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**For Immediate Release**

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**Notice Concerning Revision of Operation Status Forecasts**  
**for the 16th Fiscal Period and**  
**Operation Status Forecasts for the 17th Fiscal Period**

Daiwa House Residential Investment Corporation (“DHI”) announces the following revision of operation status forecasts for the fiscal period ending in February 2014 (16th Fiscal Period: from September 1, 2013 to February 28, 2014) from that announced on June 21, 2013, and the following newly-calculated operation status forecasts for the fiscal period ending in August 2014 (17th Fiscal Period: from March 1, 2014 to August 31, 2014).

1. Reason for Announcement

DHI is announcing the revision of operation status forecasts for the fiscal period ending in February 2014 from that announced on June 21, 2013, and newly announcing the operation status forecasts for the fiscal period ending in August 2014, as DHI acquired assets on September 27, 2013 (Note) and a resolution was passed at a board of directors meeting held today to issue additional investment units and conduct secondary offering.

(Note) Please refer to the press release “Notice Concerning the Proposed Acquisition of Trust Beneficiary Rights in Real Estate” dated September 20, 2013 and “(Correction) Notice Concerning the Proposed Acquisition of Trust Beneficiary

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Rights in Real Estate dated September 20, 2013” dated October 10, 2013.

## 2. Revision of Operation Status Forecasts for the 16th Fiscal Period and Operation Status Forecasts for the 17th Fiscal Period

### (1) Revision of Operation Status Forecasts for the 16th Fiscal Period

	Operating revenue (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distribution per unit (excluding distribution in excess of earnings) (yen)	Distribution in excess of earnings per unit (yen)
16th Fiscal Period Previous forecasts (A)	8,050	3,716	2,898	2,898	8,300	—
16th Fiscal Period Revised forecasts (B)	8,316	3,885	3,007	3,007	8,470	—
Amount of increase (decrease) (B-A)	265	168	108	108	170	—
Rate of increase (decrease) (%)	3.3	4.5	3.8	3.8	2.0	—

(Note 1) Total distributions for the 16th Fiscal Period Previous forecasts include the reversal of internal reserves (22 million yen).

(Note 2) Total distributions for the 16th Fiscal Period Revised forecasts include the reversal of internal reserves (159 million yen).

### (2) Operation Status Forecasts for the 17th Fiscal Period

	Operating revenue (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distribution per unit (excluding distribution in excess of earnings) (yen)	Distribution in excess of earnings per unit (yen)
17th Fiscal Period Forecasts	8,375	3,785	2,958	2,958	8,340	—

(Note 1) Total distributions for the 17th Fiscal Period Forecasts include the reversal of internal reserves (159 million yen).

(Note 2) The 17th Fiscal Period Forecasts are based on the assumption that the consumption tax rate will be raised to 8% in April 2014. The increase in expenses in the 17th Fiscal Period resulting from the increase of the consumption tax rate is expected to be 50 million yen (135 yen per investment unit).

#### [Reference]

Forecasted number of outstanding investment units for the 16th Fiscal Period: 373,870 units

Forecasted number of outstanding investment units for the 17th Fiscal Period: 373,870 units

#### [Note]

- (1) DHI assumes a total number of 22,000 units, the sum of 351,870 outstanding investment units as of October 10, 2013, the 20,000 investment units to be issued by issuance of new investment units through public offering and the 2,000 investment units to be issued by issuance of new investment units by way of third-party allotment that were both decided at a board of directors meeting held on October 10, 2013, will all be issued.
- (2) The above forecasts are the current operation status forecasts calculated based on the assumption in the attachment “Assumptions for Operating Forecasts of the 16th and 17th Fiscal Periods.” Actual operating revenue, operating income, ordinary income, net income and distributions per unit may vary due to factors such as the future acquisition or sale of real estate, etc. changes in rent income due to changes in tenants, etc., unanticipated need for repairs, fluctuations in the real estate market, etc., fluctuations in interest rates, the actual decided number and issue value of new investment units to be issued, and changes in other conditions surrounding DHI. Moreover, these forecasts are not intended as a guarantee of distribution amount.

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- (3) Figures for monetary amounts are rounded down to the nearest specified unit, the same hereafter.
- (4) The funds from which distributions are paid out for the 16th Fiscal Period as well as for the 17th Fiscal Period are the amounts including the reversal of internal reserves and differ from “net income.”

### 3. Change of Internal Reserves (Reserve in Preparation of Distribution) Utilization Policy

#### (1) Internal Reserves

As of the end of August 2013, DHI has total internal reserves (reserve in preparation of distribution) of 19,281 million yen (the amount before a reversal of internal reserves (reserve in preparation of distribution) for the 15th Fiscal Period (ended in August 2013); the total amount after the reversal is 19,140 million yen) as the result of recording in internal reserves gain on negative goodwill on the merger with New City Residence Investment Corporation (the “Merger”) that took effect as of April 1, 2010, gain from disposition of properties, and gain from redemption by purchase of investment corporation bonds, etc.

