

## 2004 Market Survey Results of Private Placement Real Estate Funds

### <Survey Outline>

Since 2003, STB Research Institute Co., Ltd. has conducted market surveys of private placement real estate funds ("private real estate fund") as part of their real estate market surveys. 2004 is the second time the survey has been conducted. The survey gained responses from 36 companies that form and manage private real estate funds. Details of the survey are as follows.

- Survey target: Companies that domestically form and manage private real estate funds
- Number of companies surveyed : 93
- Number of companies responded : 36 (Response rate : 38.7%)
- Survey period : November 2004 to December 2004
- Survey method : Sent out/received questionnaire via mail

### Background to Market Expansion

- "2003" was the most common response to the question of when the company entered into the private real estate fund business. The response suggests that 2003 was the year in which the funds were actively set up and the market went into a full-fledged expansion.
- In the 2003 survey, there were approximately the same numbers of "domestic institutional investors" as "foreign institutional investors" in private real estate funds, but in the 2004 survey "domestic institutional investors" accounted for approximately half of all investors and "foreign institutional investors" had dropped to approximately 10%. 2004 can be seen as the year in which domestic investors have accelerated their investment in private real estate funds in response to low-return investment opportunities domestically, which in turn has served to further promote the expansion of the market.
- The most prominent exit strategy in use by fund management companies is "transition to a J-REIT", followed by "selling off to a J-REIT", clearly illustrating the importance of the J-REIT market as a private fund exit. Accordingly, the J-REIT market growth is essential in the context of continual expansion of the private real estate fund market.

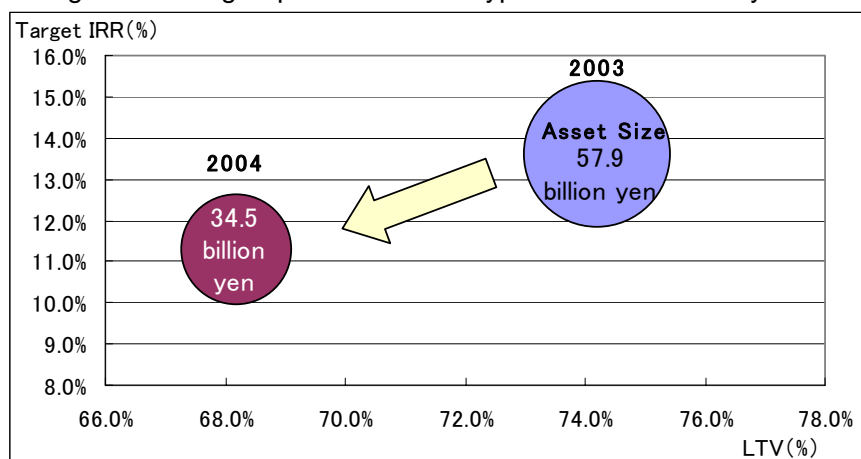
### Changes in Fund Formation

- In comparison to the results of 2003 survey on fund specifications such as asset size and yield, it was found that there was a clear trend towards the "downsizing of targeted asset size" and "drop in LTV and IRR target".
- One of the reasons behind the "downsizing of targeted asset size" is that funds that had

previously focused largely on Tokyo are now spreading to cover regional areas. Specifically, there has been an increase in the number of small-scale funds formed by regional condominium developers who establish the funds by aggregating several of their own properties, which has effectively lowered the average size of funds. On the other hand, large-scale blind pool funds are also gaining prominence, giving rise to two extremes in fund sizes.

- The “drop in LTV and IRR target” may be ascribable to the emergent trend towards management strategies that aim to secure more stable IRR by lowering the interest risks with lower leverage in response to the needs of conservative pension fund investors—a group that is becoming particularly visible within the growing group of domestic institutional investors. In addition, the drop in return can be partly attributed to the effect of rising acquisition prices due to increasing competition in real estate acquisition in some areas of central Tokyo.

