

Statement of Financial Performance for the 33rd Fiscal Period

From: December 1, 2021

To: May 31, 2022

大和証券オフィス投資法人

Daiwa Office Investment Corporation

Stock
Code **8976**

1. Management Status and Other Performance Highlights Data

Fiscal Period		33rd Period	32nd Period	31st Period	30th Period	29th Period
		From Dec. 1, 2021 To May 31, 2022	From June 1, 2021 To Nov. 30, 2021	From Dec. 1, 2020 To May 31, 2021	From June 1, 2020 To Nov. 30, 2020	From Dec. 1, 2019 To May 31, 2020
(1) Operating Performance		(Millions of yen, except per unit data or where otherwise indicated)				
Operating revenues		14,474	13,882	15,054	14,849	14,272
Rental revenues		13,560	13,846	13,887	14,482	14,238
Operating expenses		6,551	6,531	6,917	7,133	6,959
Property-related expenses		5,143	5,146	5,454	5,696	5,540
Operating income		7,923	7,351	8,137	7,715	7,312
Ordinary income		7,493	6,784	7,550	7,125	6,688
Net income		7,493	6,799	7,549	7,124	6,687
(2) Properties, etc. (as of end of period)						
Total assets		483,461	483,279	484,310	488,570	487,212
[period-on-period percentage changes]		[+0.0%]	[−0.2%]	[−0.9%]	[+0.3%]	[+0.2%]
Interest-bearing liabilities		205,800	202,350	203,350	204,450	204,450
Net assets		250,538	253,637	253,522	255,511	255,127
[period-on-period percentage changes]		[−1.2%]	[+0.0%]	[−0.8%]	[+0.2%]	[+0.1%]
Unitholders' capital, net	Note 1	241,093	245,093	245,093	247,876	247,876
(3) Distributions						
Total distribution amount		6,755	6,833	6,833	6,796	6,687
Dividend payout		90.2%	100.5%	90.5%	95.4%	100.0%
(4) Per Unit Information						
Total number of units issued (units)		482,529	488,088	488,088	491,877	491,877
Net assets per unit (yen)		519,220	519,655	519,419	519,462	518,681
Distribution per unit (yen)		14,000	14,000	14,000	13,817	13,595
Distribution amount from earnings per unit (yen)		14,000	14,000	14,000	13,817	13,595
Distribution amount in excess of earnings per unit (yen)		–	–	–	–	–
(5) Financial Indicators						
ROA	Notes 2 and 3	1.6%	1.4%	1.6%	1.5%	1.4%
[annual rate]		[3.1%]	[2.8%]	[3.1%]	[2.9%]	[2.7%]
ROE	Notes 3 and 4	3.0%	2.7%	3.0%	2.8%	2.6%
[annual rate]		[6.0%]	[5.3%]	[5.9%]	[5.6%]	[5.2%]
Capital ratio		51.8%	52.5%	52.3%	52.3%	52.4%
[period-on-period percentage changes]		[−0.7%]	[+0.1%]	[+0.0%]	[−0.1%]	[−0.1%]
LTV (loan to value)		42.6%	41.9%	42.0%	41.8%	42.0%
Property leasing cash flows (NOI)	Note 5	10,200	10,508	10,248	10,612	10,536
(6) Other Referential Information						
Number of investment properties		59	60	59	60	60
Number of tenants	Note 6	635	641	625	629	645
Total rentable area (m ²)		356,122.21	361,534.74	360,471.93	363,740.62	366,336.34
Occupancy rate	Note 7	98.4%	97.8%	97.5%	98.9%	99.5%
Depreciation		1,783	1,808	1,816	1,827	1,838
Capital expenditures		856	498	436	802	489

(Note 1) Unitholders' capital, net: Unitholders' capital – Deduction from Unitholders' Capital

(Note 2) ROA: Ordinary income ÷ [(Total assets at beginning of period + Total assets at end of period) ÷ 2] × 100

(Note 3) Figures for the 29th Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 30th Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 31st Fiscal Period are the annualized figures calculated based on 182 days of management.
 Figures for the 32nd Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 33rd Fiscal Period are the annualized figures calculated based on 182 days of management.

(Note 4) ROE: Net income ÷ [(Net assets at beginning of period + Net assets at end of period) ÷ 2] × 100

(Note 5) Property leasing cash flows (NOI): Rental revenues – Property-related expenses + Depreciation

(Note 6) Number of tenants is the number of end tenants. When there is a tenant occupying multiple buildings, the concerned tenant is counted and stated for each individual building.

(Note 7) Occupancy rate: Total leased area ÷ Total rentable area

2. Developments in Asset Management in the Fiscal Period under Review

(1) Brief History of the Investment Corporation

Daiwa Office Investment Corporation (the former DA Office Investment Corporation; hereinafter referred to as “DOI”) was established on July 11, 2005, in accordance with the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951; including amendments thereto) with Daiwa Real Estate Asset Management Co., Ltd. (former name K.K. daVinci Select) (the “Asset Manager”) as the organizer. After its establishment, DOI implemented an additional issuance of investment units through a public offering (99,600 units) on October 18, 2005 and then listed on the Tokyo Stock Exchange, Inc. (TSE) Real Estate Investment Trust Section (stock code: 8976) on the following day.

Though initial assets under management were 79,573 million yen (sum total of acquisition price), subsequent activities, such as additional acquisition of properties and replacement of portfolio properties, resulted in the assets under management amounting to 466,528 million yen as of the last day of May 2022.

DOI strives to secure stable revenue and sustained growth of the investment assets based on a clear portfolio development policy of specializing in investment in office buildings, with a particular focus on investment in a total floor area of more than about 2,000 m² situated in downtown Tokyo, as well as through dedicated efforts to heighten tenant satisfaction levels.

(2) Investment Environment and Management Performance

(A) Investment Environment

The Japanese economy during the fiscal period under review saw a decrease in production in the automobile and other manufacturing industries attributable to the shortage of semi-conductors as well as a drop in individual consumption due to the impact of the declaration of pre-emergency measures concerning COVID-19 which was applied in 18 prefectures until March 21, 2022. As a result, the real GDP growth rate (Second Preliminary Estimates) for January to March 2022 sat at an annual rate of -0.5%, registering negative growth.

In the office building leasing market in central Tokyo, the vacancy rate had continued to be on an improving trend since June 2013, but has rose to 6.37% as of the end of May 2022 (Miki Shoji’s average vacancy rate for the five central wards of Tokyo). With the prolonged COVID-19 pandemic, cancellations due to office consolidation and relocation to smaller locations caused by the deterioration of business performance are seen, and office rents have also turned to a downward trend after peaking in July 2020.

For the office building transaction market, the appetite for property acquisitions remained strong among real estate companies, funds (including J-REITs) and overseas investors with no material change made to the proactive lending attitude by financial institutions, and there has been no material impact of COVID-19. Nevertheless, future developments warrant close monitoring.

(B) Management Performance

In view of increasing the ordinary EPS (EPS (net income per unit) after deducting gain on sale from properties) over the medium to long term, DOI continued to work on “external growth,” which aims to boost revenue through acquisition of properties, and “internal growth,” which aims to maximize income generating from owned properties.

