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Main Q&A at the 23rd Fiscal Period Earnings Announcement

Date and Time: 15:30-16:30, July 19, 2017 (Wednesday)

Presenter: Akira Yamanouchi / President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order

Q1. On page 13 of the presentation material, it was stated that the pace of rent increase was steady. Is rent likely to continue increasing?

(Answer)

The number of tenants subject to contract renewal changes for each fiscal period, but we always negotiate for rent increase. However, there are those tenants renewing a contract for the second or third time, and we do not think we can just keep raising the rent. That said, we will make necessary efforts to maintain the upward trend.

Q2. Although the growth rate of dividend resources shown at the bottom of page 12 of the presentation material indicates a favorable annualized 5.8% for the 23rd fiscal period, there is an impression that such a figure has not led to dividend growth. How do you intend to raise dividends going forward?

(Answer)

The current fiscal period ending November 2017 has seen some contract cancellations. Furthermore, the number of new leases and cancellations has increased as shown in the graph on the lower left of page 11 of the presentation material. One reason for this has been the granting of free-rent periods causing a delay in revenue generation. Under circumstances with a tight supply-demand balance, granting three to six months of free rent is acceptable in order to raise contract rent per tsubo. We, of course, do not grant free-rent periods if a tenant does not want it. The cancellation rate for the fiscal period ending May 2018 is forecasted to be about 2.3%, and if new leases and cancellations settle at around this level, we believe it is possible to expect a dividend yield of 12,000 yen.

Q3. What is your view on share buybacks and M&A?

(Answer)

We have maintained our stance to consider all measures that would benefit unitholders. On the other hand, however, we do not think that the current level of our investment unit price is so low as to require discussing share buybacks. If we were in a circumstance that allowed for purchasing a building with the NOI yield of Shin Kanda Mikuracho Building, we would rather focus on external growth.

Q4. While explaining about CONCURRED Yokohama, you mentioned your possible intention of strategic asset replacement. If you are to sell a property, what would be the purpose?

(Answer)

Asset replacement is not the only option upon acquisition. That said, however, it may not be best to go as far as to take out loans and actively raise LTV in order to increase dividends, and thus we consider strategic replacement to be a better option. Concerning asset replacement, we have yet to decide on candidate properties for sale, but candidates shall be narrowed down through negotiations with candidate buyers. We do not look for sales that seek capital gain, but will proactively consider asset replacement that would improve NAV per unit.

Q5. Although it has been said the period-average occupancy rate for the fiscal period ending May 2018 is expected to fall to 95.7%, 96% seems to be the normal level considering past trends. At what level should the occupancy rate be in order to aim for DPU of 12,000 yen?

(Answer)

Roughly 97% is the level that can realize 12,000 yen of DPU on a normal basis. The forecast occupancy rate for the fiscal period ending May 2018 is a figure conservatively factoring in expected new leases and cancellations. Since the changes in occupancy rate show around 96% on a normal basis, I believe it is possible to foresee 12,000 yen if this level can be maintained.

Q6. Turning free-rent portions into revenue sources has been included as a measure to realize DPU of 12,000 yen. How will it progress?

(Answer)

If the cancellation rate is kept within the range of 2 to 3%, turning free-rent portions into revenue sources will progress. In addition, we intend to shorten the free-rent period as well.