

Statement of Financial Performance for the 32nd Fiscal Period

From: June 1, 2021
To: November 30, 2021

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		32nd Period	31st Period	30th Period	29th Period	28th Period
		(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)	(From June 1, 2019 To Nov. 30, 2019)
(1) Operating Performance (Millions of yen, except per unit data or where otherwise indicated)						
Operating revenues		13,882	15,054	14,849	14,272	14,094
Rental revenues		13,846	13,887	14,482	14,238	13,916
Operating expenses		6,531	6,917	7,133	6,959	6,980
Property-related expenses		5,146	5,454	5,696	5,540	5,584
Operating income		7,351	8,137	7,715	7,312	7,114
Ordinary income		6,784	7,550	7,125	6,688	6,463
Net income		6,799	7,549	7,124	6,687	6,462
(2) Properties, etc. (as of end of period)						
Total assets		483,279	484,310	488,570	487,212	486,030
[period-on-period percentage changes]		[−0.2%]	[−0.9%]	[+0.3%]	[+0.2%]	[+0.1%]
Interest-bearing liabilities		202,350	203,350	204,450	204,450	204,450
Net assets		253,637	253,522	255,511	255,127	254,892
[period-on-period percentage changes]		[+0.0%]	[−0.8%]	[+0.2%]	[+0.1%]	[+0.2%]
Unitholders' capital, net	Note 2	245,093	245,093	247,876	247,876	247,876
(3) Distributions						
Total distribution amount		6,833	6,833	6,796	6,687	6,462
Dividend payout		100.5%	90.5%	95.4%	100.0%	100.0%
(4) Per Unit Information						
Total number of units issued (units)		488,088	488,088	491,877	491,877	491,877
Net assets per unit (yen)		519,655	519,419	519,462	518,681	518,203
Distribution per unit (yen)		14,000	14,000	13,817	13,595	13,139
Distribution amount from earnings per unit (yen)		14,000	14,000	13,817	13,595	13,139
Distribution amount in excess of earnings per unit (yen)		–	–	–	–	–
(5) Financial Indicators						
ROA	Notes 3 and 4	1.4%	1.6%	1.5%	1.4%	1.3%
[annual rate]		[2.8%]	[3.1%]	[2.9%]	[2.7%]	[2.7%]
ROE	Notes 4 and 5	2.7%	3.0%	2.8%	2.6%	2.5%
[annual rate]		[5.3%]	[5.9%]	[5.6%]	[5.2%]	[5.1%]
Capital ratio		52.5%	52.3%	52.3%	52.4%	52.4%
[period-on-period percentage changes]		[+0.1%]	[+0.0%]	[−0.1%]	[−0.1%]	[+0.0%]
LTV (loan to value)		41.9%	42.0%	41.8%	42.0%	42.1%
Property leasing cash flows (NOI)	Note 6	10,508	10,248	10,612	10,536	10,157
(6) Other Referential Information						
Number of investment properties		60	59	60	60	59
Number of tenants	Note 7	641	625	629	645	637
Total rentable area (m ²)		361,534.74	360,471.93	363,740.62	366,336.34	364,787.57
Occupancy rate	Note 8	97.8%	97.5%	98.9%	99.5%	99.1%
Depreciation		1,808	1,816	1,827	1,838	1,826
Capital expenditures		498	436	802	489	1,351

(Note 1) Operating revenues, etc. do not include consumption taxes, etc.

(Note 2) Unitholders' capital, net: Unitholders' capital – Deduction from Unitholders' Capital

(Note 3) ROA: Ordinary income ÷ [(Total assets at beginning of period + Total assets at end of period) ÷ 2] × 100

(Note 4) Figures for the 28th Fiscal Period are the annualized figures calculated based on 183 days of management.
 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.

(Note 5) ROE: Net income ÷ [(Net assets at beginning of period + Net assets at end of period) ÷ 2] × 100

(Note 6) Property leasing cash flows (NOI): Rental revenues – Property-related expenses + Depreciation

(Note 7) 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 8) 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 463,388 million yen as of the last day of November 2021.

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 deterioration due to a significant decrease in automobile production alongside a shortage of semi-conductors, etc. as well as a drop in individual consumption due to the impact of the declarations of a state of emergency concerning COVID-19 up until September 30, 2021. As a result, the real GDP growth rate (Second Preliminary Estimates) for July to September 2021 sat at an annual rate of -3.6%, 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 office consolidations and relocations to smaller offices due to future economic uncertainties and deterioration in business performance stemming from the spread of COVID-19 and other reasons have led to contract cancellations and such, resulting in the vacancy rate (Miki Shoji’s average vacancy rate for the five central wards of Tokyo) rising to 6.35% as of the end of November 2021. Office rent had continued to rise, albeit slightly, but turned to a downward trend after peaking in July 2020.

