Survey on Privately Placed Real Estate Funds in Japan

January 2010– Results

March 5th 2010

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 ninth such survey based on responses to questionnaires received from 61 real estate investment management companies.
  - Survey subject: Real estate investment management companies that set up and manage privately placed real estate funds which are focused on domestic real estate
  - Number of companies to which questionnaires were sent: 157
  - Number of companies responded: 61 (ratio of valid responses: 38.9%)
  - Time of survey: January 2010
  - Survey method: Distribution and collection of questionnaires by post and e-mail
- Based on the results of the 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 December 2009 to be 13.9 trillion yen. This figure includes 92 billion yen of assets managed by the companies that are restructuring under the Civil Rehabilitation Law or the Corporate Rehabilitation Law. This figure also includes assets under management of the companies carrying out court-approved restructuring plans, as well as assets under management of successive management companies.

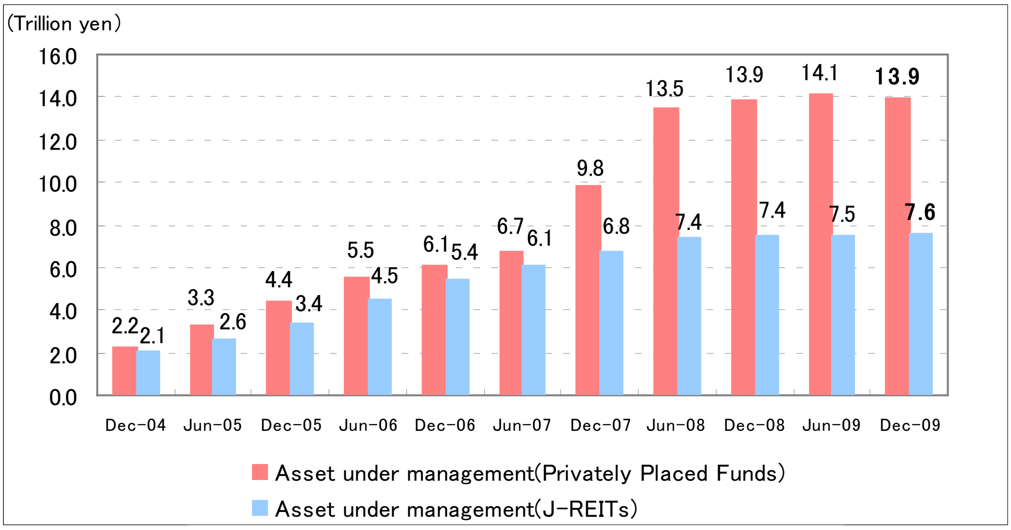
Market size of privately placed real estate funds is 13.9 trillion yen, or 16.2 trillion yen including assets of global funds

- The STB Research Institute has been conducting estimates of the market size of privately placed real estate funds since 2003 based on surveys and hearings from investment management companies (hereafter called "investment managers" or "managers") as well as published information. As of the end of December 2009, the market size (on invested assets basis) is estimated 13.9 trillion yen. It slightly declined by 196.5 billion yen, or 1.4%, from our previous estimation of 14.1 trillion yen as of the end of June 2009, but it remained level with that of December 2008.

- Assets under management ("AUM") fell at many investment managers, reflecting falls in the value of the properties they manage, while some managers seem to have increased AUM by launching new funds and acquiring of properties. As a result, the market size for privately placed real estate funds shrank only slightly in the past six months.

- The market size of 13.9 trillion yen does not include assets of global funds. Combined with the balance of domestic real estate assets managed by global funds we figured out in this survey, we estimate that the total market size is 16.2 trillion yen. This means a decline of 1.0 trillion yen from 17.2 trillion yen at the end of June 2009,which was resulted from a sharp fall in AUM of certain global funds.