In cases such as when gain from disposition of properties have arisen and net income exceeds the initially anticipated amount, DHI has been recording all or part of concerned income in internal reserves by utilizing tax-loss carry forwards.

While J-REITs must distribute over 90% of their distributable income in order to include income distribution in expenses, if there are tax-loss carry forwards, the amount equivalent to the tax-loss carry forwards can be deducted from the taxable income. Through the utilization of tax-loss carry forwards inherited as a result of the Merger, in cases such as when gain from disposition of properties, etc. have arisen and net income exceeds the initially anticipated amount, DHI is able until the period ending in August 2018 to record all or part of the concerned income as internal reserves, accumulating income without being subject to corporation tax for the amount within the tax-loss carry forward.

On the other hand, in cases where DHI had established a level of distributions it believed it would be able to achieve in the future as a target distribution level (Note 1), but subsequently anticipated due to loss from disposition of properties or extraordinary loss arising that the amount of cash distribution per unit would not meet the established target distribution level, DHI had stabilized distributions by reversing internal reserves (the “Former Distribution Policy”).

However, since the difference of real estate appraisal value and book value have turned to plus figures (unrealized gain) from the end of the 15th Fiscal Period (ended in August 2013), concern that a significant amount of loss from disposition of properties will arise has lessened, and if the issuance of new investment units etc. which resolution was passed at the board of directors meeting held today complete, the LTV (Note 2) which DHI currently targets in the range of 50% to 55% (Note 3) will become closer to the lower limit and the possibility of implementing reversal of internal reserves as a measure against the dilution of distribution due to capital increase

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through public offering will become reduced, DHI has judged that under the Former Distribution Policy it is not able to sufficiently return the internal reserves it owns to unitholders.

In order to realize stable distributions over the medium to long term and to realize the steady growth of DHI, starting from the 16th Fiscal Period (ending in February 2014) DHI will return internal reserves to unitholders by adding them to net income based on a certain set of rules, and will utilize internal reserves according to the following new distribution policy.

(Note 1) The target distribution level above is a benchmark for calculating the amount of reversal of internal reserves set by DHI and is not intended as a guarantee or promise of distributions in that amount. As stated in “(2) New Cash Distribution Policy” later in this document, no target distribution level is set due to adoption of a new cash distribution policy from the 16th Fiscal Period (fiscal period ending in February 2014).

(Note 2) “LTV” refers to the ratio of interest-bearing liabilities to total assets.

(Note 3) While the upper limit of LTV as stated in the security registration statement submitted May 24, 2013 has 60% as the target, DHI has the policy to control LTV in a conservative range from about 50% to 55% as of today.

## (2) New Distribution Policy

- (i) With the amount where the amount equivalent to capital expenditure is deducted from the amount equivalent to depreciation and amortization as the upper limit, the amount which will be decided by DHI will be reversed from internal reserves and used to add to net income.

Specifically, starting from the 16th Fiscal Period (ending in February 2014), in principle an amount equivalent to 10% the amount equivalent to depreciation and amortization will be reversed from internal reserves (19.1 billion yen as of the end of August 2013) and used to add to net income.

Furthermore, as of today it is DHI’s policy for the time being to set the target of the amount to be added to each fiscal period’s net income to be the amount equivalent to 10% the amount equivalent to depreciation and amortization of each fiscal period. However, this amount to be added is subject to change with due consideration to the external environment such as the financial economy, the overall situation of the J-REIT market, the situation of DHI’s owned assets and its financial situation, etc.

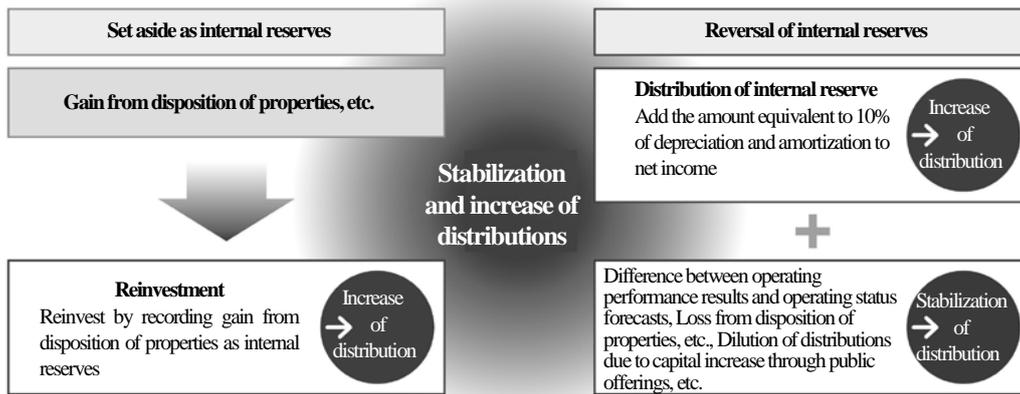
- (ii) Stabilization (Note) of distributions will be aimed for by reversing internal reserves in case net income falls below the initially expected amount due to extraordinary losses such as loss from disposition of properties, in case of the dilution of distribution due to capital increase through public offering, in case sufficient revenues could not be secured due to short operation periods of properties acquired during a fiscal period along with a capital increase through public offering, or in the case of extraordinary expenses such as issuance expenses arising.

