

[Translation]

Securities Code: 8984

June 2, 2016

To our unitholders

Daiwa House Residential Investment Corporation
2-4-8, Nagatacho, Chiyoda-ku, Tokyo
Jiro Kawanishi, Executive Director

Notice of Convocation of the 10th General Meeting of Unitholders

We hereby give notice of and invite you to attend the 10th General Meeting of Unitholders (the “General Meeting of Unitholders”) of Daiwa House Residential Investment Corporation (“DHI”), which will be held as set out below.

If you are unable to attend, you may exercise your voting rights with a voting form. In that case, please consider the “Reference Documents for the General Meeting of Unitholders” set out below, indicate your approval or disapproval on the enclosed voting form, and then return the form so that it arrives to us by no later than 6:00 P.M. on June 16, 2016 (Thursday).

In accordance with Article 93, Paragraph 1 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended) (the “Investment Trusts Act”), DHI has set forth the provisions for “deemed approval” in Article 15 of DHI’s current Articles of Incorporation. **Therefore, please note that if you are unable to attend the General Meeting of Unitholders and do not exercise your voting rights with the voting form, you will be deemed to have approved each of the proposals being discussed at the Meeting, and the number of voting rights you hold will be counted in the number of voting rights of unitholders present.**

(Excerpt from DHI’s Articles of Incorporation)

Article 15 Deemed Approval

1. If a unitholder is not present at a general meeting of unitholders and does not exercise its voting rights, the unitholder will be deemed to have approved the proposals submitted to the general meeting of unitholders (excluding, if multiple proposals are submitted and such proposals conflict with each other, any of such proposals).
2. The number of voting rights represented by the unitholders who are deemed to have approved the proposals under the preceding paragraph shall be included in the number of voting rights represented by the unitholders present.

Meeting Details

1. **Time and Date:** June 17, 2016 (Friday) 10:00 A.M.
2. **Location:** “Room J” Bellsalle Tokyo Nihombashi 4F, Tokyo Nihombashi Tower,
2-7-1 Nihombashi, Chuo-ku, Tokyo
(Please see “the “Map to the 10th General Meeting of Unitholders”
at the end of this notice.)
3. **Matters for the General Meeting of Unitholders**

Matters to be Resolved

Proposal No. 1: Approval of the Absorption-Type Merger Agreement with Daiwa House REIT Investment Corporation

Proposal No. 2: Partial Amendments to the Articles of Incorporation

N.B.

- (i) On the day of the Meeting, please submit the enclosed voting form to the reception desk at the meeting venue.
- (ii) It is possible for another unitholder who holds voting rights to attend the General Meeting of Unitholders as a proxy. If a proxy will attend in your place, please submit a document evidencing the authority of the proxy together with the voting form to the reception desk at the meeting venue.
- (iii) The method to make known any amendments to the matters in the Reference Documents for the General Meeting of Unitholders

If it becomes necessary to amend matters in the Reference Documents for the General Meeting of Unitholders during the period until the day prior to the General Meeting of Unitholders, the amended matters will be posted on DHI’s website at <http://www.daiwahouse-resi-reit.co.jp/>.

- (iv) After the closing of the General Meeting of Unitholders, a management performance briefing will be held on the same day by DHI’s asset manager, Daiwa House Asset Management Co., Ltd. (the “Asset Manager”) at the same venue. DHI kindly asks that you also attend the briefing.

Reference Documents for the General Meeting of Unitholders

Proposals and Reference Matters

Proposal No.1 Approval of the Absorption-Type Merger Agreement with Daiwa House REIT Investment Corporation

1. Reasons for the Absorption-Type Merger

As of April 15, 2016, DHI has agreed to implement an absorption-type merger (the “Merger”) with DHI as the surviving corporation and Daiwa House REIT Investment Corporation (“DHR”; collectively with DHI, the “Investment Corporations”) as the absorbed corporation, with the effective date being September 1, 2016, and has executed a merger agreement (the “Merger Agreement”) with respect to the Merger.

The asset managers of the Investment Corporations—DHAM, the asset manager for DHI, and Daiwa House REIT Management Co., Ltd. (“DHRM”), the asset manager for DHR—are both wholly-owned subsidiaries of Daiwa House Industry Co., Ltd. (“Daiwa House Industry”), and have worked to develop their own track records in asset management with the support of the Daiwa House Group (consisting of Daiwa House Industry and its 142 consolidated subsidiaries, 2 unconsolidated subsidiaries, 25 equity-method affiliates and 2 non-equity-method affiliates, as of March 31, 2016; the same hereinafter).

DHI first listed on the Tokyo Stock Exchange (the “TSE”) REIT market in March 2006 as BLife Investment Corporation, dealing in residential and commercial properties. It began with a portfolio of 14 properties with a total acquisition price of JPY 32.0 billion, and has since continued to operate for 20 fiscal periods. In December 2008, Daiwa House Industry became its main sponsor, and on April 1, 2010 it absorbed New City Residence Investment Corporation. DHI adopted its current trade name on December 1, 2011, and amended its articles of incorporation to specialize in residential investment. With its diversified residential portfolio and stable cash flow, DHI has been able to grow steadily to date by combining property acquisitions aided by the continual support of the Daiwa House Group with proactive property acquisitions from outside the group, and has used its retained earnings to actively update its property portfolio. In the ten years since it first listed on the TSE, DHI’s investments have grown to 142 properties with a total acquisition price of JPY 256.3 billion.

DHR first listed on the TSE REIT market in November 2012 as an investment corporation dealing in logistics and commercial properties, specifically high-performance logistics properties and specialty retail complexes, with a portfolio consisting of 24 properties with a total acquisition price of JPY 114.5 billion. DHR has continued to operate for 7 fiscal periods since then, and its investments have grown to 41 properties with a total acquisition price of JPY 203.7 billion in the three years since its listing as DHR works to secure stable cash flow through long-term fixed contracts and grow externally with property acquisitions focusing on the Daiwa House Group’s strong pipeline.

The Investment Corporations have used their individual strengths to work towards securing stable income over the medium to long term and steadily growing their assets, with the aim of sustainably increasing unitholder value. However, each faces its own challenges: DHI’s LTV ratio remains high, and its portfolio specialized in residential properties offers limited

opportunities for internal growth, while DHR has relatively limited available strategies for efficiently swapping out investments and achieving internal growth at its positioning in the logistics REIT sector and its current portfolio size. It was with this in mind that the Investment Corporations first agreed to begin negotiations for a merger as one option for addressing these challenges and promoting the future growth of both corporations. After careful deliberations, the Investment Corporations determined that the Merger was the most effective strategy for maximizing unitholder value based on secured cash flow and improved and stable distribution through solid growth of the portfolio. As such, the Investment Corporations have executed the Merger Agreement. The Investment Corporations expect the following to result from the Merger: (i) enhanced external growth potential and further internal growth opportunities through the shift to a diversified REIT, (ii) improvement of the position in the J-REIT market and asset-management flexibility through scale enhancement, and (iii) acceleration of growth leveraging the value chain of the Daiwa House Group's integrated capabilities, among other positive effects.

The surviving corporation after the Merger will shift to a diversified REIT that invests in new types of properties, such as hotels, office buildings, in addition to those that the Investment Corporations have dealt in to date. Its policy will be to leverage the Daiwa House Group's integrated capabilities to enhance its growth potential, improve the profitability and quality of its portfolio, and achieve sustainable external growth and stable distributions.

We humbly request the understanding of our unitholders with respect to the purpose of the Merger, and ask that you approve the Merger Agreement.

2. Outline of the Absorption-Type Merger Agreement

As described in Schedule 1.

3. Outline of Matters Listed in Article 194(1)(i) through (iii) of Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations

(1) Matters concerning the adequacy of the provision for matters concerning the number of investment units of the surviving corporation to be delivered upon the absorption-type merger by the surviving corporation to the unitholders of the absorbed corporation in lieu of the investment units thereof, or the method for calculating such number of investment units and the total amount of capital of the surviving corporation, and the allotment of investment units of the surviving corporation made to the unitholders of the absorbed corporation

(i) Matters concerning the adequacy of the provision for matters concerning the number of investment units of the surviving corporation to be delivered upon the absorption-type merger by the surviving corporation to the unitholders of the absorbed corporation in lieu of the investment units thereof, or the method for calculating such number of investment units and the allotment of investment units of the surviving corporation made to the unitholders of the absorbed corporation

A. The number of investment units of DHI or the amount of cash allocated to each investment unit of DHR

	DHI (surviving corporation)	DHR (absorbed corporation)
Allotment of investment units under merger	1	2.2

Note 1: Number of new investment units of DHI to be issued upon the Merger: 771,540 units (planned)

Note 2: Fractions less than one unit will be generated for the number of investment units to be issued through the allotment, to the unitholders of DHR, of 2.2 units of DHI per unit of DHR. Those fractional units less than one unit will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who hold fractions in proportion to the size of their holdings of fractions.

Note 3: In addition to the above investment units, in lieu of cash distributions to the unitholders of DHR for DHR's fiscal period ending on the day immediately preceding the effective date of the Merger, DHI plans to make a payment upon the merger that will be equivalent to the cash distributions of DHR for that fiscal period (a merger payment equal to the distributable profit amount of DHR as of the day immediately preceding the effective date of the Merger divided by the number of investment units after deducting the number of investment units held by unitholders other than the Allotted Unitholders (defined below) of DHR from the number of outstanding investment units of DHR as of the day immediately preceding the effective date of the Merger), to its unitholders (excluding unitholders who have requested the purchase of their investment units in accordance with Article 149-3 of the Investment Trusts Act (the "Allotted Unitholders")) entered in or recorded on the final unitholders register of DHR as of the day immediately preceding the effective date of the Merger, within a reasonable period after the effective date of the Merger.

B. Basis of Calculation

For the purpose of determining the merger ratio to be adopted in the Merger, and with a view to ensuring fairness, DHI and DHR each appointed a financial advisor for the Merger and requested each financial advisor to perform a financial analysis of the merger ratio. DHI appointed Nomura Securities Co., Ltd. ("Nomura Securities"), and DHR appointed Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. ("Mitsubishi UFJ Morgan Stanley Securities").

Nomura Securities

Nomura Securities performed a financial analysis of the merger ratio for each of DHI and DHR, adopting (i) average market investment unit price analysis, as investment units of both DHI and DHR are listed on the TSE and the market investment unit price is available, (ii) comparable similar investment corporation analysis, as DHI and DHR are comparable to several

listed investment corporations and the investment unit value may be analogically inferred by comparing them thereto, (iii) discounted cash flow analysis (“DCF Analysis”) in order to reflect future business activity in the financial analysis, and (iv) the adjusted net asset value approach, in order to reflect the effect on net assets of changes in market value and exchangeability into cash. A summary of the financial analysis performed by Nomura Securities is as follows.

Financial Analysis Approach	DHI	DHR
Average market investment unit price analysis	1	1.98 - 2.10
Comparable similar investment corporation analysis	1	2.12 - 2.50
DCF Analysis	1	2.10 - 2.51
Adjusted net asset value approach	1	2.11

Concerning the average market investment unit price analysis, the financial analysis date was set at April 14, 2016, and the closing prices on the financial analysis date, and the simple averages of closing prices for the one-week, one-month, three-month, and six-month periods up to the financial analysis date were employed. Please refer to Note 1 below for more detailed information regarding the assumptions and disclaimers for the analysis of Nomura Securities.

In the future profit plan of DHI and DHR which Nomura Securities referred to as the basis for the DCF Analysis, there is no fiscal period in which a considerable increase or decrease in profits is expected.

Mitsubishi UFJ Morgan Stanley Securities

Mitsubishi UFJ Morgan Stanley Securities conducted its analysis of the merger ratio for each of DHI and DHR, comprehensively taking into consideration the analysis results based on (i) investment unit price analysis as a method of analysis based on the investment unit price formed in the securities market, as investment units of DHI and DHR are listed on the TSE, (ii) analysis by comparison to similar investment corporations as a method of analysis based on the investment unit value of other listed investment corporations conducting business similar to that of DHI and DHR, (iii) the dividend discount model as a method of analysis of investment unit value based on dividends which unitholders of DHI and DHR are expected to receive in the future, (iv) DCF Analysis as a primary method of analysis of investment unit value based on the mid-to-long term future business activities of DHI and DHR, and (v) the net asset value approach as a method of static analysis of investment unit value, which reflects the market value of assets held by DHI and DHR. A summary of the analysis performed by Mitsubishi UFJ Morgan Stanley Securities is as follows.

Financial Analysis Approach	DHI	DHR
Investment unit price analysis	1	1.79 - 2.14
Analysis by comparison to similar investment corporations	1	2.10 - 2.31
Dividend discount model	1	1.97 - 1.98
DCF Analysis	1	2.14 - 2.54
Net asset value approach	1	2.16

Concerning the investment unit price analysis, taking into account the recent market trading trends of the investment units of DHI and DHR, the financial analysis date was set at April 14, 2016 and the merger ratio was analyzed based on the closing prices for one-month, three-month, six-month, and twelve-month periods up to the financial analysis date. Please refer to Note 2 below for more detailed information regarding the assumptions and disclaimers for the analyses of Mitsubishi UFJ Morgan Stanley Securities.

In the future profit plan of DHI and DHR which Mitsubishi UFJ Morgan Stanley Securities referred to as the basis for the DCF Analysis, there is no fiscal period in which a considerable increase or decrease in profits is expected.

Note 1

Nomura Securities has generally used information provided by DHI and DHR and publicly available information in order to conduct the merger ratio analysis. Nomura Securities has not conducted any independent verification of the accuracy or completeness of the materials and information, but rather has assumed that all such materials and information are accurate and complete. In addition, Nomura Securities has not made any independent valuation, appraisal, or assessment of the assets or liabilities (including off-balance-sheet assets and liabilities and any other contingent liabilities) of DHI and DHR, nor has Nomura Securities requested any such valuation, appraisal, or assessment from a third-party institution. Further, Nomura Securities has assumed that the financial projections (including profit plan and other information) provided by DHI and DHR have been prepared in a reasonable manner on the basis of the best estimates and judgment currently available by the management of each of DHI and DHR.

Note 2

In analyzing the above merger ratio, Mitsubishi UFJ Morgan Stanley Securities has relied on the information provided by DHI and DHR and publicly available information assuming that all such materials and information are accurate and complete, without independent verification of the accuracy or completeness of those materials and information. In addition, Mitsubishi UFJ Morgan Stanley Securities did not make any

independent valuation, appraisal, or assessment of the assets or liabilities (including off-balance-sheet assets and liabilities and any other contingent liabilities) of DHI and DHR, nor has Mitsubishi UFJ Morgan Stanley Securities requested any such appraisal or assessment from a third-party institution. Further, Mitsubishi UFJ Morgan Stanley Securities has assumed that the financial projections provided by DHI and DHR have been prepared in a reasonable manner to reflect the best currently available estimates and judgments by the management of each of DHI and DHR. The analysis of the above merger ratio by Mitsubishi UFJ Morgan Stanley Securities was based on the above information that was available as of April 14, 2016.

Mitsubishi UFJ Morgan Stanley Securities has prepared its analysis solely for the board of directors of DHR for the purpose of deliberating the Merger and the analysis may not be definitively relied upon or used for any other purpose or by any other third party. In addition, Mitsubishi UFJ Morgan Stanley Securities will not provide any opinion or recommendation on voting by any of the unitholders of DHI or DHR with respect to the Merger or any other proposed transaction.

C. Process of Calculation

DHI and DHR determined the above-mentioned merger ratio to be appropriate and executed the Merger Agreement after comprehensively taking into account the financial results, status of assets and liabilities, future prospects of the business, synergies to be created by the Merger, and the results of the financial analysis conducted by Nomura Securities and Mitsubishi UFJ Morgan Stanley Securities (the financial advisors for DHI and DHR), and discussing and negotiating at length.

D. Relationship with the Financial Advisors

Neither Nomura Securities nor Mitsubishi UFJ Morgan Stanley Securities falls under the definition of an “Affiliated Party” of DHI or DHR as set forth in Article 67(4) of the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended) (the “Ordinance on Accountings of Investment Corporations”) and has any significant interest to note in connection with the Merger.

E. Measures to Ensure Fairness

a. Measures to Ensure Fairness in the Course of Considering Pros and Cons of the Merger and the Merger Ratio

In the course of considering the Merger, each of the Investment Corporations has reported, in a timely manner, the progress of deliberations to its board of directors, which consists of one executive director and two supervisory directors, whose independence from any asset management company has been ensured under the Investment Trusts Act. Further, important matters to be considered have been deliberated and approved by the board of directors of DHI and DHR.

Furthermore, DHI has appointed Mori Hamada & Matsumoto and DHR has appointed Anderson Mori & Tomotsune, as legal advisors for the Merger, and DHI and DHR have received advice on matters including the procedures for the Merger, and the method and procedures for making decisions.

b. Measures to Ensure Fairness in Determination of the Merger Ratio

As described in items B. through D. above, DHI and DHR requested their respective financial advisors to conduct a financial analysis regarding the merger ratio. In determining the appropriate merger ratio, DHI and DHR considered various factors including the financial analyses conducted by their respective financial advisors.

In order to ensure the fairness of the Merger, DHI has retained Nomura Securities, which is an independent third party financial advisor, for its unitholders, and obtained a merger ratio analysis report, in which analyses of the allotment of investment units under the Merger were conducted from a financial viewpoint under certain assumptions. Given the above, the board of directors of DHI has determined that measures for ensuring the fairness of the Merger were adequately implemented.

In order to ensure the fairness of the Merger, DHR has retained Mitsubishi UFJ Morgan Stanley Securities, which is an independent third party financial advisor, for its unitholders, and obtained a merger ratio analysis report, in which analyses of the allotment of investment units under the Merger were conducted from a financial viewpoint under certain assumptions. Given the above, the board of directors of DHR has determined that measures for ensuring the fairness of the Merger were adequately implemented.

It is to be noted that neither DHI nor DHR obtained a fairness opinion from the respective financial advisor to the effect that the merger ratio is financially suitable for unitholders of the Investment Corporations.

c. Using an Independent Financial Advisor

In order to receive advice in deliberating the Merger and other support in implementing the Merger, DHI used Daiwa Securities Co. Ltd. (“Daiwa Securities”) as an independent financial advisor in addition to the independent third party financial advisor mentioned in b. above to which DHI requested the calculation of the merger ratio. It is to be noted that DHI did not obtain a merger ratio analysis report or a fairness opinion from Daiwa Securities.

(ii) Matters related to the adequacy of provisions regarding matters related to the total amount of capital of the surviving corporation

The total amount of capital and amount of capital surplus of DHI are to be increased in the Merger as follows; provided, however, that DHI and DHR may change those amounts upon agreement through consultation considering the

financial condition of DHI and DHR on the day immediately preceding the effective date.

A. Unitholders' capital: 0 yen

B. Capital surplus: the amount obtained by deducting the amount set out in A. above from the amount of increase or decrease in the unitholders' equity, etc., set out in Article 22(1) of the Ordinance on Accountings of Investment Corporations

(2)Matters related to the absorbed corporation

(i) Details of financial statements, asset management reports, and financial statements of cash distributions pertaining to the most recent fiscal period

As described in Schedule 2.

(ii) Details of disposition of material assets, assumption of significant obligations, or any other event materially affecting the status of an investment corporation's assets that has occurred after the last day of the most recent fiscal period

a. As of April 15, 2016, DHRM has executed with DHAM, a merger agreement to implement an absorption-type merger with DHAM as the surviving company and DHRM as the absorbed company, subject to the condition precedent that the Merger takes effect, effective as of September 1, 2016.

b. As of April 15, 2016, DHR has executed a purchase agreement with Daiwa House Industry (and with Daiwa House Industry and DO Shin-toshin Development *Tokutei Mokuteki Kaisha* with respect to Naha Shintoshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)) for two logistics properties (D Project Hibiki Nada and D Project Morioka II), one commercial property (Sports Depo Golf 5 Ogura Higashi Inter Store), and one multi-purpose property (office, hotel and commercial) (Naha Shintoshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)) to be acquired on September 28, 2016; provided, however, that assets to be acquired by DHR (i.e. DHI after the Merger) will be acquired on the condition that the Merger takes effect and the partial amendments to DHI's articles of incorporation described in Proposal No. 2 becomes effective under the purchase agreement.

(3)Matters related to the surviving corporation

(i) Details of disposition of material assets, assumption of significant obligations, or any other event materially affecting the status of an investment corporation's assets that has occurred since the last day of the most recent fiscal period

a. As of April 15, 2016, DHAM has executed with DHRM, a merger agreement to implement an absorption-type merger with DHAM as the surviving company and DHRM as the absorbed corporation, subject to the condition precedent that the Merger takes effect, effective as of September 1, 2016.

b. As of April 15, 2016, DHI has executed a purchase agreement with Daiwa

House Industry for two residential properties (Castalia Ningyocho III (Note) and Royal Parks Umejima) to be acquired on September 28, 2016; provided, however, that assets to be acquired by DHI will be acquired on the condition that the Merger takes effect and the partial amendments to DHI's articles of incorporation described in Proposal No. 2 becomes effective under the purchase agreement.

Note: The current name of the residential property is Roygent Ningyocho, but we use this name in light of the fact that the name is planned to be changed to Castalia Ningyocho III after the acquisition of the property by the surviving corporation after the Merger.

- c. As of April 15, 2016, DHI executed a new basic agreement on pipeline support, etc. (the "New Basic Agreement") between DHI, DHAM, and Daiwa House Industry that will take effect as of the effective date of the Merger subject to the Merger taking effect. Upon the effectiveness of the New Basic Agreement, the existing basic agreement on pipeline support, etc. (the "DHI Existing Basic Agreement") between these parties will be expired. The New Basic Agreement is an agreement that integrates the substantive content of the DHI Existing Basic Agreement and the memorandum on pipeline support executed by DHR and DHRM with Daiwa House Industry, and that also covers hotels, offices, and healthcare facilities which are additional targets of pipeline support as a result of the expansion of investment targets of the surviving corporation resulting from the Merger.
- d. DHI repaid borrowed funds amounting to 7,600 million yen which became due and payable on March 31, 2016, and borrowed funds for refinancing from the following institutions.

