Main Q&As at the Fiscal Period Ended November 2024 (38th Fiscal Period) Earnings Announcement of Daiwa Office Investment Corporation (DOI)

Date and Time: 15:30-16:15, January 23, 2025 (Thursday)
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*Questions are presented in sequential order.

Q1. Excluding the effects of the acquisition and cancellation of own investment units, it seems that the image of the cruising period has not changed since the last financial results announcement. Should we expect the future distribution level to increase if rent level rises, such as capturing the 10% rent gap?

(Answer)

By capturing the rent gap, we believe that the EPU level would reach 6,920 yen in the cruising period. We aim to achieve distribution growth by capturing the anticipated rent gap in the future, leading to further rent increases, and by promoting internal growth that surpasses various cost increases such as interest rates.

Q2. Is it correct to understand that there has not been an upward revision of the distribution compared to the previous financial results announcement?

(Answer)

Due to expansion of the rent gap, we anticipate that distributions in the medium term will exceed previous expectations compared to the last financial results announcement. On the other hand, in the short term, we are considering the potential impact of the interest rates rise compared to the previous announcement. However, we do not expect interest rates to continue rising indefinitely. By steadily capturing the expanded 10% rent gap over the next 4 to 5 years, we believe that internal growth will surpass the rise in interest rates, leading to higher distribution levels than previously anticipated in future periods.

Q3. On page 17 of the presentation, "Number of properties reviewed in detail" for acquisition has decreased. Does this mean that acquisition opportunities are becoming fewer, leading to a reduction in replacements as well? As Non-Real Estate Sponsored REIT, how do you plan to increase property acquisition opportunities in the future?

(Answer)

The decrease in the number of properties reviewed for acquisition is due to a reduction in the number of office property proposals. It is not that we refrain from selling properties because there are no acquisition opportunities; rather, we continue to consider property sales as part of our strategy.

Regarding property acquisitions, including the two development projects we have undertaken in the past, as Non-Real Estate Sponsored REIT, we often receive various inquiries because we are not associated with any specific developer. By securing such diverse sourcing routes, we will continue to consider acquisition of highly competitive properties.

Q4. Recently, it seems that large-scale offices are experiencing greater rent increases. Is there a possibility of making minor changes to the portfolio or acquisition strategy that is currently focused on medium-sized offices?

(Answer)

We do not intend to change our strategy centered on medium-sized offices. While it is true that some large buildings are seeing rent increases, we believe that new supply of medium-sized buildings will decrease further, especially considering the rising construction costs in the future. This will increase the scarcity and value of existing medium-sized office buildings.

Q5. You mentioned that the fiscal period ending May 2025 will be the cruising period. Can we expect the NOI margin to expand in the future, considering property operations and excluding the impact of interest rates?

(Answer)

We believe that the costs associated with property operations can be controlled to a certain extent. As we capture the rent gap, the revenue will surely increase, and accordingly, the NOI will also expand. Regarding rental income, we aim for a 1.25% increase per period by capturing the rent gap, and since most of this is expected to contribute to the increase in NOI, as you pointed out, we believe that the NOI margin will expand.

Q6. On page 8 of the presentation, use of the proceeds from the sale of "Daiwa Tsukishima" is mentioned, how are the priorities for repayment of loans and new property acquisitions, which are not checked, determined? Additionally, as other investment corporations are increasingly disclosing capital costs, what criteria do you use to decide the allocation ratio of capital, if such a policy has been determined?

(Answer)

First, regarding capital costs, we are currently considering what indicators would be appropriate for our strategy, including whether to disclose them. However, regardless of the indicators set, we believe that increasing the investment unit price through internal and external growth will lead to the enhancement of investor interests. Therefore, at this time, we aim to achieve internal growth by capturing the rent gap and to return profits through property sales, such as the sale of "Daiwa Tsukishima", as well as to consider acquiring our own investment units.

Taking these factors into account, the priorities for repayment of loans and property acquisition will be determined by considering various elements, such as the LTV levels and the candidate properties available at the time.

If we decide to set and disclose capital cost indicators in the future, we will inform everyone accordingly.

Q7. Why did you decide not to acquire your own investment units this time?

(Answer)

The acquisition of our own investment units is certainly an option and we are considering it. However, we believe that a certain scale is necessary when carrying out such an acquisition. Given that the second sale amount of "Daiwa Tsukishima" is lower than the previous one and considering the current LTV levels, we have not announced it this time.

Q8. Regarding the performance forecast, does it incorporate the impact of interest rates? Can you explain the assumptions for interest rates up to the fiscal period ending November 2025?

(Answer)

For the benchmark interest rate, we have prepared the budget based on the assumption that it will rise by 15 basis points in January 2025. Beyond that, we have created the budget assuming a gradual increase of a few basis points per period.

Q9. In the news release "Notice Concerning Divestment of Trust Beneficiary Interest in Domestic Real Estate (Daiwa Tsukishima)", the difference between the selling price and the book value is stated to be 3.5 billion yen. However, the recorded gain on sale in the financial results presentation materials is 2.5 billion yen over three periods, resulting in a 1 billion yen difference. What is the reason for this difference?

(Answer)

For the sale of "Daiwa Tsukishima", it was assumed that a certain number of tenants would vacate. Most of the 1 billion yen difference is attributed to the relocation costs for these tenants.

Q10. Regarding LTV, LTV based on appraisal is 34.5%, and LTV based on total assets is 44.7%. What levels are considered as benchmarks for each?

(Answer)

We have always aimed to control LTV based on total assets within the range of 40% to 50%, and this policy remains unchanged.

On the other hand, we have recently noticed an increase in the number of lenders and other stakeholders who evaluate LTV based on appraisal. Although we have not yet determined specific levels, we plan to develop future strategies by also taking into consideration LTV based on appraisal.

Q11. What are your current thoughts on property replacements?

(Answer)

We have undertaken significant property replacements in the past, and we intend to continue this strategy. If suitable properties are available, we will proceed with replacements as appropriate. We also consider using the funds from property sales for acquiring our own investment units. As mentioned earlier, we believe that increasing the investment unit price is the mission currently assigned to the investment corporation. We will continue to employ all necessary means to enhance investor value without any sacred cows.

Q12. Why is there a plus 5 yen in rental income from existing properties for the fiscal period ending May 2025 ? Also, how are you utilizing setup offices for leasing?

(Answer)

To maximize EPU during the cruising period, we are leasing by providing rent holidays or free rent to tenants to secure higher rental unit prices. Due to these measures, some properties have shown positive results while others have shown negative results, resulting in a net increase of 5 yen.

Regarding setup offices, we are presenting them as one of the options to tenants to meet various tenant needs and conducting leasing activities accordingly.