

Daiwa House REIT

Semi-Annual Report for the 22nd Fiscal Period
From September 1, 2016 to February 28, 2017

 Daiwa House REIT Investment Corporation



 Daiwa House REIT Investment Corporation

2-4-8, Nagatacho, Chiyoda-ku, Tokyo, Japan

Connecting Hearts



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Financial Highlights

Distributions Per Unit

22nd Fiscal period
(From September 1, 2016 to February 28, 2017)
Distribution payments start date is May 15, 2017.

¥**4,800**

Forecast distributions per unit (Note)

23rd Fiscal period
(From March 1, 2017 to August 31, 2017)

¥**4,800**

24th Fiscal period
(From September 1, 2017 to February 28, 2018)

¥**5,050**

(Note) Forecast distributions refer to the forecast as of April 19, 2017, and actual distributions per unit may vary from this figure. These forecasts also do not guarantee the amount of distributions.

Operating revenues ¥**17,531** million

Total assets ¥**604,142** million

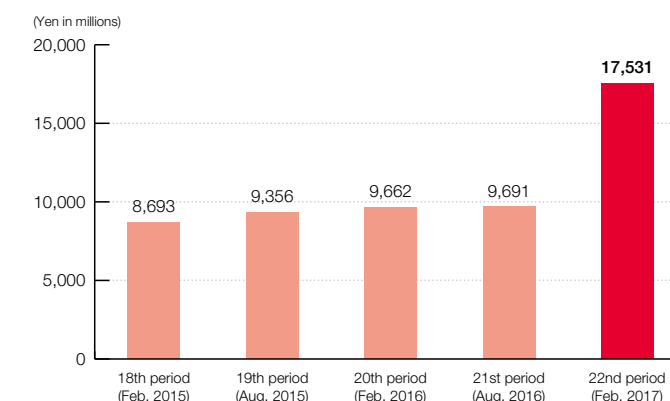
Operating income ¥**5,567** million

Net assets ¥**330,304** million

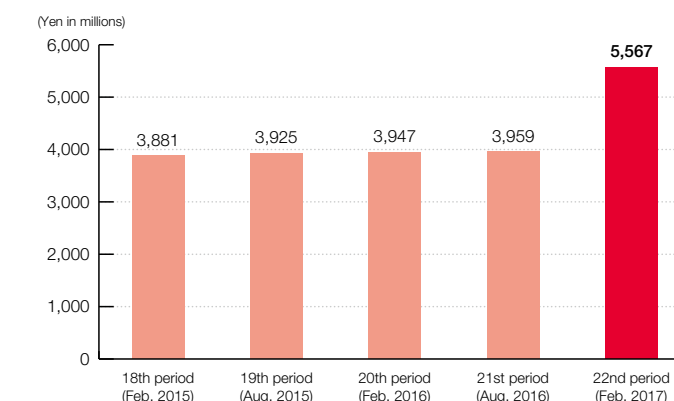
Net income ¥**4,393** million

Net assets per unit ¥**217,408**

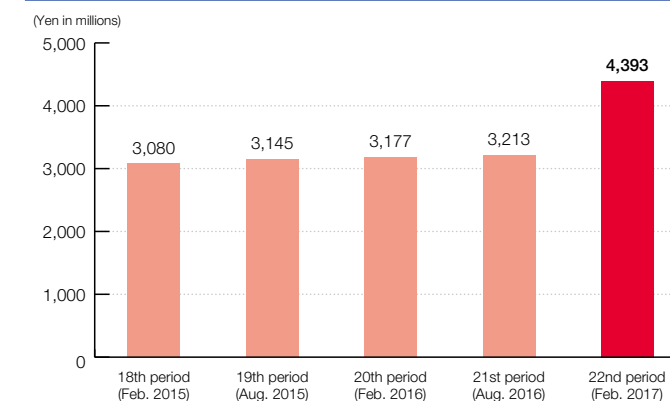
Operating revenues



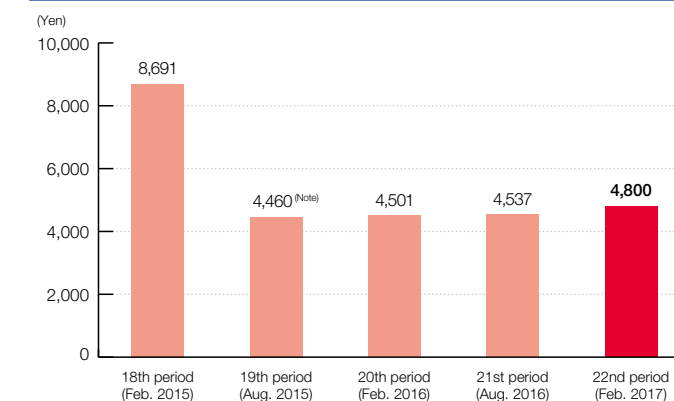
Operating income



Net income



Distributions per unit



(Note) A 2-for-1 split of investment units was implemented effective as of March 1, 2015.

► Overview of the 22nd Fiscal Period (From September 1, 2016 to February 28, 2017)

On September 1, 2016, Daiwa House REIT Investment Corporation (formerly, Daiwa House Residential Investment Corporation; hereinafter referred to as “DHR”) merged with the former Daiwa House REIT Investment Corporation, which set logistics and retail properties as investment targets, and the corporate name was changed from Daiwa House Residential Investment Corporation to Daiwa House REIT Investment Corporation.

In conjunction with this merger, DHR changed its Articles of Incorporation and shifted from a REIT specializing in residential properties to a REIT that targets a diversified portfolio, focusing on logistics, residential, retail, and hotel properties as our core asset classes. DHR is now setting about expanding its asset scale. With the shift to a diversified REIT, DHR aims to maximize unitholder value by using its expanded investment opportunities in a wide range of asset classes to steadily grow its asset scale and ensure stable revenue over the long term.

We would like to give an overview of DHR's operations in its 22nd fiscal period (from September 1, 2016 to February 28, 2017), the first fiscal period after the above-mentioned merger, and report on the financial results.

Following the merger, DHR took over 42 logistics and retail properties for a total acquisition price of ¥234.9 billion. Furthermore, DHR achieved steady external growth as follows: 1) in September 2016, DHR acquired six properties, including one multi-use property consisting of offices and hotel, etc. that were newly set as investment targets (total acquisition price of ¥17.2 billion), 2) in January 2017, DHR acquired one plot of land for a retail property (acquisition price of ¥5.6 billion), and 3) in February 2017, DHR sold one residential property (sale price of ¥0.3 billion). DHR's asset holdings at the end of the current period came to 189 properties with a total value of ¥513.7 billion and a leasable area of 1,605,625.31m².

DHR's occupancy rate at the end of the current period increased by 2.9 percentage points from the previous period to 99.0%, owing to the contribution of newly acquired properties as a result of the merger in addition to the mainstay ordinary leasing activities. We recorded operating revenues of ¥17,531 million, exceeding the forecast by ¥170 million. Although we brought forward some of the repair and restoration works etc. that had been scheduled for the next fiscal period onward in order to relieve future burden, as a result of efforts to reduce general and administrative expenses, interest expense, etc., operating income was ¥5,567 million (exceeding the forecast by ¥212 million) and net income was ¥4,393 million (exceeding the forecast by ¥174 million).

DHR has made a partial change to its distribution policy in conjunction with the merger. Instead of reversing an amount equivalent to 10% of depreciation from retained earnings for distribution, from the 22nd fiscal period, DHR will reverse the amount equivalent to amortization of goodwill from retained earnings, adding it to net income to use for distribution. Based on this policy, to calculate distribution for the 22nd fiscal period an amount of ¥1,980 million corresponding to amortization of goodwill was reversed from retained earnings, while at the same time, an amount of ¥939 million corresponding to merger fees was also reversed from retained earnings. Meanwhile, ¥21 million recorded as refunded consumption taxes associated with properties acquired in the past fiscal year has been included in retained earnings. As a result, the total distribution amounted to ¥7,315 million, for a distribution per unit of ¥4,800, exceeding the forecast by ¥100.

DHR will achieve steady growth by ensuring stable revenue and expanding assets under management through fully utilizing its sponsor Daiwa House Group's comprehensive strengths and know-how regarding real-estate development. Additionally, to strive for sound growth, DHR is putting effort into management that is highly transparent to earn its unitholders' trust. This includes making one of its highest priorities ensuring compliance in business operations and establishing highly effective compliance.

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



Jiro Kawanishi

Executive Director
Daiwa House REIT Investment
Corporation

INTERVIEW

Interview with President of the Asset Manager

Leveraging Comprehensive Strengths of Daiwa House Group and Aiming to Continuously Increase Unitholder Value



Koichi Tsuchida

President and CEO
Daiwa House Asset Management Co., Ltd.

Q What is the purpose of the merger?

Up until recently, mergers among J-REITs have mostly been conducted as a measure to respond to the impact of the financial crisis of 2007-2008 and other such events. The merger of our predecessor Blife Investment Corporation with the insolvent New City Residence Investment Corporation was a case in point. This time, however, the merger differs from the past because it is part of a growth strategy. Before the merger of the former Daiwa House Residential Investment Corporation and the former Daiwa House REIT Investment Corporation, both investment corporations faced the common issue of limited internal growth opportunities. The merger resolved these issues and led them to their next growth stage.

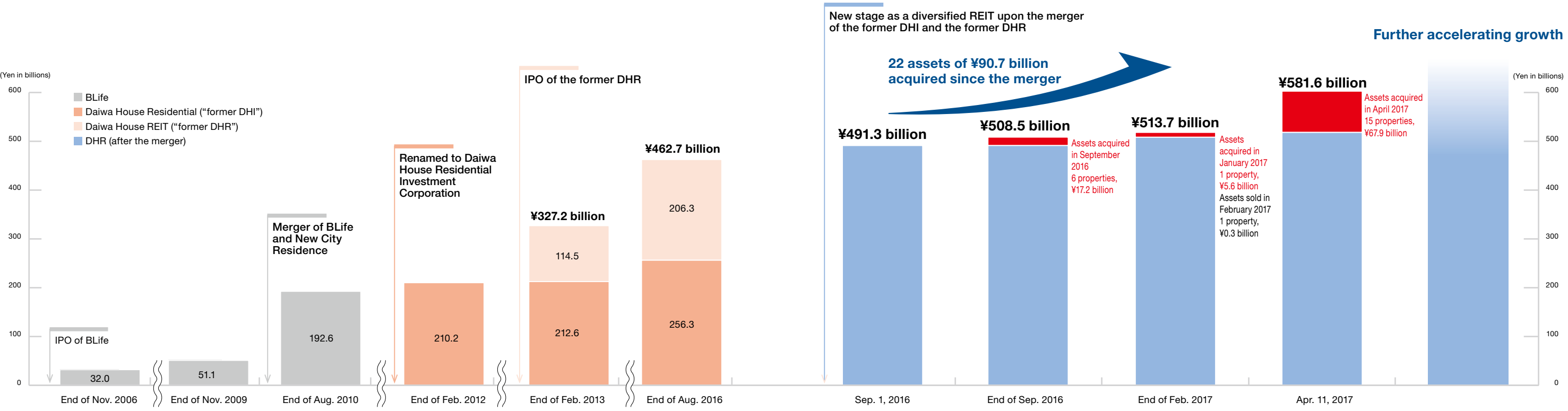
The merger converted DHR into a diversified REIT, expanding its opportunities to acquire new properties, and DHR was able to further strengthen its external growth capabilities. In addition to its existing BTS logistics properties ^(Note 1), residential properties, and retail properties, DHR is widening its investment scope to include hotels, offices, and multi-tenant logistics properties ^(Note 2), among others, acquiring diverse assets including multi-use complex in an effort to accelerate external growth. Moreover, widening the scope of investment will enable us to build a portfolio with various risk-return profiles, helping to increase the stability of earnings.

(Notes) 1. BTS (Build-to-Suit) logistics properties: A type of logistics property that retains a certain degree of building versatility to accommodate future tenant changes while incorporating the desires of the tenant.

2. Multi-tenant logistics properties: Logistics properties situated on sites matched to various industry types and featuring scale, grade, and equipment suited to the site.



Growth Trend of AUM* (acquisition price basis)



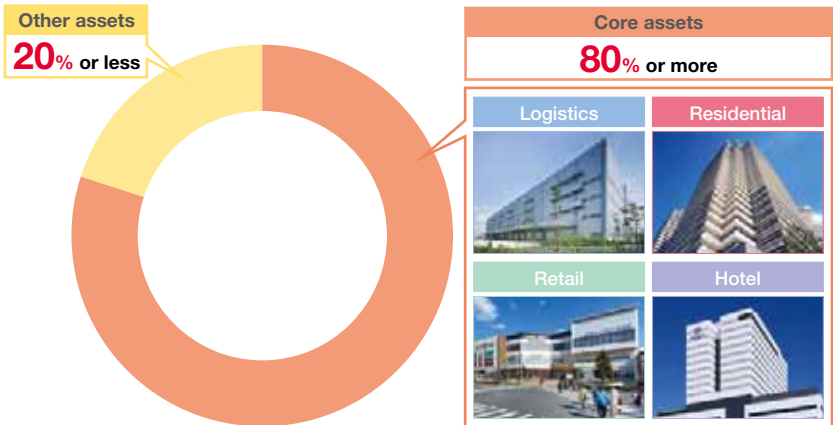
* "AUM" refers to the aggregate of the acquisition price of each asset under management in the portfolio of each investment corporation in each time period, unless specifically stated otherwise. Note, however that the AUM amounts stated for the fiscal periods ended February 28, 2013 and August 31, 2016 for the former DHR are the aggregate amount of the purchase prices stated in the respective purchase agreements concluded at the times the former DHR acquired each of the respective properties (not including acquisition expenses which were incurred in connection with

the acquisition, settlement money such as taxes and duties, and consumption taxes, etc.) with respect to assets under management in the portfolio of the former DHR at the time of the respective period. These amounts differ from the aggregate of the appraisal amounts as of August 31, 2016 for the properties in the portfolio of the former DHR being used when calculating the AUM at the times of September 1, 2016, September 30, 2016, February 28, 2017 and April 11, 2017.

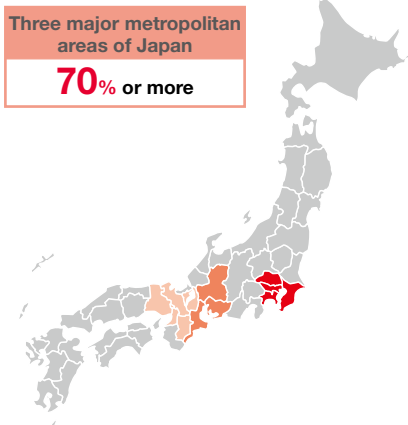
Q What is your investment policy after the merger?

As a diversified REIT, we will build an investment portfolio primarily targeting logistics, residential, retail, and hotel properties, which are the "core assets" (investment ratio of 80% or more) of DHR mainly in the three major metropolitan areas (investment ratio of 70% or more). It is now possible for DHR to also make investments in "other assets" such as offices and healthcare properties.

Investment properties



Investment areas



Q Have any effects from the merger become apparent?

The merger has increased our investment scale (acquisition price) to over ¥500 billion, dramatically improving our position within the J-REIT industry. With the increase in our market capitalization, the liquidity of our investment units has improved, we have been included in overseas stock indexes such as MSCI Global Standard Indexes, and the holding ratio among overseas investors has increased, widening our investor base. The shift to a diversified REIT and expansion of our asset scale have also enhanced the flexibility of our portfolio management and financial strategy, making the merger significant in terms of maximizing unitholder value as well.

In conducting the merger, we held over 100 meetings with investors and carefully explained the significance of the merger. After the announcement of the merger on April 15, 2016, the investment unit price has risen steadily, and this and other factors give me the impression that investors are evaluating DHR more highly. Our rating at JCR was "AA-/stable" for both investment corporations prior to the merger, but after the merger DHR's outlook was lifted to "AA-/positive," which we believe was beneficial to financing.



Q What are the strengths of having Daiwa House Group as a sponsor?

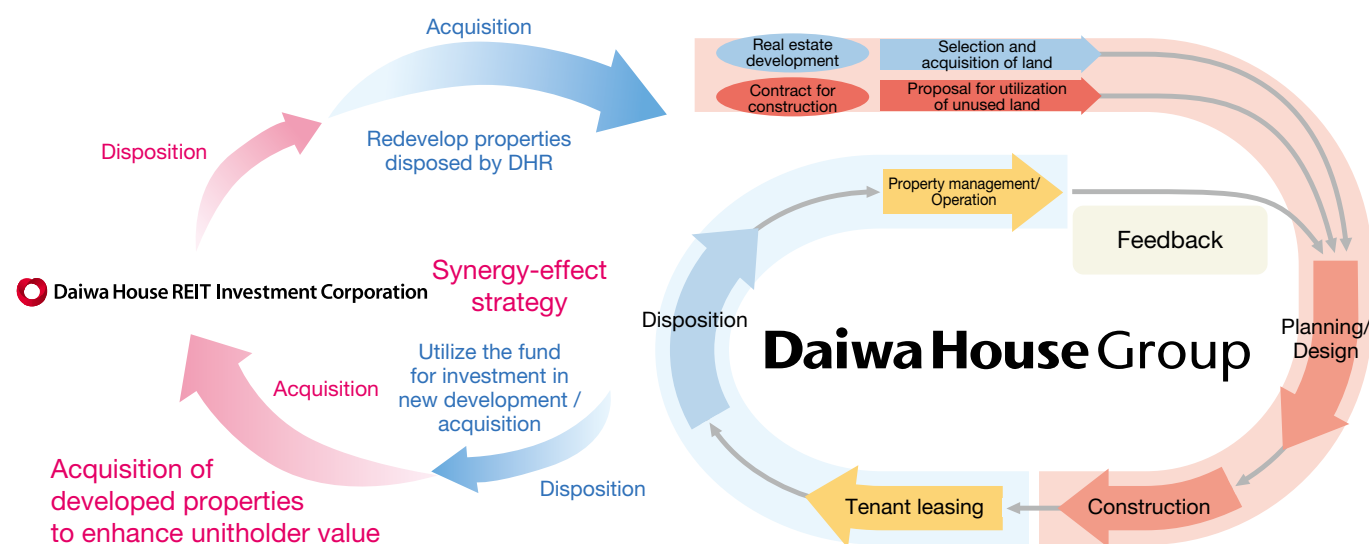
To accelerate external growth of DHR even more, we needed to position ourselves to make better use of the strengths of our sponsor, Daiwa House Group. Daiwa House Group is involved not only with residential, logistics, and retail properties; it is also involved with hotels and healthcare properties. Aiming to make maximum use of our sponsor's capabilities, we undertook the merger judging that we would be better able to grow as a diversified REIT.

And what are the strengths of Daiwa House Group? The first one to mention is its “extensive database on land usage” developed through the strong relationships of trust between its sales representatives across Japan and its customers, including land owners and tenants. Further strengths include the Group's “ability to propose effective solutions in land usage” based on its extensive business developments, and its “ability to propose a diverse range of complex solutions” leveraging the collective strength of Daiwa House Group. The Group leverages these strengths while consolidating its expertise in planning, development, construction, tenancing and leasing, management, and administration to carry out integrated and seamless business.

DHR's strengths lie in being able to benefit from the support of Daiwa House Group; in particular pipeline support, which underpins the DHR's steady growth. DHR holds pipeline support agreements that aim to provide preferential negotiation rights and preferential property information from Daiwa House Industry Co., Ltd. and Daiwa House Group's supporting companies. Six of the seven properties acquired by DHR in the 22nd fiscal period were acquired through Daiwa House Group pipeline.

DHR aims to achieve steady external growth by utilizing Daiwa House Group's abundant pipeline of properties and pipeline support.

Value Chain of Daiwa House Group



Counterparties of pipeline support agreements



Q What initiatives did you take in the 22nd fiscal period, including your property acquisition status?

In September 2016 DHR acquired six properties in total: one multi-use property, two logistics properties, two residential properties, and one retail property, and in January 2017 it acquired one retail property. In February 2017, DHR sold one residential property.

The newly acquired properties include Naha Shin-Toshin Center Building, which was acquired in September 2016 after the shift to a diversified REIT. This is a multi-use property with the Daiwa Roynet Hotel Naha-Omoromachi, operated by Daiwa Royal Co., Ltd., one of the support companies, on the 9th to 18th floors and other floors allocated for office and retail use, and it also is an asset class that has become acquirable by the merger.

Hotels have performed strongly, partly due to a surge in inbound tourism, but competition for acquisitions is also intensifying. Daiwa House Group operates Daiwa Roynet Hotels in 45 locations throughout Japan, which have excellent operating status (as of April, 2017). DHR aims to consider further acquisitions of hotels, mainly targeting hotels operated by Daiwa House Group as it did in this recent acquisition.

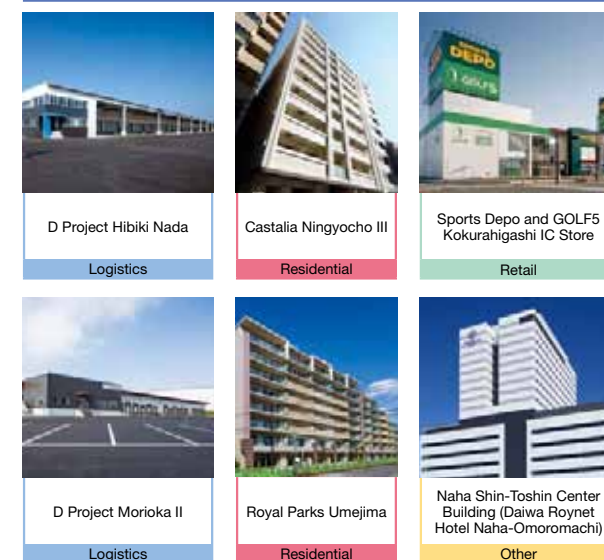
As a result of these acquisitions and sales, 98.1% of the portfolio at the end of the 22nd fiscal period comprised core assets (logistics, residential, retail, and hotel properties), 87.0% of which were within the three major metropolitan areas.

Looking at internal growth, we are contributing to increasing NOI by continuing with installation of LED lighting, value enhancement projects at residential properties, and the installation of solar panels.

With regard to finance, in the 22nd fiscal period we newly borrowed ¥10 billion and refinanced ¥46.3 billion. In addition, in December 2016 we issued investment corporation bonds with maturities of five and ten years, in the amounts of each ¥4 billion. As a result of these measures, we made progress on lengthening and diversifying debt maturities and fixing interest rates on interest-bearing debt. We will continue our policy of stable financial operation targeting the LTV level of between 40% and 50%.

With regard to our distribution policy, we have made a partial change to the policy from the 22nd fiscal period in conjunction with the merger. Instead of a distribution corresponding to 10% of depreciation, we have decided to reverse the amount equivalent to amortization of goodwill from retained earnings, adding it to net income to use for distribution. For the 22nd fiscal period, the distribution per unit was ¥4,800, up by ¥100 from the forecast of ¥4,700. In our forecast going forward we have announced a distribution of ¥4,800 per unit for the 23rd fiscal period (from March 1, 2017 to August 31, 2017) and ¥5,050 for the 24th fiscal period (from September 1, 2017 to February 28, 2018).

Assets acquired in September 2016

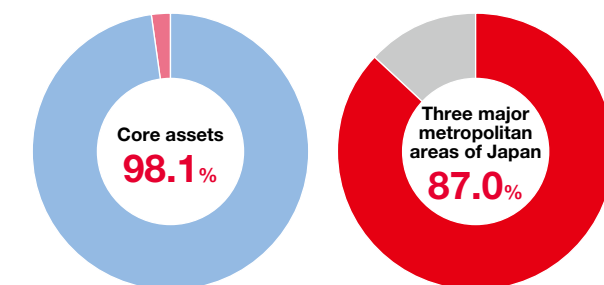


Assets acquired in January 2017



Status of portfolio diversification

(Based on acquisition price)



Interest-bearing Debt (as of April 14, 2017)

Total interest-bearing debt	¥282,568 million
Total loans	¥266,568 million
Total investment corporation bonds	¥16,000 million
LTV (including goodwill)	41.6%
LTV (excluding goodwill)	46.9%
Long-term interest-bearing debt ratio	89.9%
Fixed interest ratio	93.8%
Average remaining maturity	5.6 years
Commitment line	¥20,000 million

Q What are your growth strategies going forward?

To report on recent events, in March 2017 we conducted our first capital increase through public offering since the merger, followed in April by the addition to our portfolio of 15 properties in total, comprising 13 logistics properties, one residential property, and one other property, for a total acquisition price of ¥67.9 billion. The assets acquired were all properties developed by Daiwa House Group, with 100% occupancy and a young average property age of 4.0 years. As such, we expect them to contribute to enhancing the quality and earnings capability of the portfolio. Among them, DPL Misato was the first multi-tenant logistics property to be acquired by DHR, and we consider it to be a highly versatile property able to respond to the needs of a wide range of tenant industries.

Our shift to a diversified REIT has expanded our investment scope, resulting in the acquisition of assets comprising 22 properties worth ¥90.7 billion over the approximately eight months since the merger. This demonstrates that we have succeeded in achieving rapid external growth.^(Note 3)

In its Fifth Medium-Term Management Plan (fiscal 2016-2018), our sponsor, Daiwa House Group, has planned for a real estate investment totaling ¥700 billion and real estate sales of ¥300 billion. DHR will appropriately take advantage of opportunities to acquire properties that match its investment standard, making use of its preferential negotiation rights based on pipeline support to continue making steady external growth towards its medium-term target of ¥800 billion in assets.

(Note 3) In February 2017 DHR sold Castalia Minamigyotoku II for ¥0.3 billion. The increase in assets after the merger was therefore ¥90.3 billion.

Principal developed properties/properties under development of Daiwa House Group



D Project Kita Hachioji
Annex A, Annex B, Annex C



D Project Jonanjima



DPL Sagamiyama



DPL Yokohama Daikoku



DPL Fukuoka Kasuya



Royal Parks ER Sasashima



iias Tsukuba



Hiroshima Futaba no Sato Project

(Source) Daiwa House

* Among the "principal developed properties/properties under development of Daiwa House Group," there are some properties that are under development as of the date of this report. When these properties are completed, there is no guarantee that the above information will match that of the actual property. Furthermore, DHR does not have fixed plans to acquire any of the "principal developed properties/properties under development of Daiwa House Group," as of the date of this report.

* The architectural renderings shown for "Daiwa Royal Ariake Project" and "Hiroshima Futaba no Sato Project" are images of how they are planned to be completed as of the date of this report.



Q Finally, do you have a message for the unitholders?

DHR has converted to a diversified REIT through a merger aimed at further growth. I would like to thank all our unitholders for their understanding of our management judgment.

The merger will maximize unitholder value in two ways: it will enable us to further enhance external growth and internal growth through the shift to a diversified REIT, and it will also enable us to improve our "positioning in the J-REIT market" and our "flexibility of portfolio asset management and financial strategy" by expanding our asset scale.

Looking ahead, we will continue to accelerate growth leveraging the value chain and solid pipeline support of Daiwa House Group's integrated capabilities, aiming to achieve our target asset scale of ¥800 billion at an early stage. I invite you to look forward to a new growth stage for DHR as a result of the merger.

Sustainability Initiatives

Sustainability Policy

Daiwa House Group's basic approach is "Creating Dreams, Building Hearts." As a group that co-creates value for individuals, communities and people's lifestyles, the Group aims to build trust relationships with stakeholders and contribute to society through its businesses, and to realize a sustainable society by meeting the challenge of achieving "zero environmental impacts."

Daiwa House Asset Management Co., Ltd. shares Daiwa House Group's basic approach as DHR's asset manager, and considers that including consideration for environment, society, and governance (hereinafter referred to as "ESG") in its real estate investment management operations contributes to DHR's basic policy of ensuring stable revenue and steady growth of assets over the long term. Therefore, we have established the following "Sustainability Policy" to guide our real estate investment and management.

1. Prevention of global warming

We will promote energy conservation measures through the installation of energy conservation equipment and so forth to realize a carbon-free society. We will also consider introduction of renewable energy power generation facilities and acquisition of properties that have such equipment installed.

2. Harmony with the natural environment (preservation of biodiversity)

We will aim for a society that is able to pass on abundant natural resources to future generations in order to protect and improve natural capital. We will also promote planting and management considering harmony with the surrounding environment.

3. Conservation of natural resources (reducing waste, protecting water resources)

We will work towards the realization of a recycling-oriented society by promoting water conservation measures through the installation of water conservation equipment and so forth. We will also promote 3R activities (reduce, reuse, and recycle) for resources.

4. Prevention of chemical pollution

We will aim to realize a society where people and ecosystems do not suffer adverse effects from chemical substances and so forth by promoting reduction, substitution and appropriate management of harmful chemical substances and taking efforts to minimize risks.

5. Establishment of an internal framework and initiatives for employees

We will establish an internal framework for promoting sustainability and take steps to develop personnel by conducting regular employee education and training. We will also aim to create workplaces where people can work safely and healthily, and workplaces where diverse employees can work flexibly.

6. Building of trust relationships with external stakeholders

We aim to build trust relationships with external stakeholders and we will work on our suppliers to enhance the satisfaction of tenant customers and promote CSR in our supply chain. We will undertake neighborhood co-existence activities with local residents.

7. Promotion of communication through information disclosure

We will proactively disclose ESG-related information and utilize or dialogues with stakeholder such as investors in our future business activities. Furthermore, we will aim for continuous acquisition of Green Building Certification.

8. Compliance with laws and regulations, and risk management

We will comply with ESG-related laws and regulations. Moreover, we will strive to implement appropriate risk management, such as giving consideration for the environmental and social impacts in risk evaluations when acquiring real estate and promoting awareness of human rights.

