

15th

Daiwa House REIT

 Daiwa House REIT Investment Corporation

Semi-Annual Report for the 15th Period

From March 1, 2015 to August 31, 2015

Asset Management Focused Predominantly on “Stability”

Distributions per unit

15th Period (ended August 31, 2015)

¥**8,473**

Forecast distributions per unit

16th Period (ending February 29, 2016)

¥**9,200**

17th Period (ending August 31, 2016)

¥**8,650**

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D Project Kuki III



D Project Kuki IV



D Project Kuki VI



D Project Yashio



Topics

■ Assets under Management Exceeds ¥200 Billion (16th Period)

Daiwa House REIT Investment Corporation (“DHR”) has been creating a solid platform for securing long-term, stable earnings and realizing steady growth under its “Phase 1” growth strategy for the period from the 11th period (ended August 31, 2013), the period following directly after the listing, to the 16th period (ending February 29, 2016). In September 2015, DHR acquired DREAM TOWN ALi to expand its assets under management to achieve the ¥200 billion target set for “Phase 1.”

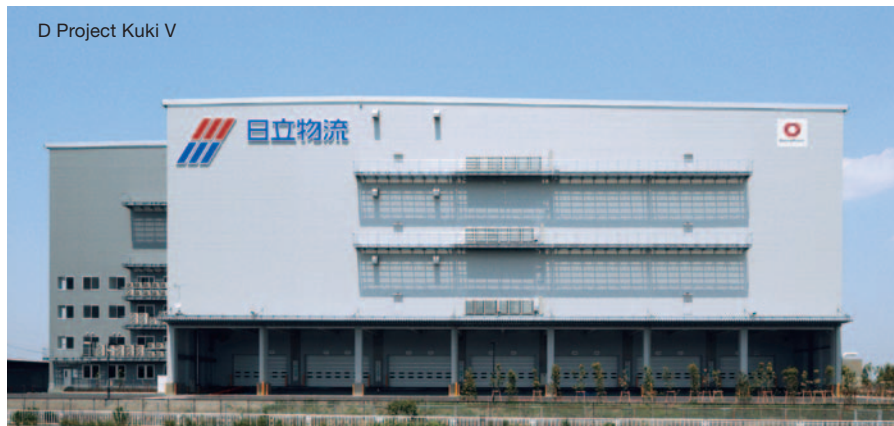
■ Acquisition of DREAM TOWN ALi (16th Period)

In September 2015, DHR acquired DREAM TOWN ALi (Aomori-shi, Aomori), a retail property housing 36 tenants. The asset management of the facilities is being undertaken by Daiwa Information Service Co., Ltd., a member of the Daiwa House Group.

■ Capital Increase through Public Offering

In March 2015, DHR resolved to issue 57,220 new investment units through public offering, and a total of ¥27,410 million was procured. These funds, along with borrowings, were used to acquire seven logistics properties totaling ¥48,420 million through the Daiwa House Group pipeline.

D Project Kuki V



D Project Matsudo



D Project Nishiyodogawa



To Our Unitholders

Daiwa House REIT Investment Corporation (“DHR”) listed its units on the J-REIT section of the Tokyo Stock Exchange in November 2012, based on its basic policy of targeting securing long-term, stable earnings and maximizing unitholder value. Now, approximately three years have passed since our listing. We would like to take this opportunity to convey our sincere gratitude to each and every one of our unitholders for their support and understanding hitherto. We will also give an overview of DHR’s operations in the 15th period (March 1, 2015 to August 31, 2015) and report on the content of the financial results.

In the 15th period, we acquired seven logistics properties (total acquisition price of ¥48,420 million) through our pipeline with the Daiwa House Group. As a result of this external growth, as of the end of the 15th period, our portfolio comprised 40 properties with a total acquisition price of ¥195,973 million, and occupancy rate of 99.97%. In addition, to provide the funds to acquire the aforesaid logistics properties, DHR conducted a public offering in March 2015, the second public offering since our listing, and raised funds of ¥27,410 million. For the 15th period operating revenues came to ¥6,305 million, operating income came to ¥3,683 million, net income came to ¥2,971 million, and distributions per investment unit came to ¥8,473.

In the next period, the 16th period (September 1, 2015 to February 29, 2016), DHR acquired one retail property on September 28, 2015. DHR has been creating a solid platform for securing long-term, stable earnings and achieving steady growth under its “Phase 1” growth strategy for the period from the 11th period (ended August 31, 2013), the period following directly after the listing, to the 16th period (ending February 29, 2016). By making this acquisition of a retail property, DHR’s portfolio now stands at 41 properties with a total acquisition price of ¥203,763 million. As a result, the “Phase 1” target of a portfolio size of ¥200 billion was achieved.

DHR is now aiming for the “Phase 2” target of a portfolio size of ¥400 billion as the next long-term growth strategy. Our ultimate goal is always to achieve results that maximize unitholders’ interests. To realize this goal, we will continually focus on two investment classes: logistics and retail properties that can generate long-term stable cash flows, while seeking stable growth opportunities through collaboration with the Daiwa House Group, which retains a strong development track record in logistics and retail properties.

In closing, we ask for the continued support and understanding of our unitholders and the investment community as we move forward.



Masazumi Kakei
Executive Director
Daiwa House REIT
Investment Corporation

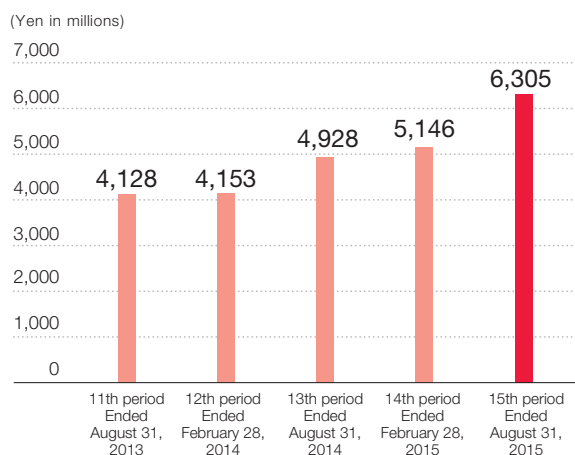


Hirotaka Najima
Representative Director,
President and CEO
Daiwa House REIT
Management Co., Ltd.

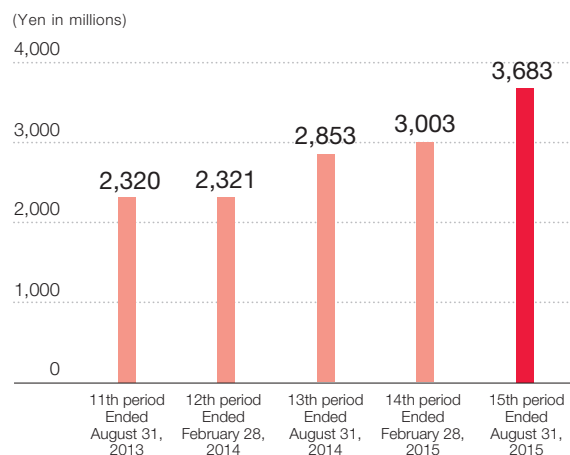
Financial Highlights

■ Operating revenues	¥6,305 million	■ Total assets	¥216,936 million
■ Operating income	¥3,683 million	■ Net assets	¥108,430 million
■ Net income	¥2,971 million	■ Net assets per unit	¥309,183

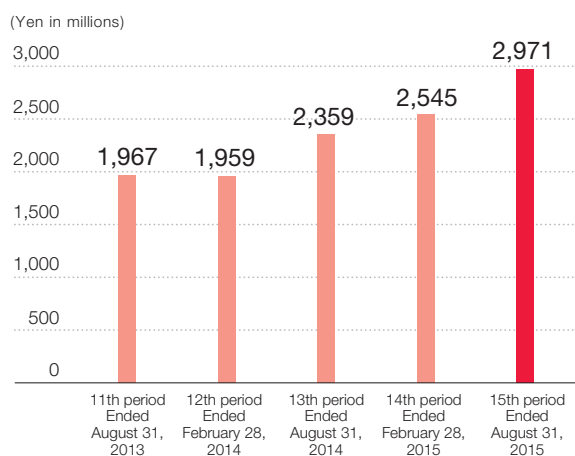
Operating revenues



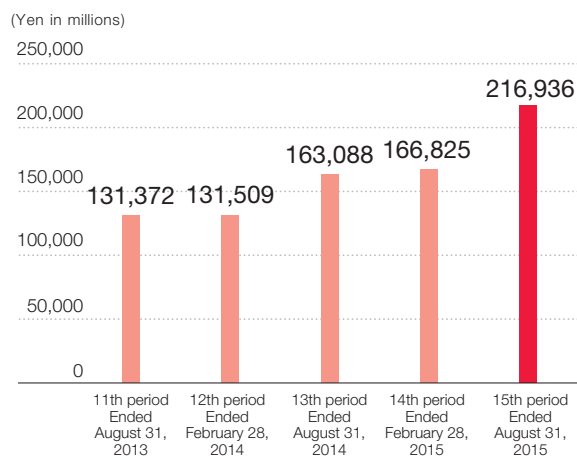
Operating income



Net income



Total assets



Acquisitions in the 15th Period

We acquired all properties below through our pipeline with the Daiwa House Group.

L-B-26 D Project Kuki III



Location Kuki, Saitama
Construction date June 28, 2013
Acquisition price ¥7,340 million

L-B-27 D Project Kuki IV



Location Kuki, Saitama
Construction date June 30, 2009
Acquisition price ¥5,300 million

L-B-28 D Project Kuki V



Location Kuki, Saitama
Construction date May 21, 2012
Acquisition price ¥8,010 million

L-B-29 D Project Kuki VI



Location Kuki, Saitama
Construction date August 9, 2013
Acquisition price ¥4,980 million

L-B-30 D Project Yashio



Location Yashio, Saitama
Construction date August 1, 2011
Acquisition price ¥6,140 million

L-B-31 D Project Nishiyodogawa

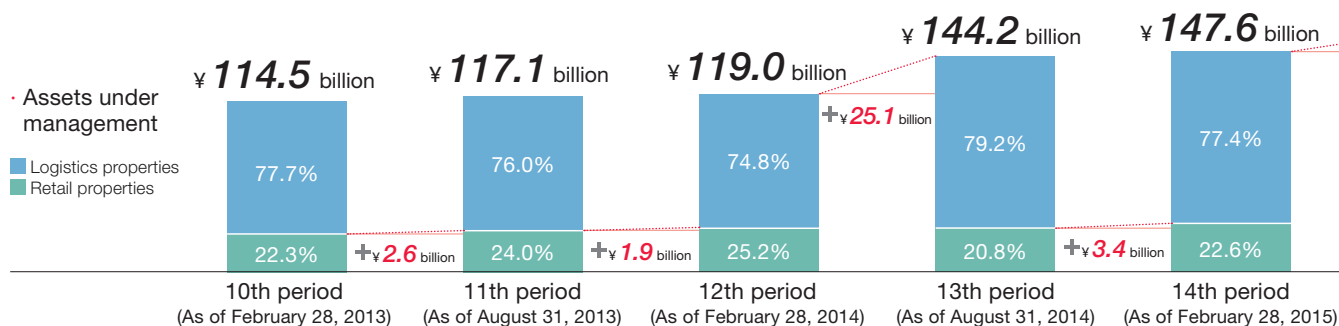
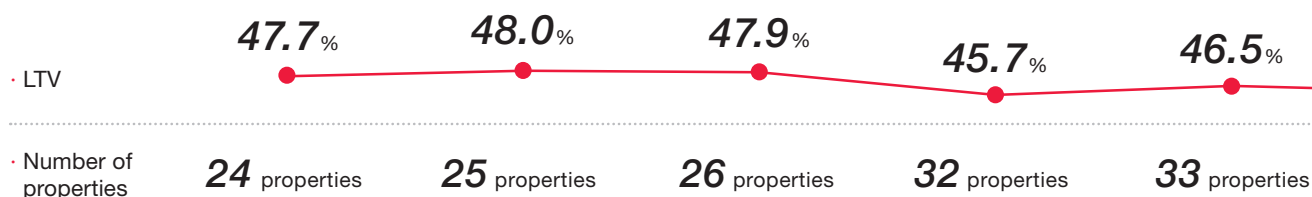


Location Osaka, Osaka
Construction date April 15, 2011
Acquisition price ¥9,660 million

L-B-32 D Project Matsudo



Location Matsudo, Chiba
Construction date April 9, 2011
Acquisition price ¥6,990 million



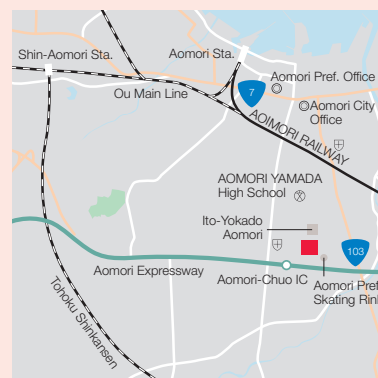
New Acquisitions in the 16th Period (acquired on September 28, 2015)

R-M-6 DREAM TOWN ALi



Location and market areas

- Located in Hamada district, which is approximately 3 km south of Aomori Station, and is positioned between the city center and the suburbs. It is where the city's largest retail properties agglomerate. The property is surrounded by National Highway Route 103, Prefectural Highway Route 120, and National Highway Route 7.
- The property houses 36 tenants. In addition to clothing specialty stores such as UNIQLO and GU, and general merchandize stores such as Don Quijote, a 100-yen shop and shoe store, there is also the amusement complex Round One, a wedding center, and many others.
- The property is located in the planned community (New Town). Half of the residential population within immediate trade area of 1 km radius from the facility are under 40, and there is a high proportion of people in their 30s with children. Approximately 70% of the population of the city of Aomori live within 5 km of the trade area and the population by trade area is as follows: 11,000 in the 1 km trade area, 103,000 in the 3 km trade area, and 207,000 in the 5 km trade area.