Concerning external growth, DOI acquired “Kandasudacho 2-Chome Development Site (land)” (acquisition price: 10,600 million yen) and transferred “Daiwa Minami-Aoyama” (transfer price: 4,990 million yen) and “Daiwa Kojimachi 4-chome” (transfer price: 3,200 million yen) in December 2021. As a result, DOI’s assets under management as of the end of the 33rd Fiscal Period (May 31, 2022) totaled 59 properties, the sum total of acquisition prices of which amounted to 466,528 million yen.

Concerning internal growth, DOI conducted proactive leasing, such as capturing needs for floor expansion within the same property through strengthening relationships with existing tenants and reinforcing collaboration with leasing brokers and property managers. Consequently, the occupancy rate as of the end of the 33rd Fiscal Period (May 31, 2022) was 98.4%.

(3) Overview of Capital Procurement

(A) Procurement of Capital for Repayment of Borrowings

In the 33rd Fiscal Period, DOI made the following borrowings to fund the acquisition of a new property and the repayment of borrowings.

- (i) DOI borrowed 3,450 million yen in total from Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Ltd., MUFG Bank, Ltd. and Shinsei Bank, Ltd. on January 31, 2022 to fund the acquisition of a new property (Kandasudacho 2-Chome Development Site (land)) acquired on December 16, 2021.
- (ii) DOI took out loans totaling 2,000 million yen from Sumitomo Mitsui Banking Corporation and The Gunma Bank, Ltd. on February 28, 2022, to fund the repayment of the same amount borrowed from the same banks due for repayment on the same day.
- (iii) DOI took out loans of 2,000 million yen from the Development Bank of Japan Inc. on March 31, 2022, to fund the repayment of the same amount borrowed from the same bank due for repayment on the same day.
- (iv) DOI took out loans totaling 12,400 million yen from Sumitomo Mitsui Banking Corporation, the Development Bank of Japan Inc., MUFG Bank, Ltd., Mizuho Bank, Ltd. and Shinsei Bank, Ltd. on May 31, 2022 to fund the repayment of the same amount borrowed from the same banks due for repayment on the same day.

(B) Status of Interest-Bearing Liabilities at End of the Fiscal Period under Review

As a result of the above, the balance of interest-bearing liabilities outstanding as of the end of the 33rd Fiscal Period (May 31, 2022) stood at 205,800 million yen in total (long-term loans payable: 196,800 million yen; investment corporation bonds: 9,000 million yen). The balance of the current portion of long-term loans payable stood at 30,600 million yen.

The average remaining period of interest-bearing liabilities as of the end of the 33rd Fiscal Period stands at 4.0 years.

(4) Capital Expenditures during the 33rd Fiscal Period

The following summarizes the primary construction work that constitutes capital expenditures implemented during the 33rd Fiscal Period for existing portfolio properties. Capital expenditures for the 33rd Fiscal Period amounted to 856 million yen and, when combined with the 222 million yen in repair expenses charged to the 33rd Fiscal Period expenses, totals 1,078 million yen in construction work implemented.

Name of real estate properties (Location)	Purpose	Period	Construction amount paid (Millions of yen)
Daiwa Ginza (Chuo-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2021 To: May 2022	210
Daiwa Nakano-Sakaue (Nakano-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2021 To: May 2022	83
Daiwa River Gate (Chuo-ku, Tokyo)	Renovation of power receiving and transforming facility	From: May 2022 To: May 2022	64
Other			496
Total			856

(5) Overview of Financial Performance and Distributions

As a result of the management described above, DOI posted financial performance for the 33rd Fiscal Period of 14,474 million yen in operating revenue, 7,923 million yen in operating income, 7,493 million yen in ordinary income and 7,493 million yen in net income.

Concerning distributions, it is planned that the amount equivalent to distributions from earnings would be included in the amount of tax-deductible expenses based on application of special provisions for taxation of corporation tax (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; including amendments thereto) (the “Special Taxation Measures Act”). Accordingly, retaining 737,664,628 yen from application of “Special Provisions for Taxation in Cases of Repurchase of Specified Assets” (Article 65-7 of the Special Taxation Measures Act) as reserve for reduction entry, DOI decided to distribute the entire amount remaining after deducting provision of reserve for reduction entry from unappropriated retained earnings, and declared a distribution amount per unit of 14,000 yen.

3. Outlook for the Next Fiscal Period

(1) Investment Environment

The Japanese economy going forward is expected to see a recovery in individual spending due to the expansion of the acceptance of inbound tourists from overseas resulting from the slowdown of the spread of COVID-19 infection. However, as issues such as the situation in Ukraine, rise in resource prices and disruption of supply chain in the manufacturing industry centering on the automobile industry may take time to normalize, the outlook for the Japanese economy remains unpredictable.

In the Tokyo office building leasing market, although recovery is expected with normalization of economic activities going forward, developments in office consolidations and relocations to smaller offices triggered by COVID-19 leading to the vacancy rate rising and rent dropping moderately mainly in central Tokyo continue to warrant close monitoring.

In the office building transaction market, backed by the favorable financing environment, among other factors, the property acquisition appetite among overseas investors, real estate companies and funds (including J-REITs) is expected to remain strong. However, the re-spread of the COVID-19 pandemic, interest rate trends and other factors may impact future developments in the transaction market.

(2) Future Management Policy and Tasks

(A) Strategy for Managing Existing Properties

As to macro trends for the office market, there are still many secondary vacancies caused by relocations to new buildings as well as partial cancellations and relocations to smaller locations for the purpose of cost reduction. As a result, the vacancy rate for the entire market remains high. On the other hand, as DOI's portfolio consists mainly of class B buildings in the Five Central Wards of Tokyo, new resilient demand mainly from small-to medium-sized companies is being steadily obtained. While setting the maintenance of occupancy rate as the basic policy, rents are being secured at slightly higher levels by advancing tenant replacement through leasing activities offering flexible terms. Therefore, DOI considers that maintaining/improving competitiveness of buildings to qualify as prime offices that can increase the productivity of employees and accommodate needs of the times and environment will be the future issue, and is determined to continue carrying out operational management under the following policy.

(i) Maintain and raise occupancy rates

Concerning existing tenants, strive to reduce cancellation risks by improving the quality of buildings, equipment and management system. In addition, concerning new tenants, strive to maintain and raise occupancy rates through the provision of highly satisfactory services from gaining deeper understanding of tenant needs through proactive involvement in the market.

(ii) Maintain and raise profitability

Aim to secure stable revenue over the medium to long term through further strengthening good relationships with existing tenants, as well as proactively tapping the needs of new tenants by discerning the market environment.

(iii) Control operational management costs

Strive to control operational management costs based on maintaining office environments with high tenant satisfaction levels by implementing efficient operational management and reviewing systematic construction work through optimal leveraging of economies of scale achieved from proactively realizing external growth.

(B) Strategy for New Property Investments

DOI will invest in office buildings that have a total floor area of about 2,000 m² or more based on various external growth strategies, while maintaining a balance with the asset acquisition environment and financing situation. In principle, considerations will focus on Tokyo as the investment target area, but DOI will also consider investing in competitive properties in cities other than Tokyo from a viewpoint of territorially-distributed investments.

As pipeline support, in addition to expanding its own information-sourcing channels, DOI will continue to search for properties that meet its investment criteria by proactively gathering real estate transaction market information through greater collaboration with the Asset Manager and Sponsor Group and utilizing the Group's extensive network of clients, partners, etc.