DBJ Green Building Certification* Awarded

The following properties received DBJ Green Building Certification.



D Project Machida

Asset class	Logistics
Location	Machida City, Tokyo

Points of note

Excellent heat island countermeasures such as a large-scale green space and having road surfaces that retain water, and leading edge energy conservation capabilities such as having LED lighting installed throughout the interior.



Building with exceptionally high environmental and social awareness



Royal Parks Toyosu

Asset class	Residential
Location	Koto Ward, Tokyo

Points of note

Concierge services and staff capable of speaking foreign languages on site, and meets various needs by having facilities such as a barbecue space and a recreation room that tenants can use.



Building with excellent environmental and social awareness



ACROSSMALL Shinkamagaya

Asset class	Retail
Location	Kamagaya City, Chiba

Points of note

Can accommodate various users with facilities such as universal-design restrooms on each floor and multiple elevators for people in wheelchairs, as well as children's restrooms, a "kids room," and a children's library.



Building with high environmental and social awareness

D Project Hachioji



Asset class	Logistics
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Pacific Royal Court Minatomirai Urban Tower

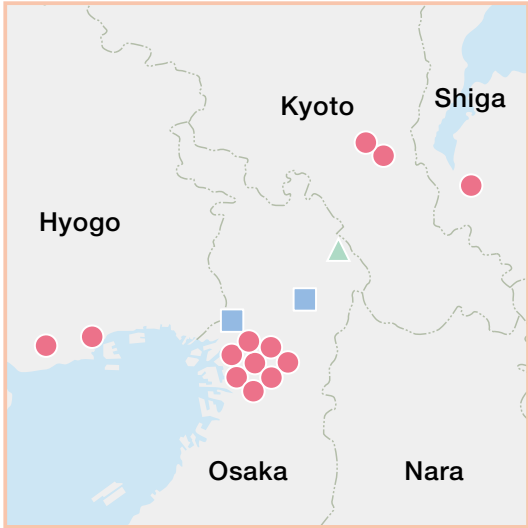


Asset class	Residential
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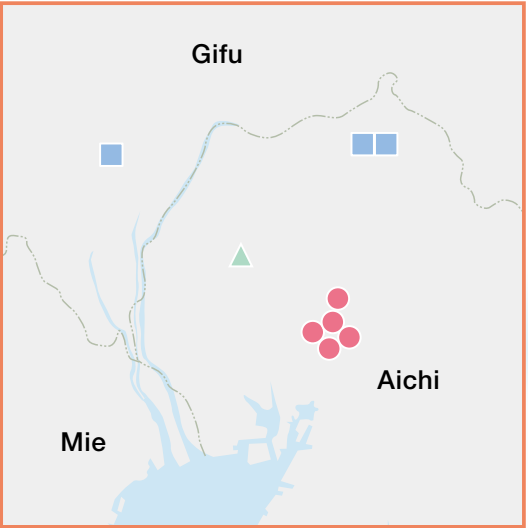


* DBJ Green Building Certification is designed to promote real estate properties that demonstrate environmentally friendly building features, security measures, disaster prevention measures and take into account societal demands from various stakeholders surrounding the properties. Properties with excellence that meet the demands of the times are selected based on a scoring model developed by Development Bank of Japan Inc. (DBJ).

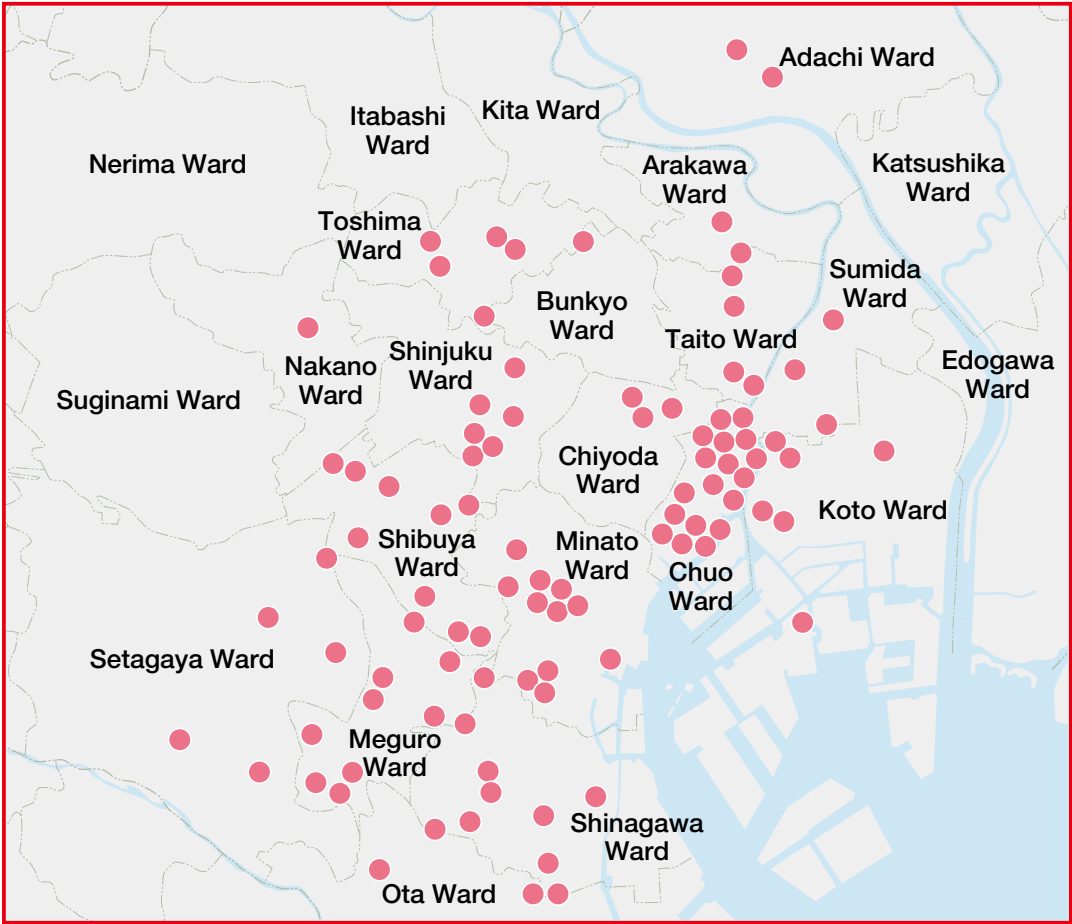
Greater Osaka area



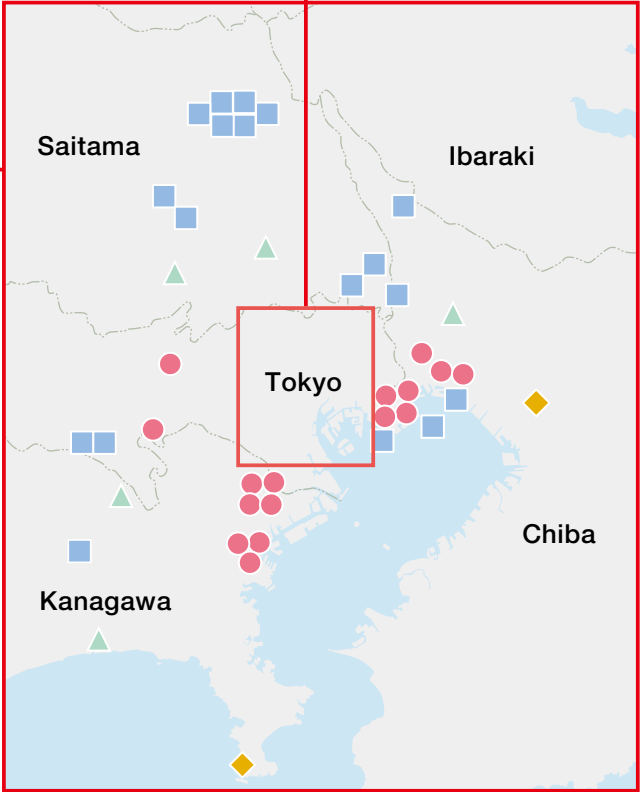
Greater Nagoya area



Tokyo 23 Wards



Greater Tokyo area



- Logistics
- Residential
- Retail
- Other

Portfolio Properties

Logistics

34 properties



LB-003 D Project Aikawa-Machi



LB-001 D Project Machida



LB-002 D Project Hachioji



LB-018 D Project Fukuoka Umi



LB-019 D Project Tosu



LB-020 D Project Kuki I



LB-004 D Project Shin-Misato



LB-005 D Project Urayasu I



LB-021 D Project Kuki II



LB-022 D Project Kawagoe I



LB-023 D Project Kawagoe II



LB-006 D Project Urayasu II



LB-007 D Project Akanehama



LB-008 D Project Noda



LB-024 DPL Inuyama



LB-025 D Project Fukuoka Hakozaki



LB-026 D Project Kuki III



LB-009 D Project Inuyama



LB-010 D Project Gifu



LB-011 D Project Neyagawa



LB-027 D Project Kuki IV



LB-028 D Project Kuki V



LB-029 D Project Kuki VI



LB-012 D Project Sapporo Minami



LB-013 D Project Morioka



LB-014 D Project Sendai Minami



LB-030 D Project Yashio



LB-031 D Project Nishiyodogawa



LB-032 D Project Matsudo



LB-015 D Project Tsuchiura



LB-016 D Project Gotenba



LB-017 D Project Nishi-Hiroshima



LB-033 D Project Hibiki Nada



LB-034 D Project Morioka II

Residential

141 properties



RE-001 Qiz Ebisu



RE-002 Castalia Azabujuban Shichimezaka



RE-003 Castalia Shibakoen



RE-029 Castalia Shintomicho III



RE-030 Castalia Shinjuku Gyoen



RE-031 Castalia Takanawadai



RE-032 Castalia Higashi Nihonbashi III



RE-033 Castalia Shinjuku Gyoen II



RE-004 Castalia Ginza



RE-005 Castalia Hiroo



RE-006 Castalia Nihonbashi



RE-007 Castalia Hacchobori



RE-008 Castalia Azabujuban



RE-034 Castalia Shintomicho IV



RE-035 Castalia Takanawadai II



RE-036 Castalia Minami Azabu



RE-037 Castalia Ginza III



RE-038 Castalia Kayabacho



RE-009 Castalia Azabujuban II



RE-010 Castalia Shinjuku Natsumezaka



RE-011 Castalia Ginza II



RE-012 Castalia Shibuya Sakuragaoka



RE-013 Castalia Nishi Azabu Kasumicho



RE-039 Castalia Takanawa



RE-040 Castalia Higashi Nihonbashi



RE-041 Castalia Shinjuku



RE-042 Castalia Ichigaya



RE-043 Shibaura Island Bloom Tower



RE-014 Castalia Ochanomizu



RE-015 Castalia Sangubashi



RE-016 Castalia Suitengu



RE-017 Castalia Suitengu II



RE-018 Castalia Shintomicho



RE-044 Castalia Hatsudai



RE-045 Castalia Hatsudai II



RE-046 Castalia Ebisu



RE-047 Castalia Meguro Kamurozaka



RE-048 Castalia Toritsudaigaku



RE-019 Castalia Shintomicho II



RE-020 Castalia Harajuku



RE-021 Castalia Yoyogi Uehara



RE-022 Castalia Sendagaya



RE-023 Castalia Shinjuku 7 chome



RE-049 Castalia Yukigaya



RE-050 Castalia Yutenji



RE-051 Castalia Otsuka



RE-052 Castalia Kikukawa



RE-053 Castalia Meguro



RE-024 Castalia Ningyocho



RE-025 Castalia Ningyocho II



RE-026 Castalia Shin-Ochanomizu



RE-027 Castalia Higashi Nihonbashi II



RE-028 Castalia Jinbocho



RE-054 Castalia Otsuka II



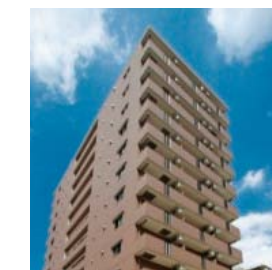
RE-055 Castalia Jiyugaoka



RE-056 Castalia Mejiro



RE-057 Castalia Ikebukuro



RE-058 Castalia Kaname-cho

Portfolio Properties



RE-059 Castalia Tower Shinagawa Seaside



RE-060 Castalia Yakumo



RE-061 Castalia Togoshiekimae



RE-062 Castalia Honjo Azumabashi



RE-063 Castalia Kitazawa



RE-089 Castalia Meguro Chojyamaru



RE-090 Castalia Meguro Takaban



RE-091 Castalia Omori III



RE-092 Morino Tonari



RE-093 Castalia Meguro Tairamachi



RE-064 Castalia Monzennakacho



RE-065 Castalia Kamiikedai



RE-066 Castalia Morishita



RE-067 Castalia Wakabayashikoen



RE-068 Castalia Asakusabashi



RE-094 Royal Parks SEASIR



RE-095 Castalia Honkomagome



RE-096 Cosmo Heim Musashikosugi



RE-097 Castalia Tsurumi



RE-098 Castalia Funabashi



RE-069 Castalia Iriya



RE-070 Castalia Kita Ueno



RE-071 Castalia Morishita II



RE-072 Castalia Minowa



RE-073 Castalia Oyamadai



RE-099 Castalia Nishi Funabashi



RE-100 Castalia Maihama



RE-101 Castalia Ichikawamyoden



RE-102 Castalia Urayasu



RE-103 Castalia Minamigyotoku



RE-074 Castalia Nakano



RE-075 Castalia Yoga



RE-076 Castalia Sumiyoshi



RE-077 Castalia Monzennakacho II



RE-078 Castalia Oshiage



RE-105 Castalia Nogeyama



RE-106 Castalia Ichikawa



RE-107 Royal Parks Hanakoganei



RE-108 Castalia Musashikosugi



RE-109 Royal Parks Wakabadai



RE-079 Castalia Kuramae



RE-080 Castalia Nakanobu



RE-081 Royal Parks Toyosu



RE-082 Castalia Togoshi



RE-083 Castalia Ooimachi



RE-110 Pacific Royal Court Minatomirai Urban Tower



RE-111 L-Place Shinkoyasu



RE-112 Royal Parks Musashikosugi



RE-113 Castalia Shinsakae



RE-114 Aprile Tarumi



RE-084 Castalia Omori



RE-085 Castalia Mishuku



RE-086 Castalia Arakawa



RE-087 Castalia Omori II



RE-088 Castalia Nakameguro



RE-115 Crest Kusatsu



RE-116 Castalia Sakaisuji Honmachi



RE-117 Castalia Shin-Umeda



RE-118 Castalia Abeno



RE-119 Castalia Sakae

Portfolio Properties



RE-120 Castalia Nipponbashi Kouzu



RE-121 Castalia Maruyama Urasando



RE-122 Castalia Maruyama Omotesando



RE-123 Castalia Higashi Hie



RE-124 Castalia Tower Nagahoribashi



RE-125 Castalia Sannomiya



RE-126 Castalia Kotodaikoen



RE-127 Castalia Ichibancho



RE-128 Castalia Omachi



RE-129 Castalia Uemachidai



RE-130 Castalia Tower Higobashi



RE-131 Big Tower Minami Sanjo



RE-132 Castalia Fushimi



RE-133 Castalia Meieki Minami



RE-134 Castalia Yakuin



RE-135 Castalia Mibu



RE-136 Castalia Tsutsujigaoka



RE-137 Castalia Ohori Bay Tower



RE-138 Royal Parks Namba



RE-139 Castalia Shigahondori



RE-140 Castalia Kyoto Nishioji



RE-141 Castalia Ningyocho III



RE-142 Royal Parks Umejima

Retail

11 properties



RM-001 ACROSSMALL Shinkamagaya



RM-002 FOLEO Hirakata



RM-003 QIZ GATE URAWA



RM-004 UNICUS Takasaki



RM-005 ACROSSPLAZA Miyoshi (Land)



RM-006 DREAM TOWN Ali



RR-001 LIFE Sagamihara Wakamatsu



RR-002 FOLEO Sendai Miyanomori



RR-003 ACROSSPLAZA Inazawa (Land)



RR-004 Sports Depo and GOLF5 Kokurahigashi IC Store



RR-005 Hiratsuka Retail Property (Land)

Other

3 properties



OT-001 Urban Living Inage



OT-002 Aburatsubo Marina HILLS



OT-003 Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)

I. Asset Management Report

1. Summary of Asset Management

(1) Historical Operating Results

		18th Period February 2015	19th Period August 2015	20th Period February 2016	21st Period August 2016	22nd Period February 2017
Operating revenues (Note 1)	Yen in millions	8,693	9,356	9,662	9,691	17,531
Of which, real estate rental revenues	Yen in millions	8,693	9,356	9,662	9,691	17,531
Operating expenses	Yen in millions	4,811	5,430	5,715	5,731	11,963
Of which, real estate rental expenses	Yen in millions	3,875	4,438	4,688	4,746	7,493
Operating income	Yen in millions	3,881	3,925	3,947	3,959	5,567
Ordinary income	Yen in millions	3,081	3,146	3,177	3,214	4,474
Net income	Yen in millions	3,080	3,145	3,177	3,213	4,393
Total assets	Yen in millions	238,730	258,400	258,590	258,266	604,142
Period-on-period changes	%	0.3	8.2	0.1	(0.1)	133.9
Net assets	Yen in millions	111,455	111,352	111,194	111,042	330,304
Period-on-period changes	%	(0.1)	(0.1)	(0.1)	(0.1)	197.5
Unitholders' capital	Yen in millions	61,703	61,703	61,703	61,703	61,703
Total number of investment units issued	Units	373,870	747,740	747,740	747,740	1,519,280
Net assets per unit (Note 2)	Yen	149,056	148,918	148,707	148,504	217,408
Total distributions	Yen in millions	3,249	3,334	3,365	3,392	7,292
Distributions per unit	Yen	8,691	4,460	4,501	4,537	4,800
Of which, earnings distributions per unit	Yen	8,691	4,460	4,501	4,537	4,800
Of which, distributions in excess of earnings per unit	Yen	—	—	—	—	—
Ordinary income to total assets ratio (Note 3)	%	1.3	1.3	1.2	1.2	1.0
Annualized	%	2.6	2.5	2.5	2.5	2.1
Return on equity (Note 4)	%	2.8	2.8	2.9	2.9	2.0
Annualized	%	5.6	5.6	5.7	5.7	4.0
Equity ratio	%	46.7	43.1	43.0	43.0	54.7
Period-on-period changes	%	(0.2)	(3.6)	(0.1)	(0.0)	11.7
Payout ratio	%	105.5	106.0	106.0	105.6	166.0
<Other Reference Information>						
Rental NOI (Note 5)	Yen in millions	6,507	6,814	6,986	6,977	13,398
FFO per unit (Note 6)	Yen	12,770	6,752	6,948	7,024	6,469
FFO multiple (Notes 7 and 8)	Times	20.9	16.9	16.9	20.9	22.4
Debt service coverage ratio (Note 9)	Times	8.4	9.3	9.6	10.2	12.2
Interest-bearing debt	Yen in millions	122,463	141,663	141,663	141,663	253,163
Interest-bearing debt to total assets ratio (Note 10)	%	51.3	54.8	54.8	54.9	41.9

(Notes) 1. Operating revenues, etc., do not include consumption taxes.
2. A 2-for-1 split of investment units was implemented effective as of March 1, 2015. Net assets per unit are calculated on the assumption that the split of investment units was implemented at the beginning of the 18th period.
3. Ordinary income to total assets ratio = Ordinary income / ((Total assets at the beginning of period + Total assets at the end of period) / 2) × 100
4. Return on equity = Net income / ((Net assets at the beginning of period + Net assets at the end of period) / 2) × 100
5. Rental NOI = Real estate rental revenues – Real estate rental expenses + Depreciation during the period
6. FFO per unit = (Net income + Depreciation + Amortization of goodwill + Amortization of investment corporation bond issuance costs + Amortization of trademark rights + Amortization of software +/- Losses/gains from sales of property, etc. +/- Extraordinary loss/income) / Total number of investment units issued
7. FFO multiple = Investment unit price at the end of period / Annualized FFO per unit
8. A 2-for-1 split of investment units was implemented effective as of March 1, 2015. The FFO multiple for the 18th period was calculated by translating the investment unit price at the end of period following the ex-rights into the investment unit price before the unit split.
9. Debt service coverage ratio = Net income before interest, depreciation and amortization / Interest expenses
10. Interest-bearing debt to total assets ratio = Interest-bearing debt at the end of period / Total assets at the end of period × 100

(2) Asset Management during the Period

i) Transition of DHR

DHR is a real estate investment trust (J-REIT) whose sponsor is Daiwa House Industry Co., Ltd. (hereinafter referred to as “Daiwa House”) and whose asset manager is Daiwa House Asset Management Co., Ltd. (hereinafter referred to as the “Asset Manager”), a wholly owned subsidiary of Daiwa House.

DHR was listed on the Real Estate Investment Trust (REIT) Market of the Tokyo Stock Exchange, Inc. (hereinafter referred to as the “Tokyo Stock Exchange”) on March 22, 2006, and then later merged with New City Residence Investment Corporation (hereinafter referred to as “NCR”) on April 1, 2010 (hereinafter referred to as “the merger with NCR”). Subsequently on December 1, 2011, the corporate name was changed to Daiwa House Residential Investment Corporation (the corporation prior to change of corporate name to “Daiwa House REIT Investment Corporation” is hereinafter referred to as the “former DHI”), and accordingly changed its investment targets to residential properties.

DHR continued to receive sponsor support from Daiwa House Group (Note 1) (which began serving as the main sponsor on December 17, 2008) and steadily made acquisitions of properties on the basis of ample information on properties gained from third parties, while also using its retained earnings to update its property portfolio. Consequently, after approximately ten years since having listed on the Tokyo Stock Exchange, DHR grew into an investment corporation that had 142 properties, with asset value (Note 2) exceeding ¥250 billion and more than 11,400 leasable units.

The former Daiwa House REIT Investment Corporation (the Daiwa House REIT Investment Corporation which was dissolved upon having merged with DHR as of September 1, 2016, is hereinafter referred to as the “former DHR”) was established on September 14, 2007, whose asset manager was Daiwa House REIT Management Co., Ltd., a wholly owned subsidiary of Daiwa House. The former DHR was listed on the Tokyo Stock Exchange REIT Market on November 28, 2012, as a REIT targeting investment in logistics and retail properties. From then until within approximately three years since having listed on the Tokyo Stock Exchange, it set about acquiring logistics and retail properties drawing on robust pipeline support from Daiwa House Group, and consequently managed to expand its portfolio to include 41 properties at a total acquisition price of ¥206.3 billion (Note 4).

Accordingly, leveraging their individual strengths and drawing on sponsor support of Daiwa House Group, both DHR and the former DHR (hereinafter collectively referred to as the “Investment Corporations”) accumulated asset management results geared to securing stable income over the medium to long term and steadily growing their assets. However, as of September 1, 2016, DHR conducted an absorption-type merger (hereinafter referred to as the “Merger”) whereby the former DHI was the surviving corporation and the former DHR was the absorbed corporation, and changed its corporate name from Daiwa House Residential Investment Corporation to Daiwa House REIT Investment Corporation with the aim of sustainably increasing unitholder value going forward.

(Notes) 1. Daiwa House Group comprises Daiwa House, 149 consolidated subsidiaries including Daiwa Living Co., Ltd. that primarily engages in rental housing management, one non-consolidated subsidiary, 28 equity-method affiliates and two non-equity-method affiliates as of December 31, 2016. The Asset Manager is a member of the Group. The same shall apply hereinafter.
2. “Asset value” is the aggregate total of the acquisition prices (Note 3) of respective assets held by DHR at respective points in time, except as otherwise noted. The same shall apply hereinafter.
3. “Acquisition prices” are the purchase prices stipulated in the respective purchase agreements of assets owned by DHR (not including expenses pertaining to acquisitions, settlement money such as taxes and duties, consumption taxes, and leasehold guarantee deposits, etc.), except as otherwise noted. However, the acquisition prices of properties previously owned by NCR have been presented as the appraisal values as of February 28, 2010, the date of appraisal applied at the time the merger with NCR, and the acquisition prices of properties previously owned by the former DHR have been presented as the appraisal values as of August 31, 2016, the date of appraisal applied at the time the merger with the former DHR. The “total acquisition price” has been rounded down to the nearest unit. The same shall apply hereinafter.
4. “Acquisition prices” presented herein are the purchase prices stipulated in the respective purchase agreements concluded upon acquisition of the properties by the former DHR (not including expenses pertaining to acquisitions, settlement money such as taxes and duties, or consumption taxes, etc.), and accordingly the acquisition prices differ from the appraisal values as of August 31, 2016, the date of the merger with the former DHR.

ii) Performance for the Current Fiscal Period

As a result of the Merger, DHR shifted to a diversified portfolio strategy that targets investment in new asset classes such as hotel and office properties, in addition to those that the Investment Corporations had targeted for investment in the past. On September 28, 2016, subsequent to the Merger, DHR acquired a total of six properties from Daiwa House Group at a total acquisition price amounting to ¥17.2 billion, for properties that include logistics, residential and retail properties, as well as a multi-use complex consisting of offices, hotel and retail stores. Consequently, the portfolio’s asset value reached the ¥500 billion threshold, thereby coming to consist of 189 properties at an asset value of ¥508.5 billion. Subsequently, DHR acquired Hiratsuka Retail Property (Land) for ¥5.6 billion on January 31, 2017, and sold Castalia Minamigyotoku II for ¥0.3 billion on February 23, 2017. As a result, as of February 28, 2017, the portfolio consists of 189 properties with an asset value of ¥513.7 billion and a leasable area of 1,605,625.31m².

Concerning actual performance of owned assets in the current fiscal period, in addition to acquiring new properties, DHR’s occupancy rate at the end of the current fiscal period rose to 99.0% and a high level of real estate rental revenues was maintained. As a result, operating revenues amounted to ¥17,531 million, ¥170 million higher than the forecasts of operating results disclosed in the financial results report for the fiscal period ended August 31, 2016 (referred as the “forecast of results” in “ii) Performance for the Current Fiscal Period”).

Regarding real estate rental expenses, on the other hand, DHR brought forward part of the repairs and maintenance expenses and restoration costs, etc. that had been scheduled for the next fiscal period onward in view of reducing the future cost burden. Nevertheless, DHR’s efforts to reduce general and administrative expenses and other costs led to operating income of ¥5,567 million, up ¥212 million from the forecast of results.

In addition, as a result of recording extraordinary losses of ¥80 million for a provision for loss on litigation which is explained below in “v) Impact on Current Fiscal Period of Case Brought against DHR concerning Claims to Confirm Rent Reduction of D Project Shin-Misato,” net income was ¥4,393 million, up ¥174 million from the forecast of results.

iii) Overview of Financing

As a result of the Merger concluded on September 1, 2016, DHR took on the former DHR's loans of ¥100,000 million and its investment corporation bonds of ¥2,000 million. DHR arranged new loans amounting to ¥10,000 million, for the purpose of partially covering the acquisition costs of trust beneficiary interests in real estate and related expenses on September 28, 2016, and conducted debt financing of ¥31,300 million for the fund to refinance loans of ¥31,800 million due on September 30, 2016. DHR also arranged refinancing for the full amount of ¥15,000 million in loans due on November 29, 2016. In addition, on December 20, 2016, DHR issued its 5th Unsecured Investment Corporation Bonds and 6th Unsecured Investment Corporation Bonds each at a total issue amount of ¥4,000 million to provide for early repayment of ¥8,000 million in short-term loans.

As a result, the balance of interest-bearing debt outstanding as of the end of the current fiscal period amounted to ¥253,163 million (loan balance: ¥234,163 million, investment corporation bonds balance: ¥19,000 million), which is an increase of ¥111,500 million in comparison with the previous fiscal period. As of the end of the current fiscal period, the LTV (including goodwill) (Note 1) was 41.9%, and the LTV (excluding goodwill) (Note 2) was 48.1%.

(Notes) 1. "LTV (including goodwill)" is obtained using the following formula. The same shall apply hereinafter.
LTV (including goodwill) = Total amount of interest-bearing debt (Loans + Investment corporation bonds) ÷ Total assets (Including goodwill) × 100
2. "LTV (excluding goodwill)" is obtained using the following formula. The same shall apply hereinafter.
LTV (excluding goodwill) = Total amount of interest-bearing debt (Loans + Investment corporation bonds) ÷ Total assets (Excluding goodwill) × 100

The credit ratings of DHR as of the end of the current fiscal period are as follows:

Rating agency	Type	Rating/Outlook
Rating and Investment Information, Inc. (R&I)	Issuer rating	A+ Stable
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating	AA– Positive

iv) Difference between Real Estate Appraisal Value and Book Value

The total appraisal value of assets held at the end of the current fiscal period was ¥547,376 million, and the amount of unrealized gain (Note) on the portfolio, which is the difference compared to the book value was ¥47,179 million, mainly reflecting a decline in the capitalization rate used in determining the appraisal value.

(Note) "Unrealized gain" is the positive valuation difference when the appraisal value exceeds the book value of real estate properties (excluding construction in progress and construction in progress in trust). (Negative valuation difference is referred as unrealized loss.) The same shall apply hereinafter. Please note that unrealized gain is not guaranteed to be realized as a result of the sales of real estate.

v) Impact on Current Fiscal Period of Case Brought against DHR concerning Claims to Confirm Rent Reduction of D Project Shin-Misato

A case was brought against DHR regarding D Project Shin-Misato by Asahi Security Co., Ltd., the tenant of that property, through Mitsubishi UFJ Trust and Banking Corporation, the trustee of the property, concerning claims to confirm rent reduction of an amount 16% less than the current rate from May 2014 onward (hereinafter referred to as the "Case"). The Case was heard at the Tokyo District Court on June 27, 2014 and at present, the Case is still pending.