For the office building transaction market, a strong appetite for property acquisitions continued among real estate companies, funds (including J-REITs) and overseas investors with the continuing 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 “Kandabashi PR-EX” (acquisition price: ¥1,970 million) in September 2021. As a result, DOI’s assets under management as of the end of the 32nd Fiscal Period (November 30, 2021) totaled 60 properties, the sum total of acquisition prices of which amounted to 463,388 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 32nd Fiscal Period (November 30, 2021) was 97.8%.

(3) Overview of Capital Procurement

(A) Procurement of Capital for Repayment of Borrowings

In the 32nd Fiscal Period, DOI made the following borrowings to fund the repayment of borrowings.

- (i) DOI took out loans of 1,000 million yen from Shinsei Bank, Limited on August 31, 2021, to fund the repayment of the same amount borrowed from the same bank due for repayment on the same day.
- (ii) DOI took out loans totaling 5,500 million yen from Sumitomo Mitsui Banking Corporation, the Development Bank of Japan Inc. and MUFG Bank, Ltd. to fund the repayment of loans totaling 6,500 million yen. The remaining 1,000 million yen was repaid with cash on hand.

DOI concluded interest-rate swap agreements in the 32nd Fiscal Period for 15,400 million yen of loans with floating interest rates. Converting the interest payable to fixed rates, these are for the purpose of hedging against future interest rate fluctuation risks.

(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 32nd Fiscal Period (November 30, 2021) stood at 202,350 million yen in total (short-term loans payable: 2,400 million yen; long-term loans payable: 190,950 million yen; investment corporation bonds: 9,000 million yen). The balance of the current portion of long-term loans payable stood at 31,600 million yen.

The average remaining period of interest-bearing liabilities as of the end of the 32nd Fiscal Period stands at 3.9 years.

(4) Capital Expenditures during the 32nd Fiscal Period

The following summarizes the primary construction work that constitutes capital expenditures implemented during the 32nd Fiscal Period for existing portfolio properties. Capital expenditures for the 32nd Fiscal Period amounted to 498 million yen and, when combined with the 166 million yen in repair expenses charged to the 32nd Fiscal Period expenses, totals 664 million yen in construction work implemented.

Name of real estate properties (Location)	Purpose	Period	Construction amount paid (Millions of yen)
Daiwa Kayabacho (Chuo-ku, Tokyo)	Addition of humidifiers	From: June 2021 To: Sept. 2021	45
Shinjuku Maynds Tower (Shibuya-ku, Tokyo)	Renovation of air-conditioning facilities	From: Aug. 2021 To: Nov. 2021	32
Daiwa Ginza (Chuo-ku, Tokyo)	Upgrading of private power generation facilities	From: Oct. 2021 To: Oct. 2021	22
Other			398
Total			498

(5) Overview of Financial Performance and Distributions

As a result of the management described above, DOI posted financial performance for the 32nd Fiscal Period of 13,882 million yen in operating revenue, 7,351 million yen in operating income, 6,784 million yen in ordinary income and 6,799 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, DOI decided to distribute the entire amount in which 33,973,619 yen of reversal of internally reserved reserve for reduction entry is added to unappropriated retained earnings, and as a result declared a distribution amount per unit of 14,000 yen.

3. Outlook for the Next Fiscal Period

(1) Investment Environment

Although it continues to hover at low levels due to the impact of COVID-19 for the time being, the Japanese economy going forward is expected to head toward recovery with vaccinations, development of oral medications and other advancements in measures to contain the spread of COVID-19, as well as the lifting of the declarations of a state of emergency, leading to normalization of economic activities. Nevertheless, the Japanese economy may slow down due to prolongation of the COVID-19 pandemic (spread of highly contagious variants, etc.), interest rate trends and other factors. Accordingly, careful attention is required.

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 thought to remain strong. However, the prolongation 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, the trend of contraction of office space is ongoing given the impact of partial cancellations due to review of excess space, etc. as well as consolidation of offices and such as the pandemic drags on. On the other hand, new resilient demand mainly from small- to medium-sized companies is being steadily obtained for class B buildings which is DOI's main focus. In addition, 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 32nd Fiscal Period DOI acquired Kandabashi PR-EX located in Tokyo. The acquisition is thought to further the stabilization and enhancement of the portfolio. DOI will continue to seek out property acquisitions in accordance with the above investment strategy.

Also, in order to acquire relatively new properties in prime locations and realize an increase in profitability in the medium to long term in a competitive real estate transaction market environment, DOI has launched efforts for acquiring land close to train stations in central Tokyo and developing new office buildings.

