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For Immediate Release

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Notice Concerning Disposition of Trust Beneficiary Interests in Domestic Real Estate

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, for DHR to dispose of the following properties (the “Anticipated Dispositions”) as described below (the “Disposition”).

The decision on the disposition of FOLEO Hirakata, one of the Anticipated Dispositions, has been approved by the board of directors of DHR based on the Act on Investment Trust and Investment Corporations (Act No. 198 of 1951, as amended, the “Investment Trust Act”) and the Asset Manager’s voluntary rules regarding interested-party transactions.

1. Disposition overview

Property number	Property name	Asset class	Anticipated date of disposition	Anticipated sale price (million yen) (Note 1)	Anticipated book value (million yen) (Note 2)	Difference between anticipated sale price and anticipated book value (million yen)	Gain or loss on sale (million yen) (Note 3)	Appraisal value (million yen) (Note 4)
RE-048	Castalia Toritsudaigaku	Residential	January 31, 2025	600	553	46	24	551
RM-002	FOLEO Hirakata	Retail	March 3, 2025	5,665	1,875	3,789	3,774	1,900
Total				6,265	2,429	3,835	3,799	2,451

(Note 1) Excluding various expenses related to disposition, settlement money such as taxes and dues, and consumption taxes, etc.

(Note 2) Anticipated book value as of anticipated date of disposition.

(Note 3) Gain or loss on sale represents the forecast amount.

(Note 4) Appraisal value as of August 31, 2024.

- (1) Planned date of execution of the sale and purchase agreements : Please refer to “7. Disposition schedule” below
- (2) Buyer : Please refer to “4. Buyer profile” below
- (3) Method of settlement : Payment of entire amount upon transfer
- (4) Brokerage : Please refer to “6. Brokerage” below

2. Disposition rationale

As part of the external growth strategy, DHR is promoting continuous property replacement to improve portfolio quality by enhancing profitability and rejuvenating portfolio age. The Anticipated Dispositions are considered at risk for a potential decrease in NOI due to rent reductions and increased repairs and maintenance expenses in the future. DHR will dispose of the Anticipated Dispositions, based on the examination in terms of the medium- to long-term management efficiency of DHR’s portfolio and characteristics of the respective properties and comprehensively considering factors such as the competitiveness of the Anticipated Dispositions and market conditions.

The following factors were considered for each of the Anticipated Dispositions.

(1) Castalia Toritsudaigaku

The property is a 56-year-old and small-sized residential property with an acquisition price of less than one billion yen. Capital expenditure and repairs and maintenance expenses associated with large-scale repair work are expected to rise in the future due to aging of the property. Based on the view that it would be hard to maintain or improve profitability of the property going forward, it was judged to be preferable to dispose of the property at the current point to avoid future risks.

(2) FOLEO Hirakata

The property is a roadside-type retail property with a cinema complex and a large sporting goods store as its core tenants. Due to the competition with other neighboring retail properties and the impact of COVID-19 and other factors, tenants of the property have been experiencing a decline in customer traffic and the core tenants have decided to move out. Based on the view that profitability of the property will deteriorate going forward, it was judged to be preferable to dispose of the property at the current point to avoid future risks.

DHR will dispose of the Anticipated Dispositions at a higher price than each appraisal value over the fiscal periods ending February 28, 2025 and August 31, 2025. Regarding the net proceeds of the Disposition, gain on sale will be used to pay distributions to unitholders and the remainder will be reserved as cash on hand.

3. Details of the Anticipated Dispositions

Property number		Castalia Toritsudaigaku		Asset class		Residential	
RE-048				Acquisition price		648 million yen	
Type of specified asset			Trust beneficiary interest in real estate				
Trustee			Sumitomo Mitsui Trust Bank, Limited				
Trust maturity date			February 28, 2026				
Location	Lot number		1-2268-2, Midorigaoka, Meguro Ward, Tokyo				
	Address		1-4-1, Midorigaoka, Meguro Ward, Tokyo				
Land	Type of ownership		Ownership				
	Land area		345.88 m ² (Note 1)				
	Area classification		Category 1 low-rise exclusive residential district				
	Building coverage ratio		60%				
	FAR		150%				
Building	Type of ownership		Ownership				
	Gross floor area		1,384.38 m ²				
	Use		Apartment complex				
	Structure		Steel-frame and reinforced concrete building				
	Number of floors		6 floors				
	Date of construction		September 17, 1968 (Date of renovation: January 27, 2005)				
Collateral			None				
Overview of leasing (Note 2)							
Leasable area		863.70 m ²		Number of tenants		1	
Leased area		837.26 m ²		Annual rent		38 million yen	
Occupancy rate		96.9%		Tenant leasehold and security deposit		3 million yen	
Historical occupancy rate	August 2022	February 2023	August 2023		February 2024	August 2024	
	94.3%	100.0%	100.0%		96.9%	96.9%	
Master lease company				Morimoto Quality Co., Ltd.			
Master lease type				Pass-through type			
Property management company				Morimoto Quality Co., Ltd.			