DHR has decided to record a provision for loss on litigation for the current fiscal period. The estimated loss of ¥80 million was calculated by DHR based on rent judged most likely as of the end of the current fiscal period after giving comprehensive consideration to how the Case has unfolded, etc. (The amount includes the reduction portion of rent for the current fiscal period and prior years and statutory interest rate applicable to the reduction portion of rent.)

vi) Overview of Financial Results

As a result of the abovementioned investment management activities, in the current fiscal period, DHR posted operating revenues of ¥17,531 million, operating income of ¥5,567 million, ordinary income of ¥4,474 million, and net income of ¥4,393 million (net income per investment unit of ¥2,891).

Following the Merger, DHR changed part of its distribution policy from the current fiscal period. Instead of a policy of reversing the amount equivalent to 10% of the depreciation from retained earnings to distribute distributions, DHR will reverse the amount equivalent to amortization of goodwill from retained earnings (reserve for distribution) to top up net income. In accordance with its distribution policy, DHR topped up net income with ¥1,980 million (¥1,303 per investment unit) reversed as the equivalent to amortization of goodwill and ¥939 million (¥618 per investment unit), the amount equivalent to merger fees for the Merger, while at the same time, recorded ¥21 million as refunded consumption taxes relating to properties that DHR acquired in prior years (¥14 per investment unit) recorded as reserve for distribution. As a result, total distributions amounted to ¥7,292 million (¥4,800 per investment unit).

(3) Summary of Capital Increase

Due to the Merger becoming effective, the total number of investment units issued increased by 771,540 units as of September 1, 2016.

DHR's total number of investment units issued and changes in unitholders' capital for the most recent five years until February 28, 2017 are as follows:

Date	Event	Total number of investment units issued (Units)		Unitholders' capital (Yen in millions)		Remarks
		Change	Balance	Change	Balance	
March 1, 2013	Split of investment units	160,535	321,070	—	41,602	(Note 1)
March 18, 2013	Capital increase through public offering	28,000	349,070	10,455	52,058	(Note 2)
April 17, 2013	Capital increase through third-party allotment	2,800	351,870	1,045	53,104	(Note 3)
October 28, 2013	Capital increase through public offering	20,000	371,870	7,817	60,921	(Note 4)
November 19, 2013	Capital increase through third-party allotment	2,000	373,870	781	61,703	(Note 5)
March 1, 2015	Split of investment units	373,870	747,740	—	61,703	(Note 6)
September 1, 2016	Allotment due to merger	771,540	1,519,280	—	61,703	(Note 7)

(Notes) 1. A 2-for-1 split of investment units was implemented effective as of March 1, 2013.
2. Investment units were issued through public offering with an issue price of ¥386,100 per unit (paid-in amount per unit: ¥373,428) in order to raise funds for the acquisition of new properties, etc.
3. Additional investment units were issued with a paid-in amount of ¥373,428 per unit in order to raise funds for the acquisition of new properties, etc.
4. Investment units were issued through public offering with an issue price of ¥404,137 per unit (paid-in amount per unit: ¥390,873) in order to raise funds for repayments of short-term loans for the acquisition of new properties, etc.
5. Additional investment units were issued with a paid-in amount of ¥390,873 per unit in order to raise funds for repayments of short-term loans for the acquisition of new properties, etc.
6. A 2-for-1 split of investment units was implemented effective as of March 1, 2015.
7. At the time of the Merger, which became effective as of September 1, 2016, DHR allotted 2.2 units of DHR per unit of the former DHR, and as a result, 771,540 new investment units were issued.

[Changes in market price of investment securities]

The highest and lowest prices and the prices at the beginning and the end of the period (closing price) in the REIT section of the Tokyo Stock Exchange, on which DHR's investment securities are listed, by period are as follows:

	18th period	19th period	20th period	21st period	22nd period
Fiscal period ended	February 2015	August 2015	February 2016	August 2016	February 2017
Highest	¥299,000 (Note)	¥285,300	¥255,300	¥308,000	¥298,400
Lowest	¥223,750 (Note)	¥221,400	¥212,700	¥232,100	¥274,800
Beginning of period	¥236,000 (Note)	¥269,900	¥224,100	¥236,300	¥284,400
End of period	¥269,500 (Note)	¥226,200	¥235,000	¥291,800	¥292,000

(Note) A 2-for-1 split of investment units was implemented effective as of March 1, 2015. Consequently, figures for the 18th period have been calculated on the assumption that the split of investment units was executed at the beginning of the period.

(4) Distributions

As indicated in “(5) Future Operating Policies and Issues to Be Addressed, ii) Future Operating Policies and Issues to Be Addressed, (b) Distribution Policy” below, DHR established the policy on how to use the retained earnings and implemented its distribution policy by utilizing the reserve for distribution. Distribution for the fiscal period is the sum of unappropriated retained earnings of ¥4,393 million and additional funds by reversing the reserve for distribution and others in the amount of ¥7,292 million. Consequently, distributions per unit amounted to ¥4,800.

	18th period From September 1, 2014 to February 28, 2015	19th period From March 1, 2015 to August 31, 2015	20th period From September 1, 2015 to February 29, 2016	21st period From March 1, 2016 to August 31, 2016	22nd period From September 1, 2016 to February 28, 2017
Unappropriated retained earnings	¥3,080,483,901	¥3,145,903,429	¥3,177,139,345	¥3,213,554,837	¥4,393,259,342
Retained earnings (after reversal of reserve)	¥18,261,746,338	¥18,072,729,367	¥17,884,290,972	¥17,705,349,429	¥14,806,064,771
Total distributions	¥3,249,304,170	¥3,334,920,400	¥3,365,577,740	¥3,392,496,380	¥7,292,544,000
Distributions per unit	¥8,691	¥4,460	¥4,501	¥4,537	¥4,800
Of the above, total earnings distributions	¥3,249,304,170	¥3,334,920,400	¥3,365,577,740	¥3,392,496,380	¥7,292,544,000
Earnings distributions per unit	¥8,691	¥4,460	¥4,501	¥4,537	¥4,800
Of the above, total capital refunds	—	—	—	—	—
Capital refunds per unit	—	—	—	—	—
Of total capital refunds, total distributions from the allowance for temporary difference adjustment	—	—	—	—	—
Of capital refunds per unit, temporary-difference- adjustment- allowance distributions per unit	—	—	—	—	—
Of total capital refunds, total distributions deemed as distributions from capital refunds for tax purposes	—	—	—	—	—
Of capital refunds per unit, distributions deemed as distributions from capital refunds for tax purposes per unit	—	—	—	—	—

(5) Future Operating Policies and Issues to Be Addressed

i) Investment Environment

In the Japanese economy during the current fiscal period, corporate earnings appear firm with the Financial Statements Statistics of Corporations by Industry for October to December 2016 indicating that both revenues and profit increased for two consecutive quarters. Capital expenditure overall was being underpinned by investment in rationalization and labor saving against the backdrop of labor shortages, and it continued on a gradual trend of recovery. The GDP grew 0.3% (1.2% annualized) for October to December 2016 (the 2nd preliminary), which was positive growth for four consecutive quarters, indicating that business activity is firm. Consumer spending is generally lacking strength but consumption is on a rise on account of steady improvements in the employment and personal income environments, and it is expected to recover gently in the future. Looking to the future, however, there are calls for concern regarding future effects on the Japanese economy; specifically, internal demand is generally lacking strength and there are downside risks regarding external demand such as slowdown in the Chinese economy, interest rate hikes in the United States and the UK’s departure from the EU.

In Japan’s real estate market, according to the Land Value LOOK Report for the fourth quarter of 2016 (October 1, 2016 to January 1, 2017) released by the Ministry of Land, Infrastructure, Transport and Tourism in February 2017, among the 100 intensively used districts of major cities, land value rose in 84 districts (compared with 82 districts in the third quarter of 2016), stayed flat in 16 districts (compared with 18 districts in the third quarter of 2016), and dropped in zero districts (compared with 0 districts in the third quarter of 2016). Therefore, the districts maintaining rising prices were roughly 80%. The main reason that the percentage of districts with rising prices maintained such a high level was a continuing strong real estate investment sentiment among corporate investors etc. reflecting a favorable financing environment owing to monetary easing, etc. on the back of various factors including a continuing recovery in the office market due to improvements in vacancy rates, etc. particularly in the major metropolitan areas, ongoing large-scale redevelopment projects, and continuing high-level demand of visitors to Japan for purchasing goods and for accommodation.

In the J-REIT market, the Tokyo Stock Exchange REIT Index rebounded and began trending upwards in reaction to the introduction of negative interest rates by the Bank of Japan in January 2016. However since then, the UK has voted to depart the EU in June and a new President was elected in the United States in November, and both events caused significant market fluctuation. At the end of 2016, the Tokyo Stock Exchange REIT Index was 1,855.83 points, a year-on-year rise of 6.2% (rise of 108.29 points).

Under the aforementioned environment, the investment environment for DHR is expected to continue to be a tough market for property acquisitions due to lowering capitalization rates used in real estate appraisals, rising land prices, soaring construction costs, and other factors. Nevertheless, DHR will continue to actively acquire high quality properties while making use of Daiwa House Group’s integrated capabilities, and real estate development knowhow.

ii) Future Operating Policies and Issues to Be Addressed

(a) Growth Strategy

DHR now targets a broader range of investments due to its shift to a diversified portfolio strategy as a result of the Merger (thereby enhancing external growth potential). Consequently, DHR has achieved swift external growth, having acquired 22 properties over the roughly eight months since the Merger (at a total acquisition price of ¥90,741 million). Also, DHR made acquisitions of a multi-use complex consisting of hotel and offices, in addition to existing build-to-suit (BTS) logistics properties (Note 1), residential properties, and retail properties since the Merger, and subsequently also acquired its first multi-tenant logistics property (Note 2) as of April 11, 2017. DHR believes that acquiring various types of assets will enable it to diversify its portfolio and generate income more consistently.

Moreover, DHR’s asset holdings now include properties such as logistics and retail properties as a result of the Merger, in addition to its previous holdings of residential properties. As such, DHR believes that its portfolio of asset holdings as of the date of this financial results report promises high occupancy rates across all asset classes, which in turn is likely to generate stable rent income going forward. Accordingly, DHR also deems that it will be able to diversify the portfolio by investing in an extensive range of asset classes featuring varying risk-return profiles, and also that it will be able to boost portfolio income and generate more consistent cash flows as a result of diversifying the portfolio and mitigating risk of excessive reliance on a limited number of tenants by increasing the asset value of the portfolio.

In addition, DHR is committed to steadily promoting external growth through a strategy that involves accelerating the pace of growth by leveraging value chains of Daiwa House Group, in conjunction with efforts to acquire assets by drawing on information channels proprietary to the Asset Manager, thereby making the most of Daiwa House Group’s ample pipeline going forward.

(Notes) 1. “Build-to-suit (BTS) logistics properties” are logistics properties that have been customized to tenant needs, while maintaining general versatility to accommodate successor tenants in the future. The same shall apply hereinafter.
2. “Multi-tenant logistics properties” are logistics properties that have been situated on sites suitable to the logistics needs of various businesses, and that offer facility size, grade, and equipment optimal to such sites. The same shall apply hereinafter.

(b) Distribution Policy

As of the end of the current fiscal period, DHR had a total of ¥45,031 million in tax loss carryforwards (Note 1) and ¥17,705 million in reserve for distribution (before reversal for the current fiscal period; the amount after reversal is ¥14,806 million).

As a result of partial revisions to the “Ordinance on Accountings of Investment Corporations” and The Investment Trusts Association, Japan’s “Rules on Real Estate Investment Trusts and Real Estate Investment Corporations,” DHR intends for ¥14,748 million, itemized as gains on negative goodwill in the above amount, to be reserved in retained earnings for temporary difference adjustment in the financial statements related to cash distributions for the current fiscal period, and from the fiscal period ending August 31, 2017 onward, for any amount exceeding each fiscal-period’s fifty-year-averaged amount inside the scope of the said reserve to be reversed and distributed.

In situations where there have been gains on sales of real estate, and so forth, and where net income for the period has been higher than initially expected, DHR has accumulated all or part of that net income as reserve for distribution by utilizing tax loss carryforwards.

In order to make earnings distributions deductible for tax purposes, J-REITs must distribute more than 90% of distributable earnings, but J-REITs that have tax loss carryforwards can reduce their taxable income to the extent of tax loss carryforwards. By utilizing tax loss carryforwards inherited from the merger with NCR, DHR is able to accumulate all or part of net income in cases where net income exceeds the initial forecast due to gains on sales of real estate without having taxes imposed until August 2018 to the extent that the tax loss carryforwards are available (Note 1).

Following the Merger, DHR changed part of its distribution policy from the current fiscal period and will reverse the amount equivalent to amortization of goodwill from the reserve for distribution (retained earnings for temporary difference adjustment from the fiscal period ending August 31, 2017 onward) and use this to top up net income.

In case net income falls below the initially expected amount due to extraordinary losses such as loss on sale of properties, in case of the dilution of distribution due to capital increase, in case sufficient revenues could not be secured due to short operation periods of properties acquired during a fiscal period along with a capital increase, or in the case of extraordinary expenses such as issuance expenses arising, DHR plans to reverse the retained earnings for temporary difference adjustment (Note 2).

DHR plans to amortize goodwill recognized from the Merger over 20 years using the straight-line method. As described above, although DHR plans to reverse the amount equivalent to amortization of goodwill from the retained earnings for temporary difference adjustment and distribute it, after the reversal of the retained earnings for temporary difference adjustment and others is complete, DHR plans to pay distributions in excess of earnings of the amount equivalent to amortization of goodwill (distribution of retained earnings for temporary difference adjustment).

DHR’s policy is to flexibly utilize loss carryforwards and retained earnings and pay distributions in excess of subsequent earnings (distribution of retained earnings for temporary difference adjustment) to realize stabilization of distributions on a medium- to long-term basis (Note 3) while ensuring the level of distributions not impacted by the amortization of goodwill that accompanied the Merger.

(Notes) 1. The carryforward period of loss carryforwards inherited from the merger with NCR is until the end of the fiscal period ending August 31, 2018. In addition, the loss carryforwards inherited from the former DHR as a result of the Merger is ¥507 million and the carryforward period for such loss carryforwards is until the end of the fiscal period ending February 28, 2021.
2. DHR’s reversals of retained earnings for temporary difference adjustment do not fall under distributions in excess of earnings (return of unitholders’ capital).
3. Under the above distribution policy, DHR has the policy to stabilize distributions. However, it is not intended as a guarantee or promise of the payment of distribution and amounts thereof.

iii) Financial Strategy

DHR seeks as its basic policy to execute a well-planned and flexible financial strategy with the aim of ensuring sustainable income 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 strong lender formation through initiatives geared toward diversifying methods of raising capital through issuance of investment corporation bonds, and by promoting use of long-term fixed rates on interest-bearing debt and staggering repayment dates.

(6) Significant Events after Balance Sheet Date

i) Issuance of New Investment Units

At the board of directors meetings held on March 1, 2017, and on March 13, 2017, it was resolved to issue new investment units, as follows. The payment for the new investment units issued through public offering was completed on March 21, 2017, while the payment for the new investment units issued through third-party allotment was completed on April 14, 2017.

As a result, unitholders' capital amounts to ¥108,136 million, and the total number of investment units issued is 1,690,000 units.

(a) Issuance of new investment units (public offering)

Number of new investment units issued: 156,720 units (Japan: 94,672 units; Overseas: 62,048 units)

Issue price: ¥280,868 per unit

Total issue price: ¥44,017,632,960

Amount paid in (issue value): ¥271,983 per unit

Total amount paid in (issue value): ¥42,625,175,760

Payment date: March 21, 2017

(b) Issuance of new investment units through third-party allotment

Number of new investment units issued: 14,000 units

Amount paid in (issue value): ¥271,983 per unit

Total amount paid in (issue value): ¥3,807,762,000

Payment date: April 14, 2017

Allottee: Nomura Securities Co., Ltd.

ii) Acquisition of Assets

DHR acquired the following properties on April 11, 2017.

Asset name	DPL Misato
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥16,831,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Kawagoe III
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥7,200,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Kazo
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥3,300,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Urayasu III
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥8,500,000 thousand
Seller (Note 2)	DH Fund Four Godo Kaisha
Asset name	D Project Tomisato
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥5,000,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Kyotanabe
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥3,520,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.

Asset name	D Project Sendai Izumi
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥1,510,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Oyama
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥2,000,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Sano
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥1,780,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Tatebayashi
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥3,100,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Kakegawa
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥6,000,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Hiroshima Seifu
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥3,820,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	D Project Tosu II
Asset type	Trust beneficiary interest in real estate
Asset class	Logistics properties
Acquisition price (Note 1)	¥1,700,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	Castalia Shinsakae II
Asset type	Trust beneficiary interest in real estate
Asset class	Residential properties
Acquisition price (Note 1)	¥1,800,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.
Asset name	Sharp Hiroshima Building
Asset type	Trust beneficiary interest in real estate
Asset class	Other assets
Acquisition price (Note 1)	¥1,850,000 thousand
Seller (Note 2)	Daiwa House Industry Co., Ltd.

(Notes) 1. This figure does not include expenses pertaining to acquisitions, settlement money such as taxes and duties, consumption taxes, etc.
2. Daiwa House, which is the seller of all of the assets acquired except for D Project Urayasu III, is classified as an interested party, etc. as defined in the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the "Investment Trusts Act"). As such, the Asset Manager has gone through the necessary discussion and resolution procedures in accordance with its voluntary rules based on the Asset Manager's regulations on transactions with interested parties. DH Fund Four Godo Kaisha, which is the seller of D Project Urayasu III, is not an interested party, etc. under the Investment Trusts Act, but is a special purpose company (Tokutei Mokuteki Kaisha) set up with the aim of acquiring, holding and disposing of trust beneficiary interests in real estate partially invested in by Daiwa House, which is the parent company of the Asset Manager, and is accordingly classified as an interested party as stipulated in the Asset Manager's regulations on transactions with interested parties. As such, the Asset Manager has gone through the necessary discussion and resolution procedures.

iii) Debt Financing and Repayment

(a) DHR conducted debt financing as follows, to provide for ¥3,000 million in redemptions of investment corporation bonds maturing on March 9, 2017.

Lender	Borrowing amount (Yen in millions)	Interest rate	Borrowing date	Repayment date	Method of repayment	Collateral
Mitsui Sumitomo Insurance Company, Limited	1,000	0.54625% (Fixed interest rate)	March 9, 2017	March 29, 2024	Bullet repayment	Unsecured and non-guaranteed
Development Bank of Japan Inc.	2,000	0.85000% (Fixed interest rate)	March 9, 2017	March 31, 2027	Bullet repayment	Unsecured and non-guaranteed

(b) DHR conducted debt financing as follows, to provide for repayment of ¥15,095 million in long-term loans becoming due on March 31, 2017, and to provide for partial early repayment of ¥6,000 million in short-term loans becoming due on April 28, 2017.

Lender	Borrowing amount (Yen in millions)	Interest rate	Borrowing date	Repayment date	Method of repayment	Collateral
Mizuho Bank, Ltd.; Sumitomo Mitsui Trust Bank, Limited; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Mizuho Trust & Banking Co., Ltd.	10,000	0.56813% (Fixed interest rate)	March 31, 2017	September 29, 2023	Bullet repayment	Unsecured and non-guaranteed
Sumitomo Mitsui Banking Corporation; Aozora Bank, Ltd.; Shinkin Central Bank; Mitsubishi UFJ Trust and Banking Corporation; Resona Bank, Limited	11,000	0.70332% (Fixed interest rate)	March 31, 2017	March 31, 2025	Bullet repayment	Unsecured and non-guaranteed

(c) DHR conducted debt financing for acquiring the properties mentioned in “ii) Acquisition of Assets” above, as follows.

Lender	Borrowing amount (Yen in millions)	Interest rate	Borrowing date	Repayment date	Method of repayment	Collateral
Sumitomo Mitsui Banking Corporation; Sumitomo Mitsui Trust Bank, Limited; Mizuho Bank, Ltd.; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; The Norinchukin Bank; Nippon Life Insurance Company	9,500	0.39628% (Fixed interest rate)	April 11, 2017	April 30, 2021	Bullet repayment	Unsecured and non-guaranteed
Sumitomo Mitsui Banking Corporation; Mizuho Bank, Ltd.; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Sumitomo Mitsui Trust Bank, Limited; Resona Bank, Limited; Mitsubishi UFJ Trust and Banking Corporation; Mizuho Trust & Banking Co., Ltd.; Shinsei Bank, Limited; The Bank of Fukuoka, Ltd.	10,000	0.75620% (Fixed interest rate)	April 11, 2017	April 30, 2026	Bullet repayment	Unsecured and non-guaranteed
Sumitomo Mitsui Banking Corporation; The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Sumitomo Mitsui Trust Bank, Limited; Mizuho Bank, Ltd.; Mitsubishi UFJ Trust and Banking Corporation; Mizuho Trust & Banking Co., Ltd.	10,000	1.02357% (Fixed interest rate)	April 11, 2017	April 28, 2028	Bullet repayment	Unsecured and non-guaranteed

2. Overview of the Investment Corporation

(1) Status of Investment Units

	18th period As of February 28, 2015	19th period As of August 31, 2015	20th period As of February 29, 2016	21st period As of August 31, 2016	22nd period As of February 28, 2017
Total number of investment units authorized	2,000,000	4,000,000	4,000,000	4,000,000	8,000,000
Total number of investment units issued	373,870	747,740 (Note 1)	747,740	747,740	1,519,280 (Note 2)
Unitholders' capital (Yen in thousands)	61,703,224	61,703,224	61,703,224	61,703,224	61,703,224
Number of unitholders	6,400	6,998	7,073	6,431	10,851

(Notes) 1. A 2-for-1 split of investment units was implemented effective as of March 1, 2015.
2. At the time of the Merger, which became effective as of September 1, 2016, DHR allotted 2.2 units of DHR per unit of the former DHR, and as a result, 771,540 new investment units were issued.

(2) Matters concerning Investment Units

The major unitholders as of February 28, 2017 are as follows:

Name	Number of investment units held (Units)	Percentage of investment units held against the total number of investment units issued (%) (Note)
Japan Trustee Services Bank, Ltd. (Trust account)	335,526	22.1
Daiwa House Industry Co., Ltd.	169,600	11.2
The Master Trust Bank of Japan, Ltd. (Trust account)	154,040	10.1
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	103,934	6.8
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	52,026	3.4
State Street Bank - West Client - Treaty 505234	25,250	1.7
State Street Bank - West Pension Fund Clients - Exempt 505233	23,617	1.6
State Street Bank and Trust Company 505012	23,372	1.5
The Fuji Fire and Marine Insurance Co., Ltd.	21,236	1.4
Trust & Custody Services Bank, Ltd. (Money trust taxable account)	15,264	1.0
Total	923,865	60.8

(Note) The percentages are rounded to the first decimal place.

(3) Officers

i) The following table provides information about the officers.

Title and post	Name	Major concurrent position	Total compensation per title during the 22nd period (Yen in thousands)
Executive Director	Jiro Kawanishi	Auditor, Fujita Kanko Inc. (part time)	2,400
Supervisory Directors	Tetsuya Iwasaki	Certified Public Accountant and Enrolled Agent, Citia Certified Public Accountant Firm Outside Director, Uoriki Co., Ltd.	2,100
	Hiroshi Ishikawa	Attorney, Ohhara Law Office Outside Director, Japan Medical Dynamic Marketing, INC.	2,100
Accounting Auditor	Ernst & Young ShinNihon LLC	—	19,750

(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 the Accounting Auditor shall be discussed at DHR's board of directors pursuant to the provisions of the Investment Trusts Act for dismissal, taking into full account all relevant factors for non-reappointment such as the quality of audits and compensation for audits.

- ii) Suspension order issued against the Accounting Auditor during last two years
On December 22, 2015, a suspension order was issued by the Financial Services Agency (FSA) against Ernst & Young ShinNihon LLC, the Accounting Auditor of DHR, as described below.
- (a) Name of the firm
- Ernst & Young ShinNihon LLC
- (b) Summary of order
- Suspension from accepting new engagements for three months from January 1, 2016 to March 31, 2016.
- (c) Reason of order
- Seven certified public accountants of the firm had, in negligence of due care, attested the financial statements of TOSHIBA CORPORATION for the years ended March 31, 2010, 2012 and 2013 containing material misstatements as if the statements contained no material misstatements.
 - The firm's operations are significantly inappropriate.

(4) Asset Manager, Custodian and General Administrators

Business	Name
Asset Manager	Daiwa House Asset Management Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General Administrator	Sumitomo Mitsui Trust Bank, Limited
Transfer agent / Special account administrator	Sumitomo Mitsui Trust Bank, Limited
Administrator of investment corporation bonds	Sumitomo Mitsui Trust Bank, Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

3. Portfolio of DHR

(1) Composition of Assets

The following table provides information about the composition of assets.

Type of assets	Asset class	Area (Note 1)	21st period August 31, 2016		22nd period February 28, 2017		
			Total amount held (Yen in millions) (Note 2)	Percentage to total assets (%) (Note 3)	Total amount held (Yen in millions) (Note 2)	Percentage to total assets (%) (Note 3)	
Real estate	Residential properties	Three major metropolitan areas of Japan	Greater Tokyo area	25,428	9.8	25,316	4.2
			Greater Nagoya area	935	0.4	931	0.2
			Greater Osaka area	16,996	6.6	16,891	2.8
		Other	5,535	2.1	5,498	0.9	
	Subtotal		48,896	18.9	48,638	8.1	
Trust beneficiary interests in real estate	Logistics properties	Three major metropolitan areas of Japan	Greater Tokyo area	—	—	138,378	22.9
			Greater Nagoya area	—	—	13,647	2.3
			Greater Osaka area	—	—	16,195	2.7
		Other	—	—	26,814	4.4	
	Residential properties	Three major metropolitan areas of Japan	Greater Tokyo area	171,651	66.5	174,511	28.9
			Greater Nagoya area	6,137	2.4	6,090	1.0
			Greater Osaka area	10,643	4.1	10,534	1.7
		Other	5,438	2.1	5,354	0.9	
	Retail properties	Three major metropolitan areas of Japan	Greater Tokyo area	—	—	23,282	3.9
			Greater Nagoya area	—	—	2,390	0.4
			Greater Osaka area	—	—	4,552	0.8
		Other	—	—	20,221	3.3	
	Other assets	Three major metropolitan areas of Japan	Greater Tokyo area	2,030	0.8	2,004	0.3
			Other	—	—	7,586	1.3
	Subtotal		195,901	75.9	451,563	74.7	
	Deposits and other assets		13,468	5.2	103,941	17.2	
	Total assets		258,266	100.0	604,142	100.0	

(Notes) 1. Three major metropolitan areas of Japan in "Area" are the greater Tokyo area (Tokyo, Kanagawa, Saitama and Chiba, the same shall apply hereinafter), the greater Nagoya area (Aichi, Gifu and Mie, the same shall apply hereinafter) and the greater Osaka area (Osaka, Kyoto, Hyogo, Nara and Shiga, the same shall apply hereinafter). The same shall apply hereinafter.

2. "Total amount held" represents the amounts recorded on the balance sheets as of the last day of each fiscal period (August 31, 2016 and February 28, 2017), which are rounded down to the nearest million yen. For real estate properties and trust beneficiary interest in real estate (may be referred to as "real estate in trust" or "trust beneficiary interest in real estate"), the amounts are their acquisition costs (including expenses associated with the acquisition) less accumulated depreciation.

3. "Percentage to total assets" is rounded to the first decimal place.

(2) Principal Assets Held

The overview of principal assets held by DHR as of February 28, 2017 (top ten properties in terms of book value at the end of the period) is as follows:

Property name	Book value (Yen in millions) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Occupancy rate (%) (Note 4)	Rate to total real estate rental revenues (%) (Note 5)	Primary Use
D Project Urayasu II	25,914	72,320.01	72,320.01	100.0	(Note 6)	Logistics
D Project Hachioji	15,318	62,394.17	62,394.17	100.0	(Note 6)	Logistics
D Project Nishiyodogawa	10,239	39,584.80	39,584.80	100.0	(Note 6)	Logistics
D Project Urayasu I	9,255	36,515.81	36,515.81	100.0	(Note 6)	Logistics
D Project Machida	9,246	50,490.39	50,490.39	100.0	(Note 6)	Logistics
Pacific Royal Court Minatomirai Urban Tower	9,145	26,294.49	26,294.49	100.0	3.0	Residential
D Project Inuyama	8,636	43,723.70	43,723.70	100.0	(Note 6)	Logistics
D Project Kuki V	8,289	47,320.89	47,320.89	100.0	(Note 6)	Logistics
D Project Kuki II	8,063	50,490.00	50,490.00	100.0	(Note 6)	Logistics
DREAM TOWN ALi	8,061	22,196.81	21,835.77	98.4	2.3	Retail
Total	112,171	451,331.07	450,970.03	99.9	20.1	—

- (Notes) 1. “Book value” is the amount recorded on the balance sheets as of February 28, 2017 (in case of real estate or trust beneficiary interest, “Book value” is the acquisition costs (including expenses associated with the acquisition) less accumulated depreciation), which were rounded down to the nearest million yen.
2. “Leasable area” means the leasable area of the building (or land in the case of land properties) in relation to each real estate or each real estate in trust which DHR believes is leasable as indicated in the relevant lease agreement or drawing of the building in relation to each real estate or each real estate in trust as of February 28, 2017.
3. “Leased area” represents the leased area in the leasable area as indicated in the lease agreement in relation to each real estate or each real estate in trust as of February 28, 2017. However, in the case of a pass-through type master lease agreement entered into with the master lease company, the leased area to end-tenants, as indicated in the sublease agreement for each real estate or each real estate in trust as of February 28, 2017, is provided. As some lease agreements for each real estate or each real estate in trust may indicate leased area that includes portions not included in the gross floor area, the leased area may exceed the gross floor area. In particular at logistics properties, when eaves are included in the leased area, the leased area may significantly exceed the gross floor area.
4. “Occupancy rate” represents the ratio of leased area to total leasable area of each real estate or each real estate in trust as of February 28, 2017, and it is rounded to the first decimal place.
5. “Rate to total real estate rental revenues” is the rental revenue from each real estate and each real estate in trust expressed as a percentage of the total rental revenue from the entire portfolio, rounded to the first decimal place.
6. Undisclosed as consent has not been obtained from the lessee.

