

Statement of Financial Performance for the 34th Fiscal Period

From: June 1, 2022
To: November 30, 2022

大和証券オフィス投資法人

Daiwa Office Investment Corporation

Stock
Code **8976**

1. Management Status and Other Performance Highlights Data

Fiscal Period		34th Period	33rd Period	32nd Period	31st Period	30th Period
		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	From June 1, 2020 To Nov. 30, 2020
(1) Operating Performance		(Millions of yen, except per unit data or where otherwise indicated)				
Operating revenues		13,891	14,474	13,882	15,054	14,849
Rental revenues		13,836	13,560	13,846	13,887	14,482
Operating expenses		6,828	6,551	6,531	6,917	7,133
Property-related expenses		5,453	5,143	5,146	5,454	5,696
Operating income		7,062	7,923	7,351	8,137	7,715
Ordinary income		6,494	7,493	6,784	7,550	7,125
Net income		6,512	7,493	6,799	7,549	7,124
(2) Properties, etc. (as of end of period)						
Total assets		481,049	483,461	483,279	484,310	488,570
[period-on-period percentage changes]		[−0.5%]	[+0.0%]	[−0.2%]	[−0.9%]	[+0.3%]
Interest-bearing liabilities		205,800	205,800	202,350	203,350	204,450
Net assets		247,491	250,538	253,637	253,522	255,511
[period-on-period percentage changes]		[−1.2%]	[−1.2%]	[+0.0%]	[−0.8%]	[+0.2%]
Unitholders' capital, net	Note 1	238,093	241,093	245,093	245,093	247,876
(3) Distributions						
Total distribution amount		6,552	6,755	6,833	6,833	6,796
Dividend payout		100.6%	90.2%	100.5%	90.5%	95.4%
(4) Per Unit Information						
Total number of units issued (units)		478,258	482,529	488,088	488,088	491,877
Net assets per unit (yen)		517,484	519,220	519,655	519,419	519,462
Distribution per unit (yen)		13,700	14,000	14,000	14,000	13,817
Distribution amount from earnings per unit (yen)		13,700	14,000	14,000	14,000	13,817
Distribution amount in excess of earnings per unit (yen)		–	–	–	–	–
(5) Financial Indicators						
ROA	Notes 2 and 3	1.3%	1.6%	1.4%	1.6%	1.5%
[annual rate]		[2.7%]	[3.1%]	[2.8%]	[3.1%]	[2.9%]
ROE	Notes 3 and 4	2.6%	3.0%	2.7%	3.0%	2.8%
[annual rate]		[5.2%]	[6.0%]	[5.3%]	[5.9%]	[5.6%]
Capital ratio		51.4%	51.8%	52.5%	52.3%	52.3%
[period-on-period percentage changes]		[−0.4%]	[−0.7%]	[+0.1%]	[+0.0%]	[−0.1%]
LTV (loan to value)		42.8%	42.6%	41.9%	42.0%	41.8%
Property leasing cash flows (NOI)	Note 5	10,171	10,200	10,508	10,248	10,612
(6) Other Referential Information						
Number of investment properties		59	59	60	59	60
Number of tenants	Note 6	639	635	641	625	629
Total rentable area (m ²)		359,705.62	356,122.21	361,534.74	360,471.93	363,740.62
Occupancy rate	Note 7	97.4%	98.4%	97.8%	97.5%	98.9%
Depreciation		1,788	1,783	1,808	1,816	1,827
Capital expenditures		798	856	498	436	802

(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 30th Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 31st Fiscal Period are the annualized figures calculated based on 182 days of management.
 Figures for the 32nd Fiscal Period are the annualized figures calculated based on 183 days of management.
 Figures for the 33rd Fiscal Period are the annualized figures calculated based on 182 days of management.
 Figures for the 34th Fiscal Period are the annualized figures calculated based on 183 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 468,486 million yen as of the last day of November 2022.

