

September 25, 2020

For Immediate Release

REIT Issuer:

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Notice Concerning Acquisition 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 acquire the following asset (the “Anticipated Acquisition”) as described below.

The decision to acquire the Anticipated Acquisition has been approved by the board of directors of DHR based on the Act on Investment Trust and Investment Corporations (Act No. 198 of 1951, as amended, the “Investment Trust Act”) and the Asset Manager’s voluntary rules concerning conflict of interest.

1. Acquisition overview

(1) Anticipated Acquisition

Property number	Real estate in trust (Property name)	Asset class	Location	Anticipated date of acquisition	Anticipated acquisition price (million yen) (Note 1)	Appraisal value (million yen) (Note 2)	NOI yield (Note 3)	NOI yield after depreciation (Note 4)
HO-005	Candeo Hotels Nagasaki Shinchi Chinatown	Hotel	Nagasaki City, Nagasaki	September 30, 2020	3,140	3,180	5.3%	3.8%

(Note 1) Excluding such amounts as expenses related to acquisition, amounts equivalent to reimbursement of taxes and dues, etc., and amount equivalent to consumption taxes.

(Note 2) Appraisal value as of August 31, 2020.

(Note 3) “NOI yield” is represented by a figure calculated by dividing the stabilized net operating income, calculated by deducting operating expenses from operating income based on a direct capitalization method, as stated in the appraisal report (as of August 31, 2020) (the “Net Operating Income” in Note 4 below), by an anticipated acquisition price.

(Note 4) “NOI yield after depreciation” is calculated by dividing the figure, calculated by deducting depreciation estimated by the Asset Manager from the Net Operating Income in the appraisal report (as of August 31, 2020), by an anticipated acquisition price.

- (2) Anticipated execution date of the sale and purchase agreement : September 30, 2020
- (3) Seller : Daiwa House Industry Co., Ltd.
- (4) Acquisition funds : Proceeds from debt financing and cash reserves (Note)
- (5) Method of settlement : Payment of entire amount upon transfer

(Note) Please refer to the press release “Notice Concerning Debt Financing” dated today.

2. Rationale for acquisition

The Anticipated Acquisition is a newly built hotel located a three-minute walk from the Shinchi Chinatown Station on the Nagasaki Electric Tramway and a fixed-rent sublease master lease agreement is scheduled to be concluded with DHR’s sponsor, Daiwa House Industry Co., Ltd. Based on the targets and policies prescribed in DHR’s Articles of Incorporation, the Asset Manager decided the acquisition having deemed that the acquisition would further increase the stability of cash flow and improve portfolio diversification. For the details of the Anticipated Acquisition, please refer to “Overview of leasing” and “Property characteristics” in “3. Details of the Anticipated Acquisition” below.

3. Details of the Anticipated Acquisition

Property number	Candeo Hotels Nagasaki Shinchi Chinatown		Asset class	Hotel
HO-005			Type	-
Anticipated date of acquisition	September 30, 2020		Anticipated acquisition price	3,140 million yen
Overview of specified asset				
Type of specified asset		Trust beneficiary interest in real estate (Note 1)		
Trustee		Sumitomo Mitsui Trust Bank, Limited		
Trust maturity date		September 30, 2040		
Location	Lot number	40-1, Doza-machi, Nagasaki City, Nagasaki		
	Residence indication	3-12, Doza-machi, Nagasaki City, Nagasaki		
Land	Type of ownership	Ownership and superficies		
	Land area	1,892.33 m ²		
	Area classification	Retail district		
	Building coverage ratio	80% (Note 2)		
	FAR	500%		
Building	Type of ownership	Ownership		
	Gross floor area	6,765.82 m ²		
	Use	Hotel and store		
	Structure	Steel-frame building		
	Number of floors	12F		
	Date of construction	January 24, 2020		
Collateral		None		
Overview of building condition evaluation				
Evaluation company		Tokio Marine & Nichido Risk Consulting Co., Ltd.		
Urgent repair costs		0 thousand yen	Evaluation date	September 2020
Short-term repair costs		0 thousand yen	PML	4.6%
Long-term repair costs		87,197 thousand yen (12 years)		
Soil contamination inspector				
Inspector		Tokio Marine & Nichido Risk Consulting Co., Ltd.		
Designer, structural designer, contractor, inspection agency				
Designer		Daiwa House Industry Co., Ltd.		
Structural designer		Daiwa House Industry Co., Ltd.		
Contractor		Daiwa House Industry Co., Ltd.		
Inspection agency		JAPAN ERI CO., LTD.		
Structural calculation evaluation agency		-		
Overview of leasing				
Leasable area		6,770.65 m ² (Hotel 6,108.97 m ² , Retail 661.68 m ²)		
Leased area		6,770.65 m ² (Hotel 6,108.97 m ² , Retail 661.68 m ²)		
Occupancy rate		100.0%	Annual rent	208,455 thousand yen
Number of tenants		1	Tenant leasehold and security deposit	59,407 thousand yen
Lease term		1.0 year	Remaining lease term	1.0 year (Note 3)
Master lease company			Daiwa House Industry Co., Ltd.	
Master lease type			Sublease type	
Sub master lease term		20.5 years	Remaining lease term of sub master lease	20.0 years (Note 3)
Sub master lease company			Daiwa Information Service Co., Ltd.	
Sub master lease type			Pass-through type	