Moreover, during the 33rd Fiscal Period DOI acquired Kandasudacho 2-Chome Development Site (land) in Tokyo. This acquisition will be a development project following the "Nihonbashi-Bakurocho 1-Chome Development Site (land)" for DOI, and is positioned as a project that is expected to rejuvenate the portfolio and improve profitability over the medium to long term. DOI will strive to acquire properties in accordance with the investment strategy described above, while continuing to carefully assess the possibility of considering such development projects.

(C) Financial Strategy

DOI will conduct disciplined financial management of the following basic content.

- (i) Control leverage by keeping the ratio of interest-bearing liabilities to total assets (LTV) within the range of 40% to 50% at maximum, taking into consideration also the LTV, etc. based on appraisal value, as a principle.
- (ii) Diversify repayment deadlines, targeting 30.0 billion yen as the maximum amount of interest-bearing liabilities that shall become due during any single fiscal period as a principle.
- (iii) Aim to have long-term loans account for at least 70% of balance of loans as a principle.
- (iv) Achieve diversification of lenders, which shall mainly be Japanese financial institutions.
- (v) Pursuant to its fund management rules, maintain stability in its financial standing by managing necessary funds, such as the amount equivalent to distributions paid, separately from working capital.

(D) Schedule of Capital Expenditures for the 33rd Fiscal Period

The following are the principal capital expenditures arising from renovation construction work, etc. currently planned for existing portfolio properties. Please note that the expected construction amount includes portions that are expensed as a separate account item of accounting costs.

Name of real estate properties (Location)	Purpose	Scheduled implementation period	Expected construction amount (Millions of yen)		
			Total amount	Amount paid during current period	Total amount already paid
Daiwa Ogikubo Tower (Suginami-ku, Tokyo)	Conversion to LED lighting at common and exclusive areas	From: June 2022 To: Nov. 2022	82	-	-
Shinjuku Maynds Tower (Shibuya-ku, Tokyo)	Upgrading of air-conditioning facilities	From: June 2022 To: Nov. 2022	54	-	-
Daiwa Shibuya Shinsen (Shibuya-ku, Tokyo)	Renewal work of kitchen and bathroom	From: June 2022 To: Nov. 2022	32	-	-
Daiwa River Gate (Chuo-ku, Tokyo)	Renewal of escalator	From: June 2022 To: Nov. 2022	32	-	-

II. Balance Sheets

As of May 31, 2022 and November 30, 2021

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Assets		
Current Assets:		
Cash and cash equivalents (Notes 3 and 4)	26,773,007	30,291,436
Tenant receivables	86,072	189,915
Prepaid expenses	355,818	340,300
Other current assets	34,136	94,138
Total Current Assets	27,249,034	30,915,790
Investment Properties, at cost (Notes 5 and 6):		
Land	12,302,226	12,302,226
Buildings and structures	3,595,823	3,336,791
Tools, furniture and fixtures	21,085	20,976
Construction in progress	4,006	4,703
Land in trust accounts (Note 15)	359,932,790	355,212,305
Buildings and structures in trust accounts (Notes 14 and 15)	108,778,379	109,953,740
Machinery and equipment in trust accounts	870,980	924,505
Tools, furniture and fixtures in trust accounts	366,416	354,822
Construction in progress in trust accounts	846,159	230,034
Less: accumulated depreciation	(35,012,710)	(34,027,726)
Leasehold rights	2,398,275	2,398,275
Leasehold rights in trust accounts	306,884	306,884
Total Investment Properties, net	454,410,317	451,017,540
Investments and Other Assets:		
Trademark	-	7
Lease and guarantee deposits in trust accounts	113,684	113,684
Long-term prepaid expenses	1,203,731	1,066,645
Derivative assets (Note 4)	329,840	19,157
Deferred investment corporation bond issuance costs	44,357	49,360
Others	110,137	97,646
Total Investments and Other Assets	1,801,750	1,346,501
Total Assets	483,461,103	483,279,832

The accompanying notes are an integral part of these financial statements.

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Liabilities		
Current Liabilities:		
Accounts payable	1,067,842	813,836
Short-term debt (Notes 4 and 11)	–	2,400,000
Long-term debt due within one year (Notes 4 and 11)	30,600,000	31,600,000
Accounts payable – other	600,232	619,303
Income taxes payable	880	880
Accrued consumption taxes	294,268	286,169
Rent received in advance	2,326,716	2,351,548
Other current liabilities	501,287	642,362
Total Current Liabilities	35,391,228	38,714,100
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 11)	9,000,000	9,000,000
Long-term debt (Notes 4 and 11)	166,200,000	159,350,000
Tenant security deposits including trust accounts (Note 4)	22,165,062	22,318,907
Deferred tax liabilities (Note 16)	165,917	55,150
Derivative liabilities (Note 4)	–	29,436
Other long-term liabilities	–	174,578
Total Long-Term Liabilities	197,530,979	190,928,072
Total Liabilities	232,922,207	229,642,173
Net Assets (Notes 9 and 17)		
Unitholders' Equity:		
Unitholders' capital	251,551,759	251,551,759
Units authorized: 2,000,000 units		
Units issued and outstanding: 482,529 units as of May 31, 2022 and 488,088 units as of November 30, 2021		
Deduction from unitholders' capital	(10,458,319)	(6,458,395)
Unitholders' capital, net	241,093,440	245,093,364
Reserve for reduction entry	1,721,383	1,755,357
Retained earnings	7,493,070	6,799,258
Total Unitholders' Equity	250,307,894	253,647,979
Valuation and translation adjustments		
Deferred gains or losses on hedges	231,001	(10,319)
Total valuation and translation adjustments	231,001	(10,319)
Total Net Assets	250,538,895	253,637,659
Total Liabilities and Net Assets	483,461,103	483,279,832

The accompanying notes are an integral part of these financial statements.

III. Statements of Income and Retained Earnings

For the fiscal periods ended May 31, 2022 and November 30, 2021

(Thousands of yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Operating Revenues (Note 7):		
Rental revenues (Note 8)	13,560,238	13,846,420
Other revenues related to property leasing (Note 8)	13,769	35,944
Gain on sale of investment properties (Note 13)	900,931	–
Total Operating Revenues	14,474,939	13,882,364
Operating Expenses:		
Property-related expenses (Note 8)	5,143,017	5,146,252
Asset management fees	1,163,658	1,153,133
Asset custody fees	24,190	24,171
Administrative service fees	72,641	72,902
Trust fees	18,879	18,219
Directors' compensation	7,200	7,200
Other operating expenses	122,114	109,453
Total Operating Expenses	6,551,700	6,531,333
Operating Income	7,923,238	7,351,030
Non-Operating Revenues:		
Interest income	14	15
Reversal of distribution payable	646	515
Insurance income	138,785	555
Other non-operating revenues	285	46
Total Non-Operating Revenues	139,731	1,133
Non-Operating Expenses:		
Interest expense	398,294	406,711
Interest expense on investment corporation bonds	26,328	26,041
Borrowing expenses	130,398	128,321
Other non-operating expenses	13,997	6,542
Total Non-Operating Expenses	569,018	567,617
Ordinary Income	7,493,952	6,784,546
Income Before Income Taxes	7,493,952	6,784,546
Income taxes – current	881	881
Income taxes – deferred	–	(15,593)
Total Income Taxes (Note 16)	881	(14,712)
Net Income	7,493,070	6,799,258
Retained Earnings Brought Forward	–	–
Retained Earnings at End of Period	7,493,070	6,799,258

The accompanying notes are an integral part of these financial statements.

