Q&A Session at Explanatory Meeting for Investors and Analysts
For the Fiscal Period Ended July 31, 2018 (30th Fiscal Period)
Held on September 14, 2018 (Summary)

【Q&A】

<Questioner A>

(Question A-1) In regards to your thinking on future property replacements, are you following a policy for selling properties located in areas other than the Tokyu Areas and Greater Shibuya Area and concentrating on core areas such as in the property replacement conducted in the fiscal period ending January 2019 (FP 31).

(Answer A-1) The thinking behind the property replacement of TOKYU REIT Kiba Building and Lucid Square Ebisu conducted in the fiscal period ending January 2019 (FP 31) and that for future property replacements are basically the same. There are three main points concerning the properties to be replaced. The first is location. Among the investment target areas, we replace properties that are located far from core areas with those located closer to core areas. The second point is the age of properties, and the third is the forecast of future value. Renewal of facilities and value enhancement measures will become necessary when properties, including those of large scale, grow older, so we need to consider how value can be maintained in the face of investment in such while taking into account property age.

Priority will be determined based on these three points and properties of which value in the next sales period is assumed to be significantly lower than the current value will be sold and replaced with properties of the same grade or higher. For the time being, we have started looking for sellers from whom we can acquire properties in core areas instead of selling properties. Our thinking behind this is to pave the way for the partial return of funds and capital gain from property replacement to unitholders.

(Question A-2) Unrealized gain is increasing mainly in retail facilities in central Tokyo with the decrease in cap rate for QFRONT, etc., but there is a view that rent corresponding to the appraisal value has not yet been achieved. While the rent gap for retail facilities is 7.3%, is it feasible to increase the rent to a level corresponding to the current appraisal value?

(Answer A-2) QFRONT has the largest absolute amount of unrealized gain. As for QFRONT, we have started discussing for rent revision on December 2019 not only the method of rent revision but also the content and conditions of the contract including the rent level with regard to the future of QFRONT from a medium- to long-term perspective with parties including TSUTAYA, the tenant, and Tokyu Corporation, which is the PM company of the property and also the leader in the redevelopment project of the Shibuya Station area.

We will discuss not only the current rent gap but also methods by which QFRONT, which is said to be the symbol of Shibuya, can look ahead to the future, and intend to reach an agreement on the content of the next lease contract.

(Question A-3) According to the thinking on the acquisition of treasury investment units, can we consider the investment unit price, which as a message from management is undervalued for the current portfolio, to be an appealing factor in the market?

(Answer A-3) Investors have had a high interest in the acquisition of treasury investment units. The acquisition of treasury investment units was reconsidered as an option regarding measures for the proper unitholder return rather than as a message on whether the investment unit price of TOKYU REIT is undervalued. We have incorporated two measures concerning unitholder return; the distribution of capital gain and the acquisition of treasury investment units, as part of a series of management strategies for deciding how to maintain and improve the quality of the current portfolio. The acquisition of treasury investment units is considered to be the preferred option during the period when properties cannot be acquired as desired due to the continuous rise of the price of real estate.

<Questioner B>

(Question B-1) Within the 7.3% gap between current rent and new market rent for retail (urban) shown on page 15 of the presentation material, how much is accounted for by QFRONT?

(Answer B-1) We are not at liberty to disclose any details as they concern the content of the contract, but QFRONT and TOKYU REIT Shibuya Udagawa-cho Square make up a substantial amount of the rent gap for retail (urban), with that of QFRONT being larger.

<Questioner C>

(Question C-1) As for the acquisition of treasury investment units on page 21 in the presentation material, it was said during the previous explanatory meeting for investors and analysts for the fiscal period ended January 2018 (FP 29) that avoiding insider trading is difficult. Has there been any change in the situation from the previous period?

(Answer C-1) Upon the acquisition of treasury investment units, from the viewpoint of insider trading, we believe that unreported important facts which were recognized even before the announcement should not be disclosed after the acquisition of treasury investment units.

At the time of the announcement of the financial results for the fiscal period ended January 2018 (FP 29), replacement projects of TOKYU REIT Kiba Building and Lucid Square Ebisu had already started and we were aware of the possibility that certain gain on sale of real estate would accrue from the said replacement and business results might be revised upward. We have to consider the impact on net income for the relevant period when it is assumed that capital gain will accrue and business results are revised due to property replacements. We believe that the incident of insider trading that occurred half a year ago has been sorted out in our property replacement policy this time as we plan to conduct transactions for property replacement before determining whether we should implement the acquisition of treasury investment units.

