2005 Market Survey Results of Private Placement Real Estate Funds

< Survey Outline >

STB Research Institute Co., Ltd. has conducted market surveys of private placement real estate funds ("private real estate fund") since 2003 as a segment of its research activities on real estate investment market. This is the third time the survey was conducted and valid responses were received from 40 companies that form and manage private real estate funds. The outline of the survey is as follows.

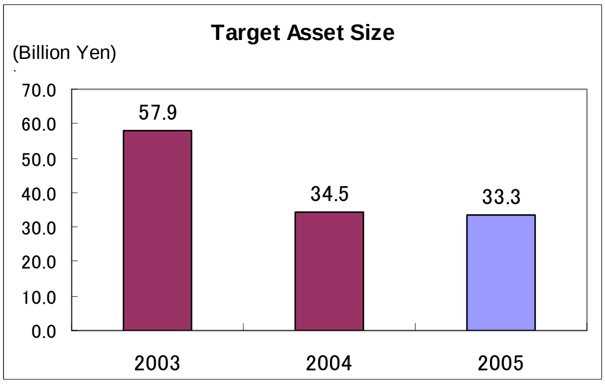
- Survey Targets: companies that domestically form/manage private real estate funds
- Number of Target Companies: 119
- Number of Valid Responses: 40 (Response Rate: 33.6%)
- Survey Period: November 2005 to December 2005
- Survey Method: distribution/collection of questionnaire via mail

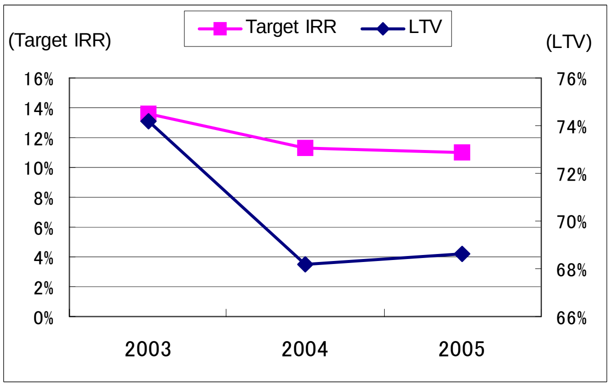
Overview of Typical Funds Currently Under Management

Specifications remained the same as last year, the scope of investment in terms of geographical areas expanded, and reflecting the strong real estate market, investment periods became shorter-term.

- When looking at the specifications of the typical funds currently under management as described by the responding companies, compared to the results of the 2004 survey, the changes in average target IRR and LTV were both marginal at 11.0% from the previous 11.3% and 68.6% from 68.2% respectively. While the previous year results also clearly indicated that funds were down-sizing on year-on-year terms, according to the latest survey, the average target asset size remained at 33.3 billion yen, just slightly short of the previous year mark, and a continuous trend toward down-sizing was not observed.

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)

- The latest survey confirmed a clear trend toward "expanding investment areas" and "shorter investment periods". In the breakdown of geographical target areas, "Tokyo" which held nearly half of the total in the previous survey dropped significantly to 14%, while “greater Tokyo”, “Kansai area” and “regional cities” all marked an increase. “Kansai area” and “regional cities” combined covered the majority, with the overall results indicating that other regions outweighed the Tokyo area for the first time since the start of the survey. This reflects the fact that investment areas which tended to concentrate in Tokyo are now spreading to cover the entire country.

- Furthermore, the investment period which marked an average of 4.7 years in the 2004 results was reduced by approximately 1 year to an average of 3.8 years according to the 2005 survey which showed that funds with investment terms of less than three years were the greatest in number. Such results imply that in light of a strong real estate market, there has been an increase in the number of fund management companies that set shorter investment periods in order to secure returns.
- In a market environment where returns are being compressed, it appears that fund management companies are adopting strategies to maintain the LTV level while securing returns by flexibly modifying fund characteristics such as geographical focus and investment periods.

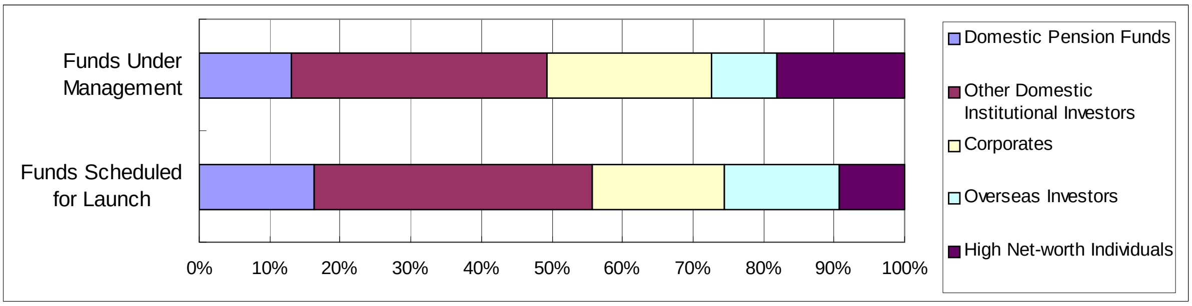
Formation Trends of New Funds Scheduled for Launch

Formation of non-core funds to increase, shifting to fund styles that accommodate additional property acquisitions and discretionary investments. Discretionary funds to take root backed by the steady build-up of fund track records.