Lender	Amount of borrowed funds (unit: million yen)	Interest rate	Drawdown Date	Repayment Date	Repayment Method	Collateral
Sumitomo Mitsui Trust Bank, Limited Aozora Bank, Ltd. The Norinchukin Bank Chiba Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd. The Shizuoka Bank, Ltd. The Bank of Fukuoka, Ltd.	7,600	Base rate (the JBA Japanese Yen TIBOR (1 month)) +0.20%	March 31, 2016	March 29, 2019	Lump-sum repayment	No collateral and no guarantee

- e. On April 15, 2016, DHI executed an amended agreement to extend the repayment date for the short-term borrowed funds amounting to 10,000 million yen due and payable on April 28, 2016.

The terms of the borrowing after the amendment thereby are as follows:

Lender	Amount of borrowed funds (unit: million yen)	Interest rate	Drawdown Date	Repayment Date	Repayment Method	Collateral
Mizuho Bank, Ltd.	3,250	Base rate (the JBA Japanese Yen TIBOR (1 month)) +0.175%	May 1, 2015	April 28, 2017	Lump-sum repayment	No collateral and no guarantee
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,250					
Sumitomo Mitsui Trust Bank, Limited	1,750					
Sumitomo Mitsui Banking Corporation	1,750					

Proposal No. 2 Partial Amendments to the Articles of Incorporation

1. Reasons for the Amendments

- (1) To change the trade name due to the shift to a diversified REIT upon the merger (the “Merger”) of DHI and Daiwa House REIT Investment Corporation (“DHR”) (relating to Article 1 of the proposed amendments)
- (2) To increase the total number of investment units authorized to be issued in preparation for providing smooth financing through issuance of additional investment units in connection with the future business expansion of DHI as it is expected that the total number of DHI’s investment units issued and outstanding will increase and therefor the number of investment units available to DHI from among the total number of investment units authorized to be issued will decrease as a result of the Merger (relating to Article 5, Paragraph 1 of the proposed amendments).
- (3) To add logistics facilities, commercial facilities, and hotels as targets for investment by DHI and to change the main regions for investment due to the shift to a diversified REIT upon the Merger, where DHI has to date mainly invested in residential property (relating to Article 30, Paragraph 1 of the proposed amendments).
- (4) To add specified assets (meaning those provided for in Article 3 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480 of 2000, as amended)) to be managed by DHI following the Merger (relating to Article 31, Paragraph 4, Item 7 of the proposed amendments and Paragraph 5, Item 2, Item 4 and Item 5 of the proposed amendments).
- (5) With respect to the asset management fees payable to the Asset Manager, to (i) deduct the amount equivalent to unamortized positive goodwill from the definition of the total amount of assets in the asset management fee 1 for the purpose of avoiding any effect on the amount of fees that might be caused by the positive goodwill that is expected to be generated by the Merger, and (ii) amend the provisions in the acquisition and sale fees to adjust the maximum rate applicable to the calculation of acquisition and sale fees to match that of DHR, which is lower than that of DHI, in order to establish an appropriate fee level after the Merger that is consistent with the interests of the unitholders, taking into consideration a balance between such acquisition and sale fees and the fee level before the Merger (relating to the Attachment).
- (6) In addition to the above, to adjust the number of provisions in preparation for the establishment of new provisions and to delete unnecessary provisions, change and clarify expressions, or modify the wording of the Articles of Incorporation of DHI for the purpose of the Merger.
- (7) To specify in the supplementary provisions that the amendments in (1) through (6) above are subject to the Merger taking effect (relating to Article 41 of the proposed amendments).

2. Content of the Amendments

The details of the amendments are as described below.

(The amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendments
<p>Article 1 Corporate Name The name of the investment corporation (the “Investment Corporation”) is <i>Daiwa House <u>Residential</u> Investment Corporation</i> and is expressed as “Daiwa House <u>Residential</u> Investment Corporation” in English.</p>	<p>Article 1 Corporate Name The name of the investment corporation (the “Investment Corporation”) is <i>Daiwa House <u>REIT</u> Investment Corporation</i> and is expressed as “Daiwa House <u>REIT</u> Investment Corporation” in English.</p>
<p>Article 5 Total Number of Investment Units Authorized to be Issued 5.1 The total number of units authorized to be issued by the Investment Corporation is <u>4,000,000</u>. Paragraphs 5.2 and 5.3 (Omitted)</p>	<p>Article 5 Total Number of Investment Units Authorized to be Issued 5.1 The total number of units authorized to be issued by the Investment Corporation is <u>8,000,000</u>. Paragraphs 5.2 and 5.3 (Same as Current Provisions)</p>
<p>Article 16 Record Date 16.1 If the Investment Corporation convenes the general meeting of unitholders pursuant to the provisions of the first sentence of Article 9.3, the unitholders <u>or registered investment unit pledgees</u> registered or recorded in the final unitholders register as of the end of August 2015 and thereafter as of the end of August of every second subsequent year shall be the unitholders <u>or registered investment unit pledgees</u> entitled to exercise their voting rights at the general meeting of unitholders convened by the Investment Corporation. Paragraph 16.2 (Omitted)</p>	<p>Article 16 Record Date 16.1 If the Investment Corporation convenes the general meeting of unitholders pursuant to the provisions of the first sentence of Article 9.3, the unitholders registered or recorded in the final unitholders register as of the end of August 2015 and thereafter as of the end of August of every second subsequent year shall be the unitholders entitled to exercise their voting rights at the general meeting of unitholders convened by the Investment Corporation. Paragraph 16.2 (Same as Current Provisions)</p>
<p>Article 30 Investment Policy 30.1 The Investment Corporation shall mainly invest in (i) Real Estate (meaning the assets defined in Article 31.2; the same hereinafter) used mainly for residential facilities located in</p>	<p>Article 30 Investment Policy 30.1 The Investment Corporation shall mainly invest in (i) Real Estate (meaning the assets defined in Article 31.2; the same hereinafter) used mainly for <u>logistics facilities</u>, residential</p>

Current Articles of Incorporation	Proposed Amendments
<p><u>the greater Tokyo area and other government-designated cities in Japan and the surrounding areas of those cities and (ii) Real-Estate-Backed Securities (meaning the assets defined in Article 31.3; the same hereinafter) backed by Real Estate used mainly for residential facilities located in such greater Tokyo area and other government-designated cities in Japan and the surrounding areas of those cities.</u></p>	<p><u>facilities, commercial facilities, and hotels located in the three major metropolitan areas (the greater Tokyo area (Tokyo, Kanagawa, Saitama, and Chiba prefectures), the greater Nagoya area (Aichi, Gifu, and Mie prefectures), and the greater Osaka area (Osaka, Kyoto, Hyogo, Nara, and Shiga prefectures)) and the rest of Japan and (ii) Real-Estate-Backed Securities (meaning the assets defined in Article 31.3; the same hereinafter) backed by Real Estate used mainly for <u>logistics facilities, residential facilities, commercial facilities, and hotels</u> located in such <u>three major metropolitan areas and the rest of Japan.</u> <u>The Investment Corporation may invest in other Real Estate and Real-Estate-Backed Securities.</u></u></p>
<p>Paragraphs 30.2 through 30.4 (Omitted)</p>	<p>Paragraphs 30.2 through 30.4 (Same as Current Provisions)</p>
<p>Article 31 Types, Purpose, and Scope of Specified Assets to be Managed Paragraphs 31.1 through 31.3 (Omitted)</p>	<p>Article 31 Types, Purpose, and Scope of Specified Assets to be Managed Paragraphs 31.1 through 31.3 (Same as Current Provisions)</p>
<p>31.4 The Investment Corporation may invest in the following specified assets in addition to the Real Estate and Real-Estate-Backed Securities listed in Article 31.2 and Article 31.3: Items (1) through (6) (Omitted) (New Provisions)</p>	<p>31.4 The Investment Corporation may invest in the following specified assets in addition to the Real Estate and Real-Estate-Backed Securities listed in Article 31.2 and Article 31.3: Items (1) through (6) (Same as Current Provisions) (7) <u>rights to operate public facilities, etc. (meaning those provided for in Article 3(xii) of the Investment Trusts Act Enforcement Order).</u></p>
<p>31.5 The Investment Corporation may invest in the following non specified assets incidental to the</p>	<p>31.5 The Investment Corporation may invest in the following non specified assets incidental to the</p>

Current Articles of Incorporation	Proposed Amendments
<p>investment in Real Estate: Item (1) (Omitted) (New Provisions)</p>	<p>investment in Real Estate: Item (1) (Same as Current Provisions)</p>
	<p>(2) <u>movables (meaning, of the movables provided for in the Civil Code (Act No. 89 of 1896, as amended), facilities, equipment, or other things attached to the real estate for structural reasons or for use);</u></p>
<p>(2) (Omitted) (New Provisions)</p>	<p>(3) (Same as Current Provisions)</p>
<p>(3) other rights that need to be acquired and that are incidental to the investments in Real Estate and Real-Estate-Backed Securities</p>	<p>(4) <u>carbon dioxide equivalent quotas under the Act on Promotion of Global Warming Countermeasures (Act No. 117 of 1998, as amended) or other similar rights, or emission credits (including greenhouse gas emission credits); and</u></p> <p>(5) other rights and assets that need to be acquired and that are incidental to the investments in Real Estate and Real-Estate-Backed Securities</p>
<p>Paragraph 31.6 (Omitted)</p>	<p>Paragraph 31.6 (Same as Current Provisions)</p>
<p>(New Provisions)</p>	<p><u>Section XII Supplementary Provision</u></p>
<p>(New Provisions)</p>	<p><u>Article 41 Effectiveness of Amendments</u></p>
	<p><u>Any amendment to these Articles of Incorporation will take effect on September 1, 2016, the effective date of the absorption-type merger under the Merger Agreement dated April 15, 2016 between the Investment Corporation as the surviving corporation and the pre-merger Daiwa House REIT Investment Corporation as the absorbed corporation (the “Merger”), subject to the effectiveness of the Merger. This supplementary provision is to be deleted after the effective date of the amendment to these Articles of Incorporation.</u></p>

Current Articles of Incorporation			Proposed Amendments		
Attachment Asset Management Fees Payable to Asset Manager (Omitted)			Attachment Asset Management Fees Payable to Asset Manager (Same as Current Provisions)		
Fee	Calculation method	Timing of payment	Fee	Calculation method	Timing of payment
Asset management fee 1 (asset-based fee)	(Omitted)	(Omitted)	Asset management fee 1 (asset-based fee)	(Same as Current Provisions)	(Same as Current Provisions)
Asset management fee 2 (profit-based fee)	(Omitted)	(Omitted)	Asset management fee 2 (profit-based fee)	(Same as Current Provisions)	(Same as Current Provisions)
Acquisition and sale fees	<p>1. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Backed Securities (excluding those that fall under 2. below): Not to exceed the amount calculated by multiplying the acquisition or sale price of the Real Estate or Real-Estate-Backed Securities by <u>0.8%</u>.³</p> <p>2. If the Investment Corporation acquires or sells Real Estate or</p>	By the end of month following the month in which the Real Estate or Real-Estate-Backed Securities are acquired or sold.	Acquisition and sale fees	<p>1. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Backed Securities (excluding those that fall under 2. below): Not to exceed the amount calculated by multiplying the acquisition or sale price of the Real Estate or Real-Estate-Backed Securities by <u>0.5%</u>.³</p> <p>2. If the Investment Corporation acquires or sells Real Estate or</p>	By the end of month following the month in which the Real Estate or Real-Estate-Backed Securities are acquired or sold.

Current Articles of Incorporation			Proposed Amendments		
	Real-Estate-Backed Securities from or to an interested party: Not to exceed the amount calculated by multiplying the acquisition or sale price by <u>0.4%</u> . ³			Real-Estate-Backed Securities from or to an interested party: Not to exceed the amount calculated by multiplying the acquisition or sale price by <u>0.25%</u> . ³	
	3. (Omitted)			3. (Same as Current Provisions)	
Merger fee	(Omitted)	(Omitted)	Merger fee	(Same as Current Provisions)	(Same as Current Provisions)
<p>¹ 'Total asset value' means the amount calculated in accordance with either (i) or (ii) below with respect to each accounting period²:</p> <p>(i) Total asset value for the First Accounting Period (as defined below)</p> <p>The total asset value recorded on the balance sheet as at the Fiscal Period Closing Date immediately preceding the First Accounting Period (provided that said balance sheet is approved under Article 131(2) of the Investment Trusts Act)</p> <p>(ii) (Omitted)</p> <p>² (Omitted)</p> <p>³ (Omitted)</p> <p>⁴ (Omitted)</p>			<p>¹ 'Total asset value' means the amount calculated in accordance with either (i) or (ii) below with respect to each accounting period²:</p> <p>(i) Total asset value for the First Accounting Period (as defined below)</p> <p>The total asset value <u>(minus the amount equivalent to unamortized positive goodwill)</u> recorded on the balance sheet as at the Fiscal Period Closing Date immediately preceding the First Accounting Period (provided that said balance sheet is approved under Article 131(2) of the Investment Trusts Act)</p> <p>(ii) (Same as Current Provisions)</p> <p>² (Same as Current Provisions)</p> <p>³ (Same as Current Provisions)</p> <p>⁴ (Same as Current Provisions)</p>		

Reference Matters

If any of the proposals submitted to the General Meeting of Unitholders conflicts with any of the others, the provision of “deemed approval” which is provided for in Article 93, Paragraph 1 of the Investment Trusts Act and Article 15 of the current Articles of Incorporation will not apply to any of such proposals. None of Proposal No. 1 and Proposal No. 2 above constitutes such a conflicting proposal.

End

MERGER AGREEMENT

15 April 2016

MERGER AGREEMENT

Daiwa House Residential Investment Corporation (“DHI”) and Daiwa House REIT Investment Corporation (“DHR”) enter into this merger agreement (the “Agreement”) as follows in relation to the merger between DHI and DHR (the “Merger”).

Article 1 Method of the Merger

In accordance with the provisions of this Agreement, DHI and DHR shall implement an absorption-type merger with DHI as the surviving corporation and DHR as the absorbed corporation under Article 147 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; the “Investment Trusts Act”).

Article 2 Names and addresses of merging parties

The names and addresses of the surviving corporation and the absorbed corporation are as follows.

- (1) Name and address of the surviving corporation
Name: Daiwa House Residential Investment Corporation
Address: 2-4-8, Nagatacho, Chiyoda-ku, Tokyo
- (2) Name and address of the absorbed corporation
Name: Daiwa House REIT Investment Corporation
Address: 2-3-6, Nihonbashi Kayabacho, Chuo-ku, Tokyo

Article 3 Method for calculating the number of investment units to be issued and allotted at the time of the Merger and matters regarding the allotment

- 3.1 At the time of the Merger, DHI shall issue new investment units in such number as is calculated by multiplying by 2.2 the aggregate number of investment units of DHR owned by the unitholders entered in or recorded on the final unitholders register of DHR as of the day immediately preceding the effective date of the Merger (the “Effective Date”) (excluding DHI, DHR, and the unitholders of DHR who have requested the purchase of their investment units in accordance with the provisions of Article 149-3 of the Investment Trusts Act; the “Allotted Unitholders”), and shall allot and deliver to the Allotted Unitholders 2.2 investment units of DHI per one investment unit of DHR owned by the Allotted Unitholders.
- 3.2 In the case of the preceding paragraph, if there is any fraction of less than one investment unit in the investment units of DHI to be allotted to the Allotted Unitholders, DHI shall treat such fraction in accordance with the provisions of Article 149-17 of the Investment Trusts Act.

Article 4 Matters regarding the total unitholders’ capital of the surviving corporation

The amount by which the total unitholders’ capital and the capital surplus of DHI will increase upon the Merger shall be as follows; provided, however, that DHI and DHR may

change such amount upon agreement through consultation, taking into consideration the financial conditions of DHI and DHR on the day immediately preceding the Effective Date.

- (1) Unitholders' Capital: 0 yen
- (2) Capital Surplus: The amount obtained by deducting the amount set out in the preceding item from the amount of increase or decrease in the unitholders' equity, etc., set out in Article 22, Paragraph 1 of the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended)

Article 5 Effective Date

The effective date of the Merger is September 1, 2016; provided, however, that DHI and DHR may change the Effective Date upon agreement through consultation, if necessary in order to complete the procedures for the Merger or for any other reason.

Article 6 General meeting of unitholders

- 6.1 DHI shall hold a general meeting of unitholders on June 17, 2016 or a date separately agreed on and determined by DHI and DHR, and request such general meeting of unitholders to approve (i) this Agreement, in accordance with the provisions of Article 149-7, Paragraph 1 of the Investment Trusts Act, (ii) changes to the articles of incorporation dated as of the Effective Date as set out in the Schedule subject to the Merger taking effect, and (iii) other proposals separately agreed on by DHI and DHR.
- 6.2 DHR shall hold a general meeting of unitholders on May 27, 2016 or a date separately agreed on and determined by DHI and DHR, and request such general meeting of unitholders to approve (i) this Agreement, in accordance with the provisions of Article 149-2, Paragraph 1 of the Investment Trusts Act, (ii) termination of the asset management agreement with Daiwa House REIT Management Co., Ltd. as of the Effective Date subject to the Merger taking effect, and (iii) other proposals separately agreed on by DHI and DHR.

Article 7 Post-merger trade name and related entities, etc. of DHI

- 7.1 DHI's post-merger trade name shall be Daiwa House REIT Investment Corporation.
- 7.2 DHI's asset manager (which shall mean an asset manager as referred to in Article 2, Paragraph 21 of the Investment Trusts Act; the same hereinafter), asset custody company (which shall mean an asset custody company as referred to in Article 2, Paragraph 22 of the Investment Trusts Act; the same hereinafter), administrative agent (which shall mean an administrative agent as referred to in Article 2, Paragraph 23 of the Investment Trusts Act to which the services set out in each item of Article 117 of the Investment Trusts Act shall be entrusted; the same hereinafter), and accounting auditor shall not be changed upon the Merger; provided, however, that the agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd., which is DHR's administrative agent of investment corporation bonds (the "DHR's Investment Corporation Bonds Administration Agreement"), shall be succeeded to by DHI upon the Merger, and the Bank of Tokyo-Mitsubishi UFJ, Ltd. shall become an administrative agent of DHI.
- 7.3 Subject to the effectiveness of the Merger, DHR shall, upon the Effective Date, terminate DHR's asset management agreement with its asset manager, asset custody

agreement with its asset custody company, administration agreements with its administrative agents (excluding the DHR's Investment Corporation Bonds Administration Agreement), audit agreement (excluding audits of DHR's financial statements required under the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended) for its fiscal period ending August 31, 2016) with its accounting auditor, and any other agreement that DHI and DHR separately agree to terminate.

7.4 Notwithstanding the preceding three paragraphs, DHI and DHR may change the provisions thereof upon agreement through consultation.

Article 8 Payment upon the merger

In lieu of cash distribution to the unitholders of DHR for DHR's fiscal period ending on the day immediately preceding the Effective Date, DHI shall make a payment upon the merger calculated by the following formula to the Allotted Unitholders (with any fractional amount less than one yen rounded down) per one investment unit of DHR owned by the Allotted Unitholders, and within a period after the Effective Date that is reasonable in consideration of the determination of profit for that DHR's fiscal period, the process of rendering payment upon the merger, and other factors:

$$\text{Amount of the payment upon the merger per one investment unit} = \frac{\text{Distributable profit of DHR as of the day immediately preceding the Effective Date}}{\text{Outstanding investment units of DHR as of the day immediately preceding the Effective Date}}$$

In the formula set out above, the term "Outstanding investment units of DHR as of the day immediately preceding the Effective Date" shall mean the number of investment units calculated by deducting the number of investment units held by the unitholders of DHR other than the Allotted Unitholders from the outstanding number of investment units of DHR as of the day immediately preceding the Effective Date.

Article 9 Cash distribution

With respect to cash distributions relating to the fiscal periods of DHI and DHR ended February 29, 2016, (i) DHI shall distribute 3,365,577,740 yen in total (4,501 yen per investment unit), and (ii) DHR shall distribute 3,381,449,400 yen in total (9,642 yen per investment unit), to their respective unitholders or the registered pledgees of investment units entered in or recorded on their respective final unitholders registers as of the last day of such fiscal period. Except for the distribution provided for above, no cash shall be distributed to unitholders until the Effective Date; provided, however, that if the Effective Date is changed to a date after September 1, 2016, DHI and DHR will determine the treatment of cash distributions upon agreement through consultation.

Article 10 Succession of corporate property

On the Effective Date, DHI shall succeed to any and all assets, liabilities, rights and obligations of DHR existing as of the Effective Date.

Article 11 Covenants

- 11.1 From the execution date of this Agreement to the Effective Date, DHI and DHR shall each conduct their respective business and manage and operate their respective property with the due care of a prudent manager, and cause their respective asset managers, asset custody companies, administrative agents, and other third parties to do the same, and shall obtain the prior consent of the other party before taking any action that might materially affect their respective assets, rights or obligations (including, but not limited to, issuance of investment units, issuance of investment corporation bonds, new borrowing (excluding any borrowing to pay existing loans), or entering into or performing a sale or purchase agreement for real property), unless otherwise expressly provided for herein or in any other agreement executed as of the execution date of this Agreement.
- 11.2 DHI and DHR shall immediately give notice to the other party, if, during the period on or before the Effective Date, either party learns of any event which may reasonably have a material impact on their business, financial condition, or the Merger (including, but not limited to, an event such as a breach of a financial covenant or other provision of any loan agreement, breach of law or ordinance by DHI or DHR, or a matter indicated by the relevant authorities). In this case, DHI and DHR shall discuss and consider how to deal with such event in good faith and shall use best efforts to resolve such issues.