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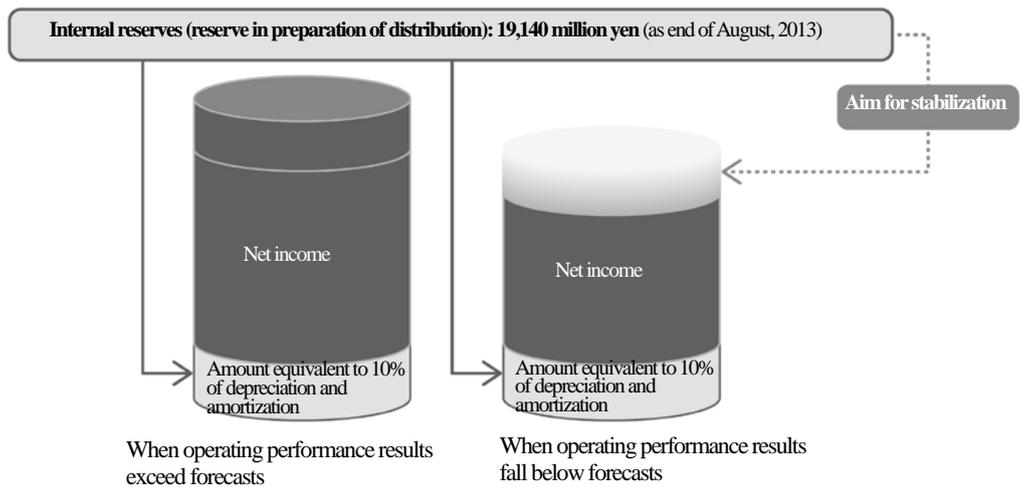
- (iii) In case the operating performance results fall below forecasts, stabilization (Note) of distributions will be aimed by reversing internal reserves for the portion of the operating performance results that were lower than forecasts.

Furthermore, DHI's reversals of internal reserves are reversals of internal reserves (reserve in preparation of distribution) and do not fall under distributions in excess of earnings (return of unitholders' capital).



(Note) Under the new distribution policy, DHI has the policy to stabilize distributions. However, it is not intended as a guarantee or promise of the forecast distribution amounts.

<Image of New Distribution Policy>



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(3) Forecasts for the 16th Fiscal Period	
Net income (net income per unit)	3,007 million yen (8,043 yen)
Reversal of reserve in preparation of distribution (reversal of reserve in preparation of distribution per unit)	159 million yen (426 yen)
<b>Total distributions (distribution per unit)</b>	<b>3,166 million yen (8,470 yen)</b>
(4) Forecasts for the 17th Fiscal Period	
Net income (net income per unit)	2,958 million yen (7,913 yen)
Reversal of reserve in preparation of distribution (reversal of reserve in preparation of distribution per unit)	159 million yen (426 yen)
<b>Total distributions (distribution per unit)</b>	<b>3,118 million yen (8,340 yen)</b>

\* This press release (original Japanese version) is to be distributed to the Kabuto Club (the press club of the Tokyo Stock Exchange); the Ministry of Land, Infrastructure, Transport and Tourism Press Club; and the Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications.

\* URL of the DHI's website: <http://daiwahouse-resi-reit.co.jp/eng/>

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Assumptions for Operating Forecasts of the 16th and 17th Fiscal Periods