- “Core” funds that made up the majority in the category of typical funds currently under management amounted to only one fourth of the whole in terms of funds scheduled or considered for launch within the next 2 years; the results indicative of a trend shift toward “non-core” and “development-type” funds that are higher-risk. In an environment where property acquisition is difficult, there is particularly an evident scarcity of core properties and the transaction prices of such properties have appreciated due to the competition with J-REITs. The results of the survey demonstrate the motives on the part of fund management companies to secure returns by selecting development or non-core properties as target assets.
- When looking at the breakdown of fund formation styles, “fixed property-type” funds which made up the majority of typical funds currently under management were down to 30%, reflecting the current situation where it has become increasingly difficult to fix the portfolio properties at the time of fund formation. Reversely, funds that accommodate “additional property acquisition” or “discretionary investment” have both displayed significant increases. “Discretionary investment-type” funds continue on the expansion trend that was noted in the previous survey, signifying that a style where fund management is left to the discretion of fund management companies has begun to take root backed by the steady build-up of fund management track records.
- In terms of target investor base, while “domestic pension funds” and “overseas investors” increased, “high net-worth individuals” declined. Overseas investors, attracted to the greater spread offered by the Japanese real estate market compared to overseas, are directing their capital to the Japanese market, and in response to such money flow, the formation of several mega-funds of over 100 billion yen is being planned. Meanwhile,

the decrease seen in the category of "high net-worth individuals" can be attributed to the fact that some of the fund management companies that targeted the subject investor group are moving towards focusing on large institutional investors such as pension funds and overseas investors in an attempt to pursue efficiency.

Changes in Investor Base



Future Outlook on the Real Estate Market

"Nagoya", "Fukuoka" and "Osaka" viewed as cities expecting rent appreciation in the future. The cap rate of Class-A office buildings in central Tokyo to mark 3.5%.

- The greatest number of respondents cited "Nagoya" as the city other than Tokyo that expects rent appreciation going forward, followed by "Fukuoka" and "Osaka". Over 80% of total responses concentrated on these three cities. Even among the investment target areas that are now expanding into the local regions, these specific, large cities are perceived to become the initial points of focus.

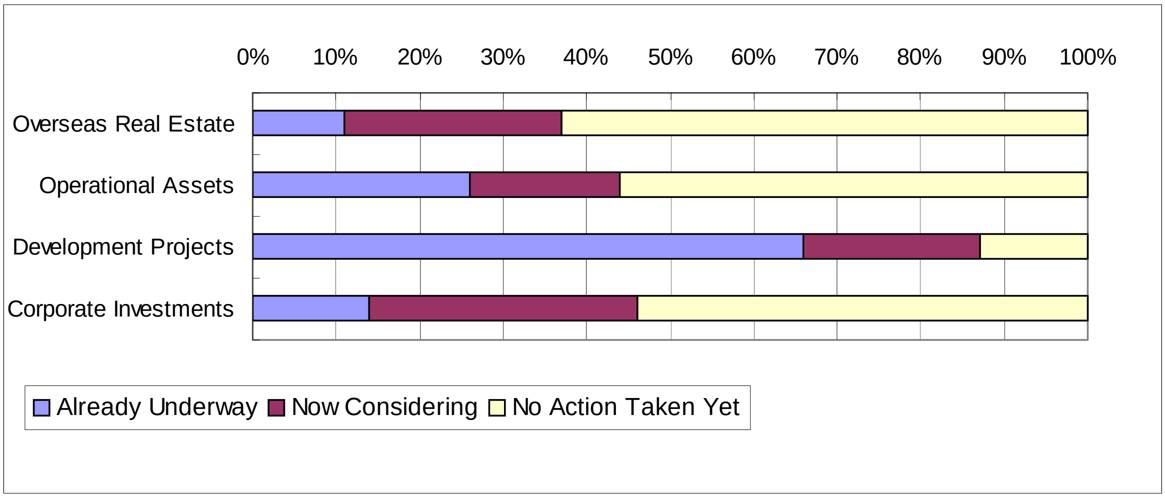
- In terms of the future outlook on the cap rate of Class-A office buildings in central Tokyo such as Otemachi, "no change" was the majority response, "to drop" covered one third of the responses and "to rise" was less than 10%. This is an indication that among the fund management companies, while the majority views the price appreciation of Class-A buildings in central Tokyo as nearing its ceiling, a considerable number still expects further appreciation, while hardly any forecasts a price decline. Most responses indicated that the cap rate going forward will be in the 3.0 to 4.0% range with the average marking 3.5%.