(3) Description of Portfolio

The overview of portfolio assets held by DHR as of February 28, 2017 (real estate and real estate in trust, etc.) is as follows:

Asset class	Property name	Location (Note 1)	Form of ownership	Leasable area (m ²) (Note 2)	Assessed value at the end of period (Yen in millions) (Note 3)	Book value (Yen in millions) (Note 4)
Logistics properties	D Project Machida	2-1-6, Oyamagaoka, Machida City, Tokyo	Real estate in trust	50,490.39	9,410	9,246
	D Project Hachioji	3-21-1, Minami-Osawa, Hachioji City, Tokyo	Real estate in trust	62,394.17	15,700	15,318
	D Project Aikawa-Machi	4020-12, Aza Sakuradai, Nakatsu, Aikawa-machi, Aiko District, Kanagawa	Real estate in trust	14,240.84	3,430	3,377
	D Project Shin-Misato	Lala City, Shin-Misato, Misato City, Saitama (Note 5)	Real estate in trust	11,289.91	5,760	5,689
	D Project Urayasu I	12-1, Chidori, Urayasu City, Chiba	Real estate in trust	36,515.81	9,460	9,255
	D Project Urayasu II	11-5, Chidori, Urayasu City, Chiba	Real estate in trust	72,320.01	26,200	25,914
	D Project Akanehama	3-2-8, Akanehama, Narashino City, Chiba	Real estate in trust	11,663.39	2,980	2,940
	D Project Noda	1-1, Aza Tamei, Futatsuka, Noda City, Chiba	Real estate in trust	29,232.53	6,340	6,175
	D Project Inuyama	5-5, Takanebora, Inuyama City, Aichi	Real estate in trust	43,723.70	8,820	8,636
	D Project Gifu	449-9, Nanba Azamura-Higashi, Wanouchi-cho, Anpachi District, Gifu	Real estate in trust	7,669.91	1,110	1,092
	D Project Neyagawa	2-24-12, Shimeno, Neyagawa City, Osaka	Real estate in trust	11,151.51	6,080	5,956
	D Project Sapporo Minami	5-7-2, Wattsu Chuo, Kitahiroshima City, Hokkaido	Real estate in trust	6,749.10	838	810
	D Project Morioka	3-18, Kazabayashi, Ogama, Takizawa City, Iwate	Real estate in trust	9,558.32	1,220	1,190
	D Project Sendai Minami	3-2-39, Kuko-Minami, Iwanuma City, Miyagi	Real estate in trust	11,052.27	1,550	1,517
	D Project Tsuchiura	20-29, Aza Harayama, Hongo, Tsuchiura City, Ibaraki	Real estate in trust	17,448.86	3,430	3,365
	D Project Gotenba	2271-10, Aza Odori, Jinba, Gotenba City, Shizuoka	Real estate in trust	6,737.53	1,160	1,133
	D Project Nishi-Hiroshima	2-3-11, Tomo-Minami, Asaminami Ward, Hiroshima City, Hiroshima	Real estate in trust	5,093.51	1,220	1,204
	D Project Fukuoka Umi	384-15, Aza Noguchi, Oaza Ino, Umi-machi, Kasuya District, Fukuoka	Real estate in trust	24,729.56	4,300	4,214
	D Project Tosu	1624, Aza Hasuhara, Himekata-machi, Tosu City, Saga	Real estate in trust	17,858.01	5,800	5,694
	D Project Kuki I	6004-2, Aza Taikoda, Shobu-cho Shobu, Kuki City, Saitama	Real estate in trust	22,708.72	4,020	3,879
	D Project Kuki II	6201-1, Aza Kazarimen, Shobu-cho Sanga, Kuki City, Saitama	Real estate in trust	50,490.00	8,400	8,063
	D Project Kawagoe I	3-2-3, Yoshinodai, Kawagoe City, Saitama	Real estate in trust	16,150.88	3,640	3,513
	D Project Kawagoe II	3-2-4, Yoshinodai, Kawagoe City, Saitama	Real estate in trust	19,872.00	5,070	4,827
	DPL Inuyama	1-8, Aza Nakahiratsuka, Oaza Haguroshinden, Inuyama City, Aichi	Real estate in trust	21,628.50	3,970	3,918
	D Project Fukuoka Hakozaki	5-2-1, Hakozakifuto, Higashi-ku, Fukuoka City, Fukuoka	Real estate in trust	34,710.80	4,430	4,316
	D Project Kuki III	6004-1, Aza Taikoda, Shobu-cho Shobu, Kuki City, Saitama	Real estate in trust	26,937.41	7,890	7,585
Residential properties	Qiz Ebisu	4-3-1, Ebisu, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Azabujuban Shichimenzaka	2-7-5, Azabujuban, Minato Ward, Tokyo	Real estate in trust			
	Castalia Shibakoen	3-32-10, Shiba, Minato Ward, Tokyo	Real estate in trust			
	Castalia Ginza	1-14-13, Ginza, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Hiroo	3-13-3, Nishi Azabu, Minato Ward, Tokyo	Real estate in trust			
	Castalia Nihonbashi	11-2, Nihonbashi Kabuto-cho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Hacchobori	3-27-5, Hacchobori, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Azabujuban	2-10-1, Azabujuban, Minato Ward, Tokyo	Real estate in trust			
	Castalia Azabujuban II	2-21-2, Azabujuban, Minato Ward, Tokyo	Real estate in trust			
	Castalia Shinjuku Natsumezaaka	10-1, Kikui-cho, Shinjuku Ward, Tokyo (Note 4)	Real estate in trust			
	Castalia Ginza II	1-23-4, Ginza, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shibuya Sakuragaoka	29-21, Sakuragaoka-cho, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Nishi Azabu Kasumicho	1-3-12, Nishi Azabu, Minato Ward, Tokyo	Real estate in trust			
	Castalia Ochanomizu	3-24-1, Kanda-Ogawamachi, Chiyoda Ward, Tokyo	Real estate in trust			
	Castalia Sangubashi	4-52-12, Yoyogi, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Suitengu	2-8-13, Nihonbashi Kakigaracho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Suitengu II	1-38-16, Nihonbashi Kakigaracho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shintomicho	3-10-10, Irifune, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shintomicho II	2-6-4, Irifune, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Harajuku	3-55-3, Sendagaya, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Yoyogi Uehara	1-17-16, Uehara, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Sendagaya	2-9-10, Sendagaya, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Shinjuku 7 chome	7-17-16, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust			
	Castalia Ningyocho	7-15, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Ningyocho II	8-12, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shin-Ochanomizu	2-3-3, Kanda Awaji-cho, Chiyoda Ward, Tokyo	Real estate in trust			
	Castalia Higashi Nihonbashi II	12-11, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Jinbocho	2-40-8, Kanda-Jinbocho, Chiyoda Ward, Tokyo	Real estate in trust			
	Castalia Shintomicho III	2-8-8, Irifune, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shinjuku Gyoen	2-14-4, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust			
	Castalia Takanawadai	3-4-12, Takanawa, Minato Ward, Tokyo	Real estate in trust			
	Castalia Higashi Nihonbashi III	3-5-6, Higashi-Nihonbashi, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Shinjuku Gyoen II	1-29-15, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust			
	Castalia Shintomicho IV	3-10-8, Irifune, Chuo Ward, Tokyo	Real estate in trust			
	Castalia Takanawadai II	3-5-6, Takanawa, Minato Ward, Tokyo	Real estate in trust			
	Castalia Minami Azabu	2-2-27, Minami Azabu, Minato Ward, Tokyo	Real estate in trust			
	Castalia Ginza III	8-18-2, Ginza, Chuo Ward, Tokyo	Real estate			
	Castalia Kayabacho	2-1, Nihonbashi Koami-cho, Chuo Ward, Tokyo	Real estate			
	Castalia Takanawa	2-17-12, Takanawa, Minato Ward, Tokyo	Real estate in trust			
	Castalia Higashi Nihonbashi	9-14, Yokoyama-cho, Nihonbashi, Chuo Ward, Tokyo	Real estate			
	Castalia Shinjuku	2-6-11, Shinjuku, Shinjuku Ward, Tokyo	Real estate			
	Castalia Ichigaya	14-4, YakuOji-machi, Ichigaya, Shinjuku Ward, Tokyo	Real estate in trust			
	Shibaura Island Bloom Tower	4-20-2, 4-20-3, 4-20-4, Shibaura, Minato Ward, Tokyo	Real estate in trust			
	Castalia Hatsudai	1-10-9, Honmachi, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Hatsudai II	1-33-7, Honmachi, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Ebisu	3-15-6, Ebisu, Shibuya Ward, Tokyo	Real estate in trust			
	Castalia Meguro Kamurozaka	4-31-23, Nishi Gotanda, Shinagawa Ward, Tokyo	Real estate in trust			
	Castalia Toritsudaigaku	1-4-1, Midorigaoka, Meguro Ward, Tokyo	Real estate in trust			
	Castalia Yukigaya	2-13-3, Higashi Yukigaya, Ota Ward, Tokyo	Real estate in trust			
	Castalia Yutenji	2-14-21, Yutenji, Meguro Ward, Tokyo	Real estate in trust			
	Castalia Otsuka	3-17-4, Minami Otsuka, Toshima Ward, Tokyo	Real estate in trust			
	Castalia Kikukawa	2-1-12, Kikukawa, Sumida Ward, Tokyo	Real estate in trust			
	Castalia Meguro	2-1-13, Meguro, Meguro Ward, Tokyo	Real estate in trust			
	Castalia Otsuka II	2-32-20, Higashi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust			
	Castalia Jiyugaoka	1-20-1, Jiyugaoka, Meguro Ward, Tokyo	Real estate in trust			
	Castalia Mejiro	2-8-16, Takada, Toshima Ward, Tokyo	Real estate in trust			
	Castalia Ikebukuro	3-1-12, Nishi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust			
	Castalia Kaname-cho	5-26-10 Nishi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust			
	Castalia Tower Shinagawa Seaside	4-10-18, Higashi Shinagawa, Shinagawa Ward, Tokyo	Real estate in trust			

Asset class	Property name	Location (Note 1)	Form of ownership	Leasable area (m ²) (Note 2)	Assessed value at the end of period (Yen in millions) (Note 3)	Book value (Yen in millions) (Note 4)
Logistics properties	D Project Kuki IV	6201-5, Aza Kazarimen, Shobu-cho Sanga, Kuki City, Saitama	Real estate in trust	26,460.00	5,690	5,485
	D Project Kuki V	6201-6, Aza Kazarimen, Shobu-cho Sanga, Kuki City, Saitama	Real estate in trust	47,320.89	8,610	8,289
	D Project Kuki VI	48-3, Kiyoku-cho, Kuki, Saitama	Real estate in trust	29,244.66	5,300	5,104
	D Project Yashio	50-1, Oaza Shin-machi, Yashio City, Saitama	Real estate in trust	21,965.04	6,480	6,365
	D Project Nishiyodogawa	2-7-48, Nakashima, Nishiyodogawa Ward, Osaka City, Osaka	Real estate in trust	39,584.80	10,500	10,239
	D Project Matsudo	700-3, Aza Nishonoda, Kamihongo, Matsudo City, Chiba	Real estate in trust	26,776.67	7,460	7,339
	D Project Hibiki Nada	3-1-5, Hibiki-machi, Wakamatsu-Ward, Kitakyushu City, Fukuoka	Real estate in trust	23,933.75	2,150	2,083
	D Project Morioka II	3-15, Ogama-kazabayashi, Takizawa City, Iwate	Real estate in trust	4,481.00	1,320	1,283
	Logistics properties – Subtotal			862,184.45	199,738	195,030
Residential properties	Qiz Ebisu	4-3-1, Ebisu, Shibuya Ward, Tokyo	Real estate in trust	5,230.39	8,290	7,263
	Castalia Azabujuban Shichimenzaka	2-7-5, Azabujuban, Minato Ward, Tokyo	Real estate in trust	3,492.93	4,210	4,193
	Castalia Shibakoen	3-32-10, Shiba, Minato Ward, Tokyo	Real estate in trust	2,707.51	2,140	2,423
	Castalia Ginza	1-14-13, Ginza, Chuo Ward, Tokyo	Real estate in trust	2,226.42	2,170	2,364
	Castalia Hiroo	3-13-3, Nishi Azabu, Minato Ward, Tokyo	Real estate in trust	1,621.59	1,800	2,089
	Castalia Nihonbashi	11-2, Nihonbashi Kabuto-cho, Chuo Ward, Tokyo	Real estate in trust	1,458.73	1,140	1,080
	Castalia Hacchobori	3-27-5, Hacchobori, Chuo Ward, Tokyo	Real estate in trust	2,969.57	2,190	2,127
	Castalia Azabujuban	2-10-1, Azabujuban, Minato Ward, Tokyo	Real estate in trust	2,400.00	2,650	2,803
	Castalia Azabujuban II	2-21-2, Azabujuban, Minato Ward, Tokyo	Real estate in trust	2,094.58	2,490	2,542
	Castalia Shinjuku Natsumezaaka	10-1, Kikui-cho, Shinjuku Ward, Tokyo (Note 4)	Real estate in trust	1,917.62	1,670	1,777
	Castalia Ginza II	1-23-4, Ginza, Chuo Ward, Tokyo	Real estate in trust	1,817.56	1,670	1,676
	Castalia Shibuya Sakuragaoka	29-21, Sakuragaoka-cho, Shibuya Ward, Tokyo	Real estate in trust	1,123.80	1,080	1,343
	Castalia Nishi Azabu Kasumicho	1-3-12, Nishi Azabu, Minato Ward, Tokyo	Real estate in trust	2,779.77	2,210	2,307
	Castalia Ochanomizu	3-24-1, Kanda-Ogawamachi, Chiyoda Ward, Tokyo	Real estate in trust	2,559.21	2,050	1,712
	Castalia Sangubashi	4-52-12, Yoyogi, Shibuya Ward, Tokyo	Real estate in trust	1,898.47	1,520	1,475
	Castalia Suitengu	2-8-13, Nihonbashi Kakigaracho, Chuo Ward, Tokyo	Real estate in trust	1,940.94	1,360	1,205
	Castalia Suitengu II	1-38-16, Nihonbashi Kakigaracho, Chuo Ward, Tokyo	Real estate in trust	1,858.34	1,220	1,071
	Castalia Shintomicho	3-10-10, Irifune, Chuo Ward, Tokyo	Real estate in trust	1,444.52	998	885
	Castalia Shintomicho II	2-6-4, Irifune, Chuo Ward, Tokyo	Real estate in trust	1,244.54	882	781
	Castalia Harajuku	3-55-3, Sendagaya, Shibuya Ward, Tokyo	Real estate in trust	1,225.26	910	861
	Castalia Yoyogi Uehara	1-17-16, Uehara, Shibuya Ward, Tokyo	Real estate in trust	811.95	695	642
	Castalia Sendagaya	2-9-10, Sendagaya, Shibuya Ward, Tokyo	Real estate in trust	803.03	596	560
	Castalia Shinjuku 7 chome	7-17-16, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust	957.60	518	442
	Castalia Ningyocho	7-15, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust	1,747.90	1,190	870
	Castalia Ningyocho II	8-12, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust	1,826.80	1,330	986
	Castalia Shin-Ochanomizu	2-3-3, Kanda Awaji-cho, Chiyoda Ward, Tokyo	Real estate in trust	1,308.38	1,060	862
	Castalia Higashi Nihonbashi II	12-11, Nihonbashi Tomisawacho, Chuo Ward, Tokyo	Real estate in trust	2,117.46	1,660	1,271
	Castalia Jinbocho	2-40-8, Kanda-Jinbocho, Chiyoda Ward, Tokyo	Real estate in trust	1,628.80	1,420	1,089
	Castalia Shintomicho III	2-8-8, Irifune, Chuo Ward, Tokyo	Real estate in trust	972.51	739	620
	Castalia Shinjuku Gyoen	2-14-4, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust	3,594.16	3,030	2,633
	Castalia Takanawadai	3-4-12, Takanawa, Minato Ward, Tokyo	Real estate in trust	1,147.44	1,010	819
	Castalia Higashi Nihonbashi III	3-5-6, Higashi-Nihonbashi, Chuo Ward, Tokyo	Real estate in trust	1,105.20	791	616
	Castalia Shinjuku Gyoen II	1-29-15, Shinjuku, Shinjuku Ward, Tokyo	Real estate in trust	668.79	499	478
	Castalia Shintomicho IV	3-10-8, Irifune, Chuo Ward, Tokyo	Real estate in trust	681.00	459	378
	Castalia Takanawadai II	3-5-6, Takanawa, Minato Ward, Tokyo	Real estate in trust	1,567.84	1,320	1,166
	Castalia Minami Azabu	2-2-27, Minami Azabu, Minato Ward, Tokyo	Real estate in trust	882.67	680	614
	Castalia Ginza III	8-18-2, Ginza, Chuo Ward, Tokyo	Real estate	3,494.42	2,900	2,746
	Castalia Kayabacho	2-1, Nihonbashi Koami-cho, Chuo Ward, Tokyo	Real estate	4,602.95	3,030	2,534
	Castalia Takanawa	2-17-12, Takanawa, Minato Ward, Tokyo	Real estate in trust	10,408.26	7,610	7,166
	Castalia Higashi Nihonbashi	9-14, Yokoyama-cho, Nihonbashi, Chuo Ward, Tokyo	Real estate	6,442.28	4,000	3,286
Castalia Shinjuku	2-6-11, Shinjuku, Shinjuku Ward, Tokyo	Real estate	3,150.80	3,370	2,858	
Castalia Ichigaya	14-4, YakuUji-machi, Ichigaya, Shinjuku Ward, Tokyo	Real estate in trust	1,546.34	1,330	886	
Shibaura Island Bloom Tower	4-20-2, 4-20-3, 4-20-4, Shibaura, Minato Ward, Tokyo	Real estate in trust	16,849.50	8,760	6,999	
Castalia Hatsudai	1-10-9, Honmachi, Shibuya Ward, Tokyo	Real estate in trust	3,077.05	2,300	1,999	
Castalia Hatsudai II	1-33-7, Honmachi, Shibuya Ward, Tokyo	Real estate in trust	2,339.42	2,070	1,892	
Castalia Ebisu	3-15-6, Ebisu, Shibuya Ward, Tokyo	Real estate in trust	1,659.71	1,600	1,424	
Castalia Meguro Kamurozaka	4-31-23, Nishi Gotanda, Shinagawa Ward, Tokyo	Real estate in trust	4,967.97	4,230	4,086	
Castalia Toritsudaigaku	1-4-1, Midorigaoka, Meguro Ward, Tokyo	Real estate in trust	863.70	558	601	
Castalia Yukigaya	2-13-3, Higashi Yukigaya, Ota Ward, Tokyo	Real estate in trust	1,542.30	1,090	1,013	
Castalia Yutenji	2-14-21, Yutenji, Meguro Ward, Tokyo	Real estate in trust	1,380.35	1,260	1,341	
Castalia Otsuka	3-17-4, Minami Otsuka, Toshima Ward, Tokyo	Real estate in trust	1,871.70	1,620	1,344	
Castalia Kikukawa	2-1-12, Kikukawa, Sumida Ward, Tokyo	Real estate in trust	1,168.18	755	738	
Castalia Meguro	2-1-13, Meguro, Meguro Ward, Tokyo	Real estate in trust	1,414.73	972	850	
Castalia Otsuka II	2-32-20, Higashi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust	1,784.50	1,230	997	
Castalia Jiyugaoka	1-20-1, Jiyugaoka, Meguro Ward, Tokyo	Real estate in trust	1,472.47	1,370	1,171	
Castalia Mejro	2-8-16, Takada, Toshima Ward, Tokyo	Real estate in trust	1,658.90	1,070	936	
Castalia Ikebukuro	3-1-12, Nishi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust	3,644.35	2,750	2,473	
Castalia Kaname-cho	5-26-10 Nishi-Ikebukuro, Toshima Ward, Tokyo	Real estate in trust	1,624.06	1,220	1,071	
Castalia Tower Shinagawa Seaside	4-10-18, Higashi Shinagawa, Shinagawa Ward, Tokyo	Real estate in trust	12,732.35	8,540	6,876	

I. Asset Management Report

Asset class	Property name	Location (Note 1)	Form of ownership	Leasable area (m ²) (Note 2)	Assessed value at the end of period (Yen in millions) (Note 3)	Book value (Yen in millions) (Note 4)
Residential properties	Castalia Yakumo	2-20-5, Yakumo, Meguro Ward, Tokyo	Real estate	1,276.91	761	835
	Castalia Togoshiekimae	1-7-16, Hiratsuka, Shinagawa Ward, Tokyo	Real estate	2,014.12	1,890	1,478
	Castalia Honjo Azumabashi	3-7-11, Honjo, Sumida Ward, Tokyo	Real estate in trust	2,255.88	1,090	987
	Castalia Kitazawa	1-15-5, Kitazawa, Setagaya Ward, Tokyo	Real estate in trust	1,220.16	797	764
	Castalia Monzennakacho	1-17-12, Fukuzumi, Koto Ward, Tokyo	Real estate in trust	887.94	525	462
	Castalia Kamikedai	1-4-15, Kamikedai, Ota Ward, Tokyo	Real estate in trust	414.45	212	183
	Castalia Morishita	1-16-12, Morishita, Koto Ward, Tokyo	Real estate in trust	1,383.90	998	810
	Castalia Wakabayashikoen	4-39-4, Wakabayashi, Setagaya Ward, Tokyo	Real estate in trust	1,425.43	830	751
	Castalia Asakusabashi	2-16-21, Yanagi-bashi, Taito Ward, Tokyo	Real estate in trust	1,537.84	932	740
	Castalia Iriya	3-1-28, Shitaya, Taito Ward, Tokyo	Real estate in trust	1,415.15	653	508
	Castalia Kita Ueno	1-15-5, Kita-Ueno, Taito Ward, Tokyo	Real estate in trust	4,197.66	2,670	2,434
	Castalia Morishita II	2-12-11, Shin-Ohashi, Koto Ward, Tokyo	Real estate	1,275.60	774	627
	Castalia Minowa	5-24-4, Negishi, Taito Ward, Tokyo	Real estate	2,406.41	1,510	1,309
	Castalia Oyamadai	7-14-13, Todoroki, Setagaya Ward, Tokyo	Real estate	857.32	583	504
	Castalia Nakano	2-12-13, Arai, Nakano Ward, Tokyo	Real estate	1,613.86	1,200	983
	Castalia Yoga	1-3-12, Tamagawadai, Setagaya Ward, Tokyo	Real estate	1,472.38	1,110	875
	Castalia Sumiyoshi	2-8-11, Sumiyoshi, Koto Ward, Tokyo	Real estate	1,362.60	1,010	863
	Castalia Monzennakacho II	2-2-9, Tomioka, Koto Ward, Tokyo	Real estate	3,038.98	2,610	2,010
	Castalia Oshiage	3-5-2, Mukoujima, Sumida Ward, Tokyo	Real estate	1,785.24	1,100	1,003
	Castalia Kuramae	3-9-4, Kuramae, Taito Ward, Tokyo	Real estate	1,994.93	1,460	1,158
	Castalia Nakanobu	4-7-11, Nakanobu, Shinagawa Ward, Tokyo	Real estate in trust	2,421.82	2,580	1,686
	Royal Parks Toyosu	3-5-21, Toyosu, Koto Ward, Tokyo	Real estate in trust	18,112.03	9,710	6,506
	Castalia Togoshi	5-2-1, Togoshi, Shinagawa Ward, Tokyo	Real estate in trust	2,629.59	2,510	1,632
	Castalia Ooimachi	4-2-11, Ooi, Shinagawa Ward, Tokyo	Real estate	1,413.75	1,450	1,178
	Castalia Omori	1-19-20, Omori kita, Ota Ward, Tokyo	Real estate in trust	2,046.36	1,780	1,459
	Castalia Mishuku	1-3-39, Taishidou, Setagaya Ward, Tokyo	Real estate in trust	2,640.86	2,290	1,867
	Castalia Arakawa	2-3-1, Arakawa, Arakawa Ward, Tokyo	Real estate in trust	3,797.92	2,140	1,590
	Castalia Omori II	1-8-13, Omori kita, Ota Ward, Tokyo	Real estate in trust	2,818.70	2,760	2,306
	Castalia Nakameguro	1-18-7, Aobadai, Meguro Ward, Tokyo	Real estate in trust	3,166.71	4,270	3,797
	Castalia Meguro Chojiyamaru	2-8-1, Kamiosaki, Shinagawa Ward, Tokyo	Real estate in trust	2,123.77	2,300	2,027
	Castalia Meguro Takaban	1-6-19, Takaban, Meguro Ward, Tokyo	Real estate in trust	1,961.52	1,880	1,767
	Castalia Omori III	5-21-11, Minami-ooi, Shinagawa Ward, Tokyo	Real estate in trust	2,004.80	1,690	1,504
	Morino Tonari	1-1-5, Koyamadai, Shinagawa Ward, Tokyo	Real estate	1,668.24	1,170	1,061
	Castalia Meguro Tairamachi	1-23-8, Tairamachi, Meguro Ward, Tokyo	Real estate in trust	1,278.52	1,240	1,220
	Royal Parks SEASIR	1-16-2, Sakae-chou, Nishiarai, Adachi Ward, Tokyo	Real estate in trust	17,269.74	4,880	4,387
	Castalia Honkomagome	6-21-2, Honkomagome, Bunkyo Ward, Tokyo	Real estate in trust	2,224.41	1,670	1,549
	Cosmo Heim Musashikosugi	2-8, Kizuki Ise-cho, Nakahara Ward, Kawasaki City, Kanagawa	Real estate in trust	4,208.83	1,970	1,609
	Castalia Tsurumi	3-5-10, Tsurumi Chuo, Tsurumi Ward, Yokohama City, Kanagawa	Real estate in trust	1,452.09	730	605
	Castalia Funabashi	4-4-8, Honcho, Funabashi City, Chiba	Real estate in trust	1,552.01	775	689
	Castalia Nishi Funabashi	4-19-16, Nishi Funa, Funabashi City, Chiba	Real estate in trust	1,597.32	888	758
	Castalia Maihama	5-14-17, Fujimi, Urayasu City, Chiba	Real estate in trust	1,287.72	645	617
	Castalia Ichikawamyoden	2-14-20, Shioyaki, Ichikawa City, Chiba	Real estate in trust	1,218.00	715	628
	Castalia Urayasu	3-30-4, Arai, Ichikawa City, Chiba	Real estate in trust	1,074.53	623	574
	Castalia Minamigyotoku	4-1-26, Minami Gyotoku, Ichikawa City, Chiba	Real estate in trust	1,031.81	503	509
	Castalia Nogeeyama	1-8-1, Hinodecho, Naka Ward, Yokohama City, Kanagawa	Real estate in trust	744.90	318	302
	Castalia Ichikawa	1-24-3, Ichikawa, Ichikawa City, Chiba	Real estate in trust	876.89	521	415
	Royal Parks Hanakoganei	1-8-2, Hanakoganei, Kodaira City, Tokyo	Real estate in trust	18,153.57	6,070	4,971
	Castalia Musashikosugi	2-21, Imaikami-cho, Nakahara Ward, Kawasaki City, Kanagawa	Real estate in trust	2,179.80	1,900	1,673
	Royal Parks Wakabadai	2-1-1, Wakabadai, Inagi City, Tokyo (Note 4)	Real estate in trust	21,367.93	4,910	4,185
	Pacific Royal Court Minatomirai Urban Tower	5-3-3, Minatomirai, Nishi Ward, Yokohama City, Kanagawa	Real estate in trust	26,294.49	10,700	9,145
	L-Place Shinkoyasu	3-298-1, Koyasu-dori, Kanagawa Ward, Yokohama City, Kanagawa	Real estate in trust	3,009.74	1,970	1,770
	Royal Parks Musashi kosugi	13-8, Shinjuku-kochi, Nakamaruko-aza, Nakahara Ward, Kawasaki City, Kanagawa	Real estate in trust	3,808.97	1,270	1,064
	Castalia Shinsakae	1-11-29, Shinsakae, Naka Ward, Nagoya City, Aichi	Real estate in trust	3,548.48	1,580	1,683
	Aprile Tarumi	7-3-1, Takamaru, Tarumi Ward, Kobe City, Hyogo	Real estate in trust	6,545.25	1,570	1,209
	Crest Kusatsu	5-3-27, Kasayama, Kusatsu City, Shiga	Real estate in trust	13,452.80	1,960	2,922
	Castalia Sakaisuji Honmachi	1-3-7, Kyutarochou, Chuo Ward, Osaka City, Osaka	Real estate in trust	3,471.39	1,670	1,350
	Castalia Shin-Umeda	6-8-21, Nakatsu, Kita Ward, Osaka City, Osaka	Real estate in trust	3,279.90	1,490	1,236
	Castalia Abeno	2-4-37, Abeno-Suji, Abeno Ward, Osaka City, Osaka	Real estate	10,920.75	4,810	4,085
	Castalia Sakae	4-16-10, Sakae, Naka Ward, Nagoya City, Aichi	Real estate	2,836.00	1,210	931
	Castalia Nipponbashi Kouzu	2-4-6, Kouzu, Chuo Ward, Osaka City, Osaka	Real estate	9,334.47	3,890	3,180
	Castalia Maruyama Urasando	21-1-47, Minami Nijo Nishi, Chuo Ward, Sapporo City, Hokkaido	Real estate	1,522.89	499	372
	Castalia Maruyama Omotesando	21-2-1, Kita Ichijo Nishi, Chuo Ward, Sapporo City, Hokkaido	Real estate	6,100.31	2,020	1,583
	Castalia Higashi Hie	5-31, Hie-cho, Hakata Ward, Fukuoka City, Fukuoka	Real estate	3,061.60	1,000	865
	Castalia Tower Nagahoribashi	1-15-25, Shimanouchi, Chuo Ward, Osaka City, Osaka	Real estate	8,747.40	4,450	3,041
	Castalia Sannomiya	3-2-31, Isobedori, Chuo Ward, Kobe City, Hyogo	Real estate	3,071.60	1,490	1,102
	Castalia Kotodaikoen	3-10-24, Kokubun-cho, Aoba Ward, Sendai City, Miyagi	Real estate	1,684.10	546	428

