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Main Q&A at the 16th Fiscal Period Earnings Announcement

Date and Time: 15:30-16:30, January 20, 2014 (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 the timeframe you have in mind for achieving the external growth target of 500 billion yen?

(Answer)

Since it is a medium-term goal, we would like to achieve this target in three to five years.

Q2. How high are you seeking to increase the LTV level for achieving the medium-term target?

(Answer)

We have been saying that the upper range of LTV in the mid- to long-term is 40% to 50%. We do not intend to bring LTV all the way to the maximum to increase dividends but think it would be better to have LTV in the lower part of this range. If conditions favorable to our unitholders arise in terms of the capital market, properties we acquire and the equity story, we may be able to implement a public offering at an early stage.

Q3. You mentioned at the previous earnings announcement that there will be more opportunities to acquire properties towards the end of the fiscal year in March. Is this really the case?

(Answer)

There are many negotiations being held heading towards March, but at this point there are no cases that we are able to announce.

Q4. Do you really feel that there is information that is obtained because Daiwa Office Investment Corporation being a REIT that is continually acquiring properties?

(Answer)

We feel that 30% of information on acquisitions we receive are due to what you have just described.

Q5. I believe that an important factor besides property location for having high and stable occupancy rates is the leasing team's establishment of relationships with tenants. How much

of this do you think is reflected in the occupancy rate?

(Answer)

This is extremely difficult to estimate, but my personal feeling is that there is probably an increase of about 5% due to the efforts of our asset management team.

Q6. At other companies there are cases where managers and key personnel are transferred after a short while due to reasons of the sponsor companies. I believe that President Yamanouchi will be able to continue his position, but will other managers and key personnel be able to continue to commit to the REIT market without being influenced by personnel changes of the sponsor company?

(Answer)

I do not know about other companies, but I believe that the commitment of our direct hire personnel to the company and to Daiwa Office Investment Corporation is extremely strong. I believe that our personnel are receiving appropriate treatment, but more so, they are in an environment where they feel their work is challenging.

Furthermore, the employees seconded from Daiwa Securities, the sponsor, feel that their work here is very rewarding. There are no divisions made between direct hire employees and seconded employees and they all work together in a good workplace environment.

Q7. While also considering yields, is it possible to achieve an asset size of 500 billion yen in the next three to five years with just the current investment that centers on Tokyo?

(Answer)

We are not thinking of making significant changes to our current investment policy to increase asset size. If we find that it is very difficult to acquire properties in Tokyo we will rethink the timeframe for achieving the target, but we do not intend to give up. We would like to continue to focus on Tokyo because we believe that it is benefiting most from the economic upturn. We will of course continue to look at good properties in major regional cities, but there will be no change to our investment policy that focuses on Tokyo.

The feeling is that the cap rate may decrease slightly going forward, but we will make our decisions in light of the trends of the capital market and the rise of rents alongside the real economy.

Q8. What are the levels you are currently considering in terms of the size of the pipeline and the cap rate?

(Answer)

The size is very difficult to state in light of the various angles of the transaction cases received.

The cap rate of the most recently acquired property is in the latter 4% range, but properties for which we are in negotiations on are in the mid 4% range, and properties in very good locations are in the first half of the 4% range.

Q9. How was Daiwa Office Investment Corporation able to acquire properties successively in

Shibuya where the rental market is very strong and the office stock is limited?

(Answer)

The form of rights in Shibuya is complicated and new developments are limited. However, the Tokyu Group is constructing a large-scale and excellent building in the center of Shibuya near the station. This will create a cycle where successful IT companies who would have moved elsewhere to Roppongi and such will move in to these excellent buildings in the center of Shibuya. There will also be a ripple effect to surrounding areas such as Miyamasuzaka and Dogenzaka, and the market in Shibuya will become even better. These are thoughts that we share with sellers, and we tell them that we are willing to give excellent prices because we believe that the properties being sold are excellent. Then, by coordinating with other stakeholders we are able to make acquisitions, such as was the case with the Nisseki Shibuya Building.

Q10. The 500 billion yen target is for the mid to long term, but at this point how many pipelines are there for properties? In addition, of these what are the ratios of those from Daiwa Securities and from outside?

(Answer)

Even if the size is large, with no actual acquisitions the results will be zero. As I would not like to disappoint any unitholders in terms of the earnings announcement six months from now, I will refrain from discussing the size.

About 10 properties are introduced per year from Daiwa Securities. There have not been any acquisitions as we are very particular with regard to location and such, but we believe there will be some fruit in the near future.

Q11. What types of tenants are you targeting to fill up the approximately 600 tsubos of vacancies that will arise at Shinjuku Maynds Tower?

(Answer)

Regarding business type, there seem to be many inquiries from firms in the domestic services industry and information and communications related industry. Both have been prominent in Shinjuku and expansion needs are increasing.

Q12. What is the current average free rent period? How much has it decreased compared to six months ago?

(Answer)

The shorter the free rent period the better and, like other companies, we hope that free rent periods will become shorter, but our first priority is the rent unit price. We believe it is very likely that rents will increase in the future, but once a tenant moves in and conditions are determined, it is very difficult to increase rent at the time of contract renewal. As such, the priority is to conclude contracts with high rent unit price, even with a free rent period of six months or more under certain conditions based on the assumption that dividends can be appropriately adjusted with the entire portfolio.

Free rent periods have been shortened by about 10% to 20% in the last half year, and overall the free

rent period is around six months, though there are differences depending on location and size. The market is currently recovering due to the limited supply of properties, but during the period of 2016 to 2017 where the supply of properties will increase it is possible that forced consultations for increasing rent during contract renewals will worsen relations with tenants and lead to a decrease of rents in the future, so for the time being we are prioritizing contracts with high rent unit price with an eye on the situation when to renew the contracts.

Q13. What are the reasons for the decrease of the rent unit price at Shinjuku Maynds Tower and E Space Tower?

(Answer)

As a tenant at Shinjuku Maynds Tower that was leasing at a relatively high rent unit price has expanded floor space, their rent for the portion they had already been leasing was decreased slightly to bring the overall rent to an appropriate level.

For E Space Tower, the rent unit price decreased because the rent unit price of the tenant that expanded floor space was slightly lower than that of the tenant that left the property.