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

(2) Investment Environment and Management Performance

(A) Investment Environment

The Japanese economy during the fiscal period under review saw a lifting of behavioral restrictions related to COVID-19 and expectations for movement toward the normalization of economic and social activities. Despite this, the real GDP growth rate (Second Preliminary Estimates) for July to September 2022 sat at an annual rate of -0.8%, registering negative growth. In addition, prices are rising due to a combination of factors including high resource prices, stagnant logistics, and the weak yen. The underlying tone in the November 2022 Consumer Confidence Survey was revised downward to “weakening” from the previous month’s “signs of weakness.” As such, consumer sentiment has failed to achieve a sustained recovery due to stagnation.

In the office building leasing market in central Tokyo, the vacancy rate had continued to be on an improving trend since June 2013, but has rose to 6.38% as of the end of November 2022 (Miki Shoji’s average vacancy rate for the five central wards of Tokyo). Although there is a partial return and expansion trend for offices, the situation remains unpredictable, with average office rents in central Tokyo declining for 28 consecutive months from August 2020 to November 2022 caused by weak business performance and cancellations due to office consolidation and relocation amid work style reviews triggered by the COVID-19 pandemic.

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, the development project in Nihonbashi-Bakurocho 1-Chome Development Project was completed. This was DOI’s first development project, for which the development site was acquired in November 2020. DOI acquired Daiwa Nihonbashi Bakurocho, constructed in the development project. As a result, DOI’s assets under management as of the end of the 34th Fiscal Period (November 30, 2022) totaled 59 properties, the sum total of acquisition prices of which amounted to 468,486 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 34th Fiscal Period (November 30, 2022) was 97.4%.

(3) Overview of Capital Procurement

(A) Procurement of Capital for Repayment of Borrowings

In the 34th Fiscal Period, DOI made the following borrowings to fund the repayment of borrowings.

- (i) DOI took out loans totaling 5,300 million yen from Shinsei Bank, Ltd. (Note), The Nishi-Nippon City Bank Ltd., The 77 Bank, Ltd., and Nippon Life Insurance Company on August 31, 2022, to fund the repayment of the same amount borrowed from the same banks and company due for repayment on the same day.
- (ii) DOI took out loans totaling 12,300 million yen from Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Ltd., MUFG Bank, Ltd., Mizuho Bank, Ltd., Resona Bank, Limited, Tokio Marine & Nichido Fire Insurance Co., Ltd. and Taiyo Life Insurance Company on November 30, 2022 to fund the repayment of the same amount borrowed from the same banks and companies due for repayment on the same day.

(Note) Shinsei Bank, Ltd. changed its name to SBI Shinsei Bank, Ltd. as of January 4, 2023. The same shall apply hereafter.

(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 34th Fiscal Period (November 30, 2022) stood at 205,800 million yen in total (long-term loans payable: 196,800 million yen; investment corporation bonds: 9,000 million yen). The balance of the current portion of long-term loans payable stood at 26,200 million yen.

The average remaining period of interest-bearing liabilities as of the end of the 34th Fiscal Period stands at 4.1 years.

(4) Capital Expenditures during the 34th Fiscal Period

The following summarizes the primary construction work that constitutes capital expenditures implemented during the 34th Fiscal Period for existing portfolio properties. Capital expenditures for the 34th Fiscal Period amounted to 798 million yen and, when combined with the 130 million yen in repair expenses charged to the 34th Fiscal Period expenses, totals 929 million yen in construction work implemented.

Name of real estate properties (Location)	Purpose	Period	Construction amount paid (Millions of yen)
Daiwa Ogikubo Tower (Suginami-ku, Tokyo)	Conversion to LED lighting at common and exclusive areas	From: July 2022 To: Oct. 2022	72
Shinjuku Maynds Tower (Shibuya-ku, Tokyo)	Upgrading of air-conditioning facilities	From: June 2022 To: Nov. 2022	43
Daiwa Akasaka (Minato-ku, Tokyo)	3F setup office work	From: July 2022 To: Aug. 2022	35
Other			646
	Total		798

(5) Overview of Financial Performance and Distributions

As a result of the management described above, DOI posted financial performance for the 34th Fiscal Period of 13,891 million yen in operating revenue, 7,062 million yen in operating income, 6,494 million yen in ordinary income and 6,512 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 after adding reversal of internally reserved reserve for reduction entry (40,039,351 yen) to 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 recovery in individual spending due to the expansion of the acceptance of inbound tourists from overseas resulting from the slowdown of the spread of COVID-19 infection. However, as issues such as the situation in Ukraine, rise in resource prices and disruption of supply chain in the manufacturing industry centering on the automobile industry may take time to normalize, the outlook for the Japanese economy remains unpredictable.