(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 32nd 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 Ginza (Chuo-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2021 To: May 2022	245	–	–
Daiwa Nakano-Sakaue (Nakano-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2021 To: May 2022	100	–	–
Daiwa River Gate (Chuo-ku, Tokyo)	Renovation of power receiving and transforming facility	From: Dec. 2021 To: May 2022	64	–	–
Daiwa River Gate (Chuo-ku, Tokyo)	Conversion to LED lighting in exclusive areas	From: Dec. 2021 To: May 2022	37	–	–
Shinjuku Maynds Tower (Shibuya-ku, Tokyo)	Renovation of air-conditioning facilities	From: Dec. 2021 To: May 2022	36	–	–

II. Balance Sheets

As of November 30, 2021 and May 31, 2021

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Assets		
Current Assets:		
Cash and cash equivalents (Notes 3 and 4)	30,291,436	32,211,634
Tenant receivables	189,915	195,627
Prepaid expenses	340,300	357,076
Other current assets	94,138	83,509
Total Current Assets	30,915,790	32,847,848
Investment Properties, at cost (Notes 5 and 6):		
Land	12,302,226	12,302,226
Buildings and structures	3,336,791	3,312,516
Tools, furniture and fixtures	20,976	20,847
Construction in progress	4,703	3,786
Land in trust accounts (Note 15)	355,212,305	353,434,357
Buildings and structures in trust accounts (Notes 14 and 15)	109,953,740	109,268,116
Machinery and equipment in trust accounts	924,505	884,250
Tools, furniture and fixtures in trust accounts	354,822	333,390
Construction in progress in trust accounts	230,034	50,081
Less: accumulated depreciation	(34,027,726)	(32,219,362)
Leasehold rights	2,398,275	2,398,275
Leasehold rights in trust accounts	306,884	306,884
Total Investment Properties, net	451,017,540	450,095,371
Investments and Other Assets:		
Trademark	7	52
Lease and guarantee deposits in trust accounts	113,684	113,684
Long-term prepaid expenses	1,066,645	1,098,268
Derivative assets (Note 4)	19,157	3,956
Deferred investment corporation bond issuance costs	49,360	54,391
Others	97,646	96,758
Total Investments and Other Assets	1,346,501	1,367,112
Total Assets	483,279,832	484,310,332

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

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Liabilities		
Current Liabilities:		
Accounts payable	813,836	924,290
Short-term debt (Notes 4 and 11)	2,400,000	2,400,000
Long-term debt due within one year (Notes 4 and 11)	31,600,000	21,500,000
Accounts payable – other	619,303	634,448
Income taxes payable	880	888
Accrued consumption taxes	286,169	335,635
Rent received in advance	2,351,548	2,366,227
Other current liabilities	642,362	573,944
Total Current Liabilities	38,714,100	28,735,434
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 11)	9,000,000	9,000,000
Long-term debt (Notes 4 and 11)	159,350,000	170,450,000
Tenant security deposits including trust accounts (Note 4)	22,318,907	22,215,041
Deferred tax liabilities (Note 16)	55,150	2,240
Derivative liabilities (Note 4)	29,436	210,647
Other long-term liabilities	174,578	174,578
Total Long-Term Liabilities	190,928,072	202,052,507
Total Liabilities	229,642,173	230,787,942
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: 488,088 units as of November 30, 2021 and May 31, 2021		
Deduction from unitholders' capital	(6,458,395)	(6,458,395)
Unitholders' capital, net	245,093,364	245,093,364
Reserve for reduction entry	1,755,357	1,038,691
Retained earnings	6,799,258	7,549,897
Total Unitholders' Equity	253,647,979	253,681,953
Valuation and translation adjustments		
Deferred gains or losses on hedges	(10,319)	(159,563)
Total valuation and translation adjustments	(10,319)	(159,563)
Total Net Assets	253,637,659	253,522,389
Total Liabilities and Net Assets	483,279,832	484,310,332

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

III. Statements of Income and Retained Earnings

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

(Thousands of yen)

	For the fiscal period ended November 30, 2021	For the fiscal period ended May 31, 2021
Operating Revenues (Note 7):		
Rental revenues (Note 8)	13,846,420	13,887,151
Other revenues related to property leasing (Note 8)	35,944	140,695
Gain on sale of investment properties (Note 13)	–	1,026,965
Total Operating Revenues	13,882,364	15,054,812
Operating Expenses:		
Property-related expenses (Note 8)	5,146,252	5,454,733
Asset management fees	1,153,133	1,188,807
Asset custody fees	24,171	24,303
Administrative service fees	72,902	73,343
Trust fees	18,219	18,786
Directors' compensation	7,200	7,200
Other operating expenses	109,453	150,049
Total Operating Expenses	6,531,333	6,917,224
Operating Income	7,351,030	8,137,588
Non-Operating Revenues:		
Interest income	15	15
Reversal of distribution payable	515	624
Insurance income	555	2,622
Other non-operating revenues	46	2,042
Total Non-Operating Revenues	1,133	5,304
Non-Operating Expenses:		
Interest expense	406,711	419,271
Interest expense on investment corporation bonds	26,041	26,276
Borrowing expenses	128,321	135,066
Other non-operating expenses	6,542	11,499
Total Non-Operating Expenses	567,617	592,113
Ordinary Income	6,784,546	7,550,779
Income Before Income Taxes	6,784,546	7,550,779
Income taxes – current	881	889
Income taxes – deferred	(15,593)	(7)
Total Income Taxes (Note 16)	(14,712)	882
Net Income	6,799,258	7,549,897
Retained Earnings Brought Forward	–	–
Retained Earnings at End of Period	6,799,258	7,549,897

