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Main Q&A at the 29th Fiscal Period Earnings Announcement

Date and Time: 15:30-16:30, July 20, 2020 (Monday)

Presenter: Toshio Fukushima/President and Representative Director

Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. When comparing large-scale buildings and small- to medium-sized buildings, which will be impacted more by the spread of remote work? Also, are there any areas that are believed to be significantly impacted in terms of location?

(Answer)

We believe remote work will have an impact on buildings occupied by relatively large companies with an environment enabling telework. However, we believe the impact will appear a bit later as large companies have to undergo decision-making processes and are occupying buildings under fixed-term lease agreements. In addition, with regard to the difference in change due to building size, we believe change will be seen at small- to medium-sized buildings before large-scale buildings. This is believed to be largely due to the business performance of individual tenants rather than the impact of remote work. In terms of location, it is said that the rise in vacancy rates in Shibuya is faster than the average in Tokyo, but we believe this is because various movements are being made by IT companies in Shibuya. Even for the buildings we operate in Shibuya, there is currently no significant impact. It will be necessary to pay close attention to such trend in the future, but it is still difficult to be of the determination that impacts are seen in specific areas.

Q2. Are there any inexpensive properties to be sold in the current transaction market?

(Answer)

With regard to large office projects, at present, we have not heard any voices expressing the desire to dispose of properties even at a slightly lowered price. Rather, there has been no significant decrease in buying demand from companies owning abundant funds including foreign

capital, and the transaction level has not changed much from before the outbreak of COVID-19.

Q3. Have you considered purchasing treasury investment units?

(Answer)

We did consider it internally. We decided against it this time based on the idea that it is important to maintain a certain amount of cash on hand while the impact of COVID-19 is unforeseeable.

Q4. What is your forecast for office demand in the short term?

(Answer)

As for demand for relatively small floors of around 50-100 tsubos, many inquiries were made in June, and it seems demand is emerging gradually. On the other hand, as for demand for spaces with large floors, movements of both move-ins and move-outs are becoming sluggish.

Q5. What is your forecast for office demand in the long term? Also, what is your view on demand based on shared offices and satellite offices?

(Answer)

We believe there will be no significant decrease in demand for office floors. Under the situation in which companies are forced to adopt remote work due to the impact of COVID-19, it seems that companies are re-recognizing the fact that innovation is born from communication among employees, while also understanding the merits of remote work. When we consider both the decrease in office floor area due to the adoption of remote work and the increase in demand as an environment promoting innovation, we believe office demand will be positive as a result. In fact, even before the outbreak of COVID-19, we have been making various considerations on how offices should be. We intend to continue exploring this while making attempts ourselves as an asset management company handling offices.

In addition, there is certain demand for shared offices and satellite offices, but they are only used as something extra, and we do not believe they are linked to the decline in demand for office buildings.

Q6. What is the future forecast for property acquisitions and replacements?

(Answer)

Basically, we believe property acquisitions through replacement will be mainly conducted. For old properties, we intend to not simply sell them but also conduct transactions that contribute to qualitative improvement of the portfolio.

Q7. We have heard refinancing remains favorable even amid the COVID-19 crisis, but has there been any change in the lending attitude of financial institutions towards DOI?

(Answer)

As of now, we have not felt any pressure from financial institutions. However, under the situation in which the impact of COVID-19 is unforeseeable, selection may be performed in real estate loans. We would like to continue to report and explain firmly the management status in order to remain selected.

Q8. As for the appraisal value described on p.32-33 of the financial report, what are the reasons for the increase/decrease in capitalization rate? Also, what is your forecast for the next six months?

(Answer)

Since the appraisal value is rising as a whole, we are not particularly concerned about the individual increase/decrease. However, area and age seem to be the individual causes of the rise in capitalization rate. For properties of which appraisal value has decreased, external factors such as the increase in long-term repair expenses and fixed property tax are the cause.

In addition, in the forecast for the next six months, it is difficult to forecast the impact of COVID-19, but we believe there will be no significant change if the current situation continues.

Q9. As for the actual results for the fiscal period ended May 2020, we feel rent revision was favorable. Do you think you can maintain it? Also, how is the relationship, including sense of satisfaction, with tenants?

(Answer)

We believe negotiations up to the fiscal period ended May 2020 were accepted because they were largely conducted before the outbreak of COVID-19. Going forward, we intend to act after firmly checking the financial status, business environment, etc. of each tenant. In such a sense, there is a possibility that bold movements like those in the previous fiscal period cannot be made.

Q10. Is there a possibility of a change from the policy adopted until now of realizing growth of unitholder value to a policy of avoiding damage and minimization of unitholder value? If so, where will risk emerge? Also, what will be the measures against such risk?

(Answer)

As of now, the sense of direction has not shifted toward defense, but we feel we need to respond in the future while also considering such possibility. With regard to the point that the pace of cancellation of lease contracts is becoming faster, we believe early refilling of vacancies is the best defense. We will promptly implement that which we can presently handle and perform operation with the possession of surplus capacity to deal with unforeseen circumstances in mind.

Q11. You said that the pace of cancellation of lease contracts is becoming faster than before, but are there any points that have changed regarding inquiries for vacancies?

(Answer)

As for demand for relatively small office buildings, the situation is the same as before the outbreak of COVID-19, but it seems that borrowers are coming out slightly ahead. Regarding the difference from the situation before the outbreak, we feel demand for large-scale office buildings has not returned to the level before the outbreak. We believe it is necessary to accelerate movements such as careful leasing through the increase of personnel and efforts made ahead of others by using the budget we have secured.

Q12. We understand a certain rent gap with the market is still secured, but what efforts will be made toward negotiations for rent increase in the future?

(Answer)

Instead of commencing negotiations uniformly, we would like to consider the financial status, business environment, etc. of each tenant individually and carefully proceed from there.