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Linking Japan



QUARTERLY INVESTMENT INSIGHTS

Daiwa House Asset Mgt.

大和ハウスグループ

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Daiwa House
Residential

Daiwa House Residential

Cultivating Residential Investment to
Deliver a Product Investors Understand
and Recognize

Japanese Economy Outlook Fiscal
2012~2013

Offering PEACE of Mind

Heiwa Real Estate REIT Provides More
Than Just Rock-steady Earnings and
Distributions

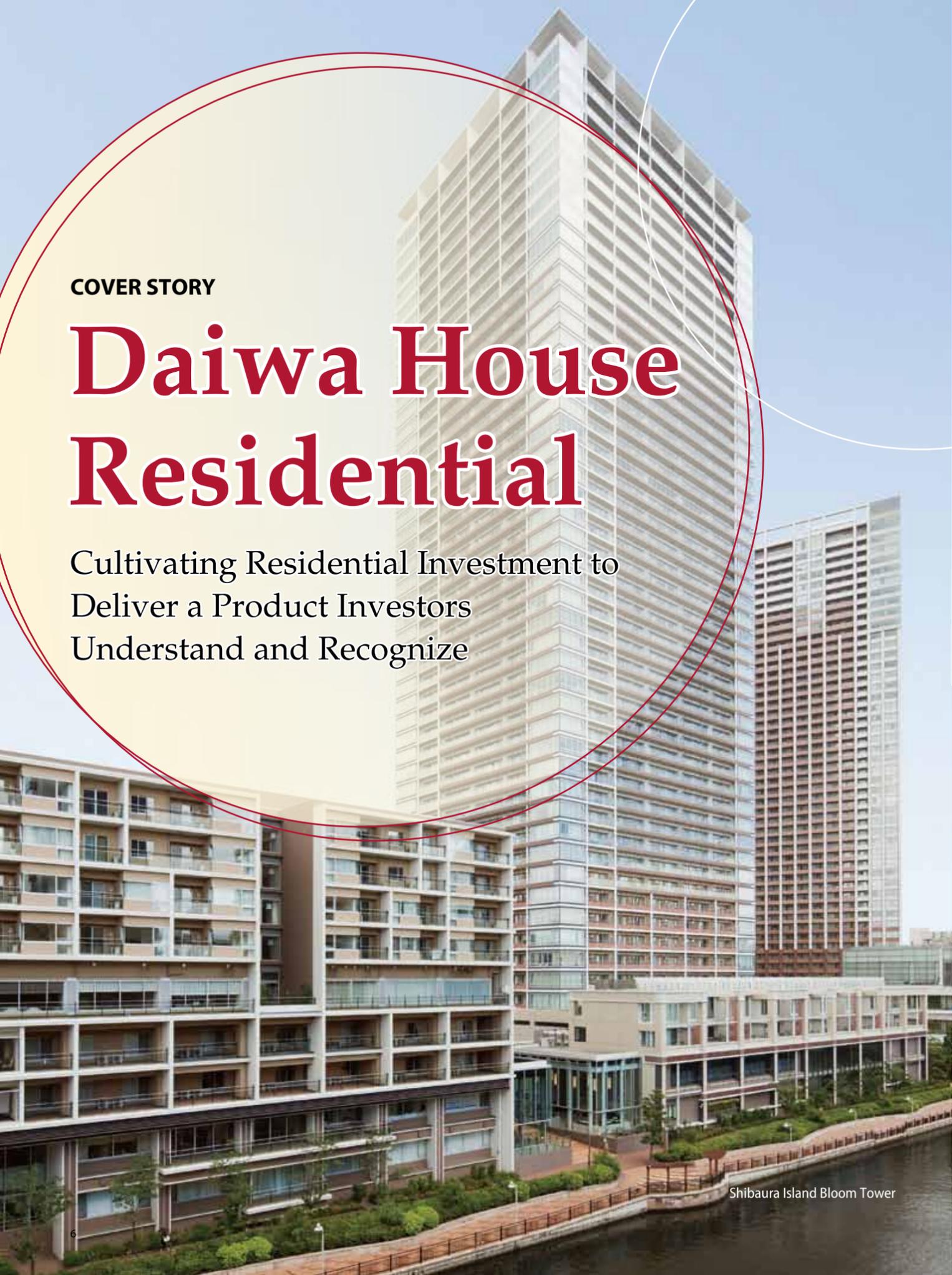
The Japanese Real Estate
Investment Market:

2012 Overview and 2013 Outlook

COVER STORY

Daiwa House Residential

Cultivating Residential Investment to Deliver a Product Investors Understand and Recognize



Shibaura Island Bloom Tower

Yuji Yamada
CEO & President
Daiwa House Asset Management Co., Ltd.



