

Statement of Financial Performance for the 35th Fiscal Period

From: December 1, 2022

To: May 31, 2023

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		35th Period	34th Period	33rd Period	32nd Period	31st Period
		From Dec. 1, 2022 To May 31, 2023	From June 1, 2022 To Nov. 30, 2022	From Dec. 1, 2021 To May 31, 2022	From June 1, 2021 To Nov. 30, 2021	From Dec. 1, 2020 To May 31, 2021
(1) Operating Performance		(Millions of yen, except per unit data or where otherwise indicated)				
Operating revenues		15,050	13,891	14,474	13,882	15,054
Rental revenues		13,503	13,836	13,560	13,846	13,887
Operating expenses		7,384	6,828	6,551	6,531	6,917
Property-related expenses		5,987	5,453	5,143	5,146	5,454
Operating income		7,665	7,062	7,923	7,351	8,137
Ordinary income		7,100	6,494	7,493	6,784	7,550
Net income		7,099	6,512	7,493	6,799	7,549
(2) Properties, etc. (as of end of period)						
Total assets		482,471	481,049	483,461	483,279	484,310
[period-on-period percentage changes]		[+0.3%]	[−0.5%]	[+0.0%]	[−0.2%]	[−0.9%]
Interest-bearing liabilities		207,800	205,800	205,800	202,350	203,350
Net assets		247,849	247,491	250,538	253,637	253,522
[period-on-period percentage changes]		[+0.1%]	[−1.2%]	[−1.2%]	[+0.0%]	[−0.8%]
Unitholders' capital, net	Note 1	238,093	238,093	241,093	245,093	245,093
(3) Distributions						
Total distribution amount		6,552	6,552	6,755	6,833	6,833
Dividend payout		92.3%	100.6%	90.2%	100.5%	90.5%
(4) Per Unit Information						
Total number of units issued (units)		478,258	478,258	482,529	488,088	488,088
Net assets per unit (yen)		518,232	517,484	519,220	519,655	519,419
Distribution per unit (yen)		13,700	13,700	14,000	14,000	14,000
Distribution amount from earnings per unit (yen)		13,700	13,700	14,000	14,000	14,000
Distribution amount in excess of earnings per unit (yen)		–	–	–	–	–
(5) Financial Indicators						
ROA	Notes 2 and 3	1.5%	1.3%	1.6%	1.4%	1.6%
[annual rate]		[3.0%]	[2.7%]	[3.1%]	[2.8%]	[3.1%]
ROE	Notes 3 and 4	2.9%	2.6%	3.0%	2.7%	3.0%
[annual rate]		[5.7%]	[5.2%]	[6.0%]	[5.3%]	[5.9%]
Capital ratio		51.4%	51.4%	51.8%	52.5%	52.3%
[period-on-period percentage changes]		[−0.1%]	[−0.4%]	[−0.7%]	[+0.1%]	[+0.0%]
LTV (loan to value)		43.1%	42.8%	42.6%	41.9%	42.0%
Property leasing cash flows (NOI)	Note 5	9,313	10,171	10,200	10,508	10,248
(6) Other Referential Information						
Number of investment properties		58	59	59	60	59
Number of tenants	Note 6	642	639	635	641	625
Total rentable area (m ²)		357,214.34	359,705.62	356,122.21	361,534.74	360,471.93
Occupancy rate	Note 7	97.7%	97.4%	98.4%	97.8%	97.5%
Depreciation		1,797	1,788	1,783	1,808	1,816
Capital expenditures		1,116	798	856	498	436

(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 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.
 Figures for the 34th Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 35th 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 462,586 million yen as of the last day of May 2023.

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 lifting of behavioral restrictions related to COVID-19 and moved toward the normalization of economic and social activities. The real GDP growth rate (Second Preliminary Estimates) for January to March 2023 sat an annual rate of +2.7%, registering positive growth for two consecutive quarters. Meanwhile, as the global trend among central banks toward monetary tightening continues, there is risk of downward pressure on the Japanese economy from a slowdown in overseas economies, and there is the need to continue monitoring the impact of rising prices, supply-side restrictions, and fluctuation in the financial and capital markets.

In the office building leasing market in central Tokyo, the average vacancy rate has hovered about 6% since June 2021, and was 6.16% as of the end of May 2023 (Miki Shoji’s average vacancy rate for the five central wards of Tokyo). On the back of the downgrade of COVID-19 to a Class 5 disease, even though the pace of returning to the office has progressed gradually, the situation remains unpredictable as conditions have not recovered to pre-pandemic levels while a hybrid work style of in-office and telecommuting continue to take root.

