Main Q&A at the 17th Fiscal Period Earnings Announcement

Date and Time: 17:00-18:10, July 18, 2014 (Friday)
Presenter: Akira Yamanouchi / President and Representative Director
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*Questions are presented in order of sequence.

Q1. What impact will the strategy of offering longer free rent period to prioritize unit contract rent have on contract renewals with other tenants? Also what are your thoughts on the timing for shortening of the free rent periods?

(Answer)

Since existing tenants know rent levels of the building to a certain extent through the agent, I'm conscious of unit rent for new contracts from the viewpoint of how it appears from outside as well. As we are placing an emphasis on reinforcing mid- to long-term relationships with tenants, it is not easy to raise unit rent significantly at contract renewal time. Therefore I would like to focus on unit rent at the time of new contracts even if by offering longer free rent periods.

It is difficult to clearly state the timing for shortening of free rent periods, but I think it would be when the impact of free rent on unit contract rent has become very small or when a rise in the market rent can no longer be anticipated.

Q2. Properties that have been acquired recently seem to be larger in scale than before. Will this trend continue?

(Answer)

If transactions over 10 billion yen are considered large-scale, then the number of offers on large-scale transactions is relatively high. Middle to small scale buildings in the price range of 2-3 billion yen have comparatively lost attractiveness due to aging as many of them were supplied in volume during the Heisei bubble period. In addition, those types of transactions came to an end between the global financial crisis and around 2011.

I also believe that making a continuous appeal of our large-scale acquisition capability supported through borrowings by Daiwa Office Investment Corporation has contributed to an increase in the offers of large-scale transactions.

Q3. Assuming that market rent will enter an upward trend going forward, is it reasonable to expect that Daiwa Office Investment Corporation's portfolio is showing faster internal growth in comparison to other REITs?

(Answer)

We are making acquisitions and conducting asset management with that intent. The gap between the average rent and market rent has narrowed down to almost being non-existent. Although being able to maintain a low vacancy rate is an important premise, as seen in the case of increased rented area at Shinjuku Maynds Tower, we were able to negotiate with the tenant for higher unit rent for the expanded floor space compared to the already leased floor space. By continuing to maintain this situation, we hope to present the internal growth with specific figures at the earliest timing.

Q4. Which type of building in the portfolio in particular has the strongest trend in rent rise?

(Answer)

Firstly, "large-scale" buildings show stronger such trends, and "relatively new" buildings sometimes show similar trends even if they are small in scale. In addition, buildings in interesting "locations" show such trends. For example, Daiwa Ginza, in which we are housed, is 51 years old, but the unit rent has recovered from 18,000 yen per tsubo three years ago to most recently 23,000 yen per tsubo. Furthermore, the trend of the portfolio is basically in tandem with the market trend, thus buildings located in areas where the market is recovering, such as Shibuya, Ginza and Aoyama, have stronger such trends. Shinjuku, in particular, has seen a drastic improvement in vacancy rate over the past year from the 10% range to as low as 6% range, which is below the average of the 5 central wards of Tokyo, though this is partially due to the ripple effect from Shibuya.

Since large-scale properties such as Shinjuku Maynds Tower particularly have stronger upward trends, we are raising rents to the appropriate level through negotiations with the tenants.

On the other hand, the rent trend in Minato-ku still remains rather weak. Thus we are trying to negotiate with tenants by presenting rent levels suitable for each market so that tenants who have the information on the rent trend will not turn elsewhere.

Q5. Do you have any particular focus on scale when making new property acquisitions?

(Answer)

The most important factor is location. Then, it is true that larger-scale properties are easier to manage from a long-term perspective. However, we would also like to consider middle-scale properties if they can be acquired for a reasonable price and contribute to mid- to long-term investment.

Q6. When thinking about the internal growth potential of Shinjuku Maynds Tower, is it reasonable to consider that the contract style with large tenants is the same as the short-term regular leasing contracts?

(Answer)

They are under two-year regular leasing contracts, and we have not received any move-out plans, etc. as of now.

Q7. Again concerning Shinjuku Maynds Tower, although the plan was to aim for 100% occupancy rate at the previous earnings announcement meeting, the plan has been changed to flat occupancy rate growth in the current earnings announcement. What are the reasons behind this change? (*This indicates the changing of 99.1% expected occupancy rate of for the end of the 18th fiscal period ending November 2014 (refer to the graph on the upper right of p.18 in the Earnings Announcement for the 16th Fiscal Period ended November 2013) to 95.6% (refer to the graph on the upper right of p.20 in the Earnings Announcement for the 17th Fiscal Period ended March 2014))

(Answer)

For buildings with that scale, it is quite essential to meet the tenant's requests for expanding leased floor space. So we would like to leave a certain space for such requests. We are of course conducting leasing activities in an aim to achieve full occupancy, but are not in a hurry to fill.

Q8. A case of terminating sublease contract to shift to direct contract was cited as a factor for upward rent revisions. Is there still room for such?

(Answer)

No, there isn't.