In the central Tokyo office building leasing market, although recovery is expected with normalization of economic activities going forward, rising vacancy rate due to office consolidations and relocations triggered by COVID-19, moderate rent drop, and the impact of supply of multiple large-scale office buildings expected in 2023 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. Volatility in long-term interest rates has increased as the BOJ's Monetary Policy Meeting on December 20, 2022 expanded the range of fluctuation in long-term interest rates to "about $\pm 0.50\%$," with interest rate trends warranting particularly close monitoring.

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

(2) Future Management Policy and Tasks

(A) Strategy for Managing Existing Properties

As to macro trends for the office market, 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 the 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 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.

During the 34th Fiscal Period, the development project in Nihonbashi-Bakurocho 1-Chome Development Project was completed. This was DOI's first development project, for which the development site was acquired in November 2020. DOI acquired Daiwa Nihonbashi Bakurocho, constructed in the development project. 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 payable 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 34th 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 River Gate (Chuo-ku, Tokyo)	Modification of heat source system	From: Dec. 2022 To: May 2023	346	-	-
Daiwa Shibuya Square (Shibuya-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2022 To: May 2023	129	-	-
Daiwa Nakano-Sakaue (Nakano-ku, Tokyo)	Repair of exterior walls	From: Dec. 2022 To: May 2023	69	-	-
E SPACE TOWER (Shibuya-ku, Tokyo)	Upgrading of 3F PAC/HEX	From: Dec. 2022 To: May 2023	66	-	-
Daiwa Kodenmacho (Chuo-ku, Tokyo)	Upgrading of air-conditioning facilities	From: Dec. 2022 To: May 2023	61	-	-

II. Balance Sheets

As of November 30, 2022 and May 31, 2022

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Assets		
Current Assets:		
Cash and cash equivalents (Note 3)	22,808,682	26,773,007
Tenant receivables	100,636	86,072
Consumption taxes receivable	82,420	–
Prepaid expenses	371,486	355,818
Other current assets	43,891	34,136
Total Current Assets	23,407,118	27,249,034
Investment Properties, at cost (Notes 5 and 6):		
Land	12,302,226	12,302,226
Buildings and structures	3,615,398	3,595,823
Tools, furniture and fixtures	21,875	21,085
Construction in progress	3,491	4,006
Land in trust accounts (Note 15)	360,010,799	359,932,790
Buildings and structures in trust accounts (Notes 14 and 15)	111,336,686	108,778,379
Machinery and equipment in trust accounts	950,322	870,980
Tools, furniture and fixtures in trust accounts	420,289	366,416
Construction in progress in trust accounts	903,381	846,159
Less: accumulated depreciation	(36,801,368)	(35,012,710)
Leasehold rights	2,398,275	2,398,275
Leasehold rights in trust accounts	306,884	306,884
Total Investment Properties, net	455,468,263	454,410,317
Investments and Other Assets:		
Lease and guarantee deposits in trust accounts	113,684	113,684
Long-term prepaid expenses	1,293,339	1,203,731
Derivative assets (Note 4)	614,733	329,840
Deferred investment corporation bond issuance costs	39,326	44,357
Others	112,712	110,137
Total Investments and Other Assets	2,173,797	1,801,750
Total Assets	481,049,178	483,461,103