Asset class	Property name	Location (Note 1)	Form of ownership	Leasable area (m ²) (Note 2)	Assessed value at the end of period (Yen in millions) (Note 3)	Book value (Yen in millions) (Note 4)
Residential properties	Castalia Ichibancho	1-6-27, 1-6-30, Ichibancho, Aoba Ward, Sendai City, Miyagi	Real estate	2,800.32	932	711
	Castalia Omachi	2-5-8, Omachi, Aoba Ward, Sendai City, Miyagi	Real estate	2,149.08	739	625
	Castalia Uemachidai	4-1-12, Uehonmachi Nishi, Chuo Ward, Osaka City, Osaka	Real estate	5,415.39	2,630	2,000
	Castalia Tower Higobashi	1-2-24, Tosabori, Nishi Ward, Osaka City, Osaka	Real estate	6,230.20	3,530	2,443
	Big Tower Minami Sanjo	2-15-1, Minami Sanjo Higashi, Chuo Ward, Sapporo City, Hokkaido	Real estate in trust	8,661.19	2,570	1,410
	Castalia Fushimi	1-8-49, Nishiki, Naka Ward, Nagoya City, Aichi	Real estate in trust	7,022.69	3,010	2,055
	Castalia Meieki Minami	1-12-22, Meiekiminami, Nakamura Ward, Nagoya City, Aichi	Real estate in trust	1,822.10	897	684
	Castalia Yakuin	2-3-13, Imaizumi, Chuo Ward, Fukuoka City, Fukuoka	Real estate	2,784.83	1,120	910
	Castalia Mibu	79, Mibu, Aiai-chou, Nakagyo Ward, Kyoto City, Kyoto	Real estate in trust	2,828.39	1,440	1,147
	Castalia Tsutsujigaoka	4-2-35, Shintera, Wakabayashi Ward, Sendai City, Miyagi	Real estate in trust	4,471.11	1,660	1,187
	Castalia Ohori Bay Tower	1-6-6, Minato, Chuo Ward, Fukuoka City, Fukuoka	Real estate in trust	11,089.75	3,750	2,756
	Royal Parks Namba	2-2-40, Minato machi, Naniwa Ward, Osaka City, Osaka	Real estate in trust	10,354.15	2,930	2,667
	Castalia Shigahondori	1-15-2, Wakabadori, Kita Ward, Nagoya City, Aichi	Real estate in trust	5,086.69	2,070	1,667
	Castalia Kyoto Nishioji	100-1, Shichijo Goshonouchi Minamimachi, Shimogyo Ward, Kyoto City, Kyoto	Real estate	2,035.37	1,040	1,037
	Castalia Ningyocho III	1-2-3, Nihonbashi Ningyocho, Chuo Ward, Tokyo	Real estate in trust	2,897.06	2,250	2,042
	Royal Parks Umejima	5-25-33, Umeda, Adachi Ward, Tokyo	Real estate in trust	6,828.78	2,160	2,084
		Residential properties – Subtotal		506,857.71	285,738	245,129
Retail properties	ACROSSMALL Shinkamagaya	2-12-1, Shin-Kamagaya, Kamagaya City, Chiba	Real estate in trust	41,742.84	7,810	7,716
	FOLEO Hirakata	1-20-10, Koyamichi, Hirakata City, Osaka	Real estate in trust	16,380.78	4,580	4,552
	QIZ GATE URAWA	3720, Aza Fudodani, Oaza Nakao, Midori Ward, Saitama City, Saitama	Real estate in trust	9,705.31	4,270	4,300
	UNICUS Takasaki	1150-5, Aza Nishikanai, Iizuka-machi, Takasaki City, Gunma	Real estate in trust	9,277.08	3,020	2,989
	ACROSSPLAZA Miyoshi (Land)	855-403, Aza Kitashinno, Oaza Fujikubo, Miyoshi-machi, Iruma District, Saitama	Real estate in trust	24,018.00	3,800	3,740
	DREAM TOWN ALI	3-1-1, Hamada, Aomori City, Aomori	Real estate in trust	22,196.81	8,100	8,061
	LIFE Sagamihara Wakamatsu	5-19-5, Wakamatsu, Minami Ward, Sagamihara City, Kanagawa	Real estate in trust	2,973.44	1,690	1,667
	FOLEO Sendai Miyanomori	4-14-5, Higashisendai, Miyagino-ku, Sendai City, Miyagi	Real estate in trust	19,845.72	7,040	6,938
	ACROSSPLAZA Inazawa (Land)	5-1-1, Otsuka Minami, Inazawa City, Aichi	Real estate in trust	31,981.70	2,410	2,390
	Sports Depo and GOLF5 Kokurahigashi IC Store	2-18-17, Kamikuzuhara, Kokuraminami-Ward, Kitakyushu City, Fukuoka	Real estate in trust	8,899.89	2,300	2,231
Hiratsuka Retail Property (Land)	1-2, Kuryozutsumi, Hiratsuka City, Kanagawa	Real estate in trust	28,002.92	6,630	5,857	
	Retail properties – Subtotal		215,024.49	51,650	50,445	
Other assets	Urban Living Inage	327-1, Sanno-cho, Inage Ward, Chiba City, Chiba	Real estate in trust	4,177.52	1,280	897
	Aburatsubo Marina HILLS	1523-1, Shirasu, Misaki Town, Moroiso aza, Miura City, Kanagawa	Real estate in trust	3,901.14	1,260	1,106
	Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	1-1-12, Omoromachi, Naha City, Okinawa	Real estate in trust	13,480.00	7,710	7,586
		Other – Subtotal		21,558.66	10,250	9,590
	Total		1,605,625.31	547,376	500,196	

- (Notes)
1. "Location" means displayed address of each real estate and real estate in trust. 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. "Leasable area" means the leasable area of the building (or land in the case of land properties) in relation to each real estate or each real estate in trust which DHR believes is leasable as indicated in the relevant lease agreement or drawing of the building in relation to each real estate or each real estate in trust as of February 28, 2017. In the cases of each co-owned real estate or quasi co-owned trust beneficiary interests, the leasable area of the entire real estate multiplied by the ratio of co-ownership of the real estate or quasi co-ownership of the trust beneficiary interests in real estate held by DHR is provided.
 3. "Assessed value at the end of period" is the appraisal value as of February 28, 2017 provided by real estate appraisers (Daiwa Real Estate Appraisal Co., Ltd., Chuo Real Estate Appraisal Co., Ltd., Tanizawa Sogo Appraisal Co., Ltd., Japan Real Estate Institute and Morii Appraisal & Investment Consulting Inc.) in accordance with the Articles of Incorporation of DHR as well as "Ordinance on Accountings of Investment Corporations." The amounts were rounded down to the nearest million yen. There is no special interest between DHR and each real estate appraiser.
 4. "Book value" is the amount recorded on the balance sheets as of February 28, 2017 (in case of real estate or trust beneficiary interest, "Book value" is the acquisition costs (including expenses associated with the acquisition) less accumulated depreciation), which were rounded down to the nearest million yen.
 5. Undisclosed as consent has not been obtained from the lessee.

The status of rental business related to each asset held by DHR is as follows:

Asset class	Property name	21st period (From March 1, 2016 to August 31, 2016)			22nd period (From September 1, 2016 to February 28, 2017)		
		Occupancy rate (as of the end of period) (%) (Note 1)	Rental revenues (during the period) (Yen in thousands)	Rate to total real estate rental revenues (%) (Note 2)	Occupancy rate (as of the end of period) (%) (Note 1)	Rental revenues (during the period) (Yen in thousands)	Rate to total real estate rental revenues (%) (Note 2)
Logistics properties	D Project Machida	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Hachioji	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Aikawa-Machi	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Shin-Misato	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Urayasu I	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Urayasu II	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Akanehama	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Noda	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Inuyama	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Gifu	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Neyagawa	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Sapporo Minami	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Morioka	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Sendai Minami	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Tsuchiura	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Gotenba	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Nishi-Hiroshima	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Fukuoka Umi	—	—	—	100.0	127,869	0.7
	D Project Tosu	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki I	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki II	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kawagoe I	—	—	—	100.0	102,762	0.6
	D Project Kawagoe II	—	—	—	100.0	140,520	0.8
	DPL Inuyama	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Fukuoka Hakozaeki	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki III	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki IV	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki V	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Kuki VI	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Yashio	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Nishiyodogawa	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Matsudo	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Hibiki Nada	—	—	—	100.0	(Note 3)	(Note 3)
	D Project Morioka II	—	—	—	100.0	(Note 3)	(Note 3)
	Logistics properties – Subtotal	—	—	—	100.0	5,552,480	31.7
Residential properties	Qiz Ebisu	97.4	230,795	2.4	98.8	231,580	1.3
	Castalia Azabujuban Shichimenzaka	93.7	117,184	1.2	95.2	118,322	0.7
	Castalia Shibakoen	91.7	67,802	0.7	97.5	66,962	0.4
	Castalia Ginza	95.6	62,956	0.6	93.7	65,482	0.4
	Castalia Hiroo	100.0	50,567	0.5	100.0	51,862	0.3
	Castalia Nihonbashi	100.0	38,113	0.4	100.0	38,171	0.2
	Castalia Hacchobori	96.8	65,860	0.7	96.9	64,891	0.4
	Castalia Azabujuban	96.0	69,937	0.7	96.7	72,439	0.4
	Castalia Azabujuban II	95.7	62,170	0.6	94.8	64,342	0.4
	Castalia Shinjuku Natsumezaka	100.0	46,997	0.5	79.4	47,892	0.3
	Castalia Ginza II	94.6	49,741	0.5	96.0	50,311	0.3
	Castalia Shibuya Sakuragaoka	100.0	34,518	0.4	97.1	33,686	0.2
	Castalia Nishi Azabu Kasumicho	96.1	65,396	0.7	91.3	63,992	0.4
	Castalia Ochanomizu	95.5	59,679	0.6	100.0	58,648	0.3
	Castalia Sangubashi	100.0	41,926	0.4	100.0	45,339	0.3
	Castalia Suitengu	96.6	45,942	0.5	100.0	45,398	0.3
	Castalia Suitengu II	100.0	40,835	0.4	100.0	41,568	0.2
	Castalia Shintomicho	96.0	32,195	0.3	97.5	31,740	0.2
	Castalia Shintomicho II	100.0	28,954	0.3	97.1	28,538	0.2
	Castalia Harajuku	100.0	26,622	0.3	100.0	28,155	0.2
	Castalia Yoyogi Uehara	96.0	21,392	0.2	93.2	22,214	0.1
	Castalia Sendagaya	96.2	18,327	0.2	100.0	19,681	0.1
	Castalia Shinjuku 7 chome	100.0	18,954	0.2	100.0	18,624	0.1
	Castalia Ningyocho	100.0	37,163	0.4	100.0	36,540	0.2
	Castalia Ningyocho II	97.4	40,557	0.4	97.4	39,809	0.2
	Castalia Shin-Ochanomizu	100.0	32,532	0.3	100.0	33,446	0.2
	Castalia Higashi Nihonbashi II	98.6	49,144	0.5	100.0	49,977	0.3
	Castalia Jinbocho	95.1	41,349	0.4	98.4	42,313	0.2
	Castalia Shintomicho III	97.8	24,749	0.3	97.8	25,146	0.1

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Residential properties	Castalia Shinjuku Gyoen	100.0	83,844	0.9	100.0	83,844	0.5
	Castalia Takanawadai	96.9	29,261	0.3	94.0	30,601	0.2
	Castalia Higashi Nihonbashi III	100.0	24,370	0.3	100.0	24,336	0.1
	Castalia Shinjuku Gyoen II	96.3	16,153	0.2	100.0	16,025	0.1
	Castalia Shintomicho IV	95.0	16,660	0.2	100.0	15,580	0.1
	Castalia Takanawadai II	93.9	36,841	0.4	100.0	38,178	0.2
	Castalia Minami Azabu	100.0	21,414	0.2	100.0	20,469	0.1
	Castalia Ginza III	94.5	83,047	0.9	96.9	85,614	0.5
	Castalia Kayabacho	98.7	95,014	1.0	100.0	96,988	0.6
	Castalia Takanawa	97.5	240,129	2.5	97.0	244,089	1.4
	Castalia Higashi Nihonbashi	93.1	138,316	1.4	99.1	138,716	0.8
	Castalia Shinjuku	100.0	92,554	1.0	100.0	92,554	0.5
	Castalia Ichigaya	97.4	39,947	0.4	96.1	41,338	0.2
	Shibaura Island Bloom Tower	96.6	374,954	3.9	97.8	378,077	2.2
	Castalia Hatsudai	95.7	70,572	0.7	98.5	69,721	0.4
	Castalia Hatsudai II	93.4	58,243	0.6	98.9	59,514	0.3
	Castalia Ebisu	94.7	43,175	0.4	95.1	42,752	0.2
	Castalia Meguro Kamurozaka	97.2	125,286	1.3	94.7	127,208	0.7
	Castalia Toritsudaigaku	96.9	19,194	0.2	97.4	19,536	0.1
	Castalia Yukigaya	98.3	36,693	0.4	100.0	36,255	0.2
	Castalia Yutenji	90.3	35,323	0.4	97.8	35,332	0.2
	Castalia Otsuka	98.7	45,981	0.5	98.3	46,613	0.3
	Castalia Kikukawa	100.0	28,345	0.3	98.0	27,141	0.2
	Castalia Meguro	92.4	28,568	0.3	100.0	30,106	0.2
	Castalia Otsuka II	93.2	37,067	0.4	94.9	37,246	0.2
	Castalia Jiyugaoka	88.0	37,454	0.4	93.9	36,991	0.2
	Castalia Mejiro	100.0	34,496	0.4	92.3	32,996	0.2
	Castalia Ikebukuro	96.5	94,439	1.0	98.8	84,917	0.5
	Castalia Kaname-cho	98.6	38,312	0.4	98.6	38,120	0.2
	Castalia Tower Shinagawa Seaside	98.3	276,708	2.9	97.9	273,467	1.6
	Castalia Yakumo	100.0	24,872	0.3	100.0	25,022	0.1
	Castalia Togoshiekimae	100.0	50,709	0.5	100.0	50,762	0.3
	Castalia Honjo Azumabashi	94.5	36,082	0.4	94.4	35,062	0.2
	Castalia Kitazawa	100.0	26,168	0.3	93.4	27,418	0.2
	Castalia Monzennakacho	100.0	16,969	0.2	100.0	17,017	0.1
	Castalia Kamiikeda	100.0	7,608	0.1	92.9	7,876	0.0
	Castalia Morishita	96.0	32,084	0.3	100.0	32,273	0.2
	Castalia Wakabayashi koen	91.5	24,932	0.3	100.0	26,407	0.2
	Castalia Asakusabashi	100.0	31,561	0.3	98.0	31,954	0.2
	Castalia Iriya	86.9	22,019	0.2	92.1	21,742	0.1
	Castalia Kita Ueno	91.4	87,250	0.9	97.8	89,201	0.5
	Castalia Morishita II	95.0	27,098	0.3	100.0	27,749	0.2
	Castalia Minowa	93.2	48,402	0.5	94.8	47,302	0.3
	Castalia Oyamadai	97.1	18,244	0.2	97.1	18,159	0.1
	Castalia Nakano	92.6	35,241	0.4	97.7	34,189	0.2
	Castalia Yoga	94.9	32,736	0.3	94.9	32,157	0.2
	Castalia Sumiyoshi	96.6	32,441	0.3	98.1	33,711	0.2
	Castalia Monzennakacho II	100.0	69,906	0.7	100.0	69,654	0.4
	Castalia Oshiage	100.0	35,709	0.4	97.1	35,724	0.2
	Castalia Kuramae	100.0	43,807	0.5	100.0	43,839	0.3
	Castalia Nakanobu	96.4	73,473	0.8	98.8	73,423	0.4
	Royal Parks Toyosu	100.0	333,904	3.4	100.0	333,847	1.9
	Castalia Togoshi	95.8	76,449	0.8	96.7	74,492	0.4
	Castalia Ooimachi	100.0	43,810	0.5	100.0	37,886	0.2
	Castalia Omori	98.5	52,674	0.5	100.0	52,731	0.3
	Castalia Mishuku	96.7	67,669	0.7	96.7	68,568	0.4
	Castalia Arakawa	93.6	63,354	0.7	100.0	67,254	0.4
	Castalia Omori II	94.9	80,200	0.8	96.3	78,992	0.5
	Castalia Nakameguro	93.9	113,080	1.2	94.2	115,683	0.7

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Residential properties	Castalia Meguro Chojyamaru	95.7	61,221	0.6	92.6	61,535	0.4
	Castalia Meguro Takaban	95.8	53,949	0.6	91.9	53,479	0.3
	Castalia Omori III	94.1	48,870	0.5	100.0	48,470	0.3
	Morino Tonari	94.1	30,334	0.3	100.0	31,830	0.2
	Castalia Meguro Tairamachi	94.1	33,408	0.3	96.7	32,178	0.2
	Royal Parks SEASIR	100.0	243,647	2.5	100.0	244,323	1.4
	Castalia Honkomagome	92.6	51,013	0.5	92.1	47,870	0.3
	Cosmo Heim Musashikosugi	100.0	56,761	0.6	100.0	56,713	0.3
	Castalia Tsurumi	97.0	27,242	0.3	100.0	27,262	0.2
	Castalia Funabashi	95.5	30,104	0.3	96.6	29,623	0.2
	Castalia Nishi Funabashi	93.8	32,961	0.3	98.8	32,779	0.2
	Castalia Maihama	93.5	23,937	0.2	100.0	23,429	0.1
	Castalia Ichikawamyoden	100.0	26,864	0.3	100.0	26,796	0.2
	Castalia Urayasu	100.0	21,471	0.2	100.0	21,408	0.1
	Castalia Minamigyotoku	98.0	19,224	0.2	89.8	18,301	0.1
	Castalia Minamigyotoku II (Note 4)	100.0	13,605	0.1	—	13,407	0.1
	Castalia Nogeyama	93.3	13,328	0.1	100.0	13,759	0.1
	Castalia Ichikawa	100.0	22,579	0.2	100.0	19,681	0.1
	Royal Parks Hanakoganei	100.0	245,049	2.5	100.0	245,413	1.4
	Castalia Musashikosugi	93.0	57,132	0.6	100.0	56,605	0.3
	Royal Parks Wakabadai	100.0	257,425	2.7	100.0	257,441	1.5
	Pacific Royal Court Minatomirai Urban Tower	100.0	519,925	5.4	100.0	521,398	3.0
	L-Place Shinkoyasu	100.0	56,853	0.6	100.0	56,673	0.3
	Royal Parks Musashikosugi	100.0	67,831	0.7	100.0	68,176	0.4
	Castalia Shinsakae	92.3	58,486	0.6	98.0	57,273	0.3
	Aprile Tarumi	100.0	55,937	0.6	100.0	55,933	0.3
	Crest Kusatsu	80.7	107,660	1.1	85.9	119,371	0.7
	Castalia Sakaisuji Honmachi	94.1	59,520	0.6	95.8	59,500	0.3
	Castalia Shin-Umeda	94.8	54,340	0.6	97.2	56,154	0.3
	Castalia Abeno	90.2	165,665	1.7	97.9	161,731	0.9
	Castalia Sakae	95.2	44,746	0.5	94.5	44,729	0.3
	Castalia Nipponbashi Kouzu	97.8	155,643	1.6	95.8	150,753	0.9
	Castalia Maruyama Urasando	94.5	21,068	0.2	100.0	20,346	0.1
	Castalia Maruyama Omotesando	88.4	78,199	0.8	100.0	77,961	0.4
	Castalia Higashi Hie	100.0	44,079	0.5	98.4	43,594	0.2
	Castalia Tower Nagahoribashi	99.3	153,688	1.6	98.0	162,791	0.9
	Castalia Sannomiya	96.3	53,789	0.6	97.4	53,207	0.3
	Castalia Kotodaikoen	98.2	23,900	0.2	100.0	24,056	0.1
	Castalia Ichibancho	95.2	38,803	0.4	96.8	37,133	0.2
	Castalia Omachi	97.2	33,388	0.3	98.6	32,310	0.2
	Castalia Uemachidai	100.0	87,287	0.9	100.0	87,175	0.5
	Castalia Tower Higobashi	96.2	131,635	1.4	97.0	132,556	0.8
	Big Tower Minami Sanjo	98.1	113,062	1.2	98.3	111,494	0.6
	Castalia Fushimi	94.8	105,316	1.1	94.1	106,374	0.6
	Castalia Meieki Minami	100.0	31,514	0.3	97.3	32,555	0.2
	Castalia Yakuin	99.2	41,464	0.4	96.7	41,191	0.2
	Castalia Mibu	90.2	50,152	0.5	94.5	48,920	0.3
	Castalia Tsutsujigaoka	100.0	60,852	0.6	97.9	60,308	0.3
	Castalia Ohori Bay Tower	62.2	147,869	1.5	59.8	147,129	0.8
	Royal Parks Namba	100.0	135,698	1.4	100.0	135,772	0.8
	Castalia Shigahondori	94.0	74,270	0.8	98.1	75,859	0.4
	Castalia Kyoto Nishioji	95.1	32,330	0.3	94.0	32,887	0.2
	Castalia Ningyocho III	—	—	—	100.0	64,117	0.4
	Royal Parks Umejima	—	—	—	100.0	87,932	0.5
	Residential properties – Subtotal	96.0	9,608,329	99.1	97.0	9,781,221	55.8
Retail properties	ACROSSMALL Shinkamagaya	—	—	—	100.0	276,087	1.6
	FOLEO Hirakata	—	—	—	96.7	273,805	1.6
	QIZ GATE URAWA	—	—	—	97.1	216,252	1.2
	UNICUS Takasaki	—	—	—	100.0	130,181	0.7

Asset class	Property name	21st period (From March 1, 2016 to August 31, 2016)			22nd period (From September 1, 2016 to February 28, 2017)		
		Occupancy rate (as of the end of period) (%) (Note 1)	Rental revenues (during the period) (Yen in thousands)	Rate to total real estate rental revenues (%) (Note 2)	Occupancy rate (as of the end of period) (%) (Note 1)	Rental revenues (during the period) (Yen in thousands)	Rate to total real estate rental revenues (%) (Note 2)
Retail properties	ACROSSPLAZA Miyoshi (Land)	—	—	—	100.0	94,284	0.5
	DREAM TOWN ALi	—	—	—	98.4	397,978	2.3
	LIFE Sagamihara Wakamatsu	—	—	—	100.0	(Note 3)	(Note 3)
	FOLEO Sendai Miyanomori	—	—	—	100.0	238,653	1.4
	ACROSSPLAZA Inazawa (Land)	—	—	—	100.0	69,660	0.4
	Sports Depo and GOLF5 Kokurahigashi IC Store	—	—	—	100.0	(Note 3)	(Note 3)
	Hiratsuka Retail Property (Land)	—	—	—	100.0	(Note 3)	(Note 3)
	Retail properties – Subtotal	—	—	—	99.4	1,842,714	10.5
Other assets	Urban Living Inage	100.0	39,060	0.4	100.0	39,060	0.2
	Aburatsubo Marina HILLS	100.0	43,749	0.5	100.0	43,749	0.2
	Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	—	—	—	99.2	271,917	1.6
	Other – Subtotal	100.0	82,809	0.9	99.5	354,726	2.0
Total		96.1	9,691,138	100.0	99.0	17,531,143	100.0

(Notes) 1. “Occupancy rate (as of the end of period)” is the leased floor space expressed as a percentage of the leasable floor space of each real estate and each real estate in trust as of August 31, 2016 and February 28, 2017, rounded to the first decimal place.
2. “Rate to total real estate rental revenues” is the rental revenue from each real estate and each real estate in trust expressed as a percentage of total rental revenue from the entire portfolio, rounded to the first decimal place.
3. Undisclosed as consent has not been obtained from the lessee.
4. The sale of property was completed on February 23, 2017.

(4) Description of Renewable Energy Power Generation Facilities, etc.

Not applicable.

(5) Description of Operating Rights of Public Facilities, etc.

Not applicable.

(6) Summary of Outstanding Contracted Amount and Fair Value of Specified Transactions

The following summarizes contracted amount and fair value of specified transactions of DHR as of February 28, 2017.

Category	Type	Contracted amount (Yen in thousands) (Note 1)		Fair value (Yen in thousands) (Note 2) (Note 3)
		Due after one year		
Transaction other than market transaction	Interest-rate swap Receive floating/Pay fixed	122,168,000	95,768,000	(1,747,222)
Total		122,168,000	95,768,000	(1,747,222)

(Notes) 1. “Contracted amount” is based on the notional principal amount.
2. “Fair value” is quoted by counterparties based on the prevailing market interest rate.
3. With respect to fair value amounts, the transactions for which the special treatment for interest-rate swap contracts under the accounting standard for financial instruments is applied are not carried at fair value in the balance sheets.

(7) Status of Other Assets

Real estate and trust beneficiary interests in real estate are all listed in “(3) Description of Portfolio” presented earlier in this report. The following are other specified assets as of February 28, 2017.

(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	9,291	—	—	8,724	(567)	Deposited as business security deposit
Total		10,000	9,291	—	—	8,724	(567)	

(8) 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 owned properties (real estate, real estate in trust, etc.) as of February 28, 2017. The estimated construction cost includes the portion charged to expenses.

Property name (Location)	Purpose	Scheduled period	Estimated construction cost (Yen in thousands)		
			Total amount	Payment during the period	Total amount paid
Castalia Suitengu II (Chuo Ward, Tokyo)	Large-scale renovations	From May 2017 to September 2017	63,396	—	—
Castalia Shintomicho (Chuo Ward, Tokyo)	Large-scale renovations	From April 2017 to August 2017	44,500	—	—
Castalia Shintomicho II (Chuo Ward, Tokyo)	Large-scale renovations	From May 2017 to September 2017	59,724	—	—
D Project Aikawa-Machi (Aiko District, Kanagawa)	Installment of LED lights (Note)	From February 2017 to March 2017	15,062	4,650	4,650

(Note) The renovation work is completed in March 2017.

(2) Capital Expenditures during the Period

For owned properties (real estate, real estate in trust, etc.), an overview of major construction work conducted during the current fiscal period that falls into DHR's capital expenditures is as follows. Capital expenditures during the current fiscal period were ¥843,144 thousand together with ¥569,404 thousand in repairs and maintenance expenses and ¥293,588 thousand in restoration costs classified as expenses for the current fiscal period, making a total of ¥1,706,137 thousand in construction work.

Property name (Location)	Purpose	Period	Construction cost (Yen in thousands)
Castalia Nishi Azabu Kasumicho (Minato Ward, Tokyo)	Large-scale renovations	From August 2016 to February 2017	68,994
Castalia Nishi Azabu Kasumicho (Minato Ward, Tokyo)	Partial renewal	From October 2016 to February 2017	26,810
Castalia Ochanomizu (Chiyoda Ward, Tokyo)	Large-scale renovations	From October 2016 to February 2017	30,512
Castalia Sangubashi (Shibuya Ward, Tokyo)	Large-scale renovations	From October 2016 to February 2017	24,817
Castalia Sangubashi (Shibuya Ward, Tokyo)	Remodeling of the entrance	From October 2016 to February 2017	28,598
Castalia Kitazawa (Setagaya Ward, Tokyo)	Large-scale renovations	From October 2016 to February 2017	30,805
Castalia Morishita (Koto Ward, Tokyo)	Large-scale renovations	From October 2016 to February 2017	42,846
D Project Machida (Machida City, Tokyo)	Installment of LED lights	From October 2016 to November 2016	87,250
D Project Kuki V (Kuki City, Saitama)	Installment of LED lights	From December 2016 to January 2017	57,774
QIZ GATE URAWA (Saitama City, Saitama)	Remodeling of windbreak room, etc.	From December 2016 to February 2017	56,278

(3) Cash Reserves for Long-Term Repairs and Maintenance Plans

DHR sets aside the following cash reserves for repair and maintenance in order to provide for payment of funds for future maintenance of the value of assets and the renewal of facilities and equipment.

(Yen in thousands)					
Operating period	18th period From September 1, 2014 to February 28, 2015	19th period From March 1, 2015 to August 31, 2015	20th period From September 1, 2015 to February 29, 2016	21st period From March 1, 2016 to August 31, 2016	22nd period From September 1, 2016 to February 28, 2017
Balance of reserves at beginning of period	533,200	547,280	561,360	575,440	589,520
Amount of reserves during period	14,080	14,080	14,080	14,080	708,974
Amount of reversal of reserves during period	—	—	—	—	—
Reserves carried forward	547,280	561,360	575,440	589,520	1,298,495

5. Expenses and Liabilities

(1) Expenses Incurred in Connection with Management of Assets

Item	21st period	22nd period
	From March 1, 2016 to August 31, 2016	From September 1, 2016 to February 28, 2017
Asset management fee (Note 1)	609,840	983,471
Asset custody fee	23,083	26,204
Administrative service fee	65,557	72,780
Directors' compensation	6,600	6,600
Other expenses (Note 2)	279,660	1,394,393
Total	984,742	2,483,450

(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. (22nd period: ¥71.125 thousand) and a management fee for the merger (22nd period: ¥939,912 thousand) included in "other expenses."
2. ¥1,042,059 thousand of merger expenses, which includes a management fee for the merger, is included in "other expenses" in 22nd period.