IV. Statements of Changes in Net Assets

For the fiscal periods ended May 31, 2022 and November 30, 2021

(Thousands of yen)

	Number of Units (Units)	Unitholders' Equity					Treasury Investment Units	Deferred Gains or Losses on Hedges	Total Net Assets
		Unitholders' Capital	Deduction from Unitholders' Capital	Unitholders' Capital, net	Reserve for Reduction Entry	Retained Earnings			
Balance as of May 31, 2021	488,088	251,551,759	(6,458,395)	245,093,364	1,038,691	7,549,897	–	(159,563)	253,522,389
Cash distributions declared	–	–	–	–	–	(6,833,232)	–	–	(6,833,232)
Net income	–	–	–	–	–	6,799,258	–	–	6,799,258
Provision of reserve for reduction entry	–	–	–	–	716,665	(716,665)	–	–	–
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	149,243	149,243
Balance as of November 30, 2021	488,088	251,551,759	(6,458,395)	245,093,364	1,755,357	6,799,258	–	(10,319)	253,637,659
Cash distributions declared	–	–	–	–	–	(6,833,232)	–	–	(6,833,232)
Net income	–	–	–	–	–	7,493,070	–	–	7,493,070
Reversal of reserve for reduction entry	–	–	–	–	(33,973)	33,973	–	–	–
Acquisition of treasury investment units	–	–	–	–	–	–	(3,999,924)	–	(3,999,924)
Cancellation of treasury investment units (Note 10)	(5,559)	–	(3,999,924)	(3,999,924)	–	–	3,999,924	–	–
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	241,321	241,321
Balance as of May 31, 2022	482,529	251,551,759	(10,458,319)	241,093,440	1,721,383	7,493,070	–	231,001	250,538,895

The accompanying notes are an integral part of these financial statements.

V. Statements of Cash Flows

For the fiscal periods ended May 31, 2022 and November 30, 2021

(Thousands of yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Cash Flows from Operating Activities:		
Income before income taxes	7,493,952	6,784,546
Depreciation and amortization	1,787,160	1,811,785
Amortization of bond issuance costs	5,003	5,030
Interest expense	424,622	432,753
Decrease in tenant receivables	103,843	5,712
Decrease in accounts payable	(155,572)	(109,090)
Decrease in rent received in advance	(24,831)	(14,678)
Interest payments	(423,389)	(432,867)
Increase (decrease) in accrued consumption taxes	8,099	(49,466)
Decrease due to sale of investment properties in trust accounts	7,179,984	–
Other, net	(184,230)	125,563
Net Cash Provided by Operating Activities	16,214,641	8,559,288
Cash Flows from Investing Activities:		
Payments for purchases of investment properties including trust accounts	(12,010,286)	(2,750,110)
Payments for purchases of intangible assets	(12,000)	–
Proceeds from tenant security deposits including trust accounts	661,359	1,100,840
Refunds of tenant security deposits including trust accounts	(989,783)	(996,973)
Net Cash Used in Investing Activities	(12,350,710)	(2,646,243)
Cash Flows from Financing Activities:		
Repayments of short-term debt	(2,400,000)	–
Proceeds from long-term debt	19,850,000	6,500,000
Repayments of long-term debt	(14,000,000)	(7,500,000)
Payments for acquisition of treasury investment units	(3,999,924)	–
Distributions paid	(6,832,436)	(6,833,242)
Net Cash Used in Financing Activities	(7,382,360)	(7,833,242)
Net Change in Cash and Cash Equivalents	(3,518,428)	(1,920,198)
Cash and Cash Equivalents at Beginning of Period	30,291,436	32,211,634
Cash and Cash Equivalents at End of Period (Note 3)	26,773,007	30,291,436

The accompanying notes are an integral part of these financial statements.

For the fiscal periods ended May 31, 2022 and November 30, 2021

Note 1 – Organization and Basis of Presentation

Organization

Daiwa Office Investment Corporation (the former DA Office Investment Corporation; hereinafter referred to as “DOI”) was established on July 11, 2005 as an investment corporation under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent revisions, hereinafter referred to as the “Investment Trust Act”) by the founder (the former daVinci Select; now, Daiwa Real Estate Asset Management (hereinafter referred to as the “Asset Manager”)).

DOI is an externally managed real estate fund, established as an investment corporation. The Asset Manager, as DOI’s asset management company, is engaged in acquiring, managing, leasing, and renovating office properties. Daiwa Securities Group Inc. currently owns 100% of the shares of the Asset Manager.

On October 18, 2005, DOI had raised approximately 49,498,710 thousand yen through an initial public offering of units. Those units were listed on the J-REIT section of the Tokyo Stock Exchange.

As of May 31, 2022, DOI had ownership or trust beneficiary interests in 59 office properties with approximately 356,122.21 m² of rentable office space and had leased office space to 635 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 98.4 %.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act, the Financial Instruments and Exchange Act and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements have been reformatted and translated into English from the financial statements of DOI prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. In preparing the accompanying financial statements, relevant notes have been expanded and certain reclassifications have been made from the Japanese GAAP financial statements. Certain supplementary information included in the statutory Japanese GAAP financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. Certain reclassifications have been made to the prior period’s financial statements to conform to the presentation for the current period.

DOI maintains its accounting records in Japanese yen. Amounts less than 1 thousand yen have been rounded down. As a result, the total shown in the financial statements and notes does not necessarily agree to sum of individual account balances.

DOI’s fiscal period is a six-month period ending at the end of May and November of each year.

Note 2 – Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of acquisition.

(b) Investment Properties

Investment properties are recorded at cost, which includes the allocated purchase price, related costs and expenses for acquisition of the office properties and the trust beneficiary interests in trust. Investment property balances are depreciated using the straight-line method over the estimated useful lives as follows:

	As of May 31, 2022	As of November 30, 2021
Buildings and structures	2-64 years	2-64 years
Machinery and equipment	10-23 years	10-23 years
Tools, furniture and fixtures	4-15 years	4-15 years

Cost related to the renovation, construction improvement of properties is capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of property, are expensed as incurred.

(c) Deferred Investment Corporation Bond Issuance Costs

Deferred investment corporation bond issuance costs are amortized on a straight-line basis over the respective terms of the bonds.

(d) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory rate.

(e) Real Estate Taxes

Investment properties are subject to various taxes, such as property taxes and city planning taxes. Owners of the properties are registered by records maintained in each jurisdiction by the local government. The taxes are imposed on the registered record owner as of January 1 of each year, based on an assessment made by the local government.

When a property is purchased within the calendar year, the taxes for the corresponding calendar year are imposed on the seller. DOI pays the seller the corresponding amount of the taxes for the period from property acquisition date to December 31 of the calendar year and capitalizes these amounts as acquisition costs of the property, rather than expensing them. In subsequent calendar years, such taxes on investment properties are charged as operating expenses in each fiscal period.

The following is a summary of capitalized real estate taxes.

(Thousands of yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Capitalized real estate taxes	380	1,602

(f) Consumption Taxes

Non-deductible consumption taxes relating to investment properties are amortized equally over five years.

