NEWS RELEASE

Survey on Privately Placed Real Estate Funds in Japan July 2009– Results

August 25th 2009

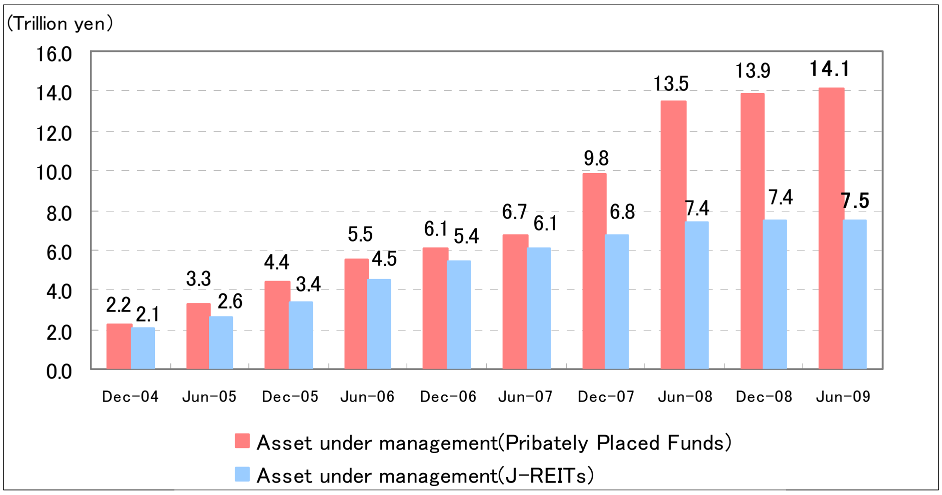
STB Research Institute Co., Ltd

- Starting in 2003, STB Research Institute Co., Ltd. has conducted the "Survey on Privately Placed Real Estate Funds" as part of its research activities concerning real estate investment markets. This is the eighth such survey based on responses to questionnaires received from 67 real estate investment management companies.
  - Survey subject: Real estate investment management companies that originate and manage privately placed real estate funds which are focused on domestic real estate
  - Number of companies to which questionnaires were sent: 175
  - Number of companies responded: 67 (ratio of valid responses: 38.3%)
  - Time of survey: July 2009
  - Survey method: Distribution and collection of questionnaires by post and e-mail
- Based on the results of this survey, hearings and published information, we estimated the market size of privately placed real estate funds (on invested asset basis) as of the end of June 2009 to be 14.1 trillion yen. This amount includes assets under management of 176.8 billion yen managed by the real estate management companies that have filed for court protection under the Civil Rehabilitation Law or the Corporate Rehabilitation Law, and are currently undergoing corporate restructuring. In addition, these assets under management include cases in which restructuring measures have been carried out and sponsors have already been determined, and cases in which a successor management company has been determined and it has continued to manage investments.

Market size of privately placed real estate funds is 14.1 trillion yen, and it reaches 17.2 trillion yen when combined with global funds

- The STB Research Institute has been conducting estimates of the market size of privately placed real estate funds since 2003 based on questionnaires and hearings from investment management companies (hereafter called "investment managers" or "managers") as well as published information. As of the end of June 2009, it is estimated the size of this particular market (invested assets basis) was 14.1 trillion yen. Assets under management increased 257 billion yen or 1.4% in six months from 13.9 trillion yen in the previous survey as at the end of December 2008. (The figure was revised from that released in February 2009 due to a statistical adjustment.)
- Despite the continued difficulty in funding in the sluggish financial market, the market size of privately placed real estate funds grew, albeit modestly, due to an increase in the amount of assets invested by some managers, and the launches of new funds.
- The market size of 14.1 trillion yen (invested assets basis) does not include global funds. (Note) We estimate from this survey that the total market size is 17.2 trillion yen, when combined with the balance of domestic real estate assets managed by global funds. This represented an increase of 1.4 trillion yen, from 15.8 trillion yen in the end of the December 2008 . While the increase was primarily attributable to an increase in the number of global fund managers identified, such an increase reflects an active fund raising for investments targeting Asian region.

Trends of Market Size of Privately Placed Funds and J-REITs



source: STB Research Institute

(Note) Global funds: defined by us meaning the funds managed by foreign-based asset-management companies of which major investment targets include foreign real estate.