Article 12 Conditions for the Merger

If any of the following conditions precedent to the Merger is not satisfied as of the day immediately prior to the Effective Date, or if it becomes clear that any of such conditions precedent to the Merger will not be satisfied on or before the day immediately preceding the Effective Date, then either party may cancel this Agreement without assuming any liability or payment obligation to the other party by giving written notice to the other party prior to the Effective Date (except for any liability or payment obligation owed by such party pursuant to breach of any other provision of this Agreement):

- (1) approval at the general meetings of unitholders of both DHI and DHR and other procedures pursuant to applicable laws and ordinances have been completed, and all necessary permits and approvals have been obtained, as required in relation to the Merger or in order to implement the matters contemplated in connection with the Merger;
- (2) neither DHI nor DHR is in breach of a contractual obligation (including those under this Agreement) or financial covenant or delayed in payment of a monetary debt (including taxes and other public charges); provided, however, that minor breaches and delays in payment shall be excluded;
- (3) there is no occurrence of an acceleration event (including any event that would constitute an acceleration event either with the passage of time or notice, or both), suspension of payments, or insolvency by DHI or DHR;
- (4) consent has been obtained from each financial institution lending money to DHI or DHR with respect to conducting the Merger and the basic borrowing conditions applicable on and after the effective date of the Merger (for each loan agreement, including necessary measures so that no breach of financial covenant clause, breach of covenant clause, or acceleration event attributable to DHI occurs after the Merger), and

such consent has not been withdrawn;

- (5) each of DHI and DHR has reasonably confirmed that the procedures for filing of Form F-4 are not necessary for the Merger under the U.S. Securities Act;
- (6) no petition for the commencement of bankruptcy procedures, civil rehabilitation procedures, or any other similar legal insolvency procedures is filed with respect to DHI or DHR;
- (7) DHI and DHR have not been subject to revocation of registration by a supervisory agency, suspension of all or a part of its business, or other administrative disposition that materially impairs, or has a materially adverse effect on, the implementation of the Merger; and
- (8) in addition to the above, there is no event which is reasonably judged to materially impede the Merger or to make it impracticable.

Article 13 Change of conditions for the Merger and termination of this Agreement

If, during the period from the execution date of this Agreement to the Effective Date, (i) there is any material change in the assets or the business condition of DHI or DHR, (ii) it is reasonably concluded that the implementation of the Merger has become impossible or impracticable, (iii) it becomes difficult to achieve the purpose of the Merger for any other reason, or (iv) it becomes clear that there are grounds to believe that any of the above circumstances may arise, then DHI and DHR may, upon agreement through consultation in good faith, change the conditions of the Merger or any other provisions of this Agreement, or terminate this Agreement.

Article 14 Announcements

In the event DHI or DHR makes a public announcement in relation to the Merger such as the execution of this Agreement, its contents, or otherwise, the party shall make such announcement only with the prior consent of the other party hereto as to the announcement's content, timing, method, etc.

Article 15 Costs and expenses

DHI shall bear costs and expenses incurred by DHI and DHR relating to the execution and performance of this Agreement subject to the Merger taking effect.

Article 16 Governing law

This Agreement shall be governed by and construed in accordance with Japanese law.

Article 17 Jurisdiction

DHI and DHR agree that the Tokyo District Court shall be the court of first instance having exclusive jurisdiction in any dispute related to this Agreement.

Article 18 Good faith consultation

Any necessary matters concerning the Merger as well as those provided for in this Agreement shall be separately determined through mutual consultation by DHI and DHR in accordance with the purpose of this Agreement.

(The remainder of this page has been intentionally left blank.)

This Agreement has been prepared in two originals, to which each of DHI and DHR shall affix its name and seal and retain one original.

April 15, 2016

DHI Daiwa House Residential Investment Corporation
2-4-8, Nagatacho, Chiyoda-ku, Tokyo
Executive Director Jiro Kawanishi

DHR Daiwa House REIT Investment Corporation
2-3-6, Nihonbashi Kayabacho, Chuo-ku, Tokyo
Executive Director Masazumi Kakei

The content of the amendments are as described below.

(The amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendments
<p>Article 1 Corporate Name The name of the investment corporation (the “Investment Corporation”) is <i>Daiwa House Residential Investment Corporation</i> and is expressed as “Daiwa House <u>Residential</u> Investment Corporation” in English.</p>	<p>Article 1 Corporate Name The name of the investment corporation (the “Investment Corporation”) is <i>Daiwa House REIT Investment Corporation</i> and is expressed as “Daiwa House <u>REIT</u> Investment Corporation” in English.</p>
<p>Article 5 Total Number of Investment Units Authorized to be Issued 5.1 The total number of units authorized to be issued by the Investment Corporation is <u>4,000,000</u>. Paragraphs 5.2 and 5.3 (Omitted)</p>	<p>Article 5 Total Number of Investment Units Authorized to be Issued 5.1 The total number of units authorized to be issued by the Investment Corporation is <u>8,000,000</u>. Paragraphs 5.2 and 5.3 (Same as Current Provisions)</p>
<p>Article 16 Record Date 16.1 If the Investment Corporation convenes the general meeting of unitholders pursuant to the provisions of the first sentence of Article 9.3, the unitholders <u>or registered investment unit pledges</u> registered or recorded in the final unitholders register as of the end of August 2015 and thereafter as of the end of August of every second subsequent year shall be the unitholders <u>or registered investment unit pledges</u> entitled to exercise their voting rights at the general meeting of unitholders convened by the Investment Corporation. Paragraph 16.2 (Omitted)</p>	<p>Article 16 Record Date 16.1 If the Investment Corporation convenes the general meeting of unitholders pursuant to the provisions of the first sentence of Article 9.3, the unitholders registered or recorded in the final unitholders register as of the end of August 2015 and thereafter as of the end of August of every second subsequent year shall be the unitholders entitled to exercise their voting rights at the general meeting of unitholders convened by the Investment Corporation. Paragraph 16.2 (Same as Current Provisions)</p>
<p>Article 30 Investment Policy 30.1 The Investment Corporation shall mainly invest in (i) Real Estate (meaning the assets defined in Article 31.2; the same hereinafter) used mainly for residential facilities located in</p>	<p>Article 30 Investment Policy 30.1 The Investment Corporation shall mainly invest in (i) Real Estate (meaning the assets defined in Article 31.2; the same hereinafter) used mainly for <u>logistics facilities</u>, residential</p>

Current Articles of Incorporation	Proposed Amendments
<p><u>the greater Tokyo area and other government-designated cities in Japan and the surrounding areas of those cities and (ii) Real-Estate-Backed Securities (meaning the assets defined in Article 31.3; the same hereinafter) backed by Real Estate used mainly for residential facilities located in such greater Tokyo area and other government-designated cities in Japan and the surrounding areas of those cities.</u></p>	<p><u>facilities, commercial facilities, and hotels located in the three major metropolitan areas (the greater Tokyo area (Tokyo, Kanagawa, Saitama, and Chiba prefectures), the greater Nagoya area (Aichi, Gifu, and Mie prefectures), and the greater Osaka area (Osaka, Kyoto, Hyogo, Nara, and Shiga prefectures)) and the rest of Japan and (ii) Real-Estate-Backed Securities (meaning the assets defined in Article 31.3; the same hereinafter) backed by Real Estate used mainly for <u>logistics facilities, residential facilities, commercial facilities, and hotels</u> located in such <u>three major metropolitan areas and the rest of Japan.</u> <u>The Investment Corporation may invest in other Real Estate and Real-Estate-Backed Securities.</u></u></p>
<p>Paragraphs 30.2 through 30.4 (Omitted)</p>	<p>Paragraphs 30.2 through 30.4 (Same as Current Provisions)</p>
<p>Article 31 Types, Purpose, and Scope of Specified Assets to be Managed</p>	<p>Article 31 Types, Purpose, and Scope of Specified Assets to be Managed</p>
<p>Paragraphs 31.1 through 31.3 (Omitted)</p>	<p>Paragraphs 31.1 through 31.3 (Same as Current Provisions)</p>
<p>31.4 The Investment Corporation may invest in the following specified assets in addition to the Real Estate and Real-Estate-Backed Securities listed in Article 31.2 and Article 31.3:</p>	<p>31.4 The Investment Corporation may invest in the following specified assets in addition to the Real Estate and Real-Estate-Backed Securities listed in Article 31.2 and Article 31.3:</p>
<p>Items (1) through (6) (Omitted) (New Provisions)</p>	<p>Items (1) through (6) (Same as Current Provisions)</p>
	<p>(7) <u>rights to operate public facilities, etc. (meaning those provided for in Article 3(xii) of the Investment Trusts Act Enforcement Order).</u></p>
<p>31.5 The Investment Corporation may invest in the following non specified assets incidental to the</p>	<p>31.5 The Investment Corporation may invest in the following non specified assets incidental to the</p>

Current Articles of Incorporation	Proposed Amendments
<p>investment in Real Estate:</p> <p>Item (1) (Omitted) (New Provisions)</p> <p>(2) (Omitted) (New Provisions)</p> <p>(3) other rights that need to be acquired and that are incidental to the investments in Real Estate and Real-Estate-Backed Securities</p> <p>Paragraph 31.6 (Omitted) (New Provisions)</p> <p>(New Provisions)</p>	<p>investment in Real Estate:</p> <p>Item (1) (Same as Current Provisions)</p> <p>(2) <u>movables (meaning, of the movables provided for in the Civil Code (Act No. 89 of 1896, as amended), facilities, equipment, or other things attached to the real estate for structural reasons or for use);</u></p> <p>(3) (Same as Current Provisions)</p> <p>(4) <u>carbon dioxide equivalent quotas under the Act on Promotion of Global Warming Countermeasures (Act No. 117 of 1998, as amended) or other similar rights, or emission credits (including greenhouse gas emission credits); and</u></p> <p>(5) other rights and assets that need to be acquired and that are incidental to the investments in Real Estate and Real-Estate-Backed Securities</p> <p>Paragraph 31.6 (Same as Current Provisions)</p> <p><u>Section XII Supplementary Provision</u></p> <p><u>Article 41 Effectiveness of Amendments</u></p> <p><u>Any amendment to these Articles of Incorporation will take effect on September 1, 2016, the effective date of the absorption-type merger under the Merger Agreement dated April 15, 2016 between the Investment Corporation as the surviving corporation and the pre-merger Daiwa House REIT Investment Corporation as the absorbed corporation (the “Merger”), subject to the effectiveness of the Merger. This supplementary provision is to be deleted after the effective date of the amendment to these Articles of Incorporation.</u></p>

Current Articles of Incorporation			Proposed Amendments		
Attachment Asset Management Fees Payable to Asset Manager (Omitted)			Attachment Asset Management Fees Payable to Asset Manager (Same as Current Provisions)		
Fee	Calculation method	Timing of payment	Fee	Calculation method	Timing of payment
Asset management fee 1 (asset-based fee)	(Omitted)	(Omitted)	Asset management fee 1 (asset-based fee)	(Same as Current Provisions)	(Same as Current Provisions)
Asset management fee 2 (profit-based fee)	(Omitted)	(Omitted)	Asset management fee 2 (profit-based fee)	(Same as Current Provisions)	(Same as Current Provisions)
Acquisition and sale fees	<p>1. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Backed Securities (excluding those that fall under 2. below): Not to exceed the amount calculated by multiplying the acquisition or sale price of the Real Estate or Real-Estate-Backed Securities by <u>0.8%</u>.³</p> <p>2. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Back</p>	By the end of month following the month in which the Real Estate or Real-Estate-Backed Securities are acquired or sold.	Acquisition and sale fees	<p>1. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Backed Securities (excluding those that fall under 2. below): Not to exceed the amount calculated by multiplying the acquisition or sale price of the Real Estate or Real-Estate-Backed Securities by <u>0.5%</u>.³</p> <p>2. If the Investment Corporation acquires or sells Real Estate or Real-Estate-Back</p>	By the end of month following the month in which the Real Estate or Real-Estate-Backed Securities are acquired or sold.

Current Articles of Incorporation			Proposed Amendments		
	ed Securities from or to an interested party: Not to exceed the amount calculated by multiplying the acquisition or sale price by <u>0.4%</u> . ³			ed Securities from or to an interested party: Not to exceed the amount calculated by multiplying the acquisition or sale price by <u>0.25%</u> . ³	
	3. (Omitted)			3. (Same as Current Provisions)	
Merger fee	(Omitted)	(Omitted)	Merger fee	(Same as Current Provisions)	(Same as Current Provisions)
¹	<p>‘Total asset value’ means the amount calculated in accordance with either (i) or (ii) below with respect to each accounting period²:</p> <p>(i) Total asset value for the First Accounting Period (as defined below)</p> <p>The total asset value recorded on the balance sheet as at the Fiscal Period Closing Date immediately preceding the First Accounting Period (provided that said balance sheet is approved under Article 131(2) of the Investment Trusts Act)</p>		¹	<p>‘Total asset value’ means the amount calculated in accordance with either (i) or (ii) below with respect to each accounting period²:</p> <p>(i) Total asset value for the First Accounting Period (as defined below)</p> <p>The total asset value <u>(minus the amount equivalent to unamortized positive goodwill)</u> recorded on the balance sheet as at the Fiscal Period Closing Date immediately preceding the First Accounting Period (provided that said balance sheet is approved under Article 131(2) of the Investment Trusts Act)</p>	
	(ii)	(Omitted)		(ii)	(Same as Current Provisions)
²		(Omitted)	²		(Same as Current Provisions)
³		(Omitted)	³		(Same as Current Provisions)
⁴		(Omitted)	⁴		(Same as Current Provisions)

Daiwa House REIT Investment Corporation

(September 1, 2015 – February 29, 2016)

- I. Asset Management Report
- II. Balance Sheets
- III. Statements of Income and Retained Earnings
- IV. Statements of Changes in Net Assets
- V. Statements of Cash Flows
- VI. Notes to Financial Statements

I. Asset Management Report

1 Summary of Asset Management

(1) Historical Operating Results

Period		12th period	13th period	14th period	15th period	16th period
		From September 1, 2013 to February 28, 2014	From March 1, 2014 to August 31, 2014	From September 1, 2014 to February 28, 2015	From March 1, 2015 to August 31, 2015	From September 1, 2015 to February 29, 2016
Operating revenues	(Yen in millions)	4,153	4,928	5,146	6,305	6,938
Of which, real estate leasing business revenues	(Yen in millions)	4,153	4,928	5,146	6,305	6,938
Operating expenses	(Yen in millions)	1,832	2,074	2,143	2,621	2,969
Of which, real estate leasing business expenses	(Yen in millions)	1,462	1,669	1,689	2,140	2,383
Operating income	(Yen in millions)	2,321	2,853	3,003	3,683	3,969
Ordinary income	(Yen in millions)	1,960	2,359	2,546	2,972	3,382
Net income	(Yen in millions)	1,959	2,359	2,545	2,971	3,381
Total assets	(Yen in millions)	131,509	163,088	166,825	216,936	222,081
(Period-on-period changes)	(%)	0.1	24.0	2.3	30.0	2.4
Net assets	(Yen in millions)	61,340	80,407	80,593	108,430	108,840
(Period-on-period changes)	(%)	(0.0)	31.1	0.2	34.5	0.4
Unitholders' capital	(Yen in millions)	59,381	78,048	78,048	105,459	105,459
Total number of investment units issued	(Units)	122,540	293,480	293,480	350,700	350,700
Net assets per unit (Note 2)	(Yen)	250,288	273,979	274,614	309,183	310,353
Total distributions	(Yen in millions)	1,959	2,359	2,545	2,971	3,381
Distributions per unit	(Yen)	15,992	8,039	8,674	8,473	9,642
Of which, earnings distributions per unit	(Yen)	15,992	8,039	8,674	8,473	9,642
Of which, distributions in excess of earnings per unit	(Yen)	—	—	—	—	—
Ordinary income to total assets ratio (Note 3)	(%)	1.5	1.6	1.5	1.5	1.5
(Annualized)	(%)	3.0	3.2	3.1	3.1	3.1
Return on equity (Note 3)	(%)	3.2	3.3	3.2	3.1	3.1
(Annualized)	(%)	6.4	6.6	6.4	6.2	6.2
Equity ratio (Note 3)	(%)	46.6	49.3	48.3	50.0	49.0
(Period-on-period changes)	(%)	(0.1)	2.7	(1.0)	1.7	(1.0)
Payout ratio (Note 3)	(%)	100.0	(Note 4) 100.0	100.0	(Note 4) 100.0	100.0
<Reference Information>						
Number of investment properties		26	32	33	40	41
Total leasable area	(m ²)	572,794.19	738,355.09	762,373.09	980,662.56	1,002,859.37
Number of tenants		40	46	47	54	55
Occupancy rate at the end of period	(%)	100.0	100.0	100.0	100.0	100.0
Depreciation during the period	(Yen in millions)	844	1,010	1,044	1,359	1,487
Capital expenditures during the period	(Yen in millions)	6	23	19	3	106
Rental NOI (Net Operating Income) (Note 3)	(Yen in millions)	3,536	4,269	4,501	5,523	6,042
FFO (Funds from Operations) per unit (Note 3)	(Yen)	22,887	11,482	12,233	12,350	13,884
Interest-bearing debt (Note 3)	(Yen in millions)	63,000	74,500	77,500	98,000	102,000
Interest-bearing debt to total assets ratio (Note 3)	(%)	47.9	45.7	46.5	45.2	45.9
Number of operating days	(Days)	181	184	181	184	182

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

2. DHR executed a 2-for-1 investment unit split effective March 1, 2014. Net assets per unit are calculated on the assumption that the split of investment units was executed at the beginning of the 12th period.

3. The indicators shown are calculated based on the following formulae:

Ordinary income to total assets ratio = Ordinary income / ((Total assets at the beginning of period + Total assets at the end of period) / 2) × 100

Return on equity = Net income / ((Net assets at the beginning of period + Net assets at the end of period) / 2) × 100

Equity ratio = Net assets at the end of period / Total assets at the end of period × 100

Payout ratio = Distributions per unit (excluding distributions in excess of earnings) / Net income per unit × 100

Rental NOI = Real estate leasing business revenues – Real estate leasing business expenses + Depreciation during the period

FFO per unit = (Net income + Depreciation +/- Gains (losses) from sales of property, etc.) / Total number of investment units issued

Interest-bearing debt = Borrowings + Investment corporation bonds

Interest-bearing debt to total assets ratio = Interest-bearing debt / Total assets at the end of period × 100

4. Due to the issuance of new investment units, the payout ratio for the 13th period and the 15th period is calculated based on the following formula.

Payout ratio = Total distributions (excluding distributions in excess of earnings) / Net income × 100

(2) Asset Management during the Period

A. Transition of DHR

Daiwa House REIT Investment Corporation (hereinafter referred to as "DHR") was established on September 14, 2007, in accordance with the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the "Investment Trusts Act"), with Daiwa House REIT Management Co., Ltd. (hereinafter referred to as the "Asset Manager") as the organizer, and completed its registration in the Kanto Local Finance Bureau on October 23, 2007 (Director-General of the Kanto Local Finance Bureau No. 66).

DHR issued new investment units through public offering on November 27, 2012. The following day, November 28, 2012, DHR was listed (with the securities code number 3263) on the J-REIT section of the Tokyo Stock Exchange, Inc. (hereinafter referred to as the "Tokyo Stock Exchange").

To achieve its basic investment policy of focusing predominantly on "stability" in the management of its assets, DHR targets investment in logistics and retail properties, investing in "high-performance logistics properties" and "specialty retail complexes." In addition, DHR is planning steady growth in the scale of its assets by acquiring highly competitive assets through collaboration with the Daiwa House Group (see Note 1), which has an extensive logistics and retail properties development track record supported by an extensive land information network and a customer base covering the whole country. Furthermore, DHR has its sights set on maintaining and improving the value of its assets through operations and management that maximize their competitiveness.

In the current fiscal period (ended February 29, 2016), DHR acquired DREAM TOWN ALi, a retail property (acquisition price of ¥7,790 million) using funds raised in loan financing. Consequently, DHR held a total of 41 properties as of February 29, 2016 (total acquisition price of ¥203,763 million) (see Note 2).

(Notes) 1. The Daiwa House Group comprises Daiwa House Industry Co., Ltd. (hereinafter referred to as "Daiwa House"), its 142 consolidated subsidiaries, two non-consolidated subsidiaries, 25 equity-method associates, and two non-equity-method associates, as of March 31, 2016. The same shall apply hereinafter.

2. The "total acquisition price" shown is rounded to the nearest million yen. The same shall apply hereinafter.

B. Investment Environment and Performance

The Japanese economy is showing signs of gradual recovery, with corporate earnings and capital expenditure on the rise thanks to the government's economic policies and the Bank of Japan's monetary policy.

In the real estate market, the increased investor confidence that has come from the relaxing of financial regulation and other policy changes has continued to buoy up land values—around 90% of the 100 intensively-developed major urban districts showed an increase in land value according to the Land Value LOOK Report published by the Ministry of Land, Infrastructure, Transport and Tourism in February 2016.

The Tokyo Stock Exchange ("TSE") REIT Index rose to the highest level in eight years in January 2015, but the J-REIT market has tended to be bearish since then, and investors have been increasingly risk-averse due to concerns about overseas stock markets and public finances, particularly since late June 2015. However, the TSE REIT Index once again began to rise, due in part to the effect of lower government bond yields as a result of the Bank of Japan's newly-implemented negative interest rate policy in January 2016. Moreover, asset acquisitions by J-REIT from January to December 2015 remained strong despite slowing down in the second half, and overall J-REIT asset acquisitions totaled JPY 1.6146 trillion, up 0.8% year on year.

With regard to the logistics properties that DHR targets for investment, there is a significant increase in supply of new logistics properties from the current year onward, but while there are concerns that this may lead to a temporary rise in the vacancy rate, we expect a continuation of the current bottomed-out stage due to healthy demand and a broadening of the development area for the high-performance large logistics properties.