(g) Hedge Accounting

DOI enters into derivative transactions for the purpose of hedging risks in the Articles of Incorporation of DOI in accordance with its general risk management policy. DOI uses interest-rate swaps as hedging instruments in order to hedge the risk of interest rate fluctuations related to borrowings. Pursuant to Japanese GAAP, DOI applies the special accounting treatment to interest-rate swaps which qualify for hedge accounting and meet specific criteria. Under the special accounting treatment, the related differentials paid or received under such swap contracts can be recognized and included in interest expense or income of the hedged assets or liabilities, and the interest-rate swaps are not required to be measured at fair value separately. The assessment of hedge effectiveness has been made each fiscal period except for interest-rate swaps which meet the special criteria.

(h) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues such as utility charge reimbursements, parking space rental revenues and other income.

Major contents of performance obligations relating to revenue arising from contracts with DOI's customers and general timing of satisfying such performance obligations (general timing of revenue recognition) are as follows:

(1) Sales of Investment Properties

Revenue is recognized at the time when a purchaser of the investment property as a customer obtains control over the investment property by satisfying delivery obligation as described in a contract regarding the sale of the investment property.

(2) Utility Charge Revenue

Utility charge revenue is recognized depending on the volume of supply of electricity, water and others to a tenant as a customer based on the lease agreement of the related property and contents of ancillary agreements. For utility charge revenue for which DOI is determined to be an agent, the net amount is recognized as revenue, which is calculated by deducting the amount payable to other parties from utility charges received by DOI for electricity, water and others supplied by those parties.

(i) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, all assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant balance sheet and income statement accounts of the accompanying financial statements.

(j) Accounting Estimates

Impairment of long-lived assets

Amount of investment properties recorded on the financial statements as of May 31, 2022 and November 30, 2021 were as follows:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Tangible fixed assets	451,705,157	448,312,380
Intangible fixed assets	2,705,160	2,708,043

DOI reviews investment properties for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable in conformity with the accounting standard for impairment of long-lived assets. The book value of investment properties has been reduced to its recoverable amount when the invested amount may not be recoverable due to decrease in profitability.

DOI's investment properties are grouped on an individual asset basis. DOI reviews the investment properties for impairment when factors such as consecutive operating losses, significant decline in the market price, deteriorated business environment and others related to investment properties indicate the carrying amount of an asset may not be recoverable.

An impairment loss is recognized if the carrying amount of an asset exceeds the sum of the undiscounted future cash flows expected from the asset. In such a case, the book value of the asset is reduced to the respective recoverable amount and the difference between the book value and recoverable amount is recorded as an impairment loss.

Future cash flows used in determining recoverable amounts are measured by comprehensive judgement on estimates based on market trends on rental revenues, occupancy rates, rental expenses and other factors as well as transaction information of similar properties.

Operating results and market prices of each investment property may be affected by trends in the property leasing market and property trading market. It is possible to have an impact on DOI's financial position and results of operations in the next fiscal period if assumptions used in estimates change.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents stated on the accompanying balance sheets and statements of cash flows as of May 31, 2022 and November 30, 2021 consisted of the following:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Cash and deposits	23,095,517	26,650,594
Cash and deposits in trust accounts	3,677,490	3,640,841
Cash and cash equivalents	26,773,007	30,291,436

Note 4 – Financial Instruments

(a) Qualitative Information for Financial Instruments

Policy for Financial Instrument Transactions

DOI raises funds through borrowings, issuance of investment corporation bonds and issuance of investment units for acquisition and renovation of investment properties, cash distributions of dividends and repayment of bank borrowings. In financing through interest-bearing debt, DOI raises funds with longer term, fixed-rate and well-diversified maturities and utilizes commitment lines to secure stable financing capacity and avoid potential risk of rising interest rates.

Surplus funds are managed considering risk and liquidity, by investing in highly liquid monetary assets and securities (in principle, deposits).

DOI enters into derivative transactions only for the purpose of hedging interest rate risks arising from liabilities.

Nature and Extent of Risks arising from Financial Instruments and Risk Management

Proceeds from borrowings and investment corporation bonds are used mainly to acquire investment properties and repay or redeem outstanding borrowings and bonds. These borrowings and bonds are exposed to liquidity risk. Such risk is managed in ways such as maintaining the LTV ratio at low levels, diversifying maturities, keeping the ratio of long-term debt to total debt at high levels, and diversifying lenders. For the floating-rate borrowings exposed to the risk of future interest rate fluctuations, DOI uses derivative transactions (interest-rate swap) as hedging instruments, in order to avoid interest rate fluctuations and to fix the amount of interest payments for floating-rate borrowings.

DOI evaluates the effectiveness of hedges by the correlation between the change in aggregated amount of cash flow of the hedging instruments and the change in aggregated amount of cash flow of the hedged items. The assessment of hedge effectiveness is omitted for the interest-rate swaps which meet the specific criteria under the special accounting treatment.

Derivative transactions are executed and monitored in compliance with the rules and procedures set forth in the risk management policy of DOI.

Tenant security deposits including trust accounts are exposed to liquidity risk arising from refunding deposits in the event of vacating of properties by tenants. Such risk is managed by reserving some parts of the funds.

Bank deposits are used for investing DOI's surplus funds. These bank deposits are exposed to credit risks such as bankruptcy of the depository financial institutions. DOI manages credit risk by investing only in short-term deposit and setting a minimum credit rating requirement for the depository financial institutions (excluding deposits for settlement purposes).

Supplemental Explanation regarding Fair Value of Financial Instruments

Since certain assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different value. Also, the contractual amounts of derivative transactions do not represent the market risk involved in these derivative transactions.

(b) Estimated Fair Value of Financial Instruments

The book value, fair value and difference between the two as of May 31, 2022 and November 30, 2021 were as follows. Cash and cash equivalents, and short-term debt are not disclosed because the book values of these assets are deemed reasonable approximations of the fair values as they are cash or with short maturities.

(Thousands of yen)

Liabilities	As of May 31, 2022			As of November 30, 2021		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Long-term debt due within one year	30,600,000	30,594,419	(5,580)	31,600,000	31,600,412	412
Investment corporation bonds	9,000,000	8,959,310	(40,690)	9,000,000	9,024,050	24,050
Long-term debt	166,200,000	165,401,287	(798,712)	159,350,000	158,874,541	(475,458)
Total	205,800,000	204,955,017	(844,982)	199,950,000	199,499,003	(450,996)
Derivative transactions (*)	337,031	337,031	–	(15,056)	(15,056)	–

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parenthesis indicating the net liability position.

Notes:

1. Methods to estimate fair value of financial instruments and derivative transactions

Liabilities:

(1) Long-term debt due within one year and long-term debt

For long-term debt with floating interest rates, their fair value and book value are nearly identical and there are no significant changes in DOI's credit risk after borrowing. Therefore, for these items, their book value is assumed as their fair value. For long-term debt with fixed interest rates, their fair value is calculated based on the present value of principle and interest cash flows discounted at the current interest rate which is estimated to be applied if similar new debt is entered into. However, the fair value of certain floating-rate long-term debt that qualifies for the special treatment of interest-rate swaps is calculated based on the present value of principle and interest cash flows which are processed as a single unit with the interest-rate swap.

(2) Investment corporation bonds

The fair value of investment corporation bonds is based on their quoted market price.

