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Main Q&A at the 19th Fiscal Period Earnings Announcement

Date and Time: 17:30-18:35, July 16, 2015 (Thursday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co., Ltd.

*Questions are presented in order of sequence.

Q1. How do you perceive the current rates of new leases and cancellations? What is the future outlook?

(Answer)

We believe that the reasons for the low level of new leases/cancellations rates are;

- (1) Efforts by our Asset Management Department such as directly communicating with tenants and not through the management companies are showing results.
- (2) There are fewer vacant office spaces available for tenants to move into.

In addition, rising rents which eliminate the cost merits of relocation may be another factor. The standard level of occupancy rate is said to be around 95%, but we would like to manage assets with a higher target of 97%.

Q2. The contract renewal data on page 14 of the presentation materials indicates an increase in upward revision to 26.5% of the contract renewal area. Will upward revisions continue going forward?

(Answer)

This data reflects the rising trend in rent in the entire market and also shows the outcome of our continuous efforts to enhance tenant satisfaction. We will further put forth efforts to maintain this trend going forward. For your information, we have already obtained approval for upward revision for 20% of renewal contract area in the 20th fiscal period.

Q3. Do you expect to fill the vacancy in River Gate, which was acquired through public offering?

(Answer)

We have received quite a few number of applications and are currently in negotiations. As we set our eyes on at the time of the acquisition, the size of standard floors being as big as approximately 600 tsubos is making it very attractive. With favorable market conditions, collaboration with the broker and

no competitive properties nearby, we are very close to achieving the mid-term NOI yield (please refer to page 27 of the presentation materials). Since our forecast is conservative, the forecast for the 21st fiscal period ending May 2016 does not include the portion of River Gate's eliminated vacancy.

Q4. It is good that information disclosure in the presentation materials is very satisfactory. As the rise in rents is becoming more apparent, will you be focusing on internal growth from now on?

(Answer)

As there are plenty of management resources including personnel, and still also candidate properties that meet our acquisition criteria, we will not concentrate our management resources only on internal growth but will continue to focus on both internal growth and external growth.

Q5. The current portfolio centers on the five central wards of Tokyo. Are there any plans to expand candidate areas in order to diversify acquiring properties?

(Answer)

We believe that Tokyo receives the most benefits from the economic recovery and that location is the most important factor as there will be fewer sites suitable for office buildings in the long term. Therefore, we do not have any plans to change candidate areas. If we were to diversify acquiring properties, it will be in terms of not areas but of being more flexible about building ages, building facilities, etc. Office buildings in major regional cities will continue to be candidate properties, but the cap rates will be the key when actually acquiring them.

Q6. Although you mentioned at the previous earnings announcement meeting that you place importance in buildings being rather new and close to stations when acquiring properties, the building age of River Gate is 20 years. Have there been any changes in the acquisition policy? In addition, how do you view this building age from a medium- to long-term perspective?

(Answer)

There have been no changes in acquisition policy and we still place importance on building age. However, we believe location is more important. Even if a building is over 20 years old, we will consider its acquisition if the building stands in a good location and can provide an image of its competitiveness in 10 or 20 years. On the other hand, we believe portfolio replacement is necessary in the medium to long term. We have actively replaced assets in the 19th fiscal period, and such actions have proved that it is possible for the Investment Corporation to make replacements to improve the portfolio quality.

Q7. Concerning rent increase/decrease shown on page 14 of the presentation materials, in the 19th fiscal period, the increased portion alone indicates a decrease from the 18th fiscal period. What is the future outlook?

(Answer)

In the 18th fiscal period, we requested some tenants whose rents widely differed from the market rent level for upward revisions, and the request was accepted. In the 19th fiscal period, the entire market entered an upward phase. Thus we requested more tenants whose rents showed smaller gaps with the

market rent level for upward revisions, even for a small amount, and succeeded. Since rent gap with the market is expected to widen going forward, an increased portion of rents is likely to increase.

Q8. According to monthly rent increase/decrease due to tenant replacement on page 15 of the presentation materials, monthly rent increased by 9.2%. Does this mean the rents increase if you replace tenants? The rate of new leases and cancellations has shown a decline during the current period. Do you think it is better to replace tenants if you want to increase rents?

(Answer)

If you calculate it in terms of two or three years, that may be an option. Although we naturally consider such short-term economic rationality, we believe planning management decade by decade into the future will ultimately lead to the maximization of rent. In the 19th fiscal period, we realized rent increases from tenants occupying large leasing areas with rent levels close to that of the market. This was possible because we were able to convince them of the current market trend as we also listened to their opinions at the time of downward revisions. The increase rate expressed in percentage seems small even when the rents of tenants with large leasing areas are increased, but we intend to deal with tenants by directly communicating with them so that they amicably agree to upward revisions after understanding the market situation.

Q9. In the forecasts for the 20th and 21st fiscal periods, operating revenue is expected to increase period-on-period by 259 million yen in the 20th fiscal period and by 132 million yen in the 21st fiscal period. What are the factors for these increases other than portfolio replacement?

(Answer)

The main factor for the increase is that the free-rent period for some tenants will end.

Q10. Although there is no mention of rent gap in the presentation materials, how do you picture the rent gap?

(Answer)

Since we believe that those actually managing the assets understand the rent gap the most, we do not obtain rent assessment data from a third-party. We realized a 9.2% monthly rent increase through tenant replacement in the 19th fiscal period, and think that the rent gap is somewhat around this level.

Q11. While sites suitable for office buildings seem to decrease going forward, have you seen any signs of the demand decreasing for office buildings due to baby boomers that have finished their extended employment periods leaving Tokyo in the future?

(Answer)

Since many of our tenants are companies recently established and the average age of workers are young, almost all needs we hear at present are for floor expansion. Thus we have not seen any such signs so far.

Q.12 How do you view the impact from the large supply of office buildings that is expected in

Shibuya in 2018?

(Answer)

There are many companies such as IT companies or telecommunications-related companies that favor the Shibuya area. It used to be that when business succeeds and becomes larger, many of them would move to Roppongi. This was due to a lack of large scale office buildings in Shibuya. However, with the supply of large scale office buildings in 2018, more IT companies and such will concentrate in Shibuya, resulting in revitalization of the town; which we believe will bring good effects for the Investment Corporation.

Q13. It is understood that you are managing from a long-term perspective. It is believed that, in line with the Tokyo Olympic Games scheduled in 2020, the center of Tokyo will be shifted southward or closer to the ocean side from the current location. Which area do you think will be significant in the future?

(Answer)

It is difficult to predict whether the center of Tokyo will shift southward or closer to the ocean side from its current location. However, we think the location that is important now will remain important going forward. Shinjuku will remain highly convenient for many people and Shibuya will remain as a unique town. We would like to continue to invest in important areas while recognizing new trends.

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