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

IV. Statements of Changes in Net Assets

For the fiscal periods ended November 30, 2021 and May 31, 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 November 30, 2020	491,877	251,551,759	(3,675,523)	247,876,236	710,209	7,124,746	–	(199,648)	255,511,543
Cash distributions declared	–	–	–	–	–	(6,796,264)	–	–	(6,796,264)
Net income	–	–	–	–	–	7,549,897	–	–	7,549,897
Provision of reserve for reduction entry	–	–	–	–	328,482	(328,482)	–	–	–
Acquisition of treasury investment units	–	–	–	–	–	–	(2,782,872)	–	(2,782,872)
Cancellation of treasury investment units (Note 10)	(3,789)	–	(2,782,872)	(2,782,872)	–	–	2,782,872	–	–
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	40,085	40,085
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

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

V. Statements of Cash Flows

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

(Thousands of yen)

	For the fiscal period ended November 30, 2021	For the fiscal period ended May 31, 2021
Cash Flows from Operating Activities:		
Income before income taxes	6,784,546	7,550,779
Depreciation and amortization	1,811,785	1,819,933
Amortization of bond issuance costs	5,030	5,003
Interest expense	432,753	445,547
Decrease in tenant receivables	5,712	172,053
Decrease in accounts payable	(109,090)	(274,083)
Decrease in rent received in advance	(14,678)	(87,185)
Interest payments	(432,867)	(445,419)
(Decrease) increase in accrued consumption taxes	(49,466)	22,808
Decrease due to sale of investment properties in trust accounts	–	3,130,260
Other, net	125,563	1,154
Net Cash Provided by Operating Activities	8,559,288	12,340,850
Cash Flows from Investing Activities:		
Payments for purchases of investment properties including trust accounts	(2,750,110)	(1,066,094)
Proceeds from tenant security deposits including trust accounts	1,100,840	932,619
Refunds of tenant security deposits including trust accounts	(996,973)	(1,167,853)
Net Cash Used in Investing Activities	(2,646,243)	(1,301,328)
Cash Flows from Financing Activities:		
Proceeds from short-term debt	–	2,400,000
Repayments of short-term debt	–	(3,600,000)
Proceeds from long-term debt	6,500,000	16,800,000
Repayments of long-term debt	(7,500,000)	(16,700,000)
Payments for acquisition of treasury investment units	–	(2,782,872)
Distributions paid	(6,833,242)	(6,795,425)
Net Cash Used in Financing Activities	(7,833,242)	(10,678,297)
Net Change in Cash and Cash Equivalents	(1,920,198)	361,225
Cash and Cash Equivalents at Beginning of Period	32,211,634	31,850,409
Cash and Cash Equivalents at End of Period (Note 3)	30,291,436	32,211,634

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

For the fiscal periods ended November 30, 2021 and May 31, 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 November 30, 2021, DOI had ownership or trust beneficiary interests in 60 office properties with approximately 361,534 m² of rentable office space and had leased office space to 641 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.8 %.

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 November 30, 2021	As of May 31, 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 November 30, 2021	For the fiscal period ended May 31, 2021
Capitalized real estate taxes	1,602	–

(f) Consumption Taxes

Consumption taxes are excluded from transaction amounts. Generally, consumption taxes paid are offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld is included in the current assets while the excess of amounts withheld over payments is included in the current liabilities. 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) Changes in Accounting Policy

Adoption of Accounting Standard for Revenue Recognition

From the beginning of the fiscal period ended November 30, 2021, DOI adopted "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, revised on March 31, 2020) and other related guidance. DOI recognizes revenue at the time of the transfer of promised goods or services to customers in an amount that reflects the consideration to which DOI expects to be entitled in exchange for those goods or services.

In accordance with the transitional treatment as stipulated in paragraph 89-3 of the Accounting Standard for Revenue Recognition, DOI is not providing notes to "Revenue Recognition" concerning the fiscal period ended May 31, 2021.

The effect of adopting these standard and guidance on financial statements was immaterial.

Adoption of Accounting Standard for Fair Value Measurement

From the beginning of the fiscal period ended November 30, 2021, DOI adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, issued on July 4, 2019) and other related standards and guidance. The new accounting policies as stipulated in these standards and guidance are applied prospectively in accordance with the transitional treatment as stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, issued on July 4, 2019). The effect of adopting these standards and guidance on financial statements was immaterial.