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

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Liabilities		
Current Liabilities:		
Accounts payable	1,514,187	1,067,842
Long-term debt due within one year (Notes 4 and 11)	26,200,000	30,600,000
Accounts payable – other	607,519	600,232
Income taxes payable	880	880
Accrued consumption taxes	149,957	294,268
Rent received in advance	2,660,384	2,326,716
Other current liabilities	513,476	501,287
Total Current Liabilities	31,646,405	35,391,228
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 11)	9,000,000	9,000,000
Long-term debt (Notes 4 and 11)	170,600,000	166,200,000
Tenant security deposits including trust accounts (Note 4)	22,074,341	22,165,062
Deferred tax liabilities (Note 16)	237,123	165,917
Total Long-Term Liabilities	201,911,465	197,530,979
Total Liabilities	233,557,871	232,922,207
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 November 30, 2022 and 482,529 units as of May 31, 2022		
Deduction from unitholders' capital	(13,457,770)	(10,458,319)
Unitholders' capital, net	238,093,989	241,093,440
Reserve for reduction entry	2,459,048	1,721,383
Retained earnings	6,512,095	7,493,070
Total Unitholders' Equity	247,065,132	250,307,894
Valuation and translation adjustments		
Deferred gains or losses on hedges	426,174	231,001
Total valuation and translation adjustments	426,174	231,001
Total Net Assets	247,491,307	250,538,895
Total Liabilities and Net Assets	481,049,178	483,461,103

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, 2022 and May 31, 2022

(Thousands of yen)

	For the fiscal period ended November 30, 2022	For the fiscal period ended May 31, 2022
Operating Revenues (Note 7):		
Rental revenues (Note 8)	13,836,714	13,560,238
Other revenues related to property leasing (Note 8)	54,553	13,769
Gain on sale of investment properties (Note 13)	–	900,931
Total Operating Revenues	13,891,267	14,474,939
Operating Expenses:		
Property-related expenses (Note 8)	5,453,596	5,143,017
Asset management fees	1,147,433	1,163,658
Asset custody fees	24,064	24,190
Administrative service fees	78,232	72,641
Trust fees	18,036	18,879
Directors' compensation	7,200	7,200
Other operating expenses	99,757	122,114
Total Operating Expenses	6,828,320	6,551,700
Operating Income	7,062,947	7,923,238
Non-Operating Revenues:		
Interest income	15	14
Reversal of distribution payable	705	646
Insurance income	7,290	138,785
Other non-operating revenues	33	285
Total Non-Operating Revenues	8,044	139,731
Non-Operating Expenses:		
Interest expense	395,458	398,294
Interest expense on investment corporation bonds	26,041	26,328
Borrowing expenses	137,796	130,398
Other non-operating expenses	17,096	13,997
Total Non-Operating Expenses	576,393	569,018
Ordinary Income	6,494,598	7,493,952
Income Before Income Taxes	6,494,598	7,493,952
Income taxes – current	881	881
Income taxes – deferred	(18,378)	–
Total Income Taxes (Note 16)	(17,496)	881
Net Income	6,512,095	7,493,070
Retained Earnings Brought Forward	–	–
Retained Earnings at End of Period	6,512,095	7,493,070

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, 2022 and May 31, 2022

(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, 2021	488,088	251,551,759	(6,458,395)	245,093,364	1,755,357	6,799,258	–	(10,319)	253,637,659
Cash distributions declared	–	–	–	–	–	(6,833,232)	–	–	(6,833,232)
Net income	–	–	–	–	–	7,493,070	–	–	7,493,070
Reversal of reserve for reduction entry	–	–	–	–	(33,973)	33,973	–	–	–
Acquisition of treasury investment units	–	–	–	–	–	–	(3,999,924)	–	(3,999,924)
Cancellation of treasury investment units (Note 10)	(5,559)	–	(3,999,924)	(3,999,924)	–	–	3,999,924	–	–
Net changes of items other than unitholders' equity	–	–	–	–	–	–	–	241,321	241,321
Balance as of May 31, 2022	482,529	251,551,759	(10,458,319)	241,093,440	1,721,383	7,493,070	–	231,001	250,538,895
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

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

V. Statements of Cash Flows

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

(Thousands of yen)