Special items	1. The building of the property does not conform to current laws or regulations because the specified floor area ratio was reduced due to the change of area classification of the property from quasi-industrial district to category 1 low-rise exclusive residential district after the building of the property was built. In case the building of the property is reconstructed in the future, it may not be possible to construct a building of the same size or the same height. 2. Public-private boundary of part of the northern boundary of the property is undecided.
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(Note 1) Since the road on the east side of the property was a quasi-standard road as defined in Article 42, Paragraph 2 of the Building Standard Law, the area of the building was set back when constructed (area of 24.8 m²).

(Note 2) The descriptions are based on information as of August 31, 2024.

Property number		FOLEO Hirakata		Asset class		Retail	
RM-002				Acquisition price		4,578 million yen	
Type of specified asset			Trust beneficiary interest in real estate				
Trustee			Mitsubishi UFJ Trust and Banking Corporation				
Trust maturity date			March 31, 2027				
Location	Lot number		1-2770-1, Koyamichi, Hirakata City, Osaka				
	Address		1-20-10, Koyamichi, Hirakata City, Osaka				
Land	Type of ownership		Ownership				
	Land area		26,725.51 m ²				
	Area classification		Quasi-industrial district				
	Building coverage ratio		60%				
	FAR		200%				
Building	Type of ownership		Ownership				
	Gross floor area		21,499.16 m ²				
	Use		Retail, cinema				
	Structure		Steel-frame building				
	Number of floors		4 floors				
	Date of construction		November 20, 2006				
Collateral			None				
Overview of leasing (Note)							
Leasable area		16,385.56 m ²		Number of tenants		1	
Leased area		9,059.88 m ²		Annual rent		143 million yen	
Occupancy rate		55.3%		Tenant leasehold and security deposit		81 million yen	
Historical occupancy rate	August 2022	February 2023	August 2023	February 2024	August 2024		
	94.3%	94.3%	94.3%	94.3%	55.3%		
Master lease company			Daiwa House Realty Mgt. Co., Ltd.				
Master lease type			Pass-through type				
Property management company			Daiwa House Realty Mgt. Co., Ltd.				
Special items	The easement is established for a part of the land of this property (covering 1,550.27m ²), with the land the lot number of which is 3-2027, Higashi Kuraji, Katano City set as the dominant land. In places where electric wires pass through in such land under the easement, the height of structures and facilities is limited.						

(Note) The descriptions are based on information as of August 31, 2024.

4. Buyer profile

(1) Castalia Toritsudaigaku

The buyer is a domestic company. However, name, etc. is not disclosed as consent for disclosure has not been obtained from the buyer. There is no capital relationship, personnel relationship, or business relationship requiring disclosure between DHR/the Asset Manager and the buyer. The buyer is not an interested party of DHR and the Asset Manager or a related party of DHR and the Asset Mager.

(2) FOLEO Hirakata

i.	Name	Daiwa House Industry Co., Ltd.
ii.	Location	3-3-5, Umeda, Kita Ward, Osaka City, Osaka
iii.	Representative	Keiichi Yoshii, President and CEO
iv.	Business activities	General contractor
v.	Capital	162,216 million yen (as of September 30, 2024)
vi.	Foundation date	March 4, 1947
vii.	Net assets	2,680,516 million yen (as of September 30, 2024)
viii.	Total assets	6,904,736 million yen (as of September 30, 2024)
ix.	Major shareholder and shareholding ratio	The Master Trust Bank of Japan, Ltd. (Trust) 15.84% Custody Bank of Japan, Ltd. (Trust) 6.72% (as of September 30, 2024)
x.	Relationships with DHR and the Asset Manager	
	Capital relationship	The buyer holds 4.0% of DHR's investment units outstanding as of August 31, 2024. The buyer also holds 100.0% of shares issued and outstanding of the Asset Manager as of today, and thus falls under the category of an interested party, etc. as defined in the Investment Trust Act.
	Personnel relationship	Of the officers and employees of the Asset Manager, three people have been seconded from the buyer as of today.
	Business relationship	The buyer is a consignee of property management and other services for DHR and is a lessee of real estate owned by DHR. The buyer has executed a new basic agreement regarding new pipeline support and other matters with DHR and the Asset Manager.
	Status of classification as related party	The buyer is not a related party of DHR. The buyer is a parent company of the Asset Manager and thus falls under the category of a related party of the Asset Manager.