However, 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. 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 sold “Daiwa SHIBUYA EDGE” (sale price:7,313 million yen). As a result, DOI’s assets under management as of the end of the 35th Fiscal Period (May 31, 2023) totaled 58 properties, the sum total of acquisition prices of which amounted to 462,586 million yen. Alongside the acquisition of properties including future development projects, DOI will pursue initiatives to enhance the quality of its portfolio.

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 35th Fiscal Period (May 31, 2023) was 97.7%.

(3) Overview of Capital Procurement

(A) Procurement of Capital for Repayment of Borrowings

In the 35th Fiscal Period, DOI made the following borrowings to fund the acquisition of new properties and the repayment of borrowings.

- (i) DOI took out a loan of 2,000 million yen from Sumitomo Mitsui Banking Corporation on December 30, 2022 to fund the acquisition of the new property acquired on November 30, 2022 (Daiwa Nihonbashi Bakurocho).
- (ii) DOI took out loans totaling 6,500 million yen from Sumitomo Mitsui Banking Corporation, the Development Bank of Japan Inc., Mizuho Bank, Ltd. and Resona Bank, Limited on February 28, 2023 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 totaling 6,500 million yen from Sumitomo Mitsui Banking Corporation, SBI Shinsei Bank Limited and The Bank of Fukuoka, Ltd. on May 31, 2023, to fund the repayment of the same amount borrowed from the same banks due for repayment on the same day.

DOI concluded interest-rate swap agreements in the 35th Fiscal Period for 1,000 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 35th Fiscal Period (May 31, 2023) stood at 207,800 million yen in total (short-term loans payable: 2,000 million yen; 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 25,600 million yen.

The average remaining period of interest-bearing liabilities as of the end of the 35th Fiscal Period stands at 4.1 years.

(4) Capital Expenditures during the 35th Fiscal Period

The following summarizes the primary construction work that constitutes capital expenditures implemented during the 35th Fiscal Period for existing portfolio properties. Capital expenditures for the 35th Fiscal Period amounted to 1,116 million yen and, when combined with the 575 million yen in repair expenses charged to the 35th Fiscal Period expenses, totals 1,691 million yen in construction work implemented.

Name of real estate properties (Location)	Purpose	Period	Construction amount paid (Millions of yen)
Daiwa River Gate (Chuo-ku, Tokyo)	Modification of heat source system	From: Dec. 2022 To: Dec. 2022	305
Daiwa Shibuya Square (Shibuya-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2022 To: Dec. 2022	106
E SPACE TOWER (Shibuya-ku, Tokyo)	Upgrading of 3F PAC/HEX	From: Dec. 2022 To: Jan. 2023	67
Other			636
Total			1,116

(5) Overview of Financial Performance and Distributions

As a result of the management described above, DOI posted financial performance for the 35th Fiscal Period of 15,050 million yen in operating revenue, 7,665 million yen in operating income, 7,100 million yen in ordinary income and 7,099 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 547,624,580 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 13,700 yen.

3. Outlook for the Next Fiscal Period

(1) Investment Environment

The Japanese economy going forward is expected to see a moderate recovery, supported by movements such as normalization of economic activities, improvement in employment and income conditions, as well as accommodative fiscal and monetary policies. However, as central banks continue monetary tightening, there is the need to continue monitoring the impact of a slowdown in the global economy centered on the US, rising prices, and fluctuation in the financial and capital markets.

In the central Tokyo office building leasing market, although a gradual recovery is expected with the normalization of economic activities on the back of the downgrading of COVID-19 to a Class 5 disease, the slowing pace of recovery in office demand due to the uptake of the hybrid work style of in-office and telecommuting, and the impact of a supply of multiple large-scale office buildings expected in 2023 and 2025 continue to warrant close monitoring. In addition, rising electricity charges associated with rising resource prices and the impact on borrowing rates associated with interest rate hike warrant caution.

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, we will need to monitor how the market develops alongside changes in the socioeconomic situation.

(2) Future Management Policy and Tasks

(A) Strategy for Managing Existing Properties

As to macro trends for the office market, the vacancy rate in the overall market has still not made a turnaround, as many companies are adopting a hybrid work style of in-office and telecommuting, and it is expected that movement due to various needs such as downsizing, consolidation, expansion, and location improvement will continue. Although DOI has been steadily acquiring solid new demand mainly from small and medium-sized companies, for the time being, it is striving to maintain occupancy rates by flexibly pursuing leasing within the current market scope, without adhering to the conventional strategy of targeting top rents. 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 the Asset Manager's 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 Sponsor Group and utilizing the Group's extensive network of clients, partners, etc.

