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December 19, 2018

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Notice concerning Acquisition of Asset **(Sasazuka South Building)**

Daiwa Office Investment Corporation (the “Investment Corporation”) hereby announces that Daiwa Real Estate Asset Management Co. Ltd., to which the Investment Corporation entrusts management of its assets (the “Asset Manager”), has determined today to acquire trust beneficial interest in real estate as follows.

1. Summary of Assets to be Acquired

Asset Name	Sasazuka South Building (the “Property”)
Type of Asset	Trust beneficial interest in domestic real estate
Location	1-64-8 Sasazuka, Shibuya-ku, Tokyo
Acquisition Price	3,000 million yen (Excluding acquisition costs, consumption tax, etc.)
Date of Conclusion of Purchase Agreement	December 19, 2018
Scheduled Delivery Date	December 27, 2018 (planned)
Seller	Not disclosed (Note 1)
Funding for Acquisition	Loans to be announced later and cash on hand
Payment Method	Lump-sum payment at the time of delivery
Intermediary	Not disclosed (Note 2)

(Note 1) Trust beneficial interest in real estate of the Property is divided into two: (1) compartmentalized ownership of the 1st to 7th floors and (2) compartmentalized ownership of the 8th floor. Both sellers are domestic special purpose companies which have not agreed to disclose their names.

(Note 2) The intermediary is a domestic corporation, which has not agreed to disclose its name.

2. Reason for Acquisition

The Property is an office building pursuant to the basic policy for asset management set forth in the Articles of Incorporation and the management policy of the Investment Corporation, and the acquisition was determined upon appreciation of the Property’s rarity and profitability. Please refer to the following for further details.

(1) Location:

The Property is a 7-minute walk from Sasazuka Station on the Keio Line/Keio New Line.

The location is excellent considering that Sasazuka Station is only 5 minutes from Shinjuku Station, and from the point of proximity to the terminal station.

The Sasazuka area where the Property stands has head offices, laboratories, etc. of new IT startups. Being relatively close to Shinjuku, the area is likely to expect demand for back offices from construction-related companies and companies which have head offices in Shinjuku.

(2) Building Facilities:

The Property has eight floors above ground and one below with a gross floor area of 5,400.7 m² and a leasable area of approximately 167 tsubo per floor is secured. It is equipped with 2,600 mm of typical floor ceiling height, 70 mm of OA floor, individual air-conditioning system, etc. The office has no pillars within the rental space, which enables to offer excellent layout flexibility and usability.

Even after surpassing 25 years since its completion, the property has been appropriately maintained and managed, and will stay competitive from here on out without lagging behind properties in the surrounding area through systematic facility renewal after the acquisition.

Note: This press release has been prepared as a public announcement regarding the Investment Corporation’s acquisition of assets and not prepared with the aim of soliciting investments.

Given the functionality and favorable location of the Property, it should perform competitively and contribute regularly to the profitability of the Investment Corporation's portfolio.