Property management company	Daiwa House Industry Co., Ltd.
Sub property management company	Daiwa Information Service Co., Ltd.
Lessee	Candeco Hospitality Management, Inc.
Contract form	Fixed-term building lease agreement
Contract period	From January 24, 2020 to January 23, 2040
Rent revision	Rent shall remain unchanged during the lease period. In cases where the business operation of the lesser is suspended for unavoidable reasons such as natural disasters, terrorism, war, and other circumstances, rent during the business suspension may be exempted upon consultation.
Contract renewal	No renewal; the lease agreement will end upon expiration of the lease period.
Early cancellation	The lease agreement may not be cancelled during the lease period.
Special items	
<p>Overview of the superficies is as follows. Owner of the land with superficies: Matsumoto Trading Co., Ltd. and an individual Term of superficies: 50 years from December 20, 2017 Land area of superficies: 342.55 m² If the owner of the land with superficies intends to transfer the ownership of the land to third parties, the owner of the land with superficies is required to notify the lessee of the land in writing and in advance, and negotiate for transfer with the lessee of the land as a preferential negotiating partner for purchase.</p>	
Property characteristics	
<p>■ Location The property is a building located a three-minute walk from the Shinchi Chinatown Station on the Nagasaki Electric Tramway, comprised of a hotel and a retail store. It is in the prominent commercial area and surrounded by various retail facilities with Chinatown and shopping arcades nearby. The bus stop of the Nagasaki Airport limousine in the vicinity also offers an excellent accessibility. As for the hotel, the location should be attractive both for leisure and business customers. The location of the retail store on the first floor should be also attractive for various retail stores as the surrounding area is very vibrant.</p> <p>■ Tenant 1F to 12F of this property are occupied by Candeco Hotels Nagasaki Shinchi Chinatown operated by Candeco Hospitality Management Inc. 1F is also occupied by a drugstore. Candeco Hotels, which is a main tenant, is famous for its large spa facilities, and has been increasing the number of hotels in the recent years. Since Candeco Hotels enjoys relatively high profitability among stay-only hotels partly helped by the superiority of its facilities, stable operation can be expected.</p> <p>■ Characteristics Candeco Hotels is a superior brand of stay-only hotels with its facilities such as large spas. The hotel with 207 guestrooms is located in a busy downtown area crowded with many retail facilities, and thus can meet various demands for accommodation including inbound tourists both in terms of location and facilities. Considering there are not many competitive hotels in the Nagasaki area, Candeco Hotels appears highly competitive and stable operation can be expected going forward. Further earnings expansion is also a possibility depending on the circumstances surrounding inbound demands.</p>	

(Note 1) DHR has agreed in the purchase agreement with the seller that, as of the same date with the acquisition date of the property, the seller will entrust the property to the above trustee, and the seller will transfer the trust beneficiary interest to DHR as of the same date.

(Note 2) While the building coverage ratio of the property is essentially 80%, it is set at 90% due to application of a fire-resistant building located in a quasi-fire prevention district.

