Daiwa House REIT Investment Corporation

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For Immediate Release

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Notice Concerning Completion of Acquisition of Trust Beneficiary Interests in Domestic Real Estate

Daiwa House REIT Investment Corporation (“DHR”) hereby announces that it completed acquisition of assets as described below.

1. Acquisition details

Property name	Acquisition price (million yen)	Acquisition date
Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	7,600	September 28, 2016
D Project Hibiki Nada	2,080	
D Project Morioka II	1,280	
Castalia Ningyocho III	2,000	
Royal Parks Umejima	2,020	
Sports Depo and GOLF5 Kokurahigashi IC Store	2,230	
Total	17,210	-

For the details of the acquired assets, please refer to the press release “Notice Concerning Acquisition of Trust Beneficial Interests in Domestic Real Estate and Leasing of Assets” dated April 15, 2015. Proceeds from debt financing and cash reserves were used as the acquisition funds which were undetermined at the time of the previous press release. For the details of the debt financing, please refer to the press release “Notice Concerning Debt Financing and Repayment of Loan” dated September 16, 2016. Summary of real estate appraisal as of August 31, 2016 is attached for your information.

* DHR’s website: http://www.daiwahouse-reit.co.jp/en/

<Attachment>
1. Summary of real estate appraisal

<Attachment>

1. Summary of real estate appraisal

Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)		
Appraisal value	7,630 million yen	
Appraiser	DAIWA REAL ESTATE APPRAISAL CO., LTD.	
Appraisal date	August 31, 2016	
Item	Content	Basis
Value based on income method	7,630 million yen	Estimate by combining the value calculated by using direct capitalization method and the value calculated by using discounted cash flow method.
Value based on direct capitalization method	7,640 million yen	
Operating revenue	1,239 million yen	
Effective gross revenue	1,285 million yen	Assessed based on the stabilized assumed rental income and common area charges income of the subject property based on leasing case examples and the level of new rent of similar buildings in the market area and the trends thereof, and by taking into consideration such factors as the medium- to long-term competitiveness of the subject property.
Loss from vacancy	46 million yen	Estimated using historical vacancy rate of the subject property and standard vacancy rate of comparable property but adjusted for specific characteristics of the property.
Operating expense	337 million yen	
Maintenance	83 million yen	Estimated using historical maintenance fee based on the current contract, by referring to the cost of comparable property and current cost.
Utility cost	137 million yen	Estimated by referring to the cost of comparable property and current cost.
Repair	18 million yen	Posted based on the average annual expenses of the medium- to long-term repair expenses described in engineering report, and verifying the levels of maintenance and management fees of comparable real estate.
Property management fee	10 million yen	PM fee is based on actual figures, and verifying the levels of property management fee of comparable real estate.
Advertisement and other leasing cost	6 million yen	Estimated by referring to the replacement cost of comparable property, assuming vacancy rate and current cost.
Tax	75 million yen	Recorded in consideration of burden levels, land price trends, etc. in reference to results for FY 2015.
Insurance	2 million yen	Recorded in the current insurance premium, verifying the premium on comparable property.
Other cost	4 million yen	Recorded maintenance fee and reserve costs of other costs.
Net operating income (NOI)	901 million yen	
Investment income of lump sum	17 million yen	Assessed based on assuming investment yield of 2.0%, by conducting a comprehensive assessment from the perspective of both the operational and procurement aspects regarding the actual management condition, etc. of one-time investment gains.
Capital expenditure	32 million yen	Recorded by taking the annual average renewal costs in the engineering report and considering the construction management fees.
Net cash flow (NCF)	886 million yen	
Net cash flow based on co-ownership interest	443 million yen	Net cash flow (NCF) multiplied by rate of co-ownership interest (50%).
Cap rate	5.8%	In consideration of a 50% co-ownership and other factors such as management flexibility and market deterioration, as well as comparable transactions.