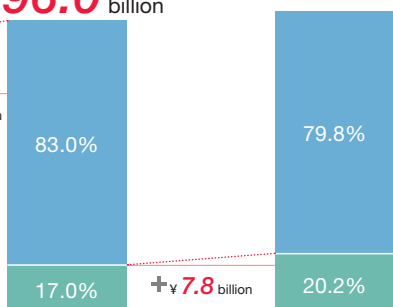
Location	Aomori, Aomori
Construction date	August 29, 2007
Acquisition price	¥7,790 million

45.2% → 46.4%

40 properties → 41 properties

¥196.0 billion → ¥203.8 billion

+¥48.4 billion



15th period
(As of August 31, 2015)

As of
September 28, 2015

Seeking steady
portfolio growth

Investment Strategy

High-Performance Logistics Properties with Competitive Specifications

Investment Criteria

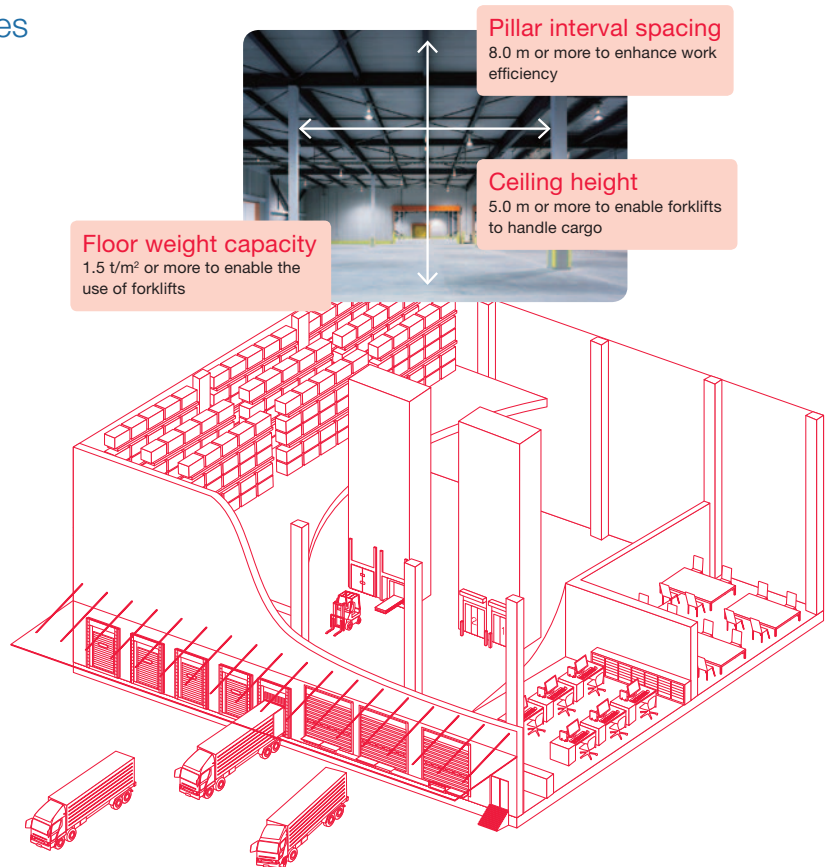
Location

- Proximity to both consumption and production areas
- Accessibility to transportation networks connecting both areas
 - Highways, airports, harbors, etc.
- Ease in securing workforce and convenience in commuting for employees



Specifications

- Space and specifications in principle
 - A certain scale or above
 - Gross floor area (6,000 m² or more)
 - Floor weight capacity (1.5 t/m² or more)
 - Ceiling height (5.0 m or more)
 - Pillar interval spacing (8.0 m or more)
- Building, equipment and other features (car berths, etc.) in accordance with the expected size and type of parcels to be delivered and shipping frequency



Specialty Retail Complexes with a Focus on Competitive Specialty Stores

Investment Criteria

Location

- Long-term stability through the ability to attract customers
 - Accessibility from main highways, residential roads and urban areas
 - High visibility of the building
- Characteristics suitable for the market areas and regions
 - Suitable floor composition, parking capacity, etc.
 - Adequate size

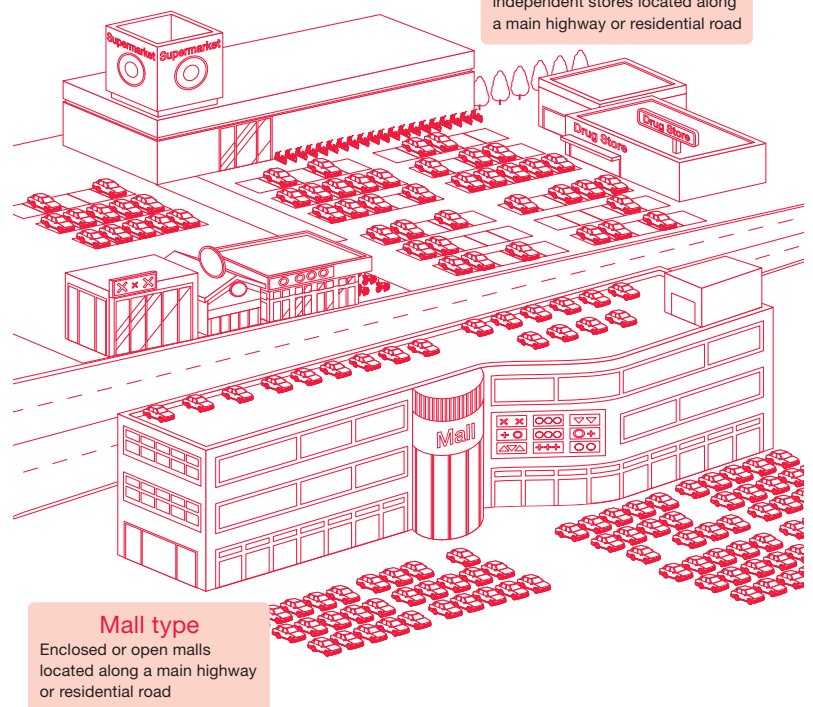


Tenants

- Competitive specialty stores
- Well-known tenants connected to consumers' daily life
- Long-term agreements with "core tenants" (Note)
- Stable occupancy rate over the medium to long term

Roadside type

Single retail properties or retail complexes consisting of independent stores located along a main highway or residential road



(Note) "Core tenants" have a lease area of at least 2,000 m².

Growth Strategy

Collaboration with Daiwa House Group



- Planning and development of logistics and retail properties as part of the Daiwa House Group's core businesses
- Support agreements to grant preferential negotiating rights to DHR for the sale and purchase of properties
- Information sharing on the development of logistics and retail properties with Daiwa House REIT Management Co., Ltd. (the "Asset Manager")
- Ownership of investment units by Daiwa House Industry ("Same Boat Investments")

Daiwa House REIT Investment Corporation

Daiwa House REIT Management Co., Ltd.

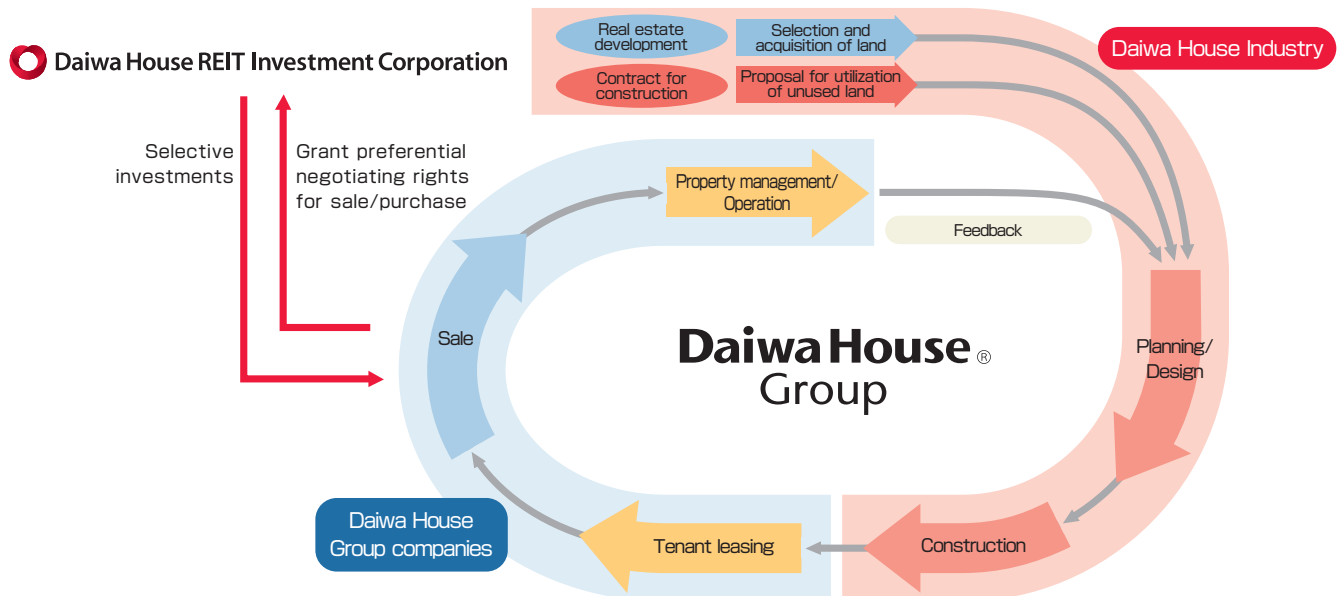
External Growth

- Extensive capability for planning and development of high-performance logistics properties and specialty retail complexes

Internal Growth

- Capability to undertake comprehensive services from planning and development to property management

- Well-established and strong relationships with a broad range of tenants developed over many years
- Capability in tenant leasing
- Strength in property management
- Optimization of life cycle cost



Pipeline with Sponsor

As the environment for acquiring properties becomes increasingly competitive, DHR will seek steady external growth by continuing to maintain a strong relationship with, and fully leveraging the pipeline and support offered by the Daiwa House Group.

Strength of the Daiwa House Group's Logistics and Retail Properties

Daiwa House Group provides comprehensive support to help clients achieve success in their distribution business.

Logistics Properties	1	2	3	4	5	6
	Planning and development to meet tenant needs	Construction capabilities to meet tenant needs	Site selection capability	Nationwide network with distributors and cargo owners	Strong relationships with tenants starting with construction proposals for logistics properties	Leasing capabilities leveraging the strength of the Group

Daiwa House Group develops a diverse range of stores, provides management appropriate for each type of store and offers a support system.

Retail Properties	1	2	3	4	5	6
	Property development and city planning suitable to the region	Ability to attract specialty tenants	Comprehensive services from planning phase through property management	Nationwide land information and network with tenants	Partnerships with blue-chip tenants	Collecting land information and store opening information through the LOC system

Properties Developed by the Daiwa House Group



D Project Kita Hachioji Annex A



D Project Kita Hachioji Annex B



D Project Kita Hachioji Annex C



D Project Jonanjima



D Project Itabashi Shingashi



D Project Kawagoe



DPL Misato



DPL Sagamihara



DPL Yokohama Daikoku



FOLEO Shoubu



iias Tsukuba



FOLEO Hakata

Financial Strategy

Financial Policy

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

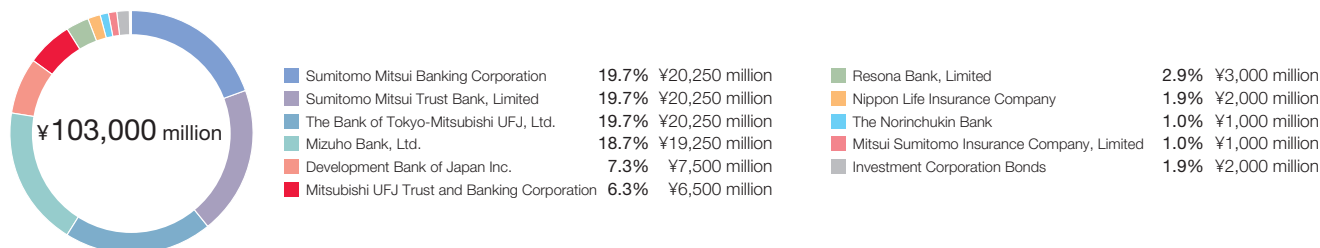
Equity finance	Additional investment units are issued flexibly for the purpose of maintaining long-term stable growth of its portfolio and with due consideration given to the possible dilution of investment units.
Debt finance (LTV standard)	DHR has set an upper limit of 60% for the LTV (Note) ratio to ensure financial soundness. (Note) LTV (Loan-To-Value) refers to the proportion of interest-bearing debt to total assets.