With regard to the business environment surrounding retail properties which are another target of our investment, the retail sales total for calendar year 2015 according to the commercial sales statistics (excluding automobile and fuel sales) has held firm, increasing 1.1% from the previous year, aided by improvement in the Japanese economy's employment and income climate. In the supermarket and convenience store industries, where sales totals have been firm, some companies have been providing new customer services in partnership with mail order retailers and home delivery providers to target elderly households and double-income households, while due to the effects of inbound tourism, businesses targeting foreigners are on an expanding trend.

In this investment environment, DHR drew on its Daiwa House Group pipeline in acquiring the retail property DREAM TOWN ALi (acquisition price of ¥7,790 million) during the current fiscal period (ended February 29, 2016), thereby enabling DHR to expand and diversify its portfolio. As a result, as of February 29, 2016 DHR owned 41 properties (with a total book value of ¥197,336 million at the end of the period) with a total leasable area of 1,002,859.37 m² and an occupancy rate of 99.95% (the figure is rounded down to the nearest 100th).

C. Overview of Financing

In the current fiscal period (ended February 29, 2016), DHR raised funds of ¥5,000 million in long-term loans on September 28, 2015 to partially cover the acquisition costs for trust beneficiary interests in real estate as well as related expenses. In addition, in order to partially cover repayments of existing borrowings, DHR raised funds of ¥19,000 million in long-term loans on November 30, 2015.

Of the amount of long-term loans, DHR arranged fixed rates of interest by entering into interest rate swap agreements with respect to ¥23,000 million of the loans that are subject to floating interest rates. Consequently, as of February 29, 2016, DHR's total interest-bearing debt was ¥102,000 million (total borrowings of ¥100,000 million and total investment corporation bonds of ¥2,000 million), while its ratio of long-term loans (Note 1) and ratio of fixed-rate loans (Note 2) were each 96.1%.

The credit rating DHR has obtained from the external credit rating agency as of February 29, 2016 is as follows:

I. Asset Management Report

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating: AA-	Stable
	Rating on bonds (1st Unsecured Investment Corporation Bonds): AA-	—

(Notes) 1. "Ratio of long-term loans" shown is the ratio of long-term interest-bearing debt to the total amount of interest-bearing debt as of February 29, 2016. Long-term interest-bearing debt for which the time until the date of repayment upon maturity or the date of redemption is less than one year as of February 29, 2016, are also calculated as long-term interest-bearing debt.
 2. "Ratio of fixed-rate loans" shown is the ratio of interest-bearing debt with fixed interest rates to the total amount of interest-bearing debt as of February 29, 2016. For interest-bearing debt of which interest rates are effectively fixed through the use of interest rate swap agreements, the calculation of the ratio of fixed-rate loans is carried out by deeming it as interest-bearing debt with a fixed interest rate.

D. Overview of Financial Results and Distributions

In the current fiscal period (ended February 29, 2016), operating revenues came to ¥6,938 million, operating income came to ¥3,969 million, ordinary income came to ¥3,382 million, and net income came to ¥3,381 million.

As a result of the above-mentioned performance, in accordance with the distribution policy stipulated in Article 46, item 1 of the Articles of Incorporation of DHR, it was decided that the full amount of unappropriated retained earnings would be distributed, except fractions of less than ¥1 of distributions per investment unit. The aim would be to include earnings distributions in tax deductible expenses based on application of special provisions for taxation (Article 67-15 of the Act on Special Measures Concerning Taxation). Consequently, distributions per investment unit came to ¥9,642.

(3) Summary of Capital Increase

During the current period, there were no changes in the total number of investment units issued and unitholders' capital.

DHR's total number of investment units issued and changes in unitholders' capital for the most recent five years until February 29, 2016 are as follows:

Date	Event	Total number of investment units issued (Units)		Unitholders' capital (Yen in millions)		Remarks
		Change	Balance	Change	Balance	
November 27, 2012	Capital increase through public offering	102,800	117,400	49,601	56,901	(Note 1)
December 26, 2012	Capital increase through third-party allotment	5,140	122,540	2,480	59,381	(Note 2)
March 1, 2014	Split of investment units	122,540	245,080	—	59,381	(Note 3)
March 19, 2014	Capital increase through public offering	44,000	289,080	16,970	76,351	(Note 4)
April 14, 2014	Capital increase through third-party allotment	4,400	293,480	1,697	78,048	(Note 5)
March 23, 2015	Capital increase through public offering	52,000	345,480	24,910	102,958	(Note 6)
April 14, 2015	Capital increase through third-party allotment	5,220	350,700	2,500	105,459	(Note 7)

(Notes) 1. New investment units were issued through public offering with an issue value of ¥482,500 per unit in order to raise funds for the acquisition of new properties and repayments of loans payable.
 2. New investment units were issued through third-party allotment with an issue value of ¥482,500 per unit in line with a capital increase through public offering of investment units.
 3. A 2-for-1 split of investment units was implemented with an effective date of March 1, 2014.
 4. New investment units were issued through public offering with an issue value of ¥385,687 per unit in order to raise funds for the acquisition of new properties, etc.
 5. New investment units were issued through third-party allotment with an issue value of ¥385,687 per unit in line with a capital increase through public offering of investment units.
 6. New investment units were issued through public offering with an issue value of ¥479,044 per unit in order to raise funds for the acquisition of new properties, etc.
 7. New investment units were issued through third-party allotment with an issue value of ¥479,044 per unit in line with a capital increase through public offering of investment units.

[Changes in market price of investment securities]

The highest and lowest (closing) prices in the J-REIT section of the Tokyo Stock Exchange, on which DHR's investment securities are listed, by period are as follows:

Period	12th period	13th period	14th period	15th period	16th period
Fiscal period end	February 2014	August 2014	February 2015	August 2015	February 2016
Highest (Yen)	¥876,000 ¥423,500 (Note)	¥473,000	¥622,000	¥569,000	¥505,000
Lowest (Yen)	¥642,000 ¥416,500 (Note)	¥401,000	¥468,000	¥439,000	¥395,000

(Note) In conjunction with a 2-for-1 investment unit split effective March 1, 2014, investment units of DHR since February 26, 2014 have been traded at the unit price following the ex-rights. The upper row shows the highest and lowest prices (closing prices) up until the day before the ex-rights, while the lower row shows the highest and lowest prices (closing prices) after the ex-rights.

(4) Distributions

It was decided that the full amount of unappropriated retained earnings would be distributed, except fractions of less than ¥1 of distributions per investment unit, with the aim of earnings distributions to be included in tax deductible expenses based on application of special provisions for taxation (Article 67-15 of the Act on Special Measures Concerning Taxation). Consequently, distributions per investment unit came to ¥9,642.

Period		12th period	13th period	14th period	15th period	16th period
		From September 1, 2013 to February 28, 2014	From March 1, 2014 to August 31, 2014	From September 1, 2014 to February 28, 2015	From March 1, 2015 to August 31, 2015	From September 1, 2015 to February 29, 2016
Net income	(Yen in thousands)	1,959,680	2,359,313	2,545,604	2,971,619	3,381,646
Unappropriated retained earnings	(Yen in thousands)	1,959,680	2,359,334	2,545,653	2,971,627	3,381,792
Retained earnings	(Yen in thousands)	21	49	8	146	343
Total distributions	(Yen in thousands)	1,959,659	2,359,285	2,545,645	2,971,481	3,381,449
(Distributions per unit)	(Yen)	15,992	8,039	8,674	8,473	9,642
Of the above, total earnings distributions	(Yen in thousands)	1,959,659	2,359,285	2,545,645	2,971,481	3,381,449
(Earnings distributions per unit)	(Yen)	15,992	8,039	8,674	8,473	9,642
Of the above, total capital refunds	(Yen in thousands)	—	—	—	—	—
(Capital refunds per unit)	(Yen)	—	—	—	—	—
Of total capital refunds, total distributions from the allowance for temporary difference adjustment	(Yen in thousands)	—	—	—	—	—
(Of capital refunds per unit, distributions from the allowance for temporary difference adjustment per unit)	(Yen)	—	—	—	—	—
Of total capital refunds, total distributions deemed as distributions from capital refunds for tax purposes	(Yen in thousands)	—	—	—	—	—
(Of capital refunds per unit, distributions deemed as distributions from capital refunds for tax purposes per unit)	(Yen)	—	—	—	—	—

(5) Future Operating Policies and Issues to Be Addressed

We expect Japan's domestic economy to remain on track to recovery stemming in part from positive effects of the government's economic stimulus measures.

In the J-REIT market, the high level of appetite for investment among investment corporations seems likely to persist, underpinned by the prevailing fundraising environment and a trend toward lower returns expected by investors. On the other hand, the investment environment is becoming increasingly severe amid factors that include signs of overheating prices for some investment real estate, while we also envision a scenario of greater diversification of investment targets and substance such as in terms of greater investment in locations other than the three major metropolitan areas of Japan, additional investment in current asset holdings, and funds flowing to redevelopment initiatives.

DHR will focus predominantly on its basic policy of "stability" in the management of its assets and, continuing to target long-term, stable earnings and maximize unitholder value, DHR will work to further expand the scale of its assets while maintaining and enhancing asset value over the medium to long term.

A. External Growth Strategy

DHR aims to achieve consistent external growth, and has accordingly entered into pipeline supporting agreements (hereinafter, the "supporting agreements") separately with Daiwa House, Daiwa Lease Co., Ltd., Fujita Corporation, Daiwa Logistics Co., Ltd., Daiwa Information Service Co., Ltd., and Daiwa Royal Co., Ltd. with its sights set on achieving the objectives set forth in its growth strategy pursued in collaboration with the Daiwa House Group.

Through these agreements, DHR intends to achieve the objectives set forth in its external growth strategy by fully leveraging the development capabilities of its sponsor Daiwa House in supplying community-based properties that draw on the strengths of respective regional economies through the Daiwa House Group's nationwide land information network.

By constructing a mechanism that enables the understanding and sharing of DHR's investment policy with the Daiwa House Group, DHR will seek to enjoy continuous support, including from the development phase, for a supply of properties that fit the needs of tenants and that result in long-term lease agreements to achieve long-term and stable cash flow.

In addition to obtaining information on properties from the Daiwa House Group, DHR intends to proactively collect information from independent information sources available to the Asset Manager and make efforts to acquire quality assets using such information. Further, in connection with the acquisition of properties from parties outside the Daiwa House Group, DHR may seek to utilize warehousing services provided by Daiwa House until DHR's acquisition of properties, as contemplated under the supporting agreements.

I. Asset Management Report

B. Internal Growth Strategy

As DHR's investment policy is to select properties with long-term and stable lease agreements, DHR considers it important to promote internal growth by engaging in cost reduction by streamlining operations in order to enhance profitability of acquired properties.

Furthermore, DHR believes that, under the principle of "industrialization of construction," Daiwa House has realized standardization and efficiency in design and construction. It has constructed economical and well-planned, easily-maintained buildings using solid construction and technical capabilities as well as its abundant experience and know-how with respect to logistics and retail properties throughout Japan.

DHR believes that by receiving consistent support from the Daiwa House Group on a long-term basis, ranging from building and facilities maintenance to short-term repair, long-term repair, renewal construction and redevelopment, DHR can optimize life cycle costs by taking advantage of the Daiwa House Group's know-how, understanding the status of buildings through well-planned and periodic inspections and implementing adequate and timely preventive repairs and improving performance.

DHR will seek to engage in operations and management that take advantage of the Daiwa House Group's know-how through the Daiwa House Group's support with respect to life cycle costs and its property management, and will also take measures to maintain and improve competitiveness and asset values. In such manner, DHR will seek to maintain and improve rent and occupancy rates and reduce costs.

Meanwhile, DHR will persist with its investment in energy conservation and initiatives geared toward environmentally sound solutions that enhance profitability through efforts which include installing LED lighting in our current asset holdings.

C. Financial Strategy

DHR seeks as its basic policy to execute a well-planned and flexible financial strategy with the aim of ensuring sustainable profits on a medium- to long-term basis, contributing to the steady growth and efficient management of its properties and creating management stability.

DHR is also working to improve the stability of its financial base by maintaining and expanding its solid lender formation, while also taking steps geared toward diversifying methods of raising capital through issuance of investment corporation bonds, extending repayment periods on interest-bearing debt, fixing interest rates, and staggering repayment dates.

D. Merger between DHR and Daiwa House Residential Investment Corporation

By applying its traditional investment strategy, DHR has used to work towards achieving sustainable external growth and stable dividends, with the aim of increasing value of investment units through long term stable cash flow and solid growth of the portfolio. However, DHR currently faces its challenges: DHR has relatively limited available strategies for efficiently swapping out investments and achieving internal growth at its positioning in the logistics REIT sector and its current portfolio size.

It was with this in mind that DHR first agreed to begin negotiations with Daiwa House Residential Investment Corporation (hereinafter referred to as "DHI") which deals in residential properties for a merger as one option for addressing these challenges and promoting the future growth of DHR. After careful deliberations, DHR determined that the Merger was the most effective strategy for maximizing unitholder value based on improved distribution through stable cash flow and solid growth of the portfolio. As such, DHR and DHI (with the two together hereinafter referred to as "the Investment Corporations") resolved at meetings of their respective boards of directors held on April 15, 2016, to implement an absorption-type merger with DHI as the surviving corporation and DHR as the absorbed corporation (hereinafter referred to as the "Merger") effective September 1, 2016, and executed a merger agreement (hereinafter referred to as the "Merger Agreement") as of April 15, 2016.

For overview of the Merger, please refer to "1 Summary of Asset Management, (6) Significant Events after Balance Sheet Date, A. Merger between DHR and Daiwa House Residential Investment Corporation" below.

(6) Significant Events after Balance Sheet Date

A. Merger between DHR and Daiwa House Residential Investment Corporation

DHR and DHI resolved at meetings of their respective boards of directors held on April 15, 2016, to implement the merger effective September 1, 2016, and concluded a merger agreement on April 15, 2016.

(a) Purpose of the Merger

The Investment Corporations have to date used their individual strengths to work towards securing stable income over the medium to long term and steadily growing their assets, with the aim of sustainably increasing unitholder value. However, each faces its own challenges: DHI's LTV ratio remains high, and its portfolio specialized in residential properties offers limited opportunities for internal growth, while DHR has relatively limited available strategies for efficiently swapping out investments and achieving internal growth at its positioning in the logistics REIT sector and its current portfolio size. It was with this in mind that the Investment Corporations first agreed to begin negotiations for a merger as one option for addressing these challenges and promoting the future growth of both companies. After careful deliberations, the Investment Corporations determined that the Merger was the most effective strategy for maximizing unitholder value based on improved distribution through stable cash flow and solid growth of the portfolio. As such, the Investment Corporations have executed the Merger Agreement on April 15, 2016.

The Investment Corporations expect the following to result from the Merger: (i) enhanced external growth potential and further internal growth opportunities through the shift to a diversified REIT, (ii) improvement of the position in the J-REIT market and asset-management flexibility through scale enhancement, and (iii) acceleration of growth leveraging the value chain of the Daiwa House Group's integrated capabilities, among other positive effects.

The Daiwa House Group, the sponsor, has set its management vision of “Endless Heart” and “co-create value for individuals, communities and people’s lifestyles,” and has committed itself to “contributing to society” through business development in diversified categories to meet social needs and through aggressive innovation and the development of new categories. The Daiwa House Group has realized the “creation of shareholders’ value” that generates greater economic value than the capital cost, steadily over the medium-to-long-term. The Investment Corporations will follow this Daiwa House Group’s philosophy.

The surviving corporation after the Merger will shift to a diversified REIT that invests in new types of properties, such as hotels, office buildings, and so on, in addition to those that the Investment Corporations have dealt in to date. Its policy will be to leverage the Daiwa House Group’s integrated capabilities to enhance its growth potential, improve the profitability and quality of its portfolio, and achieve sustainable external growth and stable dividends.

Note that, along with the Merger, an absorption-type merger will be implemented effective as of September 1, 2016 with Daiwa House Asset Management Co., Ltd., the asset manager of DHI, as the surviving company and the Asset Manager as the absorbed company, subject to the Merger taking effect, in order for the assets held by the surviving corporation after the Merger to be managed efficiently.

(b) Method of the Merger

The Merger will be an absorption-type merger wherein DHI will be the surviving corporation and DHR will be dissolved.

(c) Merger Ratio

For the Merger, 2.2 units of DHI per unit of DHR will be allotted to the unitholders of DHR. Since this will generate fractions less than one unit for the number of investment units to be issued, those fractional units less than one unit will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who hold fractions in proportion to the size of their holdings.

(d) Cash Payment upon the Merger

In lieu of cash distributions to the unitholders of DHR for DHR’s fiscal period ending on the day immediately preceding the effective date of the Merger, DHI plans to make a payment upon the merger that will be equivalent to the cash distributions of DHR for that fiscal period (a merger payment equal to the distributable profit amount of DHR as of the day immediately preceding the effective date of the Merger divided by the number of investment units after deducting the number of investment units held by unitholders other than the Allotted Unitholders (defined below) of DHR from the total number of outstanding investment units of DHR as of the day immediately preceding the effective date of the Merger), to its unitholders (excluding unitholders who have requested the purchase of their investment units in accordance with Article 149-3 of the Investment Trusts Act) (hereinafter referred to as the “Allotted Unitholders”) entered in or recorded on the final unitholders register of DHR as of the day immediately preceding the effective date of the Merger, within a reasonable period after the effective date of the Merger.

B. Matters to be Submitted to the 12th Unitholders’ Meeting

At the 12th Unitholders’ Meeting scheduled for May 27, 2016, DHR intends to submit proposals for the approval of the Merger Agreement; the termination of the asset management agreement with the Asset Manager; the election of Directors (one Executive Director, one Substitute Executive Director, two Supervisory Directors and one Substitute Supervisory Director) as well as for the partial amendment of the Articles of Incorporation.

I. Asset Management Report

C. Acquisition of Assets

DHR has concluded the purchase agreements regarding the acquisition of the following assets on April 15, 2016. The surviving corporation after the Merger is then expected to acquire the respective assets subject to the effectuation of the Merger, etc.

Property name	Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)
Planned acquisition price (Note 1)	¥7,600,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd. DO Shin-Toshin Development Tokutei Mokuteki Kaisha
Asset type	Trust beneficiary interest in real estate (Note 4)
Location (Address)	1-1-12, Omoromachi, Naha-shi, Okinawa
Planned acquisition date (Note 3)	September 28, 2016

Property name	D Project Hibiki Nada
Planned acquisition price (Note 1)	¥2,080,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate (Note 4)
Location	3-1-5, Hibiki-machi, Wakamatsu-ku, Kitakyushu-shi, Fukuoka
Planned acquisition date (Note 3)	September 28, 2016

Property name	D Project Morioka II
Planned acquisition price (Note 1)	¥1,280,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate (Note 4)
Location (Address)	3-15, Ogama-kazabayashi, Takizawa-shi, Iwate
Planned acquisition date (Note 3)	September 28, 2016

Property name	Sports Depo, GOLF5 Kokurahigashi IC Store
Planned acquisition price (Note 1)	¥2,230,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate
Location (Address)	2-18-17, Kamikuzuhara, Kokuraminami-ku, Kitakyushu-shi, Fukuoka
Planned acquisition date (Note 3)	September 28, 2016

(Notes) 1. Acquisition price does not include acquisition expenses which were incurred in connection with the acquisition, settlement money such as taxes and duties, and consumption taxes.

2. As Daiwa House Industry Co., Ltd. is an interested party, etc. as defined in the Investment Trusts Act, the Asset Manager has gone through the necessary discussion and resolution procedures in accordance with its internal rules to avoid transactions with conflicts of interest.

DO Shin-Toshin Development Tokutei Mokuteki Kaisha, the seller of Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi), is not an interested party, etc. under the Investment Trusts Act. The said Tokutei Mokuteki Kaisha, however, is a special purpose company set up with the aim of acquiring, holding and disposing of specified assets partially invested in by Daiwa House Industry Co., Ltd., which is the parent company of the Asset Manager, and is classified as an interested party as stipulated in the Asset Manager's internal rules to avoid transactions with conflicts of interest. As such, the Asset Manager has gone through the necessary discussion and resolution procedures.

3. The purchase agreement for acquisition of each above property is deemed a forward commitment, etc. (a forward-dated purchase agreement in which settlement and transfer of the property are carried out at least one month after the agreement is concluded, as well as certain other similar agreements).

Under the purchase agreement, if a party breaches the respective purchase agreement, then the non-breaching party may cancel the purchase agreement upon notice to the breaching party, but only if the non-breaching party is no longer able to fulfill the purpose of the respective purchase agreement due to the other party's breach. In the event the purchase agreement is cancelled, the non-breaching party may demand the breaching party to pay a penalty in the amount equal to approximately 20% of the respective purchase price (amount equal to approximately 10% for the sales contract with DO Shin-Toshin Development Tokutei Mokuteki Kaisha concerning the acquisition of Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi); as such penalty is expected to constitute damage payment, the non-breaching party may not claim for damages in the amount exceeding such penalty amount).

The payment of the respective purchase price by the surviving corporation after the Merger, however, is subject to the surviving corporation after the Merger completing the financing necessary to pay the respective purchase price. Hence, if the surviving corporation after the Merger is unable to complete the financing necessary to pay the purchase price, the respective purchase agreement will expire without the surviving corporation after the Merger assuming any obligations under the purchase agreement, including payment of any penalty or compensation such as payment of damages. Thus, if the surviving corporation after the Merger cannot fulfill the forward commitment, etc. due to failing to complete the financing, it is unlikely that such non-fulfillment will have any material impact on the financial situation of the surviving corporation after the Merger.

4. As of April 15, 2016, the asset to be acquired stands as physical real estate. By the time of planned acquisition date, however, the asset is expected to be transferred to the trustee by the current owner and the surviving corporation after the Merger is expected to acquire the beneficiary interest in the respective real estate.