(2) Debt Financing

The status of loans per financial institution as of February 28, 2017 is as follows:

Classification	Borrowing date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
Short-term loans	Mizuho Bank, Ltd.	May 1, 2015	3,250,000	2,250,000	0.21	April 28, 2017	Bullet repayment	(Note 5) Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	May 1, 2015	3,250,000	2,250,000	0.21	April 28, 2017	Bullet repayment	(Note 5) Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation	May 1, 2015	1,750,000	750,000	0.21	April 28, 2017	Bullet repayment	(Note 5) Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	May 1, 2015	1,750,000	750,000	0.21	April 28, 2017	Bullet repayment	(Note 5) Unsecured and non-guaranteed
	Subtotal	—	10,000,000	6,000,000	—	—	—	—
Current portion of long-term loans	Sumitomo Mitsui Trust Bank, Limited	September 30, 2011	5,200,000	—	1.10% (Note 3)	September 30, 2016	Bullet repayment	(Note 6) Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation		5,200,000	—				
	Mizuho Bank, Ltd.		5,200,000	—				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		5,200,000	—				
	Aozora Bank, Ltd.		4,500,000	—				
	Mitsubishi UFJ Trust and Banking Corporation		3,000,000	—				
	Resona Bank, Limited		2,500,000	—				
	Shinsei Bank, Limited		1,000,000	—				
	Sumitomo Mitsui Banking Corporation		3,000,000	3,000,000				
	Aozora Bank, Ltd.	March 27, 2012	1,500,000	1,500,000	1.03% (Note 3)	March 31, 2017	Bullet repayment	(Note 7) Unsecured and non-guaranteed
	Mitsubishi UFJ Trust and Banking Corporation		1,500,000	1,500,000				
	Shinkin Central Bank		1,000,000	1,000,000				
	Mizuho Bank, Ltd.		3,000,000	3,000,000				
	Sumitomo Mitsui Trust Bank, Limited	March 27, 2012	3,000,000	3,000,000	1.03% (Note 3)	March 31, 2017	Bullet repayment	(Note 7) Unsecured and non-guaranteed
	Mizuho Trust & Banking Co., Ltd.		1,000,000	1,000,000				
	Resona Bank, Limited	March 26, 2012	1,095,000	1,095,000	0.70%	March 31, 2017	Bullet repayment	(Note 8) Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	July 31, 2012	3,480,000	3,480,000	0.70% (Note 3)	July 31, 2017	Bullet repayment	(Note 8) Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation		3,480,000	3,480,000				
	Mizuho Bank, Ltd.		3,480,000	3,480,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,960,000	1,960,000				
	Sumitomo Mitsui Banking Corporation (Note 2)		—	3,000,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	3,000,000				
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	3,000,000				
	Mizuho Bank, Ltd. (Note 2)	November 29, 2012	—	3,000,000	0.96% (Note 4)	November 29, 2017	Bullet repayment	(Note 5) Unsecured and non-guaranteed
	Mitsubishi UFJ Trust and Banking Corporation (Note 2)		—	1,000,000				
	Development Bank of Japan Inc. (Note 2)		—	3,000,000				
	Subtotal	—	59,295,000	43,495,000	—	—	—	—

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	Classification	Borrowing date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term loans	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 27, 2012	4,000,000	4,000,000	1.07% (Note 4)	March 27, 2019	Bullet repayment	(Note 7)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		4,430,000	4,430,000					
	Sumitomo Mitsui Banking Corporation		3,260,000	3,260,000					
	Aozora Bank, Ltd.	January 31, 2013 and February 28, 2013	2,700,000	2,700,000	0.96% (Note 3)	January 31, 2020	Bullet repayment	(Note 9)	Unsecured and non-guaranteed
	Mizuho Bank, Ltd.		1,930,000	1,930,000					
	Mizuho Trust & Banking Co., Ltd.		1,830,000	1,830,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,350,000	1,350,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation		910,000	910,000					
	Development Bank of Japan Inc.	January 31, 2013	1,500,000	1,500,000	0.96% (Note 4)	January 31, 2020	Bullet repayment	(Note 9)	Unsecured and non-guaranteed
	The Norinchukin Bank	January 31, 2014	3,500,000	3,500,000	0.90% (Note 3)	January 31, 2021	Bullet repayment	(Note 9)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	January 30, 2015	1,599,000	1,599,000	0.61% (Note 3)	January 31, 2022	Bullet repayment	(Note 9)	Unsecured and non-guaranteed
	The Norinchukin Bank		1,510,000	1,510,000					
	Aozora Bank, Ltd.		1,169,000	1,169,000					
	Sumitomo Mitsui Banking Corporation		936,000	936,000					
	Mizuho Bank, Ltd.		603,000	603,000					
	Mizuho Trust & Banking Co., Ltd.		454,000	454,000					
	Mitsubishi UFJ Trust and Banking Corporation		226,000	226,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		211,000	211,000					
	The Chiba Bank, Ltd.		150,000	150,000					
	Development Bank of Japan Inc.	January 30, 2015	2,000,000	2,000,000	0.88% (Note 4)	January 31, 2024	Bullet repayment	(Note 9)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	May 1, 2015	2,030,000	2,030,000	0.66% (Note 3)	April 28, 2022	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	The Norinchukin Bank		1,600,000	1,600,000					
	Sumitomo Mitsui Banking Corporation		1,354,500	1,354,500					
	Aozora Bank, Ltd.		1,192,000	1,192,000					
	Mizuho Bank, Ltd.		1,017,000	1,017,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		616,000	616,000					
	Mizuho Trust & Banking Co., Ltd.		524,000	524,000					
	Nippon Life Insurance Company		500,000	500,000					
	Development Bank of Japan Inc.		400,000	400,000					
	Mitsubishi UFJ Trust and Banking Corporation		291,500	291,500					
	The Shizuoka Bank, Ltd.		260,000	260,000					
	The Chiba Bank, Ltd.		215,000	215,000					
	Sumitomo Mitsui Banking Corporation	December 28, 2015	1,800,000	1,800,000	0.59% (Note 3)	December 28, 2022	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,800,000	1,800,000					
	Mizuho Bank, Ltd.		1,800,000	1,800,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,800,000	1,800,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,400,000	1,400,000					
	Resona Bank, Limited	March 31, 2016	1,400,000	1,400,000	0.23%	March 29, 2019	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	Shinsei Bank, Limited		500,000	500,000					
	Sumitomo Mitsui Trust Bank, Limited		2,000,000	2,000,000					
	Aozora Bank, Ltd.		2,000,000	2,000,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	The Chiba Bank, Ltd.		600,000	600,000					
	Sumitomo Mitsui Banking Corporation		500,000	500,000					
	Mizuho Bank, Ltd.		500,000	500,000					
	The Shizuoka Bank, Ltd.		500,000	500,000					
	The Bank of Fukuoka, Ltd.		500,000	500,000					

	Classification	Borrowing date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term loans	Sumitomo Mitsui Banking Corporation (Note 2)	November 29, 2012	—	2,000,000	1.29% (Note 4)	November 29, 2019	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	2,000,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	2,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	2,000,000					
	Development Bank of Japan Inc. (Note 2)		—	2,000,000					
	Sumitomo Mitsui Trust Bank, Limited (Note 2)	March 27, 2013	—	2,000,000	1.50% (Note 3)	March 27, 2023	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2014	—	500,000	1.05% (Note 3)	April 1, 2021	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	500,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation (Note 2)		—	500,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2014	—	1,000,000	1.21% (Note 3)	April 1, 2022	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2014	—	1,000,000	1.52% (Note 3)	April 1, 2024	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Development Bank of Japan Inc. (Note 2)		—	500,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2014	—	500,000	2.03% (Note 3)	April 1, 2026	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	500,000					
	Development Bank of Japan Inc. (Note 2)		—	500,000					
	Nippon Life Insurance Company (Note 2)	September 30, 2014	—	1,000,000	1.00% (Note 4)	September 29, 2023	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Mitsui Sumitomo Insurance Company, Limited (Note 2)	April 1, 2015	—	1,000,000	0.57% (Note 4)	April 1, 2020	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2015	—	1,000,000	0.87% (Note 3)	October 3, 2022	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	The Norinchukin Bank (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2015	—	1,000,000	0.99% (Note 3)	October 2, 2023	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Resona Bank, Limited (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	April 1, 2015	—	1,000,000	1.23% (Note 3)	October 1, 2025	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation (Note 2)		—	1,000,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	April 1, 2015	—	3,000,000	1.18% (Note 4)	October 1, 2025	Bullet repayment	(Note 5)	Unsecured and non-guaranteed

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	Classification	Borrowing date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term loans	Development Bank of Japan Inc. (Note 2)	April 1, 2015	—	1,500,000	1.46% (Note 4)	October 1, 2027	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	September 28, 2015	—	1,000,000	0.65% (Note 3)	September 28, 2022	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Nippon Life Insurance Company (Note 2)	September 28, 2015	—	1,000,000	0.73% (Note 4)	September 30, 2024	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 2)		—	1,000,000					
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	1,000,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	November 30, 2015	—	1,000,000	0.51% (Note 3)	November 30, 2021	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation (Note 2)		—	2,000,000					
	Resona Bank, Limited (Note 2)		—	1,000,000					
	Sumitomo Mitsui Trust Bank, Limited (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	November 30, 2015	—	1,000,000	0.71% (Note 3)	May 31, 2023	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	November 30, 2015	—	1,000,000	0.97% (Note 3)	May 30, 2025	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation (Note 2)	November 30, 2015	—	1,000,000	1.09% (Note 3)	May 29, 2026	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)		—	1,000,000					
	Mizuho Bank, Ltd. (Note 2)		—	1,000,000					
	Sumitomo Mitsui Banking Corporation		—	1,500,000					
	Sumitomo Mitsui Trust Bank, Limited		—	1,500,000					
	Mizuho Bank, Ltd.		—	1,500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,500,000					
	Mitsubishi UFJ Trust and Banking Corporation	September 28, 2016	—	500,000	0.63% (Note 4)	September 29, 2025	Bullet repayment	(Note 5)	Unsecured and non-guaranteed
	Resona Bank, Limited		—	500,000					
	Mizuho Trust & Banking Co., Ltd.		—	500,000					
	Shinsei Bank, Limited		—	500,000					
	Shinkin Central Bank		—	500,000					
	The Bank of Fukuoka, Ltd.		—	500,000					
	Development Bank of Japan Inc.	September 28, 2016	—	1,000,000	0.69% (Note 4)	September 28, 2026	Bullet repayment	(Note 5)	Unsecured and non-guaranteed

	Classification	Borrowing date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Average interest rate (%) (Note 1)	Repayment due date	Method of repayment	Use	Note
	Lender								
Long-term loans	Sumitomo Mitsui Banking Corporation		—	1,700,000					
	Sumitomo Mitsui Trust Bank, Limited		—	1,700,000					
	Mizuho Bank, Ltd.		—	1,700,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	September 30, 2016	—	1,700,000	0.18%	March 31, 2020	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	Mitsubishi UFJ Trust and Banking Corporation		—	1,000,000					
	Resona Bank, Limited		—	800,000					
	The Norinchukin Bank		—	500,000					
	The Chiba Bank, Ltd.		—	500,000					
	Shinsei Bank, Limited		—	300,000					
	Sumitomo Mitsui Banking Corporation		—	1,700,000					
	Sumitomo Mitsui Trust Bank, Limited		—	1,700,000					
	Mizuho Bank, Ltd.	September 30, 2016	—	1,700,000	0.41% (Note 4)	March 31, 2023	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,500,000					
	Aozora Bank, Ltd.		—	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation		—	1,000,000					
	Resona Bank, Limited		—	800,000					
	Shinsei Bank, Limited		—	300,000					
	Sumitomo Mitsui Banking Corporation		—	1,800,000					
	Sumitomo Mitsui Trust Bank, Limited		—	1,800,000					
	Mizuho Bank, Ltd.	September 30, 2016	—	1,800,000	0.48% (Note 4)	March 29, 2024	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	1,500,000					
	Aozora Bank, Ltd.		—	1,000,000					
	Mitsubishi UFJ Trust and Banking Corporation		—	900,000					
	Resona Bank, Limited		—	400,000					
	Shinsei Bank, Limited		—	3,000,000					
	Sumitomo Mitsui Banking Corporation	September 30, 2016	—	3,000,000	0.87% (Note 4)	November 30, 2026	Bullet repayment	(Note 8)	Unsecured and non-guaranteed
	Mizuho Bank, Ltd.		—	3,000,000					
	Sumitomo Mitsui Trust Bank, Limited		—	3,000,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		—	2,000,000					
	Mitsubishi UFJ Trust and Banking Corporation		—	1,000,000					
	Resona Bank, Limited		—	1,000,000					
	Subtotal	—	63,368,000	184,668,000	—	—	—	—	—
	Total	—	132,663,000	234,163,000	—	—	—	—	—

(Notes) 1. Average interest rates are loan interest rates (weighted average during the applicable term) of the corresponding lenders, and are rounded to the second decimal place.
2. The loans inherited from the merger with the former DHR on September 1, 2016.
3. DHR currently uses interest-rate swaps to hedge interest rate fluctuation risk and, accordingly, the indicated interest rates are the figures reflecting the effect of the interest rate swaps.
4. This loan carries a fixed interest rate.
5. To be used to purchase trust beneficiary interests in real estate and related expenses.
6. To be used to refinance existing loans and rehabilitation obligations with right of separate satisfaction (refinancing fund).
7. To be used for purchase of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).
8. To be used for repayment of existing loans (refinancing fund).
9. To be used for redemption of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

(3) Investment Corporation Bonds

The status of investment corporation bonds issued as of February 28, 2017 is as follows:

Issue name	Issue date	Balance at the beginning of period (Yen in thousands)	Balance at the end of period (Yen in thousands)	Interest rate	Maturity	Method of redemption	Use	Note
Daiwa House Residential Investment Corporation, 1st Unsecured Investment Corporation Bonds (Note 1)	March 9, 2012	3,000,000	3,000,000	1.12%	March 9, 2017	Bullet repayment	(Note 3)	Unsecured
Daiwa House REIT Investment Corporation, 1st Unsecured Investment Corporation Bonds (Note 1) (Note 2)	December 24, 2014	—	2,000,000	0.826%	December 24, 2024	Bullet repayment	(Note 3)	Unsecured
Daiwa House Residential Investment Corporation, 2nd Unsecured Investment Corporation Bonds (Note 1)	January 22, 2015	3,000,000	3,000,000	0.35%	January 22, 2021	Bullet repayment	(Note 4)	Unsecured
Daiwa House Residential Investment Corporation, 3rd Unsecured Investment Corporation Bonds (Note 1)	January 22, 2015	3,000,000	3,000,000	0.67%	January 22, 2025	Bullet repayment	(Note 4)	Unsecured
Daiwa House REIT Investment Corporation, 5th Unsecured Investment Corporation Bonds (Note 1)	December 20, 2016	—	4,000,000	0.24%	December 20, 2021	Bullet repayment	(Note 3)	Unsecured
Daiwa House REIT Investment Corporation, 6th Unsecured Investment Corporation Bonds (Note 1)	December 20, 2016	—	4,000,000	0.57%	December 18, 2026	Bullet repayment	(Note 3)	Unsecured
Total	—	9,000,000	19,000,000	—	—	—	—	—

(Notes) 1. The bonds have pari passu conditions among specified investment corporation bonds.
2. The investment corporation bonds inherited from the merger with the former DHR on September 1, 2016.
3. The proceeds were used toward the repayment of existing loans.
4. To be used for redemption of rehabilitation obligations (investment corporation bonds) and repayment of rehabilitation obligations (loans).

(4) Short-Term Investment Corporation Bonds

Not applicable.

(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		Sale			
	Acquisition date	Acquisition price (Yen in millions) (Note 1)	Date of sale	Sale price (Yen in millions) (Note 1)	Book value (Yen in millions)	Gain or loss on sale (Yen in millions) (Note 2)
Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	September 28, 2016	7,600	—	—	—	—
D Project Hibiki Nada	September 28, 2016	2,080	—	—	—	—
D Project Morioka II	September 28, 2016	1,280	—	—	—	—
Castalia Ningyocho III	September 28, 2016	2,000	—	—	—	—
Royal Parks Umejima	September 28, 2016	2,020	—	—	—	—
Sports Depo and GOLF5 Kokurahigashi IC Store	September 28, 2016	2,230	—	—	—	—
Hiratsuka Retail Property (Land)	January 31, 2017	5,620	—	—	—	—
Castalia Minamigyotoku II	—	—	February 23, 2017	370	362	(4)
Total		22,830		370	362	(4)

(Notes) 1. “Acquisition price” and “sale price” are the amounts that do not include the various expenses required in the acquisition or sale of the property, settlement money such as taxes and duties, consumption taxes, and leasehold guarantee deposits, etc.
2. “Gain or loss on sale” represents the sale price less book value of sold property and any related expenses.

(2) Transaction of Other Assets

Type of assets	Acquisition		Sale		Balance at the end of current period	
	Number of units equivalent to face value (Yen in thousands)	Amount (Yen in thousands) (Note 1)	Number of units equivalent to face value (Yen in thousands)	Amount (Yen in thousands) (Note 1)	Number of units equivalent to face value (Yen in thousands)	Amount (Yen in thousands) (Note 2)
Bonds	—	—	—	—	10,000	9,291
Total	—	—	—	—	10,000	9,291

(Notes) 1. Amount under Acquisition or Sale indicates the settlement amount (the amount not including accrued interest or various expenses (transaction commissions, etc.)).
2. Amount under Balance at the end of current 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.
4. The above table shows the balance inherited from the absorption-type merger with the former DHR.

(3) Review on Value of Specified Assets

Properties, etc.

Acquisition or sale	Property name	Transaction date	Type of assets	Acquisition price or sale price (Yen in millions) (Note 1)	Appraisal value (Yen in millions) (Note 2)	Appraisal agency (Note 2)	Date of appraisal value (Note 2)
Acquisition	Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	September 28, 2016	Trust beneficiary interests in real estate	7,600	7,630	Daiwa Real Estate Appraisal Co., Ltd.	August 31, 2016
Acquisition	D Project Hibiki Nada	September 28, 2016	Trust beneficiary interests in real estate	2,080	2,110	Tanizawa Sogo Appraisal Co., Ltd.	August 31, 2016
Acquisition	D Project Morioka II	September 28, 2016	Trust beneficiary interests in real estate	1,280	1,300	Tanizawa Sogo Appraisal Co., Ltd.	August 31, 2016
Acquisition	Castalia Ningyocho III	September 28, 2016	Trust beneficiary interests in real estate	2,000	2,180	Japan Real Estate Institute	August 31, 2016
Acquisition	Royal Parks Umejima	September 28, 2016	Trust beneficiary interests in real estate	2,020	2,150	Morii Appraisal & Investment Consulting Inc.	August 31, 2016
Acquisition	Sports Depo and GOLF5 Kokurahigashi IC Store	September 28, 2016	Trust beneficiary interests in real estate	2,230	2,280	Tanizawa Sogo Appraisal Co., Ltd.	August 31, 2016
Acquisition	Hiratsuka Retail Property (Land)	January 31, 2017	Trust beneficiary interests in real estate	5,620	6,630	Tanizawa Sogo Appraisal Co., Ltd.	December 1, 2016
Sale	Castalia Minamigyotoku II	February 23, 2017	Trust beneficiary interests in real estate	370	338	Tanizawa Sogo Appraisal Co., Ltd.	August 31, 2016

(Notes) 1. “Acquisition price or sale price” is the amount that does not include the various expenses required in the acquisition or sale of the property, settlement money such as taxes and duties, consumption taxes, and leasehold guarantee deposits, 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.”

(4) Transactions with Interested Parties, etc.

i) Status of Transactions

Purchase and sale transactions, etc. with interested parties, etc. (Note 1) for the 22nd period is as follows:

Classification	Transaction amount, etc. (Note 2)	
	Purchase	Sale
Total	¥22,830 million	¥370 million
Breakdown of transactions with interested parties		
Daiwa House Industry Co., Ltd.	¥9,686 million (42.4%)	— (—%)
Total	¥9,686 million (42.4%)	— (—%)

ii) 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)	
Property lease and management expenses	1,233,882	Daiwa House Industry Co., Ltd.	84,347	6.8
		Daiwa Living Co., Ltd.	620,510	50.3
		Daiwa Information Service Co., Ltd.	142,157	11.5
		Daiwa Lease Co., Ltd	232	0.0
		Daiwa LifeNext Co., Ltd.	27,202	2.2
		Daiwa House Property Management Co., Ltd.	8,716	0.7
		KOKANKYO ENGINEERING Corp.	990	0.1
		ENESERVE CORPORATION	360	0.0
Repairs and maintenance expenses	569,404	Daiwa House Industry Co., Ltd.	18,671	3.3
		Daiwa Living Co., Ltd.	315,159	55.3
		Daiwa Information Service Co., Ltd.	31,847	5.6
		Daiwa Lease Co., Ltd	1,110	0.2
		Daiwa LifeNext Co., Ltd.	7,040	1.2
		Daiwa House Property Management Co., Ltd.	1,300	0.2
		Daiwa Energy Co., Ltd.	3,262	0.6
		Daiwa House Reform Co., Ltd.	1,486	0.3
Restoration costs	293,588	ENESERVE CORPORATION	400	0.1
		Daiwa Living Co., Ltd.	222,722	75.9
Other rental expenses	62,417	Daiwa Living Co., Ltd.	34,255	54.9
		Daiwa Information Service Co., Ltd.	1,496	2.4
		Daiwa LifeNext Co., Ltd.	0	0.0

(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 201, Paragraph 1 of the Investment Trust Act, Article 123 of the Order for Enforcement of the Investment Trust Act, Article 244-3 of Ordinance for Enforcement of Investment Trust Act 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.” is the amount that does not include the various expenses required in the acquisition or sale of the property, settlement money such as taxes and duties, consumption taxes, and leasehold guarantee deposits, etc.

(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.

7. Accounting

(1) Status of Assets, Liabilities, Principal and Income/Loss

Please refer to “Balance Sheets,” “Statements of Income and Retained Earnings,” “Statements of Changes in Net Assets,” “Notes to Financial Statements” and “Distribution Information.”

(2) Changes in Method to Calculate Depreciation Expenses

Not applicable.

(3) Changes in Method to Evaluate Properties and Infrastructure Assets

Not applicable.

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

Not applicable.

(5) Disclosure relating to Overseas Real Estate Holding Corporation and Real Estate Held by such Corporation

Not applicable.

8. Other

(1) Notice

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:

Date of the Board of Directors meeting	Item	Description
November 25, 2016	Conclusion of underwriting agreement for investment corporation bond issuance, etc.	In line with a comprehensive resolution on the issuance of investment corporation bonds approved on the same day, resolved that the selection of an administrator of the investment corporation to be issued in the future would be at the discretion of the Executive Director. Based on this resolution, entrusted Mizuho Securities Co., Ltd., SMBC Nikko Securities Inc., and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. with the relevant work for soliciting subscribers to investment corporation bonds, and entrusted Sumitomo Mitsui Trust Bank, Limited with issuance agent work, payment agent work, etc.

The conclusions and changes of major contracts approved by DHR's board of directors after the balance sheet date are as follows:

Date of the Board of Directors meeting	Item	Description
March 1, 2017	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., Daiwa Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., SMBC Nikko Securities Inc., and Mizuho Securities Co., Ltd. as underwriters for Japanese offering, and Morgan Stanley & Co. International plc, Daiwa Capital Markets Europe Limited, and Nomura International plc as joint lead managers for overseas offering, with relevant work for soliciting subscribers of new investment units.

(Note) On September 1, 2016, amended agreements that made sweeping changes in response to the merger with the former DHR, were concluded with Sumitomo Mitsui Trust Bank, Limited concerning the general administration agreement dated June 7, 2005, asset custody agreement dated June 7, 2005, unitholder registration operator agreement dated January 5, 2009, and special account management agreement dated January 5, 2009. DHR also concluded basic agreements on pipeline support, etc. on September 1, 2016 between the Asset Manager and each of Cosmos Initia Co., Ltd., Daiwa Lease Co., Ltd., Daiwa Information Service Co., Ltd., Daiwa Royal Co., Ltd., Fujita Corporation, and Daiwa Logistics Co., Ltd.

(2) 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.

II. Balance Sheets

Daiwa House REIT Investment Corporation
BALANCE SHEETS
As of August 31, 2016 and February 28, 2017

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Assets		
Current assets:		
Cash and bank deposits (Notes 3 and 4)	¥9,388,328	¥20,527,065
Operating accounts receivable	110,856	169,018
Prepaid expenses	255,842	447,439
Consumption taxes receivable	—	487,928
Other current assets	3,034	4,946
Allowance for doubtful accounts	(4,078)	(5,521)
Total current assets	9,753,983	21,630,877
Investment properties (Notes 8 and 9)	239,518,795	494,701,208
Other assets:		
Goodwill (Note 7)	—	77,306,836
Leasehold rights in trust (Note 9)	5,279,705	5,500,051
Lease and guarantee deposits in trust	3,250,134	3,414,720
Guarantee deposits	10,261	10,261
Long-term prepaid expenses	396,454	1,453,688
Investment corporation bond issuance costs	33,930	92,831
Investment securities (Note 5)	—	9,291
Software	1,740	1,448
Trademark rights	3,092	2,825
Other	42,488	42,488
Allowance for doubtful accounts	(24,058)	(24,058)
Total other assets	8,993,749	87,810,385
Total assets	¥258,266,528	¥604,142,471

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

Daiwa House REIT Investment Corporation
BALANCE SHEETS, CONTINUED
As of August 31, 2016 and February 28, 2017

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Liabilities		
Current liabilities:		
Operating accounts and other payable	¥889,538	¥1,286,183
Short-term loans (Notes 4 and 15)	10,000,000	6,000,000
Current portion of investment corporation bonds (Notes 4 and 14)	3,000,000	3,000,000
Current portion of long-term loans (Notes 4, 6 and 15)	59,295,000	43,495,000
Accrued expenses	638,221	1,089,119
Consumption taxes payable	22,971	—
Advances received	901,603	1,935,780
Unearned revenue	—	221,735
Deposits received	334,234	356,801
Other	—	43,852
Total current liabilities	75,081,569	57,428,471
Non-current liabilities:		
Investment corporation bonds (Notes 4 and 14)	6,000,000	16,000,000
Long-term loans (Notes 4, 6 and 15)	63,368,000	184,668,000
Long-term unearned revenue	—	1,262,357
Tenant leasehold and security deposits	277,602	288,912
Tenant leasehold and security deposits in trust	2,072,139	12,515,805
Provision for loss on litigation	—	80,147
Asset retirement obligations (Note 11)	424,558	429,379
Derivatives liabilities (Notes 4 and 6)	—	1,164,700
Total non-current liabilities	72,142,301	216,409,303
Total liabilities	147,223,870	273,837,775
Net assets (Notes 12 and 13)		
Unitholders' equity:		
Unitholders' capital	61,703,224	61,703,224
Units authorized:		
4,000,000 units as of August 31, 2016 and		
8,000,000 units as of February 28, 2017		
Units issued and outstanding:		
747,740 units as of August 31, 2016 and		
1,519,280 units as of February 28, 2017		
Capital surplus	28,241,587	247,667,563
Reserve for distribution	17,884,290	17,705,349
Retained earnings	3,213,554	4,393,259
Total unitholders' equity	111,042,657	331,469,396
Valuation and translation adjustments		
Deferred gains or losses on hedges (Note 6)	—	(1,164,700)
Total valuation and translation adjustments	—	(1,164,700)
Total net assets	111,042,657	330,304,696
Total liabilities and net assets	¥258,266,528	¥604,142,471

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

III. Statements of Income and Retained Earnings

Daiwa House REIT Investment Corporation		
STATEMENTS OF INCOME AND RETAINED EARNINGS		
For the six-month periods ended August 31, 2016 and February 28, 2017		
	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Operating revenues:		
Rental revenues (Note 10)	¥9,691,138	¥17,531,143
Total operating revenues	9,691,138	17,531,143
Operating expenses:		
Rental expenses (Note 10)	4,746,584	7,493,903
Loss on sale of investment properties (Note 18)	—	4,207
Asset management fees	609,840	983,471
Asset custody fees	23,083	26,204
Administrative service fees	65,557	72,780
Directors’ remuneration	6,600	6,600
Merger expenses (Note 7)	—	1,042,059
Amortization of goodwill (Note 7)	—	1,982,226
Provision of allowance for doubtful accounts	373	1,974
Other operating expenses	279,286	350,360
Total operating expenses	5,731,326	11,963,787
Operating income	3,959,811	5,567,356
Non-operating revenues:		
Interest income	43	109
Gain on forfeiture of unclaimed distributions	4,046	5,180
Refunded consumption taxes	—	21,388
Gain on adjustment of liabilities	6,853	8
Gain on donation of non-current assets	—	5,433
Other non-operating revenues	3	19
Total non-operating revenues	10,947	32,138
Non-operating expenses:		
Interest expense	539,652	827,814
Interest expense on investment corporation bonds	32,451	45,953
Amortization of investment corporation bond issuance costs	5,025	7,898
Borrowing related expenses	153,724	241,696
Provision of allowance for doubtful accounts	24,058	—
Other non-operating expenses	1,686	2,119
Total non-operating expenses	756,599	1,125,483
Ordinary income	3,214,159	4,474,011
Extraordinary losses:		
Provision for loss on litigation (Note 19)	—	80,147
Total extraordinary losses	—	80,147
Income before income taxes	3,214,159	4,393,864
Income taxes-current (Note 17)	605	605
Net income	¥3,213,554	¥4,393,259
Unappropriated retained earnings	¥3,213,554	¥4,393,259