3. Details of the Asset to be Acquired

Asset Name	Sasazuka South Building		
Type of Specified Asset	Trust beneficial interest in real estate		
Trustee (scheduled)	Mitsubishi UFJ Trust and Banking Corporation		
Trust Period (scheduled)	i) From December 26, 2006 to December 31, 2028 (Compartmentalized ownership (1st to 7th floors)) ii) From August 30, 2018 to December 31, 2028 (Compartmentalized ownership (8th floor))		
Location (Address)	1-64-4 Sasazuka, Shibuya-ku, Tokyo and other 6 lots		
Use (Real Property Registry)	Office/residence		
Ownership Form	i) Land: Right of site ii) Building: Compartmentalized Ownership (100%)		
Site Area (Real Property Registry)	1,001.88 m ²		
Total Floor Area (Real Property Registry)	5,400.7 m ²		
Structure (Real Property Registry)	Steel framed reinforced concrete/steel framed structure with flat roof, eight stories above ground and one below		
Construction Date (Real Property Registry)	December 9, 1991		
Building Engineer	Tokyu Architects & Engineers Inc.		
Constructor	Sumitomo Construction Co., Ltd. (name at the time of the completion)		
Structural-design Engineer	Tokyu Architects & Engineers Inc.		
Floor Height/Ceiling Height	3,800 mm (for standard floor)/2,600 mm (for standard floor)		
Air-conditioning System/OA Laying	Each floor individual treatment air-conditioning/OA-capable floor		
Building Inspection Agency	Tokyo Metropolitan Government		
Engineering Due Diligence Company	Tokyo Bldg-Tech Center Co., Ltd		
Soil Contamination Risk Survey Company	Earth-Appraisal Co., Ltd.		
Probable Maximum Loss Level (Assessor)	5.90% (Sompo Risk Management Inc.)		
Acquisition Price	3,000 million yen (Excluding acquisition costs, consumption tax, etc.)		
Appraisal Value (Appraisal Date)	3,300 million yen (as of December 1, 2018)		
Appraiser	DAIWA REAL ESTATE APPRAISAL CO., LTD.		
Collateral	None		
Summary of Tenants			
Total Number of Tenants	9 (As of the scheduled acquisition date)		
Rent Revenue	15 million yen per month (October 2018)		
Security Deposit and Guaranty	96 million yen (October 31, 2018)		
Total Leased Floor Space	3,758.00 m ² (estimation for the scheduled delivery date) (Note 1)		
Total Leasable Floor Space	3,758.00 m ² (Note 1)		
Trend in occupancy rates (Note 1)	March 31, 2017	March 31, 2018	Acquisition date (scheduled)
	100.0%	100.0%	100.0%
NOI yield at acquisition (Note 2)	4.2%	Midterm NOI yield (Note 3)	5.0
Appraisal NOI (NOI yield) (Note 4)	4.9%	Depreciation (Note 5)	0.6%
Other Relevant Information	<p>1. Regular inspection pursuant to Article 12 of the Building Standards Act, etc. has identified matters to be corrected. Therefore, the corrections has planned at the expense of and under the responsibility of the seller immediately after acquisition.</p> <p>2. The 8th floor is residential; one unit, the total leasable area is 146.92 m².</p>		

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- (Note 1) The figures are based on the data obtained from the seller for the total leased floor space, total leasable floor space and trend in occupancy rates of the end tenants.
- (Note 2) NOI yield at acquisition is calculated based on the leasing agreement for the property on the acquisition date by dividing the annual income with the assumption of the occupancy rate being 100.0% in consideration of the taxes and other costs that may be incurred by acquisition price. The figures are rounded to the first decimal place. The figure is not the forecast for the current fiscal period or the next fiscal period onward.
- (Note 3) Mid-term NOI yield is calculated based on the assumption that after the property acquisition, the Investment Corporation will receive rent on an ongoing basis for the medium term (with the assumption of the occupancy rate being 95.0%). The estimated figures where the rental business expenses are deducted from the rental revenue are divided by the acquisition price. The figures are rounded to the first decimal place. The figure is not the forecast for the current fiscal period or the next fiscal period onward.
- (Note 4) The figure for appraised NOI yield is calculated based on net operating income used for the calculation of the income approach value as per the direct reduction process as stipulated by the real property appraisal report and divided by acquisition price. The figure is rounded to the first decimal place.
- (Note 5) The figure for depreciation is the total amount of the six-month depreciation conversion price expected to accrue in the financial period of acquisition and the appropriate expected depreciation charge for the next financial period (six-month period), which are divided by the acquisition price. The figure is rounded to the first decimal place and is not a forecast for the current fiscal period or the next fiscal period onward.

4. Details of the Sellers

The two sellers are domestic special purpose companies. However, due to the absence of consent on disclosure of their names, etc., such information is not disclosed. There is no relationship required to be disclosed between the Investment Corporation/Asset Manager and the seller in terms of capital, personnel and business. In addition, the seller does not fall under the Related Persons of the Investment Corporation/Asset Manager.

5. Status of Owners etc. of Properties

The acquisition of the trust beneficial interest does not pertain to acquisition from any persons having a special interest in the Investment Corporation or the Asset Manager.