(Note 3) The remaining lease term as of September 30, 2020, which is the anticipated acquisition date, is shown.

4. Seller profile

(1) Name	Daiwa House Industry Co., Ltd.
(2) Location	3-3-5, Umeda, Kita Ward, Osaka City, Osaka
(3) Representative	Keiichi Yoshii, President, CEO and COO
(4) Business activities	General contractor
(5) Capital	161,699 million yen (as of March 31, 2020)
(6) Foundation date	March 4, 1947
(7) Net assets	1,773,388 million yen (as of March 31, 2020)
(8) Total assets	4,627,388 million yen (as of March 31, 2020)
(9) Major shareholder and shareholding ratio	The Master Trust Bank of Japan, Ltd. (Trust) 9.70% The Japan Trustee Services Bank, Ltd. (Trust) 5.92% (as of March 31, 2020)
(10) Relationships with DHR and the Asset Manager	

Capital relationship	The seller holds 8.6% of DHR's investment units outstanding as of August 31, 2020. The seller also holds 100% of shares issued and outstanding of the Asset Manager as of today, and thus falls under the category of an interested party, etc. as defined in the Investment Trust Act.
Personnel relationship	Of the officers and employees of the Asset Manager, 13 people have been seconded from the seller as of today.
Business relationship	The seller is a consignee of PM and other services for DHR, and is a lessee of real estate owned by DHR. The seller has executed a new basic agreement regarding new pipeline support and other matters with DHR and the Asset Manager.
Status of classification as related party	The seller is not a related party of DHR. The seller is a parent company of the Asset Manager and thus falls under the category of a related party of the Asset Manager.

5. Interested party transactions

The following companies related to the Anticipated Acquisition are defined as interested parties, etc. in the Investment Trust Act: Daiwa House Industry Co., Ltd., as the seller, master lease and property management company and Daiwa Information Service Co., Ltd., as the sub master lease and sub property management company.

The Asset Manager has gone through the necessary discussion and resolution procedures in accordance with its internal rules regarding interested party transactions.

6. Status of the seller

Property acquisitions from parties with particular interests are as follows. The table below notes (1) the name of the party; (2) the relationship with the party that has a particular interest; and (3) the backgrounds and reason for the acquisition.

Property name (Location)	Previous owner / trust beneficiary	Owner before previous owner / trust beneficiary
	(1), (2), (3)	(1), (2), (3)
	Acquisition price	Acquisition price
	Acquisition date	Acquisition date
HO-005 Candeo Hotels Nagasaki Shinchi Chinatown (3-12, Doza-machi, Nagasaki City, Nagasaki)	(1) Daiwa House Industry Co., Ltd. (2) The parent company of the Asset Manager (3) Acquisition for development purposes	A party which does not have any particular interests
	Omitted as the previous owner/trust beneficiary has owned the property for over one year	-
	February 2018	-

7. Acquisition schedule

(1) Acquisition decision date	:	September 25, 2020
(2) Execution date of the sale and purchase agreement	:	September 30, 2020 (planned)
(3) Date of payment	:	September 30, 2020 (planned)
(4) Delivery date	:	September 30, 2020 (planned)

8. Outlook

The impact of the acquisition of the Anticipated Acquisition will be minimal, and there are no revisions to the forecast of results for the fiscal period ending February 28, 2021 (from September 1, 2020 to February 28, 2021).

9. Overview of property appraisal

Candeo Hotels Nagasaki Shinchi Chinatown	
Appraisal value	3,180 million yen
Appraiser	DAIWA REAL ESTATE APPRAISAL CO., LTD.
Appraisal date	August 31, 2020