Value based on discounted cash flow method	7,630 million yen	
Discount rate	5.6%	Appraised by comparing with cases of similar real estate transactions and adding individuality of real estate to yield of financial assets.
Terminal cap rate	6.0%	Giving 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	7,690 million yen	
Proportion of land	45.9%	
Proportion of building	54.1%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value		None

D Project Hibiki Nada		
Appraisal value	2,110 million yen	
Appraiser	The Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal date	August 31, 2016	
Item	Content	Basis
Value based on income method	2,110 million yen	Estimate by combining the value calculated by using direct capitalization method and the value calculated by using discounted cash flow method.
Value based on direct capitalization method	2,110 million yen	
Operating revenue	-	(Note)
Effective gross revenue	-	
Loss from vacancy	-	
Operating expense	-	
Maintenance	-	
Utility cost	-	
Repair	-	
Property management fee	-	
Advertisement and other leasing cost	-	
Tax	-	
Insurance	-	
Other cost	-	
Net operating income (NOI)	130 million yen	
Investment income of lump sum	-	(Note)
Capital expenditure	-	
Net cash flow (NCF)	126 million yen	
Cap rate	6.0%	Compare the multiple transaction yields in the neighboring areas and the similar areas of the same supply and demand, also, assess by taking into account the change prediction of net cash flow in the future, considering the relationship with the discount rate.
Value based on discounted cash flow method	2,110 million yen	
Discount rate	(from first to fifth year) 5.9% (from sixth year) 6.1%	In consideration of a single-tenant impact. Also, a fixed-term lease with no early termination or rent renewal clause, NCF assessed stable.

Terminal cap rate	6.2%	In consideration of the prediction uncertainty, estimate on the basis of capitalization rate.
Value based on cost method	2,060 million yen	
Proportion of land	31.4%	
Proportion of building	68.6%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value	None	

(Note) Consent has not been obtained from the lessee for disclosure of certain figures in relation to the direct capitalization method, including information that could be used to deduce these amounts. Disclosure of this information could damage the relationship with the lessee, potentially resulting in claims being brought against DHR for breach of confidentiality and/or termination and endangering the long-term contractual relationship. Therefore, DHR believes that disclosure of this information could be detrimental to unitholder value, and, except in certain instances where it was deemed that no harm would result from disclosure, these items are not disclosed.

D Project Morioka II		
Appraisal value	1,300 million yen	
Appraiser	The Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal date	August 31, 2016	
Item	Content	Basis
Value based on income method	1,300 million yen	Estimate by combining the value calculated by using direct capitalization method and the value calculated by using discounted cash flow method.
Value based on direct capitalization method	1,310 million yen	
Operating revenue	-	(Note)
Effective gross revenue	-	
Loss from vacancy	-	
Operating expense	-	
Maintenance	-	
Utility cost	-	
Repair	-	
Property management fee	-	
Advertisement and other leasing cost	-	
Tax	-	
Insurance	-	
Other cost	-	
Net operating income (NOI)	80 million yen	
Investment income of lump sum	-	(Note)
Capital expenditure	-	
Net cash flow (NCF)	79 million yen	
Cap rate	6.1%	Compare the multiple transaction yields in the neighboring areas and the similar areas of the same supply and demand, also, assess by taking into account the change prediction of net cash flow in the future, considering the relationship with the discount rate.
Value based on discounted cash flow method	1,300 million yen	
Discount rate	(from first to ninth year) 5.8% (tenth year) 5.9%	Estimate base yield of the warehouse by build-up approach based on yields of the financial products, and assess taking into account specific risks related to the property.
Terminal cap rate	6.3%	In consideration of the prediction uncertainty, estimate on the basis of capitalization rate.
Value based on cost method	1,190 million yen	
Proportion of land	41.2%	

Proportion of building	58.8%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value		None

(Note) Consent has not been obtained from the lessee for disclosure of certain figures in relation to the direct capitalization method, including information that could be used to deduce these amounts. Disclosure of this information could damage the relationship with the lessee, potentially resulting in claims being brought against DHR for breach of confidentiality and/or termination and endangering the long-term contractual relationship. Therefore, DHR believes that disclosure of this information could be detrimental to unitholder value, and, except in certain instances where it was deemed that no harm would result from disclosure, these items are not disclosed.