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

IV. Statements of Changes in Net Assets

Daiwa House REIT Investment Corporation								
STATEMENTS OF CHANGES IN NET ASSETS								
For the six-month periods ended August 31, 2016 and February 28, 2017								
	Unitholders’ equity						Valuation and translation adjustments	
	Number of units	Unitholders’ capital	Capital surplus	Reserve for distribution	Retained earnings	Total unitholders’ equity	Deferred gains or losses on hedges	Total net assets
	(Yen in thousands)							
	(Units)							
Balance as of February 29, 2016	747,740	¥61,703,224	¥28,241,587	¥18,072,729	¥3,177,139	¥111,194,680	—	¥111,194,680
Changes during the period:								
Reversal of reserve for distribution	—	—	—	(200,892)	200,892	—	—	—
Distributions from retained earnings	—	—	—	—	(3,365,577)	(3,365,577)	—	(3,365,577)
Reserve for distribution	—	—	—	12,454	(12,454)	—	—	—
Net income	—	—	—	—	3,213,554	3,213,554	—	3,213,554
Total changes during the period	—	—	—	(188,438)	36,415	(152,022)	—	(152,022)
Balance as of August 31, 2016	747,740	¥61,703,224	¥28,241,587	¥17,884,290	¥3,213,554	¥111,042,657	—	¥111,042,657
Changes during the period:								
Increase due to merger (Note 7)	771,540	—	219,425,976	—	—	219,425,976	—	219,425,976
Reversal of reserve for distribution	—	—	—	(202,816)	202,816	—	—	—
Distributions from retained earnings	—	—	—	—	(3,392,496)	(3,392,496)	—	(3,392,496)
Reserve for distribution	—	—	—	23,874	(23,874)	—	—	—
Net income	—	—	—	—	4,393,259	4,393,259	—	4,393,259
Net changes of items other than changes of unitholders’ equity	—	—	—	—	—	—	(1,164,700)	(1,164,700)
Total changes during the period	—	—	219,425,976	(178,941)	1,179,704	220,426,738	(1,164,700)	219,262,038
Balance as of February 28, 2017	1,519,280	¥61,703,224	¥247,667,563	¥17,705,349	¥4,393,259	¥331,469,396	¥(1,164,700)	¥330,304,696

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

V. Statements of Cash Flows

Daiwa House REIT Investment Corporation
STATEMENTS OF CASH FLOWS
For the six-month periods ended August 31, 2016 and February 28, 2017

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Cash flows from operating activities:		
Income before income taxes	¥3,214,159	¥4,393,864
Depreciation and amortization	2,033,025	3,361,190
Amortization of goodwill	—	1,982,226
Amortization of investment corporation bond issuance costs	5,025	7,898
Amortization of trademark rights	292	266
Amortization of software	292	292
Loss on retirement of non-current assets	4,914	696
Increase in provision for loss on litigation	—	80,147
Interest income	(43)	(109)
Interest expense	572,104	873,768
(Increase) decrease in operating accounts receivable	(13,972)	32,235
Increase in accounts receivable	—	(1,749)
Increase in consumption taxes receivable	—	(652,741)
Decrease (increase) in prepaid expenses	64,128	(23,819)
Increase (decrease) in operating accounts and other payable	9,737	(94,308)
Decrease in consumption taxes payable	(17,294)	—
Increase (decrease) in accrued expenses	115,575	(32,303)
(Decrease) increase in deposits received	(1,772)	17,806
Increase in advances received	5,871	167,033
Decrease (increase) in long-term prepaid expenses	57,248	(432,032)
Increase in allowance for doubtful accounts	24,216	1,442
Decrease in investment properties in trust due to sales	—	362,247
Increase in lease and guarantee deposits in trust	—	(164,586)
Other	(63,400)	(49,955)
Subtotal	6,010,109	9,829,511
Interest received	43	109
Interest paid	(570,403)	(1,041,808)
Income taxes paid	(532)	(1,219)
Net cash provided by operating activities	5,439,217	8,786,591
Cash flows from investing activities:		
Acquisition of investment properties	(749,136)	(23,636,641)
Acquisition of intangible assets in trust	—	(260,480)
Proceeds from tenant leasehold and security deposits	36,236	29,876
Payment of tenant leasehold and security deposits	(23,214)	(16,286)
Proceeds from tenant leasehold and security deposits in trust	156,489	1,072,097
Payment of tenant leasehold and security deposits in trust	(106,588)	(196,132)
Net cash used in investing activities	(686,214)	(23,007,565)
Cash flows from financing activities:		
Repayment of short-term loans	—	(8,000,000)
Proceeds from long-term loans	7,600,000	56,300,000
Repayment of long-term loans	(7,600,000)	(46,800,000)
Proceeds from issuance of investment corporation bonds	—	7,950,599
Distribution payment	(3,361,868)	(6,669,582)
Net cash provided by (used in) financing activities	(3,361,868)	2,781,017
Net increase (decrease) in cash and cash equivalents	1,391,134	(11,439,956)
Cash and cash equivalents at beginning of the period	7,997,194	9,388,328
Increase in cash and cash equivalents resulting from merger (Note 7)	—	22,578,692
Cash and cash equivalents at end of the period (Note 3)	¥9,388,328	¥20,527,065

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

VI. Notes to Financial Statements

Daiwa House REIT Investment Corporation
Notes to Financial Statements
As of and for the six-month periods ended August 31, 2016 and February 28, 2017

Note 1 – Organization and Basis of Presentation

Organization

Daiwa House REIT Investment Corporation (“DHR;” formerly, Daiwa House Residential Investment Corporation), a Japanese real estate investment corporation, was established on June 7, 2005 with an initial capitalization of ¥300 million under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”). DHR is a real estate investment trust whose sponsor is Daiwa House Industry Co., Ltd. (“Daiwa House”), and whose asset manager is Daiwa House Asset Management Co., Ltd. (the “Asset Manager”), a wholly owned subsidiary of Daiwa House. DHR was listed on the Real Estate Investment Trust (“REIT”) Market of the Tokyo Stock Exchange, Inc. (“TSE”) on March 22, 2006. As of August 31, 2016, DHR’s portfolio included 142 residential properties at a total acquisition price of ¥256.3 billion.

The former Daiwa House REIT Investment Corporation (the Daiwa House REIT Investment Corporation, which was dissolved upon the merger with DHR as of September 1, 2016, and hereinafter referred to as the “former DHR”) was established on September 14, 2007, whose asset manager was Daiwa House REIT Management Co., Ltd., a wholly owned subsidiary of Daiwa House. The former DHR was listed on the TSE REIT Market on November 28, 2012, as a REIT that targeted investment in logistics and retail properties. As of August 31, 2016, the former DHR’s portfolio included 41 properties at an initial aggregate acquisition price of ¥206.3 billion.

As stated in Note 7, on September 1, 2016, DHR merged with the former DHR in an absorption-type merger with DHR as the surviving corporation, and changed its corporate name from Daiwa House Residential Investment Corporation to Daiwa House REIT Investment Corporation. As of February 28, 2017, DHR’s portfolio included 189 properties at a total acquisition price of ¥513.7 billion.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act, 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 on hand and in trust, bank deposits and deposits in trust redeemable on demand, and short-term investments, which are readily convertible to cash, with maturities of three months or less from the date of acquisition, and insignificant risk of market value fluctuation.

(b) Investment Properties

Investment properties are stated at cost, net of accumulated depreciation. The cost of investment properties includes the allocated purchase price, related costs and expenses for acquisition of the trust beneficiary interests in real estate. Depreciation is calculated on a straight-line basis over the estimated useful lives as stated below.

	Years
Buildings	2 – 69
Structures	6 – 63
Machinery and equipment	7 – 29
Tools, furniture and fixtures	2 – 28

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) Intangible Assets

Intangible assets are amortized on a straight-line basis. The useful lives of major intangible assets are listed below.

	Years
Goodwill	20
Computer software	5

Leasehold rights (general fixed-term land lease rights) are amortized on a straight-line basis over the life of each contract.

(d) Investment Corporation Bond Issuance Costs

Investment corporation bond issuance costs are amortized on a straight-line basis over the redemption period.

(e) Securities

Held-to-maturity bonds are stated at amortized cost on a straight-line basis.

(f) Revenue Recognition

Rental revenues are recognized on a straight-line accrual basis over the life of each lease contract.

(g) Taxes on Property and Equipment

Property and equipment are subject to various taxes, such as property taxes and city planning taxes. An owner of a property is registered in a record maintained by the local government of the applicable jurisdiction, and taxes are imposed on the owner registered in the record as of January 1, based on an assessment made by the local government. The taxes are determined in April to June of each year and are paid in four installments during the year.

When a property is purchased prior to January 1 of any given calendar year, taxes for the previous year are imposed on the seller. DHR pays the seller the corresponding amount of the taxes for the period from the property’s acquisition date to December 31 of the previous year as included in the purchase price of the property, and capitalizes this amount as an acquisition cost of the property.

(h) Income Taxes

Deferred tax assets and liabilities are computed based on the differences between the financial reporting and income tax bases of assets and liabilities using the enacted tax rates.

(i) Allowance for Doubtful Accounts

To cover possible losses on collection, allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(j) Provision for Loss on Litigation

To cover possible loss that may arise in the future in association with ongoing litigation proceedings, a provision is recorded at an estimated amount as of the balance sheet date.

(k) Consumption Taxes

Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of income and retained earnings. Non-deductible consumption taxes for acquisition of assets are added on to the acquisition cost of each asset.

(l) Trust Beneficiary Interests

For trust beneficiary interests in real estate, each of the trust assets and liabilities as well as all income generated and expenses incurred in trusts are recorded in the relevant balance sheet and income statement accounts.

(m) Derivatives and Hedge Accounting

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 hedging effectiveness is omitted when notional amount of a hedging instrument and significant conditions of a hedged item is consistent and changes in cash flows of hedged items can be expected to be offset in full at the commencement of a hedge activity and continuously thereafter. The assessment of hedge effectiveness is

also omitted for all interest-rate swaps which meet the specific criteria under the special accounting treatment.

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. The balance of cash and bank deposits as of August 31, 2016 and February 28, 2017 included ¥4,427,398 thousand and ¥9,416,246 thousand of cash and bank deposits in trust, respectively.

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Cash and bank deposits	¥9,388,328	¥20,527,065
Cash and cash equivalents	¥9,388,328	¥20,527,065

Note 4 – Financial Instruments

(a) Qualitative Information on Financial Instruments

Policy on financial instruments

As a policy, when acquiring real estate and other properties, as well as when repaying its obligations, DHR raises necessary funds through loans from financial institutions, issuance of investment corporation bonds and issuance of investment units, etc. DHR carefully pays attention to ensure their financing to be long-term, cost effective and stable, while considering applying various financial methods and dispersing repayment dates.

DHR may use derivative financial instruments for such purposes as hedging interest rate fluctuation risk, but does not use them for speculative purposes. DHR currently uses interest-rate swaps to hedge interest rate fluctuation risk.

Surplus funds can be invested in securities or monetary claims; however, as a current policy of DHR, they are deposited in interest-bearing accounts.

Nature and extent of risks arising from financial instruments and risk management

The Asset Manager stipulates basic provisions of risk management in its risk management rules.

Investment corporation bonds and loans are used to finance acquisitions of real estate and repayments of loans. Although these financial instruments are exposed to liquidity risk, DHR controls such risk by maintaining the ratio of interest-bearing debt to total assets under a certain percentage, dispersing repayment dates, and retaining a certain amount of highly liquid cash and deposits.

Floating rate loans are exposed to the risk of interest rate fluctuations. In order to reduce the impact caused by rising interest rates, DHR closely monitors the movement of interest rates and intends to increase fixed rate loans.

Deposits are exposed to credit risks, including collapse of the financial institutions where deposits are made. DHR manages such risks through the use of liquid deposits.

Supplemental explanation concerning fair value of financial instruments

The fair value of financial instruments is determined by market prices, if available. When there is no observable market price available, the 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 on the balance sheet, fair value and the difference as of August 31, 2016 and February 28, 2017 are as follows:

	As of					
	August 31, 2016			February 28, 2017		
	(Yen in thousands)					
Assets	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and bank deposits	¥9,388,328	¥9,388,328	¥—	¥20,527,065	¥20,527,065	¥—
(2) Investment securities:						
Held-to-maturity bonds	—	—	—	9,291	8,724	(567)
Total	¥9,388,328	¥9,388,328	¥—	¥20,536,356	¥20,535,789	¥(567)
Liabilities						
(3) Short-term loans	¥10,000,000	¥10,000,000	¥—	¥6,000,000	¥6,000,000	¥—
(4) Current portion of investment corporation bonds	3,000,000	3,006,657	6,657	3,000,000	3,000,000	—
(5) Current portion of long-term loans	59,295,000	59,358,565	63,565	43,495,000	43,554,967	59,967
(6) Investment corporation bonds	6,000,000	6,114,946	114,946	16,000,000	16,100,255	100,255
(7) Long-term loans	63,368,000	64,247,410	879,410	184,668,000	187,385,535	2,717,535
(8) Tenant leasehold and security deposits in trust	—	—	—	226,073	226,111	38
Total	¥141,663,000	¥142,727,580	¥1,064,580	¥253,389,073	¥256,266,870	¥2,877,796
(9) Derivatives (*)	¥—	¥—	¥—	¥[1,164,700]	¥[1,164,700]	¥—

(*) Amounts arising from derivative transactions are shown on a net basis with any amounts inside square parentheses [] indicating a net liability position.

Notes:

1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and bank deposits

These instruments are settled in the short term and their fair value is approximately equal to their book value.

Thus, the book value is used as the fair value.

(2) Investment securities

The fair value is based on reference statistical prices for OTC bond transactions.

Liabilities:

(3) Short-term loans

These instruments carry floating interest rates, and their fair value is approximately equal to their book value.

Thus, the book value is used as the fair value.

(4) Current portion of investment corporation bonds and (6) Investment corporation bonds

The fair value of these bonds is measured at the present value, which is calculated by discounting the total of principal and interest by the interest rate assumed based on the remaining period until maturity and credit risk. Regarding current portion of investment corporation bonds as of February 28, 2017, the fair value approximates the book value due to the extremely short remaining period until redemption; thus, the book value is used as the fair value.

(5) Current portion of long-term loans and (7) Long-term loans

For long-term loans with floating interest rates, their fair value is approximately equal to their book value. Thus, the book value is used as the fair value. However, for those which are hedged by interest rate swaps meeting hedge accounting criteria, DHR employs a method to calculate the fair value by discounting the total of the principal and interest accounted for under the special accounting treatment for interest rate swaps by an interest rate assumed to be applied if similar types of loans are entered into.

For long-term loans with fixed interest rates, DHR employs a method to calculate the fair value by discounting the total of the principal and interest by an interest rate assumed to be applied if similar types of loans are entered into.

(8) Tenant leasehold and security deposits in trust

For tenant leasehold and security deposit in trust whose fair value is reasonably estimated, the fair value is calculated by discounting future cash flows by the interest rate assumed for the remaining period of the lease.

(9) Derivatives

Please refer to Note 6 – “Derivative Transactions” below.

2. Financial instruments whose fair value are deemed extremely difficult to determine

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Tenant leasehold and security deposits	¥277,602	¥288,912
Tenant leasehold and security deposits in trust	2,072,139	12,289,732

These 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 after August 31, 2016 and February 28, 2017 is as follows:

	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
As of August 31, 2016						
	(Yen in thousands)					
Cash and bank deposits	¥9,388,328	¥—	¥—	¥—	¥—	¥—
Total	¥9,388,328	¥—	¥—	¥—	¥—	¥—
As of February 28, 2017						
	(Yen in thousands)					
Cash and bank deposits	¥20,527,065	¥—	¥—	¥—	¥—	¥—
Investment securities	—	—	—	—	—	10,000
Total	¥20,527,065	¥—	¥—	¥—	¥—	¥10,000

4. Repayment schedules for short-term loans, investment corporation bonds and long-term loans after August 31, 2016 and February 28, 2017 are as follows:

	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
As of August 31, 2016						
	(Yen in thousands)					
Short-term loans	¥10,000,000	¥—	¥—	¥—	¥—	¥—
Investment corporation bonds (*)	3,000,000	—	—	—	3,000,000	3,000,000
Long-term loans (*)	59,295,000	—	11,600,000	18,910,000	3,500,000	29,358,000
Total	¥72,295,000	¥—	¥11,600,000	¥18,910,000	¥6,500,000	¥32,358,000
As of February 28, 2017						
	(Yen in thousands)					
Short-term loans	¥6,000,000	¥—	¥—	¥—	¥—	¥—
Investment corporation bonds (*)	3,000,000	—	—	3,000,000	4,000,000	9,000,000
Long-term loans (*)	43,495,000	—	40,510,000	14,400,000	16,858,000	112,900,000
Total	¥52,495,000	¥—	¥40,510,000	¥17,400,000	¥20,858,000	¥121,900,000

(*) The figures above include the current portion.

Note 5 – Investment Securities

Investment securities held by DHR are Japanese government bonds deposited with the Tokyo Legal Affairs Bureau as business security deposits in accordance with the Building Lots and Building Transaction Business Act.

Book value on the balance sheet, fair value and the difference as of August 31, 2016 and February 28, 2017 are as follows:

	As of					
	August 31, 2016			February 28, 2017		
	(Yen in thousands)					
	Book value	Fair value	Difference	Book value	Fair value	Difference
Fair value exceeding the book value						
Held-to-maturity bonds:						
Government bonds	¥—	¥—	¥—	¥—	¥—	¥—
Subtotal	—	—	—	—	—	—
Fair value not exceeding the book value						
Held-to-maturity bonds:						
Government bonds	—	—	—	9,291	8,724	(567)
Subtotal	—	—	—	9,291	8,724	(567)
Total	¥—	¥—	¥—	¥9,291	¥8,724	¥(567)

Note 6 – Derivative Transactions

(a) Derivative Transactions for Which Hedge Accounting Has Not Been Applied — None

(b) Derivative Transactions for Which Hedge Accounting Has Been Applied

Contract amount or notional principal amount of derivative transactions classified by hedge accounting method is as follows:

		As of					
Type of derivative transaction	Hedged item	August 31, 2016			February 28, 2017		
		Contract amount		Fair value	Contract amount		Fair value
		Total	Due after one year		Total	Due after one year	
(Yen in thousands)							
<u>Principle method</u>							
Interest-rate swap Receive floating/ Pay fixed	Long-term loan	¥—	¥—	¥—	¥47,500,000	¥47,500,000	¥(1,164,700) (Note 1)
<u>Special treatment for interest-rate swaps</u>							
Interest-rate swap Receive floating/ Pay fixed	Long-term loan	106,468,000	48,268,000	(Note 2)	74,668,000	¥48,268,000	(Note 2)
Total		¥106,468,000	¥48,268,000	¥—	¥122,168,000	¥95,768,000	¥(1,164,700)

Notes:

1. Fair value is quoted by counterparties based on the prevailing market interest rates.
2. Under the special accounting treatment, interest-rate swaps are accounted for as part of the long-term loans, the hedged item; thus, the fair value is included in the fair value of the long-term loans. (Please refer to Note 4 – “Financial Instruments” above.)

Note 7 – Business Combination**Business Combination through Acquisition**

(1) Outline of the business combination

On September 1, 2016, DHR merged with Daiwa House REIT Investment Corporation (the “former DHR”) in an absorption-type merger (the “Merger”) with DHR as the surviving corporation and the former DHR as the absorbed corporation (“acquiree”). Upon the Merger, DHR changed its corporate name from Daiwa House Residential Investment Corporation to Daiwa House REIT Investment Corporation and the former DHR was dissolved.

DHR and the former DHR concluded the merger agreement on April 15, 2016, expecting the following benefits: (i) enhanced external growth potential and further internal growth opportunities through the shift to a diversified REIT, (ii) improvement of the position in the J-REIT market and asset-management flexibility through scale enhancement, and (iii) acceleration of growth leveraging the value chain of the Daiwa House Group’s integrated capabilities.

- (2) Period for which the acquiree’s results of operations were included in DHR’s statement of income and retained earnings for the six-month period ended February 28, 2017

From September 1, 2016 to February 28, 2017

- (3) Acquisition cost for the acquiree and the breakdown thereof

	Amount (Yen in thousands)
Consideration for the acquisition	
Fair value of DHR investment units allotted on the business combination date	¥219,425,976
Acquisition cost	¥219,425,976

Capital surplus increased by ¥219,425,976 thousand due to the Merger.

- (4) Exchange ratio, calculation method and number of investment units allotted as the consideration for the acquisition

For the Merger, 2.2 units of DHR were allotted to the former DHR unitholders per one former DHR unit. In order to ensure fairness of the calculations of the merger ratio used for the Merger, DHR and the former DHR appointed Nomura Securities Co., Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., respectively as financial advisors for the Merger (hereinafter referred to as the “FA”) to perform the calculation of the merger ratio. After careful discussions and negotiations as well as comprehensive considerations of various factors, including the financial results, the assets, liabilities and future business prospects of DHR and the former DHR, the benefits of the Merger, and the financial analysis performed by the FAs, both parties ultimately determined that the above merger ratio was appropriate.

Thus, a total of 771,540 units were allotted through the Merger.

(5) Details and amounts of major expenses related to the acquisition

	Amount (Yen in thousands)
FA remuneration (former DHR)	¥61,244
Merger fees	939,912

(6) Goodwill

Goodwill in the amount of ¥79,289,063 thousand represents the excess of the acquisition cost of ¥219,425,976 thousand over the fair value of the net assets acquired of the former DHR of ¥140,136,912 thousand at the business combination date. It is being amortized over 20 years using the straight-line method.

(7) Amounts and main components of assets acquired and liabilities assumed at the date of the business combination

	Amount (Yen in thousands)
Current assets	¥22,836,921
Other assets (excluding investment corporation bond issuance costs)	235,625,998
Other assets (investment corporation bond issuance costs)	17,042
Total assets	¥258,479,962
Current liabilities	¥24,127,537
Non-current liabilities	94,215,512
Total liabilities	¥118,343,050

(8) Japanese GAAP requires the acquiring company to estimate the impact on its statement of income as if the business combination were completed at the beginning of the fiscal period for business combinations conducted during the fiscal period. However, there is no impact on the DHR's statement of income and retained earnings since the effective date of the business combination and the beginning date of the six-month period ended February 28, 2017 are the same.

Note 8 – Investment Properties

As of August 31, 2016 and February 28, 2017, investment properties consist of the following property and equipment and property and equipment in trust.

	As of					
	August 31, 2016			February 28, 2017		
	(Yen in thousands)					
	Acquisition cost	Accumulated depreciation	Net	Acquisition cost	Accumulated depreciation	Net
Property and equipment:						
Land	¥22,453,490	¥—	¥22,453,490	¥22,453,490	¥—	¥22,453,490
Buildings	29,078,053	3,631,226	25,446,827	29,131,670	3,931,676	25,199,993
Structures	256,102	33,784	222,317	256,404	36,735	219,669
Machinery and equipment	488,215	103,860	384,354	503,802	114,476	389,326
Tools, furniture and fixtures	684,485	294,769	389,715	691,711	316,003	375,707
Property and equipment in trust:						
Land	85,002,219	—	85,002,219	226,663,386	—	226,663,386
Buildings	119,200,580	15,971,610	103,228,969	232,734,347	18,729,575	214,004,771
Structures	1,009,608	178,054	831,554	3,640,534	251,420	3,389,114
Machinery and equipment	1,935,110	716,432	1,218,678	2,431,487	800,272	1,631,215
Tools, furniture and fixtures	575,122	234,833	340,288	640,082	270,571	369,510
Construction in progress	380	—	380	5,022	—	5,022
Total	¥260,683,369	¥21,164,573	¥239,518,795	¥519,151,940	¥24,450,732	¥494,701,208

Note 9 – Fair Value of Investment Properties

DHR owns logistics, residential and retail properties, and other assets for lease in the Tokyo metropolitan area and other areas for the purpose of earning rental revenues. The book value of these investment properties including leasehold rights in trust, net change in the book value and the fair value are as follows:

	As of / For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Book value:		
Balance at beginning of the period	¥246,376,192	¥244,798,501
Net change during the period	(1,577,691)	255,402,759
Balance at end of the period	¥244,798,501	¥500,201,260
Fair value at end of the period	¥279,847,000	¥547,376,000

Notes:

1. The book value above includes leasehold rights in trust of ¥5,279,705 thousand and ¥5,500,051 thousand as of August 31, 2016 and February 28, 2017, respectively.
2. The change during the period ended August 31, 2016 includes a decrease primarily due to depreciation.

For the period ended February 28, 2017, the increase is mainly due to acquisitions of 41 properties previously owned by the former DHR due to the Merger (¥234,978,000 thousand), 6 properties including Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi) (¥17,443,437 thousand), and Hiratsuka Retail Property (Land) (¥5,857,669 thousand), while the decrease is principally attributable to the sale of Castalia Minamigyotoku II (¥362,247 thousand) and depreciation.

3. The fair value at end of the period represents the value assessed by third-party real estate appraisers.

Note 10 – Rental Revenues and Expenses

Rental revenues generated from investment properties and related expenses for the periods ended August 31, 2016 and February 28, 2017 are as follows:

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Rental revenues:		
Rental revenues	¥8,711,310	¥16,184,156
Common area charges	309,039	422,436
Subtotal	9,020,350	16,606,592
Other revenues related to property leasing		
Facility charges	287,364	338,545
Incidental revenues	56,177	253,928
Other revenues	327,245	332,076
Subtotal	670,787	924,550
Total rental revenues	¥9,691,138	¥17,531,143
Rental expenses:		
Management fees	¥956,941	¥1,233,882
Utilities	121,597	285,590
Taxes and public dues	552,179	1,175,602
Repairs	251,273	569,404
Restoration costs	298,033	293,588
Insurance premiums	14,511	25,089
Custodian fees	43,667	61,639
Depreciation and amortization	2,033,025	3,361,190
Other operating expenses	475,353	487,914
Total rental expenses	¥4,746,584	¥7,493,903
Operating income from property leasing activities	¥4,944,553	¥10,037,240

Transactions with DHR's major unitholder for the periods ended August 31, 2016 and February 28, 2017 are as follows:

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Business transactions		
Operating revenues	¥82,809	¥324,511
Operating expenses	—	103,018
Non-business transactions		
Purchase of trust beneficiary interests in real estate	—	9,686,000

Note 11 – Asset Retirement Obligations

DHR has entered into fixed-term land lease agreements with some landowners, and recognizes asset retirement obligations associated with restoration obligations upon expiration of the lease agreements.

DHR estimates the useful life of applicable assets as the remaining period of the fixed-term land lease agreements (54 – 60 years), and uses a 2.1 – 2.4% discount rate for the calculation of asset retirement obligations. Changes in asset retirement obligations for the six-month periods ended August 31, 2016 and February 28, 2017 are as follows:

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Balance at beginning of the period	¥419,792	¥424,558
Accretion expense	4,766	4,820
Balance at end of the period	¥424,558	¥429,379

Note 12 – Net Assets

DHR issues only non-par value units in accordance with the Investment Trust Act and all issue amounts of new units are designated as stated capital. DHR maintains net assets of at least ¥50,000 thousand as required by Paragraph 4 of Article 67 of the Investment Trust Act.

Note 13 – Distribution Information

In accordance with Article 37.1.1 of the bylaws set forth by DHR for cash distributions, the amount of distribution is limited to the amount of income and more than 90% of income available for distribution as set forth in Article 67.15 of the Special Taxation Measures Act of Japan.

Also, DHR implemented its policy of stabilized distributions by utilizing a reserve for distribution. In accordance with the foresaid policy, a cash distribution is declared for the amount calculated by deducting the amount of provision of reserve for distribution from the total of unappropriated retained earnings and reversal of reserve for distribution.

Furthermore, in accordance with the cash distribution policy set forth in the Articles of Incorporation, DHR adds the amount equivalent to amortization of goodwill to the distribution amount. For the six-month period ended February 28, 2017, the amount equivalent to amortization of goodwill and merger expenses of ¥2,920,673,548 is included in

the reversal of reserve for distribution.

No cash distribution exceeding the income amount set forth in Article 37.2 of the bylaws of DHR shall be made.

Distributions related to the period but declared after the balance sheet date are summarized as follows:

	For the six-month periods ended			
	August 31, 2016		February 28, 2017	
	(Yen)			
	Total	Per unit	Total	Per unit
Unappropriated retained earnings	¥3,213,554,837		¥4,393,259,342	
Reversal of voluntary reserve:				
Reversal of reserve for distribution	202,816,078		17,669,020,696	
Voluntary reserve:				
Provision of reserve for distribution	(23,874,535)		(21,388,890)	
Provision of retained earnings for temporary difference adjustment	—		(14,748,347,148)	
Cash distributions	¥3,392,496,380	¥4,537	¥7,292,544,000	¥4,800
Retained earnings carried forward	—		—	

The “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015) was promulgated in 2015 and new account names were introduced. The “reserve for temporary difference adjustment” is an account to record voluntary reserves appropriated for future profit distributions up to the total amount of the difference between taxable income and financial income.