In accordance with the provision of Article 2, paragraph (5) of the Supplementary Provisions of the “Cabinet Office Order Partially Amending the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Cabinet Office Order No. 61 of September 24, 2021), the matters specified in the provision of Article 8-6-2, paragraph (1), item (iii) of the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements following the amendment are omitted.

The effect of adopting these standard and guidance on financial statements was immaterial.

(k) Accounting Estimates

Impairment of long-lived assets

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

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Tangible fixed assets	448,312,380	447,390,211
Intangible fixed assets	2,708,043	2,711,464

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 November 30, 2021 and May 31, 2021 consisted of the following:

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Cash and deposits	26,650,594	28,515,172
Cash and deposits in trust accounts	3,640,841	3,696,461
Cash and cash equivalents	30,291,436	32,211,634

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 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 November 30, 2021 and May 31, 2021 were as follows:

(Thousands of yen)

Assets	As of November 30, 2021			As of May 31, 2021		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	30,291,436	30,291,436	–	32,211,634	32,211,634	–
Total	30,291,436	30,291,436	–	32,211,634	32,211,634	–
Liabilities						
Short-term debt	2,400,000	2,400,000	–	2,400,000	2,400,000	–
Long-term debt due within one year	31,600,000	31,600,412	412	21,500,000	21,523,879	23,879
Investment corporation bonds	9,000,000	9,024,050	24,050	9,000,000	8,979,070	(20,930)
Long-term debt	159,350,000	158,874,541	(475,458)	170,450,000	170,268,022	(181,977)
Total	202,350,000	201,899,003	(450,996)	203,350,000	203,170,972	(179,027)
Derivative transactions (*)	(15,056)	(15,056)	–	(232,803)	(232,803)	–

(*) 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

Assets:

Cash and cash equivalents

Due to the short maturities, the book value of these assets is deemed a reasonable approximation of the fair value.

Liabilities:

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

For short-term debt and 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 short-term debt and 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 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)

(Thousands of yen)

Hedge accounting method	Type of derivative transaction	Hedged item	As of May 31, 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	99,800,000	82,800,000	(232,803)
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	20,500,000	20,500,000	– (*2)
			120,300,000	103,300,000	(232,803)

(*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. Financial instruments whose fair value is deemed extremely difficult to determine

Tenant security deposits including trust accounts (whose book values were 22,318,907 thousand yen and 22,215,041 thousand yen as of November 30, 2021 and May 31, 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 monetary claims

(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
Cash and cash equivalents	30,291,436	–	–	–	–	–
Total	30,291,436	–	–	–	–	–

(Thousands of yen)

As of May 31, 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
Cash and cash equivalents	32,211,634	–	–	–	–	–
Total	32,211,634	–	–	–	–	–

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

(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
Short-term debt	2,400,000	–	–	–	–	–
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	34,000,000	26,200,000	30,000,000	22,050,000	22,400,000	67,700,000

(Thousands of yen)

As of May 31, 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
Short-term debt	2,400,000	–	–	–	–	–
Investment corporation bonds	–	–	–	3,800,000	1,500,000	3,700,000
Long-term debt	21,500,000	30,600,000	25,600,000	27,350,000	20,700,000	66,200,000
Total	23,900,000	30,600,000	25,600,000	31,150,000	22,200,000	69,900,000

Note 5 – Tangible Fixed Assets of Investment Properties

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

(Thousands of yen)

	As of November 30, 2021			As of May 31, 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	3,336,791	(2,690,509)	646,281	3,312,516	(2,617,068)	695,448
Tools, furniture and fixtures	20,976	(16,039)	4,936	20,847	(15,075)	5,771
Construction in progress	4,703	–	4,703	3,786	–	3,786
Land in trust accounts	355,212,305	–	355,212,305	353,434,357	–	353,434,357
Buildings and structures in trust accounts	109,953,740	(30,559,769)	79,393,971	109,268,116	(28,874,659)	80,393,456
Machinery and equipment in trust accounts	924,505	(544,085)	380,419	884,250	(512,570)	371,680
Tools, furniture and fixtures in trust accounts	354,822	(217,321)	137,500	333,390	(199,989)	133,400
Construction in progress in trust accounts	230,034	–	230,034	50,081	–	50,081
Total	482,340,106	(34,027,726)	448,312,380	479,609,573	(32,219,362)	447,390,211

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 November 30, 2021	For the fiscal period ended May 31, 2021
Book value: (Note 1)		
Balance at beginning of period	450,041,503	454,562,081
Change during the period (Note 2)	741,299	(4,520,578)
Balance at end of period	450,782,802	450,041,503
Fair value (Note 3)	577,590,000	572,160,000

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

(Note 2) Significant changes

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). For the fiscal period ended May 31, 2021, the major reason for the decrease is disposition of “Daiwa Kyobashi Building” (3,130,260 thousand yen) and depreciation (1,816,503 thousand yen).