Castalia Ningyocho III		
Appraisal value	2,180 million yen	
Appraiser	Japan Real Estate Institute	
Appraisal date	August 31, 2016	
Item	Content	Basis
Value based on income method	2,180 million yen	Calculated by associating value based on the direct capitalization method and that based on the discounted cash flow method, both of which are considered to have the same level of canonicity.
Value based on direct capitalization method	2,200 million yen	
Operating revenue	130 million yen	
Potential gross revenue	139 million yen	Assessed the unit value level of rents, etc. that can be received stably over a medium to long term based on the average rent calculated on current lease agreements, level of rents in case when the subject property is newly leased, and qualities, etc. of the current lessees; and recorded the rental revenues based on the aforementioned and common area charges.
Loss from vacancies	8 million yen	For each use, assumed an occupancy ratio level that will remain stably passable over the medium to long term from the occupancy status of and the supply and demand trends of competing or alternative, etc. real estates with similar features in a comparable area within the same sphere of supply and demand, and past records and future prospects of the occupancy ratio of the subject property; and recorded the losses from vacancies, etc. as calculated based on the occupancy ratio level thus assumed. Revenue amounts based on medium- to long-term estimate amounts are assumed for other revenues and bike parking revenues and thus losses from vacancies, etc. are not recorded.
Operating expense	31 million yen	
Maintenance	6 million yen	Recorded in consideration of the individuality of the subject property, by reference to the actual management fees of the past years and building management fees of similar properties.
Utility cost	1 million yen	Recorded by taking into account utilities of similar real estate and the individualities of the subject property with reference made to prior actual amounts in assuming utilities for common areas.
Repair	2 million yen	Recorded restitution fees based on the level of restitution fees per room that will ordinarily arise in correlation with tenant replacement, the proportion of the lessor's burden, average expense burden timing, degree of restitution and other factors. Also recorded by taking into account the actual results of the previous fiscal year, the level of expenses for similar properties, the annual average amounts of repairs in the relevant engineering report and other factors in appraising repairs.
Property management fee	3 million yen	Based on the fee rates, etc. under current terms and conditions, considering the rate of fee rates for similar real estates and the individualities of the subject property.

Advertisement and other leasing cost	7 million yen	In consideration of comparable properties rent terms, etc., leasing expenses based on required amount for marketing and past figures and renewal cost based on average turnovers and occupancy rates.
Tax	7 million yen	Recorded in accordance with documents related to taxes and other public charges.
Insurance	0 million yen	Recorded in consideration of premiums based on an Insurance contract and premiums paid for scheduled insurance money, and insurance rates of similar properties, etc.
Other cost	1 million yen	Cost based on Internet communication costs.
Net operating income (NOI)	99 million yen	
Investment income of lump sum	0 million yen	Assumed a number-of-month-equivalent lease deposits that will remain stably passable over the medium to long term based on the required number-of-month-equivalent lease deposits for the current lease terms and new lease contracts as appraised; and calculated an operating profit of lump-sum money by multiplying the assumed number-of-month-equivalent lease deposits as adjusted for the occupancy ratio by an investment yield. Moreover, we assessed 2.0% as being the appropriate investment yield from the perspective of fund management during the period of deposit, by taking into account the level of interest rate, etc. of both sides of investment and procurement.
Capital expenditure	2 million yen	Assuming that a projected average amount will be set aside every fiscal period, and assessed capital expenditures, taking into account the level of capital expenditure for similar real estates, the age of the building and the annual average amount, etc. of repair and renewal costs in the relevant engineering report.
Net cash flow (NCF)	96 million yen	
Cap rate	4.4%	Assessed based on a real-estate investment yield set for each area, by adjusting it with the spreads arising from location requirements, standing of the building and other conditions for the subject property and by taking into account any future uncertainties and yields from similar real estate deals, etc.
Value based on discounted cash flow method	2,150 million yen	
Discount rate	4.2%	In consideration of yields from comparable properties and other comprehensive factors. In addition, based on direct capitalization method analysis the cashflow takes into account both net income not considered in forecast and terminal value variation.
Terminal cap rate	4.6%	Appraised, based on the cap rate, and taking into account the cause of risk such as possible increase of capital expenditure due to the age deterioration of the building, the uncertainty of property market trends, and the impact to the liquidity of the lapse in property age, etc.
Value based on cost method	1,980 million yen	
Proportion of land	56.0%	
Proportion of building	44.0%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value		None

Royal Parks Umejima	
Appraisal value	2,150 million yen
Real estate appraiser	Morii Appraisal & Investment Consulting, Inc.

