2006 Market Survey Results of Private Placement Real Estate Funds

＜Survey Outline＞

STB Research Institute Co., Ltd. has been conducting 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 fourth time the survey was conducted and valid responses were received from 34 companies that form and manage private real estate funds. The outline of the survey is as follows.

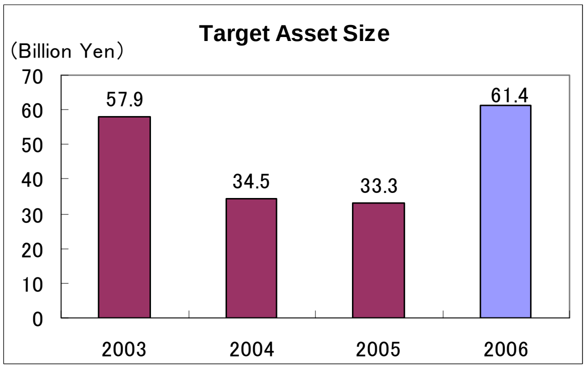
- Survey Targets: companies that domestically form/manage private real estate funds
- Number of Target Companies: 121
- Number of Valid Responses: 34 (Response Rate: 28.1%)
- Survey Period: November 2006 to December 2006
- Survey Method: distribution/collection of questionnaire via mail

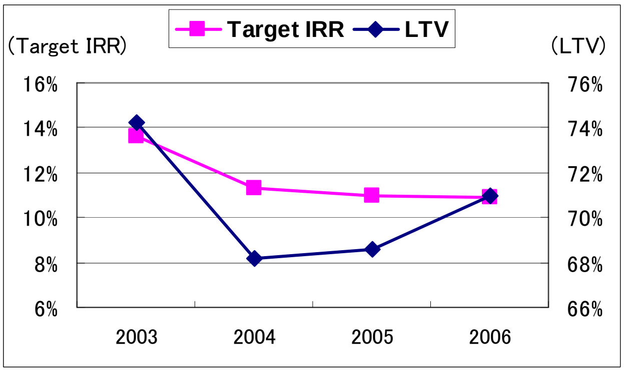
Overview of Typical Funds Under Management and Future Fund Formation Trend

The target asset size increased once again due to the formation of mega funds; "Further expanding investment areas" and an "increase of core funds" were observed

- A look at the specifications of the typical funds currently under management as described by the responding companies, compared to the results of the 2005 survey, reveals that although an increase was observed in average LTV, from 68.6% to 71.0%, average target IRR remained much the same, from 11.0% to 10.9%, which implies that they are situated in a market environment where it is still challenging to secure returns. The average target asset size increased to a considerable degree to 61.4 billion yen, in contrast to a decrease observed last time; this presumably reflects a significant impact of some mega discretionary investment funds exceeding over 100 billion yen in size that were formed in 2006.

Changes in Average Specifications of Typical Funds Currently Under Management

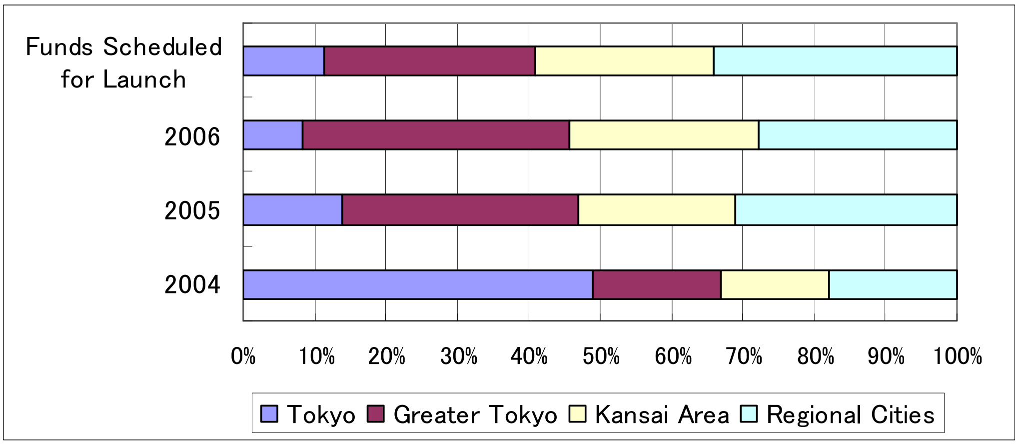




Note: LTV (loan to value; financial leverage ratio) = loan amount/property price, target IRR (internal rate of return)