	For the fiscal period ended November 30, 2022	For the fiscal period ended May 31, 2022
Cash Flows from Operating Activities:		
Income before income taxes	6,494,598	7,493,952
Depreciation and amortization	1,790,107	1,787,160
Amortization of bond issuance costs	5,030	5,003
Interest expense	421,500	424,622
(Increase) decrease in tenant receivables	(14,564)	103,843
Increase (decrease) in accounts payable	64,052	(155,572)
Increase (decrease) in rent received in advance	333,668	(24,831)
Interest payments	(421,759)	(423,389)
(Decrease) increase in accrued consumption taxes	(144,311)	8,099
Increase in consumption taxes receivable	(82,420)	–
Decrease due to sale of investment properties in trust accounts	–	7,179,984
Other, net	(102,642)	(184,230)
Net Cash Provided by Operating Activities	8,343,259	16,214,641
Cash Flows from Investing Activities:		
Payments for purchases of investment properties including trust accounts	(2,461,144)	(12,010,286)
Payments for purchases of intangible assets	–	(12,000)
Proceeds from tenant security deposits including trust accounts	870,257	661,359
Refunds of tenant security deposits including trust accounts	(960,977)	(989,783)
Net Cash Used in Investing Activities	(2,551,864)	(12,350,710)
Cash Flows from Financing Activities:		
Repayments of short-term debt	–	(2,400,000)
Proceeds from long-term debt	17,600,000	19,850,000
Repayments of long-term debt	(17,600,000)	(14,000,000)
Payments for acquisition of treasury investment units	(2,999,451)	(3,999,924)
Distributions paid	(6,756,268)	(6,832,436)
Net Cash Used in Financing Activities	(9,755,719)	(7,382,360)
Net Change in Cash and Cash Equivalents	(3,964,325)	(3,518,428)
Cash and Cash Equivalents at Beginning of Period	26,773,007	30,291,436
Cash and Cash Equivalents at End of Period (Note 3)	22,808,682	26,773,007

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

For the fiscal periods ended November 30, 2022 and May 31, 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 November 30, 2022, DOI had ownership or trust beneficiary interests in 59 office properties with approximately 359,705.62 m² of rentable office space and had leased office space to 639 tenants engaged in a variety of businesses. The occupancy rate for the office properties was approximately 97.4 %.

Basis of Presentation

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

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

(b) Investment Properties

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

	As of November 30, 2022	As of May 31, 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.

The following is a summary of capitalized real estate taxes.

(Thousands of yen)

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

(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 November 30, 2022 and May 31, 2022 were as follows:

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Tangible fixed assets	452,763,103	451,705,157
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 November 30, 2022 and May 31, 2022 consisted of the following:

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Cash and deposits	19,084,282	23,095,517
Cash and deposits in trust accounts	3,724,400	3,677,490
Cash and cash equivalents	22,808,682	26,773,007

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 November 30, 2022 and May 31, 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 November 30, 2022			As of May 31, 2022		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Long-term debt due within one year	26,200,000	26,194,431	(5,568)	30,600,000	30,594,419	(5,580)
Investment corporation bonds	9,000,000	8,915,880	(84,120)	9,000,000	8,959,310	(40,690)
Long-term debt	170,600,000	169,587,590	(1,012,409)	166,200,000	165,401,287	(798,712)
Total	205,800,000	204,697,901	(1,102,098)	205,800,000	204,955,017	(844,982)
Derivative transactions (*)	621,789	621,789	-	337,031	337,031	-

(*) 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 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

(Thousands of yen)

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

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

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

2. Tenant security deposits including trust accounts (whose book values were 22,074,341 thousand yen and 22,165,062 thousand yen as of November 30, 2022 and May 31, 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 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

(Thousands of yen)

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

Note 5 – Tangible Fixed Assets of Investment Properties

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

(Thousands of yen)

	As of November 30, 2022			As of May 31, 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	3,615,398	(2,837,628)	777,770	3,595,823	(2,765,434)	830,389
Tools, furniture and fixtures	21,875	(18,040)	3,834	21,085	(17,016)	4,069
Construction in progress	3,491	–	3,491	4,006	–	4,006
Land in trust accounts	360,010,799	–	360,010,799	359,932,790	–	359,932,790
Buildings and structures in trust accounts	111,336,686	(33,145,538)	78,191,147	108,778,379	(31,482,153)	77,296,226
Machinery and equipment in trust accounts	950,322	(554,056)	396,265	870,980	(520,910)	350,069
Tools, furniture and fixtures in trust accounts	420,289	(246,104)	174,184	366,416	(227,197)	139,218
Construction in progress in trust accounts	903,381	–	903,381	846,159	–	846,159
Total	489,564,471	(36,801,368)	452,763,103	486,717,868	(35,012,710)	451,705,157