Daiwa House Asset Mgt.
Daiwa House Group

Daiwa House Residential Investment Corporation (DHI) is a residential REIT specializing in rental housing centering on the Tokyo metropolitan area. As its name indicates, DHI is sponsored by Daiwa House Industry, Co., Ltd., a leading housing maker headquartered in western Japan that is particularly known for its residential offerings. DHI boasts a portfolio of 123 properties with a total acquisition price of 211 billion yen. DHI is able to leverage the comprehensive strength of the Daiwa House Group, which boasts strengths in developing, managing and leasing residential housing. The greatest feature of the REIT is that it is able to further demonstrate the stable

rents Japanese residential units are renowned for through the reliable management capabilities of the sponsor group.

The Daiwa House Group is active nationwide developing rental houses, condominiums and commercial facilities. Its management firm is responsible for managing over 300,000 rental residential units.

With the support of the Daiwa House Group such as warehousing functions, DHI is able to acquire relatively new properties and, as a result, the average age of portfolio properties is 7.5 years as of the end of 2012. Furthermore, due to the high credibility of the Daiwa House Group, DHI is able to procure funds from financial institutions for acquiring properties at minute cost levels.

DHI merged with New City Residence Investment Corporation in April 2010 to achieve sudden growth from 51.1 billion yen to 190.5 billion yen in acquisitions, and since the merger has acquired 44 billion yen of properties while disposing of others to attain a total acquisition price of 211 billion yen. According to CEO & President Yuji Yamada of Daiwa House Asset Management, the asset manager of DHI, "It is our intent to achieve a portfolio value of 300 billion yen within the next four to five years while maintaining steady dividends for investors."



