

Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended
July 2020 (FP 34) Held on September 15, 2020

[Q&A]

<Questioner A>

(Q: A-1)

Concerning the Assumed Move-Ins and Move-Outs Based on Financial Results Forecast described on page 3 of the presentation material, you said that the assumption of additional vacancy is factored in for offices. Is it correct to understand that move-out risks for retail properties are not factored in?

(A: A-1)

For the move-out risks of offices, assumption of additional vacancy is factored in as a buffer assuming the case where a certain volume of move-outs arises on top of the normally assumed volume. For retail properties, assumption of additional vacancy is not factored in because sufficient move-outs are factored into the normal assumption of move-ins and move-outs in addition to rent reduction/exemption being factored into monetary amount.

(Q: A-2)

As for upward rent revision for offices, while steady progress has been made up until the fiscal period ended July 2020 (FP 34), what is the future outlook? There has been a media report that offices in the Shibuya area are seeing more move-outs. Do you actually feel that happening?

(A: A-2)

Although we have been able to realize upward rent revision steadily up until the fiscal period ended July 2020 (FP 34), we are now finding it difficult to negotiate for upward rent revision with tenants paying lower-than-market rent due to their situations, etc. We are negotiating with tenants who intend to renew their contracts by first continuing to ask them to understand the trends of market rent and negotiating upward revision while scaling back the amount of increase or allowing for rent to remain unchanged for the moment but asking for possible upward revision next time.

The media has been reporting on an increase in move-outs among offices in Shibuya. However, at properties owned by TOKYU REIT (TOKYU REIT Shibuya R Building and Shibuya Dogenzaka Sky Building), we have been able to receive move-in applications despite some move-outs as well as reduction of floor area by tenants. It is possible that concluding a lease contract with favorable conditions may become difficult going forward,

but there are no worrying factors concerning the occupancy rate. Furthermore, at the two properties (Tokyu Nampeidai-cho Building and Tokyu Sakuragaoka-cho Building) occupied by Tokyu Corporation, the sponsor, rent revisions in line with market rent have been implemented and the occupancy rates remain at 100%.

(Q: A-3)

Will you continue with property replacement going forward? At what timing will the Surf Plan enter its acquisition phase?

(A: A-3)

We intend to continue with our property replacement strategy at least until the end of the year. Although there are currently no cases under negotiation, we would like to respond positively if we are approached by any interested buyers/sellers. There has been no change in our replacement policy under which we prefer to dispose properties located in central Tokyo (mainly aged office properties) and replace them with properties located in Shibuya or the Tokyu Areas. Under the Surf Plan, we see ourselves amid the final stage of the Sales and Replacement Phase and moving toward the Acquisition Phase as property prices pass their peak, although uncertainty remains due to the impact of COVID-19. Because transaction prices have continued to remain high even under the impact of COVID-19, it is unlikely that property prices will fall significantly going forward. For the time being, we intend to keep LTV low and prepare for the next Acquisition Phase while continuing to follow the current policy.

<Questioner B>

(Q: B-1)

Concerning deferment of rent payment described on page 3 of the presentation material, you said that almost the entire amount of accounts receivable from deferred payment would be collected in the fiscal period ending January 2021 (FP 35). How feasible is such collection?

(A: B-1)

Concerning the 18 tenants for which we allowed deferment of payment in the fiscal period ended July 2020 (FP 34), we gave them a maximum extension period of six months for 50% of net rent for two or three months and see no problem when it comes to collection. Since we have received security deposit equivalent to nine months' rent on average from those tenants, we are secured even if the amounts receivable is not collected.

(Q: B-2)

As to the upward rent revisions realized in the fiscal period ended July 2020 (FP 34), were they agreed upon under the COVID-19 pandemic or were they agreed upon before the pandemic?

(A: B-2)

Most of the upward rent revisions in the fiscal period ended July 2020 (FP 34) were virtually agreed upon before the appearance of the impact of COVID-19. Although more than half of tenants faced new increased rents during the period from April to June 2020, the period impacted by COVID-19, there were no tenants rejecting upward rent revisions even then. As such, we think we were able to continue to show results on upward revision under a relatively favorable environment.

(Q: B-3)

What is your view (or view incorporating the sponsor) of the market of the Shibuya area over the long term?

(A: B-3)

Although it is difficult to predict the future office market in Shibuya, we believe that once the COVID-19 pandemic ends, office demand in Shibuya will recover. It is true that some tenants have moved out or relocated to areas with lower rent due to COVID-19, but one of the reasons for this is that the office rent in Shibuya surged in recent years centering on new, large-scale properties owned by the sponsor. Because offices in the Shibuya area continue to remain popular, we believe the market will be active once market rents are brought down, and the market will enjoy needs mainly from tenants leasing offices in the Gotanda, Shinagawa, and other surrounding areas because of the high rent level in Shibuya.

The new, large-scale properties of the sponsor, which have led to a rise in market rent in Shibuya, are under long-term, fixed-term lease agreements with tenants, and thus the current rent level may be unchanged during the lease period for those properties. However, the rent level of other offices in the area, which has been overheated, is likely to calm down in accordance with actual demand.