

June 25, 2024

For Immediate Release

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Notice Concerning Acquisition of Trust Beneficiary Interests in Domestic Real Estate
Associated with Reconstruction of Castalia Kamiikedai

Daiwa House REIT Investment Corporation (“DHR”) hereby announces the decision made today by Daiwa House Asset Management Co., Ltd. (the “Asset Manager”), the asset manager to which DHR entrusts the management of its assets, regarding the demolition of the existing building of Castalia Kamiikedai (the “Property”) which DHR owns and reconstruction of a new building (the “Reconstruction”) as described below.

1. Purpose of the Reconstruction

With an aim to secure further property acquisition opportunities for DHR, the Asset Manager changed part of the Asset Management Guidelines in August 2023, and added selection criteria for investment in development projects and reconstruction of existing properties in the portfolio^(Note). DHR plans to demolish the building of the Property with declining profitability due to deterioration of the building and to reconstruct and then acquire a new building in order to improve quality of the portfolio by rejuvenating the property age. The Reconstruction will be the first case of reconstruction conducted by DHR based on the changes to the Asset Management Guidelines.

The new building to be built after the Reconstruction is planned to be highly insulated with ZEH (Net Zero Energy House) specifications, which is expected to improve competitiveness of the Property also from the perspective of addressing environmental issues.

The Asset Manager decided the Reconstruction based on the judgement that the tenants after the Reconstruction are deemed to be sufficiently secured and it is deemed not to have an undue influence on the portfolio as a whole based on the careful assessment of the measures to handle risks related to approval and license, completion of construction work, tenants, price fluctuation, interest rate fluctuation during the development, large-scale natural disasters, and other factors. With the start of the new operation of the Property scheduled in July 2025, there will be no earnings contributions expected from the Property during the course of the Reconstruction. However, reconstruction of the Property with declining profitability and no prospect of improvement is expected to contribute to improve profitability of the Property in the future.

(Note) For details of the partial changes to the Asset Management Guidelines of the Asset Manager, please refer to the press release “Notice Concerning Partial Changes to Asset Management Guidelines of Asset Manager” announced on July 26, 2023.

2. Background of the Reconstruction

The Property is a residential property mainly for singles and has 12 leasable units with average leasable area of approximately 35 m² per unit. The Property is located in one of the most popular Jonan areas which include Meguro Ward, Shinagawa Ward, Ota Ward, and Minato Ward, and approximately four-minute walk from Nagahara Station on the Tokyu Railway Ikegami Line and approximately five-minute walk from Hatanodai Station on the Tokyu Railway Ikegami Line and Oimachi Line. The location is suitable for rental residential properties as it offers excellent transportation convenience with multiple train lines available, and the surrounding environment is also convenient with convenient facilities such as supermarkets and convenience stores available in the neighborhood area.

In the past, water leakage occurred at the Property and DHR performed exterior wall repair work and rooftop

waterproofing work at the time. However, water leakage occurred again in 2022. After the deterioration diagnosis arranged in 2023, it was confirmed that the building deteriorated further due to water leakages. Responding to this situation, the Asset Manager conducted various studies toward implementing large-scale renovation or reconstructing the building of the Property. During the course of various studies, it was found that all the tenants needed to vacate the building before conducting either the large-scale renovation or reconstruction. DHR stopped recruitment of new tenants in 2023, and the rest of the existing tenants had vacated the building by April 2024. This time, the decision was made to demolish the building of the Property and reconstruct a new residential property centered on compact-type units which are more competitive in rental market, after cost-benefit analysis on large-scale renovation and reconstruction, also by taking into consideration the above-mentioned location advantage of the Property.

3. Overview of the Reconstruction

(1) Schedule of the Reconstruction

Decision of the Reconstruction	: June 25, 2024
Conclusion of new building construction work contract and demolition work contract ^(Note)	: June 28, 2024 (planned)
Existing building demolition period	: From July 2024 to September 2024 (planned)
New building construction period	: From September 2024 to July 2025 (planned)
Start of the new operation	: July 2025 (planned)
(Note) Ishima Koumuten, which is the counterparty to the new building construction work contract and demolition work contract, does not have any special interests with DHR or the Asset Manager.	