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



(Note) Global funds: defined by us meaning the funds managed by foreign-based investment managers, of which major investment targets include real estate in various countries.

source: STB Research Institute

"Survey on Privately Placed Real Estate Funds" January 2010-Results

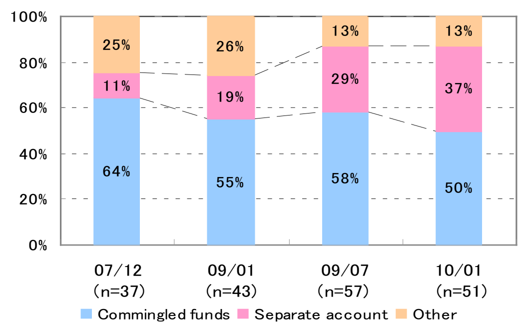
(Note) [n=] marked in the graphs means the number of effective responses

1. Status Quo of Real Estate Investment Management Business

1) Breakdown of Commingled Funds and Separate Accounts

We asked managers about AUM of their Commingled Funds that are managed for multiple investors, and Separate Accounts that are managed for single investors. Total AUM of the Commingled Funds managed by the respondent stood at 3.6 trillion yen (50%), while the Separate Accounts amounted to 2.7 trillion yen (37%). Although total AUM of the Commingled Funds fell from 5.9 trillion yen of the July 2009 survey, partly because of a decline in the number of respondents to the question, it continued to be the investment vehicles accounting for the largest share. The Separate Accounts, which was only 11% in the December 2007 survey, have been steadily increasing by more than 8% every year. It seems that Separate Accounts for relatively large investors are on the increase.

Fig. 1 Breakdown of Commingled Funds and Separate Accounts



2) Breakdown of fund types and management styles

In terms of the categories of fund types, Fixed Property Type accounted for 87% of the total number of funds, while, Additional Acquisition Type accounted for 8%, and Discretionary Investment Type accounted for 5% In Japan, the Fixed Property Type, in which investment properties have been determined at the launch of fund management, accounted for a large percentage with 65% in the July 2007 survey. It has increased to 82% in the January 2009 survey, and 87% in this January 2010 survey. This trend suggests that investors, facing insolvencies of several emerging independent managers, are getting wary of the Discretionary Investment Type and Additional Acquisition Type, in which they entrust their investment at the discretion of managers. Investors are also getting cautious about the quality of assets and tend to choose the Fixed Property Type.

By management style, Core Style accounted for 63% of the total number of funds. Value-added, Opportunity, and Development Styles accounted for 23%, 11%, and 3%, respectively. The Core Style rose by 9% from the January 2009 survey, while the Development Style slipped by 7%. We consider that the re-assessment of the risk in real estate investment spurred by the sharp market collapse has led investors to back away from the high-risk Development Style and select the relatively low-risk Core Style. We also assume that managers found it difficult to forge capital gain stories under the current depressed market conditions and increased Core Style funds focusing on the income return strategy.

Fig. 2 Breakdown of Funds by Type

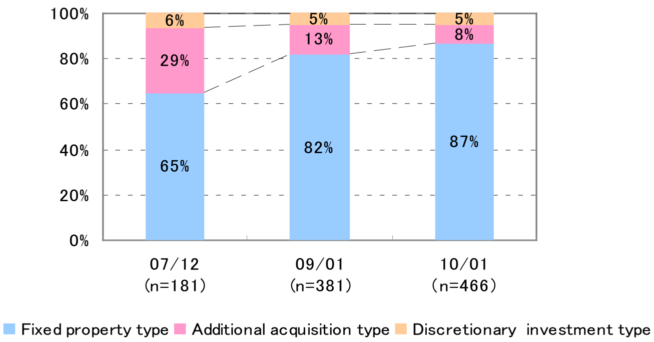
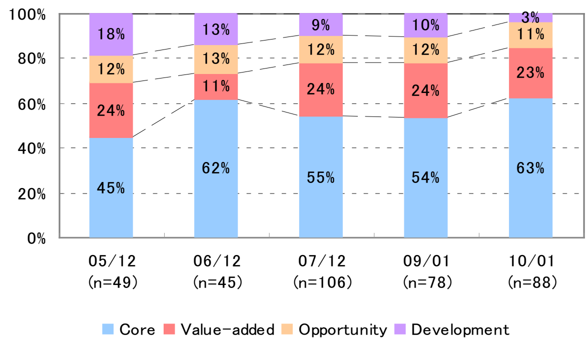