Overview of Interest-bearing Debt

Interest-bearing Debt (as of September 28, 2015)

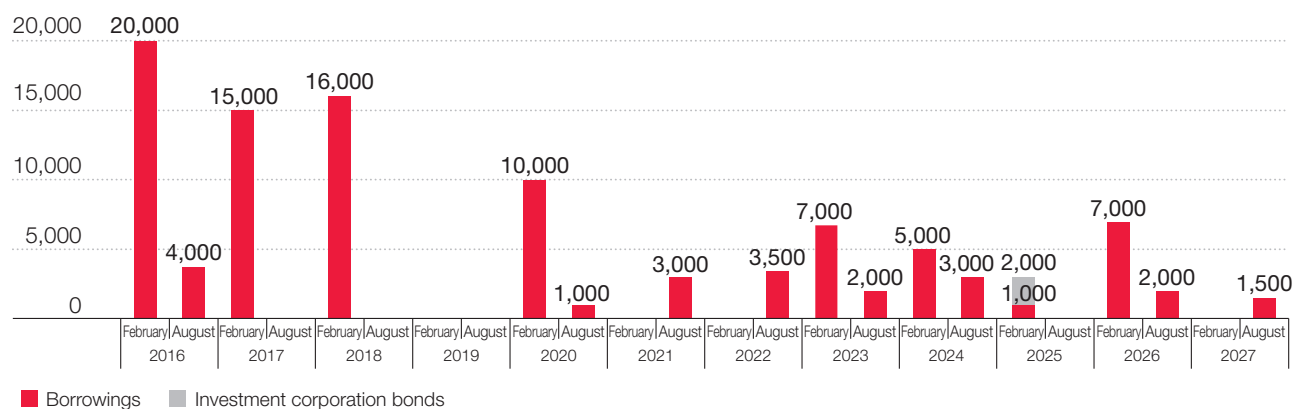
Total interest-bearing debt	¥103,000 million	Long-term interest-bearing debt ratio	96.1%
Total borrowings	¥101,000 million	Fixed interest ratio	96.1%
Total investment corporation bonds	¥2,000 million	Average debt maturity	6.0 years
Commitment line	¥10,000 million	Average remaining maturity	4.0 years

Breakdown of Interest-bearing Debt (as of September 28, 2015)



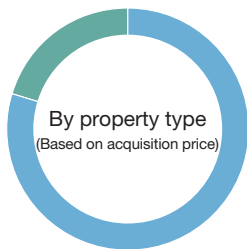
Diversification of Repayment Terms of Interest-bearing Debt (as of September 28, 2015)

(Yen in millions)

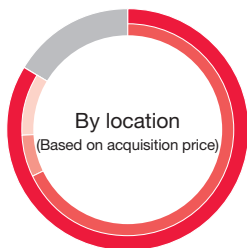


Portfolio Map

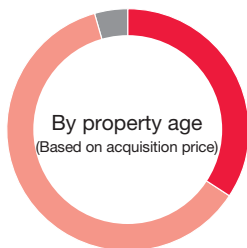
● Portfolio Data (as of September 28, 2015)



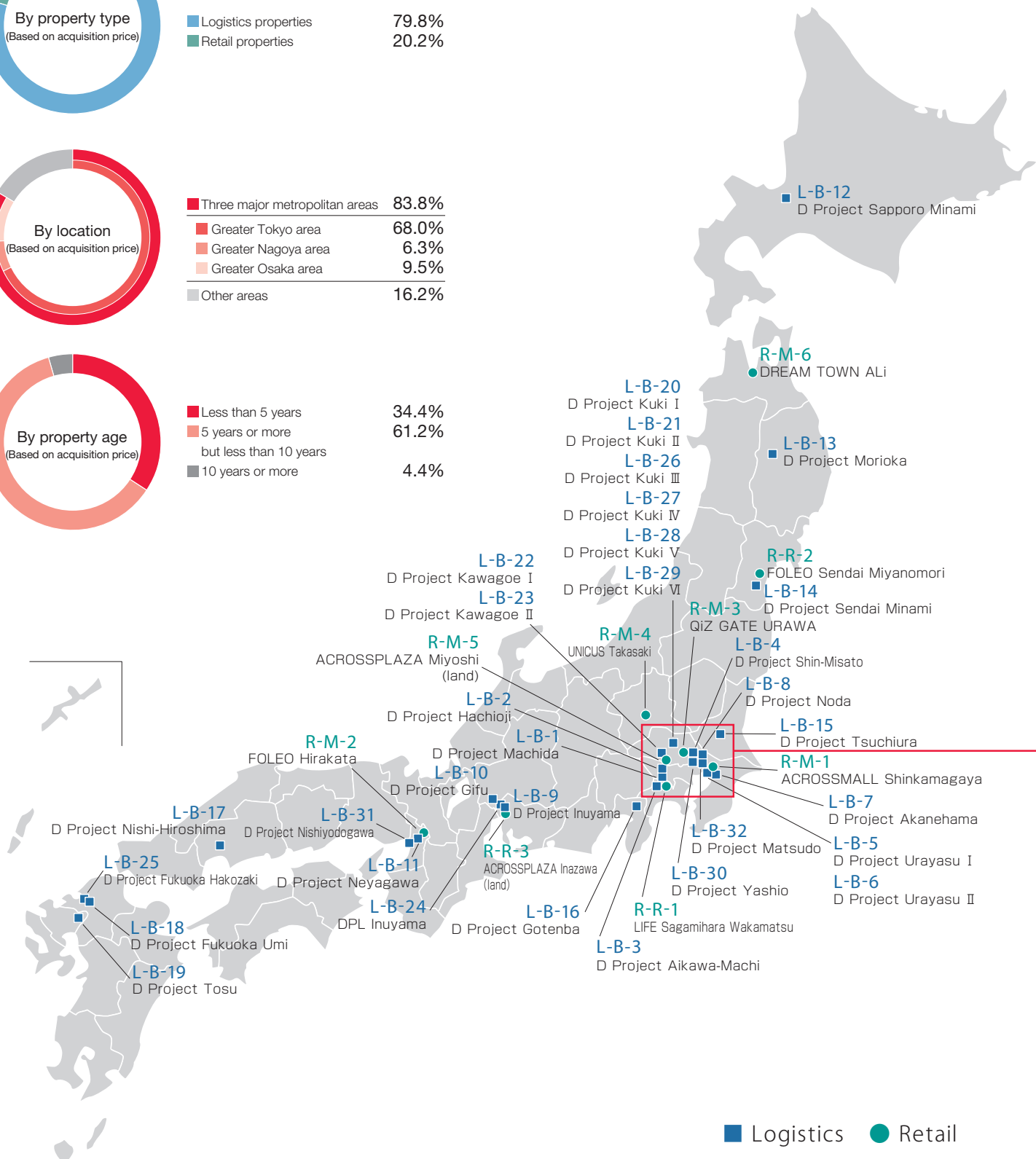
■ Logistics properties 79.8%
● Retail properties 20.2%



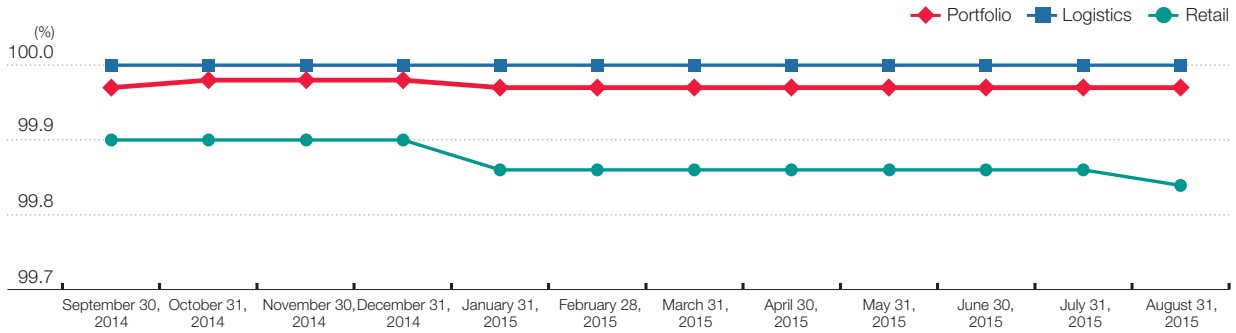
■ Three major metropolitan areas 83.8%
■ Greater Tokyo area 68.0%
■ Greater Nagoya area 6.3%
■ Greater Osaka area 9.5%
■ Other areas 16.2%



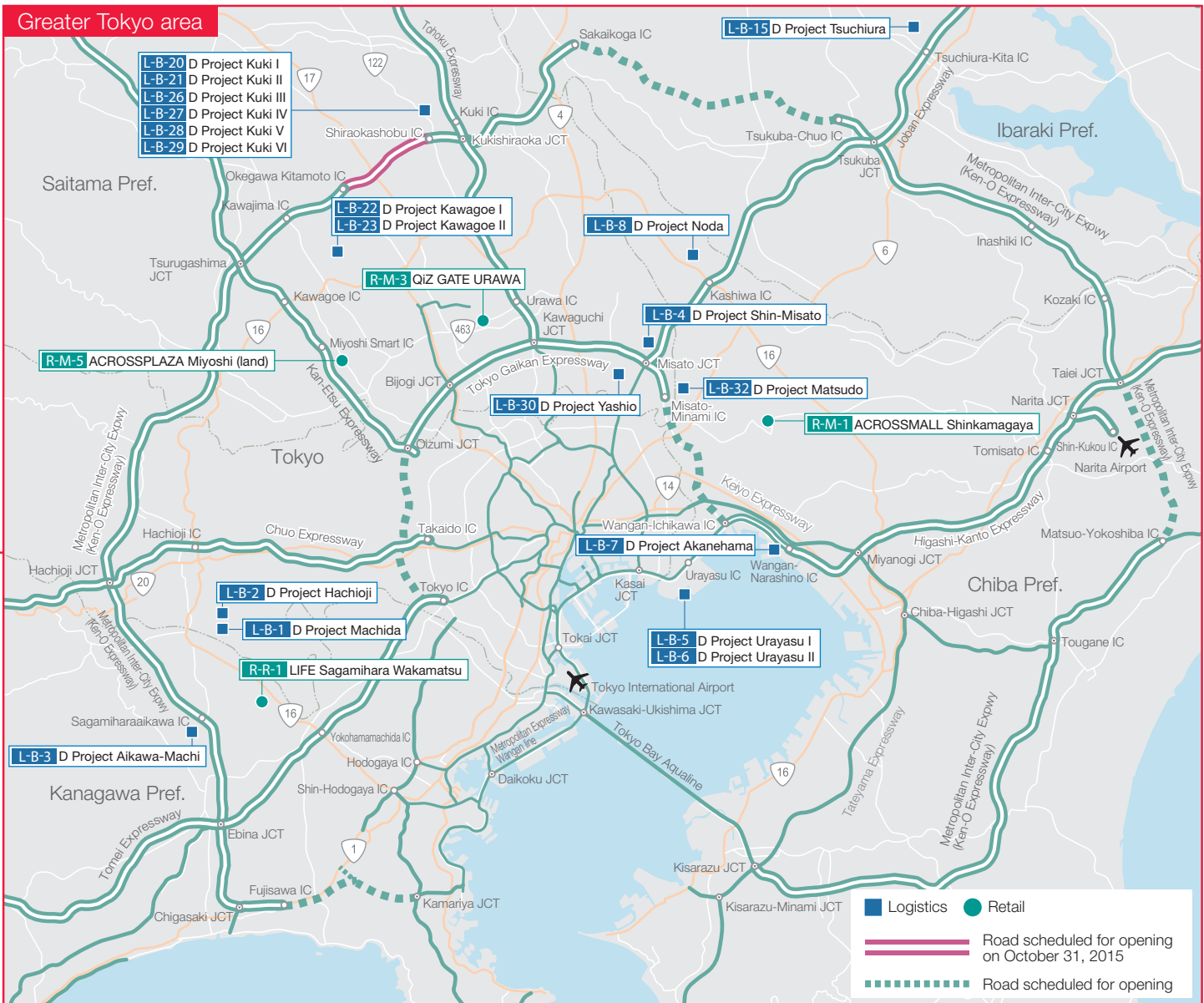
■ Less than 5 years 34.4%
■ 5 years or more but less than 10 years 61.2%
■ 10 years or more 4.4%



● Occupancy Rates



(Note) The occupancy rates as of the end of each month (rate of total leased area to total leasable area) are rounded down to the nearest 100th for the portfolio total, logistics properties, and retail properties.



Properties Held at the End of the 15th Period

Logistics



L-B-1 D Project Machida

Logistics



L-B-2 D Project Hachioji

Logistics



L-B-3 D Project Aikawa-Machi

Logistics



L-B-4 D Project Shin-Misato

Logistics



L-B-5 D Project Urayasu I

Logistics



L-B-6 D Project Urayasu II

Logistics



L-B-7 D Project Akanehama

Logistics



L-B-8 D Project Noda



L-B-9 D Project Inuyama



L-B-10 D Project Gifu



L-B-11 D Project Neyagawa



L-B-12 D Project Sapporo Minami



L-B-13 D Project Morioka



L-B-14 D Project Sendai Minami



L-B-15 D Project Tsuchiura



L-B-16 D Project Gotenba

Properties Held at the End of the 15th Period

Logistics



L-B-17 D Project Nishi-Hiroshima

Logistics



L-B-18 D Project Fukuoka Umi

Logistics



L-B-19 D Project Tosu

Logistics



L-B-20 D Project Kuki I

Logistics



L-B-21 D Project Kuki II

Logistics



L-B-22 D Project Kawagoe I

Logistics



L-B-23 D Project Kawagoe II

Logistics



L-B-24 DPL Inuyama



Logistics

L-B-25 D Project Fukuoka Hakozaki



Logistics

L-B-26 D Project Kuki III



Logistics

L-B-27 D Project Kuki IV



Logistics

L-B-28 D Project Kuki V



Logistics

L-B-29 D Project Kuki VI



Logistics

L-B-30 D Project Yashio



Logistics

L-B-31 D Project Nishiyodogawa



Logistics

L-B-32 D Project Matsudo

Properties Held at the End of the 15th Period

Retail



R-M-1 ACROSSMALL Shinkamagaya

Retail



R-M-2 FOLEO Hirakata

Retail



R-M-3 QiZ GATE URAWA

Retail



R-M-4 UNICUS Takasaki

Retail



R-M-5 ACROSSPLAZA Miyoshi (land)

Retail



R-R-1 LIFE Sagamihara Wakamatsu

Retail



R-R-2 FOLEO Sendai Miyanomori

Retail



R-R-3 ACROSSPLAZA Inazawa (land)

Portfolio Summary (as of September 28, 2015)