"Survey on Privately Placed Real Estate Funds" July 2009-Results

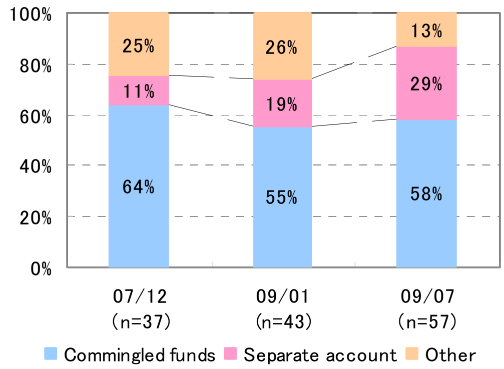
(Note) [n] shown in the graph indicates the number of effective responses.

1. Status Quo of Real Estate Investment Management Business

①Breakdown of Commingled Funds and Separate Accounts of Assets under management:

This survey categorized privately placed funds into "commingled funds" that are managed for multiple investors, and "separate accounts" managed for single investors. The total assets under management of the commingled funds managed by the companies responded to the survey stood at 5.9 trillion yen (58%), while the separate accounts amounted to 3.0 trillion yen (29%). Although commingled funds are the main investment vehicles, the separate accounts also hold a substantial share, which has been steadily rising from 11% of the December 2007 survey, indicating an increase of mandate from relatively large investors to separate account managers.

Fig. 1: Breakdown of Commingled Funds and Separate Accounts



②Status of the Launch of Funds between January 2009 and June 2009: ～Launches of Funds and Types of Funds～

Of the 65 companies that replied to the survey, 17 (26%) stated that they launched funds between January 2009 and June 2009. It has become apparent that despite genarally difficult funding circumstances, some managers could launche funds to meet specific demand for real estate equity investments.

Of the funds launched, the fixed property type, in which investment properties are identified at the launch, accounted for 68%. By management style, the core type focusing on the income return accounted for 83%, demonstrating that funds with relatively low-risk exposure accounted for the majority of the funds launched.

With respect to the fund investment period, funds with an investment period of between one and five years accounted for 64% in total, while those with an investment period of between five years and seven years or beyond stood at 36% in total. This reflects the growing trend in favor of funds with a long-term investment period of five years or longer, which now have noticeable market share.

Fig. 2: Launches of Funds

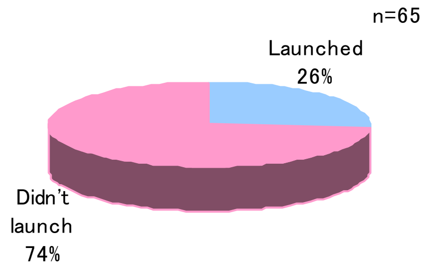


Fig.3: Type of Funds (1)

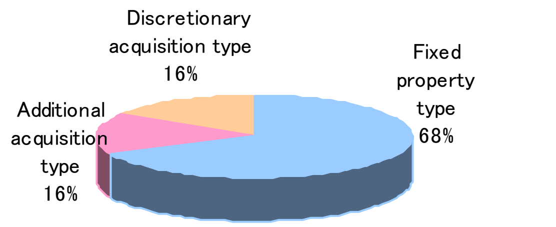


Fig. 4 Type of Funds (2)

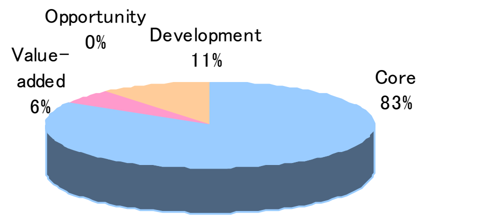
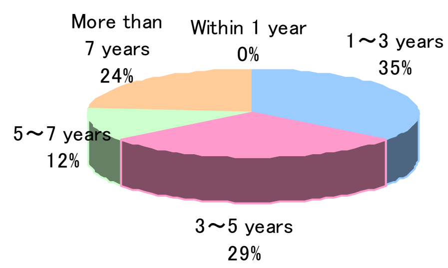


Fig. 5 Investment Period of Funds

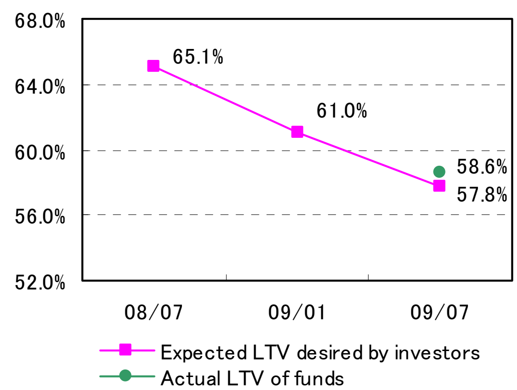


*Please refer to the「Definitions of Terms」 of Page10 about fixed property type, additional acquisition types, discretionary acquisition type, Core, Value-added, Opportunity