Fig. 3 Breakdown of Funds by Management Style



*Please refer to the "Definitions of Terms" on Page12 about Fixed property type, Additional acquisition type, Discretionary investment type, Core, Value-added, and Opportunity.

3) LTV Ratio

The average Loan To Value ratio of existing funds under management stood at 71.3%, remaining almost unchanged with a slight decline from the January 2009 survey. Meanwhile, the average LTV ratio for projected funds to be launched over the next year was 60.2%. Though it was higher than the 57.6% of the survey in January 2009 when it significantly declined, it is much lower than the 70% range of the past surveys until December 2007. We consider that both the current attitude of lenders and demand of investors set the projected LTV ratio at relatively conservative 60% range.

Such discrepancy of more than 10% in the LTV ratios between existing funds and projected funds will bring about refinance problems for the existing funds as lenders may not refinance the full balance of outstanding loans, resulting in lender's requirement for additional equity investment or a default of loan.

Fig. 4 Trends of Average LTV Ratio of Existing Funds (for Funds Currently under Management)

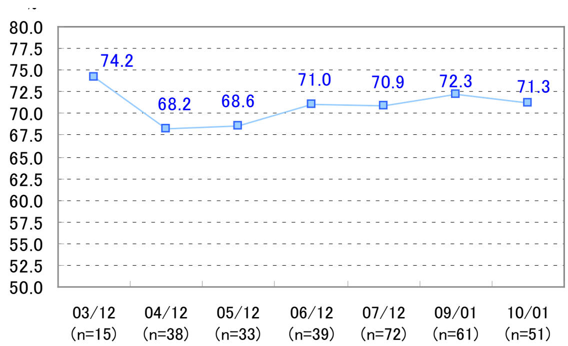
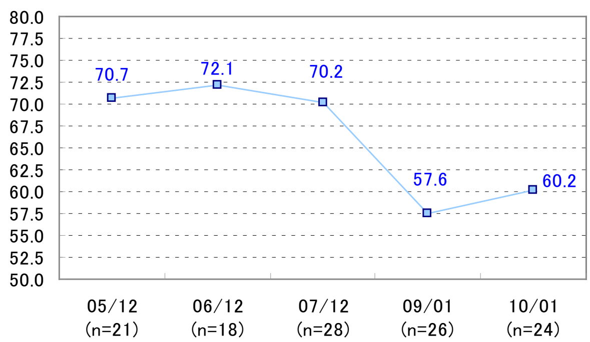


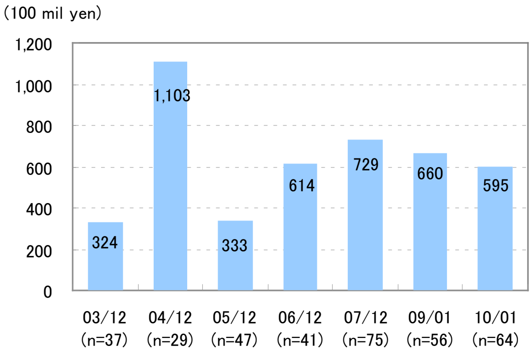
Fig. 5 Trends of Average LTV Ratio of Projected Funds (for Funds Scheduled to be Launched)



4) Target Asset Size

The average target asset size of funds under management further declined to 59.5 billion yen per fund from 66.0 billion yen of the January 2009 survey. The size was below the level of the December 2006 survey. We consider such a decline is due to, among others, lingering tight debt financing circumstances. Lending and investment are narrowed down to relatively low-risk properties with stable income flow, depriving managers of setting up large funds due to a limited supply of such properties.