Changes in Average Specifications of Typical Funds Currently Under Management

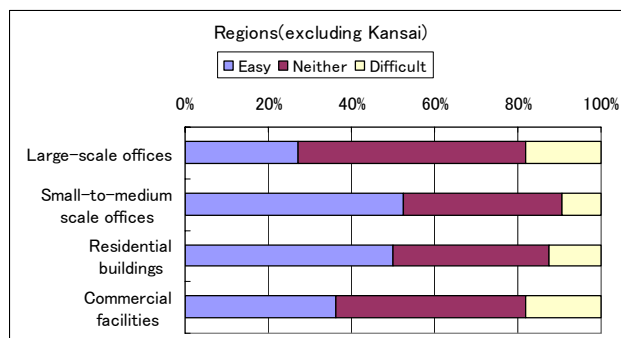
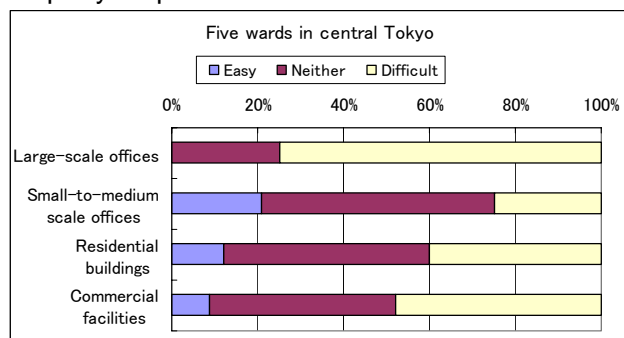


Note: LTV (loan to value; financial leverage ratio) = loan amount / property price  
Target IRR (internal rate of return)  
Asset size is a targeted amount.

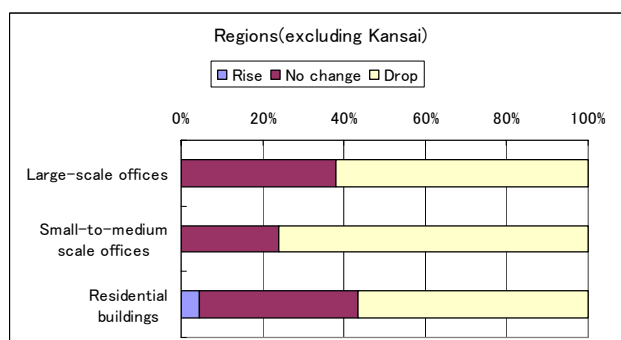
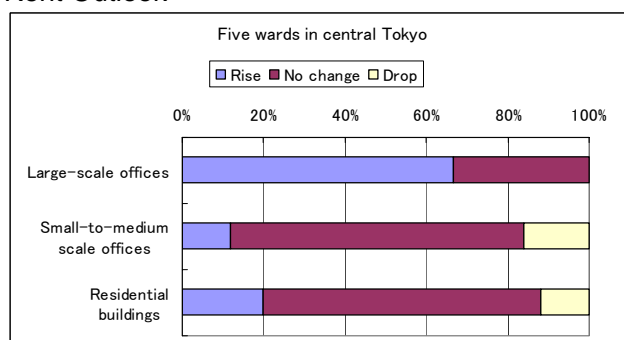
## Real Estate Market Outlook

- The following graphs depict the results of survey to fund management companies concerning market outlook (property acquisition opportunities and projected rent) of five wards in central Tokyo and other regional areas (excluding Kansai).

## Property acquisition outlook



## Rent Outlook



- As shown in the graphs, for the five wards in central Tokyo, the majority of fund management companies anticipate that the acquisition of large-scale office buildings in such areas will become more “difficult” and their rent will “rise” in the future. Even for other types of properties in the area, more fund management companies anticipate that the acquisition will become “difficult” than “easy”, and the majority believe that the rent will “not change” in the foreseeable future.
- On the other hand, with regards to the regional areas (excluding Kansai), more than half the fund management companies forecast that the acquisition will become “easy” for small-to-medium offices and residential buildings, and the majority of fund management companies also predict that the rent will drop for all types of property.
- On the basis of this outlook for the real estate market, most of the fund management companies believe that the area requiring attention as investment targets in the future is the five wards in central Tokyo—the same result as last survey. However, the number of fund management companies that included “Kansai” or “Regional area (excluding Kansai)” in their potential target accounted for almost half, indicating that there are many companies expanding their target areas.