Royal Parks Toyosu



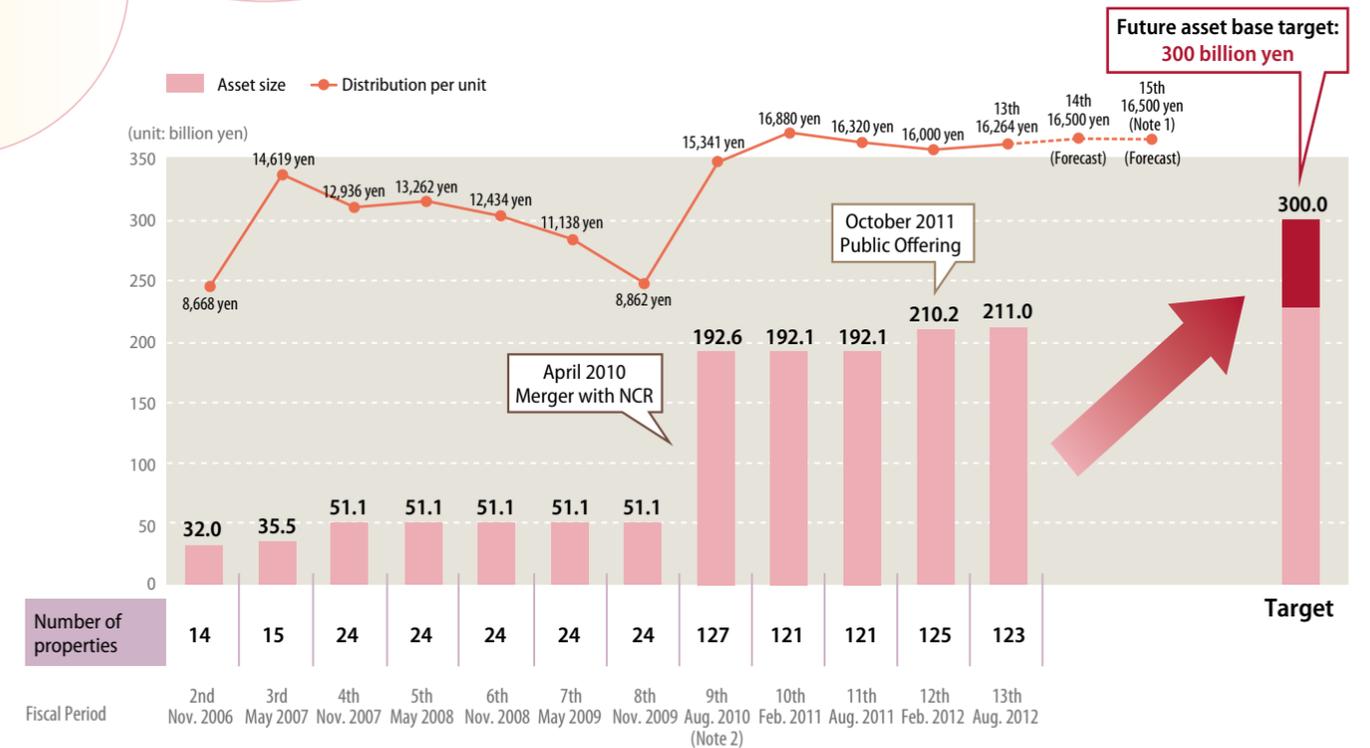
Castalia Nakameguro

In addition, DHI is conscious of its responsibility to society as a product that is actively invested in by individuals. Therefore, both its assets manager, Daiwa House Asset Management, and its sponsor exercise care to avoid conflicts of interest via an internal Compliance Committee, and the appointment of an outside director who is actually a U.S. investor residing in Hong Kong. This is a feature unique to this REIT. In addition, properties acquired from the sponsor by DHI have been acquired at cap rates higher than the market.

Investment Policy Calling for Stable Rents and Performance

DHI invests in residential properties for their comparatively stable rents and occupancy rates. The REIT primarily invests in the Tokyo metropolitan area where population increases are anticipated and plans to increase its share of investments in areas where the Daiwa House Group applies its network and regional knowledge to deliver strong development products. Simply put, areas where strong demographics are demonstrated are targets for investment as a means to reduce the risks of excessive concentration in a single area and include areas such as Osaka and Kyushu. This fact also points to the notion that though the Japanese population is widely reported to be

Figure 1: Growth History



Note 1: The forecast distribution per unit for the 15th Fiscal Period will be revised in proportion to the investment unit split (half), resulting in a revision from ¥16,500 to half that of ¥8,250.
 Note 2: The 9th fiscal period is the nine-month period from December 1, 2009 to August 31, 2010 due to a change in fiscal period-end.

shrinking, there are areas where robust growth is projected to continue.

DHI also primarily invests in compact type properties, which accounted for 84% of the portfolio as of August 31, 2012, as this type delivers the greatest stability among rental products. It is also noteworthy that the Japanese REIT product boasts a high quality found more often in for-sale products than rental products. DHI is also utilizing an exclusive site for residents to answer questions, earn points and receive discounts at various service providers such as fitness clubs. This system is being used to create an identity that tenants want to be a part of and do not want to leave.

Leveraging Retained Earnings for Greater Stability

DHI has applied the earnings from negative goodwill that were gained from the merger, capital gains from selling real estate, and other earnings to retained earnings of 19,473 million yen as of August 2012. DHI proactively applies these earnings to fulfill its medium to long-term mission of stable dividends and stable growth of the REIT. The specifics of the DHI policy on retained earnings are illustrated in the figure below.