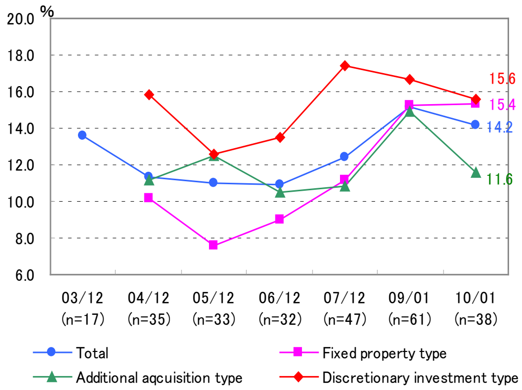
Fig. 6 Trends of Average Target Asset Size



5) Target IRR

The average target IRR (gross basis, before deduction of management fees) of the total funds had been rising for two consecutive years in the last January 2009 survey, but it declined to 14.2% in this January 2010 survey. By fund type, Fixed Property Type remained unchanged at 15.4% from the last survey while Additional Acquisition Type declined to 11.6%.Discretionary Investment Type fell to 15.6%.

Fig. 7 Trends of Average Target IRR



6) Target Investment Period

The average target investment period has been gradually getting longer since the survey in December 2005, when it was 3.8 years. It stood at 5.3 years in this January 2010 survey, an extension of 0.5 years from the last survey in January 2009. By category, the investment period for "At least five years but less than six years" represented 42%, a significant increase from the last survey. "Less than three years" and "At least three years but less than four years" stood at 6% and 13%, respectively, representing sharp falls from the last survey. The main reason for the trend is, we assume, that as the market environment does not justify a short-term investment strategy pursuing capital gains, managers have been setting up funds emphasizing income returns with relatively long investment periods.

Fig. 8 Trends of Average Target Investment Period

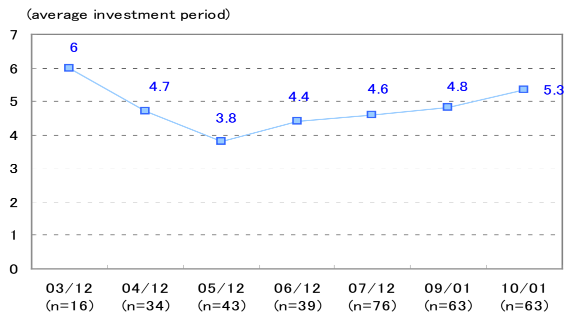
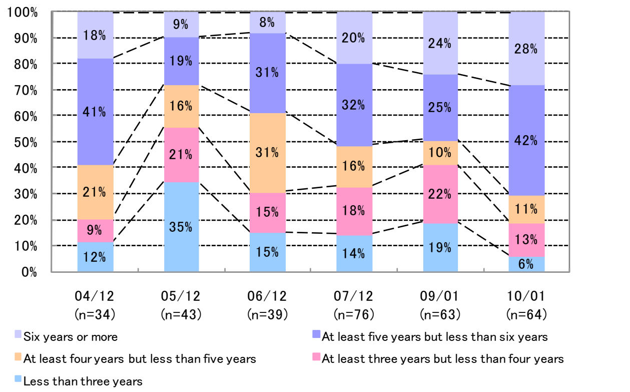


Fig. 9 Breakdown of Average Target Investment Period



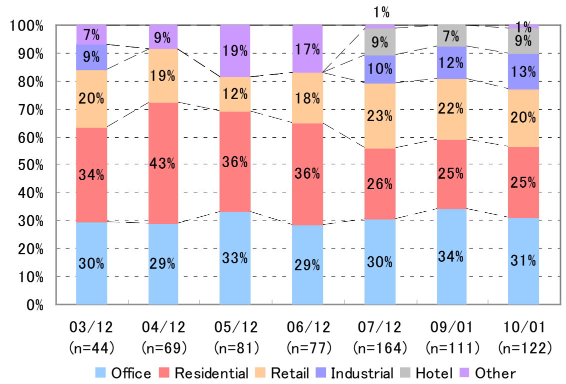
7) Target Property Types and Areas

By property type, shares in Office and Retail types fell slightly, while Residential type remained unchanged. Shares in all types have not changed significantly since the December 2007 survey.

