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Main Q&A at the 22nd Fiscal Period Earnings Announcement

Date and Time: 15:30-16:30, January 23, 2017 (Monday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. Concerning the forecast for the 23rd fiscal period (page 8 of the presentation materials), rent and common area fee revenue from existing properties is shown as -120 million yen period-on-period, indicating an expansion of decrease margin from -92 million yen forecasted at the previous earnings announcement. What has changed in the assumptions for earnings forecast? Also, to what degree is the unit rent rise factored in the earnings forecast?

(Answer)

The expansion of decrease margin in the rent and common area fee revenue from existing properties in the forecast for the 23rd fiscal period is actually the result of accumulation of free rent grants in line with tenant replacements and effects of occupancy fluctuations of individual properties. Therefore, this does not indicate the worsening of business sentiment.

The earnings forecast only reflects those of which rent revision negotiation results have been finalized at present, and therefore is based on conservative assumptions.

Q2. Is it correct to understand that property acquisition will not be a main factor for future dividend growth?

(Answer)

We have so far continued to acquire properties each fiscal period and are currently receiving property information from various sources. However, it is also true that sales prices are high and there are more properties that do not meet our standard. For this reason, we do not think that property acquisition is the main scenario for dividend growth. However, since property information is constantly changing and there is a chance that an attractive property may appear unexpectedly at any time, we are continuing to consider acquisition so as not to miss such opportunities.

Q3. Is the cancellation rate in the 23rd fiscal period within the level normally expected? Or is it impacted by large supplies?

(Answer)

The cancellation rate in the 23rd fiscal period is within the expected level, and the rate of new leases and cancellations going forward is also likely to remain around 3%. Middle-scale buildings that account for most of our portfolio are different in terms of both specifications and unit rent from so-called S-class and A-class buildings, which will be supplied in large amounts in central Tokyo in 2018 and onward. Therefore, we believe the supplies will not significantly impact our portfolio performance.

Q4. What is the situation concerning current tenant demand?

(Answer)

Half of our portfolio properties are located in Shibuya and Shinjuku areas and the percentage of tenants in the manufacturing sector is low while the percentage of new companies in sectors such as information/telecommunications and services is high. These tenants have shown a strong appetite for expansion and floor space increase, contributing to continuation of a solid demand environment.

Q5. Although Shibuya area currently enjoys a favorable demand environment, will it not be impacted by large supply in 2018 and onward?

(Answer)

Because there was no supply of large-scale buildings in Shibuya area in the past, some ICT-related startups relocated to other areas such as Roppongi to expand their business scale. Going forward, with the new development of S-class buildings mainly by Tokyu Corporation and Tokyu Land Corporation, the needs of ICT-related companies in Shibuya area for expansion and floor space increase will be fulfilled, further promoting their concentration. Along with such movements, we believe that needs for middle-scale buildings will be strong since their clients and related companies are expected to concentrate as well.

Q6. It seems that you are offering more free rents than other companies. Is this intended as a strategy?

(Answer)

We do not offer free rents unnecessarily, but while considering its impact on dividends, we respond flexibly to individual circumstances of tenants such as relocation costs to achieve unit rent rise. We believe granting free rent at a new contract to secure high unit rent from the beginning is a good strategy to prepare for raising unit rent over the medium to long term.

Q7. Is there a possibility that strategy to make focused investments in central Tokyo may be changed? Some of the regional cities could have better supply and demand environments than in central Tokyo due to less new supply. Will you not consider investing in such regional cities?

(Answer)

We will not change the strategy of making focused investments in central Tokyo, but are also collecting and discussing information on properties in major regional cities such as Sapporo, Sendai, Nagoya, Kyoto, Osaka, Kobe and Fukuoka so that we will not miss acquisition opportunities. That said, however, as is the case with concentrated demand in five central wards of Tokyo, even in regional cities, areas that can expect medium- to long-term stable demand are central parts of cities. Since property information for central areas is limited and property prices come with a premium even in regional cities, it is as difficult to acquire properties there as in central Tokyo.

Q8. Will you not consider M&A of REITs currently with less than 1 p/NAV leverage, by taking advantage of your strength in having a securities company as a sponsor?

(Answer)

There are currently no ongoing specific M&A cases, but we would like to consider them flexibly if such cases arise in the future. However, since the stock price has been underperforming recently and the relative price is low, we do not think that implementing M&A using the stock price is the best plan. Furthermore, companies that are largely discounted for their NAVs could have good reasons for being poorly evaluated. Therefore, we are cautious not to degrade our portfolio quality by acquiring low-priced companies without careful consideration.

Q9. Over the past six months, you have doubled the number of personnel in the construction management team which draws/implements construction plans of properties. Do you intend to increase CAPEX going forward?

(Answer)

The average building age of the current portfolio is around 20 years. We have basically completed large-scale equipment replacements, exterior wall work and such and believe that CAPEX is mostly under the normal cycle. Since CAPEX plans are drawn for the long-term by the decade, it is unlikely that it will increase significantly going forward.

Q10. What are the property sales policies going forward?

(Answer)

As we have sold properties which were expected to lose competitiveness in the short-term through replacement over the past 2 years, there are currently no properties that need to be sold in haste. On the other hand, we will consider selling properties with concerns for losing competitiveness across a longer period, such as in 10 years. In the medium- to long-term, properties that are relatively old and far from stations will likely be considered for sale.

Q11. According to Miki Shoji's data, while the rent increase rate in Shibuya area is currently slowing down, the increase rate in Shinjuku area is at a high level. How do you view the background to this situation and its impact on the portfolio?

(Answer)

The rent level in Shibuya area is on the rise due to the ongoing strong demand, causing more ICT-related companies to suffer from rent burden. Demand from these tenants seems to have moved to Shinjuku area where rent increase has relatively lagged behind. However, we do not think that the rent level in Shinjuku area will surpass that in Shibuya area.

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