～LTV Level～

The average actual LTV level of funds launched between January 2009 and June 2009 was 58.6% (on an acquisition price basis; hereafter, the LTV is presented on an acquisition price basis). Meanwhile, the average expected LTV level desired by investors was considered 57.8% by managers, showing that the two LTV levels were at almost the same. The expected LTV level desired by investors was 65.1% in the July 2008 survey, and has been declining. While the decline in the actual LTV level was attributable to the difficult debt financing circumstances, the decline in the expected LTV level implies that investors have become wary of the risk contained in the high LTV.

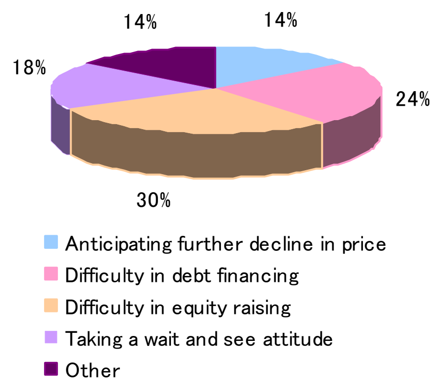
Fig. 6 LTV Level



～Reasons for Not Having Launched Funds～

Meanwhile, 74% companies answered that they did not launch funds during the period. The major reasons for this were the first of all "difficulty in equity raising", secondly "difficulty in debt financing", and thirdly "taking a wait and see attitude". Some 14% of managers answered they didn't launche as they were "anticipating further decline in real estate prices in the future." These results confirmed that some managers were waiting on the side line for the appropriate timing.

Fig. 7 Reasons for not Having Launched Funds

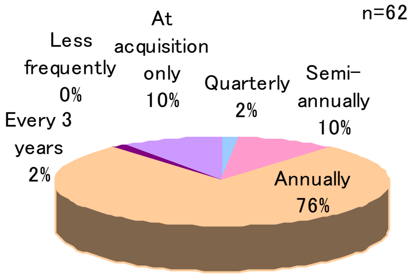


③Evaluation of Real Estate Held by Funds

With respect to the frequency of external appraisals after the acquisition of real estate, 76% managers responded they are applying external appraisals annually. It was confirmed that annual external appraisal prevailed as a general practice. With respect to the frequency of internal evaluations by managers, 58%, the largest number, adopt annual internal evaluation, followed by 21% carrying out quarterly internal evaluation, up from 13% in the July 2008 survey. Such increase may suggest managers' concern about the rapidly changing market value.

Fig. 8 Frequency of External Appraisals

【July 2009 survey】



【July 2008 survey】

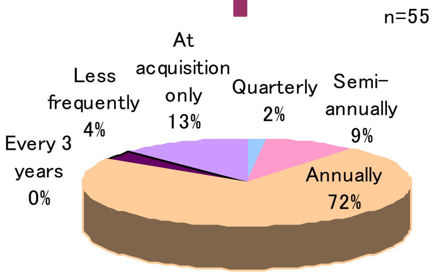
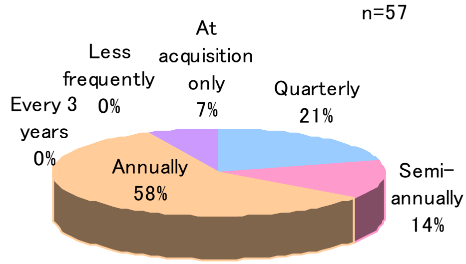
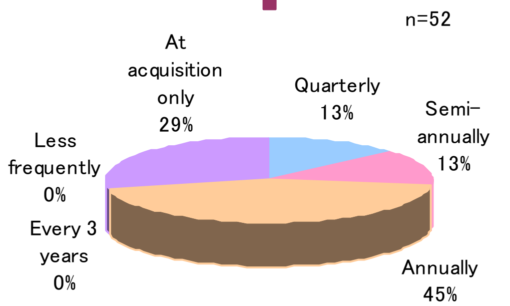