Adopting the transitional measure stipulated in the paragraph 3 of supplementary provision of this Ordinance, DHR transferred the reserve for distribution of ¥14,748,347,148, which was the balance retained from gain on negative goodwill recognized in the past, to the “reserve for temporary difference adjustment” account. From the fiscal period following the period in which the amount is reserved, a minimum of 1% of the remaining balance, and an amount equivalent to amortization of goodwill, shall be appropriated from retained earnings for temporary difference adjustment for cash distributions.

Note 14 – Investment Corporation Bonds

The following summarizes the status of the DHR’s unsecured investment corporation bonds with special pari passu conditions among specified investment corporation bonds as of August 31, 2016 and February 28, 2017. The bonds are to be repaid on a lump-sum basis on the maturity date.

Description	Issue date	Maturity date	Interest rate	As of	
				August 31, 2016	February 28, 2017
				(Yen in thousands)	
Daiwa House Residential Investment Corporation 1st Unsecured Bonds	March 9, 2012	March 9, 2017	1.12%	¥3,000,000	¥3,000,000
The former Daiwa House REIT Investment Corporation 1st Unsecured Bonds (*)	December 24, 2014	December 24, 2024	0.826%	—	2,000,000
Daiwa House Residential Investment Corporation 2nd Unsecured Bonds	January 22, 2015	January 22, 2021	0.35%	3,000,000	3,000,000
Daiwa House Residential Investment Corporation 3rd Unsecured Bonds	January 22, 2015	January 22, 2025	0.67%	3,000,000	3,000,000
Daiwa House REIT Investment Corporation 5th Unsecured Bonds	December 20, 2016	December 20, 2021	0.24%	—	4,000,000
Daiwa House REIT Investment Corporation 6th Unsecured Bonds	December 20, 2016	December 18, 2026	0.57%	—	4,000,000
Total				¥9,000,000	¥19,000,000

(*) DHR assumed the Bonds in accordance with the Merger with the former DHR on September 1, 2016.

Note 15 – Short-Term Loans and Long-Term Loans

Short-term and long-term loans consist of borrowings from financial institutions under loan agreements. None of the loans are secured by collateral or guaranteed. The following table summarizes the short-term and long-term loans as of August 31, 2016 and February 28, 2017.

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Short-term loans:		
0.21% floating-rate short-term loan due 2017	¥10,000,000	¥6,000,000
Total short-term loans	¥10,000,000	¥6,000,000
Long-term loans:		
1.10% floating-rate long-term loan due 2016 (Note 2)	¥31,800,000	¥—
1.03% floating-rate long-term loan due 2017 (Note 2)	14,000,000	14,000,000
0.70% floating-rate long-term loan due 2017	1,095,000	1,095,000
0.70% floating-rate long-term loan due 2017 (Note 2)	12,400,000	12,400,000
0.96% fixed-rate long-term loan due 2017 (Note 1)	—	16,000,000
1.07% fixed-rate long-term loan due 2019	4,000,000	4,000,000
0.23% floating-rate long-term loan due 2019	7,600,000	7,600,000
1.29% fixed-rate long-term loan due 2019 (Note 1)	—	10,000,000
0.96% floating-rate long-term loan due 2020 (Note 2)	17,410,000	17,410,000
0.96% fixed-rate long-term loan due 2020	1,500,000	1,500,000
0.57% fixed-rate long-term loan due 2020 (Note 1)	—	1,000,000
0.18% floating-rate long-term loan due 2020	—	9,900,000
0.90% floating-rate long-term loan due 2021 (Note 2)	3,500,000	3,500,000
1.05% floating-rate long-term loan due 2021 (Notes 1, 2)	—	3,000,000
0.51% floating-rate long-term loan due 2021 (Notes 1, 2)	—	7,000,000
0.61% floating-rate long-term loan due 2022 (Note 2)	6,858,000	6,858,000
0.66% floating-rate long-term loan due 2022 (Note 2)	10,000,000	10,000,000
0.59% floating-rate long-term loan due 2022 (Note 2)	10,500,000	10,500,000
1.21% floating-rate long-term loan due 2022 (Notes 1, 2)	—	3,500,000
0.87% floating-rate long-term loan due 2022 (Notes 1, 2)	—	3,000,000
0.65% floating-rate long-term loan due 2022 (Notes 1, 2)	—	4,000,000
1.50% floating-rate long-term loan due 2023 (Notes 1, 2)	—	2,000,000
1.00% fixed-rate long-term loan due 2023 (Note 1)	—	1,000,000
0.99% floating-rate long-term loan due 2023 (Notes 1, 2)	—	4,000,000
0.71% floating-rate long-term loan due 2023 (Notes 1, 2)	—	4,000,000
0.41% fixed-rate long-term loan due 2023	—	10,400,000
0.88% fixed-rate long-term loan due 2024	2,000,000	2,000,000
1.52% floating-rate long-term loan due 2024 (Notes 1, 2)	—	3,000,000
0.73% fixed-rate long-term loan due 2024 (Note 1)	—	1,000,000
0.48% fixed-rate long-term loan due 2024	—	11,000,000
1.23% floating-rate long-term loan due 2025 (Notes 1, 2)	—	4,000,000
1.18% fixed-rate long-term loan due 2025 (Note 1)	—	3,000,000
0.97% floating-rate long-term loan due 2025 (Notes 1, 2)	—	4,000,000
0.63% fixed-rate long-term loan due 2025	—	9,000,000
2.03% floating-rate long-term loan due 2026 (Notes 1, 2)	—	2,000,000
1.09% floating-rate long-term loan due 2026 (Notes 1, 2)	—	4,000,000
0.69% fixed-rate long-term loan due 2026	—	1,000,000
0.87% fixed-rate long-term loan due 2026	—	15,000,000
1.46% fixed-rate long-term loan due 2027 (Note 1)	—	1,500,000
Total	122,663,000	228,163,000
Less: current portion	(59,295,000)	(43,495,000)
Long-term loans, less current portion	¥63,368,000	¥184,668,000

Notes:

1. DHR assumed these loans in accordance with the Merger with the former DHR on September 1, 2016.
2. DHR entered into an interest-rate swap contract to hedge its exposure to interest rate fluctuation risk. The stated interest rate includes the effect of the interest-rate swap.

The stated interest rate is the weighted average interest rate during the period ended February 28, 2017 and is rounded to the second decimal place.

The repayment schedules for short-term and long-term loans subsequent to August 31, 2016 and February 28, 2017 are disclosed in Note 4 – “Financial Instruments.”

DHR has entered into a commitment line agreement with four financial institutions in order to secure flexible and stable financing. The status of the commitment line agreement as of August 31, 2016 and February 28, 2017 is as follows:

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Total amount of commitment line	¥10,000,000	¥20,000,000
Balance executed as loans	—	—
Unused line of credit	¥10,000,000	¥20,000,000

Note 16 – Lease Transactions

Future minimum lease revenues under existing non-cancelable operating leases as of August 31, 2016 and February 28, 2017 are as follows:

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Due within one year	¥678,868	¥12,030,811
Due after one year	406,963	74,018,272
Total	¥1,085,831	¥86,049,084

Note 17 – Deferred 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 Measures Act of Japan. If DHR does not satisfy all of the requirements as specified in the Special Taxation Measures Act of Japan, the entire taxable income of DHR will be subject to regular corporate income taxes in Japan.

(a) Significant Components of Deferred Tax Assets and Liabilities

	As of	
	August 31, 2016	February 28, 2017
	(Yen in thousands)	
Deferred tax assets:		
Excess provision of allowance for doubtful accounts	¥8,895	¥9,353
Deferred interest income	—	469,361
Valuation difference at the time of merger (Long-term prepaid expenses, etc.)	1,096	847
Valuation difference at the time of merger (Land, Buildings)	1,510,223	3,184,522
Loss carryforward assumed at the time of merger	14,168,921	14,291,342
Asset retirement obligations	134,133	135,656
Provision for loss on litigation	—	25,321
Deferred gains or losses on hedges	—	367,972
Amortization of fixed-term land lease rights	54,771	67,451
Other	19,518	987
Subtotal	15,897,560	18,552,816
Valuation reserve	(15,897,560)	(18,552,816)
Net deferred tax assets	—	—
Deferred tax liabilities:		
Valuation difference at the time of merger (Investment securities)	—	(820)
Valuation difference at the time of merger (Land, Buildings)	(1,698,437)	(14,869,216)
Asset retirement costs	(118,925)	(118,925)
Subtotal	(1,817,363)	(14,988,961)
Valuation reserve	1,817,363	14,988,961
Net deferred tax liabilities	—	—
Net deferred tax assets	¥—	¥—

Based on the cash distribution policy set forth in Article 37 of the Articles of Incorporation, DHR can distribute an amount of cash that exceeds profit in order to minimize taxable income. DHR does not assume corporate income tax payments in future accounting periods; therefore, deferred tax liabilities are not recorded.

(Changes in Presentation Methods)

Previously, each item of deferred tax assets and deferred tax liabilities was presented separately for current and non-current categories. From the current fiscal period, the presentation method has changed to presenting the aggregate amount of both current and non-current items, and the presentation of the valuation reserve has also been revised.

This change in presentation was made as a result of a review conducted at the time of the Merger with the former DHR to improve transparency. In addition, “amortization of fixed-term land lease rights,” which was included in “other” in deferred tax assets (non-current), is reported as a separate item from the current fiscal period due to its increased materiality. The financial statements for the previous fiscal period have been reclassified to reflect this change in presentation.

(b) Significant Differences Between the Statutory Tax Rate and the Effective Tax Rate After Applying Deferred Income Tax Accounting

The following table summarizes the significant differences between the statutory tax rate and DHR’s effective tax rate for financial statement purposes.

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
Statutory tax rate	32.31%	31.74%
Adjustments:		
Tax-deductible cash distributions paid	(32.65)	(44.89)
Amortization of goodwill	—	14.32
Change in valuation allowance	—	(1.17)
Other	0.36	0.01
Effective tax rate	0.02%	0.01%

Note 18 – Loss on Sale of Investment Properties

For the period ended February 28, 2017, DHR sold one investment property and reported a loss as follows:

	For the six-month period ended February 28, 2017 (Yen in thousand)
Castalia Minamigyotoku II	
Proceeds from sale of investment property	¥370,000
Cost of investment property sold	362,247
Other sales expenses	11,960
Loss on sale of investment properties	¥4,207

Note 19 – Provision for Loss on Litigation

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, requesting approval of a reduction in rent of approximately 16% compared with the current level for the period from May 2014. This case is currently pending.

DHR has recognized a provision for loss on litigation as of February 28, 2017. The estimated loss of ¥80 million was calculated by DHR based on rent judged most likely as of the balance sheet date after giving comprehensive consideration to how the Case has thus far unfolded, etc. (The amount includes a rent reduction for the period ended February 28, 2017 and prior periods and statutory interest applicable to the potential reduction in the rent.)

Note 20 – Per Unit Information

Earnings per unit for the periods ended August 31, 2016 and February 28, 2017 and net assets per unit as of August 31, 2016 and February 28, 2017 are as follows:

	For the six-month periods ended	
	August 31, 2016	February 28, 2017
	(Yen)	
Earnings per unit:		
Net income per unit	¥4,297	¥2,891
Weighted average number of units outstanding (units)	747,740	1,519,280
	As of	
	August 31, 2016	February 28, 2017
	(Yen)	
Net assets per unit	¥148,504	¥217,408

Net income per unit is calculated by dividing net income by the weighted average number of investment units during the period. Net assets per unit are calculated by dividing net assets by the number of units outstanding at each balance sheet date. Diluted earnings per unit are not disclosed since there were no diluted units.

Note 21 – Related-Party Transactions

Related-party transactions for the periods ended August 31, 2016 and February 28, 2017 are as follows:

(a) Controlling Company and Major Corporate Investors

For the six-month period ended August 31, 2016 — None

For the six-month period ended February 28, 2017

Attribute	Name	Location	Capital	Business type or occupation	Ownership percentage of investment units (Owned)	Relation to the related party	Transaction type	Transaction amount (Note 1)	Account	Balance at end of the period (Note 1)
			Yen in millions					Yen in thousands		Yen in thousands
Major corporate investor	Daiwa House Industry Co., Ltd.	Osaka-shi, Osaka	¥161,699	Construction	11.16%	Granting of preferential negotiation rights relating to real estate for investment	Purchase of trust beneficiary interests in real estate	¥9,686,000	—	—

Notes:

1. In the above table, consumption taxes are not included in the transaction amounts but are included in the balances at end of the period.
2. The terms and conditions are on an arm’s length basis.
3. As for purchase of trust beneficiary interests in real estate, the acquisition price is determined based on appraisal value assessed by third-party real estate appraisers.

(b) Affiliates — None

(c) Transactions under Common Control

For the six-month period ended August 31, 2016

Attribute	Name	Location	Capital	Business type or occupation	Ownership percentage of investment units (Owned)	Relation to the related party	Transaction type	Transaction amount (Note 1)	Account	Balance at end of the period (Note 1)
			Yen in millions					Yen in thousands		Yen in thousands
Subsidiary of DHR’s major corporate investor	Daiwa House Asset Management Co., Ltd.	Chiyoda-ku, Tokyo	¥300	Asset management	—	Consigned asset-management operations	Asset-management fees	¥609,840	Accrued expenses	¥517,841
Subsidiary of DHR’s major corporate investor	Daiwa Living Co., Ltd.	Koto-ku, Tokyo	100	Real estate property management	—	Property lease and management	Rental revenues etc.	1,537,066	Tenant leasehold and security deposits in trust	259,477
							Property lease and management fees	1,037,261	Operating account payable	259,604

For the six-month period ended February 28, 2017

Attribute	Name	Location	Capital	Business type or occupation	Ownership percentage of investment units (Owned)	Relation to the related party	Transaction type	Transaction amount (Note 1)	Account	Balance at end of the period (Note 1)
			Yen in millions					Yen in thousands		Yen in thousands
Subsidiary of DHR’s major corporate investor	Daiwa House Asset Management Co., Ltd.	Chiyoda-ku, Tokyo	¥300	Asset management	—	Consigned asset-management operations	Asset-management fees	¥1,997,950	Accrued expenses	¥923,067

Notes:

1. In the above table, consumption taxes are not included in the transaction amounts but are included in the balances at end of the period.
2. The terms and conditions are on an arm’s length basis.

(d) Directors and Major Individual Investors — None

Note 22 – Segment Information

(a) Segment Information

Since DHR has been engaged in a single segment of the real estate leasing business, and there is no other business segment for disclosure, segment information has been omitted.

(b) Related Information

Information about products and services

Since operating revenues from external customers for a single segment of product and service account for over 90% of total operating revenues in DHR’s statements of income and retained earnings for the periods ended August 31, 2016 and February 28, 2017, information about products and services has been omitted.

Information about geographic areas

(1) Operating revenues

Since operating revenues from external customers within Japan account for over 90% of total operating revenues in DHR’s statements of income and retained earnings for the periods ended August 31, 2016 and February 28, 2017, information about geographic areas has been omitted.

(2) Investment properties

Since over 90% of total investment properties on the balance sheets as of August 31, 2016 and February 28, 2017, are located within Japan, information about geographic areas on such investment properties has been omitted.

Information about major customers

A major customer is defined as a tenant that accounts for 10% or more of the operating revenues recorded in the statements of income and retained earnings. For the six-month periods ended August 31, 2016 and February 28, 2017, information about a major customer is as follows:

	Operating revenues for the six-month periods ended		Related segment
	August 31, 2016	February 28, 2017	
	(Yen in thousands)		
Daiwa Living Co., Ltd.	¥1,537,066	¥—	Real estate leasing

Amount paid in (issue value):	¥271,983 per unit
Total amount paid in (issue value):	¥42,625,175,760
Payment date:	March 21, 2017

(2) Issuance of new investment units through a third-party allotment

Number of new investment units issued:	14,000 units
Amount paid in (issue value):	¥271,983 per unit
Total amount paid in (issue value):	¥3,807,762,000
Payment date:	April 14, 2017
Allottee:	Nomura Securities Co., Ltd.

(b) Acquisition of Assets

On April 11, 2017, DHR acquired trust beneficiary interests in the following properties.

Property name	Acquisition price (Note 1) (Yen in thousands)	Asset class	Seller (Note 2)
DPL Misato	¥16,831,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Kawagoe III	7,200,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Kazo	3,300,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Urayasu III	8,500,000	Logistics property	DH Fund Four Godo Kaisha
D Project Tomisato	5,000,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Kyotanabe	3,520,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Sendai Izumi	1,510,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Oyama	2,000,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Sano	1,780,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Tatebayashi	3,100,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Kakegawa	6,000,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Hiroshima Seifu	3,820,000	Logistics property	Daiwa House Industry Co., Ltd.
D Project Tosu II	1,700,000	Logistics property	Daiwa House Industry Co., Ltd.
Castalia Shinsakae II	1,800,000	Residential property	Daiwa House Industry Co., Ltd.
Sharp Hiroshima Building	1,850,000	Other assets	Daiwa House Industry Co., Ltd.

Notes:

- The acquisition prices do not include acquisition-related expenses, taxes and dues and consumption taxes.
- Daiwa House, the seller of the assets acquired except for D Project Urayasu III, is deemed as an interested party as defined in the Investment Trust Act. As such, the Asset Manager has gone through the necessary discussion and approval procedures in accordance with its voluntary rules based on the Asset Manager’s internal rules on transactions with interested parties.
DH Fund Four Godo Kaisha, the seller of D Project Urayasu III, is not deemed as an interested party under the Investment Trust Act, but is a special purpose company (Tokutei Mokuteki Kaisha) set up with the aim of acquiring, holding and disposing of trust beneficiary interests in real estate partially invested in by Daiwa House, which is the parent company of the Asset Manager, and is accordingly classified as an interested party as stipulated in the Asset Manager’s internal rules on transactions with interested parties. As such, the Asset Manager has gone through the necessary discussion and approval procedures.

Note 23 – Subsequent Events

(a) Issuance of New Investment Units

At the Board of Directors’ meetings held on March 1, 2017, and March 13, 2017, it was resolved to issue the new investment units as described below. The proceeds from the issuance of new investment units through a public offering were fully received on March 21, 2017, while the proceeds from the issuance of new investment units through a third-party allotment were fully received on April 14, 2017.

After the issuance, unitholders’ capital increased to ¥108,136 million and the number of investment units issued and outstanding came to 1,690,000 units.

(1) Issuance of new investment units through a public offering

Number of new investment units issued: (Japan: 94,672 units; Overseas: 62,048 units)	156,720 units
Issue price:	¥280,868 per unit
Total issue price:	¥44,017,632,960

(c) Borrowing of Funds and Repayment of Loans

DHR obtained loans to acquire assets as stated in “(b) Acquisition of Assets” above.

Type	Loan amount (Yen in millions)	Interest rate	Loan execution date	Repayment date
Unsecured syndicated loan	¥9,500	0.39628% (Fixed rate)	April 11, 2017	April 30, 2021
Unsecured syndicated loan	10,000	0.75620% (Fixed rate)	April 11, 2017	April 30, 2026
Unsecured syndicated loan	10,000	1.02357% (Fixed rate)	April 11, 2017	April 28, 2028

VII. Independent Auditor's Report

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Independent Auditor's Report

The Board of Directors
Daiwa House REIT Investment Corporation

We have audited the accompanying financial statements of Daiwa House REIT Investment Corporation, which comprise the balance sheet as at February 28, 2017, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the financial position of Daiwa House REIT Investment Corporation as at February 28, 2017, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

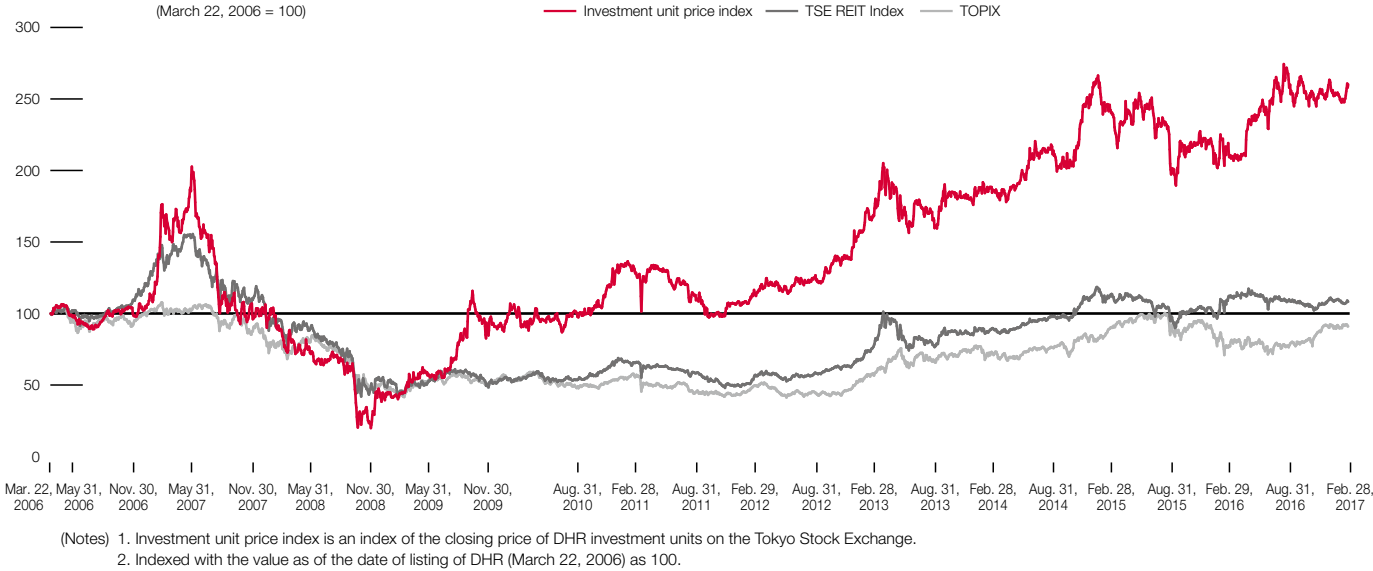
As described in Note 23(a), “Subsequent Events,” Daiwa House REIT Investment Corporation issued new investment units subsequent to February 28, 2017. Our opinion is not qualified in respect of this matter.

May 19, 2017
Tokyo, Japan

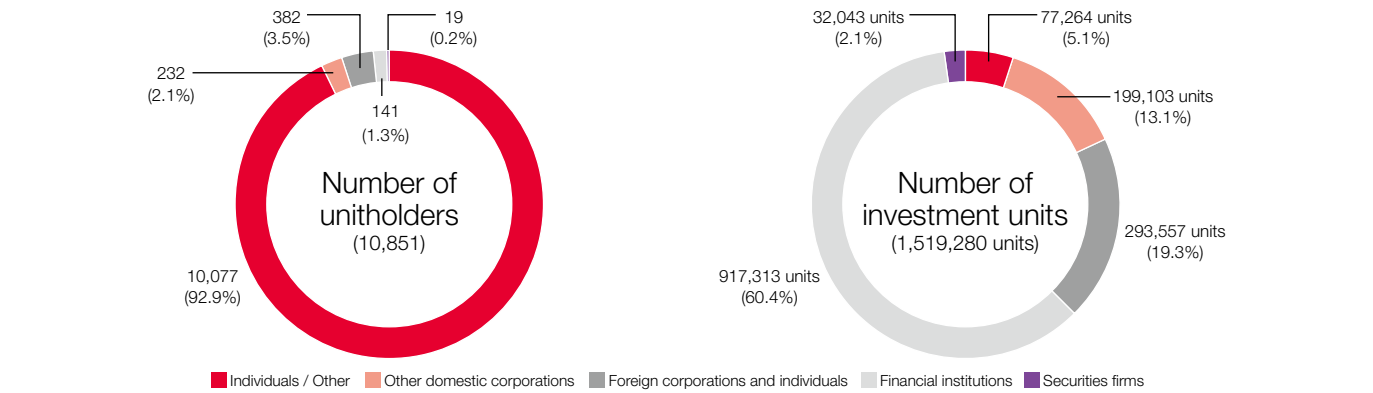
Investment Unit Price



Index Comparison



Unitholders Data



(Note) Ratios in parentheses are rounded to the nearest tenth.

Procedures for Changes of Address, etc.

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

Receipt of Distributions

You can receive distributions when you bring your receipt for distributions to the local office of the Japan Post Bank in Japan or to a post office (bank agent). If the period for receiving distributions 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, etc.

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.

Distribution Statement

The “Distribution Statement” delivered upon payment of distributions includes the “Payment Notice,” referred to in the provisions of the Act on Special Measures Concerning Taxation. This document may be used as a supporting document when declaring income for tax purposes. However, for unitholders who have selected the system of dividend allotment to securities company accounts in proportion to the number of shares held, the amount of withholding tax will be calculated by your securities company, etc. For supporting documents when declaring income for tax purposes please confirm with your securities company, etc. Furthermore, unitholders who receive distributions by way of a receipt for distributions also receive a “Distribution Statement” enclosed with it.

Outline of the Social Security and Tax Number System nicknamed “My Number System” with Regard to Investment Units

Residents in Japan are notified of their Social Security and Tax Number (nicknamed “My Number”) by their city, town or village. My Number is required when performing tax-related procedures with regard to investment units.

Use of the My Number for Investment Unit Related Business

As stipulated by laws and regulations, it is now required to state the My Number of the unitholder on payment records that are submitted to the tax office.

Unitholders are therefore requested to submit their My Number to their securities company.

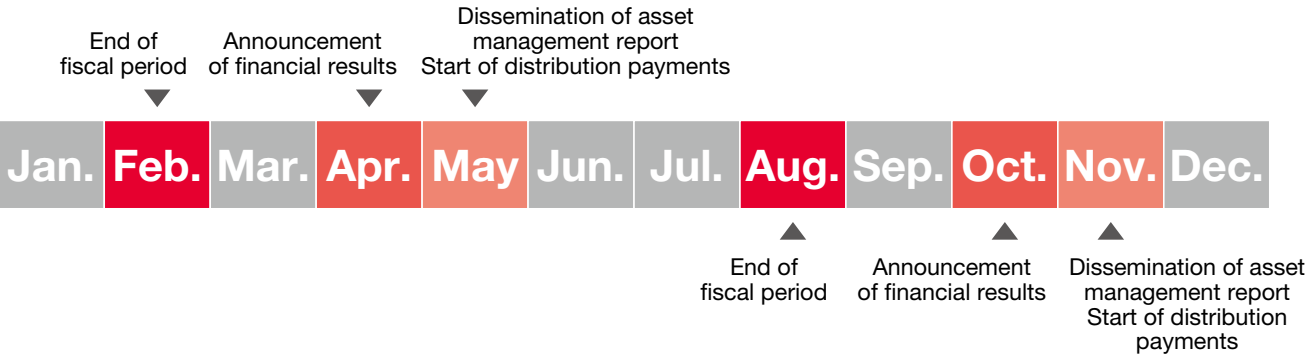
[Contact address for inquiries on submitting My Number]

- Unitholders whose investment units are managed by a securities account
 - ➡ Please direct your inquiries to your securities company.
 - Unitholders not conducting transactions via a securities company
 - ➡ Please call the following toll-free phone number.
- Stock Transfer Agency Business Planning Dept. of Sumitomo Mitsui Trust Bank, Limited TEL: 0120-782-031

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	Date set forth in Section 16.1 in the Articles of Incorporation by DHR
Listing	REIT section of the Tokyo Stock Exchange (Securities code: 8984)
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	Stock Transfer Agency Business Planning Dept. of Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, JAPAN TEL: 0120-782-031 (toll-free, available within Japan only) Weekdays 9 a.m. to 5 p.m.

Investor Relations Calendar



DHR Website

Website: <http://www.daiwahouse-reit.co.jp/en/>

TSE code : 8984

Contact Site Map Font Size B L Search JAPANESE

Daiwa House REIT Investment Corporation

About DHR Features of DHR Portfolio Financial Information Investor Relations

Daiwa House REIT

Leveraging Comprehensive Strengths of Daiwa House Group and Aiming to Continuously Increase Unitholder Value

Portfolio Information

Distribution per Unit

Latest Financial Data

Outline of the Asset Manager

Corporate Name	Daiwa House Asset Management Co., Ltd.
Head Office	7th Floor, Nissei Nagatacho Building, 2-4-8, Nagatacho, Chiyoda-ku, Tokyo 100-0014
Established	September 1, 2004
Paid-in Capital	¥300 million
Shareholder	Daiwa House Industry Co., Ltd. (100%)

Q&A concerning Unitholder Benefits Program

Beginning the fiscal period ended August 2013, DHR has established a unitholder benefits program. Below are some answers to the many questions we have received from unitholders since the program was established.

How to make reservations using the pass for accommodation at a special room rate

- Q1

Do reservations have to be made by telephone? Can I make reservations over the Internet?
- A1

When the unitholder benefits program was established, it was decided that there should be just one point of contact for receiving reservations in order to avoid any reservation confusions. As such, it is only possible to make a reservation by phone.

What conditions apply to accommodation reservations?

- Q1

How many people can stay each time?
- A1

Providing that the reservation is for two or more guests per room, you may reserve for as many people as you like under the same single reservation. When the number of staying guests exceeds one hotel room capacity, you may be required to stay in multiple rooms.
- Q2

How many reservations can be made with the pass?
- A2

You can make reservations as many times as you like for stays during the valid period of the pass.
- Q3

I would like to use the pass for a single-person stay.
- A3

In principle, the pass is for two or more persons. However we allow single person reservations for an additional ¥4,320 on top of the price in the per-person price list for two persons.

Concerning the content of the unitholder benefits program

- Q1

It would be nice to receive a gift card such as a dining coupon or QUO card.
- A1

DHR, unlike a general business operating company, in principle provides distribution using cash from the full amount of net income. If DHR were to distribute a gift card like a dining coupon or QUO card, an amount equivalent to the cost of such a gift would be deducted from the distribution payment amount. Therefore, the unitholder benefits program is designed to be available to unitholders without any extra cost burden borne by DHR.