Investor Presentation for the 29th Fiscal Period Ended August 2020

Held on October 19, 2020

Major Questions and Answers (Summary)

Q. 1

There were reports that Daiwa House, the sponsor, had sold logistics facilities to Blackstone. Am I correct in understanding that these properties were sold to an external party after Daiwa House REIT decided against acquiring them? In addition, given the rise in sales to external parties, are there any concerns that Daiwa House REIT will not be able to acquire desired properties?

Ans. 1

As for the properties sold to Blackstone, it is fair to assume that they were sold after we passed on acquiring them.

For the 6th Medium-Term Plan started in April 2019 and spanning three years, the sponsor revised and increased the budget for both plans to 1 trillion yen for real estate development investments and 670 billion yen for real estate development property sales. As we have preferential negotiating rights with the sponsor, there is no change to the fact that the sponsor approaches us first when making a sale. However, we believe that it is extremely difficult to acquire all properties for sale. The private placement core fund that invests in logistics facilities, announced recently by the sponsor, may also be utilized by Daiwa House Group as an exit strategy.

Q. 2

Has the economic downturn caused by COVID-19 slowed the momentum for rent increases at residential properties? How do you view occupancy rates and the future of the housing market?

Ans. 2

While the average occupancy rate during the fiscal period ended August 2020 was forecast to be 96.5%, it ended up being 96.7%. Monthly rent increases also outperformed forecasts, both for tenant replacements and for lease contract renewals. On the other hand, the average occupancy rate during the fiscal period ending February 2021 is forecast slightly conservatively at 96.3%. The recent trend is that it is taking a little longer to find replacements after high-rent tenants move out, especially in the five central wards of Tokyo. We have factored this reality into our forecasts.

Q.3

Are there some differences between the private placement fund’s perspective on acquiring logistics facilities and Daiwa House REIT’s perspective?

Ans. 3

As mentioned earlier, we still maintain preferential negotiation rights. However, there are cases when the timing of sale desired by the sponsor or its stance on cap rate does not match ours. In such cases, we will refrain from acquisitions.

Q. 4

Looking at individual properties, do you get the impression that there were fewer negative impacts due to COVID-19 than initially expected? Further, what kind of impacts are you anticipating given a potential return to a situation like in May or June of this year when the impact of COVID-19 was severe?

Ans. 4

We believe that the impact on rent reduction was lower than initially anticipated. Looking forward, we have factored into our forecasts the same level of impact as the previous fiscal period as there are some things that we cannot predict, as with the second and third waves in Europe.

Q. 5

Could you inform me about how the hotel in Nagasaki was acquired at the end of September? While it is likely that stable cash flow can be anticipated given that it is under a sublease agreement, do you think hotels will primarily be under sublease agreements moving forward?

Ans. 5

For the two properties acquired on this occasion, the retail facility and hotel, we made our decisions on acquisition upon individually assessing location and other conditions, as always. Although Nagasaki is a tourist destination, it is also an area that does not have many hotels. We have been informed that the hotel acquired on this occasion was not badly impacted by COVID-19, and that occupancy rates in September were above 70%. While the Go To campaign is likely contributing to current occupancy rates, we believe that the property is capable of extremely high occupancy if the impacts of COVID-19 can be mitigated. On the other hand, from the perspective of minimizing risks under such difficult circumstances, the contract is a sublease-type master lease agreement with the sponsor that can be renewed after one year. Once the impacts of COVID-19 have settled, we could terminate this master lease agreement to raise the NOI yield.

Q. 6

Not many logistics facilities have been acquired recently, but is this a reflection of your perspective on acquisitions? Given the state of the transaction market, will other asset classes be preferred over logistics facilities from an acquisition perspective going forward?

Ans. 6

The three properties acquired in April 2020 were a logistics facility, a multi-use property, and a retail property, all of which were in the pipeline. There is no change to our conventional stance of mainly acquiring properties developed by the sponsor, and we do not specifically acquire mainly retail facilities or hotels. The total size of the pipeline is approximately 400 billion yen, of which approximately 300 billion yen is for logistics facilities, and there is no change to the fact that logistics facilities will continue to remain the main focus of our acquisition considerations.

Q. 7

As you have already achieved your target of 800 billion yen in asset size, do you intend to not rush the pace of future acquisitions? Given the opportunity, do you intend to focus more on external growth, such as by targeting 1 trillion yen?

Ans. 7

Having achieved our 800-billion-yen goal, our next strategy is to target a stabilized target DPU of 5,600 yen for the purpose of continually growing our distribution. Toward achieving this 5,600-yen goal, we believe that external growth will remain the primary driver of DPU growth. In this context, we hope to operate in such a way that will add to our DPU by utilizing the sponsor’s pipeline and by conducting replacements at some of our properties.