(2) Property overview before and after the Reconstruction

		Before the Reconstruction (Actual results for the fiscal period ended February 29, 2024)	After the Reconstruction (Anticipated)
Property name		Castalia Kamiikedai	
Property number		RE-065	
Asset class		Residential	
(Anticipated) acquisition price ^(Note 1)		198 million yen	378 million yen
(Anticipated) acquisition date ^(Note 2)		April 1, 2010	July 2025
Book value		172 million yen	
Type of specified asset		Trust beneficiary interest in real estate	
Trustee		Mitsubishi UFJ Trust and Banking Corporation	
Trust maturity date		July 31, 2028	November 30, 2033
Location	Lot number	1-109-1, Kamikedai, Ota Ward, Tokyo	
	Address	1-4-15, Kamiikedai, Ota Ward, Tokyo	
Land	Type of ownership	Land lease right	
	Land lease right period	Full 30 years from May 25, 2001	Full 30 years from July 1, 2025
	Land area	242.73 m ²	
	Area classification	Category 1 medium-to-high-rise exclusive residential district	
Building	Type of ownership	Ownership	
	Use	Apartment complex	
	Gross floor area ^(Note 3)	421.42 m ²	473.44 m ²
	Structure	Steel-frame building	Reinforced concrete (1st floor) and wooden (2nd and 3rd floors) building
	Number of floors	4 floors	3 floors
	Date of construction ^(Note 2)	March 15, 2002	July 2025
Leasable area		414.45 m ²	411.27 m ²
Historical occupancy rate at end of period		August 2021 85.6% February 2022 89.2% August 2022 82.2% February 2023 82.2% August 2023 60.6% February 2024 24.9%	
Number of leasable units (unit type)		12 units (8 single type units and 4 compact type units)	8 units (7 compact type units and 1 family type unit)

	Before the Reconstruction (Actual results for the fiscal period ended February 29, 2024)	After the Reconstruction (Anticipated)
Master lease type	Pass-through type	
Annual rent (excluding consumption taxes) ^(Note 4)	8 million yen	23 million yen
Tenant leasehold and security deposit	222 thousand yen	
NOI (annualized) ^(Note 5)	-1 million yen	16 million yen
NOI yield ^(Note 6)	-0.8%	4.4%
Appraisal value ^(Note 7)	87 million yen (valuation date: February 29, 2024)	442 million yen (valuation date: June 1, 2024)

(Note 1) “(Anticipated) acquisition price” excludes various expenses related to acquisition, settlement money such as taxes and dues, and consumption taxes, etc.

“Anticipated acquisition price” after the Reconstruction is calculated by adding anticipated construction costs (including construction costs and design costs but excluding ancillary expenses such as taxes, demolition and removal costs, and disposal loss) to the land lease right price (90 million yen) as of the anticipated acquisition date. Actual acquisition price after the Reconstruction may vary due to changes in the Reconstruction plans and other factors.

(Note 2) “Anticipated acquisition date” and “Date of construction” after the Reconstruction are the anticipated dates as of today and may vary depending on the actual progress of the Reconstruction.

(Note 3) “Gross floor area” before the Reconstruction is the sum total of each floor area recorded in the registry.

“Gross floor area” after the Reconstruction is substituted with gross floor area shown in the basic design for reference purposes, as the gross floor area to be recorded in the registry is not yet determined as of today.

(Note 4) “Annual rent” before the Reconstruction is the sum of the actual amount of rent revenue and common area charges for the fiscal periods ended August 31, 2023 and February 29, 2024.

As the new building to be built after the Reconstruction has not been completed, a survey report as of June 1, 2024 (the “Survey Report”), which was prepared based on a survey of the property value of the new building upon completion and under certain assumptions, was obtained from Japan Real Estate Institute. “Annual rent” after the Reconstruction is represented by operating revenue based on a direct capitalization method as shown in the Survey Report. The Survey Report is not an appraisal pursuant to the Japanese Real Estate Appraisal Standards. “Annual rent” after the Reconstruction is the estimated figure based on the Reconstruction plans, and actual figure may vary.

(Note 5) “NOI” before the Reconstruction is the sum of the actual amount for the fiscal periods ended August 31, 2023 and February 29, 2024.

“NOI” after the Reconstruction is represented by a figure calculated by deducting operating expenses from operating income based on a direct capitalization method as shown in the Survey Report. “NOI” after the Reconstruction is the estimated figure based on the Reconstruction plans and actual figure may vary.

(Note 6) “NOI yield” is calculated as NOI divided by the (anticipated) acquisition price.

(Note 7) “Appraisal value” after the Reconstruction is represented by the survey value as shown in the Survey Report.

(3) Approximate estimates of total expenditures for the Reconstruction

Approximate estimates of total expenditures	344 million yen
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(Note) Approximate estimates of total expenditures include construction costs, design costs, ancillary expenses, demolition and removal costs, and compensation fees to the existing tenants, etc., but exclude consumption taxes and disposal loss. The price of land lease right owned by DHR is not included in the approximate estimates of total expenditures. DHR plans to use cash on hand to pay for these expenditures. The amounts, etc. of the major items in the approximate estimates of total expenditures were verified as appropriate by a third party.