Figure 2: Retained Earnings Utilization Policy

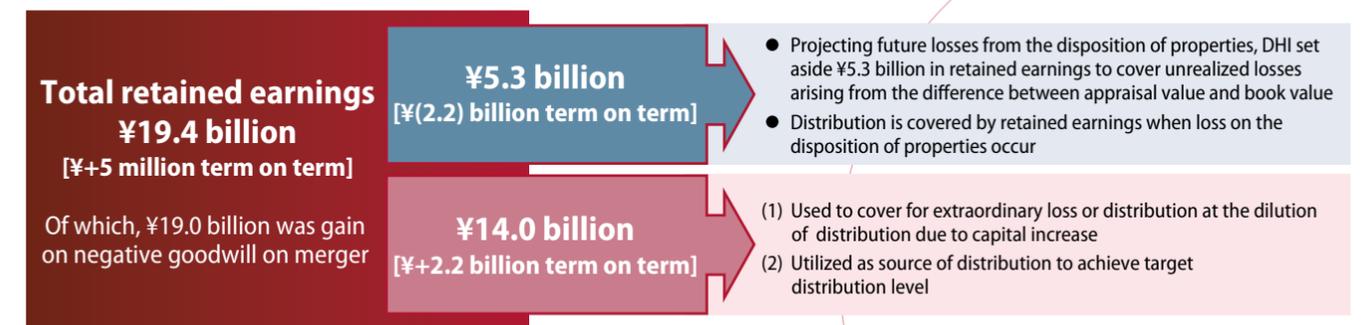
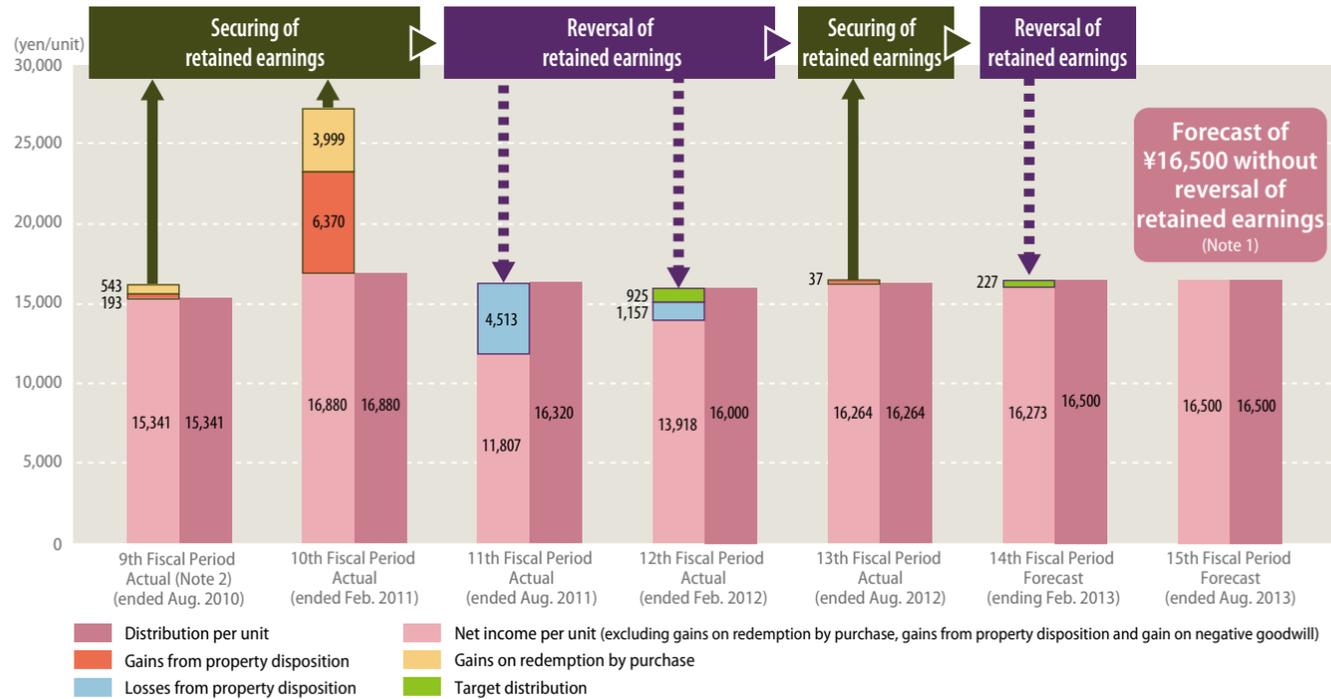


Figure 3: Trend in Stabilization of Distribution through Securing and Reversal of Retained Earnings

