

Q&A Session at Explanatory Meeting for Investors and Analysts for the Fiscal Period Ended July 2019 (FP 32) Held on September 13, 2019 (Summary)

【Q&A】

<Questioner A>

(Question: A-1) With the name change of its Japanese company name, your sponsor Tokyu Corporation, seems to have displayed a further commitment to redevelopments in Shibuya. In regards to TOKYU REIT's collaboration with its sponsor, am I correct in understanding that this relationship has changed?

(Answer: A-1) On September 2, our sponsor changed its Japanese trade name from *Tokyo Kyuko Dentetsu Kabushiki Kaisha* to *Tokyu Kabushiki Kaisha*. (However, its English name remains unchanged as Tokyu Corporation.) As of October 1, the railway business will split off into a separate company and our sponsor will enter into a new structure.

However, even after the railway business splits off, there will be no change to the relationship between TOKYU REIT and Tokyu Corporation as a sponsor, and the income and expenditure structure and the business structure on a consolidated basis. Moreover, we have heard that Tokyu Corporation is committed to developing the Shibuya and Tokyu Line areas over the next 10 years, and that it will invest a considerable amount into these areas. We anticipate many more opportunities for TOKYU REIT to play a part in the next Medium-term Management Plan starting fiscal 2021, within the various sponsor collaboration models including the Capital Re-investment Model.

As we continue property replacements that further concentrate investment in TOKYU REIT's focused investment areas, such as the Shibuya and the Tokyu Areas, we have recognized that preparations are steadily under way that will enable us to further collaborations with our sponsor.

(Question: A-2) It has been announced that the Seibu Department Store behind QFRONT will be reconstructed in 2020 or afterwards. I believe that conducting a joint redevelopment, etc., of QFRONT and the Seibu Department Store, that includes sponsor collaboration, would maximize investor value, but what are your thoughts on this matter?

(Answer: A-2) First of all, as the lease agreement period expires in December 2019 for a major tenant in QFRONT, we are currently in discussions for a contract renewal, and believe that about 80 to 90 percent of the deal has been settled. We will include the numbers into our financial forecast when they are finalized, and we plan to announce the results.

As for the future redevelopment of Seibu Department Store's A and B buildings, we acknowledge that we have heard of the plan, but cannot make any specific comments regarding your question, as we have yet to hear about a joint redevelopment or how Tokyu Corporation might be involved in the redevelopment. Despite this, when thinking of the value of QFRONT and Seibu Department Store in Shibuya, we understand that these would likely be more valuable as a single unit than as completely separate buildings. Although we do not know how this will unfold, we will seize opportunities and will always choose actions that will increase the value of QFRONT.

<Questioner B>

(Question: B-1) In regards to office rent increases, it was said that there was an average increase of 5.7% in the fiscal period ended July 2019. Despite this, page 16 of the Financial Results Presentation indicates that the ratio of tenants with rents lower than market rent will rise for tenants that will revise rents in or after the Fiscal Period Ending July 2021. In light of this, could you explain the office rent increase and leasing situations, including information on whether the most recent rent revisions have been made above market rents?

(Answer: B-1) The status of rent gap for each period between the fiscal period ending January 2020 and the fiscal period ending July 2021 and onward, displayed on The Status of Rent Gap by Renewal Period on page 16 of the Financial Results Presentation, shows rent levels lower than market value against the most recent market rent.

The reason the ratio of tenants with rent levels lower than market value increases from the fiscal period ended July 2019, can be attributed to the fact that tenants renting under market value of newly acquired properties are included, and the fact that with the rise of market rents in the last year and a half, tenants that conducted rent revisions up to the market rent level

a year and a half ago now have room to revise rents as they have once again become rents below market value.

(Question: B-2) In terms of future property acquisitions, you have said that you will assume property exchanges in accordance with the Surf Plan, but could you inform us of how you are thinking to expand asset size, including TOKYU REIT's desire to acquire Class A properties and timing of acquisitions, etc.

(Answer: B-2) Currently, the majority of TOKYU REIT's office buildings are Class B or Class A- properties, but it is not as though we have a policy to not acquire Class A properties. The cap rates of redeveloped, newly constructed properties in the Shibuya area owned by our sponsor, Tokyu Corporation, are well below 3%, at around 2.0 to 2.4%, and if we think of the yields of TOKYU REIT's entire portfolio, we are currently in a difficult situation to acquire properties as we are in the sales and replacement phase of the Surf Plan. While we will make proactive acquisitions during the acquisition phase of the Surf Plan in the future, it will be difficult to acquire Class A properties in the current market.

