, such as urban retail and office properties, on which you want to put particular emphasis?

(Answer)

We have no intention of focusing solely on either office properties or retail properties. As our investment criteria are stringent, we do not want to miss investment opportunities as a result of exclusively investing in either of those asset classes.

For office properties, our emphasis is placed on the five central wards of Tokyo and

Shinagawa Ward. For urban retail properties, we work to make vigorous selections in terms of location. For suburban retail properties, we make judgment in consideration of population trends in the trade zones and room for competitors to enter in the future.

(Question B-3)

Do you consider that there exists a negative rent gap in properties of TOKYU REIT and their rents won't drop to the market rent levels, or do you not mind the gap because of the likelihood of higher rents going forward? Please tell us how you view the rent gap.

(Answer)

The negative rent gap has narrowed to about a half of two years ago. As the forecast on page 32 of the Financial Results Presentation shows, there is a forecast that the new market rent will increase by slightly more than 20% over the coming two years, and we consider that the negative rent gap will disappear in around two years. We will negotiate rents with tenants based on these views. In addition, of the tenants that had contract renewals in the 21st fiscal period, approximately 70% agreed to keep their rents unchanged. Although it depends on the individual characteristics of the properties, our attitude on contract renewal is to keep the rents unchanged if the negative rent gap is at around 10%.

<Questioner C>

(Question C-1)

With regard to leasing of Setagaya Business Square, how much progress has been made to date and how do you expect the future results to turn out?

(Answer)

There is a growing demand from among local companies in Setagaya Ward for reconstruction and relocations from local companies in Setagaya Ward. As such, we want to take in the needs from a wide variety of tenants, although the property has given the impression that it is a building where foreign-capital companies are housed. To do so, we are investigating such measures as dividing the floors into several leasable spaces. Our decision-making has been quickened since Tokyu Corporation, the sponsor, acquired a 45% equity interest in the property. Capital investment for value enhancement is proactively conducted, as it is also an important property for Tokyu Corporation along its railway lines. We should be able to achieve leasing results that can be realized through collaboration with sponsors.

(Question C-2)

I understand you plan to implement renovation of CONZE Ebisu. What is your policy in doing so?

(Answer by Executive Officer and General Manager, Portfolio Management Division 2)

We already worked on the renovation of CONZE Ebisu over the past two or three years taking into account the possibilities of tenant replacement, although some tenants re-contracted upon the expiration of their 10-year fixed-term lease agreements. As rents for existing tenants were higher than the market rent, how to keep the rents from declining as much as possible was an important issue. We recently renovated the entrance of the property, which allowed us to contract with the tenants on the first floor at more favorable conditions than before. We hope to also implement leasing activities for the remaining two floors by taking advantage of the effect of the renovations, etc. The renovation work will be completed in June this year, and we would like you to come take a look.

(Question C-3)

The net cash flow of TOKYU REIT Shibuya Udagawa-cho Square has decreased in the appraisal. Can you tell us the reason of the decrease?

(Answer)

Although the net cash flow in the appraisal of the property has decreased by 31 million yen, the rents remain unchanged as long-term, fixed-rent lease agreements have been concluded with the tenants.

The net cash flow in the appraisal has decreased because the appraisal agency determined that the level of the existing contracted rent is relatively expensive when compared with the new market rent. On the other hand, since the cap rate has decreased, the appraisal value has increased.

For your information, the net cash flow of QFRONT in the appraisal has also decreased by 13 million yen. This is due to the increase in utility expenses.

<<Supplement information>>

The appraisal agency (Japan Valuers Co., Ltd.) that continuously conducts appraisals of TOKYU REIT Shibuya Udagawa-cho Square has made a change in its appraisal method.

With regard to the assumed cash flow under the direct capitalization method, the agency adopted the 11-year average value under the discounted cash flow method through the end of the 20th fiscal period (July 31, 2013). However, the agency has made a change from the end of the 21st fiscal period (January 31, 2014) in which it adopts the new market rent.

<Questioner D>

(Question D-1)

I understand that collaboration with sponsors is being demonstrated for Setagaya Business Square. However, when the sponsor acquired part of the property, TOKYU REIT did not consider additional acquisition of the property on its own. Can you explain the background of this?

(Answer)

We never considered additional acquisition at all, since the current asset size does not allow us to increase the ratio of Setagaya Business Square in the portfolio.