During the 35th Fiscal Period, DOI concluded a purchase agreement to acquire S-GATE FIT Nihonbashi Bakurocho. The agreement constitutes a forward commitment in which the scheduled property delivery date is to be March 29, 2024, or a date separately agreed upon by the Sellers and DOI by the same date.

In addition, development work on the Kandasudacho 2-Chome Development Project, which was acquired as a development site in December 2021, is in progress, and the developed and completed building is scheduled to be delivered by June 2024. DOI will strive to acquire properties in accordance with the investment strategy described above, while continuing to carefully assess 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 35th 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 Kanda East (Chiyoda-ku, Tokyo)	Upgrading of air-conditioning facilities	From: June 2023 To: Nov. 2023	168	–	–
Daiwa Shibuya Square (Shibuya-ku, Tokyo)	Upgrading of air-conditioning facilities	From: June 2023 To: Nov. 2023	124	–	–
Daiwa Ogikubo Tower (Suginami-ku, Tokyo)	Renewal of window cleaner platform	From: June 2023 To: Nov. 2023	88		
Daiwa Tsukishima (Chuo-ku, Tokyo)	Interior renovation of fifth floor	From: June 2023 To: Nov. 2023	70	–	–
Daiwa Azabu Terrace (Minato-ku, Tokyo)	Conversion to LED lighting at common and exclusive areas	From: June 2023 To: Nov. 2023	64	–	–

II. Balance Sheets

As of May 31, 2023 and November 30, 2022

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Assets		
Current Assets:		
Cash and cash equivalents (Note 3)	30,798,288	22,808,682
Tenant receivables	94,142	100,636
Consumption taxes receivable	–	82,420
Prepaid expenses	376,529	371,486
Other current assets	34,818	43,891
Total Current Assets	31,303,779	23,407,118
Investment Properties, at cost (Notes 5 and 6):		
Land	12,302,226	12,302,226
Buildings and structures	3,658,236	3,615,398
Tools, furniture and fixtures	21,875	21,875
Construction in progress	–	3,491
Land in trust accounts (Note 15)	354,910,042	360,010,799
Buildings and structures in trust accounts (Notes 14 and 15)	111,442,545	111,336,686
Machinery and equipment in trust accounts	965,276	950,322
Tools, furniture and fixtures in trust accounts	432,907	420,289
Construction in progress in trust accounts	912,793	903,381
Less: accumulated depreciation	(38,109,457)	(36,801,368)
Leasehold rights	2,398,275	2,398,275
Leasehold rights in trust accounts	306,884	306,884
Total Investment Properties, net	449,241,606	455,468,263
Investments and Other Assets:		
Lease and guarantee deposits in trust accounts	113,684	113,684
Long-term prepaid expenses	1,308,489	1,293,339
Derivative assets (Note 4)	353,911	614,733
Deferred investment corporation bond issuance costs	34,322	39,326
Others	115,288	112,712
Total Investments and Other Assets	1,925,696	2,173,797
Total Assets	482,471,082	481,049,178

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

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Liabilities		
Current Liabilities:		
Accounts payable	1,261,162	1,514,187
Short-term debt (Note 11)	2,000,000	–
Long-term debt due within one year (Notes 4 and 11)	25,600,000	26,200,000
Accounts payable – other	584,998	607,519
Income taxes payable	880	880
Accrued consumption taxes	395,300	149,957
Rent received in advance	2,273,087	2,660,384
Other current liabilities	502,682	513,476
Total Current Liabilities	32,618,110	31,646,405
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 11)	9,000,000	9,000,000
Long-term debt (Notes 4 and 11)	171,200,000	170,600,000
Tenant security deposits including trust accounts (Note 4)	21,646,201	22,074,341
Deferred tax liabilities (Note 16)	149,977	237,123
Derivative liabilities	7,722	–
Total Long-Term Liabilities	202,003,901	201,911,465
Total Liabilities	234,622,012	233,557,871
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: 478,258 units as of May 31, 2023 and November 30, 2022		
Deduction from unitholders' capital	(13,457,770)	(13,457,770)
Unitholders' capital, net	238,093,989	238,093,989
Reserve for reduction entry	2,419,008	2,459,048
Retained earnings	7,099,759	6,512,095
Total Unitholders' Equity	247,612,756	247,065,132
Valuation and translation adjustments		
Deferred gains or losses on hedges	236,313	426,174
Total valuation and translation adjustments	236,313	426,174
Total Net Assets	247,849,070	247,491,307
Total Liabilities and Net Assets	482,471,082	481,049,178

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, 2023 and November 30, 2022

(Thousands of yen)

