Market Size of Private Real Estate Funds Reaches 5.5 Trillion Yen. Ten Trillion Yen when Combined with J-REIT

– Market Expansion Slowing Down as the Market Shifts to a Period of Stable Growth –

＜Summary＞

- The STB Research Institute Co., Ltd. estimates that the market size of the private placement real estate funds ("private real estate fund") reached 5.5 trillion yen at the end of June 2006. Although the market continues to expand, the pace of its expansion is slower than that of J-REIT and is on a gently slowing trend.
- In terms of the specifications of funds newly formed in 2006, compared to those funds formed in the previous year, such trends as "a drop in targeted rate of return," "a rise in LTV" and "shorter fund periods" continued, reflecting the real estate market condition. On the other hand, the "target asset size", which fell in 2005, was on a sharp upswing as the result of the emergence of super large-scale funds.
- Investment targets have continued to expand, as property types have grown increasingly compound and diverse while investment areas have become diverse and international. Some funds include even business corporations in their investment targets.

＜Size of Private Real Estate Fund Market Reaches 5.5 Trillion Yen – Market Enters a Stable Growth Period＞

- The STB Research Institute has endeavored to capture the size of the private real estate fund market since 2003 through surveys of and interviews with fund management companies, and via the data announced by such companies as well as materials released by the press. The Institute estimates the market size as of the end of June 2006 to have been approximately 5.5 trillion yen. This is approximately 1 trillion yen larger than the market size of J-REIT for the same time period. Combined, the two markets amounted to 10 trillion yen.
- The private fund market grew at a rapid pace even after the end of December 2004, when it surpassed J-REIT in market size. As of the end of June 2006, however, the rate of increase was only 25% over the previous period. This rate of growth was slower than that of J-REIT, which saw eight companies become listed in the first half of this year. The change signaled a modest slow-down in the private fund market expansion.
- The slow-down seems to be a result of a substantial number of existing funds having been redeemed, including transition to J-REIT, as fund managers eyed a future rise in interest rates and a strong real estate market. Considering that new formations continue at a brisk pace, the market as a whole can be said to have entered a period of stable growth.

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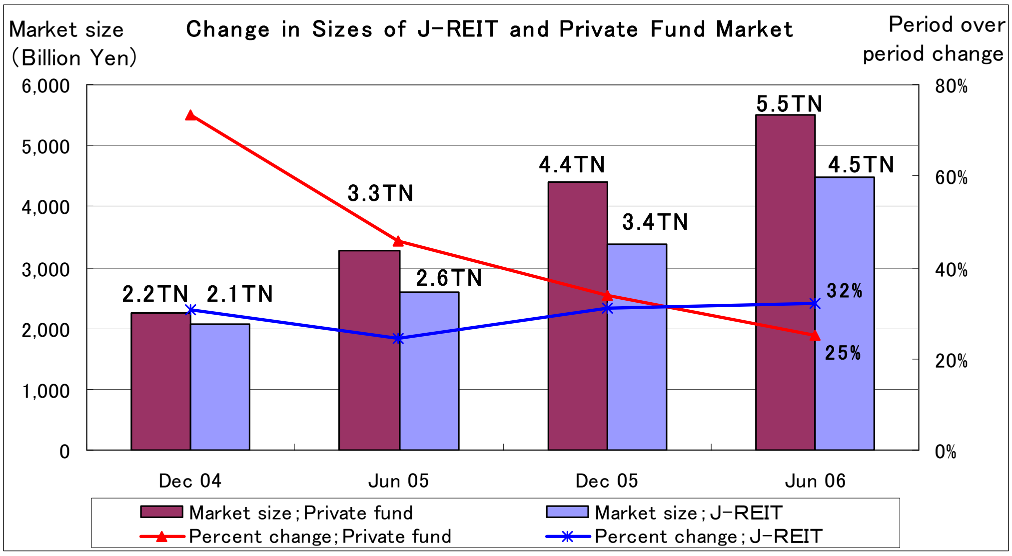


Source: Figures estimated by STB Research Institute based on surveys, interviews and announced data, etc.
※ Market size defined as the total acquisition value of real estate properties owned by funds under management at the time of reference.
※ Private funds exclude funds registered overseas, publicly offered funds targeting retail investors, asset liquidation transactions without external investors and joint investment.

＜A Drop in Targeted Rate of Return and Renewed Rise in Size – Increasing Polarization of Fund Specifications＞

- A longitudinal comparison of average specifications of funds newly formed since 2004 reveals that such trends as "a drop in the targeted rate of return," "a rise in LTV" and "shortening of fund period" continue to be observed whereas the "targeted asset size," which contracted in 2005, posted a sharp upturn in 2006.
- The drop in targeted rate of return is assumed to be a reflection of a rapid expansion of real estate funds, including J-REIT, which led to tightening of supply-demand balance in the real estate market and a resulting rise in the acquisition price.
- One can speculate that the LTV has continued to increase in order to offset the decline in the rate of return. However, room for further increase is believed to be capped as an interest rate hike is projected.
- Fund managers are choosing relatively short fund periods, possibly to wrap up their funds while the buoyant market condition lasts. Fund periods are thus becoming shorter year after year.
- Among those funds newly formed in 2006 are several discretionary super large-scale funds whose assets are worth more than 100 billion yen. These funds gave a substantial boost to the average target asset size. They also have relatively high targeted rates of return. Consequently, these large-scale funds and common and conventional small-scale funds that invest in specific properties are increasingly polarized with respect to their rates of return and sizes.