2 Overview of the Investment Corporation

(1) Status of Investment Units

Period	12th period February 28, 2014	13th period August 31, 2014	14th period February 28, 2015	15th period August 31, 2015	16th period February 29, 2016
Total number of investment units authorized (Units)	2,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Total number of investment units issued (Units)	122,540	293,480 (Note)	293,480	350,700	350,700
Number of unitholders	4,127	6,105	5,482	7,411	7,440

(Note) DHR executed a 2-for-1 investment unit split effective March 1, 2014.

(2) Matters concerning Investment Units

The top ten unitholders in terms of the percentage of investment units held as of February 29, 2016 are as follows:

Name	Number of investment units held (Units)	Percentage of units held to the total number of investment units issued (%)
Japan Trustee Services Bank, Ltd. (Trust account)	111,317	31.74
Daiwa House Industry Co., Ltd.	42,800	12.20
The Master Trust Bank of Japan, Ltd. (Trust account)	27,792	7.92
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	24,315	6.93
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	12,651	3.61
The Fuji Fire and Marine Insurance Co., Ltd.	5,594	1.60
The Hachijuni Bank, Ltd.	4,606	1.31
State Street Bank - West Pension Fund Clients - Exempt 505233	3,455	0.99
The Yamanashi Chuo Bank, Ltd.	3,203	0.91
Trust & Custody Services Bank, Ltd. (Money trust tax account)	2,806	0.80
Total	238,539	68.02

(3) Officers

The following table provides information about the Executive Director, Supervisory Directors and Accounting Auditor during the 16th period.

Title and post	Name	Major concurrent position	Total compensation per title during the 16th period (Yen in thousands)
Executive Director (Note 1)	Masazumi Kakei	—	2,400
Supervisory Directors (Note 1)	Shuichi Sasaki	Representative Lawyer Sasaki Sōgō Law Office	1,800
	Tatsuro Sasaki (Note 3)	Attorney Sasaki Sōgō Law Office	1,200
	Satoshi Kikuchi (Note 3)	Certified Public Accountant Satoshi Kikuchi Certified Public Accountant Office	600
Accounting Auditor (Note 2)	KPMG AZSA LLC	—	12,600

(Notes) 1. The Executive Director and Supervisory Directors do not hold investment units of DHR under their own or another person's name. Any Supervisory Director may serve as an executive of a corporation other than those listed above, but such corporations including those listed above do not have any interest in DHR.

2. Dismissal or non-reappointment of Accounting Auditor shall be discussed at DHR's board of directors pursuant to the provisions of the Investment Trusts Act for dismissal, and taking into full account all relevant factors for non-reappointment.

3. Satoshi Kikuchi retired as Supervisory Director on October 31, 2015, and Tatsuro Sasaki, who was substitute Supervisory Director, was appointed as Supervisory Director on November 1, 2015.

(4) Asset Manager, Custodian and General Administrators

Business	Name
Asset Manager	Daiwa House REIT Management Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General Administrator (Transfer agent)	Sumitomo Mitsui Trust Bank, Limited
General Administrator (Administrative work for organizational operation)	Sumitomo Mitsui Trust Bank, Limited
General Administrator (Accounting administration)	Sumitomo Mitsui Trust Bank, Limited
General Administrator (Administrative work related to investment corporation bonds)	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

I. Asset Management Report

3 Portfolio of the Investment Corporation

(1) Composition of Assets

Type of assets	Property type	Area	15th period August 31, 2015		16th period February 29, 2016		
			Total amount held (Yen in millions) (Note 2)	Percentage to total assets (%)	Total amount held (Yen in millions) (Note 2)	Percentage to total assets (%)	
Real estate in trust	Logistics properties	Three major metropolitan areas of Japan (Note 1)	Greater Tokyo area	118,743	54.7	117,904	53.1
			Greater Nagoya area	10,584	4.9	10,517	4.7
			Greater Osaka area	14,119	6.5	14,001	6.3
		Other	15,943	7.3	15,799	7.1	
		Subtotal	159,390	73.5	158,222	71.2	
	Retail properties	Three major metropolitan areas of Japan (Note 1)	Greater Tokyo area	16,423	7.6	16,295	7.3
			Greater Nagoya area	1,968	0.9	1,968	0.9
			Greater Osaka area	4,558	2.1	4,561	2.1
			Other	8,545	3.9	16,288	7.3
		Subtotal	31,495	14.5	39,113	17.6	
	Total			190,886	88.0	197,336	88.9
	Deposits and other assets (Note 3)			26,050	12.0	24,745	11.1
	Total assets (Note 4)			216,936 (190,886)	100.0 (88.0)	222,081 (197,336)	100.0 (88.9)

- (Notes) 1. Three major metropolitan areas of Japan are the Greater Tokyo area, the Greater Nagoya area and the Greater Osaka area. The Greater Tokyo area consists of Tokyo, Kanagawa Prefecture, Saitama Prefecture and Chiba Prefecture; the Greater Nagoya area consists of Aichi Prefecture, Gifu Prefecture and Mie Prefecture; and the Greater Osaka area consists of Osaka Prefecture, Kyoto Prefecture, Hyogo Prefecture, Nara Prefecture, and Shiga Prefecture. The same shall apply hereinafter.
2. The total amount held represents the amount recorded on the balance sheets as of the end of the respective period (for real estate in trust, book value less depreciation expenses).
3. Figures for deposits and other assets include the amount of construction in progress in trust.
4. Figures in brackets in the total assets represent the portion corresponding to substantive holding of real estate, etc., in total assets.

(2) Principal Assets Held

The overview of principal assets held by DHR as of February 29, 2016 (top ten properties in terms of book value at the end of the period) is as follows:

Property name	Book value (Yen in millions)	Leasable area (m ²) (Note 1)	Leased area (m ²) (Note 2)	Occupancy rate (%)	Rate to total real estate leasing business revenues (%)	Primary Use
D Project Urayasu II	20,805	72,320.01	72,320.01	100.0	— (Note 3)	Logistics property
D Project Hachioji	11,986	62,394.17	62,394.17	100.0	— (Note 3)	Logistics property
D Project Nishiyodogawa	9,569	39,584.80	39,584.80	100.0	— (Note 3)	Logistics property
D Project Kuki V	7,970	47,320.89	47,320.89	100.0	— (Note 3)	Logistics property
DREAM TOWN ALI	7,783	22,196.81	21,911.46	98.7	4.8	Retail Property
D Project Urayasu I	7,458	36,515.81	36,515.81	100.0	— (Note 3)	Logistics property
D Project Machida	7,331	50,490.39	50,490.39	100.0	— (Note 3)	Logistics property
D Project Kuki III	7,277	26,937.41	26,937.41	100.0	— (Note 3)	Logistics property
D Project Kuki II	7,001	50,490.00	50,490.00	100.0	— (Note 3)	Logistics property
D Project Matsudo	6,972	26,776.67	26,776.67	100.0	— (Note 3)	Logistics property
Total	94,157	435,026.96	434,741.61	99.9	44.5	

- (Notes) 1. Leasable area means the area of the building in relation to each property in trust which DHR believes is leasable as indicated in the relevant lease agreement or drawing of the building.
2. Leased areas as indicated in each lease agreement in relation to each property in trust as of February 29, 2016, are added up and shown. However, the leased areas as indicated in each sublease agreement for properties in trust as of February 29, 2016 that are subject to a pass-through type master lease agreement, under which rent is in principle the same amount as the rent received by the master lessee from end-tenants, are added up and shown. In some properties, leased area is larger than gross floor area due to differences in measurement of floor area in real property registration and lease agreements. Gross floor area is based on the real property registration, while leased area is based on each lease agreement. In particular at logistics properties, when eaves are included in the leased area, the leased area may significantly exceed the gross floor area.
3. These rates to total real estate leasing business revenues are not disclosed as consent for disclosure has not been obtained from lessees.

(3) Description of Portfolio

The overview of portfolio assets held by DHR as of February 29, 2016 is as follows:

	Property name	Location (Note 1)	Form of ownership	Leasable area (m ²)	Book value (Yen in millions)	Assessed value at the end of period (Yen in millions) (Note 2)
Logistics properties	D Project Machida	1-6, Oyamagaoka 2-chome, Machida-shi, Tokyo	Trust beneficiary interests in real estate	50,490.39	7,331	9,200
	D Project Hachioji	21-1, Minami-Osawa 3-chome, Hachioji-shi, Tokyo	Trust beneficiary interests in real estate	62,394.17	11,986	15,400
	D Project Aikawa-Machi	4020-12, Aza Sakuradai, Nakatsu, Aikawa-machi, Aiko-gun, Kanagawa	Trust beneficiary interests in real estate	14,240.84	2,515	3,320
	D Project Shin-Misato	Lala City, Shin-Misato, Misato-shi, Saitama (Note 3)	Trust beneficiary interests in real estate	11,289.91	4,293	5,720
	D Project Urayasu I	12-1, Chidori, Urayasu-shi, Chiba	Trust beneficiary interests in real estate	36,515.81	7,458	9,080
	D Project Urayasu II	11-5, Chidori, Urayasu-shi, Chiba	Trust beneficiary interests in real estate	72,320.01	20,805	25,400
	D Project Akanehama	2-8, Akanehama 3-chome, Narashino-shi, Chiba	Trust beneficiary interests in real estate	11,663.39	2,478	2,890
	D Project Noda	1-1, Aza Tamei, Futatsuka, Noda-shi, Chiba	Trust beneficiary interests in real estate	29,232.53	4,840	6,200
	D Project Inuyama	5-5, Takanebora, Inuyama-shi, Aichi	Trust beneficiary interests in real estate	43,723.70	6,324	8,520
	D Project Gifu	449-9, Nanba Azamura-higashi, Wanouchi-cho, Anpachi-gun, Gifu	Trust beneficiary interests in real estate	7,669.91	846	1,100
	D Project Neyagawa	24-12, Shimeno 2-chome, Neyagawa-shi, Osaka	Trust beneficiary interests in real estate	11,151.51	4,431	5,830
	D Project Sapporo Minami	7-1, Wattsu Chuo 5-chome, Kitahiroshima-shi, Hokkaido	Trust beneficiary interests in real estate	6,749.10	561	818
	D Project Morioka	3-18, Kazabayashi, Ogama, Takizawa-shi, Iwate	Trust beneficiary interests in real estate	9,558.32	936	1,200
	D Project Sendai Minami	2-39, Kuko-Minami 3-chome, Iwanuma-shi, Miyagi	Trust beneficiary interests in real estate	11,052.27	1,161	1,520
	D Project Tsuchiura	20-29, Aza Harayama, Hongo, Tsuchiura-shi, Ibaraki	Trust beneficiary interests in real estate	17,448.86	2,711	3,390
	D Project Gotenba	2271-10, Aza Odori, Jinba, Gotenba-shi, Shizuoka	Trust beneficiary interests in real estate	6,737.53	912	1,140
	D Project Nishi-Hiroshima	3-11, Tomo-Minami 2-chome, Asaminami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interests in real estate	5,093.51	955	1,210
	D Project Fukuoka Umi	384-15, Aza Noguchi, Oaza Ino, Umi-machi, Kasuya-gun, Fukuoka	Trust beneficiary interests in real estate	24,729.56	2,941	4,150
	D Project Tosu	1623-2, Aza Hasuhara, Himekata-machi, Tosu-shi, Saga	Trust beneficiary interests in real estate	8,826.00	1,983	2,730
	D Project Kuki I	6004-2, Aza Taikoda, Shobu-cho Shobu, Kuki-shi, Saitama	Trust beneficiary interests in real estate	22,708.72	3,439	3,910
	D Project Kuki II	6201-1, Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	50,490.00	7,001	8,100
	D Project Kawagoe I	2-3, Yoshinodai 3-chome, Kawagoe-shi, Saitama	Trust beneficiary interests in real estate	16,150.88	3,054	3,480
	D Project Kawagoe II	2-4, Yoshinodai 3-chome, Kawagoe-shi, Saitama	Trust beneficiary interests in real estate	19,872.00	4,176	4,730
	DPL Inuyama	1-8, Aza Nakahiratsuka, Oaza Haguroshinden, Inuyama-shi, Aichi, etc.	Trust beneficiary interests in real estate	21,628.50	3,347	3,850
	D Project Fukuoka Hakozaiki	2-1, Hakozaikifuto 5-chome, Higashi-ku, Fukuoka-shi, Fukuoka	Trust beneficiary interests in real estate	34,710.80	3,636	4,250
	D Project Kuki III	6004-1, Aza Taikoda, Shobu-cho Shobu, Kuki-shi, Saitama	Trust beneficiary interests in real estate	26,937.41	7,277	7,640
	D Project Kuki IV	6201-5, Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	26,460.00	5,262	5,490
	D Project Kuki V	6201-6, Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	47,320.89	7,970	8,280
	D Project Kuki VI	48-3, Kiyoku-cho, Kuki-shi, Saitama	Trust beneficiary interests in real estate	29,244.66	4,935	5,130
	D Project Yashio	50-1, Oaza Shin-machi, Yashio-shi, Saitama	Trust beneficiary interests in real estate	21,965.04	6,103	6,400
D Project Nishiyodogawa	7-48, Nakashima 2-chome, Nishiyodogawa-ku, Osaka-shi, Osaka	Trust beneficiary interests in real estate	39,584.80	9,569	10,300	
D Project Matsudo	700-3, Aza Nishinooda, Kamihongo, Matsudo-shi, Chiba	Trust beneficiary interests in real estate	26,776.67	6,972	7,370	
	Subtotal			824,737.69	158,222	187,748
Retail properties	ACROSSMALL Shinkamagaya	12-1, Shin-Kamagaya 2-chome, Kamagaya-shi, Chiba	Trust beneficiary interests in real estate	41,742.84	6,496	7,640
	FOLEO Hirakata	20-10, Koyamichi 1-chome, Hirakata-shi, Osaka	Trust beneficiary interests in real estate	16,380.78	4,561	4,580
	QiZ GATE URAWA	3720, Oaza Nakao, Midori-ku, Saitama-shi, Saitama	Trust beneficiary interests in real estate	9,705.31	4,760	4,740
	UNICUS Takasaki	1150-5, Aza Nishikanai, Iizukamachi, Takasaki-shi, Gunma	Trust beneficiary interests in real estate	9,277.08	2,582	2,950

I. Asset Management Report

Property name	Location (Note 1)	Form of ownership	Leasable area (m ²)	Book value (Yen in millions)	Assessed value at the end of period (Yen in millions) (Note 2)	
Retail properties	ACROSSPLAZA Miyoshi (land)	855-403, Aza Kitashinno, Oaza Fujikubo, Miyoshi-machi, Iruma-gun, Saitama	Trust beneficiary interests in real estate	24,018.00	3,413	3,710
	DREAM TOWN ALI	1-1, Hamada 3-chome, Aomori-shi, Aomori	Trust beneficiary interests in real estate	22,196.81	7,783	8,100
	LIFE Sagamihara Wakamatsu	19-5, Wakamatsu 5-chome, Minami-ku, Sagamihara-shi, Kanagawa	Trust beneficiary interests in real estate	2,973.44	1,625	1,640
	FOLEO Sendai Miyanomori	14-5, Higashi-Sendai 4-chome, Miyagino-ku, Sendai-shi, Miyagi	Trust beneficiary interests in real estate	19,845.72	5,922	6,840
	ACROSSPLAZA Inazawa (land)	1-1, Otsuka Minami 5-chome, Inazawa-shi, Aichi	Trust beneficiary interests in real estate	31,981.70	1,968	2,380
Subtotal			178,121.68	39,113	42,580	
Total			1,002,859.37	197,336	230,328	

(Notes) 1. Location means displayed address. If a property does not have a displayed address, the address of the building in the register (when there is more than one address, any of them) is shown. For land properties, the address of the land in the register is shown as location.

2. Assessed value at the end of period represents the appraisal value or survey value provided by the Tanizawa Sōgō Appraisal Co., Ltd. and Japan Real Estate Institute, with the date of appraisal value as of February 29, 2016, in accordance with the method and criteria of asset valuation set forth in the Articles of Incorporation of DHR and the rules stipulated by the Investment Trusts Association, Japan.

3. Information is not disclosed as consent for disclosure has not been obtained from lessees.

The status of rental business related to properties held by DHR is as follows:

Property name	15th period (From March 1, 2015 to August 31, 2015)				16th period (From September 1, 2015 to February 29, 2016)				
	Total number of tenants (as of the end of period) (Note 1)	Occupancy rate (as of the end of period) (%)	Real estate leasing business revenues (during the period) (Yen in millions)	Rate to total real estate leasing business revenues (%)	Total number of tenants (as of the end of period) (Note 1)	Occupancy rate (as of the end of period) (%)	Real estate leasing business revenues (during the period) (Yen in millions)	Rate to total real estate leasing business revenues (%)	
Logistics properties	D Project Machida	1 [1]	100.0	— (Note 2)	— (Note 2)	1 [1]	100.0	— (Note 2)	— (Note 2)
	D Project Hachioji	2	100.0	— (Note 2)	— (Note 2)	2	100.0	— (Note 2)	— (Note 2)
	D Project Aikawa-Machi	1 [1]	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Shin-Misato	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Urayasu I	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Urayasu II	1 [1]	100.0	— (Note 2)	— (Note 2)	1 [1]	100.0	— (Note 2)	— (Note 2)
	D Project Akanehama	1 [1]	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Noda	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Inuyama	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Gifu	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Neyagawa	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Sapporo Minami	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Morioka	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Sendai Minami	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Tsuchiura	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Gotenba	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Nishi-Hiroshima	2	100.0	— (Note 2)	— (Note 2)	2	100.0	— (Note 2)	— (Note 2)
	D Project Fukuoka Umi	4	100.0	121	1.9	4	100.0	122	1.8
	D Project Tosu	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Kuki I	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Kuki II	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Kawagoe I	1	100.0	102	1.6	1	100.0	102	1.5
	D Project Kawagoe II	1	100.0	138	2.2	1	100.0	138	2.0
DPL Inuyama	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)	
D Project Fukuoka Hakozaki	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)	
D Project Kuki III	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)	

Property name	15th period (From March 1, 2015 to August 31, 2015)				16th period (From September 1, 2015 to February 29, 2016)				
	Total number of tenants (as of the end of period) (Note 1)	Occupancy rate (as of the end of period) (%)	Real estate leasing business revenues (during the period) (Yen in millions)	Rate to total real estate leasing business revenues (%)	Total number of tenants (as of the end of period) (Note 1)	Occupancy rate (as of the end of period) (%)	Real estate leasing business revenues (during the period) (Yen in millions)	Rate to total real estate leasing business revenues (%)	
Logistics properties	D Project Kuki IV	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Kuki V	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Kuki VI	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Yashio	2	100.0	— (Note 2)	— (Note 2)	2	100.0	— (Note 2)	— (Note 2)
	D Project Nishiyodogawa	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	D Project Matsudo	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	Subtotal	38	100.0	5,021	79.6	38	100.0	5,328	76.8
Retail properties	ACROSSMALL Shinkamagaya	1	100.0	275	4.4	1	100.0	275	4.0
	FOLEO Hirakata	1 [23]	99.6	188	3.0	1 [25]	100.0	190	2.7
	QIZ GATE URAWA	9	98.1	237	3.8	9	98.1	227	3.3
	UNICUS Takasaki	1	100.0	129	2.1	1	100.0	129	1.9
	ACROSSPLAZA Miyoshi (land)	1	100.0	94	1.5	1	100.0	94	1.4
	DREAM TOWN ALI	—	—	—	—	1 [34]	98.7	334	4.8
	LIFE Sagamihara Wakamatsu	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	FOLEO Sendai Miyanomori	1	100.0	238	3.8	1	100.0	238	3.4
	ACROSSPLAZA Inazawa (land)	1	100.0	69	1.1	1	100.0	69	1.0
	Subtotal	16	99.8	1,283	20.4	17	99.7	1,610	23.2
	Total	54	100.0	6,305	100.0	55	100.0	6,938	100.0

(Notes) 1. Total number of tenants is equal to the number of tenants per property based upon each lease agreement in relation to each property in trust as of the end of the respective period. However, the number of end-tenants is indicated in brackets after the number of master lessees in the case of a property subject to a pass-through type master lease agreement, under which rent is in principle the same amount as the rent received by the master lessee from end-tenants. Meanwhile, only the master lessee is indicated as a tenant with respect to a property subject to a sublease type master lease agreement, under which a certain amount of rent is received regardless of fluctuations in the sublease occupancy rate.

2. Real estate leasing business revenues and rate to total real estate leasing business revenues are not disclosed as approval for disclosure has not been obtained from lessees.

(4) Description of Renewable Energy Power Generation Facilities, etc.

Not applicable.

(5) Description of Operating Rights of Public Facilities, etc.

Not applicable.

(6) Status of Other Assets

Trust beneficiary interests in real estate held by DHR are all listed in “(3) Description of Portfolio.” The following are other specified assets as of February 29, 2016.

Securities other than shares and investment securities

(Yen in thousands)

Type	Issue name	Total face value	Book value	Accrued interest	Prepaid accrued interest	Fair value	Valuation gain or loss	Remarks
Government bonds	30-year principal-stripped government bonds (Series 27)	10,000	6,535	—	—	8,583	2,047	Deposited as business security deposit
	Total	10,000	6,535	—	—	8,583	2,047	

(7) Holding of Assets by Country and Region

Not applicable.

I. Asset Management Report

4 | Capital Expenditures for Properties Held

(1) Schedule of Capital Expenditures

The following table shows major scheduled capital expenditures for planned renovation work, etc., for real estate in trust held as of February 29, 2016. The estimated construction cost includes the portion charged to expenses.