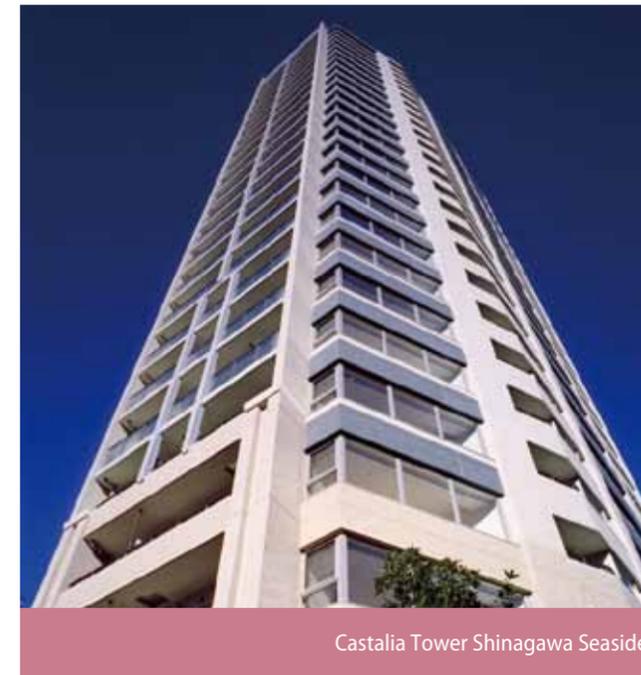


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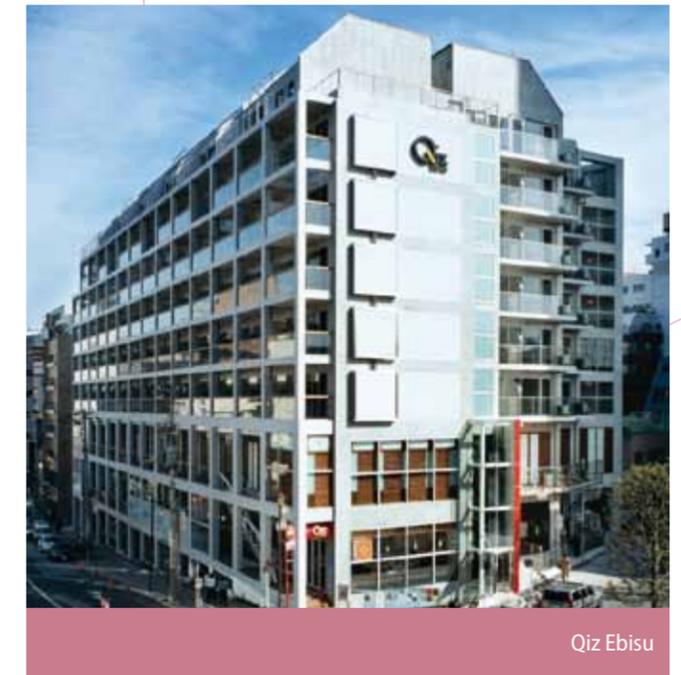
Retained earnings (reserve for distribution) increased by a total of ¥462 million

	9th Fiscal Period Actual (ended Aug. 2010)	10th Fiscal Period Actual (ended Feb. 2011)	11th Fiscal Period Actual (ended Aug. 2011)	12th Fiscal Period Actual (ended Feb. 2012)	13th Fiscal Period Actual (ended Aug. 2012)	14th Fiscal Period Forecast (ending Feb. 2013)	15th Fiscal Period Forecast (ending Aug. 2013)
Net income	¥1,909 million (Note 3)	¥3,245 million	¥1,401 million	¥2,234 million	¥2,616 million	¥2,612 million	¥2,648 million
Retained earnings (reversal)	¥87 million	¥1,241 million	¥(535 million)	¥(334 million)	¥5 million	¥(36 million)	—
Total distributions	¥1,821 million	¥2,004 million	¥1,937 million	¥2,568 million	¥2,610 million	¥2,648 million	¥2,648 million

Note 3: Net income for the 9th fiscal period (ended Aug. 2010) was ¥20,918 million. However, for the purpose of comparison, the figure of ¥1,909 million, which excludes ¥19,009 million gain on negative goodwill, is presented.