Efforts Toward New Investment Targets

Investments into development projects and operational assets to expand. Companies also to consider overseas and corporate investments.

- When looking at each of the companies' efforts in the four categories of "overseas properties", "operational assets", "development projects", and "corporate (securities) investments" which are perceived to be the next investment targets for real estate funds, results indicated that a little under 70% of the companies are already working on "development projects", with the total reaching 90% when combined with those that replied "now considering". Furthermore, one fourth of the companies have already begun investing in "operational assets (hotels, senior housings, parking lots, etc.)" which are properties operated by the management companies themselves, and approximately another 20% showed enthusiasm for such investments. Meanwhile, fund management companies already investing in "overseas properties" or engaged in "corporate (securities) investments" accounted for only 10% of the total. While this implies that the efforts have only just begun, in both of the categories, approximately 30% of the companies are already beginning to consider investments.

Future Direction of the Private Real Estate Fund Business



Future Issues Surrounding the Private Real Estate Business

Concerns on abilities and attitudes of certain fund management companies. Changes in external environment such as legal systems and interest rate rise also cited as issues.

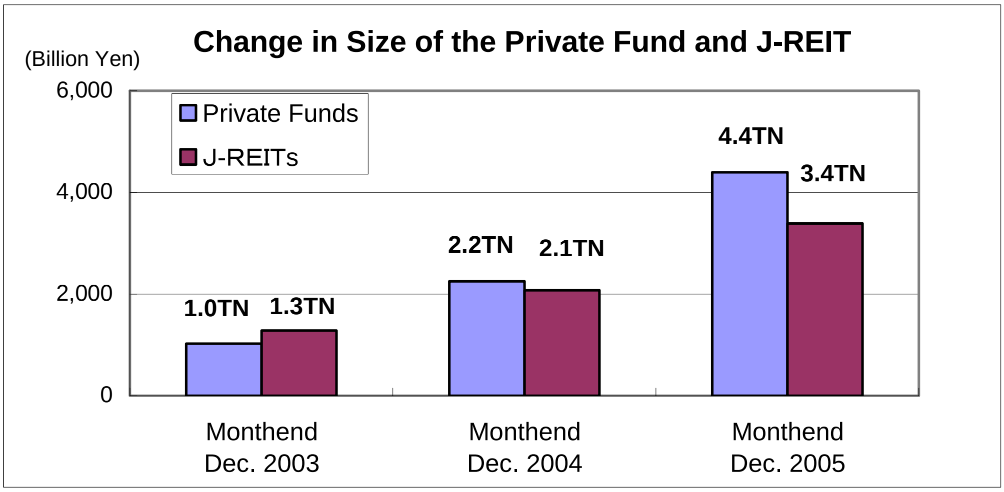
- In terms of problems and concerns surrounding the private real estate business going forward, "funds' collapse and market chaos triggered by the lack of competence and moral hazards of certain fund management companies" were raised as being the most alarming issues. In addition, multiple companies voiced concerns on the effects of changes in the external environment surrounding the market including the "impact of the enforcement/amendment of pertinent laws" or the "increase in interest rates". The "lack of performance indicators for investors such as indices or risk/return benchmarks" was also viewed as a problem.

Estimated Size of the Private Real Estate Fund Market

- Since 2003, STB Research Institute has estimated the market size (total amount of the real estate properties acquired by funds currently under management at the time of each survey) of private real estate funds, basing its projections on surveys and interviews with the fund management companies as well as the data publicly disclosed by such companies. Upon considering the results of the latest survey, the institute estimated the market size of private real estate market as of monthend December 2005 to be 4.4 trillion yen.

- As can be seen in the graph below, the latest figure surpasses the total asset value of J-REITs for the same period by one trillion yen, indicative of the fact that this market continues to expand at a high pace of double-fold growth per year.

Changes in the Size of J-REIT and Private Real Estate Fund Markets
(Based on the value of acquired assets)



Source: Calculated by the STB Research Institute based on surveys, interviews and publicly disclosed data.

※ Figures for private funds exclude overseas-registered funds, publicly-placed funds primarily targeting individual investors, and asset liquidation-type cases without external investors.

※ Please note that the disclosure of survey results is limited to what is covered in the subject release. Thank you for your understanding.

[Contact] https://www.stbri.co.jp/english/contact/form-private/private_investment.html