- The latest survey confirmed a clear trend toward "further expanding scope of investment areas" and an "increase of core funds." An observation of the scope of investment in terms of geographical areas shows that while investments in "Tokyo" dropped to as low as 8%, a trend continuing from the last survey, those in "greater Tokyo" and "Kansai area" both grew. This makes the combined weight of "Kansai area" and "regional cities" reach 55% of the total, resulting in other regions once again, as with the last survey, outweighing the Tokyo area. This trend is even more marked in the funds that are scheduled or considered for launch within one year from now, which suggests the prospect of further accelerated growth in investments in regional areas.
- In terms of fund types, "core" funds occupied 63% of the total, making a decrease in the percentage of "non-core" funds, especially "value-add" funds, stand out even more as they had taken up a majority last time. In terms of fund formation style, on the other hand, the number of "fixed property-type" funds, in which all portfolio properties are fixed at the time of fund formation, dropped and funds that accommodate "additional property acquisition" and "discretionary investment" increased, respectively. In the past, most core funds were of a fixed property type and were considered to be low risk, low return products representing stable investments in properties in good locations, but it appears that core funds now come in increasingly greater variety as a result of the maturation of the private fund market, which led to the growth of discretionary investment funds as an established product category and also caused investments in regional cities to be more widespread. "Core" funds also occupy a majority of the funds scheduled or considered for launch within one year from now.

Expanding Investment Areas



Note: Breakdown by number of funds

Future Outlook on the Real Estate Market

Following the continued trend, rent appreciation is a limited phenomenon expected to concentrate in three cities, "Osaka," "Nagoya" and "Fukuoka." Most fund management companies reckon cap rates to bottom out.

- "Osaka" and "Nagoya" were the cities equally most cited by respondents as cities other than the Tokyo area that expect rent appreciation going forward, followed by "Fukuoka." Slightly more than 90% of total responses concentrated on these three cities. This trend became even stronger in comparison to the last survey, reflecting the prospect that while the investment areas are now expanding into the local regions, these specific, large cities will presumably remain 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, almost 70% of the respondents expect "no change": a greater part of fund management companies thus reckon cap rates to bottom out. In addition, the respondents predicting "to rise" outnumbered, for the first time ever, those predicting "to drop": this means that there are more fund management companies that predict decrease in real estate prices than those expecting further price increase. Cap rates a year from now are, however, forecasted to be 3.0% on average, a level 0.5% lower than the last time.

Future Business Environment Surrounding Private Real Estate Funds and Strategies of Fund Management Companies

Most companies are, while expecting no rapid interest rise, braced for a severer financing environment

- In forecasting interest rates, which greatly affect their fund performance, 80% of all of the respondent fund management companies predict rises at a pace below 2% in the coming three years, and no particularly rapid interest rate hike is expected to take place. While many companies mentioned "long-term and fixed rate borrowing" or "interest cap/hedge trading" as actions in response to such slow-paced interest rate rises, there were also a good number of companies that replied that they would implement a "property acquisition or sale strategy," such as making a judgment for investment in properties with high added-value or prospects for rent appreciation or prompt sale.
- Possibly reflecting the apprehension that newspapers etc. report is held by regulatory authorities about debt financing from financial institutions (non-recourse loans), 30% of the respondent companies also said that their financing environment is already severe and a majority of them expect this situation to become even worse in the future. On the other hand, they do not appear to think that equity financing from institutional investors (through anonymous partnerships) is

currently so tight and, although more companies expect a severer environment in the future, a majority of the fund management companies consider the current situation to continue.