(Question C-2) According to page 6 in the presentation material, NOI yield decreased with the property replacement of TOKYU REIT Kiba Building and Lucid

Square Ebisu. When similar replacements are conducted in the future, location will improve albeit dividends will be negatively impacted from the viewpoint of yield. Is the plan going forward to continue conducting similar property replacements that cause decrease in NOI yield?

(Answer C-2) The property replacement was conducted as there would emerge no gap in NOI yield after depreciation between TOKYU REIT Kiba Building and Lucid Square Ebisu. The NOI yield of TOKYU REIT Kiba Building is higher than that of Lucid Square Ebisu but the level of NOI yield after depreciation is about the same for both properties as TOKYU REIT Kiba Building has a higher burden of depreciation. As for future property replacements, we will conduct selective investment in high-quality properties taking into account advantages in building age and location as well as the level of NOI yield after depreciation.

＜Questioner D＞

(Question D-1) It was explained that you will sell properties in other areas and acquire properties in the Greater Shibuya Area and Tokyu Areas based on the idea that the price of real estate in the Greater Shibuya Area and Tokyu Areas will decline more slowly from the peak compared to other areas, but we believe that the price of real estate in the Greater Shibuya Area and Tokyu Areas will decrease sometime in the future. Therefore, we think the level of the cap rate of properties which will soon be acquired will also become important. Is there a lower limit of the cap rate for properties to be acquired?

(Answer D-1) When considering the future of the Greater Shibuya Area and Tokyu Areas, your prediction that the price of real estate in the Greater Shibuya Area and Tokyu Areas will decrease sometime in the future following the decrease in other areas is correct. We believe that we should acquire properties with a bustling atmosphere in line with the characteristics of each area and town when considering the concentration of population, etc., including demographic movements and population aging in the Tokyu Areas. In addition, there will be no significant impact on the portfolio as a whole even if the cap rate of acquired properties rises and the appraisal value decreases as there are few large properties in the Tokyu Areas. Therefore, we will mainly acquire properties in the Tokyu Areas valued at about 1 to 2 billion yen while the property price remains high. Properties worth more than the above amount are assumed to be replaced with those owned by sponsors. As for the lower limit of the cap rate, the level for NOI yield after depreciation should be around 3.5%. However, there are realistically no properties with a cap rate of this level and we will consider acquiring properties if the cap rate is within a range where the yield after depreciation of the portfolio as a whole will not decrease significantly even if it falls slightly below the above level.

(Question D-2) Regarding the policy on acquisition of treasury investment units, TOKYU REIT differs from other REITs in that it uses the proceeds from sales of properties for acquisition of treasury investment units. Is it your policy to not consider acquisition of treasury investment units when there remains on hand no proceeds from sale of properties, no matter how much lower the investment unit price is than NAV per unit?
Also, please tell us about the relationship between the acquisition of treasury investment units and sales of properties.

(Answer D-2) We have shown our policy to use sales proceeds from property replacements as funds for the acquisition of treasury investment units but it is also possible to allocate not only sales proceeds but also a certain amount of cash on hand, which is the difference between depreciation and capital expenditure for each period, to the acquisition of treasury investment units. However, we are considering implementing the acquisition of treasury investment units at time of property replacement as the current amount of cash on hand is insufficient.

(Question D-3) As for the method of the reversal of reserve for reduction entry, the reversal is scheduled to be implemented in line with the accrual of 52 million yen of external wall renovation work costs for TOKYU REIT Shinjuku Building in the fiscal period ending July 2019 (FP 32). How much should the renovation costs of existing properties be when implementing the reversal of reserve for reduction entry?

(Answer D-3) The reserve for reduction entry is assumed to be allocated only to the renovation work of the external wall of TOKYU REIT scheduled to be implemented in the fiscal period ending July 2019 (FP 32) at present. Renovation work of the external wall of each property is implemented once in approximately 15 years but the entire construction cost is assumed to be recorded as repair and maintenance costs as the construction work will not lead to the improvement of the quality of each property. We intend to temporarily allocate the reserve for reduction entry and ensure that there will be no negative impact on distributions for the relevant period if the amount of construction costs recorded as repair and maintenance costs exceeds 50 million yen.