When TOKYU REIT listed ten years ago, there was an opinion among investors that the large ratio of Setagaya Business Square in the portfolio represented the sole risk factor for TOKYU REIT. Moreover, the external growth since listing was in part a history of decreasing the ratio of Setagaya Business Square. As such, we had no intention of making an additional acquisition of the property even if the price might have been reasonable.

<Questioner E>

(Question E-1)

With regard to property acquisitions through the sponsor pipelines, which of the two do you put priority on, properties in the Tokyu Areas or properties other than those?

(Answer)

We do not place a preference on either of the Tokyu Areas or central Tokyo. Properties in the Tokyu Areas including Shibuya have the advantage that it is easier to add value through collaboration with sponsors, but we also want to acquire properties in central Tokyo.

(Question E-2)

The rents forecast of on page 32 of the Financial Results Presentation shows that the rent level will increase in 2016 despite an increase in the vacancy rate. This is a forecast by the Office Market Trends Research Committee, but how does TOKYU REIT view the risk of decreasing rent in 2016?

(Answer)

The outlook of rents is largely impacted by the macro-economic environment. If we can tell that the future macro-economic environment looks favorable, we believe there won't be much stress on rents. We are also a bit optimistic about the supply, as there won't be any major surge.

An increase in construction costs is the reason for the lack of a major surge. In accordance with the increase, we speculate that new supply may be delayed by around six months. If that is the case, the surge of new supply will be milder and the supply and demand situation in the office leasing market will become tightened.

(Question E-3)

Redevelopment in Shibuya is anticipated to enhance the value of the area. On the contrary, however, there are concerns that redevelopment might decrease the value of street-level stores, as Shibuya is an area where street-level shops have high value. Meanwhile, will redevelopment be progressing in such areas as Marunouchi – Otemachi and Nihonbashi in the future, and how will this affect Shibuya? Please let me know your views on the impact on Shibuya.

(Answer)

When comparing redevelopment in Shibuya with that in Marunouchi and Otemachi, we believe that Shibuya has a value that no other area can provide. If we compare these areas to London, Marunouchi and Otemachi correspond to The City, and Shibuya corresponds to West End. With the progress in redevelopment, Shibuya should be able to attract people who find value in the quality of life by providing more entertainment functions as well as office and retail functions. Shibuya is equipped with the foundations that enable provision of such value.

In Shibuya, Tokyu Corporation is the main driver for town creation. However, Tokyu Corporation alone is not enough to create a good town. Participation by other developers in the development of Shibuya and implementation of development from a variety of perspectives should further enhance the value. One of the factors that enabled growth and prosperity of Shibuya in the past was the opening of the Seibu Department Store

and PARCO store.

Tokyu Corporation is engaged in initiatives not only for the hardware buildings and facilities but also for the software services and operations by establishing the VISIT Shibuya Committee. Providing what other towns do not have, should generate more value. As redevelopment of Shibuya also requires funds, TOKYU REIT would like to support development there indirectly with regard to funding.

<Questioner F>

(Question F-1)

Page 31 of the Financial Results Presentation shows the current average rent of 18,000 yen. To what degree do you think it will rise in the coming year or two?

(Answer)

We want a gradual increase. We have had a positive feel over the last six months, as some tenants took up spaces at rents higher than expected or renewed lease agreements with rents unchanged despite our anticipation of a decrease. It will not be easy to achieve the average rent of 19,000 yen any time soon. However, as the negative rent gap is shrinking, we hope to raise the average rent, running before the wind from the market.

(Question F-2)

Do you intend to continue issuing investment corporation bonds in the future as a means to refinance short-term debt? Tell us what you are thinking about investment corporation bonds.

(Answer)

We fund property acquisitions by borrowing short-term debt, but it depends on our judgment at times whether we refinance it by borrowing long-term debt or issuing investment corporation bonds. However, we are not going to excessively depend on investment corporation bonds.

Investment corporation bonds have a higher refinance risk profile than loans. Interest rates on borrowings from lenders have a split of approximately 40 basis points for 7-year loans compared with investment corporation bonds, and we consider the split as an insurance premium for refinancing. Our policy is to reduce the refinance risk of investment corporation bonds by keeping their ratio and volume of issuance under

control. Before the global financial crisis, the investment corporation bond market was closed (it became difficult to issue bonds) earlier than the straight bond market. We should not forget about that risk. If we heavily depend on investment corporation bonds just because the momentary costs are inexpensive, we will have to face a larger risk in the future.