Derivative Transactions:

The Company applies the hedge accounting for all derivative transactions. Contractual amount and fair value were as follows:

(Thousands of yen)

Hedge accounting method	Type of derivative transaction	Hedged item	As of May 31, 2022		
			Contracted amount		Fair value (*1)
			Total	Due after one year	
Deferral hedge accounting method	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	89,800,000	67,500,000	337,031
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	28,900,000	28,900,000	– (*2)
			118,700,000	96,400,000	(15,056)

(Thousands of yen)

Hedge accounting method	Type of derivative transaction	Hedged item	As of November 30, 2021		
			Contracted amount		Fair value (*1)
			Total	Due after one year	
Deferral hedge accounting method	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	100,300,000	76,500,000	(15,056)
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	28,900,000	28,900,000	– (*2)
			129,200,000	105,400,000	(15,056)

(*1) The fair value is provided by financial institutions.

(*2) Fair values of interest-rate swaps with the special treatment are included in fair values of related long-term debt as the interest-rate swaps are processed as a single unit with the hedged long-term debt.

2. Tenant security deposits including trust accounts (whose book values were 22,165,062 thousand yen and 22,318,907 thousand yen as of May 31, 2022 and November 30, 2021, respectively) that have been deposited by tenants were excluded from the scope of fair value disclosure because they are immaterial.

3. Redemption schedule for short-term debt, investment corporation bonds and long-term debt

(Thousands of yen)

As of May 31, 2022	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	–	–	3,800,000	1,500,000	–	3,700,000
Long-term debt	30,600,000	25,600,000	30,800,000	20,700,000	20,200,000	68,900,000
Total	30,600,000	25,600,000	34,600,000	22,200,000	20,200,000	72,600,000

(Thousands of yen)

As of November 30, 2021	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	–	–	3,800,000	1,500,000	–	3,700,000
Long-term debt	31,600,000	26,200,000	26,200,000	20,550,000	22,400,000	64,000,000
Total	31,600,000	26,200,000	30,000,000	22,050,000	22,400,000	67,700,000

Note 5 – Tangible Fixed Assets of Investment Properties

Investment properties as of May 31, 2022 and November 30, 2021 consisted of the following:

(Thousands of yen)

	As of May 31, 2022			As of November 30, 2021		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	12,302,226	–	12,302,226	12,302,226	–	12,302,226
Buildings and structures	3,595,823	(2,765,434)	830,389	3,336,791	(2,690,509)	646,281
Tools, furniture and fixtures	21,085	(17,016)	4,069	20,976	(16,039)	4,936
Construction in progress	4,006	–	4,006	4,703	–	4,703
Land in trust accounts	359,932,790	–	359,932,790	355,212,305	–	355,212,305
Buildings and structures in trust accounts	108,778,379	(31,482,153)	77,296,226	109,953,740	(30,559,769)	79,393,971
Machinery and equipment in trust accounts	870,980	(520,910)	350,069	924,505	(544,085)	380,419
Tools, furniture and fixtures in trust accounts	366,416	(227,197)	139,218	354,822	(217,321)	137,500
Construction in progress in trust accounts	846,159	–	846,159	230,034	–	230,034
Total	486,717,868	(35,012,710)	451,705,157	482,340,106	(34,027,726)	448,312,380

Note 6 – Fair Value of Investment and Rental Properties

The book value, net changes in the book value and the fair value of the investment and rental properties were as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2021	For the fiscal period ended November 30, 2021
Book value: (Note 1)		
Balance at beginning of period	450,782,802	450,041,503
Change during the period (Note 2)	2,777,348	741,299
Balance at end of period	453,560,151	450,782,802
Fair value (Note 3)	590,840,000	577,590,000

(Note 1) The book value represents the acquisition cost less accumulated depreciation.

(Note 2) Significant changes

For the fiscal period ended May 31, 2022, the major reason for the increase is acquisition of “Kandasudacho 2-Chome Development Site (land)” (10,600,000 thousand yen). The major reason for the decrease is disposition of 2 properties, “Daiwa Minami-Aoyama Building” (4,408,570 thousand yen) and “Daiwa Kojimachi 4-chome Building” (2,805,594 thousand yen) and depreciation (1,783,619 thousand yen). For the fiscal period ended November 30, 2021, the major reason for the increase is acquisition of “Kandabashi PR-EX” (1,970,000 thousand yen). The major reason for the decrease is depreciation (1,808,363 thousand yen).

(Note 3) The fair values as of May 31, 2022 and November 30, 2021 were determined by the sum of appraisal values provided by external real estate appraisers.

Note 7 – Revenue Recognition

Information on breakdown of revenues arising from contracts with customers for the fiscal periods ended May 31, 2022 and November 30, 2021 was as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2022	
	Revenues arising from contracts with customers (Note 1)	Sales to external customers
Sales of investment properties (Note 2)	8,190,000	900,931
Utility charge revenues	891,583	891,583
Other	–	12,682,424
Total	9,081,583	14,474,939

(Note 1) Rental revenues and other revenues relating to property leasing for which “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13) is applied are not included in revenues arising from contracts with customers because the Accounting Standard for Revenue Recognition is not applied to such revenues. Major revenues arising from contracts with customers are sales of investment properties and utility charge revenues.

(Note 2) Sales of investment properties are presented in the net amount by deducting the cost of selling investment properties and other expenses related to the sales from the proceeds from the sales of investment properties in order to present gain/loss on the sales of investment properties on the statements of income and retained earnings in accordance with Article 48, paragraph (2) of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Order No. 47 of 2006).

(Thousands of yen)

	For the fiscal period ended November 30, 2021	
	Revenues arising from contracts with customers (Note)	Sales to external customers
Sales of investment properties	–	–
Utility charge revenues	975,711	975,711
Other	–	12,906,653
Total	975,711	13,882,364

(Note) Rental revenues and other revenues relating to property leasing for which “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13) is applied are not included in revenues arising from contracts with customers because the Accounting Standard for Revenue Recognition is not applied to such revenues. Major revenues arising from contracts with customers are sales of investment properties and utility charge revenues.

Note 8 – Rental Revenues and Expenses

Rental revenues and expenses for the fiscal periods ended May 31, 2022 and November 30, 2021 were as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Revenues from property leasing:		
Rental revenues	13,560,238	13,846,420
Other revenues related to property leasing	13,769	35,944
Total revenues from property leasing	13,574,007	13,882,364
Rental expenses:		
Consignment expenses	974,462	1,049,643
Utilities expenses	924,472	870,406
Taxes and dues	1,144,699	1,147,461
Insurance expenses	20,748	20,338
Repair expenses	222,314	166,756
Depreciation	1,783,619	1,808,363
Other	72,701	83,281
Total rental expenses	5,143,017	5,146,252
Income from property leasing	8,430,990	8,736,111

Note 9 – Net Assets

DOI issues non-par value units in accordance with the Investment Trust Act and all of the amounts issued are designated as stated capital. DOI maintains a minimum of 50 million yen of net assets as required by the Investment Trust Act.

Note 10 – Treasury Investment Units

Cancellation of treasury investment units as of May 31, 2022 and November 30, 2021 were as follows.

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Total number of own investments units cancelled (units)	15,340	9,781
Total amount of cancellation	10,458,319	6,458,395

Total number of treasury investment units cancelled and total amount of cancellation during the fiscal period ended May 31, 2022 were 5,559 units and 3,999,924 thousand yen, respectively.