Item	Assumptions
Period	<ul style="list-style-type: none"> <li>• Fiscal period ending in February 2014: September 1, 2013 to February 28, 2014 (181 days)</li> <li>• Fiscal period ending in August 2014: March 1, 2014 to August 31, 2014 (184 days)</li> </ul>
Assets under management	<ul style="list-style-type: none"> <li>• DHI owns 133 real estate and trust beneficiary rights in real estate (“real estate, etc.”) as of today.</li> <li>• DHI assumes there will be no changes in portfolio composition (new property acquisitions or disposition of acquired properties, etc.) from the 133 properties through to August 31, 2014.</li> <li>• The actual assets under management may vary as a result of changes in the portfolio composition, etc.</li> </ul>
Investment Units Issued and Outstanding	<ul style="list-style-type: none"> <li>• DHI assumes that a total number of 22,000 units, the sum of 351,870 outstanding investment units as of today, the 20,000 investment units to be issued by issuance of new investment units through public offering and the 2,000 investment units to be issued by issuance of new investment units by way of third-party allotment, the resolution was passed at a board of directors meeting held on October 10, 2013, will be issued.</li> <li>• DHI assumes that, after this, the number will not change through to August 31, 2014.</li> </ul>
Operating Revenue	<ul style="list-style-type: none"> <li>• Operating revenue include rent income, common area charges income, parking space income, incidental revenue, utilities income, key money, etc. Each of these items is calculated based on historical data and future projections.</li> <li>• The fiscal period average of month-end occupancy rates is expected to be 96% for the 16th Fiscal Period and 96% for the 17th Fiscal Period.</li> </ul>
Operating Expenses	<ul style="list-style-type: none"> <li>• Operating expenses include management fees, utilities expenses, non-life insurance expenses, depreciation and amortization, trust compensations, repair expenses, etc. For property tax, urban planning tax and depreciative property tax, 413 million yen is forecast for the 16th Fiscal Period and 470 million yen is forecast for the 17th Fiscal Period. As for property tax and urban planning tax which are to be settled with the previous owner (previous beneficiary) according to the number of days owned in conjunction with the new acquisition of real estate, etc., they are calculated into the acquisition cost and are therefore not recorded as expense. Each of these items is calculated based on historical data and future projections.</li> <li>• DHI assumes that in the 17th Fiscal Period the consumption tax rate will be increased to 8% in April 2014. The expected increase of expenses in the 17th Fiscal Period resulting from the increase of the consumption tax rate is 50 million yen (135 yen per unit).</li> <li>• Selling, general and administrative expenses are estimated based on actual values or rates, etc. of each item individually.</li> <li>• Depreciation and amortization is calculated based on the straight-line method. Depreciation and amortization is expected to be 1,596 million yen for the 16th Fiscal Periods and 1,596 million yen for the 17th Fiscal Periods.</li> </ul>
Balance of Interest-bearing Liabilities	<ul style="list-style-type: none"> <li>• DHI assumes the balance of interest-bearing liabilities as of August 31, 2013 of 121,740 million yen and assumes the following changes in this balance: <ul style="list-style-type: none"> <li>– New loan based on a commitment line agreement in the amount of 7,000 million yen on September 27, 2013;</li> <li>– Prepayment of the same amount on the last day of November 2013; and</li> <li>– Refinancing in the same amount as the accompanying repayment upon maturity of about 3,573 million yen in rehabilitation obligations on the last day of January 2014.</li> </ul> </li> <li>DHI assumes that there will be no subsequent change in the balance of interest-bearing liabilities through to August 31, 2014.</li> </ul>

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Non-operating Expenses	<ul style="list-style-type: none"> <li>• Interest expenses, etc. (including borrowing related expenses) are expected to be 829 million yen for the 16th Fiscal Period and 825 million yen for the 17th Fiscal Period.</li> <li>• Investment unit issuance costs are expected to be 46 million yen for the 16th Fiscal Period.</li> </ul>
Distribution per Unit	<ul style="list-style-type: none"> <li>• DHI assumes it will pay out distributions (distributions per unit) of no more than the amount of earnings pursuant to the cash distributions policy in its Articles of Incorporation. Moreover, based on “3. Change of Internal Reserves (Reserve in Preparation of Distribution) Utilization Policy” above, DHI assumes it will implement a reversal of part of internal reserves and make this the source of funds, aside from net income, and that it will implement a reversal of internal reserves (reserve in preparation of distribution) for the amount equivalent to 10% the amount equivalent to depreciation and amortization of each period (159 million yen for the 16th Fiscal Period (426 yen per unit) and 159 million yen for the 17th Fiscal Period ending August 2014 (426 yen per unit)). Period.</li> <li>• The amount of distributions per unit may vary due to factors such as acquisition or sale of real estate, etc., changes in rent income in conjunction with changes in tenants, etc., unanticipated need for repairs, fluctuations in the real estate market, etc., fluctuations in interest rates, the actual decided number and issue value of new investment units to be issued, and changes in other conditions surrounding DHI.</li> </ul>
Distribution in Excess of Earnings per Unit	<ul style="list-style-type: none"> <li>• DHI does not currently anticipate distributions in excess of earnings per unit.</li> </ul>
Others	<ul style="list-style-type: none"> <li>• DHI assumes that there will be no amendments to laws and regulations, the taxation system, accounting standards, listing regulations, Investment Trusts Association rules, etc. that would affect the above forecasts.</li> <li>• DHI assumes that there will be no unforeseen material changes in general economic conditions, real estate market conditions, etc.</li> </ul>

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