Fig. 9 Frequency of Internal Evaluations

【July 2009 survey】



【July 2008 survey】



2. Business Environment and the Future Outlook of Real Estate Investment Management

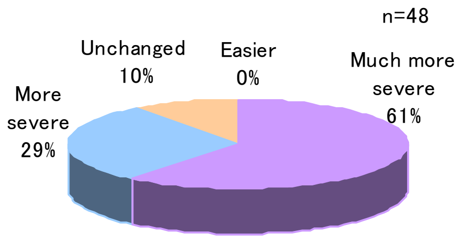
①Circumstances of Debt Financing

The results of the survey showed that debt financing conditions remained difficult. 24% of managers responded that the conditions have become "more severe," and a majority answered that the conditions were "unchanged". However, 23% of managers stated that the conditions have "improved" or "slightly improved", which showed signs of recovery compared to the January 2009 survey.

In reply to the question of how long the severe debt financing circumstanaces would last, 54% of managers anticipated that they would last "during 2009," almost the same level as that in the January 2009 survey. Meanwhile, given an increase in answers for "during 2010" from 31% to 40%, and a declined in answers for "during 2011" from 16% to 4%, the results suggest that an increasing number of managers anticipate a slightly earlier recovery.

Fig. 10 Circumstances of Debt Financing

【January 2009 survey】



【July 2009 survey】

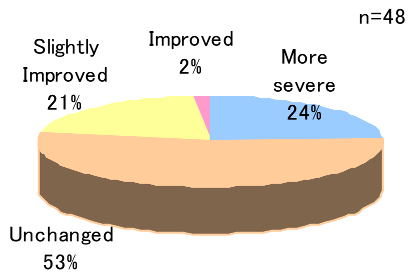
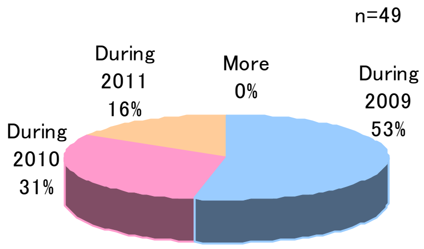
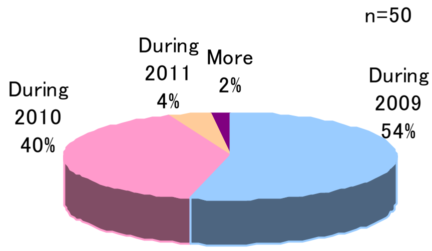


Fig. 11 How Long Do You Think the Severe Debt Financing Situation will Last?

【January 2009 survey】



【July 2009 survey】



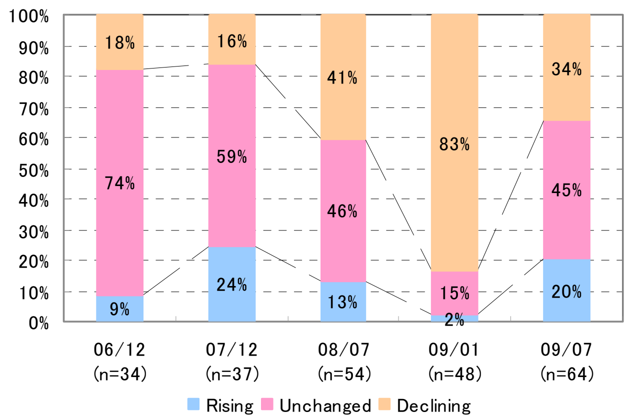
* Expectations of only those who answered that debt conditions have become more severe or that they were unchanged.

②Circumstances of Equity Raising

～Willingness of Equity Investors to Invest～

The share of managers who answered that the willingness of equity investors to invest has been "rising" rose to 20% from 2% of the January 2009 survey, while those who indicated that the willingness has been "declining" fell significantly to 34% from 83%, suggesting an improvement in the equity raising environment.

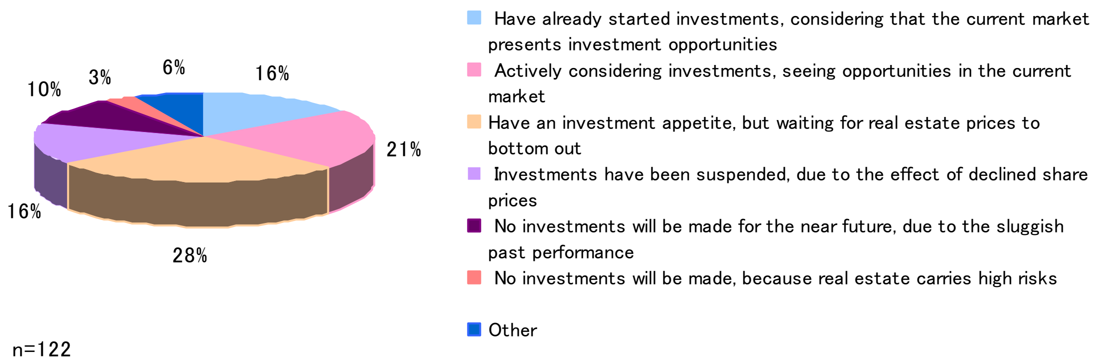
Fig. 12 Willingness of Equity Investors to Invest