(Note 3) The fair values as of November 30, 2021 and May 31, 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 period ended November 30, 2021 was as follows:

(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 November 30, 2021 and May 31, 2021 were as follows:

(Thousands of yen)

	For the fiscal period ended November 30, 2021	For the fiscal period ended May 31, 2021
Revenues from property leasing:		
Rental revenues	13,846,420	13,887,151
Other revenues related to property leasing	35,944	140,695
Total revenues from property leasing	13,882,364	14,027,847
Rental expenses:		
Consignment expenses	1,049,643	1,036,453
Utilities expenses	870,406	774,452
Taxes and dues	1,147,461	1,145,554
Insurance expenses	20,338	19,940
Repair expenses	166,756	583,977
Depreciation	1,808,363	1,816,503
Other	83,281	77,850
Total rental expenses	5,146,252	5,454,733
Income from property leasing	8,736,111	8,573,113

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 November 30, 2021 and May 31, 2021 were as follows.

(Thousands of yen)

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

Total number of treasury investment units cancelled and total amount of cancellation during the fiscal period ended May 31, 2021 were 3,789 units and 2,782,872 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 November 30, 2021 and May 31, 2021 consisted of the following:

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
0.3% unsecured short-term loans due 2022, principally from banks	2,400,000	2,400,000
Total	2,400,000	2,400,000
Unsecured loans due 2021 to 2031, principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 0.8%	190,950,000	191,950,000
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	199,950,000	200,950,000

(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 short-term debt, long-term debt and investment corporation bonds as of November 30, 2021 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
Short-term debt, long-term debt and investment corporation bonds	34,000,000	26,200,000	30,000,000	22,050,000	22,400,000	67,700,000

Note 12 – Leases

As Lessor

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

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Due within one year	9,185,785	9,486,733
Due after one year	18,786,130	17,694,040
Total	27,971,915	27,180,774

Note 13 – Gain on Sale of Investment Properties

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

Gain on sale of investment properties for the fiscal period ended May 31, 2021 was as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2021
Daiwa Kyobashi Building:	
Proceeds from sale of investment property	4,200,000
Cost of selling investment property	(3,130,260)
Other expenses related to sale	(42,774)
Gain on sale of investment property	1,026,965

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 November 30, 2021 and May 31, 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 November 30, 2021 and May 31, 2021.

(Thousands of yen)

	As of November 30, 2021	As of May 31, 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 November 30, 2021	For the fiscal period ended May 31, 2021
Statutory tax rate	31.46	31.46
Deductible cash distributions	(31.69)	(28.47)
Provision of reserve for reduction entry	–	(2.99)
Others	0.01	0.01
Effective tax rate	(0.22)	0.01

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

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2021
Deferred tax assets:		
Accrued enterprise tax	13	13
Deferred losses on hedges	11,817	74,484
Total deferred tax assets	11,830	74,498
Deferred tax liabilities:		
Reserve for reduction entry	59,900	75,494
Deferred gains on hedges	7,080	1,244
Total deferred tax liabilities	66,980	76,738
Net deferred tax liabilities	(55,150)	(2,240)

Note 17 – Per Unit Information

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

(Yen)

	For the fiscal period ended November 30, 2021	For the fiscal period ended May 31, 2021
Earnings per Unit:		
Net income per unit	13,930	15,412
Weighted average number of units outstanding (units)	488,088	489,860

(Yen)

	As of November 30, 2021	As of May 31, 2021
Net Assets per Unit	519,655	519,419

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 November 30, 2021 of 6,833,232,000 yen after adding the amount of reversal of reserve for reduction entry to unappropriated retained earnings and a total amount of dividends for the fiscal period ended May 31, 2021 of 6,833,232,000 yen which is the largest integral multiple of the total number of investment units issued and outstanding (488,088 units), not in excess of unappropriated retained earnings after deducting provision of reserve for reduction entry as stipulated in Article 65-7 of the Special Taxation Measure Act of Japan from 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 November 30, 2021	For the fiscal period ended May 31, 2021
I Unappropriated retained earnings	6,799,258,381	7,549,897,400
II Reversal of voluntary reserves	33,973,619	–
Reversal of reserve for reduction entry		
III Cash distributions declared	6,833,232,000	6,833,232,000
IV Voluntary reserves	–	716,665,400
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 November 30, 2021	For the fiscal period ended May 31, 2021
Cash distributions per unit	14,000	14,000
Board of directors meeting dates	January 20, 2022	July 19, 2021

Note 19 – Related-Party Transactions

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

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 Tenants

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

(a) Acquisition and Divestment of Assets Through Replacement

DOI acquired and divested the trust beneficial interests in real estate through replacement on December 16, 2021 as described below.

Overview of the replacement

Agreement date	October 20, 2021
Replacement date	December 16, 2021
Counterparty of the replacement	World Residential Co., Ltd. Nichimo Real Estate Co., Ltd.