Property name (Location)	Purpose	Scheduled period	Estimated construction cost (Yen in millions)		
			Total amount	Payment for the period	Total amount paid
D Project Fukuoka Umi (Kasuya, Fukuoka)	Installment of LED lights and other	From March 2016 to May 2016	11	—	—
D Project Kawagoe II (Kawagoe, Saitama)	Installment of LED lights	From May 2016 to July 2016	26	—	—
D Project Kuki IV (Kuki, Saitama)	Installment of LED lights	From May 2016 to June 2016	43	—	—
LIFE Sagamihara Wakamatsu (Sagamihara, Kanagawa)	Painting of exterior walls	From March 2016 to May 2016	24	—	—

(2) Capital Expenditures during the Period

For real estate in trust held, an overview of major construction work conducted by DHR during the fiscal period under review that falls into capital expenditure is as follows:

Property name (Location)	Purpose	Period	Construction cost (Yen in millions)
D Project Akanehama (Narashino, Chiba)	Installment of LED lights	From November 2015 to November 2015	12
D Project Gotenba (Gotenba, Shizuoka)	Repair work of exterior walls	From August 2015 to September 2015	10
DPL Inuyama (Inuyama, Aichi)	Installment of LED lights	From February 2016 to February 2016	21
FOLEO Hirakata (Hirakata, Osaka)	Installment of LED lights	From November 2015 to November 2015	39

(3) Cash Reserves for Long-Term Repairs and Maintenance Plans

Based on long-term repair and maintenance plans compiled for each property, DHR sets aside the following cash reserves from cash flows during the fiscal period in order to provide for payment of funds for large repair and maintenance, etc., over the medium to long term.

(Yen in millions)

Operating period	12th period From September 1, 2013 to February 28, 2014	13th period From March 1, 2014 to August 31, 2014	14th period From September 1, 2014 to February 28, 2015	15th period From March 1, 2015 to August 31, 2015	16th period From September 1, 2015 to February 29, 2016
Balance of reserves at beginning of period	180	239	300	362	430
Amount of reserves during period	58	60	62	67	77
Amount of reversal of reserves during period	—	—	—	—	—
Reserves carried forward	239	300	362	430	507

(1) Expenses Incurred in Connection with Management of Assets

(Yen in thousands)

Item	15th period From March 1, 2015 to August 31, 2015	16th period From September 1, 2015 to February 29, 2016
(a) Asset management fee (Note 1)	376,147	465,452
(b) Asset custody fee	14,463	19,036
(c) Administrative service fee	16,177	18,176
(d) Directors' compensation	6,000	6,000
(e) Accounting Auditor's compensation (Note 2)	13,000	12,600
(f) Other expenses	54,694	64,598
Total	480,484	585,863

(Notes) 1. In addition to the amount shown above for asset management fee, there was a management fee for property acquisition included in the cost of acquisition of individual investment properties, etc. (15th period: ¥121,050 thousand, 16th period: ¥19,475 thousand).

2. In addition to the amount shown above for Accounting Auditor's compensation, in the 15th period there were fees of ¥12,000 thousand for the creation of comfort letters for the issuance of new investment units in March 2015.

(2) Debt Financing

The status of borrowings per financial institution as of February 29, 2016 is as follows:

Classification	Lender	Borrowing date	Balance at the beginning of period (Yen in millions)	Balance at the end of period (Yen in millions)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
Short-term borrowings	Sumitomo Mitsui Banking Corporation	June 1, 2015	1,000	1,000	0.33 Floating-rate	June 1, 2016	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Subtotal		4,000	4,000					
Current portion of long-term borrowings	Sumitomo Mitsui Banking Corporation	November 29, 2012	4,250	—	0.73 Fixed-rate	November 30, 2015	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		4,250	—					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		4,250	—					
	Mizuho Bank, Ltd.		4,250	—					
	Mitsubishi UFJ Trust and Banking Corporation		2,000	—					
	Resona Bank, Limited		1,000	—					
	Sumitomo Mitsui Banking Corporation	November 29, 2012	—	3,000	0.83 Fixed-rate	November 29, 2016	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	3,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	3,000					
	Mizuho Bank, Ltd.		—	3,000					
	Mitsubishi UFJ Trust and Banking Corporation		—	2,000					
	Resona Bank, Limited		—	1,000					
	Subtotal		20,000	15,000					

I. Asset Management Report

	Classification	Borrowing date	Balance at the beginning of period (Yen in millions)	Balance at the end of period (Yen in millions)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term borrowings	Sumitomo Mitsui Banking Corporation	November 29, 2012	3,000	—	0.83 Fixed-rate	November 29, 2016	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		3,000	—					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		3,000	—					
	Mizuho Bank, Ltd.		3,000	—					
	Mitsubishi UFJ Trust and Banking Corporation		2,000	—					
	Resona Bank, Limited		1,000	—					
	Sumitomo Mitsui Banking Corporation	November 29, 2012	3,000	3,000	0.96 Fixed-rate	November 29, 2017	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		3,000	3,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		3,000	3,000					
	Mizuho Bank, Ltd.		3,000	3,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000					
	Development Bank of Japan Inc.		3,000	3,000					
	Sumitomo Mitsui Banking Corporation	November 29, 2012	2,000	2,000	1.29 Fixed-rate	November 29, 2019	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		2,000	2,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		2,000	2,000					
	Mizuho Bank, Ltd.		2,000	2,000					
	Development Bank of Japan Inc.		2,000	2,000					
	Sumitomo Mitsui Trust Bank, Limited	March 27, 2013	2,000	2,000	1.50 Fixed-rate (Note 2)	March 27, 2023	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation	April 1, 2014	500	500	1.05 Fixed-rate (Note 2)	April 1, 2021	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		500	500					
	Mizuho Bank, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation		500	500					
	Sumitomo Mitsui Banking Corporation	April 1, 2014	1,000	1,000	1.21 Fixed-rate (Note 2)	April 1, 2022	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Sumitomo Mitsui Banking Corporation	April 1, 2014	1,000	1,000	1.52 Fixed-rate (Note 2)	April 1, 2024	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
Sumitomo Mitsui Trust Bank, Limited	500		500						
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000		1,000						
Development Bank of Japan Inc.	500		500						
Sumitomo Mitsui Banking Corporation	April 1, 2014	500	500	2.03 Fixed-rate (Note 2)	April 1, 2026	Bullet repayment	(Note 3)	Unsecured and non-guaranteed	
Sumitomo Mitsui Trust Bank, Limited		500	500						
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		500	500						
Development Bank of Japan Inc.		500	500						

	Classification	Borrowing date	Balance at the beginning of period (Yen in millions)	Balance at the end of period (Yen in millions)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term borrowings	Nippon Life Insurance Company	September 30, 2014	1,000	1,000	1.00 Fixed-rate	September 29, 2023	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Mitsui Sumitomo Insurance Company, Limited	April 1, 2015	1,000	1,000	0.57 Fixed-rate	April 1, 2020	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation	April 1, 2015	1,000	1,000	0.87 Fixed-rate (Note 2)	October 3, 2022	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Mizuho Bank, Ltd.		1,000	1,000					
	The Norinchukin Bank		1,000	1,000					
	Sumitomo Mitsui Banking Corporation	April 1, 2015	1,000	1,000	0.99 Fixed-rate (Note 2)	October 2, 2023	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Resona Bank, Limited		1,000	1,000					
	Sumitomo Mitsui Banking Corporation	April 1, 2015	1,000	1,000	1.23 Fixed-rate (Note 2)	October 1, 2025	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	April 1, 2015	3,000	3,000	1.18 Fixed-rate	October 1, 2025	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Development Bank of Japan Inc.	April 1, 2015	1,500	1,500	1.46 Fixed-rate	April 1, 2027	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	September 28, 2015	—	1,000	0.65 Fixed-rate (Note 2)	September 28, 2022	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation		—	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,000					
	Mizuho Bank, Ltd.		—	1,000					
	Nippon Life Insurance Company	September 28, 2015	—	1,000	0.73 Fixed-rate	September 30, 2024	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation	November 30, 2015	—	1,000	0.51 Fixed-rate (Note 2)	November 30, 2021	Bullet repayment	(Note 4)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,000					
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—		1,000						
Mizuho Bank, Ltd.	—		1,000						
Mitsubishi UFJ Trust and Banking Corporation	—		2,000						
Resona Bank, Limited	—		1,000						
Sumitomo Mitsui Banking Corporation	November 30, 2015	—	1,000	0.71 Fixed-rate (Note 2)	May 31, 2023	Bullet repayment	(Note 4)	Unsecured and non-guaranteed	
Sumitomo Mitsui Trust Bank, Limited		—	1,000						
The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,000						
Mizuho Bank, Ltd.		—	1,000						

I. Asset Management Report

Classification	Lender	Borrowing date	Balance at the beginning of period (Yen in millions)	Balance at the end of period (Yen in millions)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
Long-term borrowings	Sumitomo Mitsui Banking Corporation	November 30, 2015	—	1,000	0.97 Fixed-rate (Note 2)	May 30, 2025	Bullet repayment	(Note 4)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,000					
	Mizuho Bank, Ltd.		—	1,000					
	Sumitomo Mitsui Banking Corporation	November 30, 2015	—	1,000	1.09 Fixed-rate (Note 2)	May 29, 2026	Bullet repayment	(Note 4)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,000					
	Mizuho Bank, Ltd.		—	1,000					
Subtotal			72,000	81,000					
Total			96,000	100,000					

- (Notes) 1. Average interest rate is the weighted average interest rate during the period, rounded to the nearest 100th.
2. Interest rate swaps are used to avoid interest rate fluctuation risk. Therefore, the effects of interest rate swaps are factored into the interest rates provided.
3. Used for acquisition of trust beneficiary interests in real estate.
4. The proceeds were used toward the repayment of borrowings.

(3) Investment Corporation Bonds

The status of investment corporation bonds issued as of February 29, 2016 is as follows:

Issue name	Issue date	Balance at the beginning of period (Yen in millions)	Balance at the end of period (Yen in millions)	Interest rate	Maturity	Method of redemption	Use	Note
1st Unsecured Investment Corporation Bonds	December 24, 2014	2,000	2,000	0.826%	December 24, 2024	Bullet repayment	(Note 1)	(Note 2)
Total		2,000	2,000					

- (Notes) 1. The proceeds were used toward the repayment of borrowings.
2. The bonds have pari passu conditions among specified investment corporation bonds.

(4) Short-Term Investment Corporation Bonds

There is no short-term investment corporation bond outstanding as of February 29, 2016.

(5) Unit Acquisition Rights

Not applicable.

6 Status of Purchases and Sales during the Period

(1) Status of Purchases and Sales of Properties and Asset-Backed Securities, Infrastructure Assets, and Infrastructure Related Assets

Property name	Acquisition		Transfer			
	Date of acquisition	Acquisition price (Yen in millions) (Note)	Date of transfer	Transfer price (Yen in millions)	Book value (Yen in millions)	Gain or loss on disposal (Yen in millions)
DREAM TOWN ALI	September 28, 2015	7,790	—	—	—	—
Total		7,790		—	—	—

(Note) Acquisition price is the amount that does not include the various expenses required in the acquisition of the property, including brokerage fee, consumption taxes, local consumption taxes, etc. (the purchase and sale price stated on the real estate purchase and sale agreement, etc.).

(2) Transaction of Other Assets

Type of assets	Acquisition		Disposal		Balance at the end of current period	
	Number of units equivalent to face value	Amount (Yen in thousands) (Note 1)	Number of units equivalent to face value	Amount (Yen in thousands) (Note 1)	Number of units equivalent to face value	Amount (Yen in thousands) (Note 2)
Bonds	—	—	—	—	¥10,000 thousand	6,535
Total	—	—	—	—	¥10,000 thousand	6,535

(Notes) 1. Amount under Acquisition or Disposal indicates the settlement amount (the amount not including accrued interest or various expenses (transaction commissions, etc.)).

2. Amount under Balance at the end of period indicates the book value using the amortized cost method.

3. Assets other than the above are mostly bank deposits or bank deposits in trust assets.

(3) Review on Value of Specified Assets

A. Properties, etc.

Acquisition or transfer	Property name	Transaction date	Type of assets	Acquisition price or transfer price (Yen in millions) (Note 1)	Appraisal value of properties (Yen in millions) (Note 2)	Appraisal agency (Note 2)	Date of appraisal value (Note 2)
Acquisition	DREAM TOWN ALI	September 28, 2015	Trust beneficiary interests in real estate	7,790	8,100	Japan Real Estate Institute	July 31, 2015

(Notes) 1. Acquisition price or transfer price is the amount that does not include the various expenses required in the acquisition or transfer of the property, including brokerage fee, consumption taxes, local consumption taxes, etc. (the purchase and sale price stated on the real estate purchase and sale agreement, etc.).

2. Appraisal value shown above is based on "Real estate appraisal standards, Chapter 3, Appraisal of the value of real estate that is subject to securitization."

B. Other

Among transactions DHR conducted, for any transactions requiring surveys on prices, etc., of specified assets in accordance with Article 201 of the Investment Trusts Act, excluding transactions shown above in "A. Properties, etc.," KPMG AZSA LLC was commissioned to do such surveys. During the period under review (from September 1, 2015 to February 29, 2016), five interest rate swap transactions were applied. DHR received a survey report for the said transactions from KPMG AZSA LLC. The survey contained the transaction date, the name of the counterparty to the transaction, the agreed figures, the transaction period, the assumed principal amount and other matters regarding the transactions.

(4) Transactions with Interested Parties

A. Status of Transactions

Classification	Transaction amount, etc. (Note 2)	
	Purchase	Sale
Total amount	¥7,790 million	—
Breakdown of transactions with interested parties		
Daiwa Information Service Co., Ltd.	¥7,790 million (100.0%)	— (—%)
Total	¥7,790 million (100.0%)	— (—%)

I. Asset Management Report

B. Amount of Fees Paid

Classification	Total amount paid (A) (Yen in thousands)	Breakdown of transactions with interested parties		Rate to total amount paid (B/A)
		Payment recipient	Amount paid (B) (Yen in thousands)	
Outsourcing expenses (Note 3)	211,662	Daiwa Information Service Co., Ltd.	85,800	40.5%
		Daiwa Royal Co., Ltd.	7,983	3.8%
		Daiwa LifeNext Co., Ltd.	6,289	3.0%
		Daiwa House Industry Co., Ltd.	89,205	42.1%
		ENESERVE CORPORATION	360	0.2%
		KOKANKYO ENGINEERING Corp.	990	0.5%
Repairs and maintenance construction (Note 4)	185,089	Daiwa Information Service Co., Ltd.	31,496	17.0%
		Daiwa Royal Co., Ltd.	56,208	30.4%
		Daiwa House Reform Co., Ltd.	155	0.1%
		Daiwa LifeNext Co., Ltd.	16,662	9.0%
		Daiwa House Industry Co., Ltd.	29,645	16.0%
		DesignArc Co., Ltd.	130	0.1%

(Notes) 1. Interested parties, etc. are interested parties, etc. of the asset management company, with which DHR has concluded an asset management agreement, as provided in Article 123 of the Order for Enforcement of the Act on the Investment Trust and Investment Corporations and Article 26, item 27 of the Investment Trusts Association, Japan's Rules on Management Reports, etc., of Investment Trusts and Investment Corporations.

2. Transaction amount, etc. does not include various expenses required in the acquisition or transfer of the relevant property, etc., including brokerage fee, consumption taxes, local consumption taxes, etc. (the purchase and sale price stated on the real estate purchase and sale agreement, etc.).

3. Outsourcing expenses include the amount of building management compensation.

4. Repairs and maintenance construction includes repairs and maintenance expenses as well as capital expenditures and repairs covered by insurance, etc.

(5) Status of Transactions with Asset Management Company Pertaining to Business Operated by Asset Management Company as Subsidiary Business

Not applicable because the Asset Manager does not engage in any business as a subsidiary business that is a type I financial instruments business, type II financial instruments business, real estate brokerage or real estate specified joint enterprise.

(1) Status of Assets, Liabilities, Principal and Profit/Loss

Please refer to “II. Balance Sheets,” “III. Statements of Income and Retained Earnings,” “IV. Statements of Changes in Net Assets,” “V. Statements of Cash Flows” and “VI. Notes to Financial Statements.”

(2) Changes in Method to Calculate Depreciation Expenses

Not applicable.

(3) Changes in Method to Evaluate Properties and Infrastructure Assets

Not applicable.

(4) Status of Beneficiary Certificates of Investment Trust Established by DHR

Not applicable.

(1) Notice**Board of Directors**

The overview of conclusions and changes, etc., of major contracts approved by DHR's board of directors during the current fiscal period is as follows:

Approval date	Subject	Description
December 22, 2015	Signing of memorandum on transfer agency agreement	Incidental to the transfer agency agreement, the board of directors approved the conclusion of the memorandum to entrust tasks related to unitholders' individual numbers to the transfer agent.

(2) Disclosure as a Corporation Holding Real Estate Overseas

Not applicable.

(3) Disclosure relating to Real Estate Held by a Corporation Holding Real Estate Overseas

Not applicable.

(4) Treatment of Fractions in Amounts and Rates

Unless otherwise specified, amounts less than the units indicated are truncated, while values of ratio is rounded up or down to the nearest value of the last digit in this report.

II. Balance Sheets

DAIWA HOUSE REIT INVESTMENT CORPORATION BALANCE SHEETS

As of August 31, 2015 and February 29, 2016

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Assets		
Current Assets:		
Cash and bank deposits (Notes 3 and 4)	¥ 23,158,614	¥ 23,769,479
Tenant receivables	14,751	56,527
Prepaid expenses	157,416	185,670
Consumption taxes receivable	2,176,852	—
Other current assets	511	441
Total current assets	25,508,145	24,012,118
Investment Properties (Notes 5 and 6):		
Land	98,885,149	103,713,238
Buildings and improvements	95,377,041	98,290,417
Structures	3,313,287	3,509,049
Machinery and equipment	343,654	343,654
Construction in progress	—	3,889
Less: accumulated depreciation	(7,032,712)	(8,520,020)
Total investment properties, net	190,886,420	197,340,227
Other Assets:		
Other intangible assets	1,530	1,190
Investment securities (Note 4)	6,455	6,535
Long-term prepaid expenses	515,282	703,756
Investment corporation bond issuance costs	19,108	18,075
Total other assets	542,376	729,558
Total Assets	¥ 216,936,941	¥ 222,081,904

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

DAIWA HOUSE REIT INVESTMENT CORPORATION
BALANCE SHEETS, CONTINUED

As of August 31, 2015 and February 29, 2016

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Liabilities		
Current Liabilities:		
Accounts payable	¥ 75,872	¥ 162,156
Short-term borrowings (Notes 4 and 10)	4,000,000	4,000,000
Current portion of long-term borrowings (Notes 4 and 10)	20,000,000	15,000,000
Accrued expenses	433,261	530,501
Income taxes payable	605	605
Accrued consumption taxes	—	86,672
Advances received	853,198	883,591
Other current liabilities	63,888	48,245
Total current liabilities	25,426,826	20,711,772
Investment corporation bonds (Notes 4 and 9)	2,000,000	2,000,000
Long-term borrowings (Notes 4 and 10)	72,000,000	81,000,000
Tenant security deposits (Note 4)	9,079,288	9,529,140
Total Liabilities	108,506,115	113,240,912
Commitment and contingent liabilities (Note 17)		
Net Assets (Note 8)		
Unitholders' Equity:		
Unitholders' capital	105,459,198	105,459,198
Units authorized:		
4,000,000 units as of August 31, 2015 and February 29, 2016		
Units issued and outstanding:		
350,700 units as of August 31, 2015 and February 29, 2016		
Retained earnings	2,971,627	3,381,792
Total unitholders' equity	108,430,826	108,840,991
Total Net Assets	108,430,826	108,840,991
Total Liabilities and Net Assets	¥ 216,936,941	¥ 222,081,904

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

III. Statements of Income and Retained Earnings

DAIWA HOUSE REIT INVESTMENT CORPORATION STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month periods ended August 31, 2015 and February 29, 2016

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Operating Revenues:		
Rental revenues (Note 7)	¥ 6,200,791	¥ 6,757,082
Other revenues related to property leasing (Note 7)	104,514	181,865
Total operating revenues	6,305,305	6,938,947
Operating Expenses:		
Rental expenses (Note 7)	2,140,913	2,383,668
Asset management fees	376,147	465,452
Other operating expenses	104,336	120,410
Total operating expenses	2,621,397	2,969,531
Operating Income	3,683,907	3,969,415
Non-Operating Revenues:		
Interest income	2,348	2,250
Interest on refund of consumption taxes	—	1,778
Insurance income	255	1,013
Other non-operating revenues	80	300
Non-Operating Expenses:		
Interest expenses	456,965	484,399
Interest expenses on investment corporation bonds	8,365	8,275
Amortization of investment corporation bond issuance costs	1,032	1,032
Investment unit issuance expenses	149,910	—
Borrowing related expenses	98,092	98,799
Ordinary Income	2,972,224	3,382,251
Income before Income Taxes	2,972,224	3,382,251
Income taxes-current (Note 12)	605	605
Net Income	2,971,619	3,381,646
Retained Earnings Brought Forward	8	146
Unappropriated Retained Earnings	¥ 2,971,627	¥ 3,381,792

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

IV. Statements of Changes in Net Assets

DAIWA HOUSE REIT INVESTMENT CORPORATION STATEMENTS OF CHANGES IN NET ASSETS

For the six-month periods ended August 31, 2015 and February 29, 2016

	<u>Unitholders' Equity</u>				Total Net Assets
	Number of Units	Unitholders' Capital	Retained Earnings	Total Unitholders' Equity	
	(Units)	(Yen in thousands)			
Balance as of February 28, 2015	293,480	¥ 78,048,300	¥ 2,545,653	¥ 80,593,954	¥ 80,593,954
Changes during the period:					
Issuance of investment units:					
on March 23, 2015	52,000	24,910,288	—	24,910,288	24,910,288
on April 14, 2015	5,220	2,500,609	—	2,500,609	2,500,609
Cash distributions declared	—	—	(2,545,645)	(2,545,645)	(2,545,645)
Net income	—	—	2,971,619	2,971,619	2,971,619
Total changes during the period	57,220	27,410,897	425,974	27,836,871	27,836,871
Balance as of August 31, 2015	350,700	¥105,459,198	¥ 2,971,627	¥108,430,826	¥108,430,826
Changes during the period:					
Cash distributions declared	—	—	(2,971,481)	(2,971,481)	(2,971,481)
Net income	—	—	3,381,646	3,381,646	3,381,646
Total changes during the period	—	—	410,164	410,164	410,164
Balance as of February 29, 2016	350,700	¥105,459,198	¥ 3,381,792	¥108,840,991	¥108,840,991

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

V. Statements of Cash Flows

DAIWA HOUSE REIT INVESTMENT CORPORATION STATEMENTS OF CASH FLOWS

For the six-month periods ended August 31, 2015 and February 29, 2016

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
(Yen in thousands)		
Cash Flows from Operating Activities:		
Income before income taxes	¥ 2,972,224	¥ 3,382,251
Depreciation	1,359,762	1,487,647
Amortization of investment corporation bond issuance costs	1,032	1,032
Investment unit issuance expenses	149,910	—
Interest income	(2,348)	(2,250)
Interest expenses	465,331	492,674
Increase in prepaid expenses	(6,971)	(28,253)
Increase in long-term prepaid expenses	(160,390)	(188,474)
Increase in tenant receivables	(5,466)	(41,776)
Decrease (increase) in consumption taxes receivable	(2,176,843)	2,179,706
Increase (decrease) in accrued consumption taxes	(249,239)	86,663
Increase (decrease) in accounts payable	(10,156)	46,941
Increase in accrued expenses	30,925	97,154
Increase in advances received	259,302	30,393
Increase (decrease) in deposits received	(135)	14
Interest income received	2,348	2,250
Interest expenses paid	(466,531)	(492,589)
Income taxes paid	(605)	(605)
Others, net	127,675	(24,339)
Net Cash Provided by Operating Activities	2,289,825	7,028,442
Cash Flows from Investing Activities:		
Payments for purchases of investment properties	(48,796,885)	(7,920,514)
Net Cash Used in Investing Activities	(48,796,885)	(7,920,514)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	4,000,000	—
Proceeds from long-term borrowings	16,500,000	24,000,000
Repayments of long-term borrowings	—	(20,000,000)
Proceeds from issuance of investment units	27,260,987	—
Distributions paid	(2,545,725)	(2,970,559)
Net Cash Provided by Financing Activities	45,215,262	1,029,440
Net Change in Cash and Cash Equivalents	(1,291,797)	137,368
Cash and Cash Equivalents at the Beginning of Period	15,664,693	14,372,896
Cash and Cash Equivalents at the End of Period (Note 3)	¥ 14,372,896	¥ 14,510,265

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

Notes to Financial Statements

As of and for the six-month periods ended August 31, 2015 and February 29, 2016

Note 1 – Organization and Basis of Presentation

Organization

Daiwa House REIT Investment Corporation (hereinafter referred to as “DHR”) was established on September 14, 2007, with Daiwa House REIT Management Co., Ltd. as the organizer 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”), and completed its registration in the Kanto Local Finance Bureau on October 23, 2007.