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, 2022	For the fiscal period ended May 31, 2022
Book value: (Note 1)		
Balance at beginning of period	453,560,151	450,782,802
Change during the period (Note 2)	1,001,239	2,777,348
Balance at end of period	454,561,390	453,560,151
Fair value (Note 3)	593,390,000	590,840,000

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

(Note 2) Significant changes

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). For the fiscal period ended May 31, 2022, the major reason for the increase is acquisition of “Kandasudacho 2-Chome Development Site (land)” (10,600 million yen). The major reason for the decrease is disposition of 2 properties, “Daiwa Minami-Aoyama Building” (4,408 million yen) and “Daiwa Kojimachi 4-chome Building” (2,805 million yen) and depreciation (1,783 million yen).

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

(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 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.

(Thousands of yen)

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

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

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

Note 8 – Rental Revenues and Expenses

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

(Thousands of yen)

	For the fiscal period ended November 30, 2022	For the fiscal period ended May 31, 2022
Revenues from property leasing:		
Rental revenues	13,836,714	13,560,238
Other revenues related to property leasing	54,553	13,769
Total revenues from property leasing	13,891,267	13,574,007
Rental expenses:		
Consignment expenses	1,024,032	974,462
Utilities expenses	1,263,217	924,472
Taxes and dues	1,149,657	1,144,699
Insurance expenses	22,425	20,748
Repair expenses	130,738	222,314
Depreciation	1,788,657	1,783,619
Other	74,866	72,701
Total rental expenses	5,453,596	5,143,017
Income from property leasing	8,437,671	8,430,990

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, 2022 and May 31, 2022 were as follows.

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Total number of own investments units cancelled (units)	19,611	15,340
Total amount of cancellation	13,457,770	10,458,319

Total number of treasury investment units cancelled and total amount of cancellation during the fiscal period ended November 30, 2022 were 4,271 units and 2,999,451 thousand yen, respectively.

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

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

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Unsecured loans due 2022 to 2031, principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 0.8%	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 November 30, 2022 were as follows:

(Thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Long-term debt and investment corporation bonds	26,200,000	31,000,000	24,500,000	22,400,000	27,600,000	74,100,000

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

(Thousands of yen)

	As of November 30, 2022	As of May 31, 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 November 30, 2022 and May 31, 2022 were as follows:

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Due within one year	10,600,046	9,433,002
Due after one year	18,470,787	17,362,934
Total	29,070,833	26,795,936

Note 13 – Gain on Sale of Investment Properties

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

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

(Thousands of yen)

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

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, 2022 and May 31, 2022.

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, 2022 and May 31, 2022.

(Thousands of yen)

	As of November 30, 2022	As of May 31, 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 November 30, 2022	For the fiscal period ended May 31, 2022
Statutory tax rate	31.46	31.46
Deductible cash distributions	(31.74)	(28.36)
Provision of reserve for reduction entry	–	(3.10)
Others	0.01	0.01
Effective tax rate	(0.27)	0.01

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

(Thousands of yen)

	As of November 30, 2022	As of May 31, 2022
Deferred tax assets:		
Accrued enterprise tax	13	13
Deferred losses on hedges	54	–
Total deferred tax assets	67	13
Deferred tax liabilities:		
Reserve for reduction entry	41,522	59,900
Deferred gains on hedges	195,669	106,030
Total deferred tax liabilities	237,191	165,930
Net deferred tax liabilities	(237,123)	(165,917)

Note 17 – Per Unit Information

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

(Yen)

	For the fiscal period ended November 30, 2022	For the fiscal period ended May 31, 2022
Earnings per Unit:		
Net income per unit	13,561	15,443
Weighted average number of units outstanding (units)	480,206	485,190

(Yen)

