Q&A Session at Explanatory Meeting for Investors and Analysts
For the 28th Fiscal Period Ended July 31, 2017
Held on September 14, 2017 (Summary)

【Q&A】

<Questioner A>

(Question A-1) How does Tokyu REIT consider the outlook for vacancy rates and rents up to 2020 with regard to the overall office market conditions?

(Answer A-1) We indicated the materials of the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.) on page 37 of the presentation material. It is forecasted that new market rents will remain flat and vacancy rates will increase in 2018. This is due to the impact of the mass supply of Grade A office buildings in central Tokyo but as indicated in the lower right of page 37, 16% of Tokyu REIT's portfolio is Grade A minus office buildings and the remaining are Grade B properties or properties with a lower grade. We believe that the completion of Grade A office buildings will first intensify competition among Grade A office buildings but will not lead to the increase in vacancy rates of Grade B office buildings at an early stage. The new market rents of office buildings owned by Tokyu REIT almost became flat but the impact of secondary and tertiary vacancies such as a rapid increase in vacancies and the decrease in market rents due to the vacancies will not be seen soon. We expect that the occupancy rate will remain at a level close to the highest level ever and there are already candidates for the next tenants in sections where tenants are forecasted to vacate. Accordingly, we believe that the occupancy rate and rent level of Tokyu REIT's properties will continue to remain stable going forward.

(Question A-2) There was an explanation that despite the mass supply of office buildings in the overall market, the impact is limited at Tokyu REIT. Do you currently have an option to progress leasing activities by prioritizing a more expensive rent rather than occupancy in a situation where the occupancy rate of office buildings is extremely high including at other REITs?

(Answer A-2) Tokyu REIT continuously considers and conducts value enhancement work of properties. In particular, we systematically invested in the interior of exclusive areas and common areas at Setagaya Business Square as planned with the move-out of large tenants. Tokyu REIT recognizes that the current rent level can be maintained through these measures and as for the future upside, we would first like to increase the rent of tenants that are lower than market rent to the same level as market rent, since the impact of the downtrend in neighboring markets cannot be avoided to a certain degree. We believe that it will take time to increase the rent to a level exceeding the market rent. Accordingly, we believe that we should strive to increase occupancy now when the rent level is fixed and normalized to a certain degree, and focus on shortening downtime when tenants move out.

(Question A-3) There was an explanation that the cap rate is continuously decreasing and there is a risk that it might peak out. We believe that it is necessary to increase occupancy and rent to protect the asset value as an asset management company since the cap rate cannot be controlled. Therefore, we believe that it is easier to maintain the asset value even when the market condition is reversed by increasing rent regardless of occupancy when the real estate rental market condition is favorable, but what do you think?

(Answer A-3) We are continuously making efforts to raise the rent of current tenants regardless of the market rent. For example, we are making efforts to further increase rent by conducting value enhancement work of properties although it is difficult to progress a plan to incorporate excessive rent increases.

<Questioner B>

(Question B-1) As indicated on page 16 in the presentation material, the number of property information is increasing after changing the investment policy concerning property acquisition, but is the number of properties that are being considered in detail also increasing? In addition, with regard to the number of property information, we would like to know the breakdown of the number of information obtained from sponsors and the number of external information.

(Answer B-1) In proportion to the increase in the number of property information, the number of properties that are being considered in detail is also increasing.

On page 16 in the presentation material, it is indicated that there was 90 property information in this period but this does not include information obtained from sponsors and all of them are external information. As for the sponsor pipeline, we are currently progressing considerations apart from the above. We still have not reached a specific agreement but will continue to make considerations going forward.

(Question B-2) We believe that the transactions of properties will be implemented in the sales period based on the Surf Plan, and we would like to know if you have any policies such as returning profits to investors by selling properties or considering transactions only through property replacement from the viewpoint of the decrease in revenue through sales.

(Answer B-2) We conducted property replacement with the sponsor in the fiscal periods ended July 2016 and January 2017 and as for TOKYU REIT Hatchobori Building, we only sold the building. We conduct property replacements and sales after considering how aged properties in the portfolio should be in the future assuming the Surf Plan, and we have no policy to sell properties by considering only the forecasts of market trends. The property replacement with the sponsor was a transaction in which we sold a retail property in front of Saginuma station along the Tokyu line and acquired a new office building in central Tokyo, and decisions were made in a series on a time axis of returning old properties to the sponsor, redeveloping them and providing the properties again as a large-scale redevelopment is scheduled to be implemented by the sponsor in the Saginuma station area.

As for acquisitions, we have a strong preference for locations such as Tokyo Central 5 Wards and Tokyu Areas, and as for sales, we will make additional investments in aged properties and judge whether we should continue to own the properties or sell them in the next acquisition after considering the price trends as of that time and collecting funds through sales. As of now, we have already sold the properties that need to be replaced or sold.

<Questioner C>

(Question C-1) It is said that the exposure of Tokyu REIT's retail property portfolio is strong in Shibuya and Tokyu REIT can receive the benefits of the upside in Shibuya from overseas investors. We believe that upside can be pursued as there is a certain rent gap in retail properties as mentioned on page 13 in the presentation material, but what do you think?

(Answer C-1) Currently, most of the retail properties of Tokyu REIT are located around Shibuya. In Shibuya, there is a wide rent gap in QFRONT and TOKYU REIT Shibuya Udagawacho Square, and the increase in the market rent in recent years has not been reflected on the rent revisions as a lease agreement with a long rent renewal period has been concluded. It is important how close the rent is to the market rent upon upward rent revisions at the stage of the next rent negotiations.

(Question C-2) When will the rent of QFRONT be renewed next?

(Answer C-2) The next rent renewal of QFRONT will be in 2019 and it is outside the range of the current financial results forecast. We are currently making preparations to let tenants understand the value of QFRONT in Shibuya upon rent renewal and connect this to rent revisions.