Overview of the acquired assets

Property name	Kandasudacho 2-Chome Development Site (Land)
Asset type	Trust beneficial interest in domestic real estate
Location (lot number)	19-19 and 17 other parcels of land, Kanda Suda-cho 2-chome, Chiyoda-ku, Tokyo
Acquisition price	10,600,000 thousand yen (excluding acquisition costs, consumption tax, etc.)
Seller	World Residential Co., Ltd. and Nichimo Real Estate Co., Ltd.

Overview of the divested assets

Property name	Daiwa Minami-Aoyama	Daiwa Kojimachi 4-chome
Asset type	Trust beneficial interest in domestic real estate	
Sale price (Note)	4,990,000 thousand yen	3,200,000 thousand yen
Purchaser	World Residential Co., Ltd.	

(Note) The sale price excludes settlement amounts of property taxes, city planning taxes, consumption taxes, etc.

(b) Borrowing of Funds

DOI borrowed funds on January 31, 2022. These funds were allocated for acquisition of the properties described in “(a) Acquisition and Divestment of Assets Through Replacement.”

Details of borrowings

Lender	Balance (Thousands of yen)	Interest rate	Borrowing date	Repayment method	Note	Maturity
Sumitomo Mitsui Banking Corporation	1,000,000	3 month Japanese yen TIBOR +0.250% (Note)	January 31, 2022	Bullet payment	Unsecured	January 31, 2025
Sumitomo Mitsui Trust Bank, Limited	1,000,000	3 month Japanese yen TIBOR +0.200% (Note)				September 30, 2024
MUFG Bank, Ltd.	950,000	3 month Japanese yen TIBOR +0.250% (Note)				January 31, 2025
Shinsei Bank, Ltd.	500,000					

(Note) Interest payments shall be paid at the end of February, May, August and November (if any such date is not a business day, it will be the following business day; if such date falls within the next month, the preceding business day of the month will be the payment day). Interest rate is calculated based on the 3 month Japanese Yen TIBOR which Japanese Bankers Association announces two business days prior to the first day of the applicable period.



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 November 30, 2021 and May 31, 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 November 30, 2021 and May 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.

Emphasis of Matter

We draw attention to Note 21 to the financial statements, which states acquisition and divestment of assets and borrowing of funds. Our opinion is not modified in respect of this matter.

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 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 誠