～Status of the Investment Attitude of Equity Investors～

The highest share of 28% of managers responded that equity investors "have an investment appetite, but are waiting for real estate prices to bottom out". On the other hand, 21% of managers responded that they were "actively considering investments" as the current market presents investment opportunities, and 16% answered that they had "already started investments", showing that 37% of managers stated that equity investors were positive about real estate investments. These results demonstrated that equity investors were seeking investment opportunities while closely monitoring the market situation.

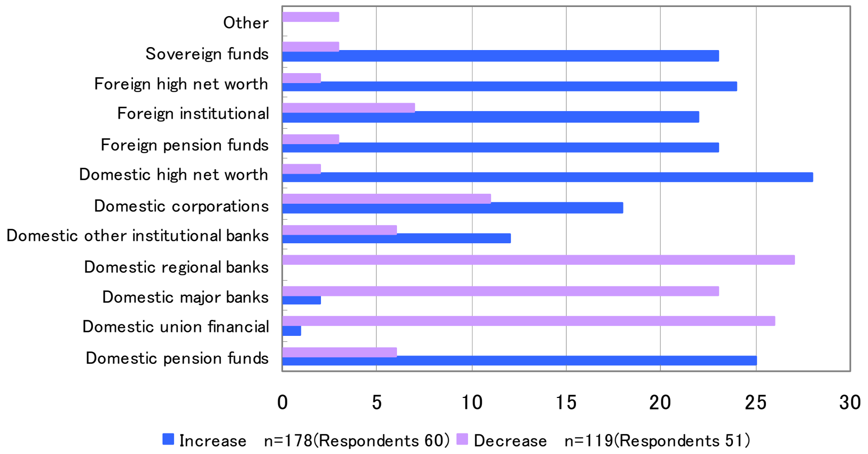
Fig. 13 Status of the Investment Attitude of Equity Investors



～Investors Whose Investment Volume is Expected to Increase/Decrease ～

Many managers expected that "domestic high net worth" and "domestic pension funds" would increase their investment volume. They also expected that foreign investors (foreign high net worth, foreign institutional investors, and sovereign funds) would increase their investments. In contrast, "domestic regional banks" and "domestic union financial" were expected to decrease their investments.

Fig. 14 Investors Whose Investment Volume is Expected to Increase/Decrease



A number of managers consider that financially adequate domestic high net worth investors are actively seeking investment opportunities, reflecting the seemingly undervalued real estate market, even at times of severe debt financing circumstances and a sluggish real estate trading market. (However, their investments are limited to relatively small properties.) Domestic pension funds are expected to increase their investment volume in the future, as some of them have already started investment in REITs or privately placed real estate funds, and there are a number of funds that have not started investing in real estate.

③Status of Acquisition and Sale of Properties

With respect to the acquisition of properties in 2009, the largest share of 53% of managers answered that they looked to acquire properties, but "didn't meet sellers' offer price".

With respect to the sale of properties, 75% of managers answered "unchanged" or "more severe", reflecting the severe market situation. Meanwhile, 22% of managers answered that the situation had "improved slightly". The number of managers who felt conditions were improving apparently rose compared with the January 2009 survey.

