Main Q&As at the Fiscal Period Ended May 2025 (39th Fiscal Period) Earnings Announcement of Daiwa Office Investment Corporation (DOI)

Date and Time: 15:30-16:25, July 22, 2025 (Tuesday)
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*Questions are presented in sequential order.

Q1. At the time of the previous financial results, DOI mentioned that although there is significant potential for rent increases, rising costs made it difficult for rent increases to directly lead to EPU growth. What are the factors that enabled to set the EPU target for the fiscal period ending November 2027 (annualized growth rate of 4.4% compared to the actual results for the fiscal period ended May 2025)? (1) Is it because rent increases are progressing? or (2) was the previous forecasts too conservative due to placing too much emphasis on cost increase factors, or (3) was it due to considering how other REITs have presented their growth targets? Which of these factors has the greatest impact?

(Answer)

All of these factors apply. The greatest factor is that we have been able to achieve strong rent increases for both tenant replacements and renewals, and we believe that the trend of rent increases in the mid-sized office market will continue for the time being. Therefore, we have set the target with confidence. Regarding interest rates, we previously thought it was difficult to predict the pace of rate increases; however, it is unlikely that interest rates will continue to rise steadily. We have factored in a 25 basis points increase in the base interest rate within the fiscal year. In addition, based on discussions with investors during the previous earnings announcement, we have gained visibility on achieving our previous EPU target for the fiscal period ending May 2026, and accordingly, we have set the target for the fiscal period ending November 2027, which is beyond that.

Q2. What is the outlook for the rate of rent increases accepted by tenants eligible for renewal? As of the fiscal period ended May 2025, more than half of the tenants have accepted the rent increases, but will this ratio continue to rise? If so, will the rate of rent increase also increase further?

(Answer)

It is difficult to imagine that the rent increase acceptance rate will further rise and exceed 80%, and as stated on page 17, even at its highest point in the past, it was around 60%. Regarding the rent increase rate, we are managing operations to capture a rent gap of 10%, aiming for a figure close to that.

Q3. When is the expected timing to achieve the target unit contract rent of "around 35,000 yen" for Shinjuku Maynds Tower? After reaching the target, are you considering acquiring the physical asset?

(Answer)

We would imagine that it will take four to five years for the unit contract rent to reach the "around 35,000 yen" range. Whether to acquire the property at the fund's termination (exit) will be determined based on the implied cap rate of the investment corporation and the property's NOI yield at that time.

Let us once again explain the background of the acquisition of the silent partnership (TK) investment interest. We recognize that the current rent gap for Shinjuku Maynds Tower on a standalone basis is over 10%, and we consider it a high quality asset with continued high growth potential. Furthermore, as multiple redevelopment projects around Shinjuku station progress, it is expected that the center of gravity of the Shinjuku office area will shift closer to the station, further expanding the rent gap. Regarding the acquisition of the 1/7 interest, although we wanted to secure the initiative in operations, such as rent increases, CAPEX, and repair works, it is true that acquiring the physical asset would be at a level below the implied cap rate. Therefore, we chose the current scheme, which allows us to capture internal growth while contributing to EPU and DPU from the time of acquisition.

Regarding the fund's termination (exit), we assume it will be after 7 years, during which we will raise rents and achieve internal growth. At the time of the fund's termination (exit), if we determine that internal growth has been fully realized and the value has been maximized including prospects, we may consider selling our holdings together as a whole as one of the options. On the other hand, it is possible that not all redevelopment projects will be completed by the seventh year. If redevelopment remains unfinished, asset value may not have yet peaked, and further upside can be expected. In that case, we may consider refinancing to maximize value. After refinancing, if the area undergoes significant changes in 14 years and redevelopment including Shinjuku Maynds Tower progresses, we believe there are various options available such as participating in developer-led redevelopment plans in cooperation with owners of surrounding buildings.

This scheme is expected to contribute to EPU and DPU from the timing of acquisition in the short term, capture the benefits of internal growth in the medium term, and allow to capture the upside potential at the time of the fund's termination (exit) based on these factors. Depending on the progress of redevelopment and other circumstances beyond that point, there is also the possibility of further value

enhancement. We believe that we have established a scheme that allows us to retain the decision-making period for an extended time and to maximize the benefits of various options.

Q4. Is there a possibility that the properties in the portfolio are included in the redevelopment project area? If DOI participates in the redevelopment project as land rights holder, what kind of ownership structure would that entail?

(Answer)

There is a possibility that the properties are included in the redevelopment project area. Among the properties currently held by DOI, Daiwa Shibuya Miyamasuzaka, Daiwa Shinagawa North and Daiwa Shinagawa Gotenyama are located within the areas of redevelopment associations or redevelopment preparation associations.

Regarding future ownership, through negotiations with the redevelopment associations, we inform that DOI can only own office space. Therefore, after the rights conversion, we expect to hold office floors.

On the other hand, there are cases where properties fall within redevelopment project areas primarily for mixed-use facilities or condominium developments. In such cases, as outlined in Replacement Strategy (2) at the bottom right of page 3, we would negotiate exchanges with developers who intend to sell condominium units in exchange for other office properties.

