

For Immediate Release

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Notice Concerning Disposition of Trust Beneficiary Interest in Domestic Real Estate

Daiwa House REIT Investment Corporation (“DHR”) hereby announces the decision made today by Daiwa House Asset Management Co., Ltd. (the “Asset Manager”), the asset manager to which DHR entrusts the management of its assets, for DHR to dispose of the following property (the “Anticipated Disposition”) as described below (the “Disposition”).

1. Disposition overview

| Property number | Property name | Asset class | Anticipated date of disposition | Anticipated sale price (million yen) (Note 1) | Anticipated book value (million yen) (Note 2) | Difference between anticipated sale price and anticipated book value (million yen) | Gain or loss on sale (million yen) (Note 3) | Appraisal value (million yen) (Note 4) |
|-----------------|--------------------------|-------------|---------------------------------|---|---|--|---|--|
| RE-137 | Castalia Ohori Bay Tower | Residential | September 30, 2021 | 3,740 | 2,384 | 1,355 | 1,335 | 3,740 |

(Note 1) Excluding various expenses related to disposition, settlement money such as taxes and dues, and consumption taxes, etc.

(Note 2) Anticipated book value as of anticipated date of disposition.

(Note 3) Gain or loss on sale represents the forecast amount.

(Note 4) Appraisal value as of February 28, 2021.

- (1) Type of specified asset : Trust beneficiary interest in real estate
 (2) Anticipated date of the sale and purchase agreement : July 2, 2021
 (3) Buyer : Not disclosed (Note)
 (4) Settlement method : Payment of entire amount upon transfer

(Note) Not disclosed as consent for disclosure has not been obtained from the buyer.

2. Disposition rationale

Based on the examination in terms of the medium- to long-term management efficiency of DHR’s portfolio and the characteristics of the respective properties, and comprehensively taking into account such factors as the competitiveness of the Anticipated Disposition and market conditions, the Asset Manager decided the Disposition in order to improve portfolio quality.

Since the Anticipated Disposition is a 30-story high-rise condominium built approximately 15 years ago with the timing for large-scale repair work becoming imminent, capital expenditure and repairs and maintenance expenses are expected to increase. In view of the occupancy and rent conditions in the recent years, it would be hard to maintain or improve profitability of the Anticipated Disposition going forward. After considering the risk of potential decrease in profitability as well as the risk of reversal of the real estate trading market, the Asset Manager deemed it would be preferable to dispose of the property at the current point.

The anticipated sale price is higher than the anticipated book value at the Disposition by approximately 56.8% against a backdrop of a booming real estate trading market. By utilizing part of the gain on sale of investment properties in the fiscal period ending February 28, 2022, DHR plans to strategically bring forward some of the repair work on the portfolio properties scheduled in later periods with an aim to cut back repairs and maintenance expenses in the future and thereby stabilize NOI.

Part of the net proceeds of the Disposition will be used to pay distributions to unitholders, and the remainder will be reserved as cash on hand to use as funds for acquisition of assets in the future.

3. Details of the Anticipated Disposition

| | | | | | | | |
|---------------------------------------|-------------------------|--------------------------|---|---------------------------------------|---------------|-------------------|--|
| Property number | | Castalia Ohori Bay Tower | | Asset class | | Residential | |
| RE-137 | | | | Acquisition price | | 2,910 million yen | |
| Type of specified asset | | | Trust beneficiary interest in real estate | | | | |
| Trustee | | | Mitsubishi UFJ Trust and Banking Corporation | | | | |
| Trust maturity date | | | March 31, 2023 | | | | |
| Location | Lot number | | 1-32, Minato, Chuo Ward, Fukuoka City, Fukuoka | | | | |
| | Address | | 1-6-6, Minato, Chuo Ward, Fukuoka City, Fukuoka | | | | |
| Land | Type of ownership | | Ownership | | | | |
| | Land area | | 4,002.50 m ² | | | | |
| | Area classification | | Quasi-industrial district | | | | |
| | Building coverage ratio | | 60% | | | | |
| | FAR | | 200% | | | | |
| Building | Type of ownership | | Ownership | | | | |
| | Gross floor area | | 16,111.07 m ² | | | | |
| | Use | | Apartment complex, store | | | | |
| | Structure | | Reinforced concrete building | | | | |
| | Number of floors | | 30F | | | | |
| Date of construction | | September 9, 2006 | | | | | |
| Collateral | | | None | | | | |
| Overview of leasing ^(Note) | | | | | | | |
| Leasable area | | 11,089.75 m ² | | Number of leasable units | | 215 | |
| Leased area | | 4,677.27 m ² | | Annual rent | | 131 million yen | |
| Occupancy rate | | 42.2% | | Tenant leasehold and security deposit | | 10 million yen | |
| Historical occupancy rate | February 2019 | August 2019 | February 2020 | August 2020 | February 2021 | | |
| | 51.8% | 48.9% | 47.3% | 44.6% | 42.2% | | |
| Master lease company | | | Miyoshi Asset Management Co., Ltd. | | | | |
| Master lease type | | | Pass-through type | | | | |
| Property management company | | | Miyoshi Asset Management Co., Ltd. | | | | |

(Note) Overview of leasing is based on information as of February 28, 2021.