Appraisal date		August 31, 2016	
Item		Content	Basis
Value indicated by the income approach		2,150 million yen	Value calculated using the discounted cash flow method, referring to the direct capitalization method (the Inwood method).
	Value indicated by the income approach based on the direct capitalization method (Inwood method of capitalization over a definite term)	2,190 million yen	
	Operating revenue	208 million yen	
	Effective gross revenue	211 million yen	Based on mid to long term stabilized rents considering current leasing conditions.
	Loss from vacancy	3 million yen	Residence：Posted losses from vacancies after coming up with an assessment on steady occupancy rates over the medium to long term. Retail and others：Assessed with considerations given to the standard vacancy rate and the individuality of the subject property.
	Operating expense	69 million yen	
	Maintenance	13 million yen	Amount based on a changed contract presented by the buyer and past results, referring to the levels of similar properties.
	Utilitiy cost	3 million yen	Assessed considering past results presented by the buyer, referencing the document which appraiser acquired (the levels of similar properties).
	Repair	2 million yen	Based on estimates in the engineering report. 30% of the stabilized amount
	Restore cost	3 million yen	Assessed considering past results and the move-out rate presented by the buyer, referring to the levels of similar properties.
	Property management fee	2 million yen	Amount based on conclusion that a changed contract presented by the buyer is appropriate, referencing the document which appraiser acquired (the levels of similar properties).
	Ground rent	32 million yen	Based on historical data, with consideration of variable rate into account.
	Advertisement and other leasing cost	0 million yen	Retail：The amount is posted as the new monthly rental fee.
	Tax	10 million yen	Appraised by considering actual amounts and making reference to the annual depreciation.
	Insurance	0 million yen	The amount is posted assuming the presented materials by buyer to be appropriate (0.02% of the restoration costs).
	Other cost	0 million yen	Office taxes.
	Net operating income (NOI)	138 million yen	
	Operating revenue from guarantees, etc.	0 million yen	Estimated by multiplying deposits for full occupancy less a suitable amount for vacancies by 2.0% yield.
	Loss on investment of guarantee deposits	3 million yen	2.0% yield on deposit amount.
	Capital expenditure	5 million yen	Based on estimates in the engineering report. 70% of the stabilized amount.
	Net cash flow	130 million yen	
	Discount rate based on the Inwood method	5.6%	Based on a discount rate that reflects income producing period (remaining period of fixed-term land leasehold) and volatility risk and other factors for income and capital investment
	Value based on the DCF method	2,150 million yen	
	Discount rate	5.4%	In consideration from standard yield at lowest risk region

(during period from 1st year to 10th year)		based on long-term government bonds, adding certain risk factors and others such as investor appetite, REIT and other real estate market trends.
Discount rate at resale (from 11th year to expiration of the land leasehold agreement)	5.8%	Assessed based on the Cap rate and taking into account income producing period (remaining period of fixed-term land leasehold) and the uncertainty of net income forecast, aging and liquidity and other risk factors.
Value based on cost method	1,800 million yen	
Proportion of land	12.5%	
Proportion of building	87.5%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value		None

Sports Depo and GOLF5 Kokurahigashi IC Store		
Appraisal value	2,280 million yen	
Appraiser	The Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal date	August 31, 2016	
Item	Content	Basis
Value based on income method	2,280 million yen	
Value based on direct capitalization method	2,290 million yen	
Operating revenue	-	(Note)
Effective gross revenue	-	
Loss from vacancy	-	
Operating expense	-	
Maintenance	-	
Utility cost	-	
Repair	-	
Property management fee	-	
Advertisement and other leasing cost	-	
Tax	-	
Insurance	-	
Other cost	-	
Net operating income (NOI)	152 million yen	
Investment income of lump sum	-	(Note)
Capital expenditure	-	
Net cash flow (NCF)	146 million yen	
Cap rate	6.4%	Compare the multiple transaction yields in the neighboring areas and the similar areas of the same supply and demand, also, assess by taking into account the change prediction of net cash flow in the future, considering the relationship with the discount rate.
Value based on discounted cash flow method	2,270 million yen	
Discount rate	(first year) 6.4% (from second year) 6.5%	In consideration of single tenant impact at move-out and added risk premium for downward risk of current rent, as well as the non-cancellation period of first year.
Terminal cap rate	6.6%	Assessed based on capitalization rate which includes change factor of NCF and principal amount, and taking into consideration future forecast uncertainties.
Value based on cost method	2,130 million yen	
Proportion of land	52.2%	

	Proportion of building	47.8%	
Items applied to adjustments in approaches to the value and the determination of the appraisal value			None

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