DHR issued new investment units through a public offering on November 27, 2012. On the following day, November 28, 2012, DHR was listed on the real estate investment trust securities market of the Tokyo Stock Exchange.

In the current fiscal period ended February 29, 2016, DHR acquired one property using funds raised through debt financing. Consequently, DHR held 41 properties with total acquisition price of ¥ 203,763 million as of February 29, 2016.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act of Japan, the Financial Instruments and Exchange Act of Japan and its 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 from 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 DHR prepared in accordance with Japanese GAAP. 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.

DHR maintains its accounting records in Japanese yen, the currency of the country in which DHR operates. As permitted by the regulations under the Financial Instruments and Exchange Act, amounts of less than thousand yen have been omitted. Unless otherwise specified, amounts of less than the units indicated are truncated, while values of ratio are rounded up or down to the nearest value of the last digit in the accompanying financial statements. As a result, totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

DHR’s fiscal period is a six-month period ending at the end of February and August 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 stated at cost, which include the allocated purchase price, related costs and expenses for acquisition of the trust beneficiary interests in real estate. Investment property balances are depreciated using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	3~46
Structures	10~43
Machinery and equipment	19

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

(c) Investment Securities

Debt securities classified as held-to-maturity are stated at amortized cost.

(d) Investment Units Issuance Expenses

The issuance costs of new investment units are expensed when incurred.

(e) Investment Corporation Bond Issuance Costs

The issuance costs of investment corporation bonds are amortized on a straight-line basis over the redemption period.

(f) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized on a straight-line basis.

(g) Income Taxes

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

(h) Real Estate Taxes

Investment properties are subject to various taxes, such as property taxes and city planning taxes. An owner of the properties is registered by a record 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 corresponding calendar year are imposed on the seller. DHR pays the seller the corresponding amount of the taxes for the period of 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 for each calendar year are charged as operating expenses. Capitalized real estate taxes amounted to ¥ 196,808 thousand and ¥ 12,072 thousand for the periods ended August 31, 2015 and February 29, 2016, respectively.

(i) Consumption Taxes

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

(j) Hedge Accounting

DHR enters into derivative transactions for the purpose of hedging risks defined in the Articles of Incorporation of DHR in accordance with its general risk management policy. DHR uses interest-rate swaps as hedging instruments in order to hedge the risk of interest rate fluctuations related to borrowings. Pursuant to Japanese GAAP, DHR 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 expenses 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 omitted since all interest-rate swaps meet the specific criteria under the special accounting treatment.

(k) Revenue Recognition

Operating revenues primarily consist of rental revenues including fixed rental revenues. Other revenues related to property leasing consist of common area charges and other operating revenues which include utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period.

VI. Notes to Financial Statements

(l) 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.

Note 3 – Cash and Cash Equivalents

Cash and bank deposits include restricted bank deposits held in trust that are retained for repayment of tenant security deposits.

Reconciliation of the cash and bank deposits recorded on the accompanying balance sheets to the cash and cash equivalents reported in the accompanying statements of cash flows is as follows:

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Cash and bank deposits	¥ 23,158,614	¥ 23,769,479
Less: restricted bank deposits held in trust	(8,785,717)	(9,259,214)
Cash and cash equivalents	<u>¥ 14,372,896</u>	<u>¥ 14,510,265</u>

Note 4 – Financial Instruments

(a) Qualitative Information for Financial Instruments

Policy for Financial Instrument Transactions

DHR raises funds through borrowings, issuance of new investment units and issuance of investment corporation bonds for the acquisition of real estate properties, with the aim of ensuring stable earnings from a medium to long-term perspective and steady asset growth.

DHR enters into derivative transactions for the purpose of hedging interest rate risks and other risks arising from borrowings and other funding measures.

Surplus funds are managed carefully by investing in financial instruments considering risk and liquidity, with taking into consideration market environments and forecasted cash flows.

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

Bank deposits are used for investment of DHR's surplus funds. These bank deposits are exposed to credit risks such as bankruptcy of the depository financial institutions. DHR limits its credit risk by entering into bank deposits only with financial institutions with high credit ratings.

Proceeds from borrowings and investment corporation bonds are used to acquire real estate properties and to repay outstanding debts. These borrowings and investment corporation bonds are exposed to liquidity risk on

repayment or redemption. Such risk is managed in the following ways such as trying to maintain and strengthen the ability of procurement from the capital market by issuance of investment units, establishing committed credit lines with financial institutions, monitoring forecasted cash flows on a monthly basis and keeping sufficient liquidity on hand.

For floating-rate borrowings exposed to the risk of interest rate fluctuations, DHR, in order to reduce the potential risk of rising interest rates, closely watches the movement of interest rates, and intends to increase the ratio of fixed-rate borrowings. As of August 31, 2015 and February 29, 2016, DHR has a derivative (interest-rate swap) as a hedging instrument, in order to avoid interest rate fluctuations and to fix the amount of interest payments for floating-rate long-term borrowings. The assessment of hedge effectiveness is omitted since all interest-rate swaps meet the specific criteria under the special accounting treatment.

Tenant security deposits are exposed to liquidity risk arising from the vacating of properties by tenants as a result of the termination of contract. DHR manages this risk by depositing into trusts.

Supplemental Explanation regarding Fair Values of Financial Instruments

The fair value of financial instruments is based on their observable market price, if available. When there is no observable market price available, fair value is based on a price that is reasonably estimated. Since certain assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different value.

(b) Estimated Fair Value of Financial Instruments

Book value, fair value and difference between the two as of August 31, 2015 and February 29, 2016 are as follows:

	As of					
	August 31, 2015			February 29, 2016		
	Book value	Fair value	Difference	Book value	Fair value	Difference
	(Yen in thousands)					
Assets						
(1) Cash and bank deposits	¥ 23,158,614	¥ 23,158,614	¥ —	¥ 23,769,479	¥ 23,769,479	¥ —
(2) Investment securities:						
Held-to-maturity debt securities	6,455	7,460	1,004	6,535	8,583	2,047
Total	¥ 23,165,069	¥ 23,166,074	¥ 1,004	¥ 23,776,015	¥ 23,778,062	¥ 2,047
Liabilities						
(3) Short-term borrowings	4,000,000	4,000,000	—	4,000,000	4,000,000	—
(4) Current portion of long-term borrowings	20,000,000	20,008,388	8,388	15,000,000	15,022,469	22,469
(5) Investment corporation bonds	2,000,000	2,004,000	4,000	2,000,000	2,067,600	67,600
(6) Long-term borrowings	72,000,000	72,570,747	570,747	81,000,000	83,058,328	2,058,328
(7) Tenant security deposits	293,571	287,988	(5,582)	269,926	271,065	1,138
Total	¥ 98,293,571	¥ 98,871,124	¥ 577,553	¥ 102,269,926	¥ 104,419,462	¥ 2,149,536
Derivative transactions	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

VI. Notes to Financial Statements

The financial instruments whose fair values are deemed extremely difficult to determine are excluded from the table above (See Note 2 below).

Notes:

1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and bank deposits

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

(2) Held-to-maturity debt securities

Fair values of held-to-maturity debt securities are based on market prices. Book value, fair value and difference between the two are as follows:

	As of					
	August 31, 2015			February 29, 2016		
	(Yen in thousands)					
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value exceeding book value:						
Japanese government bonds (*)	¥ 6,455	¥ 7,460	¥ 1,004	¥ 6,535	¥ 8,583	¥ 2,047
Total	¥ 6,455	¥ 7,460	¥ 1,004	¥ 6,535	¥ 8,583	¥ 2,047

(*) These held-to-maturity debt securities have been deposited with the Tokyo Legal Affairs Bureau as security deposits in line with the requirements of the Building Lots and Building Transaction Business Act of Japan.

Liabilities:

(3) Short-term borrowings

Due to the short maturities, the book value of these liabilities is deemed a reasonable approximation of their fair value. Therefore, the book value is used as the fair value.

(4) Current portion of long-term borrowings and (6) Long-term borrowings

Fair values of fixed-rate borrowings are calculated based on the present value of principal and interest cash flows discounted at the current interest rate which is assumed to be applied if similar new borrowings were entered into.

Each borrowing at floating rate as of August 31, 2015 and February 29, 2016 is subject to the special treatment for interest-rate swaps (See "Derivative transactions" below), and the fair value of such borrowing is calculated based on the present value of principal and interest cash flows which are processed as a single unit with the interest-rate swap discounted at the current interest rate which is reasonably assumed to be applied if similar new borrowings were entered into.

(5) Investment corporation bonds

Fair value of investment corporation bonds is based on its reference statistical price for OTC bond transactions.

(7) Tenant security deposits

Fair values of tenant security deposits are calculated based on the present value of future cash flows discounted at the current interest rate which is estimated by taking the remaining term into consideration.

Derivative transactions:

(1) Derivative transactions for which hedge accounting is not applied... None.

(2) Derivative transactions for which hedge accounting is applied... Contracted amounts and fair values are as follows:

Hedge accounting method	Type of derivative transaction	Hedged item	As of					
			August 31, 2015			February 29, 2016		
			Contracted amount		Fair value	Contracted amount		Fair value
Total	Due after one year	Total	Due after one year					
(Yen in thousands)								
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term borrowings	¥ 24,500,000	¥ 24,500,000	(*)	¥ 47,500,000	¥ 47,500,000	(*)

(*) Fair value of interest-rate swap with the special treatment is included in fair value of long-term borrowings as the interest-rate swap and hedged borrowings are processed as a single unit with the hedged long-term borrowings (See “Note 1. Methods to Estimate Fair Value of Financial Instruments, (6) Long-term borrowings” above).

2. Financial Instruments Whose Fair Values are Deemed Extremely Difficult to Determine

	As of	
	August 31, 2015	February 29, 2016
(Yen in thousands)		
Tenant security deposits (*)	¥ 8,785,717	¥ 9,259,214

(*) Tenant security deposits are excluded from the scope of fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, which in turn makes it difficult to reasonably estimate future cash flows.

VI. Notes to Financial Statements

3. Redemption Schedule for Monetary Claims and Securities with Maturity

As of August 31, 2015	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
	(Yen in thousands)					
Cash and bank deposits	¥ 23,158,614	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities:						
Held-to-maturity debt securities	—	—	—	—	—	10,000
Total	¥ 23,158,614	¥ —	¥ —	¥ —	¥ —	¥ 10,000
As of February 29, 2016	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
	(Yen in thousands)					
Cash and bank deposits	¥ 23,769,479	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities:						
Held-to-maturity debt securities	—	—	—	—	—	10,000
Total	¥ 23,769,479	¥ —	¥ —	¥ —	¥ —	¥ 10,000

4. Repayment Schedule for Investment Corporation Bonds and Borrowings

As of August 31, 2015	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
	(Yen in thousands)					
Short-term borrowings	¥ 4,000,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	—	—	—	2,000,000
Long-term borrowings	20,000,000	15,000,000	16,000,000	—	11,000,000	30,000,000
Total	¥ 24,000,000	¥ 15,000,000	¥ 16,000,000	¥ —	¥ 11,000,000	¥ 32,000,000
As of February 29, 2016	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
	(Yen in thousands)					
Short-term borrowings	¥ 4,000,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	—	—	—	2,000,000
Long-term borrowings	15,000,000	16,000,000	—	10,000,000	1,000,000	54,000,000
Total	¥ 19,000,000	¥ 16,000,000	¥ —	¥ 10,000,000	¥ 1,000,000	¥ 56,000,000

Note 5 – Investment Properties

Investment properties as of August 31, 2015 and February 29, 2016 consist of the following:

	As of					
	August 31, 2015			February 29, 2016		
	(Yen in thousands)					
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	¥ 98,885,149	¥ —	¥ 98,885,149	¥ 103,713,238	¥ —	¥ 103,713,238
Buildings and improvements	95,377,041	(6,685,095)	88,691,945	98,290,417	(8,101,330)	90,189,086
Structures	3,313,287	(322,641)	2,990,645	3,509,049	(384,900)	3,124,148
Machinery and equipment	343,654	(24,975)	318,679	343,654	(33,789)	309,864
Construction in progress	—	—	—	3,889	—	3,889
Total	¥ 197,919,132	¥ (7,032,712)	¥ 190,886,420	¥ 205,860,247	¥ (8,520,020)	¥ 197,340,227

Note 6 – Fair Value of Investment and Rental Properties

DHR owns logistics and retail properties for rent in the Greater Tokyo Area and other areas. The book value, net increase in the book value and the fair value of the investment and rental properties are as follows:

	As of / For the six-month periods ended	
	August 31, 2015	February 29, 2016
(Yen in thousands)		
Book value:		
Balance at the beginning of the period	¥ 143,439,633	¥ 190,886,420
Net increase during the period	47,446,786	6,449,917
Balance at the end of the period	¥ 190,886,420	¥ 197,336,338
Fair value	¥ 218,038,000	¥ 230,328,000

Notes:

1. Book value is stated at acquisition cost less accumulated depreciation.
2. The increase in the fiscal period ended August 31, 2015 is mainly due to the acquisition of D Project Kuki III, D Project Kuki IV, D Project Kuki V, D Project Kuki VI, D Project Yashio, D Project Nishiyodogawa, D Project Matsudo (¥ 48,802,743 thousand) and the decrease is mainly due to recognition of depreciation expense of ¥ 1,359,422 thousand. The increase in the fiscal period ended February 29, 2016 is mainly due to the acquisition of DREAM TOWN ALi (¥ 7,830,871 thousand) and the decrease is mainly due to recognition of depreciation expense of ¥ 1,487,307 thousand.
3. Fair value is determined mainly by appraisal value provided from external real estate appraisers.

Note 7 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended August 31, 2015 and February 29, 2016 are as follows:

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Revenues from Property Leasing:		
Rental revenues	¥ 6,200,791	¥ 6,757,082
Common area charges	53,981	53,873
Others	50,532	127,991
Total revenues from property leasing	<u>6,305,305</u>	<u>6,938,947</u>
Rental Expenses:		
Real estate taxes	469,819	469,774
Property management fees	172,475	211,662
Insurance	9,472	10,167
Repairs and maintenance	75,087	75,981
Depreciation	1,359,422	1,487,307
Others	54,635	128,775
Total rental expenses	<u>2,140,913</u>	<u>2,383,668</u>
Operating Income from Property Leasing Activities	<u>¥ 4,164,392</u>	<u>¥ 4,555,278</u>

Note 8 – Net Assets

DHR issues only non-par value units in accordance with the Investment Trust Act and all of the issue amounts of new units are designated as stated capital. DHR maintains a minimum of at least ¥50 million of net assets as required by the Investment Trust Act.

DHR issued new investment units through a public offering on March 23, 2015 at the issue value of ¥479,044 per unit and through a third party allotment on April 14, 2015 at the issue value of ¥479,044 per unit.

Note 9 – Investment Corporation Bonds

The following summarizes the status of the DHR's first unsecured investment corporation bonds with special pari passu conditions among specified investment corporation bonds as of August 31, 2015 and February 29, 2016. The bonds would be repaid on lump-sum basis on the maturity date.

Description	Issue date	Maturity date	Interest rate	As of	
				August 31, 2015	February 29, 2016
				(Yen in thousands)	
DHR 1st Unsecured Bonds	December 24, 2014	December 24, 2024	Fixed rate of 0.826%	¥2,000,000	¥2,000,000
Total				¥2,000,000	¥2,000,000

Note 10 – Short-Term and Long-Term Borrowings

Short-term and long-term borrowings consist of the following:

	As of	
	August 31, 2015	February 29, 2016
(Yen in thousands)		
Unguaranteed, unsecured floating-rate borrowings due 2016 with average interest rate of 0.33%	¥ 4,000,000	¥ 4,000,000
Short-term borrowings	¥ 4,000,000	¥ 4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2015 with average interest rate of 0.73%	¥ 20,000,000	¥ —
Unguaranteed, unsecured fixed-rate borrowings due 2016 with average interest rate of 0.83%	15,000,000	15,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2017 with average interest rate of 0.96%	16,000,000	16,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2019 with average interest rate of 1.29%	10,000,000	10,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2020 with average interest rate of 0.57%	1,000,000	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2021 with average interest rate of 1.05% (*)	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2021 with average interest rate of 0.51% (*)	—	7,000,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 1.21% (*)	3,500,000	3,500,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 0.87% (*)	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 0.65% (*)	—	4,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 1.50% (*)	2,000,000	2,000,000

VI. Notes to Financial Statements

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 0.99% (*)	4,000,000	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2023 with average interest rate of 1.00%	1,000,000	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 0.71% (*)	—	4,000,000
Unguaranteed, unsecured floating-rate borrowings due 2024 with average interest rate of 1.52% (*)	3,000,000	3,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2024 with average interest rate of 0.73%	—	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2025 with average interest rate of 1.23% (*)	4,000,000	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2025 with average interest rate of 1.18%	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2025 with average interest rate of 0.97% (*)	—	4,000,000
Unguaranteed, unsecured floating-rate borrowings due 2026 with average interest rate of 2.03% (*)	2,000,000	2,000,000
Unguaranteed, unsecured floating-rate borrowings due 2026 with average interest rate of 1.09% (*)	—	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2027 with average interest rate of 1.46%	1,500,000	1,500,000
Total	¥ 92,000,000	¥ 96,000,000
Less: current portion	20,000,000	15,000,000
Long-term borrowings, less current portion	¥ 72,000,000	¥ 81,000,000

(*) DHR entered into an interest-rate swap contract to avoid interest rate fluctuation risk. The average interest rate is calculated after taking into consideration the effect of the interest-rate swap.

During the fiscal period ended February 28, 2013, DHR established a committed credit line of ¥10,000,000 thousand with financial institutions. Of the committed credit line, ¥10,000,000 thousand are available as of August 31, 2015 and February 29, 2016.

Note 11 – Leases

The future minimum rental revenues under existing non-cancelable operating leases as of August 31, 2015 and February 29, 2016 are as follows:

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Due within one year	¥ 10,648,952	¥ 11,178,100
Due after one year	79,229,689	76,680,733
Total	¥ 89,878,641	¥ 87,858,833

Note 12 – Income Taxes

DHR is subject to Japanese corporate income taxes on all of its taxable income. However, DHR 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 DHR does not satisfy all of the requirements as specified in the Act, the entire taxable income of DHR will be subject to regular corporate income taxes in Japan.

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

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
Statutory tax rate	34.15%	32.31%
Deductible cash distributions	(34.14)	(32.30)
Changes in valuation allowance	(0.01)	(0.01)
Others	0.02	0.02
Effective tax rate	0.02%	0.02%

The significant components of deferred tax assets and liabilities as of August 31, 2015 and February 29, 2016 are as follows:

	As of	
	August 31, 2015	February 29, 2016
	(Yen in thousands)	
Deferred tax assets:		
Tax loss carried forward	¥ 179,825	¥ 179,542
Total deferred tax assets	179,825	179,542
Valuation allowance	(179,825)	(179,542)
Net deferred tax assets	¥ —	¥ —

VI. Notes to Financial Statements

Pursuant to the promulgation on March 31, 2016 of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15, 2016) and the “Act for Partial Revision of Local Taxation Act, etc.” (Act No. 13, 2016), the statutory effective tax rate to calculate deferred tax assets or liabilities will be changed from 32.31% to 31.74% for temporary differences reversed in the fiscal period beginning on and after September 1, 2016, and to 31.59% for those reversed in the fiscal period beginning on and after September 1, 2018. There is no impact from these changes.