Property number	Real estate in trust (Property name)	Location (City or county, prefecture)	Construction date (Note 1)	Acquisition price (Yen in millions)	Investment ratio (%) (Note 2)	Leasable area (m ²)
L-B-1	D Project Machida	Machida, Tokyo	October 1, 2006	7,600	3.7	50,490.39
L-B-2	D Project Hachioji	Hachioji, Tokyo	December 1, 2008	12,600	6.2	62,394.17
L-B-3	D Project Aikawa-Machi	Aiko, Kanagawa	June 30, 2006	2,600	1.3	14,240.84
L-B-4	D Project Shin-Misato	Misato, Saitama	April 15, 2009	4,440	2.2	11,289.91
L-B-5	D Project Urayasu I	Urayasu, Chiba	May 31, 2005	7,700	3.8	36,515.81
L-B-6	D Project Urayasu II	Urayasu, Chiba	April 10, 2007	21,400	10.5	72,320.01
L-B-7	D Project Akanehama	Narashino, Chiba	October 11, 2005	2,550	1.3	11,663.39
L-B-8	D Project Noda	Noda, Chiba	September 30, 2007	5,100	2.5	29,232.53
L-B-9	D Project Inuyama	Inuyama, Aichi	December 10, 2009	6,650	3.3	43,723.70
L-B-10	D Project Gifu	Anpachi, Gifu	February 28, 2009	900	0.4	7,669.91
L-B-11	D Project Neyagawa	Neyagawa, Osaka	July 23, 2009	4,600	2.3	11,151.51
L-B-12	D Project Sapporo Minami	Kitahiroshima, Hokkaido	October 30, 2007	600	0.3	6,749.10
L-B-13	D Project Morioka	Takizawa, Iwate	September 13, 2002	1,000	0.5	9,558.32
L-B-14	D Project Sendai Minami	Iwanuma, Miyagi	March 28, 2006	1,250	0.6	11,052.27
L-B-15	D Project Tsuchiura	Tsuchiura, Ibaraki	February 19, 2009	2,880	1.4	17,448.86
L-B-16	D Project Gotenba	Gotenba, Shizuoka	January 15, 2009	950	0.5	6,737.53
L-B-17	D Project Nishi-Hiroshima	Hiroshima, Hiroshima	January 10, 2008	990	0.5	5,093.51
L-B-18	D Project Fukuoka Umi	Kasuya, Fukuoka	May 1, 2006	3,100	1.5	24,729.56
L-B-19	D Project Tosu	Tosu, Saga	February 19, 2009	2,100	1.0	8,826.00
L-B-20	D Project Kuki I	Kuki, Saitama	October 5, 2011	3,500	1.7	22,708.72
L-B-21	D Project Kuki II	Kuki, Saitama	June 21, 2013	7,200	3.5	50,490.00
L-B-22	D Project Kawagoe I	Kawagoe, Saitama	April 30, 2011	3,100	1.5	16,150.88
L-B-23	D Project Kawagoe II	Kawagoe, Saitama	September 3, 2012	4,250	2.1	19,872.00
L-B-24	DPL Inuyama	Inuyama, Aichi	September 18, 2013	3,380	1.7	21,628.50
L-B-25	D Project Fukuoka Hakozaki	Fukuoka, Fukuoka	October 1, 2012	3,700	1.8	34,710.80
L-B-26	D Project Kuki III	Kuki, Saitama	June 28, 2013	7,340	3.6	26,937.41
L-B-27	D Project Kuki IV	Kuki, Saitama	June 30, 2009	5,300	2.6	26,460.00
L-B-28	D Project Kuki V	Kuki, Saitama	May 21, 2012	8,010	3.9	47,320.89
L-B-29	D Project Kuki VI	Kuki, Saitama	August 9, 2013	4,980	2.4	29,244.66
L-B-30	D Project Yashio	Yashio, Saitama	August 1, 2011	6,140	3.0	21,965.04
L-B-31	D Project Nishiyodogawa	Osaka, Osaka	April 15, 2011	9,660	4.7	39,584.80
L-B-32	D Project Matsudo	Matsudo, Chiba	April 9, 2011	6,990	3.4	26,776.67
32 logistics properties total				162,560	79.8	824,737.69
R-M-1	ACROSSMALL Shinkamagaya	Kamagaya, Chiba	October 31, 2006	7,419	3.6	41,742.84
R-M-2	FOLEO Hirakata	Hirakata, Osaka	November 20, 2006	5,040	2.5	16,380.78
R-M-3	QiZ GATE URAWA	Saitama, Saitama	February 17, 2008	5,360	2.6	9,705.31
R-M-4	UNICUS Takasaki	Takasaki, Gunma	November 5, 2008	2,570	1.3	9,277.08
R-M-5	ACROSSPLAZA Miyoshi (land)	Iruma, Saitama	—	3,390	1.7	24,018.00
R-M-6	DREAM TOWN ALi	Aomori, Aomori	August 29, 2007	7,790	3.8	22,196.81
R-R-1	LIFE Sagamihara Wakamatsu	Sagamihara, Kanagawa	April 25, 2007	1,650	0.8	2,973.44
R-R-2	FOLEO Sendai Miyanomori	Sendai, Miyagi	October 6, 2009	6,040	3.0	19,845.72
R-R-3	ACROSSPLAZA Inazawa (land)	Inazawa, Aichi	—	1,944	1.0	31,981.70
9 retail properties total				41,203	20.2	178,121.68
Portfolio total of 41 properties				203,763	100.0	1,002,859.37

(Notes) 1. Construction date of the main building, as described in the property registry, is represented. For properties with several main buildings, the construction date of the oldest building is listed.

2. Investment ratio represents the percentage of the acquisition price for each asset to the total acquisition price. Figures are rounded to the nearest tenth. As a result, the total value may not exactly match the figure obtained by adding together all of the values shown.

1 Summary of Asset Management

(1) Historical Operating Results

Period		11th period	12th period	13th period	14th period	15th period
		From March 1, 2013 to August 31, 2013	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
Operating revenues	(Yen in millions)	4,128	4,153	4,928	5,146	6,305
Of which, real estate leasing business revenues	(Yen in millions)	4,128	4,153	4,928	5,146	6,305
Operating expenses	(Yen in millions)	1,807	1,832	2,074	2,143	2,621
Of which, real estate leasing business expenses	(Yen in millions)	1,442	1,462	1,669	1,689	2,140
Operating income	(Yen in millions)	2,320	2,321	2,853	3,003	3,683
Ordinary income	(Yen in millions)	1,967	1,960	2,359	2,546	2,972
Net income	(Yen in millions)	1,967	1,959	2,359	2,545	2,971
Total assets	(Yen in millions)	131,372	131,509	163,088	166,825	216,936
(Period-on-period changes)	(%)	2.8	0.1	24.0	2.3	30.0
Net assets	(Yen in millions)	61,348	61,340	80,407	80,593	108,430
(Period-on-period changes)	(%)	1.8	(0.0)	31.1	0.2	34.5
Unitholders' capital	(Yen in millions)	59,381	59,381	78,048	78,048	105,459
Total number of investment units issued	(Units)	122,540	122,540	293,480	293,480	350,700
Net assets per unit (Note 2)	(Yen)	500,640	250,288	273,979	274,614	309,183
Total distributions	(Yen in millions)	1,967	1,959	2,359	2,545	2,971
Distributions per unit	(Yen)	16,055	15,992	8,039	8,674	8,473
Of which, earnings distributions per unit	(Yen)	16,055	15,992	8,039	8,674	8,473
Of which, distributions in excess of earnings per unit	(Yen)	—	—	—	—	—
Ordinary income to total assets ratio (Note 3)	(%)	1.5	1.5	1.6	1.5	1.5
(Annualized)	(%)	3.0	3.0	3.2	3.1	3.1
Return on equity (Note 3)	(%)	3.2	3.2	3.3	3.2	3.1
(Annualized)	(%)	6.4	6.4	6.6	6.4	6.2
Equity ratio (Note 3)	(%)	46.7	46.6	49.3	48.3	50.0
(Period-on-period changes)	(%)	(0.5)	(0.1)	2.7	(1.0)	1.7
Payout ratio (Note 3)	(%)	100.0	100.0	(Note 4) 100.0	100.0	(Note 4) 100.0
<Reference Information>						
Number of investment properties		25	26	32	33	40
Total leasable area	(m ²)	540,812.49	572,794.19	738,355.09	762,373.09	980,662.56
Number of tenants		40	40	46	47	54
Occupancy rate at the end of period	(%)	100.0	100.0	100.0	100.0	100.0
Depreciation during the period	(Yen in millions)	843	844	1,010	1,044	1,359
Capital expenditures during the period	(Yen in millions)	57	6	23	19	3
Rental NOI (Net Operating Income) (Note 3)	(Yen in millions)	3,529	3,536	4,269	4,501	5,523
FFO (Funds from Operations) per unit (Note 3)	(Yen)	22,941	22,887	11,482	12,233	12,350
Interest-bearing debt (Note 3)	(Yen in millions)	63,000	63,000	74,500	77,500	98,000
Interest-bearing debt to total assets ratio (Note 3)	(%)	48.0	47.9	45.7	46.5	45.2
Number of operating days	(Days)	184	181	184	181	184

(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 August 31, 2015), DHR acquired seven logistics properties (total acquisition price of ¥48,420 million) using funds raised in a capital increase through public offering for the second consecutive year, in conjunction with loan financing (see Note 2). Consequently, DHR held a total of 40 properties as of August 31, 2015 (total acquisition price of ¥195,973 million).

(Notes) 1. The Daiwa House Group comprises Daiwa House Industry Co., Ltd. (hereinafter referred to as "Daiwa House"), its 138 consolidated subsidiaries, one non-consolidated subsidiary, 24 equity-method associates, and two non-equity-method associates, as of September 30, 2015. 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 maintained its modest recovery trend amid positive factors such as more upbeat corporate earnings and increasing capital investment fueled by economic policies of the government and monetary policy of the Bank of Japan. This occurred despite a brief pull-back in individual consumption and other demand following a previous surge in spending ahead of Japan's consumption tax hike.

In the real estate market, the *Land Price LOOK Report* published by the Ministry of Land, Infrastructure, Transport and Tourism in August 2015 indicated land price increases in approximately 90% of areas overall. This continuing upward trend in land prices appears to reflect heightened appetite for real estate investment buoyed by monetary easing and other factors.

In the J-REIT market, the Tokyo Stock Exchange (TSE) REIT Index reached its highest level in roughly eight years in January 2015, but subsequently turned bearish. This was particularly the case beginning in the latter half of June as investor aversion to risk began to intensify amid jitters regarding circumstances in overseas stock markets and financial concerns. On the other hand, the bullish trend of asset acquisitions by J-REITs seen last year held firm, thereby resulting in overall J-REIT asset acquisitions from the months of January through June 2015 exceeding the ¥920 billion mark, for a 17.7% increase year on year.

Supply-demand trends in the market for rentals of logistics properties targeted for DHR investment remained firm, underpinned particularly by demand from business operators in e-commerce, retail mail order and other such enterprises which have been achieving growth. The vacancy rates for large multi-tenant logistics properties announced in July 2015 by CBRE K.K., were at 3.6% and 4.8% in the greater Tokyo and greater Osaka areas, respectively (as of June 2015), while offered rent levels remained stable. Going forward, despite increases slated in the supply of logistics properties over 2015 and 2016, we expect tenant demand for logistics properties to hold course given the likelihood of ongoing growth from business operators in e-commerce, retail mail order and other such enterprises, along with expanding business in third-party logistics (3PL) involving comprehensive outsourcing services that add value in relation to the logistics function, and new construction of geographically vast logistics networks.

With regard to the business environment surrounding retail properties which are another target of our investment, the retail sales total according to the commercial sales statistics (excluding automobile and fuel sales) has held firm, increasing 0.4% year on year in the first half of 2015 over the months of January to June, aided by improvement in the Japanese economy's employment and income climate. The supermarket sector has been experiencing growth in the business of food product home delivery involving grocery items from online supermarkets. This mainly reflects Japan's aging population and increasing numbers of two-income households. Meanwhile, companies have also been implementing somewhat more distinctive sales strategies, with efforts that include providing new customer services in partnership with mail order retailers and home delivery providers.

In this investment environment, DHR drew on its Daiwa House Group pipeline in acquiring seven logistics properties with high occupancy rates and for which long-term lease agreements have been concluded (total acquisition price of ¥48,420 million) during the current fiscal period (ended August 31, 2015), thereby enabling DHR to expand and diversify its portfolio. As a result, as of August 31, 2015 DHR owned 40 properties (with a total book value of ¥190,886 million at the end of the period) with a total leasable area of 980,662.56 m² and an occupancy rate of 99.97% (the figure is rounded down to the nearest 100th).

C. Overview of Financing

In the current fiscal period (ended August 31, 2015), DHR issued new investment units through public offering on March 23, 2015 (52,000 units) and also issued new investment units through third-party allotment on April 14, 2015 (5,220 units), thereby raising a total of ¥27,410 million. As of August 31, 2015, unitholders' capital amounted to ¥105,459 million, and the number of total investment units issued came to 350,700 units.

In conjunction with the aforementioned capital increase through public offering, DHR also arranged total financing of ¥20,500 million, comprising long-term loans amounting to ¥16,500 million on April 1, 2015, and short-term loans amounting to ¥4,000 million on June 1, 2015, for

the purpose of partially covering the acquisition costs for trust beneficiary interests in real estate and related expenses. Of the amount of long-term loans, DHR arranged fixed rates of interest by entering into interest rate swap agreements with respect to ¥11,000 million of the loans that are subject to floating interest rates. Consequently, as of August 31, 2015, DHR's total interest-bearing debt was ¥98,000 million (total borrowings of ¥96,000 million and total investment corporation bonds of ¥2,000 million), while its ratio of long-term interest-bearing debt (Note 1) and ratio of fixed interest rate (Note 2) were each 95.9%.

The credit rating DHR has obtained from the external credit rating agency as of August 31, 2015 is as follows:

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 interest-bearing debt" shown is the ratio of long-term interest-bearing debt to the total amount of interest-bearing debt as of August 31, 2015. 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 August 31, 2015, are also calculated as long-term interest-bearing debt.

2. "Ratio of fixed interest rate" shown is the ratio of interest-bearing debt with fixed interest rates to the total amount of interest-bearing debt as of August 31, 2015. 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 August 31, 2015), operating revenues came to ¥6,305 million, operating income came to ¥3,683 million, ordinary income came to ¥2,972 million, and net income came to ¥2,971 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 ¥8,473.

(3) Summary of Capital Increase

DHR issued new investment units (52,000 units through public offering and 5,220 units through third-party allotment) on March 23, 2015 and April 14, 2015, raising ¥27,410 million.

DHR's total number of investment units issued and changes in total investments for the most recent five years until August 31, 2015 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	11th period	12th period	13th period	14th period	15th period
Fiscal period end	August 2013	February 2014	August 2014	February 2015	August 2015
Highest (Yen)	¥814,000	¥876,000 ¥423,500 (Note)	¥473,000	¥622,000	¥569,000
Lowest (Yen)	¥634,000	¥642,000 ¥416,500 (Note)	¥401,000	¥468,000	¥439,000

(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 ¥8,473.