	For the fiscal period ended May 31, 2023	For the fiscal period ended November 30, 2022
Operating Revenues (Note 7):		
Rental revenues (Note 8)	13,503,773	13,836,714
Other revenues related to property leasing (Note 8)	27,545	54,553
Gain on sale of investment properties (Note 13)	1,519,036	–
Total Operating Revenues	15,050,355	13,891,267
Operating Expenses:		
Property-related expenses (Note 8)	5,987,987	5,453,596
Asset management fees	1,148,882	1,147,433
Asset custody fees	24,084	24,064
Administrative service fees	72,437	78,232
Trust fees	18,577	18,036
Directors' compensation	7,200	7,200
Other operating expenses	125,604	99,757
Total Operating Expenses	7,384,774	6,828,320
Operating Income	7,665,581	7,062,947
Non-Operating Revenues:		
Interest income	14	15
Reversal of distribution payable	1,072	705
Insurance income	13,800	7,290
Other non-operating revenues	318	33
Total Non-Operating Revenues	15,207	8,044
Non-Operating Expenses:		
Interest expense	401,671	395,458
Interest expense on investment corporation bonds	26,328	26,041
Borrowing expenses	140,634	137,796
Other non-operating expenses	11,513	17,096
Total Non-Operating Expenses	580,147	576,393
Ordinary Income	7,100,640	6,494,598
Income Before Income Taxes	7,100,640	6,494,598
Income taxes – current	881	881
Income taxes – deferred	–	(18,378)
Total Income Taxes (Note 16)	881	(17,496)
Net Income	7,099,759	6,512,095
Retained Earnings Brought Forward	–	–
Retained Earnings at End of Period	7,099,759	6,512,095

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, 2023 and November 30, 2022

(Thousands of yen)

	Number of Units (Units)	Unitholders' Equity					Retained Earnings	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					
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	
Cash distributions declared	–	–	–	–	–	(6,755,406)	–	–	(6,755,406)	
Net income	–	–	–	–	–	6,512,095	–	–	6,512,095	
Provision of reserve for reduction entry	–	–	–	–	737,664	(737,664)	–	–	–	
Acquisition of treasury investment units	–	–	–	–	–	–	(2,999,451)	–	(2,999,451)	
Cancellation of treasury investment units (Note 10)	(4,271)	–	(2,999,451)	(2,999,451)	–	–	2,999,451	–	–	
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	195,173	195,173	
Balance as of November 30, 2022	478,258	251,551,759	(13,457,770)	238,093,989	2,459,048	6,512,095	–	426,174	247,491,307	
Cash distributions declared	–	–	–	–	–	(6,552,134)	–	–	(6,552,134)	
Net income	–	–	–	–	–	7,099,759	–	–	7,099,759	
Reversal of reserve for reduction entry	–	–	–	–	(40,039)	40,039	–	–	–	
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	(189,861)	(189,861)	
Balance as of May 31, 2023	478,258	251,551,759	(13,457,770)	238,093,989	2,419,008	7,099,759	–	236,313	247,849,070	

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

V. Statements of Cash Flows

For the fiscal periods ended May 31, 2023 and November 30, 2022

(Thousands of yen)

	For the fiscal period ended May 31, 2023	For the fiscal period ended November 30, 2022
Cash Flows from Operating Activities:		
Income before income taxes	7,100,640	6,494,598
Depreciation and amortization	1,798,721	1,790,107
Amortization of bond issuance costs	5,003	5,030
Interest expense	427,999	421,500
Decrease (increase) in tenant receivables	6,493	(14,564)
Increase in accounts payable	483,029	64,052
(Decrease) increase in rent received in advance	(387,297)	333,668
Interest payments	(427,882)	(421,759)
Increase (decrease) in accrued consumption taxes	245,342	(144,311)
Decrease (increase) in consumption taxes receivable	82,420	(82,420)
Decrease due to sale of investment properties in trust accounts	5,536,413	–
Other, net	17,444	(102,642)
Net Cash Provided by Operating Activities	14,888,329	8,343,259
Cash Flows from Investing Activities:		
Payments for purchases of investment properties including trust accounts	(1,918,590)	(2,461,144)
Proceeds from tenant security deposits including trust accounts	595,712	870,257
Refunds of tenant security deposits including trust accounts	(1,023,852)	(960,977)
Net Cash Used in Investing Activities	(2,346,730)	(2,551,864)
Cash Flows from Financing Activities:		
Proceeds from short-term debt	2,000,000	–
Proceeds from long-term debt	13,000,000	17,600,000
Repayments of long-term debt	(13,000,000)	(17,600,000)
Payments for acquisition of treasury investment units	–	(2,999,451)
Distributions paid	(6,551,992)	(6,756,268)
Net Cash Used in Financing Activities	(4,551,992)	(9,755,719)
Net Change in Cash and Cash Equivalents	7,989,606	(3,964,325)
Cash and Cash Equivalents at Beginning of Period	22,808,682	26,773,007
Cash and Cash Equivalents at End of Period (Note 3)	30,798,288	22,808,682

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

For the fiscal periods ended May 31, 2023 and November 30, 2022

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, 2023, DOI had ownership or trust beneficiary interests in 58 office properties with approximately 357,214.34 m² of rentable office space and had leased office space to 642 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.7 %.