Fig. 15 Status of Acquisition of Properties

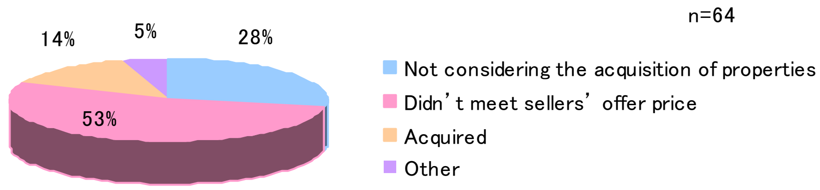
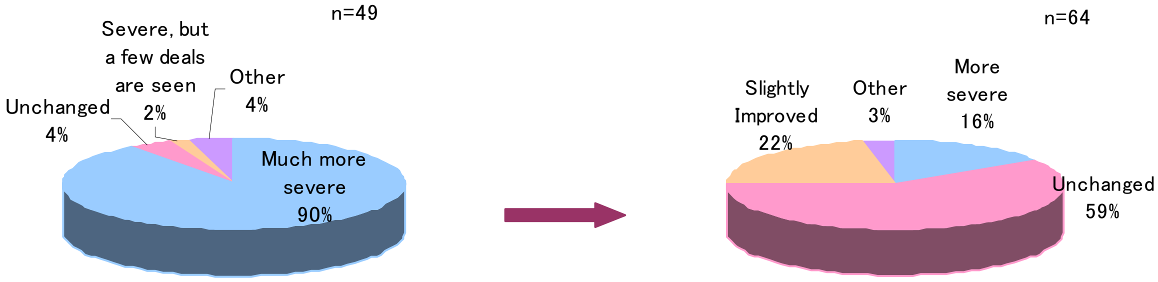


Fig. 16 Status of Sale of Properties

【January 2009 survey】 **【July 2009 survey】**



④Future exit strategies

Managers who answered that they "changed some exit strategies" between January 2009 and June 2009 accounted for 57%, up from 52% in the January 2009 survey. With respect to the details of changes, the "postponement of sales" accounted for 78%. The breakdown of the "postponement of sales" are the "extension of holdings by refinancing" accounting for 47%, the "extension of loan periods" for 23%, and the "postponement of the timing of sales" for 8%, showing that nearly 50% of managers consider the extension of holdings by refinancing. With respect to the exit options available for the next one year, 40% of managers chose the "extension of holdings by refinancing." This means that refinance for privately placed real estate funds will continue to be actively applied.

Fig. 17 Did you Change some Exit Strategies?

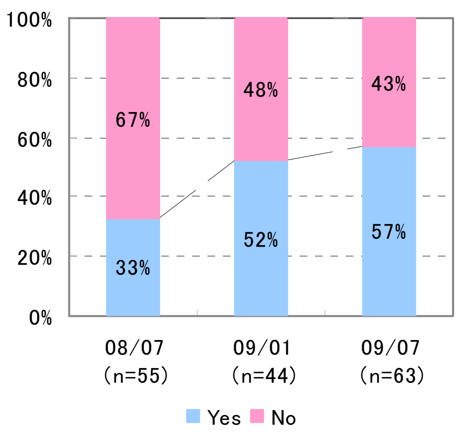


Fig. 18 Details of Changes

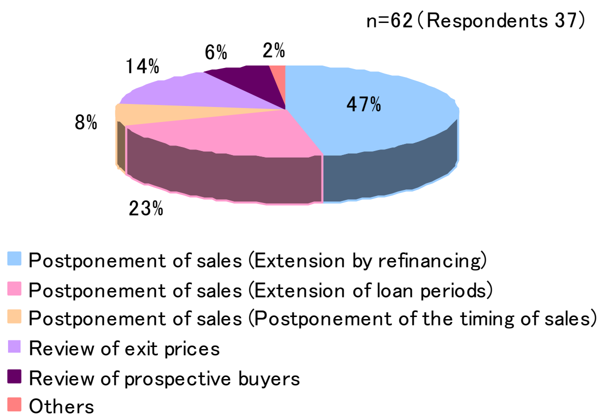
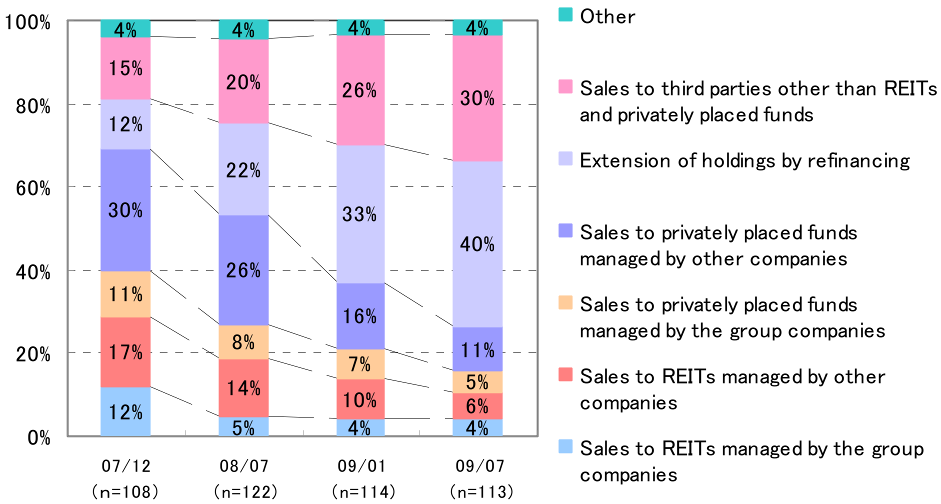


