Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended July 2021 (FP 36) Held on September 13, 2021

[Q&A]

<Questioner A>

(Q: A-1) Regarding the outlook of move-ins/move-outs of tenants at Tokyu Toranomon Building, page 16 of the presentation materials shows the anticipated move-ins for the period ending July 2022, but are the leasing status and unit rent as initially expected? Moreover, has the tenant that is to occupy the vacated spaces in Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building) already concluded a contract?

(A: A-1) A single tenant had been occupying the existing space of Tokyu Toranomon Building up to the end of July this year. This made it difficult to conduct viewings and so full-fledged leasing activities have been launched since the tenant moved out. Negotiations with potential tenants are currently underway for the retail section on the 1st floor as well as 3 office floors above. Leasing up the other sections will depend on leasing activities going forward. Because the rent level had previously been just below 30,000 yen per tsubo, our intention is to use this as a reference as we determine unit rent through negotiations with occupying tenants, also considering the granting of free rent. While the current move-in target is by the end of the fiscal period ending July 2022, because the scheduled completion is the end of June 2022, the earliest time for the move-in would be early July and, because free rent and such is considered, revenue contribution during the fiscal period ending July 2022 is not incorporated.

Tokyu Agency Inc., the tenant that is renting the entirety of Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building), is scheduled to move out at the end of February 2022. Leasing activities are being diligently carried out eyeing occupancy in July 2022 upon reconditioning work following the departure, but there is no confirmed successor tenant at present.

(Q: A-2) Tokyu Corporation, the sponsor, plans to sell properties more aggressively. What kind of communication is taking place with the sponsor regarding property transactions?

(A: A-2) The sponsor formulated a three-year Medium-Term Management Plan that begins in fiscal 2021 and is advancing its initiatives, but as the railway, hotel and other sectors have been significantly impacted by the COVID-19 pandemic, as for income and expenditure, it has only indicated its specific plan for fiscal 2021 and it is thought that the sponsor plans to announce its new figures for fiscal 2022 and beyond next spring. Regarding disposition of properties to TOKYU REIT through the sponsor pipeline during the Medium-Term Management Plan period, while we are negotiating several candidate properties, nothing specific has been confirmed at this point. Because the sponsor is expected to exceed its target for fiscal 2021 through the disposition of other properties, the plan is to work out the details for sponsor pipeline in fiscal 2022 and after. No transactions are confirmed but a collaboration based on the Capital Re-Investment Model will likely come to be realized, though this will be a little further off in the future.

<Questioner B>

(Q: B-1) What is your approach to property replacements or property exchanges? I would like to know if replacements or exchanges will be the main focus in the meantime or if there is a possibility that property sales will slow down so that the asset size can be increased, and also what your policy for transactions with the sponsor is like.

(A: B-1) Prices in the real estate transaction market continue to be high and there are no signs that they will start to fall, so I think we are still in the sales-and-replacement phase of the Surf Plan. Because it is also important to realize total return to unitholders in managing the portfolio of TOKYU REIT, we believe that replacements should be actively pursued as well as that final capital gain should be obtained in the sales-and-replacement phase while prices remain high. When replacing properties, it is desirable to conduct mutual property replacements with a single party, but we must also consider transactions with different parties by aligning the timing. Under the current circumstances of the market, simple acquisitions are difficult from the view of property yields and transactions will mainly be a combination of acquisition and sale. While the size of the portfolio will not change significantly, we believe that it is necessary to improve the quality of the portfolio through property acquisitions while securing capital gain and develop a track record of property acquisitions that is unique to TOKYU REIT. The same applies to property replacements or property exchanges with the sponsor and because it is possible that TOKYU REIT will make simple acquisitions from the sponsor in the future due to the sponsor’s fund needs, we will keep an eye on the overall balance of the portfolio while looking at the situation of the real estate transaction market and continue replacing properties for the time being.

(Q: B-2) The lower limit of distributions is shown to be 3,400 yen and TOKYU REIT has a tendency to revise its distribution forecast upwards. If there is another upward swing, will the reversal of internal reserves be maintained to increase distributions, or will the reversal of internal reserves be reduced to maintain the distributions of 3,400 yen? What is your approach to this lower limit line?

(A: B-2) The lower limit of distributions indicates our policy of maintaining distributions at a minimum of 3,400 yen through the use of gain on sale of real estate, etc., reversal of reserve for reduction entry, etc. during the period up to the fiscal period ending July 2022 when revenues will decrease due to the extension work at Tokyu Toranomon Building. The income and expenditure forecast for the fiscal period ending July 2022 is a conservative estimate. While move-ins at Tokyu Toranomon Building and Akasaka 4-chome Building (Tokyu Agency Inc. Head Office Building) is expected for the period ending July 2022, contribution to revenue is not anticipated for that period as the granting of free rent is assumed. Early leasing of vacated spaces, shortening free rent periods or an increase in the rent level would be upside factors. The reversal of reserve for reduction entry which is incorporated into the forecast for the fiscal period ending July 2022 is for maintaining distributions around 3,400 yen, and so if there is an upswing, we intend to maintain the level around 3,400 yen and reduce the amount of reversal of reserve for reduction entry. If property replacements that are currently being deliberated are concluded, it is expected that capital gain from sold properties will be generated, and if additional gain on sale of real estate, etc. is recorded, we will reserve the amount while also raising the distribution level.

(Q: B-3) It has been said that utilities expenses are on the rise with the introduction of CO_2-free power supply. Is the idea to increase demand from potential tenants despite an increase in costs, or is it that certain cost must be borne as part of obligations to society? What are your thoughts on costs and benefits when it comes to environmental initiatives?

(A: B-3) We have been reviewing electric power costs through competitions once every two years since the liberalization of the electricity retail business. Then, we received notice from the power company to which we were contracted that there would be an increase in the price of general electric power. With this, we conducted a competition ahead of schedule and received a proposal for the introduction of CO_2-free power supply which would be a realistic initiative for decarbonization as a REIT. Upon considering the proposal and confirming that electricity expenses could still be reasonably controlled, we decided to adopt CO_2-free power supply as part 1 of our initiatives for the government's 2030 and 2050 targets. The introduction of CO_2-free power supply increases costs by slightly above 40 million yen per period compared to previous electricity expenses, but this can be absorbed through cost control in the entire portfolio. Regarding the exclusive area of tenants, partial transfer of costs to tenants is likely possible, and so it is within the scope of coverage in the income and expenditure. Such were the factors leading to the decision to introduce CO_2-free power supply. We also deemed that there would be significant benefits in future leasing due to the contribution to reducing funding costs and incorporation of demand for green power by office tenants.