(4) Initiatives for environmental issues

In regard to the new building to be built after the Reconstruction, in order to decrease environmental burden (embodied carbon ^(Note)) throughout the lifecycle of the building, main structures of the second and third floors will be made of wood (the first floor will have reinforced concrete structure). In addition, the building is planned to be highly insulated with ZEH (Net Zero Energy House) specifications, which is expected to improve competitiveness of the Property by enabling reduction of utility costs attributable to reduced energy consumption.

(Note) Embodied carbon refers to the GHG emissions associated with construction of a building (from procurement of building materials, transportation, construction, repairs and maintenance, disposal, to recycling).

4. Outlook

(1) Costs related to demolishment of the existing building

DHR currently estimates total costs related to demolition of the existing building associated with the Reconstruction will be 120 million yen (excluding consumption taxes).

Breakdown	Approximate amount	Anticipated timing of recognition
Loss on disposal of non-current assets	80 million yen	Fiscal period ending February 28, 2025
Demolition and removal costs, etc.	39 million yen	Fiscal period ending February 28, 2025

(2) New building construction costs

DHR currently estimates total construction costs associated with the Reconstruction will be 300 million yen (excluding consumption taxes). DHR plans to pay in installments in accordance with the progress of the construction work, and the applicable amount will be recorded as construction in progress for each period depending on the timing of the payment.

Breakdown	Approximate amount	Anticipated timing of recognition
Construction costs	253 million yen	Fiscal periods ending February 28, 2025 and August 31, 2025
Design costs and construction supervision costs	19 million yen	Fiscal periods ending August 31, 2024 and August 31, 2025
Ancillary expenses	27 million yen	Fiscal periods ending August 31, 2024, February 28, 2025, and August 31, 2025

(3) Outlook

The impact of the Reconstruction on the forecast of results for the fiscal period ending August 31, 2024 (from March 1, 2024 to August 31, 2024) and the fiscal period ending February 28, 2025 (from September 1, 2024 to February 28, 2025) will be minimal and is already factored in the forecasts; accordingly, there are no revisions to the forecasts.

5. Overview of the Survey Report (after the Reconstruction)

Survey value	442 million yen
Evaluation agency	Japan Real Estate Institute
Valuation date	June 1, 2024

Item	Content	Basis
Value based on income method	442 million yen	Estimated the survey value by treating the value based on direct capitalization method and the value based on discounted cash flow method equally and correlating these two values
Value based on direct capitalization method	446 million yen	
Operating revenue	23 million yen	
Potential gross revenue	24 million yen	Assessed the level of rents that can be received stably over the medium to long term based on the level of new rents in case the property is newly leased as well as the attributes and other factors of the anticipated lessees; and recorded the rental revenues and common area charges based on the aforementioned
Loss from vacancy	1 million yen	Assessed the loss from vacancy by assuming the stable occupancy level over the medium to long term based on the occupancy status, supply and demand trends, and expected future trends of competing or alternative properties with similar features in a comparable area within the same sphere of supply and demand
Operating expense	6 million yen	
Maintenance	1 million yen	Based on the maintenance expenses of similar properties and the individualities of the property
Utility cost	0 million yen	Based on the utility cost of similar properties and the individualities of the property
Repair	0 million yen	Based on the level of restoration cost per room that will ordinarily arise with tenant replacement, the proportion of the lessor's burden, average timing of recording expenses, degree of restoration and other factors. The level of expenses for similar properties, the annual average amounts of repairs and other factors are also considered
Property management Fee	0 million yen	Based on the fee rates for similar properties and the individualities of the property
Advertisement and other leasing cost	1 million yen	Administrative fees related to recruitment and administration of new tenants and contract renewal of the

		existing tenants are assessed in consideration of lease terms of similar properties in the neighborhood area. Leasing fees are assessed in consideration of the leasing fees for recruitment of new tenants and estimated advertising costs. Contract renewal fees which are compensation fees paid to contractors upon execution of contract renewal are assessed in consideration of annual average turnover of tenants and occupancy rates
Tax	1 million yen	(Land) Not recorded since the land is leased (Building) Assessed based on the level of taxes of similar properties
Insurance	0 million yen	Assessed based on insurance premium estimates in consideration of insurance rates of similar buildings
Other cost	1 million yen	Recorded land rent and cable television connection charges
Net operating income (NOI)	16 million yen	
Investment income of lump sum	0 million yen	Assessed with an investment yield set at 1.0%
Capital expenditure	0 million yen	Assessed by assuming a projected average amount will be set aside every fiscal period, in consideration of the level of capital expenditure for similar properties and the age of the building
Net cash flow (NCF)	16 million yen	
Cap rate	3.6%	Assessed by adjusting with spreads attributable to the property's location, characteristics of the building, and other terms and conditions, in consideration of prediction uncertainties and transaction yields for similar properties, etc.
Value based on Discounted Cash Flow method	438 million yen	
Discount rate	3.2%	Assessed by comprehensively taking into account characteristics unique to the property, etc., by reference to investment returns of similar properties, etc.
Terminal cap rate	3.7 %	Assessed by comprehensively taking into account upcoming changes in investment returns, risks associated with the property as an investment target, general prediction of economic growth rates, trends in real estate prices and rent rates and all other applicable factors, by reference to investment returns of similar properties, etc.
Other matters considered by the evaluation agency in determination of the survey value		None