Under these circumstances, there are no other options to acquire Class A properties with a low cap rate, other than to conduct a property exchange with the sponsor, or to externally conduct a property replacement between properties with low cap rates. While we will constantly challenge the market as we have to seek such properties from those owned by our competitors, we think it will be difficult to conclude a contract under current circumstances.

(Question: B-3) Regarding the replacement of TOKYU REIT Akasaka Hinokicho Building with KN Jiyugaoka Plaza on page 6 of the Financial Results Presentation, TOKYU REIT has disclosed that it disposed of TOKYU REIT Akasaka Hinokicho Building above appraisal value, and acquired KN Jiyugaoka Plaza below appraisal value. However, according to information published by ORIX JREIT, Inc. ORIX JREIT claims to have acquired TOKYU REIT Akasaka Hinokicho Building below appraisal value, and disposed of KN Jiyugaoka Plaza above appraisal value. Why might there be a discrepancy in these appraisal values?

(Answer: B-3) As for the asset replacement of TOKYU REIT Akasaka Hinokicho Building with KN Jiyugaoka Plaza, our trading partner was ORIX JREIT, Inc. and in order to determine selling prices from the same standards and perspectives, we have both obtained an appraisal from an independent third-party institution.

Appraisal values typically generate some level of discrepancies, and the differences in both REITs' appraisal values likely come from differences in medium-to long-term rents estimation. While we believe that there is barely any difference in terms of proximate rents and cap rates for the buildings, our understanding is that differences in medium-to long-term rents and differences in estimates of long-term repair and maintenance have created the difference in the simulations of long-term income and expenditures.

Either way, neither ORIX JREIT nor TOKYU REIT have special arbitrariness. In particular, for TOKYU REIT, KN Jiyugaoka Plaza is located in the Jiyugaoka area by the Tokyu Line, which is a focused investment area of ours. While we believe that this area will do well in the future, which is reflected onto our property operation estimates, this is unrelated to the appraisal value of the building, and is simply the price that TOKYU REIT feels the property should be valued at.

<Questioner C>

(Question: C-1) In terms of the negotiations with the major tenant at QFRONT, how much is the rent gap? Moreover, what kind of issues have been discussed during the contract negotiations?

(Answer: C-1) As the agreement with the major tenant at QFRONT is an ordinary lease contract, in basic terms, the presumption is that the current tenant will continue to occupy the space. Currently, the tenant's rent is about 30% lower than the new market rents, and as the tenant is aware of this gap, we have agreed that the contract would be renewed under new rent conditions when the lease agreement expires in December.

Currently, we are in discussions with the tenant on how long of a period it will take to fill the rent gap, including options of a graduated rental lease. Moreover, in addition to the agreement period after the renewal, we are also having discussions regarding upgrades to the interior of QFRONT

when the contract is renewed, including many discussions on who, the building owner or the tenant, will pay for the various interior upgrades, and how CAPEX, which will be covered by the owner, will be reflected onto the rent.

(Question: C-2) While it was said earlier that negotiations with the major tenant at QFRONT were 80 to 90 percent complete, when do you think you will reach an agreement?

(Answer: C-2) As the current agreement expires in mid-December, the terms of the deal will be solidified by then, and the contract will be renewed. However, I am not able to make specific comments on when an agreement might be reached at the present moment.

(Question: C-3) Regarding the yields of properties acquired, page 5 of the Financial Results Presentation shows that the NOI yield after depreciation was 2.2% for UNIZO Shimokitazawa Building, and I feel that this is low, even when compared to other existing buildings. Is the level of this NOI yield after depreciation a result of the fact that TOKYU REIT highly evaluated the superiority of this building? Does this also mean that TOKYU REIT will step in to acquire buildings with similar cap rate levels? Or was this decision made by factoring the individual upsides, etc., of this building alone?

(Answer: C-3) The NOI yield and the NOI yield after depreciation of UNIZO Shimokitazawa Building recorded on page 5 of the Financial Results Presentation are the expected figures as of the acquisition date, and excludes special items from income and expenditure of the fiscal year in which it was acquired. As UNIZO Shimokitazawa Building's tenants are mostly renting below market value, we anticipate room for growth in rents from a medium-to long-term perspective, which led us to acquire the property. Moreover, the income and expenditure in the first fiscal year includes repair and maintenance costs, etc., and we will work to secure internal growth in the future.