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, 2023	As of November 30, 2022
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.

There were no capitalized real estate taxes for the fiscal periods ended May 31, 2023 and November 30, 2022.

(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, 2023 and November 30, 2022 were as follows:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Tangible fixed assets	446,536,446	452,763,103
Intangible fixed assets	2,705,160	2,705,160

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, 2023 and November 30, 2022 consisted of the following:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Cash and deposits	27,028,187	19,084,282
Cash and deposits in trust accounts	3,770,101	3,724,400
Cash and cash equivalents	30,798,288	22,808,682

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, 2023 and November 30, 2022 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, 2023			As of November 30, 2022		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Long-term debt due within one year	25,600,000	25,588,019	(11,980)	26,200,000	26,194,431	(5,568)
Investment corporation bonds	9,000,000	8,915,280	(84,720)	9,000,000	8,915,880	(84,120)
Long-term debt	171,200,000	170,430,316	(769,683)	170,600,000	169,587,590	(1,012,409)
Total	205,800,000	204,933,615	(866,384)	205,800,000	204,697,901	(1,102,098)
Derivative transactions (*)	344,781	344,781	-	621,789	621,789	-

(*) 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, 2023		
			Contracted amount		Fair value (*1)
			Total	Due after one year	
Deferral hedge accounting method	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	68,500,000	52,500,000	344,781
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	28,900,000	27,000,000	– (*2)
			97,400,000	79,500,000	344,781

(Thousands of yen)

Hedge accounting method	Type of derivative transaction	Hedged item	As of November 30, 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	76,500,000	58,500,000	621,789
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term debt	28,900,000	28,900,000	– (*2)
			105,400,000	87,400,000	621,789

(*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 21,646,201 thousand yen and 22,074,341 thousand yen as of May 31, 2023 and November 30, 2022, respectively) that have been deposited by tenants were excluded from the scope of fair value disclosure because they are immaterial.

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

(Thousands of yen)

As of May 31, 2023	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	25,600,000	30,800,000	20,700,000	20,200,000	29,100,000	70,400,000
Total	25,600,000	34,600,000	22,200,000	20,200,000	29,100,000	74,100,000

(Thousands of yen)

As of November 30, 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	26,200,000	27,200,000	23,000,000	22,400,000	27,600,000	70,400,000
Total	26,200,000	31,000,000	24,500,000	22,400,000	27,600,000	74,100,000

Note 5 – Tangible Fixed Assets of Investment Properties

Investment properties as of May 31, 2023 and November 30, 2022 consisted of the following:

(Thousands of yen)

	As of May 31, 2023			As of November 30, 2022		
	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	3,658,236	(2,890,257)	767,978	3,615,398	(2,837,628)	777,770
Tools, furniture and fixtures	21,875	(19,030)	2,845	21,875	(18,040)	3,834
Construction in progress	–	–	–	3,491	–	3,491
Land in trust accounts	354,910,042	–	354,910,042	360,010,799	–	360,010,799
Buildings and structures in trust accounts	111,442,545	(34,364,367)	77,078,178	111,336,686	(33,145,538)	78,191,147
Machinery and equipment in trust accounts	965,276	(574,656)	390,620	950,322	(554,056)	396,265
Tools, furniture and fixtures in trust accounts	432,907	(261,146)	171,761	420,289	(246,104)	174,184
Construction in progress in trust accounts	912,793	–	912,793	903,381	–	903,381
Total	484,645,904	(38,109,457)	446,536,446	489,564,471	(36,801,368)	452,763,103

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, 2023	For the fiscal period ended November 30, 2022
Book value: (Note 1)		
Balance at beginning of period	454,561,390	453,560,151
Change during the period (Note 2)	(6,232,577)	1,001,239
Balance at end of period	448,328,813	454,561,390
Fair value (Note 3)	587,160,000	593,390,000

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

(Note 2) Significant changes

For the fiscal period ended May 31, 2023, the major reasons for the decrease are disposition of “Daiwa SHIBUYA EDGE” (5,536 million yen) and depreciation (1,797 million yen). For the fiscal period ended November 30, 2022, the major reason for the increase is acquisition of “Daiwa Nihonbashi Bakurocho” (1,958 million yen). The major reason for the decrease is depreciation (1,788 million yen).