Period	11th period From March 1, 2013 to August 31, 2013	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
Net income (Yen in thousands)	1,967,283	1,959,680	2,359,313	2,545,604	2,971,619
Unappropriated retained earnings (Yen in thousands)	1,967,380	1,959,680	2,359,334	2,545,653	2,971,627
Retained earnings (Yen in thousands)	0	21	49	8	146
Total distributions (Yen in thousands)	1,967,379	1,959,659	2,359,285	2,545,645	2,971,481
(Distributions per unit) (Yen)	16,055	15,992	8,039	8,674	8,473
Of the above, total earnings distributions (Yen in thousands)	1,967,379	1,959,659	2,359,285	2,545,645	2,971,481
(Earnings distributions per unit) (Yen)	16,055	15,992	8,039	8,674	8,473
Of the above, total capital refunds (Yen in thousands)	—	—	—	—	—
(Capital refunds 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 (Note), 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 the Daiwa House Group until DHR's acquisition of properties, as contemplated under the pipeline supporting agreements.

(Note) Daiwa Odakyu Construction Co., Ltd., which is a counterparty to a supporting agreement, merged with Fujita Corporation on October 1, 2015. The rights and obligations relating to this agreement have been succeeded by Fujita Corporation.

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.

(6) Significant Events after Balance Sheet Date

A. Debt Financing

DHR concluded debt financing contracts on September 24, 2015 and conducted debt financing as described below on September 28, 2015.

Lender	Borrowing amount (Yen in millions)	Interest rate (%)	Date of borrowing	Repayment due date	Method of repayment	Collateral
Sumitomo Mitsui Trust Bank, Limited; Sumitomo Mitsui Banking Corporation; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Mizuho Bank, Ltd.	4,000	0.6498 Fixed interest rate (Note)	September 28, 2015	September 28, 2022	Bullet repayment	Unsecured and non-guaranteed
Nippon Life Insurance Company	1,000	0.73 Fixed interest rate		September 30, 2024		
Total	5,000					

(Note) 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.

B. Acquisition of Assets

DHR concluded a purchase agreement regarding the acquisition of the following asset on September 24, 2015, and acquired the asset on September 28, 2015.

Property name	DREAM TOWN ALi
Acquisition price (Note 1)	¥7,790,000 thousand
Seller (Note 2)	Daiwa Information Service Co., Ltd.
Asset type	Trust beneficiary interest in real estate
Location	3-1-1 Hamada, Aomori-shi, Aomori
Acquisition date	September 28, 2015

(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 the seller 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.

(1) Status of Investment Units

Period	11th period August 31, 2013	12th period February 28, 2014	13th period August 31, 2014	14th period February 28, 2015	15th period August 31, 2015
Total number of investment units authorized (Units)	2,000,000	2,000,000	4,000,000	4,000,000	4,000,000
Total number of investment units issued (Units)	122,540	122,540	293,480 (Note)	293,480	350,700
Number of unitholders	5,809	4,127	6,105	5,482	7,411

(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 August 31, 2015 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)	96,092	27.40
Daiwa House Industry Co., Ltd.	42,800	12.20
The Master Trust Bank of Japan, Ltd. (Trust account)	31,142	8.88
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	24,168	6.89
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	12,585	3.59
The Fuji Fire and Marine Insurance Co., Ltd.	5,594	1.60
The Hachijuni Bank, Ltd.	4,606	1.31
Trust & Custody Services Bank, Ltd. (Money trust tax account)	3,427	0.98
State Street Bank - West Pension Fund Clients - Exempt 505233	3,149	0.90
The Bank of New York Mellon SA/NV 10	2,891	0.82
Total	226,454	64.57

(3) Officers

The following table provides information about the Executive Director, Supervisory Directors and Accounting Auditor during the 15th period.

Title and post	Name	Major concurrent position	Total compensation per title during the 15th period (Yen in thousands)
Executive Director (Note 1)	Masazumi Kakei	—	2,400
Supervisory Directors (Note 1)	Shuichi Sasaki	Attorney Sasaki & Suzuki Law Office	1,800
	Satoshi Kikuchi	Certified Public Accountant Satoshi Kikuchi Certified Public Accountant Office	1,800
Accounting Auditor (Note 2)	KPMG AZSA LLC	—	25,000 (Note 3)

(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. Compensation for Accounting Auditor includes fees for the creation of comfort letters for issuance of new investment units in March 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.

3 | Portfolio of the Investment Corporation

(1) Composition of Assets

Type of assets	Property type	Area	14th period February 28, 2015		15th period August 31, 2015		
			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	80,465	48.2	118,743	54.7
			Greater Nagoya area	10,677	6.4	10,584	4.9
			Greater Osaka area	4,492	2.7	14,119	6.5
			Other	16,098	9.6	15,943	7.3
		Subtotal	111,733	67.0	159,390	73.5	
	Retail properties	Three major metropolitan areas of Japan (Note 1)	Greater Tokyo area	16,550	9.9	16,423	7.6
			Greater Nagoya area	1,968	1.2	1,968	0.9
			Greater Osaka area	4,600	2.8	4,558	2.1
			Other	8,586	5.1	8,545	3.9
		Subtotal	31,706	19.0	31,495	14.5	
	Total			143,439	86.0	190,886	88.0
	Deposits and other assets (Note 3)			23,385	14.0	26,050	12.0
	Total assets (Note 4)			166,825 (143,439)	100.0 (86.0)	216,936 (190,886)	100.0 (88.0)

(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 August 31, 2015 (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	20,914	72,320.01	72,320.01	100.0	— (Note 3)	Logistics property
D Project Hachioji	12,091	62,394.17	62,394.17	100.0	— (Note 3)	Logistics property
D Project Nishiyodogawa	9,657	39,584.80	39,584.80	100.0	— (Note 3)	Logistics property
D Project Kuki V	8,037	47,320.89	47,320.89	100.0	— (Note 3)	Logistics property
D Project Urayasu I	7,502	36,515.81	36,515.81	100.0	— (Note 3)	Logistics property
D Project Machida	7,372	50,490.39	50,490.39	100.0	— (Note 3)	Logistics property
D Project Kuki III	7,340	26,937.41	26,937.41	100.0	— (Note 3)	Logistics property
D Project Kuki II	7,071	50,490.00	50,490.00	100.0	— (Note 3)	Logistics property
D Project Matsudo	7,013	26,776.67	26,776.67	100.0	— (Note 3)	Logistics property
ACROSSMALL Shinkamagaya	6,568	41,742.84	41,742.84	100.0	4.4	Retail property
Total	93,570	454,572.99	454,572.99	100.0	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 August 31, 2015, are added up and shown. However, the leased areas as indicated in each sublease agreement for properties in trust as of August 31, 2015 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 August 31, 2015 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, Oyamaogaoka 2-chome, Machida-shi, Tokyo	Trust beneficiary interests in real estate	50,490.39	7,372	9,010
	D Project Hachioji	21-1, Minami-Osawa 3-chome, Hachioji-shi, Tokyo	Trust beneficiary interests in real estate	62,394.17	12,091	15,100
	D Project Aikawa-Machi	4020-12, Aza Sakuradai, Nakatsu, Aikawa-machi, Aiko-gun, Kanagawa	Trust beneficiary interests in real estate	14,240.84	2,531	3,220
	D Project Shin-Misato	Lala City, Shin-Misato, Misato-shi, Saitama (Note 3)	Trust beneficiary interests in real estate	11,289.91	4,319	5,720
	D Project Urayasu I	12-1, Chidori, Urayasu-shi, Chiba	Trust beneficiary interests in real estate	36,515.81	7,502	8,880
	D Project Urayasu II	11-5, Chidori, Urayasu-shi, Chiba	Trust beneficiary interests in real estate	72,320.01	20,914	24,900
	D Project Akanehama	2-8, Akanehama 3-chome, Narashino-shi, Chiba	Trust beneficiary interests in real estate	11,663.39	2,481	2,800
	D Project Noda	1-1, Aza Tamei, Futatsuka, Noda-shi, Chiba	Trust beneficiary interests in real estate	29,232.53	4,884	6,100
	D Project Inuyama	5-5, Takanebora, Inuyama-shi, Aichi	Trust beneficiary interests in real estate	43,723.70	6,376	8,380
	D Project Gifu	449-9, Nanba Azamura-higashi, Wanouchi-cho, Anpachi-gun, Gifu	Trust beneficiary interests in real estate	7,669.91	855	1,080
	D Project Neyagawa	24-12, Shimeno 2-chome, Neyagawa-shi, Osaka	Trust beneficiary interests in real estate	11,151.51	4,461	5,720
	D Project Sapporo Minami	7-1, Wattsu Chuo 5-chome, Kitahiroshima-shi, Hokkaido	Trust beneficiary interests in real estate	6,749.10	569	808
	D Project Morioka	3-18, Kazabayashi, Ogama, Takizawa-shi, Iwate	Trust beneficiary interests in real estate	9,558.32	947	1,180
	D Project Sendai Minami	2-39, Kuko-Minami 3-chome, Iwanuma-shi, Miyagi	Trust beneficiary interests in real estate	11,052.27	1,176	1,500
	D Project Tsuchiura	20-29, Aza Harayama, Hongo, Tsuchiura-shi, Ibaraki	Trust beneficiary interests in real estate	17,448.86	2,740	3,330
	D Project Gotenba	2271-10, Aza Odori, Jinba, Gotenba-shi, Shizuoka	Trust beneficiary interests in real estate	6,737.53	910	1,120
	D Project Nishi-Hiroshima	3-11, Tomo-Minami 2-chome, Asaminami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interests in real estate	5,093.51	963	1,190
	D Project Fukuoka Umi	384-15, Aza Noguchi, Oaza Ino, Umi-machi, Kasuya-gun, Fukuoka	Trust beneficiary interests in real estate	24,729.56	2,968	3,930
	D Project Tosu	1623-2, Aza Hasuhara, Himekata-machi, Tosu-shi, Saga	Trust beneficiary interests in real estate	8,826.00	2,003	2,680
	D Project Kuki I	6004-2 Aza Taikoda, Shobu-cho Shobu, Kuki-shi, Saitama	Trust beneficiary interests in real estate	22,708.72	3,464	3,790
	D Project Kuki II	6201-1 Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	50,490.00	7,071	7,950
	D Project Kawagoe I	2-3 Yoshinodai 3-chome, Kawagoe-shi, Saitama	Trust beneficiary interests in real estate	16,150.88	3,073	3,410
	D Project Kawagoe II	2-4 Yoshinodai 3-chome, Kawagoe-shi, Saitama	Trust beneficiary interests in real estate	19,872.00	4,205	4,630
	DPL Inuyama	1-8 Aza Nakahiratsuka, Oaza Haguroshinden, Inuyama-shi, Aichi, etc.	Trust beneficiary interests in real estate	21,628.50	3,352	3,740
	D Project Fukuoka Hakozaki	2-1 Hakozakifuto 5-chome, Higashi-ku, Fukuoka-shi, Fukuoka	Trust beneficiary interests in real estate	34,710.80	3,664	4,170
	D Project Kuki III	6004-1, Aza Taikoda, Shobu-cho Shobu, Kuki-shi, Saitama	Trust beneficiary interests in real estate	26,937.41	7,340	7,500
	D Project Kuki IV	6201-5, Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	26,460.00	5,305	5,390
	D Project Kuki V	6201-6, Aza Kazarimen, Shobu-cho Sanga, Kuki-shi, Saitama	Trust beneficiary interests in real estate	47,320.89	8,037	8,130
	D Project Kuki VI	48-3, Kiyoku-cho, Kuki-shi, Saitama	Trust beneficiary interests in real estate	29,244.66	4,983	5,030
	D Project Yashio	50-1, Oaza Shin-machi, Yashio-shi, Saitama	Trust beneficiary interests in real estate	21,965.04	6,148	6,270
D Project Nishiyodogawa	7-48, Nakashima 2-chome, Nishiyodogawa-ku, Osaka-shi, Osaka	Trust beneficiary interests in real estate	39,584.80	9,657	10,100	
D Project Matsudo	700-3, Aza Nishinooda, Kamihongo, Matsudo-shi, Chiba	Trust beneficiary interests in real estate	26,776.67	7,013	7,220	
	Subtotal			824,737.69	159,390	183,978
Retail properties	ACROSSMALL Shinkamagaya	12-1, Shin-Kamagaya 2-chome, Kamagaya-shi, Chiba	Trust beneficiary interests in real estate	41,742.84	6,568	7,640
	FOLEO Hirakata	20-10, Koyamichi 1-chome, Hirakata-shi, Osaka	Trust beneficiary interests in real estate	16,380.78	4,558	4,520
	QiZ GATE URAWA	3720, Oaza Nakao, Midori-ku, Saitama-shi, Saitama	Trust beneficiary interests in real estate	9,705.31	4,811	4,740
	UNICUS Takasaki	1150-5, Aza Nishikanai, Iizukamachi, Takasaki-shi, Gunma	Trust beneficiary interests in real estate	9,277.08	2,596	2,900

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	3,680
LIFE Sagamihara Wakamatsu	19-5, Wakamatsu 5-chome, Minami-ku, Sagamihara-shi, Kanagawa	Trust beneficiary interests in real estate	2,973.44	1,629	1,580
FOLEO Sendai Miyanomori	14-5, Higashi-Sendai 4-chome, Miyagino-ku, Sendai-shi, Miyagi	Trust beneficiary interests in real estate	19,845.72	5,948	6,630
ACROSSPLAZA Inazawa (land)	1-1, Otsuka Minami 5-chome, Inazawa-shi, Aichi	Trust beneficiary interests in real estate	31,981.70	1,968	2,370
Subtotal			155,924.87	31,495	34,060
Total			980,662.56	190,886	218,038

(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 August 31, 2015, 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	14th period (From September 1, 2014 to February 28, 2015)				15th period (From March 1, 2015 to August 31, 2015)			
	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 (%)
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 [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 [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	2.4	4	100.0	121	1.9
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	2.0	1	100.0	102	1.6
D Project Kawagoe II	1	100.0	138	2.7	1	100.0	138	2.2
DPL Inuyama	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
D Project Fukuoka Hakozaiki	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)
D Project Kuki IV	—	—	—	—	1	100.0	— (Note 2)	— (Note 2)
D Project Kuki V	—	—	—	—	1	100.0	— (Note 2)	— (Note 2)

Property name	14th period (From September 1, 2014 to February 28, 2015)				15th period (From March 1, 2015 to August 31, 2015)				
	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 VI	—	—	—	—	1	100.0	— (Note 2)	— (Note 2)
	D Project Yashio	—	—	—	—	2	100.0	— (Note 2)	— (Note 2)
	D Project Nishiyodogawa	—	—	—	—	1	100.0	— (Note 2)	— (Note 2)
	D Project Matsudo	—	—	—	—	1	100.0	— (Note 2)	— (Note 2)
	Subtotal	30	100.0	3,879	75.4	38	100.0	5,021	79.6
Retail properties	ACROSSMALL Shinkamagaya	1	100.0	275	5.4	1	100.0	275	4.4
	FOLEO Hirakata	1 [23]	99.6	190	3.7	1 [23]	99.6	188	3.0
	QIZ GATE URAWA	10	98.5	233	4.5	9	98.1	237	3.8
	UNICUS Takasaki	1	100.0	129	2.5	1	100.0	129	2.1
	ACROSSPLAZA Miyoshi (land)	1	100.0	79	1.5	1	100.0	94	1.5
	LIFE Sagamihara Wakamatsu	1	100.0	— (Note 2)	— (Note 2)	1	100.0	— (Note 2)	— (Note 2)
	FOLEO Sendai Miyanomori	1	100.0	238	4.6	1	100.0	238	3.8
	ACROSSPLAZA Inazawa (land)	1	100.0	69	1.4	1	100.0	69	1.1
	Subtotal	17	99.9	1,267	24.6	16	99.8	1,283	20.4
Total	47	100.0	5,146	100.0	54	100.0	6,305	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 August 31, 2015.