5. Interested party transactions

Daiwa House Industry Co., Ltd. as the buyer of FOLEO Hirakata is defined as an interest party, etc. in the Investment Trust Act. The Asset Manager has gone through the necessary discussion and resolution procedures including the approval of the board of directors of DHR in accordance with Article 201-2 of the Investment Trust Act (Note) as well as its voluntary rules regarding interested-party transactions.

(Note) This refers to the article stipulated in Article 201-2 of the Investment Trust Act.

“If an asset management company invests assets as entrusted by a registered investment corporation, before dealings as referred to in Article 193, paragraph (1), item (i) through item (iv) (other than those that Cabinet Office Order prescribes as having only a minor influence on the assets of the registered investment corporation) come to be entered into between the registered investment corporation and an interested person or other close affiliate of the asset management company, the asset management company must first obtain the consent of the registered investment corporation.”

6. Brokerage

(1) Castalia Toritsudaigaku

The broker of the property is a domestic company. The broker is not an interested party of DHR and the Asset Manager or a related party of DHR and the Asset Manager.

(2) FOLEO Hirakata

None

7. Disposition schedule

Property name	Disposition decision date	Execution date of the sale and purchase agreements	Date of payment and delivery date
Castalia Toritsudaigaku	January 28, 2025	January 31, 2025 (planned)	January 31, 2025 (planned)
FOLEO Hirakata		February 14, 2025 (planned)	March 3, 2025 (planned)

8. Outlook

For the forecasts of results for the fiscal periods ending February 28, 2025 and August 31, 2025 with the

Disposition factored in, please refer to the “Notice Concerning Revision to Forecast of Results for the Fiscal Periods Ending February 28, 2025 and August 31, 2025” announced today.

9. Overview of property appraisal

Overview of property appraisal	
Property name	Castalia Toritsudaigaku
Appraisal value	551 million yen
Appraiser	Chuo Real Estate Appraisal Co., Ltd.
Appraisal date	August 31, 2024

Item	Content	Basis
Value based on income method	551 million yen	Determined the value focusing on the value based on discounted cash flow method which reflected future changes in NCF in detail based on rental income and expenses and also relating the value based on direct capitalization method.
Value based on direct capitalization method	560 million yen	
Operating revenue	38 million yen	
Effective gross revenue	40 million yen	Assessed the new rents and common area charges assuming to lease the subject property newly based on the rents and common area charges in the current lease contracts, etc. as well the rents and common area charges of similar properties.
Loss from vacancy	2 million yen	Assessed the occupancy rate (vacancy rate) that can be achieved stably over the medium to long term based on the past occupancy trend and the future market trend of the subject property and similar properties.
Operating expense	9 million yen	
Maintenance	2 million yen	Based on the current building management contract as well as the past results and expense levels of similar properties.
Utility cost	0 million yen	Based on the past results by reference to expense levels of similar properties.
Repair	1 million yen	Recorded the total of small repair expenses and restoration costs.
Property management fee	1 million yen	Recorded the total of property management fees and construction management fees.
Advertisement and other leasing cost	1 million yen	Recorded the total of agent commissions, advertising expenses, and lease renewal fees.
Tax	1 million yen	Based on the recent actual amount.
Insurance	0 million yen	Based on the recent actual amount.
Other cost	0 million yen	
Net operating income (NOI)	28 million yen	
Investment income of lump sum	0 million yen	Based on the investment yield of 1.0%.
Capital expenditure	4 million yen	To record the standardized amount of large-scale repair and facility renewal expenses expected in the future, recorded the annual average of estimated amount of facility renewal expenses in the engineering report.
Net cash flow (NCF)	24 million yen	
Cap rate	4.4%	Assessed by reference to transaction yields of similar properties and considering individuality of the locations, building specifications and rights, etc. of the subject property.
Value based on Discounted Cash Flow method	547 million yen	
Discount rate	4.2%	Assessed by reflecting individuality of the location, size, building specifications, type of tenants, etc., based on the standard investment yield of the subject area.