<Questioner D>

(Question: D-1) In the Property Replacement Results section on page 22 of the Financial Results Presentation, the NOI yields after depreciation for total acquisition and total disposition are both 3.3%. Is this figure, 3.3% NOI yield after depreciation, a benchmark for when conducting property replacements? It was also said that low cap rate properties could be replaced with those owned by the sponsor. Is there the possibility that NOI yield after depreciation would decrease further in such as situation?

(Answer: D-1) We do not use 3.3% NOI yield after depreciation as a benchmark, and this was simply the result of the weighted average of the values of the properties that were replaced.

However, when conducting individual property replacements, one of our benchmarks is that the NOI yield after depreciation of properties acquired must be equal to or higher than the NOI yield after depreciation of properties disposed. Moreover, even if the level of NOI yield after depreciation is similar, we also consider whether or not the total amount of the absolute cost of NOI after depreciation is the same or higher, before and after the property replacement.

In regards to how we go about exchanging low cap rate properties, including property exchanges with the sponsor, most of the low cap rate buildings owned by TOKYU REIT have high amounts of unrealized gains, and while yield may be low on an appraisal value basis, yield is high on a book value basis. As such, when we conduct property exchanges, we make considerations based on the premise that unrealized gains of the property to be disposed will be passed on to the unrealized gains of the property to be acquired, through a process called reduction entry in exchange. Similar to the property exchange with the sponsor in March, even if the NOI yield based on the acquisition price decreases, we are aiming for similar or higher yields on a book value basis.

(Question: D-2) While past Financial Results Presentations have been hosted near Otemachi, was there any purpose behind hosting it at SHIBUYA STREAM today? In the future, do you have any plans to acquire buildings like SHIBUYA STREAM, a Class A property located in Shibuya that was developed by the sponsor, through property exchanges?

(Answer: D-2) While there was no special purpose behind the selection of the location for this presentation, in the past, when introducing TOKYU REIT's portfolio, we have touched on redevelopments around Shibuya Station. As SHIBUYA STREAM opened last year, we thought we would arrange an opportunity for people attending this presentation to see the current situation of development in Shibuya, just as SHIBUYA SCRAMBLE SQUARE is set to open in this November.

<Questioner E>

(Question: E-1) In your future relationship with the sponsor, could you inform us as to what kind of properties you will be acquiring through the pipeline, starting with properties within Greater SHIBUYA Area?

(Answer: E-1) In regards to the pipeline coming from the sponsor, there is an overlap between the area that our sponsor is developing along the Tokyu Line and TOKYU REIT's focused investment area, and Shibuya is at the core of this overlap.

As such, based on the thought process behind the Capital Re-investment Model that TOKYU REIT employs in the area, it is likely that a property transaction will take place, but specifics such as when, which properties, and how they would be transacted have yet to be determined. The current Medium-term Management Plan of the sponsor lasts until fiscal 2020, and future discussions will be about how we might collaborate in the next Medium-term Management Plan.

(Question: E-2) In terms of the Surf Plan, you said that you are currently in the sales and replacement phase. Could you explain when the transition to the next stage would take place, and what kind of measures you would take after transitioning to the next stage?

(Answer: E-2) While we believe we are currently in the sales and replacement phase of the Surf Plan, there is no clear plan on when and how we might transition to the next stage.

Despite this, so long as there are no major external factors, we are of the understanding that the sales and replacement phase will continue until at least 2020. In the meantime, we will continue property replacements based

on the “Capital Re-investment Model” in the focused investment areas of the sponsor and as recorded in the “Surf Plan” on page 21 of the Financial Results Presentation.

When real estate prices peak and prices begin to fall, we believe that we should hold back on acquiring properties, but we also believe that once the prices have fallen to a certain level, we should proactively look to acquire the next property. In preparation for this acquisition phase, at the moment we are lowering our LTV further and are preparing a financial base that will enable us to make flexible property acquisitions.

(Question: E-3) Could you clarify what you think about the current real estate market? Are we in a period before its peak, or in the peak?

(Answer: E-3) While we believe that the peak has already passed, we have the impression that the current situation is different from past peak out periods. Mass supply is scheduled for Class S properties in central Tokyo in 2020, and we hope to pay attention to how the primary and secondary vacancies created there will impact the rest of the market.