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	6,455	—	—	7,460	1,004	Deposited as business security deposit
	Total	10,000	6,455	—	—	7,460	1,004	

(7) Holding of Assets by Country and Region

Not applicable.

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 August 31, 2015. 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 Akanehama (Narashino, Chiba)	Installment of LED lights	From October 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 January 2016 to February 2016	21	—	—
FOLEO Hirakata (Hirakata, Osaka)	Installment of LED lights	From November 2015 to November 2015	39	—	—

(2) Capital Expenditures during the Period

There were no significant capital expenditures for real estate in trust held during the current fiscal period.

(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	11th period From March 1, 2013 to August 31, 2013	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
Balance of reserves at beginning of period	127	180	239	300	362
Amount of reserves during period	53	58	60	62	67
Amount of reversal of reserves during period	—	—	—	—	—
Reserves carried forward	180	239	300	362	430

5 | Expenses and Liabilities

(1) Expenses Incurred in Connection with Management of Assets

(Yen in thousands)

Item	14th period From September 1, 2014 to February 28, 2015	15th period From March 1, 2015 to August 31, 2015
(a) Asset management fee (Note 1)	348,725	376,147
(b) Asset custody fee	13,989	14,463
(c) Administrative service fee	15,518	16,177
(d) Directors' compensation	6,000	6,000
(e) Accounting Auditor's compensation (Note 2)	14,440	13,000
(f) Other expenses	55,022	54,694
Total	453,695	480,484

(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. (14th period: ¥8,475 thousand, 15th period: ¥121,050 thousand).

2. In addition to the amount shown above for Accounting Auditor's compensation, in the 14th period there were fees of ¥2,000 thousand for the creation of comfort letters for the issuance of investment corporation bonds in December 2014, and 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 August 31, 2015 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	0.33 Floating-rate	June 1, 2016	Bullet repayment	(Note 3)	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		—	4,000					
Current portion of long-term borrowings	Sumitomo Mitsui Banking Corporation	November 29, 2012	4,250	4,250	0.73 Fixed-rate	November 30, 2015	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		4,250	4,250					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		4,250	4,250					
	Mizuho Bank, Ltd.		4,250	4,250					
	Mitsubishi UFJ Trust and Banking Corporation		2,000	2,000					
	Resona Bank, Limited		1,000	1,000					
Subtotal	20,000	20,000							
Long-term borrowings	Sumitomo Mitsui Banking Corporation	November 29, 2012	3,000	3,000	0.83 Fixed-rate	November 29, 2016	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		2,000	2,000					
	Resona Bank, Limited		1,000	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						

	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	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					
		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	0.57 Fixed-rate	April 1, 2020	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
		Sumitomo Mitsui Banking Corporation	April 1, 2015	—	1,000	0.87 Fixed-rate (Note 2)	October 3, 2022	Bullet repayment	(Note 3)	Unsecured and non-guaranteed
		Mizuho Bank, Ltd.		—	1,000					
		The Norinchukin Bank		—	1,000					
		Sumitomo Mitsui Banking Corporation	April 1, 2015	—	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					
		Mizuho Bank, Ltd.		—	1,000					
		Resona Bank, Limited		—	1,000					
		Sumitomo Mitsui Banking Corporation	April 1, 2015	—	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					
		Mizuho Bank, Ltd.		—	1,000					
		Mitsubishi UFJ Trust and Banking Corporation		—	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	April 1, 2015	—	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	1.46 Fixed-rate	April 1, 2027	Bullet repayment	(Note 3)	Unsecured and non-guaranteed	
	Subtotal		55,500	72,000						
	Total		75,500	96,000						

(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.

(3) Investment Corporation Bonds

The status of investment corporation bonds issued as of August 31, 2015 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 August 31, 2015.

(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)
D Project Kuki III	April 1, 2015	7,340	—	—	—	—
D Project Kuki IV	April 1, 2015	5,300	—	—	—	—
D Project Kuki V	April 1, 2015	8,010	—	—	—	—
D Project Kuki VI	April 1, 2015	4,980	—	—	—	—
D Project Yashio	April 1, 2015	6,140	—	—	—	—
D Project Nishiyodogawa	April 1, 2015	9,660	—	—	—	—
D Project Matsudo	June 1, 2015	6,990	—	—	—	—
Total		48,420				

(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 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	6,455
Total	—	—	—	—	¥10,000 thousand	6,455

(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	D Project Kuki III	April 1, 2015	Trust beneficiary interests in real estate	7,340	7,350	The Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2014
Acquisition	D Project Kuki IV	April 1, 2015	Trust beneficiary interests in real estate	5,300	5,360	The Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2014
Acquisition	D Project Kuki V	April 1, 2015	Trust beneficiary interests in real estate	8,010	8,070	The Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2014
Acquisition	D Project Kuki VI	April 1, 2015	Trust beneficiary interests in real estate	4,980	4,980	The Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2014
Acquisition	D Project Yashio	April 1, 2015	Trust beneficiary interests in real estate	6,140	6,160	Japan Real Estate Institute	December 31, 2014
Acquisition	D Project Nishiyodogawa	April 1, 2015	Trust beneficiary interests in real estate	9,660	9,700	Japan Real Estate Institute	December 31, 2014
Acquisition	D Project Matsudo	June 1, 2015	Trust beneficiary interests in real estate	6,990	7,050	Japan Real Estate Institute	December 31, 2014

(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 March 1, 2015 to August 31, 2015), three 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	¥48,420 million	—
Breakdown of transactions with interested parties		
Daiwa House Industry Co., Ltd.	¥43,120 million (89.1%)	— (—%)
Total	¥43,120 million (89.1%)	— (—%)

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)	172,475	Daiwa Information Service Co., Ltd.	49,906	28.9%
		Daiwa Royal Co., Ltd.	7,694	4.5%
		Daiwa LifeNext Co., Ltd. (Note 5)	6,209	3.6%
		Daiwa House Industry Co., Ltd.	86,915	50.4%
Repairs and maintenance construction (Note 4)	79,190	Daiwa Information Service Co., Ltd.	11,636	14.7%
		Daiwa Royal Co., Ltd.	3,611	4.6%
		Daiwa House Reform Co., Ltd.	5,262	6.6%
		Daiwa LifeNext Co., Ltd. (Note 5)	7,399	9.3%
		Daiwa House Industry Co., Ltd.	5,915	7.5%

(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. Daiwa Service Co., Ltd. merged with Daiwa LifeNext Co., Ltd. on April 1, 2015, thus becoming Daiwa LifeNext Co., Ltd. Accordingly, the amount of transaction with Daiwa LifeNext Co., Ltd. includes the aggregate of the amount of transaction with Daiwa Service Co., Ltd. until March 31, 2015 and the amount of transaction with Daiwa LifeNext Co., Ltd. from April 1, 2015.

(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.

(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
March 3, 2015	Conclusion of underwriting agreement for new investment units, etc.	Concerning issuance of new investment units, resolved the conclusion of the underwriting agreement for new investment units, and entrusted Nomura Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., Daiwa Securities Co., Ltd., SMBC Nikko Securities Inc., Mizuho Securities Co., Ltd., and UBS Limited as underwriters for Japanese offering, and Morgan Stanley & Co. International plc, Nomura International plc, and Daiwa Capital Markets Europe Limited as joint lead managers for overseas offering, with relevant work for soliciting subscribers of new investment units.

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

Not applicable.

(3) Disclosure as a Corporation Holding Real Estate Overseas

Not applicable.

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

Not applicable.

(5) 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.

DAIWA HOUSE REIT INVESTMENT CORPORATION
BALANCE SHEETS

As of February 28, 2015 and August 31, 2015

	As of	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Assets		
Current Assets:		
Cash and bank deposits (Notes 3 and 4)	¥ 22,823,589	¥ 23,158,614
Tenant receivables	9,284	14,751
Prepaid expenses	150,445	157,416
Consumption taxes receivable	—	2,176,852
Other current assets	537	511
Total current assets	22,983,855	25,508,145
Investment Properties (Notes 5 and 6):		
Land	78,875,884	98,885,149
Buildings and improvements	67,319,157	95,377,041
Structures	2,574,228	3,313,287
Machinery and equipment	343,654	343,654
Construction in progress	18,260	—
Less: accumulated depreciation	(5,673,290)	(7,032,712)
Total investment properties, net	143,457,893	190,886,420
Other Assets:		
Other intangible assets	1,870	1,530
Investment securities (Note 4)	6,375	6,455
Long-term prepaid expenses	354,891	515,282
Investment corporation bond issuance costs	20,141	19,108
Total other assets	383,278	542,376
Total Assets	¥ 166,825,027	¥ 216,936,941

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

DAIWA HOUSE REIT INVESTMENT CORPORATION
BALANCE SHEETS, CONTINUED

As of February 28, 2015 and August 31, 2015

	As of	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Liabilities		
Current Liabilities:		
Accounts payable	¥ 111,932	¥ 75,872
Short-term borrowings (Notes 4 and 10)	—	4,000,000
Current portion of long-term borrowings (Notes 4 and 10)	20,000,000	20,000,000
Accrued expenses	403,535	433,261
Income taxes payable	605	605
Accrued consumption taxes	247,317	—
Advances received	593,896	853,198
Other current liabilities	24,053	63,888
Total current liabilities	21,381,340	25,426,826
Investment corporation bonds (Note 4 and 9)	2,000,000	2,000,000
Long-term borrowings (Notes 4 and 10)	55,500,000	72,000,000
Tenant security deposits (Note 4)	7,349,732	9,079,288
Total Liabilities	86,231,073	108,506,115
Commitment and contingent liabilities (Note 17)		
Net Assets (Note 8)		
Unitholders' Equity:		
Unitholders' capital	78,048,300	105,459,198
Units authorized:		
4,000,000 units as of February 28, 2015 and August 31, 2015		
Units issued and outstanding:		
293,480 units as of February 28, 2015 and 350,700 units as of August 31, 2015		
Retained earnings	2,545,653	2,971,627
Total unitholders' equity	80,593,954	108,430,826
Total Net Assets	80,593,954	108,430,826
Total Liabilities and Net Assets	¥ 166,825,027	¥ 216,936,941

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

DAIWA HOUSE REIT INVESTMENT CORPORATION
STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month periods ended February 28, 2015 and August 31, 2015

	For the six-month periods ended	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Operating Revenues:		
Rental revenues (Note 7)	¥ 5,045,000	¥ 6,200,791
Other revenues related to property leasing (Note 7)	101,876	104,514
Total operating revenues	5,146,876	6,305,305
Operating Expenses:		
Rental expenses (Note 7)	1,689,447	2,140,913
Asset management fees	348,725	376,147
Other operating expenses	104,969	104,336
Total operating expenses	2,143,143	2,621,397
Operating Income	3,003,733	3,683,907
Non-Operating Revenues:		
Interest income	2,069	2,348
Interest on refund of consumption taxes	1,621	—
Insurance income	912	255
Other non-operating revenues	80	80
Non-Operating Expenses:		
Interest expenses	373,687	456,965
Interest expenses on investment corporation bonds	2,987	8,365
Amortization of investment corporation bond issuance costs	516	1,032
Investment unit issuance expenses	—	149,910
Borrowing related expenses	85,017	98,092
Ordinary Income	2,546,209	2,972,224
Income before Income Taxes	2,546,209	2,972,224
Income taxes-current (Note 12)	605	605
Net Income	2,545,604	2,971,619
Retained Earnings Brought Forward	49	8
Unappropriated Retained Earnings	¥ 2,545,653	¥ 2,971,627

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

DAIWA HOUSE REIT INVESTMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS

For the six-month periods ended February 28, 2015 and August 31, 2015

	<u>Unitholders' Equity</u>				Total Net Assets
	Number of Units	Unitholders' Capital	Retained Earnings	Total Unitholders' Equity	
	(Units)	(Yen in thousands)			
Balance as of August 31, 2014	293,480	¥ 78,048,300	¥ 2,359,334	¥ 80,407,635	¥ 80,407,635
Changes during the period:					
Cash distributions declared	—	—	(2,359,285)	(2,359,285)	(2,359,285)
Net income	—	—	2,545,604	2,545,604	2,545,604
Total changes during the period	—	—	186,318	186,318	186,318
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

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

DAIWA HOUSE REIT INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS

For the six-month periods ended February 28, 2015 and August 31, 2015

	For the six-month periods ended	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Cash Flows from Operating Activities:		
Income before income taxes	¥ 2,546,209	¥ 2,972,224
Depreciation	1,044,618	1,359,762
Amortization of investment corporation bond issuance costs	516	1,032
Investment unit issuance expenses	—	149,910
Interest income	(2,069)	(2,348)
Interest expenses	376,674	465,331
Decrease (increase) in prepaid expenses	5,839	(6,971)
Decrease (increase) in long-term prepaid expenses	51,593	(160,390)
Decrease (increase) in tenant receivables	6,512	(5,466)
Decrease (increase) in consumption taxes receivable	1,071,441	(2,176,843)
Increase (decrease) in accrued consumption taxes	248,945	(249,239)
Decrease in accounts payable	(12,078)	(10,156)
Increase in accrued expenses	56,479	30,925
Increase in advances received	67,354	259,302
Decrease in deposits received	(8,168)	(135)
Interest income received	2,069	2,348
Interest expenses paid	(375,910)	(466,531)
Income taxes paid	(605)	(605)
Others, net	(11,598)	127,675
Net Cash Provided by Operating Activities	5,067,824	2,289,825
Cash Flows from Investing Activities:		
Payments for purchases of investment properties	(3,430,758)	(48,796,885)
Net Cash Used in Investing Activities	(3,430,758)	(48,796,885)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	2,000,000	4,000,000
Repayments of short-term borrowings	(2,000,000)	—
Proceeds from long-term borrowings	1,000,000	16,500,000
Proceeds from issuance of investment corporation bonds	1,979,342	—
Proceeds from issuance of investment units	—	27,260,987
Distributions paid	(2,358,226)	(2,545,725)
Net Cash Provided by Financing Activities	621,115	45,215,262
Net Change in Cash and Cash Equivalents	2,258,181	(1,291,797)
Cash and Cash Equivalents at the Beginning of Period	13,406,512	15,664,693
Cash and Cash Equivalents at the End of Period (Note 3)	¥ 15,664,693	¥ 14,372,896

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 February 28, 2015 and August 31, 2015

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 August 31, 2015, DHR acquired seven properties using funds raised through a public offering and debt financing. Consequently, DHR held 40 properties with total acquisition price of ¥195,973 million as of August 31, 2015.