(Note 3) The fair values as of May 31, 2023 and November 30, 2022 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, 2023 and November 30, 2022 was as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2023	
	Revenues arising from contracts with customers (Note 1)	Sales to external customers
Sales of investment properties (Note 2)	7,313,000	1,519,036
Utility charge revenues	967,320	967,320
Other	–	12,563,998
Total	8,280,320	15,050,355

(Note 1) Rental revenues and other revenues relating to property leasing for which “Accounting Standard 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, 2022	
	Revenues arising from contracts with customers (Note)	Sales to external customers
Sales of investment properties	–	–
Utility charge revenues	1,028,764	1,028,764
Other	–	12,862,502
Total	1,028,764	13,891,267

(Note) Rental revenues and other revenues relating to property leasing for which “Accounting Standard 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, 2023 and November 30, 2022 were as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2023	For the fiscal period ended November 30, 2022
Revenues from property leasing:		
Rental revenues	13,503,773	13,836,714
Other revenues related to property leasing	27,545	54,553
Total revenues from property leasing	13,531,319	13,891,267
Rental expenses:		
Consignment expenses	1,076,880	1,024,032
Utilities expenses	1,288,850	1,263,217
Taxes and dues	1,150,420	1,149,657
Insurance expenses	24,719	22,425
Repair expenses	575,184	130,738
Depreciation	1,797,518	1,788,657
Other	74,413	74,866
Total rental expenses	5,987,987	5,453,596
Income from property leasing	7,543,331	8,437,671

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, 2023 and November 30, 2022 were as follows.

(Thousands of yen)

	As of May 31, 2022	As of November 30, 2022
Total number of own investments units cancelled (units)	19,611	19,611
Total amount of cancellation	13,457,770	13,457,770

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, 2023 and November 30, 2022 consisted of the following:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
0.3% unsecured short-term loans due 2023, from a bank	2,000,000	–
Total	2,000,000	–

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Unsecured loans due 2023 to 2031, principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 0.9%	196,800,000	196,800,000
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	205,800,000

(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, 2023 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	25,600,000	34,600,000	22,200,000	20,200,000	29,100,000	74,100,000

DOI maintains commitment line contracts with one financial institution. There was no borrowing execution balance as of May 31, 2023. The amounts of unused commitments on loans as of May 31, 2023 and November 30, 2022 were as follows:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Total amounts of borrowing commitment lines	5,500,000	5,500,000
Borrowing execution balances	–	–
Net unused balance	5,500,000	5,500,000

Note 12 – Leases

As Lessor

The future minimum rental revenues under existing non-cancelable operating leases as of May 31, 2023 and November 30, 2022 were as follows:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Due within one year	10,820,984	10,600,046
Due after one year	18,132,726	18,470,787
Total	28,953,711	29,070,833

Note 13 – Gain on Sale of Investment Properties

Gain on sale of investment properties for the fiscal period ended May 31, 2023 was as follows:

(Thousands of yen)

	For the fiscal period ended May 31, 2022
Daiwa SHIBUYA EDGE:	
Proceeds from sale of investment property	7,313,000
Cost of selling investment property	(5,536,413)
Other expenses related to sale	(257,549)
Gain on sale of investment property	1,519,036

No investment properties were sold during the fiscal period ended November 30, 2022.

Note 14 – Reduction of Investment Properties Purchased with Government Subsidies

Government subsidies of 77,363 thousand yen and 32,898 thousand yen were deducted from the acquisition cost of the buildings in trust as of May 31, 2023 and November 30, 2022, respectively.

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, 2023 and November 30, 2022.

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
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, 2023	For the fiscal period ended November 30, 2022
Statutory tax rate	31.46	31.46
Deductible cash distributions	(29.03)	(31.74)
Provision of reserve for reduction entry	(2.43)	–
Others	0.01	0.01
Effective tax rate	0.01	(0.27)

The significant components of deferred tax assets and liabilities as of May 31, 2023 and November 30, 2022 were as follows:

(Thousands of yen)

	As of May 31, 2023	As of November 30, 2022
Deferred tax assets:		
Accrued enterprise tax	13	13
Deferred losses on hedges	3,146	54
Total deferred tax assets	3,159	67
Deferred tax liabilities:		
Reserve for reduction entry	41,522	41,522
Deferred gains on hedges	111,614	195,669
Total deferred tax liabilities	153,137	237,191
Net deferred tax liabilities	(149,977)	(237,123)

Note 17 – Per Unit Information

Information about earnings per unit for the fiscal periods ended May 31, 2023 and November 30, 2022, and net assets per unit as of May 31, 2023 and November 30, 2022 were as follows:

(Yen)

	For the fiscal period ended May 31, 2023	For the fiscal period ended November 30, 2022
Earnings per Unit:		
Net income per unit	14,845	13,561
Weighted average number of units outstanding (units)	478,258	480,206

(Yen)

	As of May 31, 2023	As of November 30, 2022
Net Assets per Unit	518,232	517,484

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, 2023 of 6,552,134,600 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, 2022 of 6,552,134,600 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, 2023	For the fiscal period ended November 30, 2022
I Unappropriated retained earnings	7,099,759,180	6,512,095,249
II Reversal of voluntary reserves	–	40,039,351
II Reversal of reserve for reduction entry		
III Cash distributions declared	6,552,134,600	6,552,134,600
IV Voluntary reserves	547,624,580	–
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, 2023	For the fiscal period ended November 30, 2022
Cash distributions per unit	13,700	13,700
Board of directors meeting dates	July 21, 2023	January 20, 2023

Note 19 – Related-Party Transactions

No related-party transaction was entered into for the fiscal periods ended May 31, 2023 and November 30, 2022.

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, 2023 and November 30, 2022

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 – Additional Information

Acquisition of Assets

DOI decided to acquire a trust beneficial interest in real estate on March 22, 2023 as described below.

Overview of the asset

Property name	S-GATE FIT Nihonbashi Bakurocho
Asset type	Trust beneficial interest in domestic real estate (Note 1)
Location	1-11-10 Nihonbashi-bakurocho, Chuo-ku, Tokyo
Acquisition price	6,300,000 thousand yen (excluding acquisition costs, consumption tax, etc.)
Agreement date	March 22, 2023
Scheduled delivery date	March 29, 2024, or a date agreed upon separately by the sellers and DOI by the same date
Sellers	THE SANKEI BUILDING CO., LTD. and Mitsubishi Corporation Urban Development, Inc. (Note 2)

(Note 1) The asset to be acquired represents a trust beneficial interest with trust assets primarily of compartmentalized ownership for a portion of the first floor and all of the second through eleventh floors of the property.

(Note 2) DOI will acquire quasi co-ownership interest (55/100 of holdings) in trust beneficial interest from THE SANKEI BUILDING CO., LTD. and quasi co-ownership interest (45/100 of holdings) in trust beneficial interest from Mitsubishi Corporation Urban Development, Inc.



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, 2023 and November 30, 2022, 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, 2023 and November 30, 2022, 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



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 director's performance of his 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 director 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 director 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

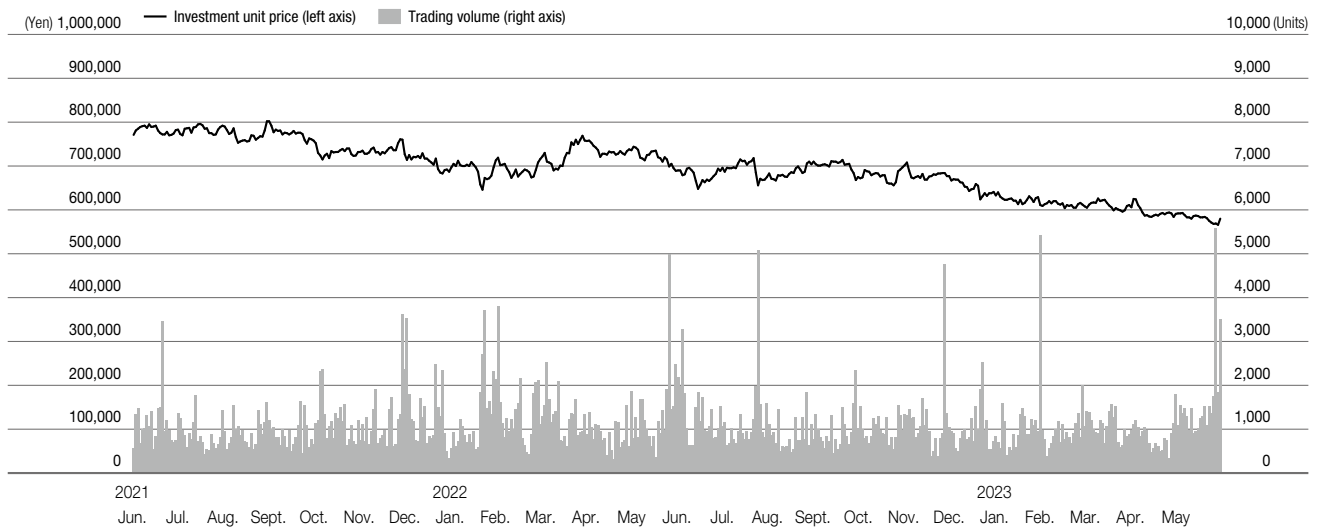
Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

