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Main Q&A at the 21st Fiscal Period Earnings Announcement

Date and Time: 15:30-16:18, August 10, 2016 (Wednesday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in order of sequence.

Q1. Concerning the improvement in basic strength mentioned on page 16 of the presentation materials, considering that recent occupancy rate is also already at a high level, do you envision contract renewals and new leases each becoming roughly 50% going forward?

(Answer)

Improvement in basic strength is not affected by occupancy rate. The numerical figures provided as improvement in basic strength are intended to show changes in rent on a contract basis attributable to contract renewals and new leases in each fiscal period.

Q2. Concerning financial status, how much will dividends increase as a result of refinancing?

(Answer)

As mentioned on page 34 of the presentation materials, refinancing of approximately 20.0 billion yen is to take place in the fiscal period ending May 2017, but when the reduction in borrowing costs is taken into account, dividend per unit is expected to increase by 100 yen or so.

Q3. What were the reasons for selling the properties that were sold in the asset replacements mentioned on page 25 of the presentation materials?

(Answer)

We sell properties by taking into consideration property competitiveness from a long-term perspective spanning 20 years. The properties were sold due in part to also being offered favorable terms and conditions from the buyers in that process.

Q4. Concerning the capital increase through public offering for which resolution on issuance was passed last month, the offering amount was relatively low and the decrease in LTV was thus also not all that much. Was this due to taking into consideration the level of dividend per unit or is this an indication that external growth will be less active going forward?

(Answer)

Various risks are involved in management, but the offering was implemented with the offering amount determined by taking into consideration the ability to continue the increase in dividend per unit even in light of such risks.

Q5. The rent increase results seem solid, but are there any recent signs of the rent increase slowing?

(Answer)

We recognize that there are investors who are skeptical about future rent increase, but speaking from the field, the sense is that there is not much supply of middle-scale office buildings with unit rent in the higher 10,000 yen range or so, and there is thus no sense of the rent increase slowing. At this point in time, the environment is seen to be one in which rent increase can continue in also the fiscal period ending November 2016 and the fiscal period ending May 2017.

Q6. There have been cases of acquisition of properties in not so favorable locations and such at other REITs. Is the plan to continue upholding the policy to keep acquiring mainly properties in central Tokyo?

(Answer)

We will continue to uphold that policy. In the future, middle-scale office buildings, too, may involve risks of secondary vacancies and tertiary vacancies, but we believe that it is the property location that can match against such risks. For that reason, we believe that properties in central Tokyo have the lowest risks from a long-term perspective.

In the acquisition of properties, the policy is to carefully select properties in locations where tenant needs can be expected in the long term.

Q7. According to the earnings forecast for the fiscal period ending May 2017 on page 12 of the presentation materials, dividend per unit is forecast to increase despite operating revenue decreasing. This probably means that efforts will be made to reduce costs so as not to cause dividend per unit to decrease, but what about the outlook for operating revenue and dividend per unit in and after the fiscal period ending November 2017?

(Answer)

Cost reductions are planned for the fiscal period ending May 2017. In and after the fiscal period ending November 2017, operating revenue and repair cost are both forecast to increase and intentions are to continue the increase in dividend per unit.

Q8. Looking at the conceptual chart of the rental clock on page 14 of the presentation materials, does this mean that there will come a time when rent will decrease in the long run? How will this affect REITs focusing on office buildings?

(Answer)

Our Investment Corporation is a REIT investing mainly in middle-scale office buildings and not one investing in large-scale office buildings. As illustrated by the conceptual chart of the rental clock, although REITs investing in large-scale office buildings can probably anticipate a substantial increase in rent, rent is relatively stable for middle-scale office buildings. We thus believe that the Investment Corporation has strong resistance in times when rent is on the decrease. On top of that, on the other hand, we believe that the Investment Corporation is one that can anticipate a certain degree of rent increase in times when rent increase can be anticipated.

Q9. How will top management keep generating added value going forward?

(Answer)

Revitalization has been pursued through such measures as reshuffling personnel in consideration of running the organization in a manner that can demonstrate good synergy among the people from diverse backgrounds that have come together since change of the sponsor to Daiwa Securities Group. Currently, the organization as a whole has people from each department acting autonomously. Although, to be honest, I feel that the added value that I myself can generate is becoming smaller, I intend to continuously keep doing what I can do for the asset management company.

End