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 ¥4,859 thousand and ¥ 196,808 thousand for the periods ended February 28, 2015 and August 31, 2015, 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.

(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	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Cash and bank deposits	¥ 22,823,589	¥ 23,158,614
Less: restricted bank deposits held in trust	(7,158,895)	(8,785,717)
Cash and cash equivalents	¥ 15,664,693	¥ 14,372,896

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 February 28, 2015 and August 31, 2015, 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 February 28, 2015 and August 31, 2015 are as follows:

	As of					
	February 28, 2015			August 31, 2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference
	(Yen in thousands)					
Assets						
				¥ 23,158,61		
(1) Cash and bank deposits	¥ 22,823,589	¥ 22,823,589	¥ —	4	¥ 23,158,614	¥ —
(2) Investment securities:						
Held-to-maturity debt securities	6,375	7,340	964	6,455	7,460	1,004
Total	¥ 22,829,964	¥ 22,830,929	¥ 964	9	¥ 23,166,074	¥ 1,004
Liabilities						
(3) Short-term borrowings	—	—	—	4,000,000	4,000,000	—
(4) Current portion of long-term borrowings	20,000,000	20,014,894	14,894	20,000,000	20,008,388	8,388
(5) Investment corporation bonds	2,000,000	2,011,000	11,000	2,000,000	2,004,000	4,000
(6) Long-term borrowings	55,500,000	56,085,166	585,166	72,000,000	72,570,747	570,747
(7) Tenant security deposits	190,837	185,352	(5,484)	293,571	287,988	(5,582)
Total	¥ 77,690,837	¥ 78,296,413	¥ 605,576	98,293,57	1	¥ 98,871,124
Derivative transactions	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

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					
	February 28, 2015			August 31, 2015		
	(Yen in thousands)					
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with fair value exceeding book value:						
Japanese government bonds (*)	¥ 6,375	¥ 7,340	¥ 964	¥ 6,455	¥ 7,460	¥ 1,004
Total	¥ 6,375	¥ 7,340	¥ 964	¥ 6,455	¥ 7,460	¥ 1,004

(*) 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 February 28, 2015 and August 31, 2015 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					
			February 28, 2015			August 31, 2015		
			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	¥ 13,500,000	¥ 13,500,000	(*)	¥ 24,500,000	¥ 24,500,000	(*)

(*) 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	
	February 28, 2015	August 31, 2015
(Yen in thousands)		
Tenant security deposits (*)	¥ 7,158,895	¥ 8,785,717

(*) 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.

3. Redemption Schedule for Monetary Claims and Securities with Maturity

As of February 28, 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	¥ 22,823,589	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities: Held-to-maturity debt securities	—	—	—	—	—	10,000
Total	¥ 22,823,589	¥ —	¥ —	¥ —	¥ —	¥ 10,000
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

4. Repayment Schedule for Investment Corporation Bonds and Borrowings

As of February 28, 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)					
Investment corporation bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 2,000,000
Long-term borrowings	20,000,000	15,000,000	16,000,000	—	10,000,000	14,500,000
Total	¥ 20,000,000	¥ 15,000,000	¥ 16,000,000	¥ —	¥ 10,000,000	¥ 16,500,000
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

Note 5 – Investment Properties

Investment properties as of February 28, 2015 and August 31, 2015 consist of the following:

	As of					
	February 28, 2015			August 31, 2015		
	(Yen in thousands)					
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	¥ 78,875,884	¥ —	¥ 78,875,884	¥ 98,885,149	¥ —	¥ 98,885,149
Buildings and improvements	67,319,157	(5,391,154)	61,928,002	95,377,041	(6,685,095)	88,691,945
Structures	2,574,228	(265,975)	2,308,252	3,313,287	(322,641)	2,990,645
Machinery and equipment	343,654	(16,160)	327,494	343,654	(24,975)	318,679
Construction in progress	18,260	—	18,260	—	—	—
Total	¥ 149,131,184	¥ (5,673,290)	¥ 143,457,893	¥ 197,919,132	¥ (7,032,712)	¥ 190,886,420

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	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Book value:		
Balance at the beginning of the period	¥ 141,050,702	¥ 143,439,633
Net increase during the period	2,388,930	47,446,786
Balance at the end of the period	¥ 143,439,633	¥ 190,886,420
Fair value	¥ 167,135,000	¥ 218,038,000

Notes:

1. Book value is stated at acquisition cost less accumulated depreciation.
2. The increase in the fiscal period ended February 28, 2015 is mainly due to the acquisition of ACROSSPLAZA Miyoshi (land), (¥3,413,384 thousand) and the decrease is mainly due to recognition of depreciation expense of ¥ 1,044,278 thousand. 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.
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 February 28, 2015 and August 31, 2015 are as follows:

	For the six-month periods ended	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Revenues from Property Leasing:		
Rental revenues	¥ 5,045,000	¥ 6,200,791
Common area charges	54,002	53,981
Others	47,873	50,532
Total revenues from property leasing	<u>5,146,876</u>	<u>6,305,305</u>
Rental Expenses:		
Real estate taxes	356,751	469,819
Property management fees	162,749	172,475
Insurance	8,124	9,472
Repairs and maintenance	60,938	75,087
Depreciation	1,044,278	1,359,422
Others	56,605	54,635
Total rental expenses	<u>1,689,447</u>	<u>2,140,913</u>
Operating Income from Property Leasing Activities	<u>¥ 3,457,429</u>	<u>¥ 4,164,392</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

On December 24, 2014, DHR issued the first unsecured investment corporation bonds with special pari passu conditions among specified investment corporation bonds. DHR used the proceeds to make early repayment of the short-term bank loan of ¥2,000 million which was borrowed on September 30, 2015. The bonds would be repaid on lump-sum basis on the maturity date. The following summarizes the status of investment corporation bonds as of February 28, 2015 and August 31, 2015.

Description	Issue date	Maturity date	Interest rate	As of	
				February 28, 2015	August 31, 2015
				(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

(This part is intentionally left blank.)

Note 10 – Short-Term and Long-Term Borrowings

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

	As of	
	February 28, 2015	August 31, 2015
(Yen in thousands)		
Unguaranteed, unsecured floating-rate borrowings due 2016 with average interest rate of 0.33%	¥ —	¥ 4,000,000
Short-term borrowings	¥ —	¥ 4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2015 with average interest rate of 0.73%	¥ 20,000,000	¥ 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
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 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
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 1.50% (*)	2,000,000	2,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 0.99% (*)	—	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 2024 with average interest rate of 1.52% (*)	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2025 with average interest rate of 1.23% (*)	—	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2025 with average interest rate of 1.18%	—	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2026 with average interest rate of 2.03% (*)	2,000,000	2,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2027 with average interest rate of 1.46%	—	1,500,000
Total	¥ 75,500,000	¥ 92,000,000
Less: current portion	20,000,000	20,000,000
Long-term borrowings, less current portion	¥ 55,500,000	¥ 72,000,000

(*) 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 February 28, 2015 and August 31, 2015.

Note 11 – Leases

The future minimum rental revenues under existing non-cancelable operating leases as of February 28, 2015 and August 31, 2015 are as follows:

	As of	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Due within one year	¥ 7,797,711	¥ 10,648,952
Due after one year	60,145,093	79,229,689
Total	¥ 67,942,805	¥ 89,878,641

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	
	February 28, 2015	August 31, 2015
Statutory tax rate	34.16%	34.15%
Deductible cash distributions	(34.15)	(34.14)
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 February 28, 2015 and August 31, 2015 are as follows:

	As of	
	February 28, 2015	August 31, 2015
	(Yen in thousands)	
Deferred tax assets:		
Tax loss carried forward	¥ 189,001	¥ 179,825
Total deferred tax assets	189,001	179,825
Valuation allowance	(189,001)	(179,825)
Net deferred tax assets	¥—	¥—

Note 13 – Per Unit Information

Information about earnings per unit for the periods ended February 28, 2015 and August 31, 2015 and net assets per unit as of February 28, 2015 and August 31, 2015 are as follows:

	For the six-month periods ended	
	February 28, 2015	August 31, 2015
	(Yen)	
Earnings per Unit:		
Net income per unit	¥ 8,673	¥ 8,657
Weighted average number of units outstanding (units)	293,480	343,234
	As of	
	February 28, 2015	August 31, 2015
	(Yen)	
Net Assets per Unit	¥ 274,614	¥ 309,183

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	
	February 28, 2015	August 31, 2015
	(Yen)	
Unappropriated retained earnings	¥ 2,545,653,759	¥ 2,971,627,843
Cash distributions declared	2,545,645,520	2,971,481,100
Retained earnings brought forward	¥ 8,239	¥ 146,743

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 February 28, 2015 of ¥ 8,674 per investment unit, amounting to a total cash distributions declared of ¥ 2,545,645,520, was proposed and approved at the board of directors meeting on April 17, 2015. 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.

Note 15 – Related-Party Transactions

Related-party transactions for the periods ended February 28, 2015 and August 31, 2015 are as follows:

For the six-month period ended February 28, 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	¥ 48,969	Accounts payable	¥ 30,924	
							Cost of utilities	30,211			
							Other expenses related to rent business	5,344			
							Repairs and maintenance (Note 3)	20,821	—		—
							Purchase of trust beneficiary interests in real estate (Note 4)	3,390,000			
							Receipt of tenant security deposits	188,568			
Rental revenues	424,454	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	9,323	Accounts payable	4,712	
							Other expenses related to rent business	4,654			
							Repairs and maintenance (Note 3)	6,783			
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Service Co., Ltd.	Nishi-ku, Osaka	130	Asset management business	—	Repairs and maintenance of properties	Property management fees	6,096	Accounts payable	5,309	
							Repairs and maintenance (Note 3)	5,023			
							Other expenses related to rent business	250	—		—

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 Energy Co., Ltd.	Abeno-ku, Osaka	50	Environment business	—	Lease of equipment held	Rental revenues	11,306	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	ENESERVE CORPORATION	Otsu-shi, Shiga	7,629	Environment business	—	Management of real estate held	Other expenses related to rent business	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	186	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)	357,200	Accrued expenses	376,623
Major corporate unitholder	Daiwa House Industry Co., Ltd.	Kita-ku, Osaka	161,699	Construction business	12.8	Master lessee and entrustment of property management	Property management fees	77,580	Accounts payable	14,872
							Repairs and maintenance (Note 3)	8,153		
							Rental revenues	238,500	Advances received	42,930
							—	—	Tenant security deposits	238,500

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		879,288
							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 5)	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	
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	

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 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 4)	43,120,000	—	—
							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.
- The amount of transaction for purchase of trust beneficiary interests in real estate does not include acquisition costs, taxes and dues and consumption taxes.
- 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.
- Asset management fee includes management fee for acquisition of properties in the amount of ¥8,475 thousand and ¥121,050 thousand for the periods ended February 28, 2015 and August 31, 2015, 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 February 28, 2015				
(Yen in thousands)				
	Logistics property leasing business	Retail property leasing business	Adjustment (Note 2)	Amount recorded in financial statements
Operating revenues (Note 1)	¥ 3,879,561	¥ 1,267,315	¥ —	¥ 5,146,876
Segment profit	2,620,502	816,996	(433,765)	3,003,733
Segment assets	118,468,509	34,563,670	13,792,847	166,825,027
Other items				
Depreciation	832,039	212,238	340	1,044,618
Increase in investment properties and intangible assets	18,675	3,432,494	—	3,451,169

Notes:

1. DHR’s operating revenues are exclusively earned from external parties.

2. Adjustment to segment profit of ¥ (433,765) 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 ¥ 13,792,847 thousand includes ¥ 13,439,210 thousand of current assets and ¥ 353,637 thousand of other assets.

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

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:

1. DHR's operating revenues are exclusively earned from external parties.
2. 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.

(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		
	February 28, 2015	August 31, 2015	Related segment
	(Yen in thousands)		
Hitachi Capital Corporation	¥ — (Note 1)	¥ — (Note 1)	Logistics property leasing business
Mitsubishi Shokuhin Co., Ltd.	— (Note 1)	n/a (Note 2)	Logistics property leasing business

Notes:

1. Not disclosed, as consent for disclosure has not been obtained from tenants.
2. Not fall under the category of major tenants for this period.

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 August 31, 2015, 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) Borrowings of Funds

On September 24, 2015, DHR entered into the following loan agreements with financial institutions, of which drawdown was September 28, 2015. Based on the contractual terms, each loan shall be repaid on a lump-sum basis on its repayment date. Neither of them is secured by collateral or guarantee.

