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Main Q&A at the 27th Fiscal Period Earnings Announcement

Date and Time: 15:00-16:00, July 19, 2019 (Friday)

Presenter: Toshio Fukushima/ President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. Have there been any changes in the cap rate upon consideration of acquisition amidst the downward pressure of interest rate growing stronger?

(Answer)

We believe that the environment changed slightly and the cap rate again turned to a downward trend, but rent increase surpassing such decrease is expected in some properties. As for purchase, we would like to make considerations by comparing the rent of properties at the time of purchase with our own assumed scenarios of rent increase.

Q2. As shown on page 13, the annualized growth rate of dividend resource in internal growth was 7.6%, but what will the rate be when the replacement of Glass City Shibuya is excluded?

(Answer)

We recognize that the growth rate will remain generally flat from the previous period. As shown on the right edge of the graph, the average value for the past nine quarters is about 5%. In addition, since no large move-outs like the one which occurred this time are expected as of now, we believe that such growth rate will not be sustained over the long term.

Q3. Looking at the growth rate of rent and vacancy rate reported by Miki Shoji, we have an impression that the figures are approaching levels similar to that of the market before the Global Financial Crisis. How do you view the future growth rate of rent?

(Answer)

We believe that whether rent will increase to the highest level ever is the only point to be discussed, but most of the new buildings currently supplied to the market are S class buildings and the supply volume of A and B class buildings, which account for the majority of our property portfolio, is limited. Although the rent of S class buildings differs in some areas, some contracts have been concluded at a unit price exceeding the level before the Global Financial Crisis and we believe that we can aim for further growth based on such trend.

Q4. You said that the rent of Glass City Shibuya increased significantly, but how much was the contracted price against the market for new contracts?

Also, how long was the free rent period?

(Answer)

We believe that contracts were concluded at the highest level ever for buildings of the relevant class in the Shibuya area. The Shibuya area is changing significantly due to redevelopments over the past few years. While rent increase in the surrounding area is notable due to such change, we believe that we we've been able to conclude contracts by taking advantage of such trend. In addition, the average free rent period in new contracts is around 2.5 months.

Q5. What was the contracted rent level in the new contract for Glass City Harumi? Also, how long was the free rent period?

(Answer)

As indicated in the presentation material, we were able to conclude contracts at a level largely exceeding the rent of the previous tenant which we envisioned at the time of purchase. In addition, the average free rent period in new contracts is around 8 months.

Q6. Will properties be purchased more easily by taking risks on leasing such as in the case of Glass City Harumi?

(Answer)

Although we cannot sweepingly say anything about it due to individual circumstances of the properties, the value of properties such as Glass City Harumi, which have large vacant floors or whose floors are scheduled to become vacant, will change significantly depending on a leasing project. We believe that we could take a leasing risk, which our competitors could not take, when we fully understand the market characteristics of the property location, and we would have fewer competitors upon bidding the property.

Q7. As for internal growth, we think that most contract renewals with tenants will enter the second or third round, but is there a slowdown in the margin of rent increase for such tenants?

(Answer)

Although we cannot sweepingly say anything about this due to individual circumstances of the tenants, we try to have an accurate understanding of the market condition and provide careful explanations to our counterparts of the tenants so that they can report it to their senior management and get a consent from them.

Q8. What is the reason for and impact of the removal from the MSCI Japan ESG Select Leaders Index?

(Answer)

It is true that removal from the index occurred, but we do not know why since the reason has not been disclosed. There appear to be no negative impacts such as a significant drop of the share price as of now.

Q9. From which properties are tenants expected to move out and how much is the rent gap?

(Answer)

There are no properties where large vacancies similar to that of Glass City Shibuya in the previous period are scheduled to occur. Multiple small-scale vacancies of around 100 tsubos are expected and the rent gap differs from property to property. However, we believe that rent will not increase significantly to the level in the fiscal period ended May 2019.

Q10. You've mentioned "challenging new things," so do you have any specific ideas in your mind other than property exchange and taking a leasing risk?

(Answer)

We do not have specific ideas right now, but we believe that we need to replace old and small-scale properties. We would like to utilize taxation methods, which are not used well right now, to replace our buildings instead of just selling them.

Q11. We have an impression that Glass City Harumi has a disadvantage in location compared to other properties when considering the distance from the station, but what is the background to the successful attraction of tenants? Also, why do you think you were able to achieve a rent increase of 23.1% through tenant replacement?

(Answer)

We've been able to achieve good results partly because the rent of the previous tenant was inexpensive. The location was not favorable in terms of the distance from the nearest station. So we sold the idea that the property is only a 10-minute drive from Tokyo Station but the rent is less than half of other properties in other areas within the same distance. Looking at the result, we believe that we were able to make good use of such strength.

Q12. You received the highest rating in the real estate sector of GRESB but why were you downgraded to 3 stars in 2018?

(Answer)

We did not make any special changes to our efforts and are striving to make improvements but it seems that the evaluation decreased slightly especially for the qualitative portion. Therefore, we would like to communicate properly with evaluation organizations and steadily deliver our efforts.

Q13. You commented that you are proactively conducting overseas IR but is the foreign investor base spreading with the acquisition of environmental certification?

(Answer)

We believe that environmental efforts are attracting the attention of not only foreign investors but also domestic investors. We would like to deliver information on how we make efforts as an asset management company and Daiwa Securities Group Inc. through various situations. Although we are currently not able to quantitatively see the

impact on unit price and unitholder value, we will further enhance our efforts in a proactive manner as we are certainly asked about ESG more frequently.