



NEWS RELEASE

Sep 13, 2017

R&I Affirms A+, Stable: Daiwa Office Investment Corp.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Daiwa Office Investment Corp.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Daiwa Office Investment Corp. (DOI) is a REIT that primarily invests in office buildings located in central Tokyo. Daiwa Securities Group Inc. serves as the REIT's sponsor.

DOI's main investment target is office buildings located in the five central wards of Tokyo. The properties in this area account for 88.6% of its portfolio on an acquisition value basis.

DOI continues to acquire properties by capitalizing on various sourcing routes. The total acquisition price after the change of a sponsor in 2009 exceeds 240 billion yen. In June 2017, it acquired a silent partnership equity interest in an SPC which owns "Concurred Yokohama", a large office building located near Yokohama Station, together with the sponsor group, thereby obtaining preferential negotiation rights for acquiring the ownership of this building. The REIT plans to utilize the property in order to improve the quality of the portfolio, for example, through strategic property replacements.

The asset size is as large as 469.3 billion yen on an acquisition value basis. While the proportion of the largest property, Shinjuku Maynds Tower, in the portfolio remains high at 28.5%, the ratio of the leasable space occupied by the largest tenant is less than 2%, which suggests a diverse tenant mix.

The average occupancy rate of the portfolio for the fiscal period ended May 2017 was 97.2%. Reflecting the favorable market conditions for office buildings in central Tokyo, upward rent revisions with existing tenants are increasing steadily. For the time being, a temporary decrease in earnings will occur because of tenant turnover, but the earnings trend will likely continue to recover along with rent increases.

The LTV ratio is maintained at a conservative level of 42.2% as of May 2017. Since the ratio is managed within the target range of 40-50%, DOI has considerable borrowing capacity. With the total appraisal value improving, unrealized gains continues growing.

The average remaining term to maturity is as long as 4.3 years as of May 2017, and maturity dates are staggered. DOI has been able to raise funds from major domestic financial institutions at a relatively low cost, which has helped build a solid funding base.

The Rating Outlook is Stable. With a focus on internal growth, DOI is steadily increasing rents. The LTV ratio is kept low, and the funding base is stable. Meanwhile, the NOI yield is still low, though improving. R&I will continue to pay attention to trends in the indicator.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: Daiwa Office Investment Corp. (Sec. Code: 8976)
Issuer Rating
RATING: A+, Affirmed
RATING OUTLOOK: Stable

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