Fig. 19 Exit Options Available For the Next One Year



⑤Timing of Cap Rates to Peak out / Timing of Rents to Bottom out

Most managers responded that the timing of cap rates to peak out would be "between July 2009 and December 2009," followed by answers that it has already "hit the peak," reflecting the fact that a number of managers considered that the timing of the peak-out of cap rates was approaching.

Meanwhile, most managers answered that the timing of rents to bottom out would be "between January 2010 and June 2010," followed by "between July 2009 and December 2009," suggesting that a majority of managers anticipated that the bottoming-out of rents would come after the peak-out of cap rates.

Fig. 20 Timing of Cap Rates to Peak out

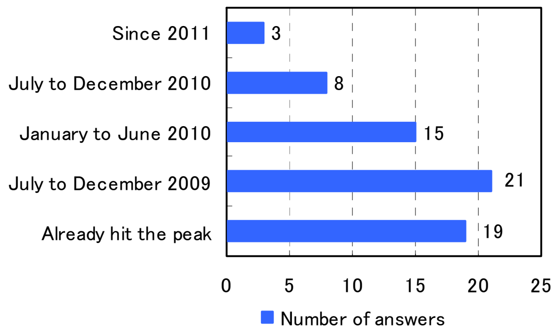
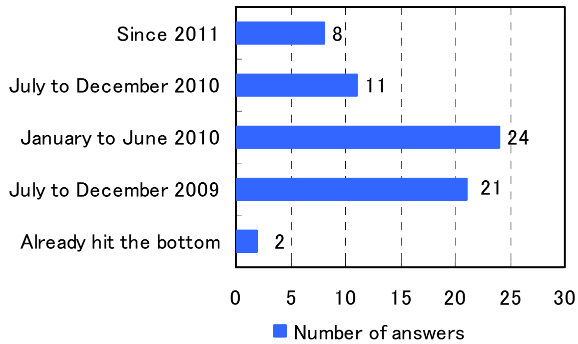


Fig. 21 Timing of Rents to Bottom out



⑥Impact of the J-REIT Market

The most frequent answer given by managers was "Recovery of the J-REIT market is important as it provides exit functions for privately placed funds". Meanwhile, a number of managers pointed to its impact on general real estate market and investment attitude, such as the "revitalization of transactions" and the "improvement in investment sentiment". It was confirmed that the recovery of the J-REIT market will have an impact on the overall real estate investment market.

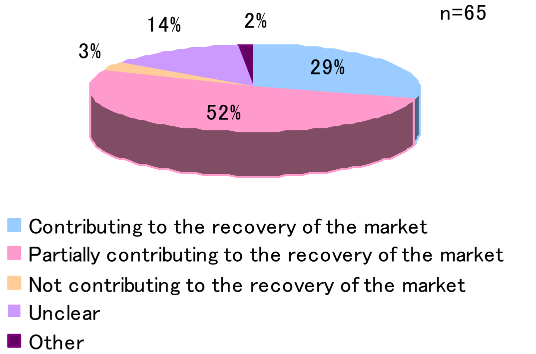
Fig.22 Impact of the Recovery of the J-REIT Market on Privately Placed Funds

Recovery of the REIT market is important as it provides exit function for privately placed funds	25
Improvement iniliquidity; Revitalization of transactions	10
Enhancement and improvement of the real estate investment sentiment	7
Recovery of the J-REIT market will lead a recovery in privately placed funds.	6

⑦Contribution of the Public-Private Fund (Real Estate Market Stabilizing Fund)

With respect to the public-private fund that is under consideration mainly for boosting the J-REIT market, 81% of managers answered that such fund would be either "partially contributing to the recovery of the market," or "contributing to the recovery of the market", reflecting the fact that the public-private fund was regarded as an instrument that would positively impact on the real estate investment market. Some managers also provided with notes requesting the "flexible management as the supplier of funds" and "transparent management."