Note 11 – Short-Term Debt, Long-Term Debt Due Within One Year, Long-Term Debt and Investment Corporation Bonds

Short-term debt, long-term debt due within one year, long-term debt and investment corporation bonds as of May 31, 2022 and November 30, 2021 consisted of the following:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
0.3% unsecured short-term loans due 2022, principally from banks	–	2,400,000
Total	–	2,400,000
Unsecured loans due 2022 to 2031, principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 0.7%	196,800,000	190,950,000
1.0% unsecured bond due 2024	2,100,000	2,100,000
0.2% unsecured bond due 2024	1,700,000	1,700,000
0.3% unsecured bond due 2025	1,500,000	1,500,000
0.6% unsecured bond due 2030	2,400,000	2,400,000
0.7% unsecured bond due 2031	1,300,000	1,300,000
Total	205,800,000	199,950,000

(Note) The interest rates presented are daily weighted average interest rates. As for long-term debts which were hedged by interest-rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate daily weighted average interest rates.

The annual maturities of long-term debt and investment corporation bonds as of May 31, 2022 were as follows:

(Thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Long-term debt and investment corporation bonds	30,600,000	25,600,000	34,600,000	22,200,000	20,200,000	72,600,000

DOI maintains commitment line contracts with one financial institution. There was no borrowing execution balance as of May 31, 2022. The amounts of unused commitments on loans as of May 31, 2022 and November 30, 2021 were as follows:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Total amounts of borrowing commitment lines	5,500,000	–
Borrowing execution balances	–	–
Net unused balance	5,500,000	–

Note 12 – Leases

As Lessor

The future minimum rental revenues under existing non-cancelable operating leases as of May 31, 2022 and November 30, 2021 were as follows:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Due within one year	9,433,002	9,185,785
Due after one year	17,362,934	18,786,130
Total	26,795,936	27,971,915

Note 13 – Gain on Sale of Investment Properties

Gain on sale of investment properties for the fiscal period ended May 31, 2022 was as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2022
Daiwa Minami-Aoyama Building:	
Proceeds from sale of investment property	4,990,000
Cost of selling investment property	(4,408,570)
Other expenses related to sale	(44,927)
Gain on sale of investment property	536,502
Daiwa Kojimachi 4-Chome Building:	
Proceeds from sale of investment property	3,200,000
Cost of selling investment property	(2,805,594)
Other expenses related to sale	(29,977)
Gain on sale of investment property	364,428

No investment properties were sold during the fiscal period ended November 30, 2021.

Note 14 – Reduction of Investment Properties Purchased with Government Subsidies

Government subsidies of 32,898 thousand yen were deducted from the acquisition cost of the buildings in trust as of May 31, 2022 and November 30, 2021.

Note 15 – Reduction of Investment Properties Acquired through Exchange

The following amounts were deducted from the acquisition cost of the investment property in trust acquired through exchange as of May 31, 2022 and November 30, 2021.

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Buildings and structures in trust accounts	182,846	182,846
Land in trust accounts	887,074	887,074
Total	1,069,921	1,069,921

Note 16 – Income Taxes

DOI is subject to Japanese corporate income taxes on all of its taxable income. However, DOI may deduct the amount distributed to its unitholders from its taxable income when certain requirements, including a requirement to distribute in excess of 90% of distributable profit for the fiscal period, are met under the Special Taxation Measure Act of Japan. If DOI does not satisfy all of the requirements as specified in the Act, the entire taxable income of DOI will be subject to regular corporate income taxes in Japan.

DOI has made distribution in excess of 90% of its distributable profit for each fiscal period in order to be able to deduct such amount from taxable income.

The following table summarizes the significant difference between the statutory tax rate and DOI's effective tax rate for financial statement purposes.

(%)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Statutory tax rate	31.46	31.46
Deductible cash distributions	(28.36)	(31.69)
Provision of reserve for reduction entry	(3.10)	–
Others	0.01	0.01
Effective tax rate	0.01	(0.22)

The significant components of deferred tax assets and liabilities as of May 31, 2022 and November 30, 2021 were as follows:

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2021
Deferred tax assets:		
Accrued enterprise tax	13	13
Deferred losses on hedges	–	11,817
Total deferred tax assets	13	11,830
Deferred tax liabilities:		
Reserve for reduction entry	59,900	59,900
Deferred gains on hedges	106,030	7,080
Total deferred tax liabilities	165,930	66,980
Net deferred tax liabilities	(165,917)	(55,150)

Note 17 – Per Unit Information

Information about earnings per unit for the fiscal periods ended May 31, 2022 and November 30, 2021, net assets per unit as of May 31, 2022 and November 30, 2021 were as follows:

(Yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Earnings per Unit:		
Net income per unit	15,443	13,930
Weighted average number of units outstanding (units)	485,190	488,088

(Yen)

	As of May 31, 2022	As of November 30, 2021
Net Assets per Unit	519,220	519,655

The computation of earnings per unit is based on the weighted average number of units outstanding during the period. The computation of net assets per unit is based on the number of units outstanding at each period end as stated on the balance sheets.

The diluted net income per unit is not stated as there are no diluted investment units.

There is no amount that is not available to ordinary unitholders.

Note 18 – Distribution Information

DOI's Articles of Incorporation stipulate that DOI is required to make cash distribution in excess of 90% of distributable profit as defined in the Special Taxation Measure Act of Japan for each fiscal period. DOI has determined to pay out as earnings distributions a total amount of dividends for the fiscal period ended May 31, 2022 of 6,755,406,000 yen after deducting the amount of provision of reserve for reduction entry as stipulated in Article 65-7 of the Special Taxation Measure Act of Japan from unappropriated retained earnings and a total amount of dividends for the fiscal period ended November 30, 2021 of 6,833,232,000 yen after adding the amount of reversal of reserve for reduction entry to unappropriated retained earnings. Furthermore, DOI does not pay out dividends that exceed accounting profits as outlined in Article 32-2 of DOI's Articles of Incorporation.

(Yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
I Unappropriated retained earnings	7,493,070,628	6,799,258,381
II Reversal of voluntary reserves	–	33,973,619
II Reversal of reserve for reduction entry		
III Cash distributions declared	6,755,406,000	6,833,232,000
IV Voluntary reserves	737,664,628	–
IV Provision of reserve for reduction entry		
V Retained earnings brought forward	–	–

Cash distributions are declared by the board of directors after the end of each period. Such distributions are payable to unitholders of record at the end of each period. Information of cash distributions per unit and the board of directors meeting dates when the distributions were proposed and approved were as follows:

(Yen)

	For the fiscal period ended May 31, 2022	For the fiscal period ended November 30, 2021
Cash distributions per unit	14,000	14,000
Board of directors meeting dates	July 21, 2022	January 20, 2022

Note 19 – Related-Party Transactions

No related-party transaction was entered into for the fiscal periods ended May 31, 2022 and November 30, 2021.

DOI became a consolidated subsidiary of Daiwa Securities Group Inc., which is listed in Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. during the fiscal period ended May 31, 2021.

Note 20 – Segment Information

For the fiscal periods ended May 31, 2022 and November 30, 2021

Segment Information

Segment information has been omitted as DOI has only one segment, which is property leasing business.

Related Information

Information about Products and Service

Disclosure of this information has been omitted as operating revenues to external customers for a single product/service category account for more than 90% of the operating revenues on the statements of income and retained earnings.

