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Main Q&A at the 18th Fiscal Period Earnings Announcement

Date and Time: 15:30-16:30, January 26, 2015 (Monday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co., Ltd.

*Questions are presented in order of sequence.

Q1. What is your understanding of the backdrop for the decrease in the cancellation rate in the 19th Fiscal Period?

(Answer)

The reasons that we will be able to hold down the cancellation rate at a low level of about 3% are that we have established good relationships with tenants in our day-to-day management operations and that there are fewer vacant high-spec office spaces to which to relocate.

Q2. In past fiscal periods where the cancellation rate had decreased there can be seen a trend of the rate returning immediately back to a high level. For this decrease do you believe that a low rate can be maintained going forward?

(Answer)

Since it is thought that the trend of scarce vacant high-spec office spaces for relocation will continue, the cancellation rate is also believed to continue at a low level.

Q3. I would like to ask about the shortening of free-rent periods offered. The previous explanation was that the strategy of higher new rent level would be prioritized over the shortening of free rent periods. Have any changes been made to this policy?

(Answer)

No changes have been made to our policy. We will continue to aim for contracting of new rents at a high level while offering free rent periods as needed given the level of requests for such from potential tenants.

Furthermore, since there has actually been a decrease in the level of requests from potential tenants, increasing of unit rent and shortening of free rent periods have occurred with regard to new contracts. From the standing of property representative, appropriate leasing conditions are established by

endeavoring to grasp tenant needs from an early stage such as by participating in the very earliest viewings.

Q4. I would like to ask about the preconditions for the 20th Fiscal Period. It appears that many of Daiwa Office Investment Corporation's managed assets are located in the best areas that enjoy the benefits of increased rent in the market, but it seems that the forecasts for the 20th Fiscal Period do not expect an increase in unit rent. Through the realization of increased rent, is further upside possible or is this due to the view that there is a risk that the level may decrease in the future?

(Answer)

The increase in rent has not been incorporated for the most part in forecast figures for the 20th Fiscal Period. Since there are few areas where tenants will newly occupy where the effect of rising unit rent will manifest, it is thought that there would be no significant impact until around the 20th Fiscal Period even if increased unit rent was expected. The strategy of aiming for new contracts with higher rent is believed to have more of an impact on later fiscal periods.

Q5. There have been continued acquisitions of vacant properties. What is the purpose of this?

(Answer)

In general, vacant properties are hard to conceive of as profitable properties, but there is the advantage of being able to acquire them with favorable conditions since there are fewer competitors when it comes to acquisition. Since the portfolio overall is in a good management condition, we believe that we are in a position to be able to handle vacant properties. Furthermore, in the current environment, the more effort is put into leasing the higher rent level can be obtained. As such, regarding Daiwa Ebisu 4-chome, etc., to a certain degree we are looking at leasing such properties in their entirety to vigorous emerging companies in Shibuya and Ebisu.

Q6. You mentioned sales in your explanation of portfolio replacement. What sort of needs do the buyers of old properties have?

(Answer)

Each property has its own individuality, but when it comes to Daiwa Nihombashi Honcho and Daiwa Ginza 1-chome for example, we have not heard that the buildings will be immediately torn down followed by redevelopment. It is thought that the buyers will continue to own the properties for their profitability and eventually start to consider redevelopment given trends in construction costs and such.

Q7. You said with regard to the current approx. 42% LTV that if additional acquisitions leading to the LTV increasing to 45% were made, a distribution per unit of more than 10,000 yen would be considered. Is it actually thought that LTV will exceed 45%?

(Answer)

I would like to say that, for now, we will make our decisions based on the environment. Regarding

fund procurement, it is possible that we may implement a capital increase if such will be accepted by investors, and depending on the environment we may aim for distribution per unit of more than 10,000 yen by borrowing from lenders. Another factor is whether or not we are provided with opportunities for excellent property acquisitions. We will make our decisions through a dialogue with the capital market.

Q8. I would like to confirm your view on cap rates when it comes to acquiring properties. The cap rate was close to 4% for some newly acquired properties. Please tell me the view on the current levels and what level is acceptable for acquisitions.

(Answer)

At approx. 3.7% NOI yield based on book value, this is not something we are too worried about as such will depend on book values. As you pointed out, the environment has changed from the past few years and the cap rate is currently decreasing. We believe that a level in the lower 4% level is reasonable in the current environment for properties in excellent Tokyo locations that can be stably managed in the long term. While, the result based on near-bottom rent level of recent years is in the 4% level, but considering the possibility of improvements in the leasing market we believe that management is possible with even higher yield. Regarding acceptability for acquisition, we believe that we must assess the situation based on the rent level trend going forward, trends of the Japanese economy and implied cap rates.

For example, if there is a significant gap in the unit rent level over a long period, acquisitions can be held off as it indicates an abnormal level. As such, we believe that the value of the actual real estate taking into consideration long-term trends must be kept in mind.

Q9. How do you see rents of the portfolio properties in the long term?

(Answer)

New rents have increased by an average of 13.3% in the last 2 years. This is not a level that was forcibly realized and the new rents were not limited only to excellent properties. There is recovery from the global financial crisis on the one hand, but since there continues to be strong office demand from successful companies, we feel that there are no signs of the upward trend of demand for Tokyo properties in excellent locations slowing down. While this will not be incorporated into prices in the phase of property acquisition, when it comes to renewals of contracts of existing tenants as well as new leasing, we will anticipate that rents may increase the same amount in two years, and respond as such.

Q10. Looking at the materials' "Distribution Chart of Portfolio Properties" on page 22, Daiwa Ginza really stands out. Are there any plans for selling this property?

(Answer)

Truthfully, from the point of view of super-long-term management, we wish to manage all properties until the buildings deteriorate. With investors pointing out that the building is relatively old, we believe it has been indicated that it is a replaceable property. Our plan is to have Daiwa Office Investment

Corporation and the asset management company occupy the property, paying top rent, leasing comfortably and increasing floor space. It is our wish to have Daiwa Ginza be a symbol, showing that an investment corporation can own a relatively old but attractive property, and our intention is to not move, no matter what.

Q11. In the same distribution chart, we can see that the Shibaura and Nishi-Shimbashi are old and large as well. When selling these properties will the sale and acquisition happen simultaneously as is the case now?

(Answer)

Currently we are not in a hurry to sell properties. Property acquisitions will accompany the sales of properties, if possible, to avoid a decrease in the asset size.

Q13. It seems that a tenant has been found for the part of Shinjuku Maynds Tower that had been vacant for some period. How has the rent level changed?

(Answer)

I cannot tell you the specific unit price since it is only for one floor. Recently it has become possible to negotiate without decreasing the new asking rent. Moreover, free rent periods are shortening.

There is no new asking rent setting as of now since there are no vacant spaces. The property compares favorably since it is even newer than L Tower and Odakyu Southern Tower in front of Shinjuku Station. On the other hand, we will not ask for unreasonable rents in consideration of future relationships. As such, we will adjust rents while carefully assessing the situation.