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Main Q&As at the 32nd Fiscal Period Earnings Announcement

Date and Time: 15:30-16:10, January 21, 2022 (Friday)

Presenter: Toshio Fukushima/President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. Could you elaborate on the cost effectiveness of attracting tenants by taking advantage of furnished offices at Daiwa Akasaka, one of the properties subject to leasing improvement in the fiscal period ended November 2021? Do you have any plans to equip other portfolio buildings with furnished offices?

(Answer)

As a result of equipping Daiwa Akasaka with furnished offices, the rent for a new lease contract increased by approximately 40% from that for the previous tenant. According to the calculation solely based on the rent increase, we anticipate that the cost of this project will be recovered in around seven years.

We decided to offer furnished offices presuming that leasing the first floor of the building would be relatively difficult. Considering the associated risks and revenue, we would like to lease other floors without furnishings. At the moment, we are aware that there is no other section that needs to be equipped with furnished offices.

However, this project made us realize that there is strong market demand for furnished offices. Going forward, we may consider it as an option for our leasing policy.

Q2. What are your policies on the future sale, etc. of properties of older building age?

(Answer)

Our portfolio replacement strategies are specific to each property. The replacement for Kandasudacho 2-Chome Development Project, announced on October 20, 2021, was implemented to improve the quality of portfolio such as rejuvenating the portfolio in terms of building age. We will continue to make decisions specific to each property, based on a comprehensive judgement on whether the policy brings value to our unitholders.

Q3. You mentioned that demand has been on a recovery track in the office market since last summer. Do you consider it as a sustainable trend? In particular, what is your take on the view that demand for large buildings is weak? Furthermore, many office REITs report lower-than-expected occupancy rates recently. What are your views on the risk of future occupancy rate decrease?

(Answer)

Daiwa Office Investment Corporation's portfolio is characterized by a large number of B Class buildings and concentration in five central wards of Tokyo, which is the main reason for our success. We see robust demand at least for our portfolio.

With regard to relatively large-scale buildings and sections, we have successfully attracted a tenant to a 1,000-tsubo section in Shinjuku Maynds Tower, and some companies are improving business performance even under the COVID-19 pandemic. We therefore continue to expect a certain level of demand for large sections.

In future management, we consider it important to not only find and respond to demand but also make the right decisions on the timing, such as when to implement what strategies, taking into account the status of the overall portfolio.

Q4. How do you think the U.S. monetary tightening will impact Japan's real estate transaction market?

(Answer)

While the impact depends on the period affected by the policy and how we factor it in, interest rates do not seem to be increasing in Japan for the time being. This has given us an optimistic view that there will be no significant impact on Japan's real estate market. In addition, our sentiment is that borrowings have returned to the levels seen before the COVID-19 pandemic, with the upward pressure on interest rates since the beginning of the pandemic being eased. On the whole, we do not see any significant impact at the moment.

Q5. With regard to "32nd Fiscal Period Contract Renewal Tenants" on page 15 of the presentation material, what is your future outlook on the expected rates of contract renewal with increased rent?

(Answer)

The rate was around 50% three to four fiscal periods ago, when we were enjoying a relatively strong business performance. It would take a substantial period of time for the rate to return to that level. Until then, we will navigate the situation with the rate moving around 6.5%, the level for the 32nd Fiscal Period, or 14.8%, that for the 31st Fiscal Period.

Q6. You mentioned that you were able to conclude a lease contract for Daiwa Akasaka with an increased rent through leasing improvement measures in the fiscal period ended November

2021. Would it be possible to increase the rent for future contracts as well?

(Answer)

We were able to lease Daiwa Akasaka with an increased rent, thanks to the furnished offices introduced as part of leasing improvement measures for the 32nd Fiscal Period. On the other hand, an uphill battle was expected, as explained in the presentation for the 31st Fiscal Period.

Going forward, our leasing policy will be to maintain the rent level. However, the lease contract for another section is expected to be cancelled in the current fiscal period, and we may need to prioritize occupancy to some degree. In that case, we will proceed with the leasing in light of the occupancy status of the overall portfolio.

Q7. What is the leasing status of the Nihonbashi Bakurocho 1-Chome Development Project?

(Answer)

December 2021 saw the completion of property pamphlet and property website and the start of leasing activities. We are advertising the property through brokers and have received inquiries from multiple companies, although we cannot disclose a specific name yet.

Q8. In "Assumptions for the Management Status Forecasts for the 33rd Fiscal Period and 34th Fiscal Period" on page 8 of the Financial Report, tax and dues (fixed property tax, city planning tax, etc.) in operating expenses are expected to be 1,144 million yen in the 33rd Fiscal Period and 1,172 million yen in the 34th Fiscal Period. What is the reason for the increase of approximately 28 million yen?

(Answer)

We have been conservative in expecting a reassessment of the value for fixed property tax. While the value remained unchanged last year due to the COVID-19 pandemic, a reassessment may take place in the future. To be on the safe side, the possibility is incorporated in the forecast.

Q9. Your GRESB Real Estate Assessment improved from 2 Star to 4 Star. What initiatives do you think were recognized?

(Answer)

As the GRESB Real Estate Assessment currently attaches importance to the Environment component, we enhanced initiatives to actively acquire environmental certifications, as well as to improve and disclose environmental performance. However, we regard the 4 Star not as a product of a single initiative, but as an achievement resulting from taking a range of actions over time.

Q10. Do you plan to keep maintaining the distribution amount of 14,000 yen by gain on sale or reversing internal reserves, until you can distribute 14,000 yen without including gain on sale? What are the conditions for distributing 14,000 yen or more?

(Answer)

We are expecting stable cash flows from the two properties developed (Nihonbashi Bakurocho 1-

Chome Development Project and Kandasudacho 2-Chome Development Project) in about three years. Until then, we plan to keep distributing 14,000 yen by reversing internal reserves, in principle. This policy is to remain in place, unless there is a significant change in the market environment.
Gain on sale from the properties sold to acquire the two properties will be used as resource to reverse internal reserves. When the management of these two properties gets on track, we believe that we will be able to distribute more than 14,000 yen without reversing internal reserves.