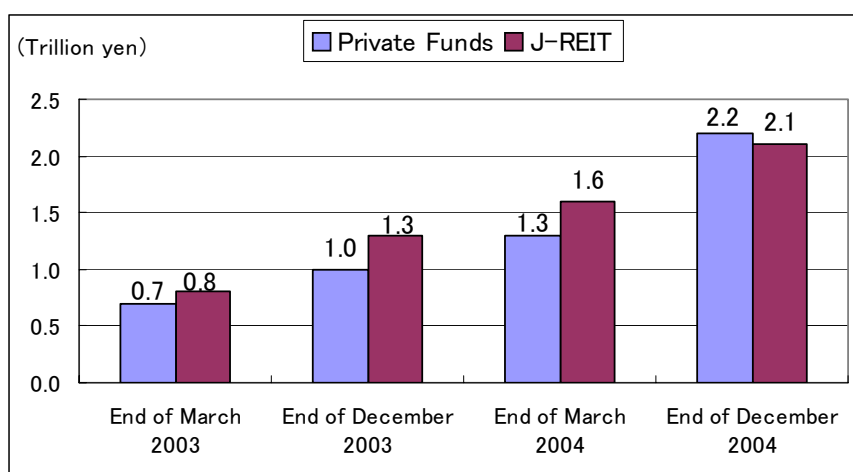
## Future Issues and Prospects for Private Real Estate Funds

- “Conflicts of interest” was the most common response to the question of future issues facing fund management companies, followed by “disclosure to investors”. Already many fund management companies have adopted measures such as “making proprietary investment for risk sharing purpose” and “contriving fund management structure and tightening of investment rules” in response to the issues of conflicts of interest. There are also several fund management companies who have responded to the issue of information disclosure to investors by “improving and developing reporting systems etc.” The fact that these areas have been identified as future development area indicates that companies are endeavoring to gain further investor confidence.
- “Rising interest rates” and “growing competition in real estate acquisition” are concerns that relate to the overall private real estate fund business, and there are now voices raised in alarm that these may reduce the yield or make the formation of fund difficult. As noted previously, some believe that there is already an excessive competition for some of the commercial real estate properties in central Tokyo, and in light of the anticipated rise in interest rate in the medium term, it is possible that the feared situation may actually arise. Accordingly, investors must make more careful investment decisions taking into particular consideration the fund management company capabilities and the fund attributes.
- With regards to issues surrounding the market as a whole, “improvement of law/systems” was the one most respondents pointed out, followed by the “improved visibility in the market”. In other words, on the flip side of the rapid expansion are the investment managers who are well aware that the private real estate fund market foundation is still fragile. They indicate that the future healthy development of the market will be affected by the rapidly progressing trend towards reforming the legal system including the amendments to the Securities Exchange Law and Trust Business Law.
- Although various problems still remain in private real estate funds as detailed above, the funds are undoubtedly an attractive investment option in the current investment climate. There are expectations that if market awareness of the funds as a stable investment product increases through the implementation of measures by fund management companies to deal with conflicts of interest and adequate disclosure to investors, compounded by the improvement in infrastructure such as legal systems, private real estate funds can shed their current status of an alternative investment option and unify with other real estate investment products such as J-REITs, establishing a single asset class.

## Reference Data: Shift in Size of Private Real Estate Fund Market

- The STB Research Institute has been undertaking the estimation of the size of the private real estate fund market (i.e. the total amount of real estate properties acquired by investment funds at the time of each survey) since 2003 through surveys and interviews with fund management companies and via the use of the data published by such companies. On the basis of this year's results, the estimated size of the private real estate fund market as of December 2004 was 2.2 trillion yen.
- As is depicted in the following graph, the private real estate fund market had been expanding at almost the same pace as the J-REIT market since March 2003. Between March and December of 2004, however, private funds have outgrown J-REITs and have surpassed J-REITs in terms of volume for the first time.

Change in Sizes of J-REIT and Private Real Estate Fund Markets  
(Based on acquisition value)



Source: Figures for private funds are based on STB Research Institute estimates and calculations. These figures do not include real estate investment in Japan by foreign-registered funds run by foreign financial institutions or investment companies.

※Only the released results are used in these survey results.

Thank you for your understanding.

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