<u>Lender</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Repayment date</u>
	<u>(Yen in millions)</u>		
Sumitomo Mitsui Trust Bank, Limited; Sumitomo Mitsui Banking Corporation; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Mizuho Bank, Ltd.	¥ 4,000	Fixed rate of 0.6498% (*)	September 28, 2022
Nippon Life Insurance Company	1,000	Fixed rate of 0.73%	September 30, 2024
Total	<u>¥ 5,000</u>		

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

(b) Acquisition of Assets

DHR concluded a purchase agreement regarding the acquisition of the following asset on September 24, 2015, and acquired the asset on September 28, 2015.

Property name	DREAM TOWN ALi
Acquisition price (Note1)	¥ 7,790,000 thousand
Seller (Note 2)	Daiwa Information Service Co., Ltd.
Asset type	Trust beneficiary interest in real estate
Location	3-1-1 Hamada, Aomori-shi, Aomori
Date of purchase agreement	September 24, 2015
Acquisition date	September 28, 2015

DHR concluded a purchase agreement regarding the acquisition of the following asset 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
Location	1623-1 Aza Hasuhara Himekata-machi, Tosu-shi, Saga
Date of purchase agreement	October 29, 2015
Scheduled acquisition date (Note 3)	June 15, 2016 or the date agreed upon between the seller and the buyer

Notes:

1. "Acquisition price" does not include acquisition costs, duties and consumption taxes.
2. As the seller 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 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 purchase agreement, if a party breaches the purchase agreement, then the non-breaching party may cancel the purchase agreement upon notice to the breaching party only when the non-breaching party is no longer able to fulfill the purpose of the 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 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 purchase agreement will expire without DHR assuming any obligations under the purchase 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 finance.

Independent Auditor's Report

To the Board of Directors of Daiwa House REIT Investment Corporation:

We have audited the accompanying financial statements of Daiwa House REIT Investment Corporation, which comprise the balance sheets as at February 28, 2015 and August 31, 2015, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for each of the six-month periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Daiwa House REIT Investment Corporation as at February 28, 2015 and August 31, 2015, and their financial performance and cash flows for each of the six-month periods then ended in accordance with accounting principles generally accepted in Japan.

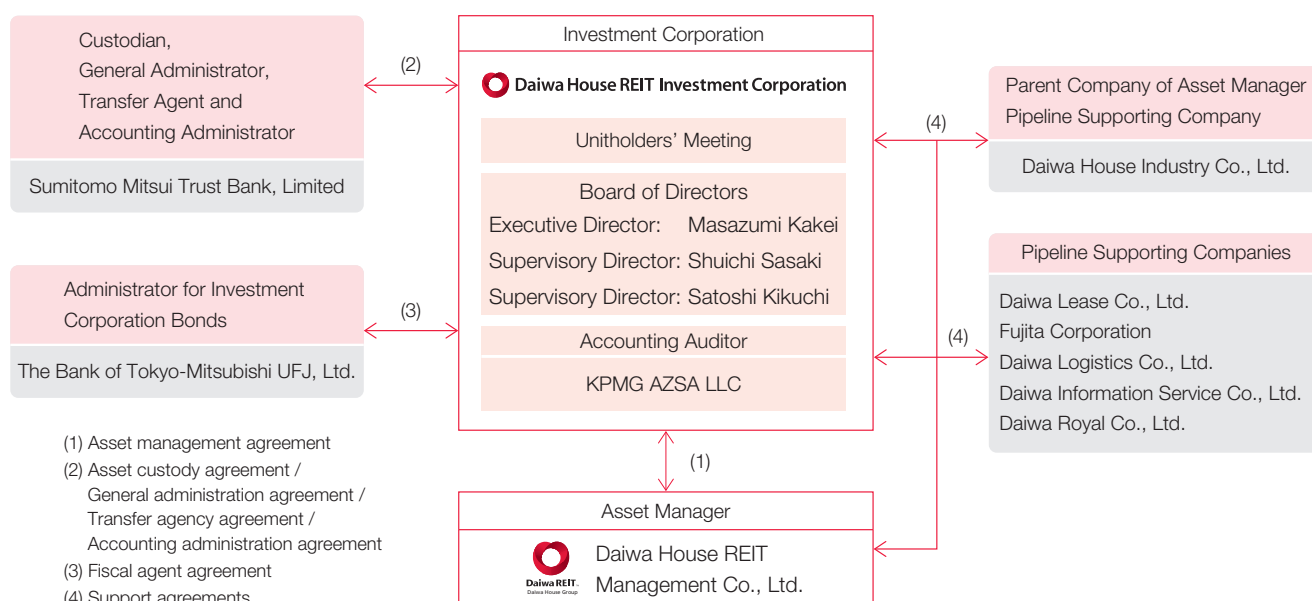
KPMG AZSA LLC

November 24, 2015
Tokyo, Japan

History of the Investment Corporation

September 12, 2007	Organizer Daiwa House REIT Management Co., Ltd. submitted filings under Article 69, paragraph 1 of the Investment Trusts Act to incorporate DHR.
September 14, 2007	DHR was registered and formally established under Article 166 of the Investment Trusts Act.
September 28, 2007	DHR applied for registration under Article 188 of the Investment Trusts Act.
October 23, 2007	The Prime Minister registered DHR under Article 189 of the Investment Trusts Act (Registration No.: Director-General of the Kanto Local Finance Bureau No. 66).
October 24, 2012	DHR received approval to list its units on the Tokyo Stock Exchange REIT Market.
November 28, 2012	DHR listed its units on the Tokyo Stock Exchange REIT Market (securities code: 3263).
March 1, 2014	DHR executed an investment unit split (a 2-for-1 investment unit split).

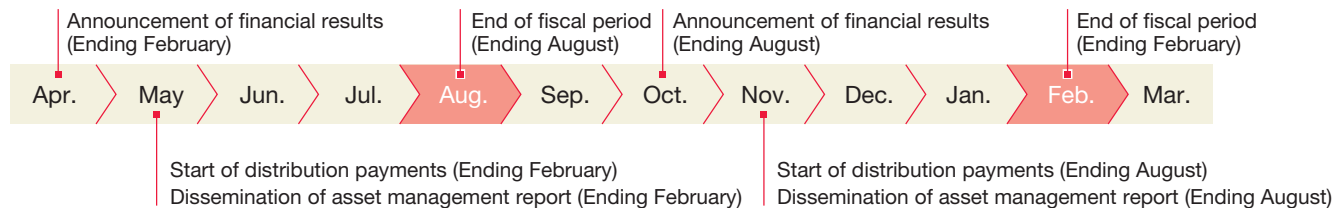
Structure and Formation



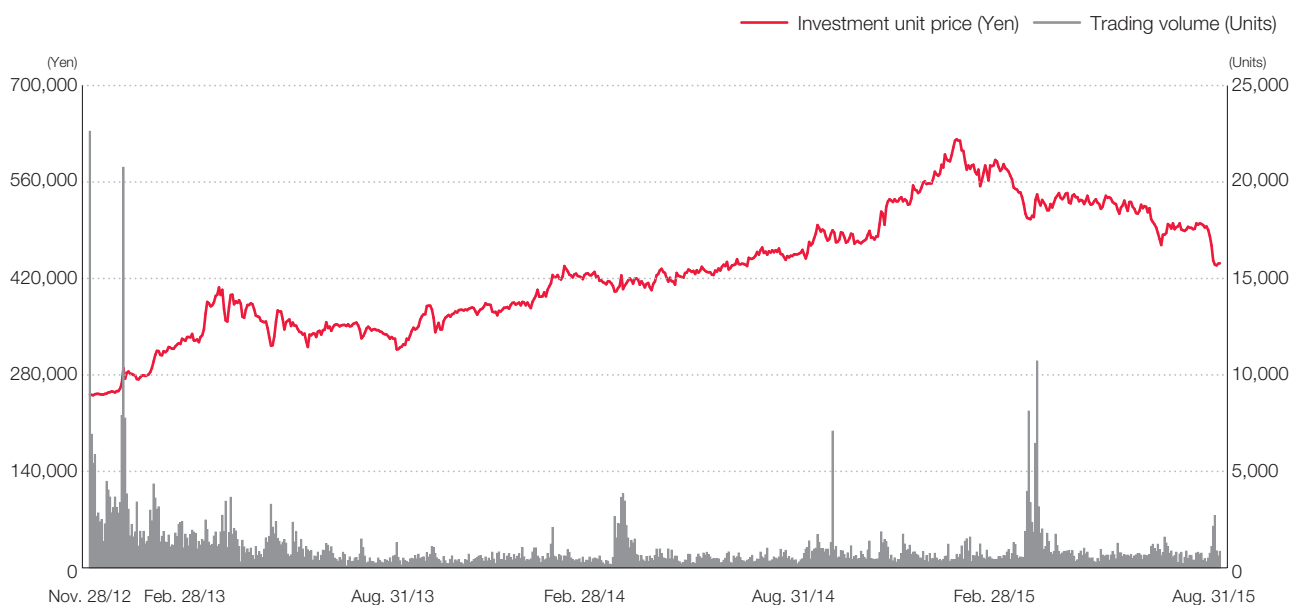
Outline of the Asset Manager

Corporate Name	Daiwa House REIT Management Co., Ltd.
Paid-in Capital	¥200 million
Shareholder	Daiwa House Industry Co., Ltd. (100%)
License/Registration	License for building lots and building transaction business: Tokyo Metropolitan Governor (2) No. 86218 Permission for handling discretionary accounts, etc., under the Building Lots and Building Transaction Business Act: Minister of Land, Infrastructure, Transport and Tourism Permission No. 54 Registration of financial instruments business (Investment Management): Director-General of the Kanto Local Finance Bureau (Kinsho) No. 354
Associations of which DHR is a member	Member of The Investment Trusts Association, Japan Member of The Association for Real Estate Securitization

Investor Relations Calendar



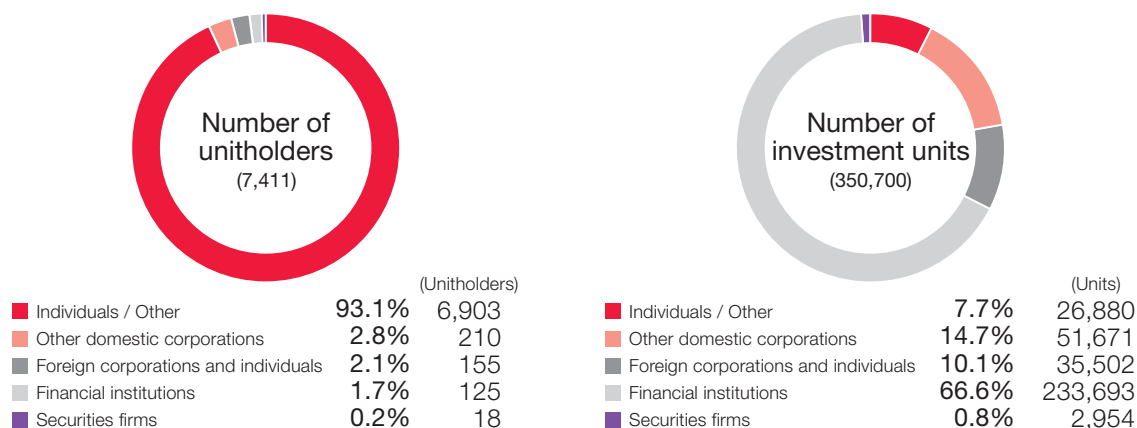
Investment Unit Price



(Note) DHR executed a 2-for-1 investment unit split effective March 1, 2014. Factoring in the effect of this investment unit split, the "Investment unit price" shows a figure derived by dividing the investment unit price on February 25, 2014 or earlier by 2, while the "Trading volume" shows a figure derived by multiplying the trading volume on February 25, 2014 or earlier by 2.

Unitholders Data

(As of August 31, 2015)



(Note) Ratio figures are rounded to the nearest tenth.

Note for Unitholders

Account closing date	Last day of February and August of each year
Date for determining distribution payments	Last day of February and August of each year (Distributions are to be paid within three months of each date.)
Unitholders' Meeting	To be held at least once every two years
Date for finalizing general meeting voting rights	Record date will be announced in advance.
Listing	REIT section of the Tokyo Stock Exchange (Securities code: 3263)
Public notices	The "Nikkei" newspaper (<i>Nihon Keizai Shimbun</i>)
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, JAPAN
Inquiries	8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, JAPAN Stock Transfer Agency Business Planning Dept. of Sumitomo Mitsui Trust Bank, Limited TEL: 0120-782-031 (toll-free, available within Japan only) Weekdays 9 a.m. to 5 p.m.

• Receipt of Distributions

You can receive distributions when you bring your receipt for distributions to the head office, branch, or local office of the Japan Post Bank in Japan or to a post office (bank agent). If the period for receiving distributions (Note) has elapsed, you can receive distributions by designating the receiving method on the back of your receipt for distributions and mailing it to the Stock Transfer Agency Business Planning Dept. of Sumitomo Mitsui Trust Bank, Limited, or at the head office or a branch of Sumitomo Mitsui Trust Bank, Limited.

If you would like to specify an account to which future distributions will be transferred, please follow the procedures of your securities company. You can also designate your account at Japan Post Bank (Ordinary Savings Accounts) as a transfer account. Please contact your securities company with inquiries regarding the procedures.

We will not pay and have no obligation to pay cash distributions not claimed within three years of the distribution date, as stipulated in our Articles of Incorporation. Please claim these as soon as possible.

(Note) The period for receiving distributions for the 15th period is from November 9, 2015 to December 30, 2015.

• Procedures for Changes of Address, etc.

Please submit changes of address, name, etc., to your securities company. For procedures regarding investment units registered in special accounts, please contact: Stock Transfer Agency Business Planning Dept. of Sumitomo Mitsui Trust Bank, Limited



Investment Corporation (DHR) Website

Distribution information, disclosure information such as press releases, and property listings are posted on DHR's website.

Website:

<http://www.daiwahouse-reit.jp/english/>

■ Topics

Particularly important news about the Investment Corporation is noted here.

■ Fund Information

Information about finalized and forecast distributions, the number of properties held and the size of the portfolio can be found here.

■ Latest Financial Information

All disclosure related to the most recent financial results can be found here.



Daiwa House REIT Investment Corporation

<http://www.daiwahouse-reit.jp/english/>