Seiki Miyata

Designated Engagement Partner
Certified Public Accountant

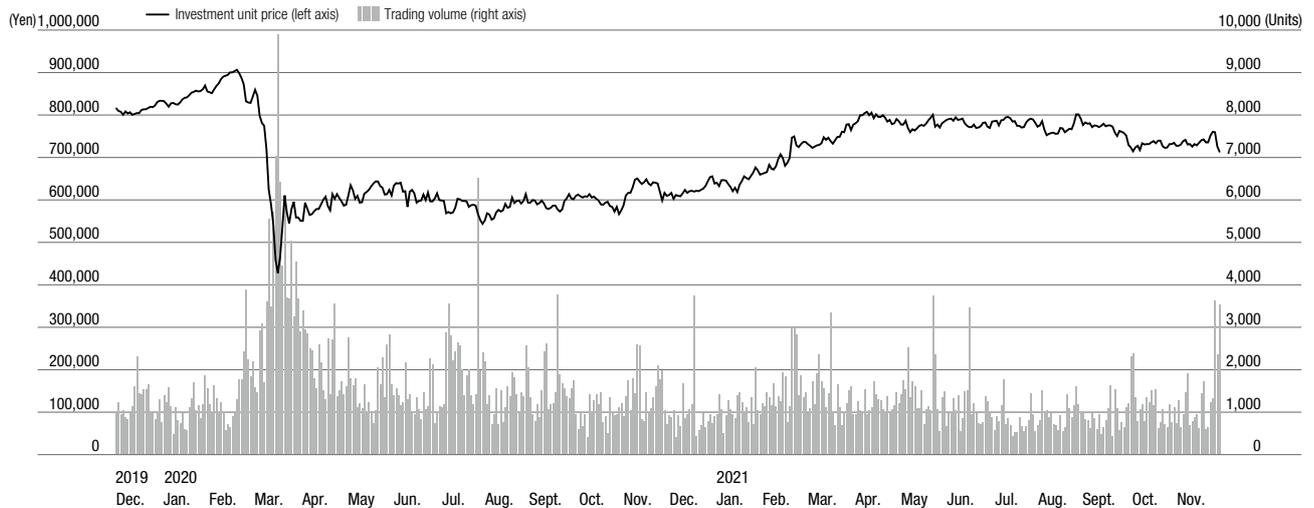
内田 和男

Kazuo Uchida

Designated Engagement Partner
Certified Public Accountant

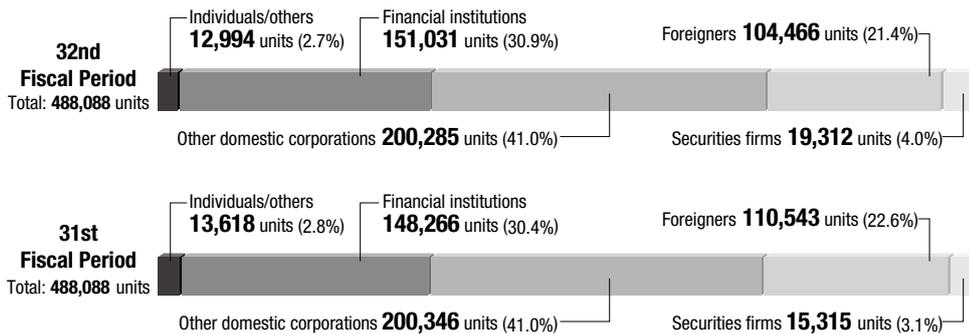
KPMG AZSA LLC
Tokyo Office, Japan
February 18, 2022

History of Investment Unit Price



Overview of Investment Units and Unitholders (As of November 30, 2021)

No. of Investment Units by Investor Type



No. of Unitholders by Investor Type

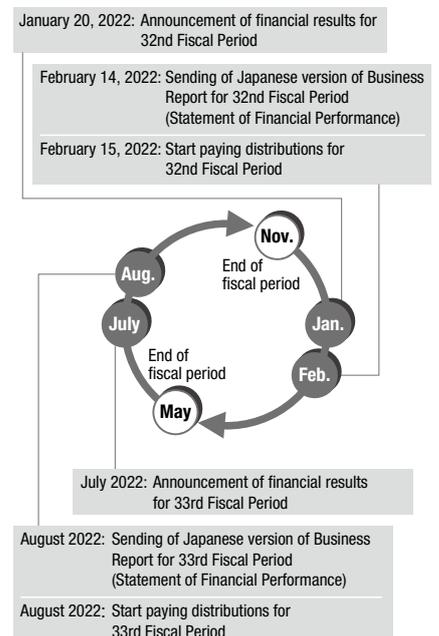
Individuals/others	4,935 (91.0%)
Financial institutions	100 (1.8%)
Other domestic corporations	98 (1.8%)
Foreigners	270 (5.0%)
Securities firms	20 (0.4%)
Total	5,423

Top Ten Unitholders (As of November 30, 2021)

Name of Investor	Number of Units Owned (Units)	Percentage Share
1. Daiwa Investment Management Inc.	128,905	26.4
2. Daiwa Securities Group Inc.	67,321	13.8
3. The Master Trust Bank of Japan, Ltd. (Trust Account)	52,610	10.8
4. Custody Bank of Japan, Ltd. (Trust Account)	39,905	8.2
5. STICHTING PENSIOEN FONDS ZORG EN WELZIJN	17,859	3.7
6. The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	14,279	2.9
7. Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	10,735	2.2
8. SMBC Nikko Securities Inc.	7,373	1.5
9. BNYM AS AGT/CLTS 10 PERCENT	6,496	1.3
10. STATE STREET BANK WEST CLIENT - TREATY 505234	4,705	1.0

(Note) The percentage share figures are rounded to the second 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 this reference date)
Listed financial instruments exchange	Tokyo Stock Exchange (stock code: 8976)
Newspaper in which notice is posted	Nikkei Inc.
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 via Website

Daiwa Office Investment Corporation conducts information distribution via 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 displays the website's layout with the following elements:

- Navigation Menu:** About Daiwa Office, Features of Daiwa Office, Portfolio, Financial Information, IR Information, and Sustainability Initiatives.
- Main Banner:** "Daiwa Office Investment Corporation. Focused on investment and management of office buildings in the Central Swards of Tokyo."
- TOPICS:** A section highlighting that the corporation has achieved a Green Star designation for the ten consecutive year and a GRESA Star Rating in the 2021 GRESA Real Estate Assessment, and also received a GRESA Public Disclosure Level "A", the highest level in the GRESA Public Disclosure.
- Stock Quote:** A widget showing the current stock price of 686,000.0, with a change of -8,000.0 (-1.15%).
- Footer:** A grid of links for various sections including Top message, Profile and history, Structure of Daiwa Office, Offices, Asset Management Company, Features of Daiwa Office, Investment Policy, Asset Management Strategy, Sponsor Support, Portfolio, Office visit tour, Portfolio Map, Portfolio Data, Performance Review, Major Services, Financial Information, Borrowings, Bonds, Ratings, Capitalization and Main Investors, IR Information, News release, IR Library, Financial High Rights, Distributions, IR Calendar, Analyst Coverage, and General Meeting of Unitholders.

大和証券オフィス投資法人

Daiwa Office Investment Corporation