Sign of change in the relationship with J-REITs, which used to be the most popular exit destination

- While what was regarded in the past to be the best exit strategy for private funds was "establish as a J-REIT fund or sell to own REIT," this choice did not make a high rank in the latest survey, partly due to scrutiny that it has come under from a conflict of interest perspective; an alternative exit strategy that was mentioned most was to "sell to external funds," followed by "sell to own successor fund."
- Most fund management companies, however, still expect the J-REIT market itself to "expand," with many of them referring to "further bipolarization" and "merger" as qualitative changes that they predict will take place. As such changes in the J-REIT market are considered to have potentials for both positive and negative effects, such as prompting "market growth" and "more differentiated or higher-quality funds" in the private fund market or, conversely, causing "difficulty in selling to REITs" and "fiercer competition in property acquisition," the two markets are presumably poised to form a new relationship characterized by more complex interactions, as opposed to a simple picture like "J-REITs = exit for private funds."

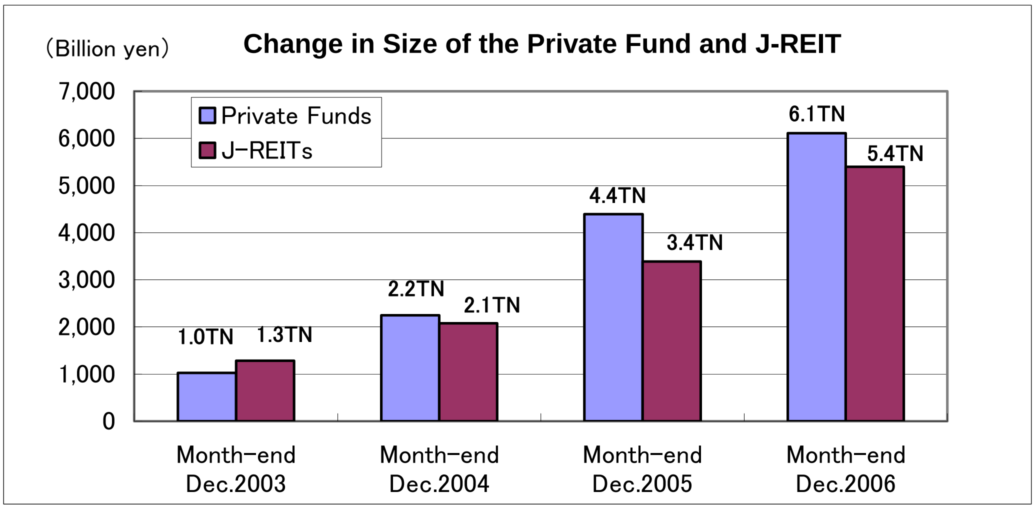
The key to survival is "better compliance" and "enhanced property acquisition and asset management ability"

- "Better compliance," "enhanced ability to acquire properties" and "improved asset management ability" were equally the most cited strategies necessary for fund management companies to survive in the future, followed by other replies including "more differentiation from other companies," "enhanced investor relations" and "greater corporate prowess or investment scale."
- Statutory regulations in relation to private funds are currently in the making, with the *Financial Product Trading Law* being a leading example, and the environment surrounding the fund business is also expected to become even harsher in areas of, among others, financing and property acquisition. Every company shares a view that in order to survive in such a business environment, they can rely on no other strategy than to play fair and square by making steady efforts like those mentioned above.

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 month-end December 2006 to be 6.1 trillion yen.
- While, as can be seen in the graph below, the value increased by approximately 1.7 trillion yen year on year, the market growth pace has slowed down considerably. The gap from the J-REIT asset size as of the same time also narrowed to approximately 0.7 trillion yen from approximately 1 trillion yen a year earlier.

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.
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