	As of November 30, 2022	As of May 31, 2022
Net Assets per Unit	517,484	519,220

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, 2022 of 6,552,134,600 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, 2022 of 6,755,406,000 yen after deducting the amount of provision of reserve for reduction entry as stipulated in Article 65-7 of the Special Taxation Measure Act of Japan from unappropriated retained earnings. 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, 2022	For the fiscal period ended May 31, 2022
I Unappropriated retained earnings	6,512,095,249	7,493,070,628
II Reversal of voluntary reserves Reversal of reserve for reduction entry	40,039,351	–
III Cash distributions declared	6,552,134,600	6,755,406,000
IV Voluntary reserves Provision of reserve for reduction entry	–	737,664,628
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, 2022	For the fiscal period ended May 31, 2022
Cash distributions per unit	13,700	14,000
Board of directors meeting dates	January 20, 2023	July 21, 2022

Note 19 – Related-Party Transactions

No related-party transaction was entered into for the fiscal periods ended November 30, 2022 and May 31, 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 November 30, 2022 and May 31, 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 – Significant Subsequent Events

(a) Sales of Assets

DOI sold a trust beneficial interest in real estate on December 21, 2022 as described below.

Overview of the asset

Property name	Daiwa SHIBUYA EDGE
Asset type	Trust beneficial interest in domestic real estate
Sales price	7,313,000 thousand yen (excluding settlement amounts of property taxes and city planning taxes, and consumption taxes, etc.)
Agreement date	November 21, 2022
Delivery date	December 21, 2022
Purchaser	Non-disclosed (Note)

(Note) The purchaser is a domestic company. Its information is not disclosed since consent for disclosure has not been obtained from the purchaser.

(b) Borrowing of Funds

DOI borrowed funds on December 30, 2022 as described below. These funds were allocated as part of the funds for acquisition of a property (Daiwa Nihonbashi Bakurocho) on November 30, 2022.

Details of borrowing

Lender	Balance (Thousands of yen)	Interest rate	Borrowing date	Repayment method	Maturity
Sumitomo Mitsui Banking Corporation	2,000,000	1 month Japanese yen TIBOR +0.250% (Note)	December 30, 2022	Unsecured/ Bullet payment	December 29, 2023

(Note) Interest payments shall be paid at the end of each month and the maturity date (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 1 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, 2022 and May 31, 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 November 30, 2022 and May 31, 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.

Emphasis of Matter

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

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

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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

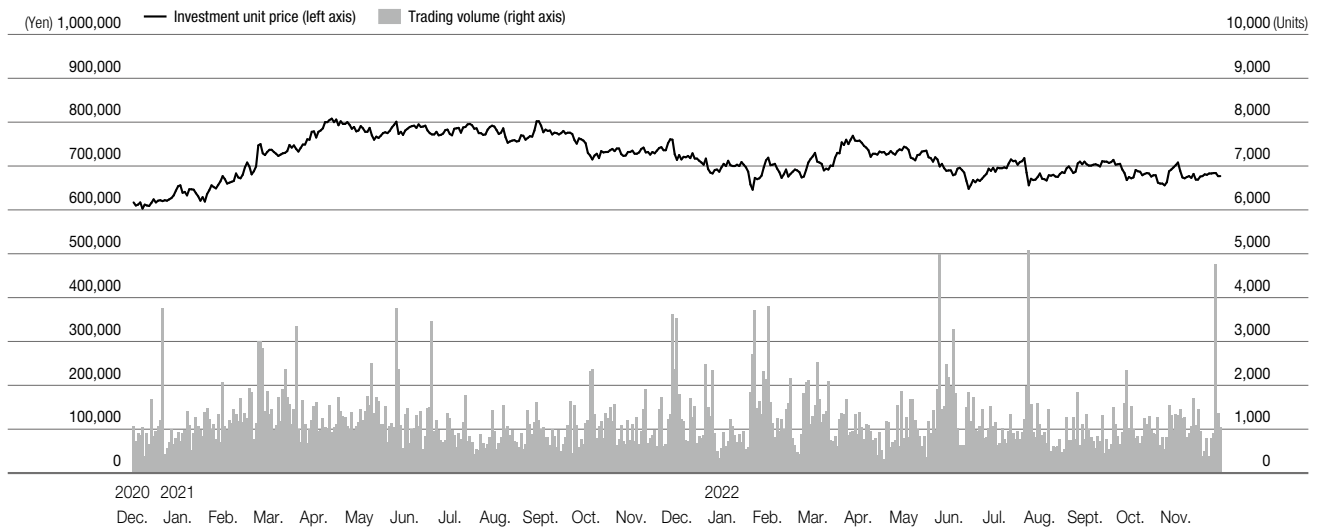
Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