Note 13 – Per Unit Information

Information about earnings per unit for the periods ended August 31, 2015 and February 29, 2016 and net assets per unit as of August 31, 2015 and February 29, 2016 are as follows:

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
Earnings per Unit:	(Yen)	
Net income per unit	¥ 8,657	¥ 9,642
Weighted average number of units outstanding (units)	343,234	350,700
	As of	
	August 31, 2015	February 29, 2016
	(Yen)	
Net Assets per Unit	¥ 309,183	¥ 310,353

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.

Note 14 – Distribution Information

DHR’s Articles of Incorporation stipulates that DHR is required to make a distribution in excess of 90% of distributable profit as defined in the Special Taxation Measure Act of Japan for each fiscal period. In accordance with the distribution policy, DHR generally intends to distribute approximately 100% of retained earnings.

	For the six-month periods ended	
	August 31, 2015	February 29, 2016
	(Yen)	
Unappropriated retained earnings	¥ 2,971,627,843	¥ 3,381,792,820
Cash distributions declared	2,971,481,100	3,381,449,400
Retained earnings brought forward	¥ 146,743	¥ 343,420

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. A distribution in respect of the six-month period ended August 31, 2015 of ¥ 8,473 per investment unit, amounting to a total cash distributions declared of ¥ 2,971,481,100, was proposed and approved at the board of directors meeting on October 16, 2015. A distribution in respect of the six-month period ended February 29, 2016 of ¥ 9,642 per investment unit, amounting to a total cash distributions declared of ¥ 3,381,449,400, was proposed and approved at the board of directors meeting on April 15, 2016.

Note 15 – Related-Party Transactions

Related-party transactions for the periods ended August 31, 2015 and February 29, 2016 are as follows:

For the six-month period ended August 31, 2015

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Information Service Co., Ltd.	Taito-ku, Tokyo	¥ 200	Asset management business	—	Master lessee and entrustment of property management	Property management fees	¥ 49,906	Accounts payable	¥ 27,929
							Cost of utilities	30,688		
							Other expenses related to rent business	2,639		
							Repairs and maintenance (Note 3)	11,636		
							—	—	Tenant security deposits	
Rental revenues	439,644	Advances received	76,950							
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Royal Co., Ltd.	Chiyoda-ku, Tokyo	500	Asset management business	—	Entrustment of property management	Property management fees	7,694	Accounts payable	1,805
							Other expenses related to rent business	4,103		
							Repairs and maintenance (Note 3)	3,611		
Company of which major corporate unitholders hold a majority of voting rights	Daiwa LifeNext Co. Ltd. (Note 4)	Minato-ku, Tokyo	130	Asset management business	—	Repairs and maintenance of properties	Property management fees	6,209	Accounts payable	6,805
							Repairs and maintenance (Note 3)	7,399		
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Energy Co., Ltd.	Abeno-ku, Osaka	50	Environment business	—	Lease of equipment held	Rental revenues	11,616	Advances received	2,090

VI. Notes to Financial Statements

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Logistics Co., Ltd.	Nishi-ku, Osaka	3,764	Transportation business	—	Lease of real estate held	Rental revenues	241,500	Advances received	42,262
							—	—	Tenant security deposits	313,648
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House Reform Co., Ltd.	Kita-ku, Osaka	100	Renovation business	—	Repairs and maintenance of properties	Repairs and maintenance (Note 3)	5,262	—	—
Company of which major corporate unitholders hold a majority of voting rights	MEDIA TECH INC.	Nishi-ku, Osaka	50	Information and communication business	—	Use of homepage server	Other operating expenses	148	Accounts payable	26
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House REIT Management Co., Ltd.	Chuo-ku, Tokyo	200	Investment management business	—	Entrustment of asset management	Asset management fee (Note 6)	497,197	Accrued expenses	406,239
Major corporate unitholder	Daiwa House Industry Co., Ltd.	Kita-ku, Osaka	161,699	Construction business	12.2	Master lessee and entrustment of property management	Property management fees	86,915	Accounts payable	16,182
							Repairs and maintenance (Note 3)	5,915		
							Purchase of trust beneficiary interests in real estate (Note 5)	43,120,000	—	—
							Rental revenues	238,500	Advances received	42,930
							—	—	Tenant security deposits	238,500

For the six-month period ended February 29, 2016

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)	
			Yen in millions		%			Yen in thousands		Yen in thousands	
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Information Service Co., Ltd.	Taito-ku, Tokyo	¥ 200	Asset management business	—	Master lessee and entrustment of property management	Property management fees	¥ 85,800	Accounts payable	¥ 69,883	
							Cost of utilities	86,916			
							Other expenses related to rent business	9,482			
							Repairs and maintenance (Note 3)	31,496			
							Purchase of trust beneficiary interests in real estate (Note 5)	7,790,000	—		—
							Rental revenues	440,919	Advances received		76,950
							—	—	Tenant security deposits		879,288
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Royal Co., Ltd.	Chiyoda-ku, Tokyo	500	Asset management business	—	Entrustment of property management	Property management fees	7,983	Accounts payable	3,577	
							Other expenses related to rent business	13,580			
							Repairs and maintenance (Note 3)	56,208			
							Rental revenues	750	—		—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa LifeNext Co. Ltd.	Minato-ku, Tokyo	130	Asset management business	—	Repairs and maintenance of properties	Property management fees	6,289	Accounts payable	16,638	
							Repairs and maintenance (Note 3)	16,662			
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Energy Co., Ltd.	Abeno-ku, Osaka	50	Environment business	—	Lease of equipment held	Rental revenues	11,616	Advances received	2,090	
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Logistics Co., Ltd.	Nishi-ku, Osaka	3,764	Transportation business	—	Lease of real estate held	Rental revenues	241,500	Advances received	42,262	
							—	—	Tenant security deposits	313,648	
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House Reform Co., Ltd.	Kita-ku, Osaka	100	Renovation business	—	Repairs and maintenance of properties	Repairs and maintenance (Note 3)	155	Accounts payable	167	

VI. Notes to Financial Statements

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	ENESERVE CORPORATION	Otsu-shi, Shiga	7,629	Environment business	—	Management of real estate held	Property management fees	360	—	—
Company of which major corporate unitholders hold a majority of voting rights	MEDIA TECH INC.	Nishi-ku, Osaka	50	Information and communication business	—	Use of homepage server	Other operating expenses	148	Accounts payable	26
Company of which major corporate unitholders hold a majority of voting rights	KOKANKYO ENGINEERING Corp.	Shibuya-ku, Tokyo	73	Environment business	—	Management of real estate held	Property management fees	990	—	—
Company of which major corporate unitholders hold a majority of voting rights	DesignArc Co., Ltd.	Nishi-ku, Osaka	450	Interior business	—	Repair and maintenance of real estate held	Repair and maintenance (Note 3)	130	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House REIT Management Co., Ltd.	Chuo-ku, Tokyo	200	Investment management business	—	Entrustment of asset management	Asset management fee (Note 6)	484,927	Accrued expenses	502,688
Major corporate unitholder	Daiwa House Industry Co., Ltd.	Kita-ku, Osaka	161,699	Construction business	12.2	Master lessee and entrustment of property management	Property management fees	89,205	Accounts payable	20,418
							Repairs and maintenance (Note 3)	29,645		
							Rental revenues	238,500	Advances received	42,930
							—	—	Tenant security deposits	238,500

Notes:

- Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.
- The terms and conditions of related-party transactions are on an arm's length basis.
- Repairs and maintenance include capital expenditures and repair costs covered by insurance.
- Daiwa Service Co., Ltd. merged with Daiwa LifeNext Co., Ltd. on April 1, 2015, thus becoming Daiwa LifeNext Co., Ltd. The amount of transaction represents the total amount of transaction with Daiwa Service Co., Ltd. before April 1, 2015 and with Daiwa Life Next Co., Ltd. on and after April 1, 2015.
- The amount of transaction for purchase of trust beneficiary interests in real estate does not include acquisition costs, taxes and dues and consumption taxes.
- Asset management fee includes management fee for acquisition of properties in the amount of ¥121,050 thousand and ¥ 19,475 thousand for the periods ended August 31, 2015 and February 29, 2016, respectively. These amounts are included in the acquisition cost of respective investment properties.

Note 16 – Segment Information

(a) Segment Information

(1) General information about reportable segments

DHR's reportable segments represent its components for which separate financial information is available and operating results are regularly reviewed by the highest decision making body to make decisions about resources to be allocated to the segment and assess its performance.

As DHR focuses on acquiring and managing logistics and retail properties in Japan, DHR's reportable segments are separated into two segments, "logistics property leasing business" and "retail property leasing business", based on types of portfolio assets.

(2) Method for measuring profit, assets and other items of reportable segments

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies". Segment profit is based on operating income.

(3) Information about profit, assets and other items is as follows:

	For the six-month period ended August 31, 2015			
	(Yen in thousands)			
	Logistics property leasing business	Retail property leasing business	Adjustment (Note 2)	Amount recorded in financial statements
Operating revenues (Note 1)	¥ 5,021,497	¥ 1,283,808	¥ —	¥ 6,305,305
Segment profit	3,357,655	790,970	(464,718)	3,683,907
Segment assets	168,609,873	34,396,706	13,930,360	216,936,941
Other items				
Depreciation	1,147,206	212,215	340	1,359,762
Increase in investment properties and intangible assets	48,786,447	1,501	—	48,787,948

Notes:

- DHR's operating revenues are exclusively earned from external parties.
- Adjustment to segment profit of ¥ (464,718) thousand consists of corporate expenses, which include asset management fees, asset custodian fees, general administration fees, directors' fees that are not allocated to any reportable segments.
Adjustment to segment assets of ¥ 13,930,360 thousand includes ¥ 13,424,828 thousand of current assets and ¥ 505,532 thousand of other assets.
Adjustment to depreciation of ¥ 340 thousand represents depreciation of intangible assets in corporate assets.

VI. Notes to Financial Statements

For the six-month period ended February 29, 2016

	(Yen in thousands)			
	Logistics property leasing business	Retail property leasing business	Adjustment (Note 2)	Amount recorded in financial statements
Operating revenues (Note 1)	¥ 5,328,696	¥ 1,610,251	¥ —	¥ 6,938,947
Segment profit	3,557,566	972,626	(560,778)	3,969,415
Segment assets	167,346,812	42,597,025	12,138,065	222,081,904
Other items				
Depreciation	1,226,737	260,570	340	1,487,647
Increase in investment properties and intangible assets	62,426	7,878,687	—	7,941,114

Notes:

- DHR's operating revenues are exclusively earned from external parties.
- Adjustment to segment profit of ¥ (560,778) thousand consists of corporate expenses, which include asset management fees, asset custodian fees, general administration fees, directors' fees that are not allocated to any reportable segments.

Adjustment to segment assets of ¥ 12,138,065 thousand includes ¥ 11,437,412 thousand of current assets and ¥ 700,653 thousand of other assets.

Adjustment to depreciation of ¥ 340 thousand represents depreciation of intangible assets in corporate assets.

(b) Related Information

Information by Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as domestic 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 on Major Tenants

A major tenant is a tenant that accounts for 10% or more of the operating revenues recorded in the statements of income and retained earnings. Details are as follows:

	Revenues for the six-month periods ended		Related segment
	August 31, 2015	February 29, 2016	
	(Yen in thousands)		
Hitachi Capital Corporation	¥ — (Note 1)	¥ — (Note 1)	Logistics property leasing business

Note:

1. Not disclosed, as consent for disclosure has not been obtained from the tenant.

Note 17 – Commitment and Contingent Liabilities

Asahi Security Co., Ltd., the tenant of D Project Shin-Misato, filed a claim in the Tokyo District Court on June 27, 2014 against Mitsubishi UFJ Trust and Banking Corporation, the trustee of the property, for requesting confirmation of a reduction of approximately 16% in the rent compared with the current level for the period from May 2014. This case is currently pending.

DHR believes that the current rent is reasonable and intends to make a point through the trustee in future court proceedings.

Even if the claim were admitted by the Court in full, its impact on DHR's net income for the fiscal period ended February 29, 2016, would be less than 3%. With respect to the outcome of this case, DHR is unable to estimate the possible loss or range of losses that could potentially result from it as of the balance sheet date.

Note 18 – Subsequent Events

(a) Merger between DHR and Daiwa House Residential Investment Corporation

DHR and Daiwa House Residential Investment Corporation (“DHI”) resolved at meetings of their respective boards of directors held on April 15, 2016, to implement an absorption-type merger with DHI as the surviving corporation (the “Surviving Corporation”) and DHR as the absorbed corporation (the “Merger”) effective September 1, 2016 and have concluded a merger agreement (the “Merger Agreement”) on the same date.

(1) Purpose of the Merger

DHR and DHI (the “Investment Corporations”) have made efforts to sustainably increase unitholders' value through securing stable income over the medium- to long-term and steadily growing their assets with taking advantages of their strengths. However, each of them faces challenges; DHR has relatively limited strategies for efficiently replacing properties and achieving internal growth at its positioning in the logistics REIT sector, while DHI's portfolio specializes in residential properties and assumes limited opportunities for internal growth under persistently high LTV ratio. Under these business environments, the Investment Corporations agreed to begin negotiations and have had deliberate discussions for a merger, as one option for addressing these challenges and promoting the future growth of both companies. As a result, the Investment Corporations determined that the Merger was the best solution for maximizing unitholders' value through securing profit and realizing stable and improved distribution by solid growth of the operating assets, and concluded the Merger Agreement on April 15, 2016.

VI. Notes to Financial Statements

Note that, along with the Merger, an absorption-type merger (the “Asset Manager Merger”) will be implemented effective September 1, 2016 with Daiwa House Asset Management Co., Ltd., the asset manager of DHI, as the surviving company and Daiwa House REIT Management Co., Ltd. (the “Asset Manager” of DHR) as the absorbed company, subject to the Merger taking effect as a condition precedent thereto in order for the assets held by the Surviving Corporation to be managed efficiently after the Merger.

(2) Merger type

The Merger will be an absorption-type merger wherein DHI will be the Surviving Corporation and DHR will be dissolved.

(3) Merger ratio

For the Merger, 2.2 DHI units will be allotted to DHR unitholders per one DHR unit. Since this will generate fractions less than one unit for the number of investment units to be issued, those fractional units less than one unit will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who hold fractions in proportion to the size of their holdings.

(4) Cash distribution upon the Merger

Instead of cash distributions to DHR unitholders for the DHR’s final fiscal period ending on the day immediately preceding the effective date of the Merger, DHI will make a cash distribution on merger to the unitholders listed or recorded on the final unitholders register of DHR as of the day immediately preceding the effective date of the Merger, excluding the dissenting DHR unitholders who demand for repurchase of investment units pursuant to Article 149-3 of the Investment Trusts Act (the “Allotted Investors”), in an amount equivalent to the cash distributions for the final fiscal period based on DHR’s distributable profit within a reasonable period after the effective date of the Merger. The payment on merger to each unit held by DHR unitholders other than the Allotted Investors will be (i) the amount of distributable profit of DHR as of the day immediately preceding the effective date of the Merger divided by (ii) the number of investment units that is obtained by deducting (a) the number of DHR investment units held by the DHR unitholders other than the Allotted Investors from (b) the number of DHR investment units issued and outstanding.

(5) Performance of the Surviving Corporation (DHI) in the latest fiscal period ended February 29, 2016

Business purpose: Management of the investment corporation assets by investing mainly in real estate properties in accordance with the Investment Trusts Act.

Operating revenues	¥9,662 million
Net income	¥3,177 million
Assets	¥258,590 million
Liabilities	¥147,395 million
Net assets	¥111,194 million

(b) Acquisition of Assets

DHR concluded purchase agreements regarding the acquisition of the following assets on April 15, 2016. The Surviving Corporation plans to acquire the properties on the condition that the Merger takes effect.

Property name	Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)
Planned acquisition price (Note1)	¥ 7,600,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd. DO Shin-Toshin Development Tokutei Mokuteki Kaisha
Asset type	Trust beneficiary interest in real estate (Note 4)
Location (Address)	1-1-12, Omoromachi, Naha-shi, Okinawa
Planned acquisition date (Note 3)	September 28, 2016

Property name	D Project Hibiki Nada
Planned acquisition price (Note1)	¥ 2,080,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate (Note 4)
Location	3-1-5, Hibiki-machi, Wakamatsu-ku, Kitakyushu-shi, Fukuoka
Planned acquisition date (Note 3)	September 28, 2016

Property name	D Project Morioka II
Planned acquisition price (Note1)	¥ 1,280,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate (Note 4)
Location (Address)	3-15, Ogama-kazabayashi, Takizawa-shi, Iwate
Planned acquisition date (Note 3)	September 28, 2016

Property name	Sports Depo, GOLF5 Kokurahigashi IC Store
Planned acquisition price (Note1)	¥ 2,230,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate
Location (Address)	2-18-17, Kamikuzuhara, Kokuraminami-ku, Kitakyushu-shi, Fukuoka
Planned acquisition date (Note 3)	September 28, 2016

Notes:

1. Acquisition price does not include acquisition costs, taxes and dues and consumption taxes.
2. As Daiwa House Industry Co., Ltd. is an interested party as defined in the Investment Trusts Act, the Asset Manager has gone through the necessary discussion and approval procedures in accordance with its internal rules to prevent any potential conflicts of interest.
DO Shin-Toshin Development Tokutei Mokuteki Kaisha, the seller of Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi), is not an interested party under the Investment Trusts Act. This Tokutei Mokuteki Kaisha, however, is a special purpose company set up with the aim of acquiring, holding and disposing of specified assets partially invested in by Daiwa House Industry Co., Ltd., which is the parent

VI. Notes to Financial Statements

company of the Asset Manager, and is classified as an interested party as stipulated in the Asset Manager's internal rules to avoid transactions with conflicts of interest. Therefore, the Asset Manager has gone through the necessary discussion and approval procedures.

3. The purchase agreement for acquisition of each above property (the "Agreement") is deemed a forward commitment (a forward-dated purchase agreement in which settlement and transfer of the property are carried out at least one month after the agreement is concluded, or certain other similar contracts).

Under the Agreement, if a party breaches the Agreement, then the non-breaching party may cancel the Agreement upon notice to the breaching party only when the non-breaching party is no longer able to fulfill the purpose of the Agreement due to the other party's breach. In the event the Agreement is cancelled, the non-breaching party may demand the breaching party to pay a penalty in the amount equal to approximately 20% of the purchase price (as such penalty is expected to constitute damage payment, the non-breaching party may not claim for damages in the amount exceeding such penalty amount). With regard to the Agreement with DO Shin-Toshin Development Tokutei Mokuteki Kaisha for acquisition of Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi), the penalty is to be approximately 10% of the purchase price.

However, under the Agreement, the Surviving Corporation shall make a payment of the acquisition price after the Merger on condition that the Surviving Corporation would obtain necessary funds to meet the payment. Hence, if the Surviving Corporation is unable to complete the financing, the Agreement will expire without the Surviving Corporation assuming any obligations under the Agreement, including payment of any penalty or compensation such as payment of damages. Thus, if the Surviving Corporation cannot fulfill the forward commitment due to its inability to complete the financing, it is unlikely that such non-fulfillment will have any material impact on the Surviving Corporation's financial position.

4. As of February 29, 2016, the assets to be acquired stand as physical real estate. By the time of planned acquisition date, however, the assets are expected to be transferred to the trustee by the current owner and the Surviving Corporation is expected to acquire the trust beneficiary interest in the respective real estate.

Note 19 – Additional Information

DHR plans to acquire the following asset based on the purchase agreement concluded on October 29, 2015.

Property name	D Project Tosu (extension building)
Acquisition price (Note1)	¥ 2,600,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset type	Trust beneficiary interest in real estate (Note 4)
Location	1623-1, Aza Hasuhara, Himekata-machi, Tosu-shi, Saga
Planned acquisition date (Note 3)	June 15, 2016

Notes:

1. Acquisition price does not include acquisition costs, taxes and dues and consumption taxes.
2. As Daiwa House Industry Co., Ltd. is an interested party as defined in the Investment Trusts Act, the Asset Manager has gone through the necessary discussion and approval procedures in accordance with its internal rules to prevent any potential conflicts of interest.
3. The purchase agreement for acquisition of this property (the “Agreement”) is deemed a forward commitment (a forward-dated purchase agreement in which settlement and transfer of the property are carried out at least one month after the agreement is concluded, as well as certain other similar contracts).

Under the Agreement, if a party breaches the Agreement, then the non-breaching party may cancel the Agreement upon notice to the breaching party only when the non-breaching party is no longer able to fulfill the purpose of the Agreement due to the other party’s breach. In the event the Agreement is cancelled, the non-breaching party may demand the breaching party to pay a penalty in the amount equal to approximately 20% of the purchase price (as such penalty is expected to constitute damage payment, the non-breaching party may not claim for damages in the amount exceeding such penalty amount).

However, under the Agreement, DHR shall make a payment of the acquisition price on condition that DHR would obtain necessary funds to meet the payment. Hence, if DHR is unable to complete the financing, the Agreement will expire without DHR assuming any obligations under the Agreement, including payment of any penalty or compensation such as payment of damages. Thus, if DHR cannot fulfill the forward commitment due to its inability to complete the financing, it is unlikely that such non-fulfillment will have any material impact on DHR’s financial position.

According to an appraisal report provided by The Tanizawa Sōgō Appraisal Co., Ltd., the appraisal value of this property was ¥3,000 million as of February 29, 2016.

4. As of February 29, 2016, an extension building is under construction by Daiwa House Industry Co., Ltd. After its completion and by the time of planned acquisition date, however, the asset is expected to be transferred to the trustee by Daiwa House Industry Co., Ltd. and DHR is expected to acquire the trust beneficiary interest in the real estate.