4. Buyer profile

The buyer is a domestic corporation. However, name, etc. is not disclosed as consent for disclosure has not been obtained from the buyer. The buyer is not an interested party of DHR and the Asset Manager or a related party of DHR and the Asset Manager.

5. Interested party transactions

None

6. Disposition schedule

- (1) Disposition decision date : June 30, 2021
- (2) Execution date of the sale and purchase agreement : July 2, 2021 (planned)
- (3) Date of payment : September 30, 2021 (planned)
- (4) Delivery date : September 30, 2021 (planned)

7. Outlook

DHR expects to record gain on sale of investment properties of 1,335 million yen for the fiscal period ending February 28, 2022 associated with the Disposition. For the forecasts of results for the fiscal period ending February 28, 2022 with the Disposition factored in, please refer to the press release “Notice Concerning Revision to Forecast of Results for the Fiscal Period Ending February 28, 2022” announced today.

8. Overview of property appraisal of the Anticipated Disposition

| | |
|-----------------|-------------------------------------|
| Property name | Castalia Ohori Bay Tower |
| Appraisal value | 3,740 million yen |
| Appraiser | JLL Morii Valuation & Advisory K.K. |
| Appraisal date | February 28, 2021 |

| Item | Content | Basis |
|---|-------------------|---|
| Value based on income method | 3,740 million yen | Estimated the value based on income method by correlating the value calculated using the discount cash flow method with the value calculated using the direct capitalization method since these two values are complementary to each other. |
| Value based on direct capitalization method | 3,820 million yen | |
| Operating revenue | 301 million yen | |
| Effective gross revenue | 321 million yen | Assessed stable rent over the medium- to long-term based on current conditions and other factors. |
| Loss from vacancy | 20 million yen | Assessed based on standard vacancy rate and individuality of the property. |
| Operating expense | 89 million yen | |
| Maintenance | 15 million yen | The actual amount is used as judged reasonable in reference to the level of similar real estate. |
| Utility cost | 17 million yen | The actual amount is used as judged reasonable in reference to the level of similar real estate. |
| Repair | 14 million yen | 30% of the standardized amount based on the estimate in the engineering report. |
| Property management Fee | 8 million yen | The contract amount is used as judged reasonable in reference to similar real estate. |
| Advertisement and other leasing cost | 10 million yen | Two months' rent of new tenants |
| Tax | 21 million yen | Assessed based on the actual amount in consideration of the volatility and depreciation over time. |
| Insurance | 0 million yen | Recorded based on the presented materials. |
| Other cost | 0 million yen | Town membership fee |
| Net operating income (NOI) | 211 million yen | |
| Investment income of lump sum | 0 million yen | Assessed with the investment yield set at 1.0% |
| Capital expenditure | 17 million yen | 70% of the standardized amount based on the estimate in the engineering report. |
| Net cash flow (NCF) | 195 million yen | |
| Cap rate | 5.1% | Assessed by adding the risk of fluctuations in revenue and principal amount to the discount rate. |
| Value based on Discounted Cash Flow method | 3,650 million yen | |
| Discount rate | 4.9% | Assessed based on the standard yield considering risk factors related to the regional characteristics and individuality of the property and comprehensively considering the trading market trends. |
| Terminal cap rate | 5.3% | Assessed based on capitalization rate comprehensively considering the uncertainty of forecasting fluctuations in net cash flow at a future point in time, deterioration of the building and risk of sale of the property in the future. |
| Value based on cost method | 3,360 million yen | |

| | | |
|---|-------|--|
| Proportion of land | 62.1% | |
| Proportion of building | 37.9% | |
| Items applied to adjustments in valuation approach and the determination of the appraisal value | None | |

* DHR's website: <https://www.daiwahouse-reit.co.jp/en/>

<Attachment>

Portfolio status after the Disposition

| Asset class | Number of properties | Acquisition price (million yen) | Investment ratio (Note) |
|------------------------|----------------------|---------------------------------|-------------------------|
| Logistics properties | 63 properties | 412,171 | 50.2% |
| Residential properties | 129 properties | 239,623 | 29.2% |
| Retail properties | 23 properties | 123,219 | 15.0% |
| Hotel properties | 5 properties | 19,110 | 2.3% |
| Other assets | 6 properties | 27,260 | 3.3% |
| Portfolio Total | 226 properties | 821,383 | 100.0% |

(Note) Investment ratio indicates the ratio of the acquisition price for each asset to the total acquisition price, rounded to the nearest tenth.