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Main Q&A at the 24th Fiscal Period Earnings Announcement

Date and Time: 17:00-18:00, January 19, 2018 (Friday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. The increase in rents and common area fees of existing properties for the 26th fiscal period ending November 2018 seems to be stronger than for the 24th fiscal period ended November 2017. What do you think are the factors?

(Answer)

Since the ratio of leased floor space subject to contract renewal decreases in the 25th fiscal period ending May 2018, it is thought that the impact of ended free rent periods is more significant than contribution from increased monthly rents as on page 18 of the presentation materials.

Q2. On page 8 of the presentation materials, one of the scenarios assumed for the use of surplus funds is the acquisition of new properties with the equivalent of NOI yield after depreciation of 3.2%. However, finding such a property in the investment target area of Daiwa Office Investment Corporation does not seem easy. Would you rather not consider acquiring an investment corporation with even greater yields?

(Answer)

There are still properties such as those with rents lower than the market rent where NOI can be increased through management, even if the yield is low at time of acquisition. As such, we will continue to consider the acquisition of such properties. As for the acquisition mentioned, if an opportunity is to arise, we will negotiate with Daiwa Securities Group, the sponsor, and respond flexibly.

Q3. In considering the share buybacks, is it not difficult to operate flexibly as there is the possibility of disrupting conduit requirements due to the present sponsor's high holding ratio, or again being impacted by the review of calculation methodology for the TSE REIT Index with the reduction in free-float weight in units of the Investment Corporation?

(Answer)

Even if the entirety of surplus funds were allocated to share buybacks, the sponsor's holding ratio will not exceed 50%, thus there is no need to worry about violating conduit requirements. Regarding the review of the calculation methodology for the TSE REIT Index, while the impact was considerable initially, we do not believe that the impact of the rise in the sponsor's holding ratio through the retirement of treasury units will be significant. Rather, the positive effect of the share buyback itself is thought to be greater.

Q4. It was said in the previous earnings announcement that you would not consider share buybacks if the investment unit price is at the current level. Does the same thinking still apply?

(Answer)

Compared to when the previous earnings announcement was held, NAV per unit has increased and by comparison the investment unit price is seen to be low, so we believe there is room for considering share buybacks. Furthermore, since it is believed that appraisal-based NAV will be exceeded by the whole value if the entire current portfolio was sold, we think that our investment unit price is low compared to the real value.

Q5. How is the sense of scarcity of properties and how does it compare with six months ago and a year ago?

(Answer)

While there is no difference in the amount of information on properties, property prices have gone up and so it can't be denied that the sense of scarcity has increased compared to six months ago or a year ago. However, there are still times when valuable opportunities come our way and so we would like to conduct acquisitions that utilize these opportunities.

Q6. The buyer of partial co-ownership interest of Shinjuku Maynds Tower was GIC. Was this a sale envisioning some form of future cooperation or did it just happen to be that GIC was seeking this kind of transaction?

(Answer)

We and Daiwa Securities Group had been in contact with GIC from before. With this sale, we conducted a bidding limited to major investors with high competitiveness in terms of price and chose GOIC as the buyer through a comprehensive decision. We would like to actively consider cooperating with GIC in the future if it will be to the advantage of the Investment Corporation.

Q7. There are three scenarios given regarding the use of surplus funds on page 8 of the presentation materials. What sort of time frames do you have in mind for each of these?

(Answer)

We will consider the acquisition of new properties and share buybacks until about the end of February. If necessary, we will consider for another month or two and if there are no prospects by then we will likely negotiate loan repayment with our lenders.

Q8. Which of these three scenarios are most prioritized?

(Answer)

We would like to first prioritize the acquisition of new properties. After a certain period, if necessary, we will consider a combination of loan repayments and share buybacks.

Q9. Regarding share buybacks, at what level does the investment unit price have to be to come to a decision on share buybacks?

(Answer)

We will not implement share buybacks if the investment unit price exceeds what we consider to be the substantial NAV. However, we are still at the stage of calculating such NAV. Furthermore, the decision for share buybacks will depend largely on the status of the investment unit price as of the end of February and therefore the decision will be made in light of the effect that announcing the share buybacks will have.

Q10. Is there a possibility that you would combine property acquisitions with share buybacks?

(Answer)

Yes, a combination is conceivable.