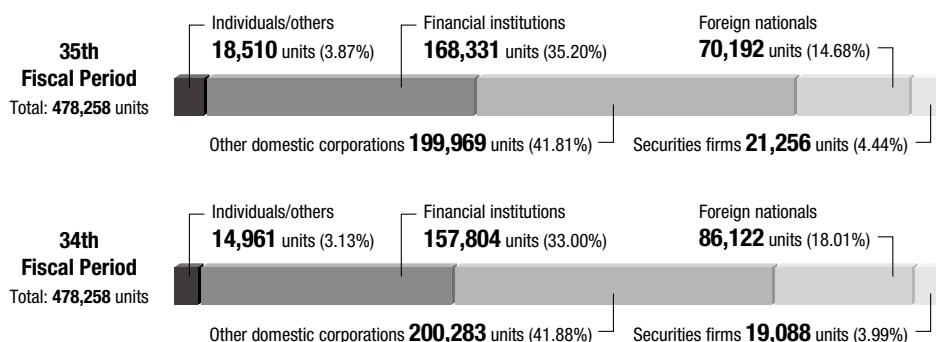
August 22, 2023

History of Investment Unit Price



Overview of Investment Units and Unitholders (As of May 31, 2023)

No. of Investment Units by Investor Type



No. of Unitholders by Investor Type

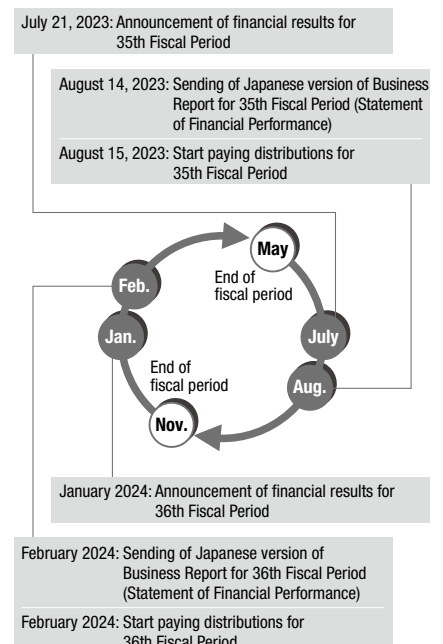
Individuals/others	5,446 (91.56%)
Financial institutions	104 (1.75%)
Other domestic corporations	115 (1.93%)
Foreign nationals	261 (4.39%)
Securities firms	22 (0.37%)
Total	5,948

Top Ten Unitholders (As of May 31, 2023)

Name of Unitholder	Number of Units Owned (Units)	Percentage Share
1. Daiwa Investment Management Inc.	128,905	26.95
2. Daiwa Securities Group Inc.	67,321	14.08
3. Custody Bank of Japan, Ltd. (Trust Account)	65,707	13.74
4. The Master Trust Bank of Japan, Ltd. (Trust Account)	54,003	11.29
5. The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	14,921	3.12
6. STICHTING PENSIOEN FONDS ZORG EN WELZIJN	14,590	3.05
7. SMBC Nikko Securities Inc.	8,469	1.77
8. STATE STREET BANK WEST CLIENT - TREATY 505234	4,716	0.99
9. STATE STREET BANK AND TRUST COMPANY 505103	3,967	0.83
10. Japan Securities Finance Co., Ltd.	3,780	0.79

(Note) The percentage share figures are rounded to the third 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	Stock Transfer Agency Business Planning 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

Provision of Information on the Website

Daiwa Office Investment Corporation conducts information distribution on its website as an important tool for IR activities. For DOI's management status, please refer to the Presentation Material, Speech Presentation and Q&A in Earnings Announcement on the website. In addition, DOI also provides an e-mail delivery service, "IR Mail Delivery Service," which informs subscribers of updates to 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 homepage with a header navigation menu (About, Features of Daiwa Office, Portfolio, Financial Information, IR Information) and a main banner with the text "Daiwa Office Investment Corporation Focused on investment and management of office buildings in the Central Swards of Tokyo." Below the banner is a "TOPICS" section with a link to "Daiwa Office Investment Corporation received the highest '5 Star' in the CRIC24 Real Estate Assessment." A "Stock Quote" widget for Daiwa Office (8976) is shown, listing the closing price at 666,000.0, a high of 666,000.0, and a low of 639,000.0. A callout box points to the "IR Mail Delivery Service" link in the footer area of the website.

大和証券オフィス投資法人

Daiwa Office Investment Corporation