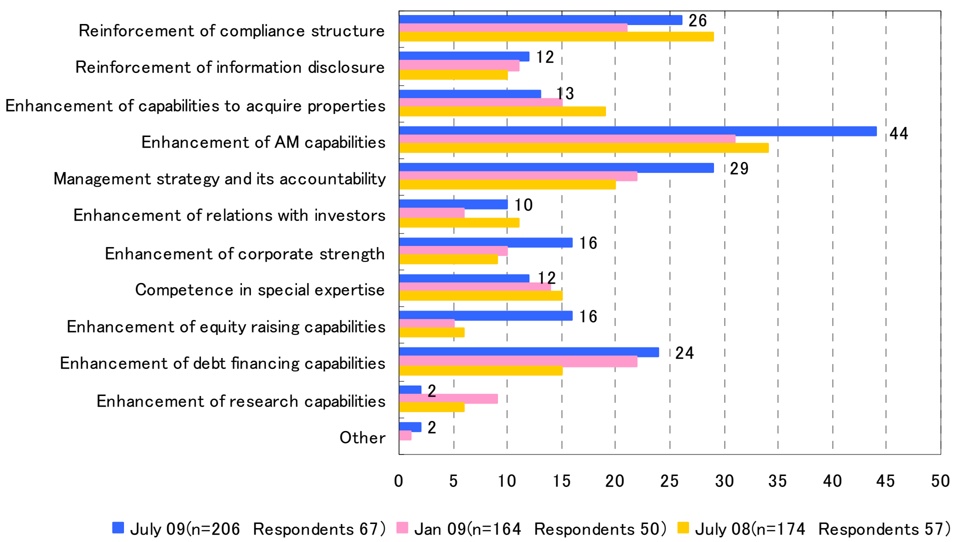
Fig.23 Contribution of the Public-Private Fund



⑧Conditions and Strategies for Sustainability and Growth of Investment Management Companies

The most frequent answer was "Enhancement of asset management capabilities," followed by "Management strategy and its accountability," which were also highly ranked in the January 2009 survey. The results indicate that managers place emphasis on their asset management capabilities for their future survival and growth.

Fig.24 Conditions and Strategies for Sustainability and Growth of Investment Management Companies



※Managers were requested to answer about the three most important conditions and strategies.

Definitions of Terms

The definitions of terms used in this survey are as follows

Privately placed real estate fund : The privately placed real estate fund is a structure under which investors' funds are managed. In this survey, in addition to a commingled fund that is designed for a number of investors, an investment program for a single investor (separate account) is also categorized as a privately placed fund.

〈Fund Type〉

Fixed property type : A type of fund in which the properties to be acquired are identified before the establishment of the relevant fund

Additional acquisition type : A type of fund in which although certain properties to be acquired are identified before the establishment of the fund, additional properties are acquired after the establishment of the fund

Discretionary acquisition type : A type of funds in which the properties to be acquired are not identified before the establishment of the relevant fund, and properties are acquired at the discretion of a manager in accordance with predetermined transaction policies and standards; Also called a blind pool type

〈Management Style〉

Core : An investment style in which stable long-term investments are made by investing in sound properties to primarily obtain income gains

Opportunity : An investment style in which investments are made in relatively unprofitable properties, and after addressing issues and improving the value of the properties, they are sold to achieve capital gains; Opportunity also includes funds that partially invest in development-type projects and corporations.

Value-added : An investment style that lies between Core and Opportunity, and aims to achieve both income gains and capital gains

Development : A fund that specializes in achieving development profits

〈Investment Area〉

Tokyo Metropolitan Area :Tokyo other than 23 wards・Saitama・Chiba・Kanagawa

Osaka Area :Osaka・Kyoto・Hyogo・Nara・Wakayama・Shiga

Nagoya Area :Gifu・Aichi・Mie

LTV（Loan To Value） : The Loan to Value (LTV) is the ratio of borrowings against the asset value. In practice, there are cases in which the acquisition value of properties is used as the asset value, and the total investment value is used as the asset value. In this survey, asset management companies were asked to specify whether the acquisition value of properties or the total investment value was adopted. If the total investment value is adopted, the total investment value is adjusted to the value based on the property acquisition value by using the ratio of expenses other than acquisition expenses against the total investment value calculated from the average of general examples.

Contact:

STB Research Institute Co., Ltd.

4F Kyobashi TD Bldg. 1-2-5, Kyobashi Chuo-ku, Tokyo

104-0031, Japan

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

http://www.stbri.co.jp/