	Terminal cap rate	4.7%	Assessed also in consideration of the risk of value deterioration due to aging up to the point of sale.
Value based on cost method		382 million yen	
	Proportion of land ownership	91.9%	
	Proportion of building	8.1%	
Items applied to adjustments in valuation approach and the determination of the appraisal value			None

Overview of property appraisal	
Property name	FOLEO Hirakata
Appraisal value	1,900 million yen
Appraiser	Japan Real Estate Institute
Appraisal date	August 31, 2024

Item	Content	Basis
Value based on income method	1,900 million yen	Estimated the value based on income method by treating equally the value based on direct capitalization method and the value based on discounted cash flow method and correlating these two values.
Value based on direct capitalization method	1,920 million yen	
Operating revenue	377 million yen	
Effective gross revenue	418 million yen	Assessed the rents that can be achieved stably over the medium to long term, by assuming to rent each section at leasing terms in consideration of individuality of each section based on the fixed-term building lease agreements with the current tenants for the occupied sections, planned lease agreements for the sections with lease agreement applications, and assumed new rents for the sections currently or to be vacant.
Loss from vacancy	41 million yen	Assessed by considering the occupancy trend and demand and supply trend of similar properties as well as the past occupancy trend and the future trend of the subject property.
Operating expense	216 million yen	
Maintenance	64 million yen	Recorded by considering individuality of the subject property in reference to the past results and maintenance expenses of similar properties.
Utility cost	82 million yen	Recorded based on the past results and in consideration of the occupancy level.
Repair	8 million yen	Recorded based on the future management and operation plan, expense levels of similar properties, and annual average of estimated amount of repair and renewal expenses in the engineering report, also in reference to the past results.
Property management fee	8 million yen	Recorded in reference to the fee rate based on the contract terms and by considering the fee rate of similar properties and individuality of the subject property.
Advertisement and other leasing cost	2 million yen	Recorded annual average cost based on the assumed turnover of lessees.
Tax	43 million yen	Recorded by considering the tax materials and contents of tax burden adjustment measures.
Insurance	0 million yen	Recorded by considering the insurance premiums in the insurance contract and insurance premiums of similar buildings.
Other cost	5 million yen	Recorded fees for occupying roads and sales promotion expenses.

	Net operating income (NOI)	161 million yen	
	Investment income of lump sum	1 million yen	Based on the investment yield of 1.0%.
	Capital expenditure	21 million yen	Assessed based on the capital expenditure levels of similar properties, age of the property, and annual average amount of repair and renewal expenses in the engineering report.
	Net cash flow (NCF)	142 million yen	
	Cap rate	7.4%	Assessed based on the yields of real estate considered with the lowest investment risk, by adjusting with spreads attributable to the property's location, competitiveness as a retail property including building conditions (age, gross floor area, level of facilities, etc.), and contract conditions, in consideration of uncertainty in the future, transaction yields for similar properties, and results of interviews with investors.
	Value based on Discounted Cash Flow method	1,880 million yen	
	Discount rate	5.6%	Assessed in reference to investment returns of similar properties and comprehensively considering individuality of the property.
	Terminal cap rate	6.2%	Assessed by comprehensively considering 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	1,940 million yen	
	Proportion of land ownership	59.8%	
	Proportion of building	40.2%	
Items applied to adjustments in valuation approach and the determination of the appraisal value			None

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

<Attachment>

Portfolio status after the Disposition

Asset class	Number of properties	Acquisition price (million yen)	Investment ratio (Note)
Logistics properties	65 properties	482,219	53.0%
Residential properties	128 properties	239,675	26.4%
Retail properties	22 properties	118,639	13.0%
Hotel properties	7 properties	27,340	3.0%
Other assets	6 properties	41,660	4.6%
Portfolio Total	228 properties	909,533	100.0%

(Note) Investment ratio indicates the ratio of the acquisition price for each asset to the total acquisition price, rounded to the nearest tenth.