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Main Q&As at the 36th Fiscal Period Earnings Announcement of Daiwa Office Investment Corporation (DOI)

Date and Time: 15:30-16:05, January 23, 2024 (Tuesday)

Presenter: Yoshiaki Nishigaki, President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. While the gap between the distribution and the EPU for the fiscal year ending November 30, 2024 has widened, when compared previously, has the hurdle to bring ongoing EPU of 13,700 yen become higher? Also, you mentioned that if the occupancy rate of the properties with issues is improved, you would have been able to achieve ongoing EPU of 13,700yen, at what rate would you expect the occupancy rate for the portfolio to rise to achieve this goal?

(Answer)

"Daiwa Sasazuka Tower" has indeed experienced a cancellation of a large section of the building, and the EPU is expected to fall in the fiscal year ending November 30, 2024 due to the cancellation. However, the rent was lower than the market rate, and if the tenants decide to move in at the market rate we expect, it will be possible to recover the rent by about 300yen for EPU.

In addition, there are several vacant units, including "Shinjuku Maynds Tower", and if we are able to fill these units at the expected rate, we should be able to recover to a considerable extent from 12,400yen for EPU for the fiscal year ending November 30, 2024.

Assuming that the free rent will be resolved to a certain extent, we expect to achieve ongoing EPU 13,700yen, if the occupancy rate of the properties with issues rises to around 97.5%.

Q2. The current share price is about 0.8 times the NAV multiple, will you conduct buy-back of own investment units? If not, what would be the reason?

Also, the sponsor owns about 40% of DOI's unit's, is this an obstacle to carry out buy-back?

(Answer)

We don't think that the fact that the sponsor owns around 40% of DOI's units is a major restriction on carrying out the buy-back. We would naturally like to buy-back our own units if the opportunity arises.

Q3. "Daiwa Akihabara" had two floors on a contract basis with an occupancy rate of 17%, you expect to an assumed occupancy rate of approximately 70% at the fiscal year ending November 30, 2024. I would like to ask about the accuracy of achievement.

(Answer)

We have received quite a few inquiries, and we are in discussions with several potential tenants. Based on those inquiries, we believe that we can expect to reach 70% occupancy at the fiscal year ending November 30, 2024.

Q4. Are there new development projects or development properties that are likely to be developed?

(Answer)

There are several projects that we are currently discussing. Whether or not we will put them into action will depend on our consideration.

Q5. With regard to "Shinjuku Maynds Tower", you mentioned that you will continue to conduct leasing, and that two of the four units have been leased, and that you expect the rents for the other two units to exceed the previous tenants' rents. What is the current status?

(Answer)

We are receiving steady inquiries, we believe that we will be able to increase the rent by 10% to 20% from the previous level.

Q6. There will be a large volume of supplies in 2025. What is your outlook for market rent and vacancy rate going forward?

(Answer)

We are aware that the concern about the large volume of supplies is mainly about the S and A classes. Regarding Class S and Class A, leasing in Shibuya has been relatively strong, while leasing in other areas has been a bit sparse. The situation for medium-scale office building, which are DOI's main battlefield, we recognize that it is far from a situation where leasing is difficult there is a large supply, not only in Shibuya but also as a total portfolio.

Especially since last November, the number of leasing inquiries has increased considerably, and compared to July, when we announced our financial results last July, I think it is clear that demand has improved. In that sense, the recovery in the market, especially in the market for medium-scale office building, is expected to be stronger and will continue for the foreseeable future. I understand that the timing has come to assess the speed of the current improvement situation.

Q7. If the two planned properties to be acquired by borrowing, the LTV will rise to about 44%, what is your thoughts on LTV?

(Answer)

We believe that it is appropriate for LTV to remain in the 40% to 45% range, and even if we increase borrowings it will only be around 44%, so we believe that this is a level that does not pose any particular problem.

Q8. With regard to "Shinjuku Maynds Tower", what are the characteristics of the industries of the new tenants or tenants that have received inquiries, and what are their reasons for moving in?

(Answer)

Although there is no bias towards any particular industry, if we have to pick one, we would say office rental companies.

Q9. You mentioned that you are considering selling "Daiwa Tsukishima", if you are to sell it, what kind of buyer do you expect?

(Answer)

If the property were to be sold, real estate value would be found in condominiums for sale and rental apartments rather than in offices, taking into account the location. Therefore, if we were to envision a party to sell the property at a higher price, we envision a developer of condominiums for sale and rental apartments, etc.