Information about Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as domestic operating revenues account for more than 90% of total operating revenues.

(2) Investment properties

Disclosure of this information has been omitted as domestic investment properties account for more than 90% of the book value of the total investment properties.

Information about Major Tenant

Disclosure of this information has been omitted as there is no tenant that accounts for 10% or more of the operating revenues recorded in the statements of income and retained earnings.

Note 21 – Significant Subsequent Events

Not applicable.



Independent Auditor's Report

To the Board of Directors of
Daiwa Office Investment Corporation:

Opinion

We have audited the accompanying financial statements of Daiwa Office Investment Corporation ("the Investment Corporation"), which comprise the balance sheets as at May 31, 2022 and November 30, 2021, the statements of income and retained earnings, statements of changes in net assets, statements of cash flows for each of the six months periods then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Investment Corporation as at May 31, 2022 and November 30, 2021, and its financial performance and its cash flows for each of the six months periods then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Investment Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises the information included in the Statement of Financial Performance, but does not include the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. Supervisory directors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Investment Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in

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accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Investment Corporation or to cease operations, or has no realistic alternative but to do so.

Supervisory directors are responsible for overseeing the executive managing directors' performance of their duties including the design, implementation and maintenance of the Investment Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Investment Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Investment Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Investment Corporation to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with executive managing directors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide executive managing directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Investment Corporation which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

宮田 世紀

Seiki Miyata

Designated Engagement Partner

Certified Public Accountant

内田 和男

Kazuo Uchida

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

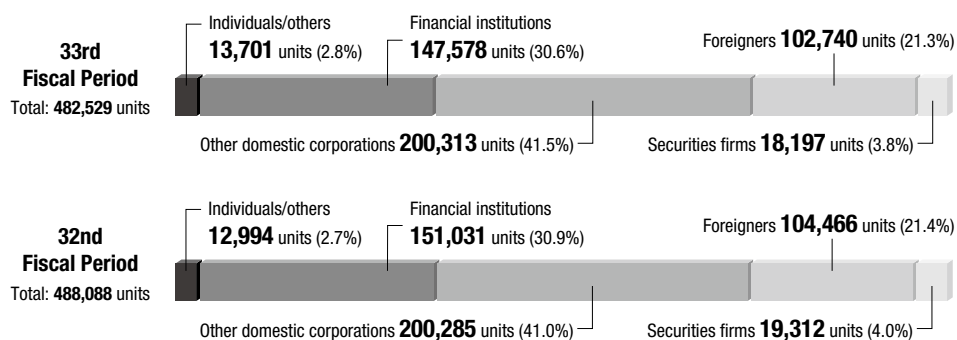
August 22, 2022

History of Investment Unit Price



Overview of Investment Units and Unitholders (As of May 31, 2022)

No. of Investment Units by Investor Type



No. of Unitholders by Investor Type

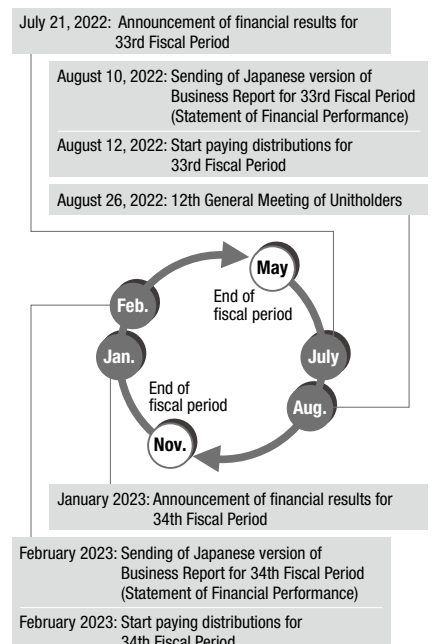
Individuals/others	4,974 (90.9%)
Financial institutions	104 (1.9%)
Other domestic corporations	99 (1.8%)
Foreigners	275 (5.0%)
Securities firms	21 (0.4%)
Total	5,473

Top Ten Unitholders (As of May 31, 2022)

Name of Unitholder	Number of Units Owned (Units)	Percentage Share
1. Daiwa Investment Management Inc.	128,905	26.7
2. Daiwa Securities Group Inc.	67,321	14.0
3. The Master Trust Bank of Japan, Ltd. (Trust Account)	53,206	11.0
4. Custody Bank of Japan, Ltd. (Trust Account)	49,485	10.3
5. STICHTING PENSIOEN FONDS ZORG EN WELZIJN	15,474	3.2
6. The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	14,485	3.0
7. BNYM AS AGT/CLTS 10 PERCENT	5,379	1.1
8. Mizuho Securities Co., Ltd.	5,201	1.1
9. SMBC Nikko Securities Inc.	4,873	1.0
10. STATE STREET BANK WEST CLIENT - TREATY 505234	4,530	0.9

(Note) The percentage share figures are rounded to the first decimal place.

IR Calendar



Investor Memo

End of fiscal period	May 31 and November 30 of each year
General Meeting of Unitholders	Held at least once every two years
Date for finalizing Unitholders with voting rights for the General Meeting of Unitholders	Date prescribed in Article 15 of the Articles of Incorporation
Reference date for finalizing payment of distributions	May 31 and November 30 of each year (distributions are paid within three months of the record date of distribution payment)
Listed financial instruments exchange	Tokyo Stock Exchange (stock code: 8976)
Newspaper in which notice is posted	Nihon Keizai Shimbun
Manager of Unitholder Registry, etc.	Sumitomo Mitsui Trust Bank, Limited, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233
Office handling administrative affairs	Transfer Agency Department of Sumitomo Mitsui Trust Bank, Limited, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233 Phone 0120-782-031 (toll-free in Japan)
Service counter	Head Office and all branches of the Sumitomo Mitsui Trust Bank nationwide

Our website has been updated

Provision of Information on the Website

Daiwa Office Investment Corporation conducts information distribution on its website as an important tool for IR activities. DOI also provides an e-mail delivery service, "IR Mail Delivery Service," which informs subscribers of updates in website content such as news release announcements free of charge via e-mail. The website will be continually enhanced and enriched so that the current situation and future strategies of DOI are clearly communicated.

Daiwa Office Investment Corporation
<https://www.daiwa-office.co.jp/en/>

Important information is distributed via e-mail. Please access and follow the simple steps if you wish to receive our IR mail Delivery Service.

The screenshot shows the Daiwa Office Investment Corporation website. The main header features the company name and navigation links. Below the header is a large image of modern office buildings with the text "Focused on investment and management of office buildings in the Central 5 wards of Tokyo." A "TOPICS" section highlights a recent announcement: "We announced the earnings for the 3rd fiscal period (fiscal period ended on May 31, 2022) on Thursday, July 21, 2022." A "Stock Quote" box displays the following information:

Stock Quote		Code: 8976	
As of 15:00:00 (JST) PM			
Close	679,000.0	Open	688,000.0
Change	+12,000.0 (+1.82%)	High	679,000.0
		Low	668,000.0
		Volume	1,444
		Trading Unit	100 shares

Below the stock quote is a call to action for "IR Mail Delivery Service" with a "Subscribe" button. The footer contains navigation links and the text "© Daiwa Office Investment Corporation. All Rights Reserved."

大和証券オフィス投資法人

Daiwa Office Investment Corporation