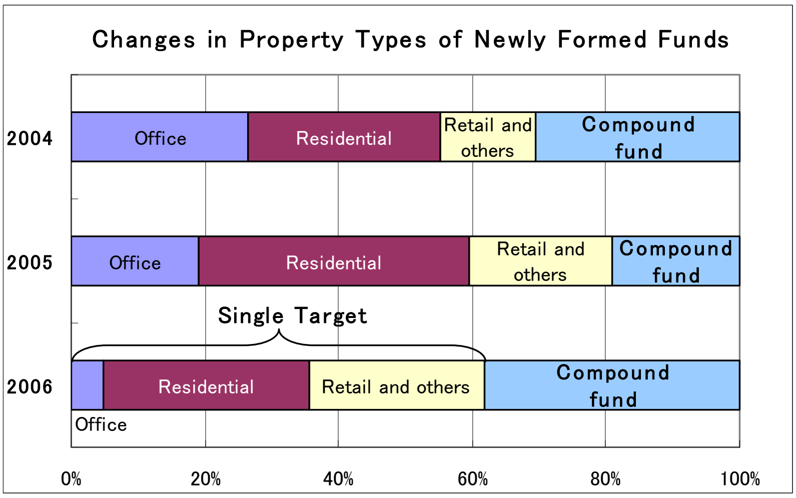
Change in the Specification of Newly Formed Funds

	2004	2005	2006
Targeted Asset Size	28.7 billion yen	16.8 billion yen	70.7 billion yen
Targeted Rate of Return	11.7 %	10.3 %	9.9 %
LTV	67.7%	70.6 %	71.1 %
Fund Period	5.2 years	5.0 years	4.5 years

※Includes newly formed funds made public between January and September for 2004 and between January and June for 2005 and 2006.
LTV（loan to value; financial leverage ratio）＝loan amount/property price

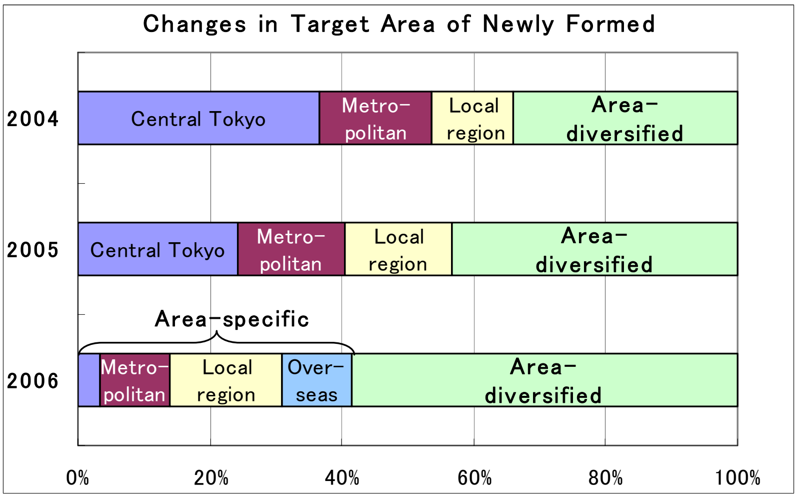
＜Compounding and Diversification of Investment Properties Continue – Investment Even in Business Corporations＞

- With regard to the types of real estate properties selected as investment targets, “compound” funds that target multiple usage types of properties have grown in number while “single target” funds that focus on a specified type of properties have decreased.
- Among “single target” funds, funds that invest in office properties have sharply decreased while funds that invest in retail and other properties have captured a growing share, attesting to the growing diversity among property types.
- When looking closely at the breakdown of “compound” funds, “office-plus funds,” which combine office and residential properties and were dominant last year, have decreased whereas “comprehensive” funds that target more than three types of properties have become more prevalent. Some of these funds include not only real estate properties but also the stock of real estate-related corporations in their investment targets.
- Such changes, as mentioned before, can be interpreted to be a response to a price uptrend, resulting from the increasing depletion of properties in the markets of office and residential properties, which until recently provided the main battlefield for real estate funds as they race to buy up properties.
- Investors must recognize that while such an increase in compounding and the diversity of investment properties will lead to dispersion of investment risks, there are cases that contain market risks, such as those associated with stock, that are different from the risks of real estate properties.



＜Increasing Diversification and Internationalization of Investment Target Areas – Overseas Expansion of Investment Areas＞

- In terms of investment target areas, while "area-specific" funds that focus on specified target areas are declining in number, "area-diversified" funds that invest diversely in regional areas that are distant from one another such as those targeting the "government-decreed cities nationwide" or the "greater metropolitan Tokyo area and the Kansai region" are increasing year after year. In 2006, these funds surpassed "area-specific" funds and accounted for nearly 60 percent of all funds.
- Among "area-specific" funds, those that specialize in the central Tokyo area and the greater metropolitan Tokyo area decreased sharply while those that invest in other regions were on a growing trend. Emerging in 2006 were some funds that invest strictly in overseas properties.
- As for "area-diversified" funds, a relatively large number of funds focused on the three largest metropolitan areas until recently. In 2006, however, the focus widened nationwide to such areas as Tohoku/Hokkaido, Kyushu and Chuugoku/Shikoku. Some even included foreign countries in their investment target areas.



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