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Overview of property appraisal as of the fiscal period ended February 29, 2024 (before the Reconstruction)

Appraisal value	87 million yen
Appraiser	Japan Real Estate Institute
Valuation date	February 29, 2024

Item	Content	Basis
Value based on income method	87 million yen	Estimated the value based on income method by treating the value based on direct capitalization method and the value based on discounted cash flow method equally and correlating these two values
Value based on direct capitalization method	87 million yen	
Operating revenue	15 million yen	
Potential gross revenue	16 million yen	Assessed the level of rents that can be received stably over the medium to long term based on the level of new rents in case the property is newly leased after renewal work as well as the attributes and other factors of the anticipated

		lessees; and recorded the rental revenues and common area charges based on the aforementioned
Loss from vacancy	0 million yen	Assessed the loss from vacancy by assuming the stable occupancy level over the medium to long term based on the occupancy status, supply and demand trends, and expected future trends of competing or alternative properties with similar features in a comparable area within the same sphere of supply and demand as well as the past occupancy trends and expected future trends of the property
Operating expense	3 million yen	
Maintenance	0 million yen	Based on the past results and maintenance expenses of similar properties as well as the individualities of the property
Utility cost	0 million yen	Based on the past results and utility cost of similar properties as well as the individualities of the property
Repair	0 million yen	Based on the level of restoration cost per room that will ordinarily arise with tenant replacement, the proportion of the lessor's burden, average timing of recording expenses, degree of restoration and other factors. The past results, the level of expenses in the relevant engineering report, the annual average amounts of repairs, content of the renewal work and other factors are also considered
Property management Fee	0 million yen	In reference to the fee rates in the contract terms and also based on the fee rates for similar properties and the individualities of the property
Advertisement and other leasing cost	0 million yen	Administrative fees related to recruitment and administration of new tenants and contract renewal of the existing tenants are assessed in consideration of lease terms of similar properties in the neighborhood area. Leasing fees are assessed in consideration of the leasing fees for recruitment of new tenants and estimated advertising costs in reference to the past results. Contract renewal fees which are compensation fees paid to contractors upon execution of contract renewal are assessed in consideration of annual average turnover of tenants and occupancy rates
Tax	0 million yen	(Land) Not recorded since the land is leased (Building) Assessed based on the tax related documents
Insurance	0 million yen	Assessed based on the amount of insurance premium in the insurance agreement and also in consideration of insurance rates of similar buildings
Other cost	1 million yen	Recorded land rent and cable television connection charges
Net operating income (NOI)	12 million yen	
Investment income of lump sum	0 million yen	Assessed with an investment yield set at 1.0%
Capital expenditure	0 million yen	Assessed by assuming a projected average amount will be set aside every fiscal period, in consideration of the level of capital expenditure for similar properties, the age of the building, annual average amounts of repairs in the engineering report, and content of the renewal work, etc.
Net cash flow (NCF)	11 million yen	
Cap rate	13.6%	Assessed by adjusting with spreads attributable to the property's location, characteristics of the building, and other terms and conditions, in consideration of prediction uncertainties and transaction yields for similar properties, etc.
Value based on Discounted Cash Flow method	86 million yen	
Discount rate	3.7%	Assessed by comprehensively taking into account characteristics unique to the property, etc., by reference to investment returns of similar properties, etc.
Terminal cap rate	4.2%	Assessed by comprehensively taking into account

			upcoming changes in investment returns, risks associated with the property as an investment target, general prediction of economic growth rates, trends in real estate prices and rent rates and all other applicable factors, by reference to investment returns of similar properties, etc.
	Value based on cost method	91 million yen	
	Proportion of land	91.3%	
	Proportion of building	8.7 %	
	Other matters considered by the appraiser in determination of the appraisal value		None

* DHR's website: <https://www.daiwahouse-reit.co.jp/en/>