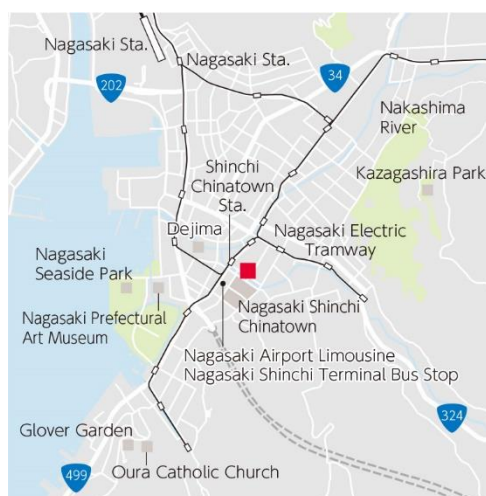
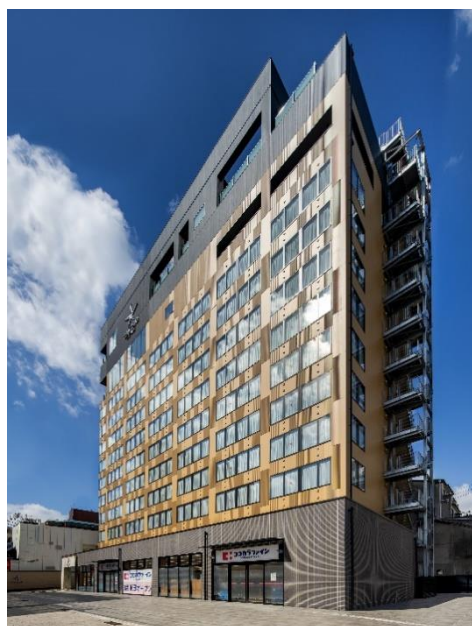
Item	Content	Basis
Value based on income method	3,180 million yen	Applied value based on discount cash flow method by judging it is more convincing with value based on direct capitalization method used as a reference
Value based on direct capitalization method	3,200 million yen	
Operating revenue	208 million yen	
Effective gross revenue	208 million yen	Assessed based on master lease income by taking into consideration the capacity to pay rent and medium- to long- term competitiveness of the hotel and retail tenants
Loss from vacancy	-	Not recorded as occupancy should be stable in the medium- to long- term in consideration of the tenant attributes and individuality of the contracts
Operating expense	42 million yen	
Maintenance	2 million yen	Recorded the contracted amount which excludes the burden share of the hotel based on the confirmation letter on common area management
Utility cost	-	Not recorded as borne by the lessee
Repair	2 million yen	Assessed at 0.12% of the building replacement value by reference to the engineering report and comparison with repair costs of similar properties
Property management Fee	4 million yen	Recorded based on the assumed contract amount
Advertisement and other leasing cost	-	Not recorded assuming tenant replacement is unlikely
Tax	24 million yen	Land: Recorded based on actual amount in consideration of the burden level and land price trend Building, etc.: Recorded based on building replacement value by reference to tax level of similar properties
Insurance	0 million yen	Recorded based on the estimated amount
Other cost	8 million yen	Assessed at 0.5% of the operating revenue by reference to actual costs
Net operating income (NOI)	165 million yen	
Investment income of lump sum	0 million yen	Assessed with the investment yield set at 1.0%
Capital expenditure	6 million yen	Assessed at 0.28% of the building replacement value by reference to the engineering report, comparison with renewal costs of similar properties and construction management fees
Net cash flow (NCF)	160 million yen	
Cap rate	5.0 %	Assessed by adjusting yields in similar types with spreads attributable to the property's location, the characteristics of the building and conditions, additionally in consideration of cap rate of appraisal value for J-REIT properties in similar areas of the same supply and demand
Value based on Discounted Cash Flow method	3,170 million yen	
Discount rate	4.8%	Assessed by comparing with cases of similar real estate transactions and adding individuality of real estate to yield of financial assets
Terminal cap rate	5.2%	Assessed based on capitalization rate, in consideration to future uncertainty such as possibility of increased capital expenditure due to aging of the property, change of market trend and loss of liquidity because of passage of time
Value based on cost method	3,530 million yen	
Proportion of land ownership	35.9%	
Proportion of superficies	4.0%	
Proportion of building	60.1%	
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/>

<Attachments>

1. Photograph and location map of the Anticipated Acquisition

HO-005 Candeo Hotels Nagasaki Shinchi Chinatown



2. Portfolio status after the acquisition of the Anticipated Acquisition

Asset class	Number of properties	(Anticipated) acquisition price (million yen)	Investment ratio (Note)
Logistics properties	62 properties	406,241	49.4%
Residential properties	133 properties	246,424	30.0%
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	229 properties	822,254	100.0%

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