6. Status of Intermediary

(1) Summary of Intermediary

The intermediary for the acquisition of the Property is a domestic industrial company. However, due to the absence of consent on disclosure of its name, etc., such details are not presented. There is no relationship required to be disclosed between the Investment Corporation/Asset Manager and the intermediary in terms of capital, personnel and business. The Intermediary does not fall under the Related Party of the Investment Corporation/Asset Manager. Furthermore, the intermediary does not fall under the Related Persons of the Investment Corporation/Asset Manager or under the Related Persons of the sponsor as of December 19, 2018.

(2) Fees for the Intermediary

Fees for the acquisition of the Property are not disclosed as consent has not been obtained from the intermediary.

7. Acquisition Schedule

Date of Determination of the Acquisition	December 19, 2018
Date of Execution of Purchase Agreement	December 19, 2018
Scheduled Payment Date	December 27, 2018
Scheduled Delivery Date	December 27, 2018

8. Future Prospect

The date of delivery of the Property is scheduled to be December 27, 2018. Thus, the acquisition of the Property will have no impact on the forecast of management status for the fiscal period ended November 2018 (26th Fiscal Period). The impact of the acquisition of the Property on the management status forecasts for the fiscal period ending May 2019 (27th fiscal period) is not significant and there are presently no revisions to the previously released forecasts. The management status forecasts for the fiscal period ending May 2019 (27th fiscal period) and for the fiscal period ending November 2019 (28th fiscal period) are scheduled to be disclosed at the time of announcement of the final results for the fiscal period ended November 2018 (26th Fiscal Period), which is scheduled for January 21, 2019.

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9. Summary of Appraisal Report

Appraiser	DAIWA REAL ESTATE APPRAISAL CO., LTD.
Appraisal Date	December 1, 2018
Appraisal Value	3,300 million yen

Items	(million yen) (Note 1)	Outline, etc.
Income Approach Value	3,300	Based on DCF method with reference/verification to direct capitalization value.
Direct Capitalization Value	3,450	
(1) Operating Revenue	205	
Potential Annual Rent Revenue	216	Mid- to long-term competitiveness is accounted for the standardized rent.
Amount of Loss due to Vacancy	10	Stable occupancy ratio is estimated for the medium to long term.
(2) Operating Expenses	59	
Maintenance and Operation Cost	15	Maintenance and operation cost is based on the current contract and those of peer properties and PM fee is based on the fee levels of peer properties.
PM Fee	(Note 2)	
Water & Utility Charges	21	Based on actual historical data.
Repair	1	Based on annualized repair expense on ER, judged appropriate.
Leasing Fee	1	Based on the standard fee levels of peer properties.
Tax	17	Based on actual historical data.
Non-life Insurance	0	Based on quoted premium, judged appropriate.
Other	1	Based on fees including renewal contracts.
(3) Net Operating Revenue	146	
(4) Profit from deposits/guarantees	1	Return yield is assumed at 1.0%.
(5) Capital Expenditures	9	Based on annualized repair expense on ER, judged appropriate, and considering CM fee.
(6) Net Revenue ((3)+(4)-(5))	138	
(7) Capitalization Rate	4.0%	Peer property comparison as well as investor sounding has been referenced.
Discounted Cash Flow Value	3,230	
Discount Rate	3.8%	Based on historical discount rates of peer properties as well as comparison with cap rate related to other financial instruments.
Terminal Capitalization Rate	4.2%	Consideration of marketability of the Property at the end of the period that the DCF valuation assumed.
Integrated Value by Using Cost Method	2,630	
Ratio of Land	84.4%	
Ratio of Building	15.6%	

Other things appraiser noted upon valuation	-
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(Note 1) The above revenue and expenses are based on the appraisal report and are not the figures forecasted by the Investment Corporation or the Asset Manager.

(Note 2) With no prospective PM's permission given for a specific disclosure of the PM fees, there is no disclosure of the breakdown of the fees. Disclosure of the PM fee figure in a specific manner may cause an adverse effect on the other business operations of the prospective PM, leading to a negative impact on the planned efficient operation that the Investment Corporation is to contract with the PM based on the administration and management policy. This may in return further adversely affect unitholders' interest. Therefore, the figure presented in this column is summed up with maintenance and operation cost.

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