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## **Main Q&As at the 35th Fiscal Period Earnings Announcement of Daiwa Office Investment Corporation (DOI)**

Date and Time: 17:00-17:35, July 24, 2023 (Monday)

Presenter: Yoshiki Nishigaki, President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

\*Questions are presented in sequential order.

**Q1. Have there been any characteristic changes in office demand over the past six months?**

(Answer)

The major change, as mentioned on page 13 of the presentation material, is that there has been a considerable increase in the amount of floorspace additions within the buildings. Although there had been floorspace additions in earlier periods, they were not as active as it is now. In this regard, we believe that the office market has finally begun to show signs of bottoming out.

**Q2. With regard to "Shinjuku Maynds Tower" and "Daiwa River Gate," both properties are experiencing a phenomenon in which occupancy rates drop again due to vacancies even after leasing progresses. Is it just a coincidence that some tenants moved out, or is there some kind of a trend?**

(Answer)

Regarding "Shinjuku Maynds Tower", the property itself is large with many tenants, so there is a certain amount of turnover in every period.

However, the large tenant we mentioned may move out at the beginning of next year, so the occupancy rate is based on this assumption. Although we have not received a formal notice of termination, we have been told since before the coronavirus pandemic that the tenant will move out due to the consolidation of its head office. This is an individual factor to this tenant and not some major trend.

For "Daiwa River Gate", this is also an individual factor, too.

**Q3. There was an announcement that Kenedix Office Investment Corporation will become a**

**diversified REIT through a merger. I would like to ask the president's opinion on whether DOI will operate as a specialized REIT or not.**

(Answer)

As a base approach, we do not rule out any possibilities. The reason that the asset management company has managed the five REITs separately for each asset classes is that the risk return profile of each assets are different, and we believe that it is better not to manage them together. However, the market and investor attitudes may change in the future, and we would like to continue discussions with our investors about the future direction of DOI.

**Q4. Regarding the difference between the DPU of 13,700 yen and the EPU of 12,900 yen for the fiscal year ending May 2024, which is stated on page 7 of the presentation material, the 800 yen gap is to be filled with retained earnings, but is the closing of this gap reachable in a natural way or is this a challenging assumption?**

(Answer)

In the fiscal year ending May 2024, we plan to reverse internal reserves by 800 yen, and in the future, we expect to add a total of about 800 yen to earnings through rent contributions from the improvement in occupancy of newly acquired/developed properties and the recovery in occupancy of existing large properties.

Currently, leasing of "S-GATE FIT Nihonbashi Bakurocho", a newly acquired property, is in progress. Leasing of "Daiwa Akihabara", a development property, has just started but is off to a good start. The key point will be how much we can accumulate through the recovery of occupancy for the existing large-scale properties, "Shinjuku Maynds Tower" and "Daiwa River Gate". We recognize that there is a rent gap for the section where the tenant is expected to move out in "Shinjuku Maynds Tower", and we expect that filling the gap in a natural manner will also contribute to the DPU.

We believe that these three factors are sufficient to make up the 800 yen.

**Q5. What is the possibility of accelerating the sale of properties with issues, etc. and the liquidity of the real estate transaction market in selling such properties.**

(Answer)

By implementing constant replacement, there is a possibility of selling properties, including ones with issues. We are not aware of any decline in the liquidity of properties that DOI invests in, which are mainly located in the five central wards of Tokyo. In addition, since we always receive inquiries of acquisition deals, we do not feel a decline in liquidity from that perspective. Therefore, we believe that there is a very high possibility that properties owned by DOI can be sold at an appraisal value or higher.

**Q6. In the earnings forecast for the fiscal year ending May 2024 on page 6 of the presentation material, the assumed occupancy rate during the period is 97.1%, the same as in the fiscal year ended November 2023, but the outsourcing and leasing costs are expected to decrease. If leasing costs decrease, we believe that the occupancy rate during the period may increase,**

**but is it because the assumption is conservative?**

(Answer)

The floor space expected to be backfilled in the fiscal year ending November 2023 is approximately 4,000 tsubo, or about 4 percentage points of the occupancy rate. This leasing cost is largely accounted for in the fiscal year ending November 2023.

On the other hand, leasing costs for the fiscal year ending May 2024 are smaller than those for the fiscal year ending November 2023, as no significant backfill is expected at this time.

**Q7. The occupancy rate of "Daiwa Tsukishima" is expected to fall to 35%, as described in the leasing improvement properties on page 17 of the presentation material. Is there a possibility of selling the property in parallel with leasing?**

(Answer)

As for leasing, we are working with a strong commitment to leasing, but we do not rule out the sale of the property as an option. Although the property is currently used as office space, we may consider selling it as the surrounding environment is changing to a residential area.

**Q8. In response to the fourth question, it was mentioned that the EPU of 13,700 yen can be reached in a natural way. If the construction and leasing of "Daiwa Akihabara" progress smoothly in addition to the leasing of "S-GATE FIT Nihonbashi Bakurocho", can we expect to reach 13,700 yen as early as the November 2024 period (the 38th fiscal period)? What is your sense of the schedule?**

(Answer)

Based on a conservative estimate, we expect to achieve an EPU of 13,700 yen in the fiscal year ending May 2026 (the 41st fiscal period).

**Q9. Although the occupancy rate is expected to fall to the 89% range at the end of May 2024 due to the expected large-lot tenant move out in "Shinjuku Maynds Tower", the occupancy rate of the entire portfolio at the end of the fiscal period is unchanged from the previous period. Is the "Shinjuku Maynds Tower" move out factored into the overall occupancy rate?**

(Answer)

The occupancy rate of 97.1% at the end of the fiscal year ending May 2024 includes the expected move out of a large-lot tenant at "Shinjuku Maynds Tower".