Castalia Tower Shinagawa Seaside



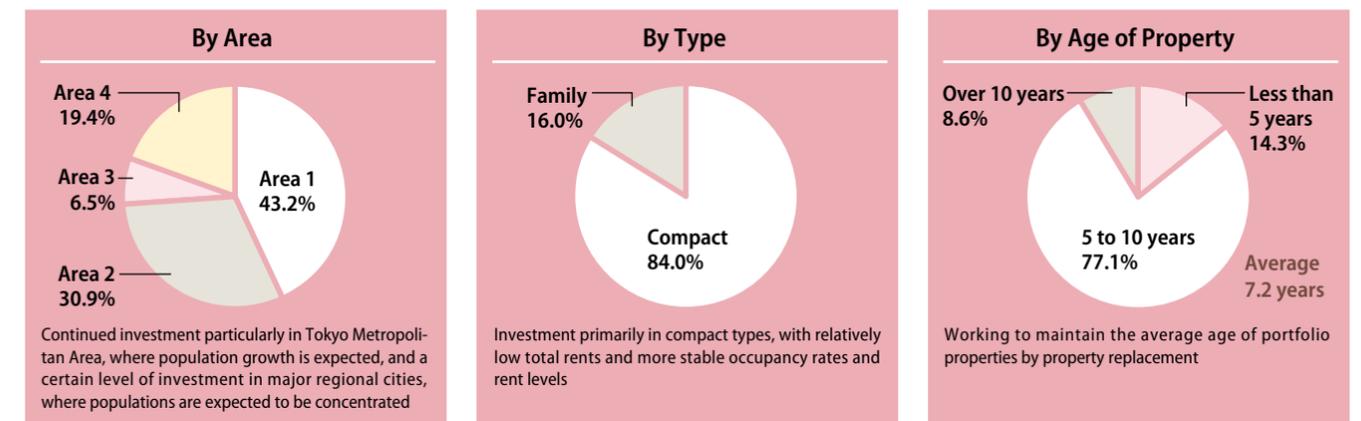
Qiz Ebisu

Since DHI is trading around 600,000 yen, the board of directors met and decided to split the investment units so that investors would feel that the units are more accessible.

DHI has been receiving requests from investors desiring the minimum investment amount be lowered as well as requests for investment unit liquidity enhancement measures. The split will help create greater volumes of trade as they are easier to buy and sell. The added volume and potential increased interest of foreign investors will invigorate the market, which is one of the key goals of the split.

The split itself will increase the number of units from 160,535 to 321,070 units on February 28, 2013, which will take the 15th Fiscal Period (six months ending August 2013) distribution from 16,500 yen to 8,250 yen. The increase in volume and accessibility is expected to contribute to improving DHI's position in the market and heighten the interest of foreign investors. Yamada states, "We need to be a REIT that values the interests of our investors and a REIT that is selected even in the event of a population decline. DHI is the residential REIT that can and will achieve our goal of being the REIT of choice."

Figure 4: Portfolio Distribution at end of 13th Fiscal Period (as of August 31, 2012)



Note 1: Value by area and by age of property is calculated based on acquisition prices. Value by type is calculated based on the number of residential units in each classification.
 Note 2: (1) Area 1 (5 central wards): Chiyoda Ward, Chuo Ward, Minato Ward, Shibuya Ward and Shinjuku Ward
 (2) Area 2 (Other 23 wards): 23 wards of Tokyo excluding Area 1
 (3) Area 3 (Tokyo Metropolitan Area): Tokyo excluding Area 1 and Area 2, Kanagawa Prefecture, Saitama Prefecture and Chiba Prefecture
 (4) Area 4 (Other): Other cities with populations of more than approx. 100,000.
 Note 3: Types are defined as follows: Compact: leasable area of less than 60m² / Family: leasable area of over 60m².

Achieving Social Significance

"REITs have actually played a large role in transforming the real estate industry of Japan. J-REITs have only existed for a little over 10 years but are responsible for entrenching the concept of discounted cash flows in real estate and also bringing a sizeable amount of transparency to the Japan market, which of course has made the market a destination for institutional investors," states Yamada. Adding that, accounting for 9 to 10 trillion yen of the 120 trillion yen of income-generating property that exists in Japan, REIT properties are fast becoming the central actors of the real estate market and are also poised to play a key role in eliminating deflation."

The key for Japan to be recognized as a global investment market is that it be accessible to foreign investors. There also must be an understanding that external management of REITs,

as exists in Japan, is not a bad thing as there is an established strong commitment to compliance and conflicts of interest are not a concern. Yamada states, "Regardless of how the market is perceived, we are committed to becoming a REIT with a favorable atmosphere that investors feel is accessible."

Desiring to be the Choice of Tenants and Investors

As mentioned above, DHI is committed to tenants through enjoying fitness clubs that have benefits and other exclusive privileges so that they want to continue to live in one of their properties. Yamada states, "It is simple, tenant satisfaction leads to the satisfaction of all unitholders."

Likewise DHI seeks to be one of the top choices for investors.