Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended July 2024 (FP 42) Held on September 17, 2024

TOKYU REIT, Inc.

[Q&A]

<Questioner A>

(Q: A-1) You made an additional acquisition of trust beneficiary interest in an office building in the fiscal period ended July 2024. Could you tell us your view of the current situation with respect to the office market, taking into account the status of your existing owned properties as well?

(A: A-1) With regard to the additional acquisition of trust beneficiary interest in Tokyu Bancho Building, since we recorded a reserve for reduction entry of replaced property due to the disposition of Tokyo Nissan Taito Building, it was necessary to acquire an asset to offset it. Given that the real estate transaction market remains overheated, we had been holding ongoing discussions with our sponsor about the acquisition of replacement properties. We decided to acquire Tokyu Bancho Building because it was the ideal property among the candidate properties available from the sponsor, not because we preferred to acquire an office building. Since the end of the COVID-19 pandemic, Tokyo's office market has been favorable, and there is healthy demand in the areas where our portfolio properties are located. Also, with the current labor shortage, there are companies that view improving their office environment as a recruitment strategy, and the market is recognized as favorable in Tokyo's five central wards, including Shibuya.

(Q: A-2) You announced that the sponsor made an additional acquisition of around 5% of your investment units. Could you explain the context for prioritizing the additional acquisition by the sponsor rather than acquisition of treasury investment units, which has a direct impact on profitability per unit?

(A: A-2) Both companies have been considering additional acquisition of investment units by the sponsor for some time as the first step in enhancing collaboration between the sponsor and us in the future. The recent acquisition was proposed to us around the time that the sponsor announced its Medium-term Management Plan. The sponsor told us that it viewed the additional acquisition of investment units as having the same purpose as enhancing sponsor pipeline support. Going forward, we believe it is necessary to improve the portfolio's quality through property replacement and return a portion of unrealized gains due to property disposition to our unitholders. When replacing properties, our basic policy is to dispose of properties to third parties and acquire them from the sponsor. In the context of this policy, acquisition from the sponsor is the core pillar of our external growth strategy, so we consider the recent acquisition of additional investment units, which contrasts with it, to be consistent with achieving medium- to long-term profits for our unitholders.

We considered acquiring treasury investment units and made the required preparations, but given that the additional acquisition by the sponsor involved a large amount of investment units, we prioritized that with the aim of vigorously pursuing our strategy of future external growth. However, in the future, if there is a discrepancy between the timing of property disposition and sponsor pipeline support leading to a surplus of funds, we will actively consider acquiring treasury investment units as well upon comprehensively taking into account factors such as market trends, cash on hand, and LTV level.

<Questioner B>

(Q: B-1) Going forward, will the rate of property replacement accelerate, or will the status quo be maintained?

(A: B-1) In the latest financial results, we raised the distribution level by 100 yen compared with the previous financial results and set a medium-term target for Adjusted EPS.* Going forward, we believe that replacement of properties will accelerate in alignment with the sponsor's Medium-term Management Plan through FY2026, and in conjunction with this, the distribution level will improve too.

*Adjusted EPS = EPS – Gain on sale of real estate, etc. per unit + Amount of reversal of reserve for reduction entry of replaced property per unit

(Q: B-2) With regard to capital expenditures, you newly disclosed the proportion of "Construction contributing medium to long term property value improvement". When will this be reflected in your results via rent increases and the like? And do you set a hurdle rate or the like when carrying out this construction?

(A: B-2) As a rule, we make capital expenditures within the range of depreciation expenses, and they are reflected in our results when we replace tenants or revise their rents. At present, construction costs are soaring, so we do not make decisions to carry out construction based on uniform criteria; rather, we compare rent increases and costs, then make a comprehensive evaluation.

<Questioner C>

(Q: C-1) When will you achieve the Adjusted EPS target of 3,500 yen? And could you break down the upside for various factors, including internal growth, external growth, and financial performance?

(A: C-1) In terms of when we will achieve the target, we consider the fiscal period ending January 2027, which is the end of the final fiscal year of the sponsor's Medium-term Management Plan, as a target date. The three elements required to achieve this target, taking the forecast EPS of 2,980 yen that we announced for the fiscal period ending July 2025 as the starting point, are as follows: 1) around 310 yen increase in income through filling of vacant sections in existing properties and upward revision of rents for tenants already under contract, 2) around 70 yen decrease in expenses due to special factors expected to occur in the fiscal period ending July 2025, and 3) around 40 yen increase in profit through acquisition of property to replace CONZE Ebisu. If these are added, the EPS will be around 3,400 yen, and regular reversal of reserve for reduction entry of replaced property (buildings) adds nearly 100 yen each fiscal period, so we forecast that the Adjusted EPS will reach 3,500 yen.

(Q: C-2) You have said that the sponsor's additional acquisition of investment units will maintain and enhance sponsor support, including property contribution, but could you tell us if there are any changes in the details of and approach to property contribution from the sponsor?

(A: C-2) The sponsor will have funding demands for purposes such as future large-scale development projects, and I presume that whether it acquires dividend income through additional acquisition of investment units or acquires gains on sale through property contribution will depend on its future income and expenditure status. Due to the recent additional acquisition, the percentage of our issued investment units owned by the sponsor will be 10% at most, and I think that in the future it may prefer property contribution.

(Q: C-3) In relation to question C-1, what is the assumption of increasing borrowing costs?

(A: C-3) A certain increase in borrowing costs is included in the results forecast, but any increase in borrowing costs beyond that is not included. However, only rent increases that are definite have been included. It is assumed that there will be a gap in the timing of the impacts of increased borrowing costs and rent increases, but we presume that their impacts will cancel each other out in the medium to long term.

<Questioner D>

(Q: D-1) With the announcement of the sponsor's Medium-term Management Plan, is it possible that there will be changes in the type and size of assets that are contributed?

(A: D-1) I presume that the sponsor's policy will be to change the buyer based on the conditions for each contributed property, rather than disposing of properties only to us. We also have a policy of not acquiring properties that do not match our investment policy. In the future, it is possible that the sponsor will dispose of a wide variety of properties, but I presume that there will be no major changes in the characteristics of the properties we acquire compared to those we have acquired to date.

(Q: D-2) What is the forecast effect of the renovations to QFRONT?

(A: D-2) Since our contract with existing tenants enables the rent to be increased by 5% once every three years, it will be possible to cover the increased repair and maintenance expenses borne by us through rent revisions.