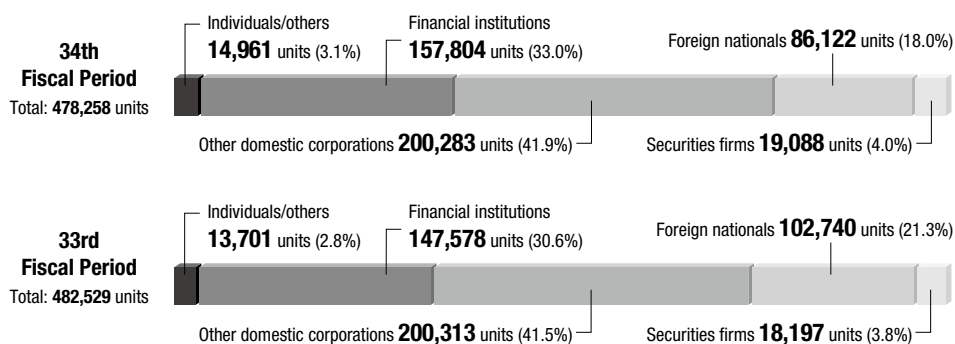
February 17, 2023

History of Investment Unit Price



Overview of Investment Units and Unitholders (As of November 30, 2022)

No. of Investment Units by Investor Type



No. of Unitholders by Investor Type

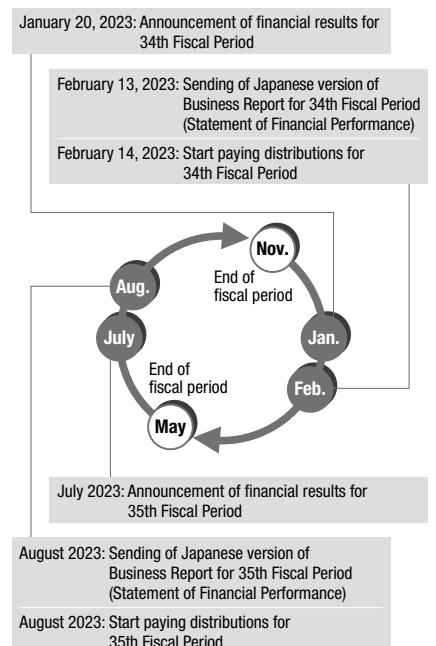
Individuals/others	5,019 (91.2%)
Financial institutions	104 (1.9%)
Other domestic corporations	101 (1.8%)
Foreign nationals	259 (4.7%)
Securities firms	21 (0.4%)
Total	5,504

Top Ten Unitholders (As of November 30, 2022)

Name of Unitholder	Number of Units Owned (Units)	Percentage Share
1. Daiwa Investment Management Inc.	128,905	27.0
2. Daiwa Securities Group Inc.	67,321	14.1
3. Custody Bank of Japan, Ltd. (Trust Account)	59,329	12.4
4. The Master Trust Bank of Japan, Ltd. (Trust Account)	52,014	10.9
5. STICHTING PENSIOEN FONDS ZORG EN WELZIJN	17,082	3.6
6. The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	13,363	2.8
7. SMBC Nikko Securities Inc.	7,486	1.6
8. BNYM AS AGT/CLTS 10 PERCENT	4,935	1.0
9. STATE STREET BANK WEST CLIENT - TREATY 505234	4,565	1.0
10. STATE STREET BANK AND TRUST COMPANY 505103	4,078	0.9

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

IR Calendar



Investor Memo

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

Provision of Information on the Website

Daiwa Office Investment Corporation conducts information distribution on its website as an important tool for IR activities. DOI also provides an e-mail delivery service, "IR Mail Delivery Service," which informs subscribers of updates 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.



大和証券オフィス投資法人

Daiwa Office Investment Corporation