An example also shown at the bottom right of page 3, is a successful case where Daiwa Osaki 3-chome was included in a redevelopment project area. Instead of waiting for the completion of redevelopment in the Osaki area and holding office floor space there, we exchanged it for more profitable and high-quality property in the Mita area.

Q5. Regarding Shinjuku Maynds Tower, please provide information on the recent tenant composition, good examples of tenant replacement, and any notable characteristics.

(Answer)

There is no biased tenant composition. Recently, some tenants have leased the space for shared offices use. As a leasing strategy, when vacancies arise, we first propose expansion to existing tenants. In many cases, these expansions are concluded at high rental rates. Currently, the occupancy rate of the office floors is nearly 100%, which reflects strong demand.

Q6. Regarding DPU, it was mentioned that there is a possibility of an upside due to gains on sales through property replacement. Is it currently possible to acquire properties with yields exceeding the cost of capital while maintaining and improving the quality of the portfolio? My understanding is that the basic policy so far has been to use sales proceeds for acquiring own investment units. Given changes in the pipeline content and movements in the trading market, has the environment become favorable for such property replacements?

(Answer)

There have been no changes in the pipeline, and currently there are no specific properties under consideration. In the trading market as well, yields remain low, and when acquiring properties (in the Tokyo metropolitan area), it is highly likely that the acquisition yields will be below the implied cap rate. Given the overheated market environment, as outlined in the property replacement strategy, we are selling to players with different investment perspectives, such as those aiming to develop condominiums or hotels, while seeking exchange transactions for highly growth-oriented office properties. If such transactions cannot be achieved, we will be conscious of the cost of capital and either consider creative acquisition methods or proceed with acquiring our own investment units.

Q7. Regarding the earnings forecast for the fiscal period ending November 2025, borrowing cost has increased by about 10% compared to the previous forecast. Could you please explain the reasons for this change in assumptions, such as a shift in the timing of interest rate hikes or an increase in the proportion of long-term fixed rates? Additionally, regarding the long-term outlook through the fiscal period ending November 2027, could you provide further explanation on the assumption that a 10 basis point increase in the reference interest rate would result in a borrowing cost increase of 50 yen per unit?

(Answer)

Our approach to interest rates remains unchanged from the previous forecast, assuming a single rate hike of 25 basis points. The difference from the previous forecast is due to the timing of the reference rate increase and the impact of swap fixed-rate arrangements. The approximate 50 yen decrease per unit associated with a 10 basis point rise in the reference rate is merely a sensitivity indicator.

Additionally, the impact of refinancing loans that were previously fixed at low interest rates results in a negative effect of about 17 yen per unit, which also weighs on the borrowing cost. Essentially, we consider these two factors to be the main reasons.

If interest rates rise beyond the current assumptions, we expect inflation to progress at a similar pace, which would enable further rent increases.

Q8. Until the fiscal period ending November 2025, repair works were strategically advanced ahead of schedule using gains on sales, and it was explained that repair costs would decrease from the fiscal period ending May 2026. If property replacements continue going forward, there is a high possibility that gains on sales will continue from the fiscal period ending May 2026 onward, so wouldn't it be clearer to carry out necessary repairs as needed rather than advancing them? Will repair cost adjustments continue to be made in order to control profits going forward?

(Answer)

Toward the fiscal period ending May 2026, we advanced the planned repair works ahead of schedule using gains on sales, and we recognize that we have achieved the initial EPU target. Regarding the newly set EPU target of 7,130 yen for the fiscal period ending November 2027, if gains on sales are recorded as before, we plan to implement various internal growth initiatives to achieve the target. Specifically, these include offering free rent aimed at contracts with higher rent unit prices and advancing certain repair works. However unlike before, we will not allocate all gains solely to these measures. As noted on page 1, where the DPU floor is indicated, we also intend to return profits to unitholders through distributions.

Q9. The annual EPU growth rate of 4.4% through the fiscal period ending November 2027 does not include any particular one-off factors. If the external environment of the office market remains as robust as it is now, can we expect a similar growth rate going forward?

(Answer)

Excluding gains on sales, there are no significant one-off factors included in the EPU growth. However, through the fiscal period ending May 2026, the effects of previously granted free rent and the advancement of repair works will materialize, which in that sense have added positively to growth. For the period beyond the fiscal period ending November 2027, we plan to set new multi-year targets while monitoring the strength of internal growth at that time. At the very least, if the current market environment continues, we believe it is possible to sustain sufficient growth.

Q10. Regarding the External growth with cost of capital in mind, please provide any ideas that correspond to the keywords "concentrated investment in high-growth assets."

(Answer)

The description is based on the image of Shinjuku Maynds Tower. For other properties, we will explore exchange transactions with properties under favorable conditions. Regarding acquisition through the silent partnership investment scheme like the recent Shinjuku Maynds Tower transaction, since the investment corporation uses funds obtained including debt financing as capital to make the silent partnership investment, and then acquires assets again through additional debt financing, this structure results in a double leverage effect. Given that the silent partnership investment amount is small relative to the asset scale of this investment corporation, we judge the risk to be very low and have proceeded with the investment. However, concerning this method of acquisition, we would like

to hear investors' opinions, including how much risk should be tolerated in pursuit of high investment returns.