By investment area, shares in the 23 Wards of Tokyo and the Tokyo Metropolitan area rose, while those in the Kinki and Nagoya areas declined in the last survey in January 2009. The breakdown did not change significantly in this survey, with a fall in share in the 23 Wards of Tokyo and slight rise in the Tokyo Metropolitan area and Local area.

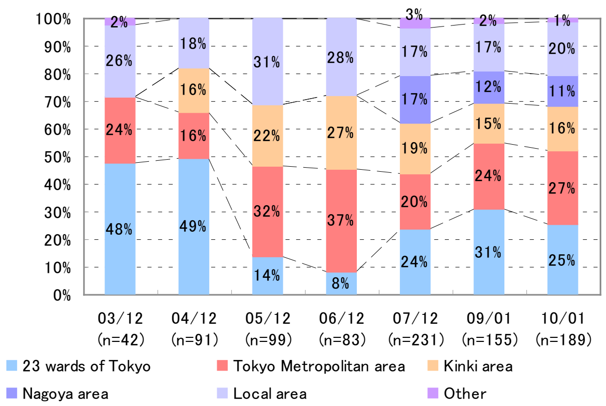
* Each fund has single target or multiple targets for property types and areas. The figures are aggregation of those of each fund regardless of fund sizes.

Fig. 10 Trends of Target Property Types



* In 04/12 through 06/12, Industrial and Hotel types were included in "Other types"

Fig. 11 Trends of Target Areas



* In 03/12, Kinki and Nagoya areas were included in Local area, whereas in 04/12 through 06/12, Nagoya area was included in Local area.

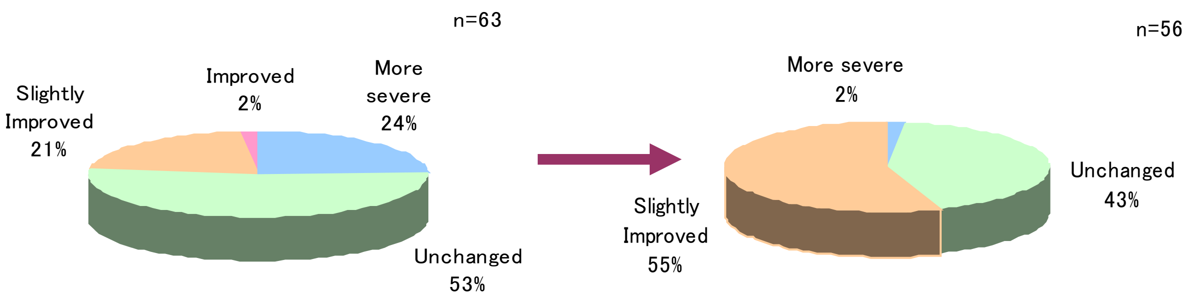
* Kinki area was called Osaka area up to the January 2009 survey, though the constituent prefectures are the same.

8) Circumstances of Debt Financing

A majority of respondents, at 55%, answered that the circumstances have "Slightly improved" in this survey. Another 43% responded "Unchanged", while just 2% chose "More severe". It follows that a significantly larger percentage of respondents expressed that the circumstances had improved, compared with the July 2009 survey in which only 23% responded "Improved" or "Slightly improved". This change is considered to be a clear indication that the worst time is over and the debt financing circumstances are improving.

Fig. 12 Circumstances of Debt Financing

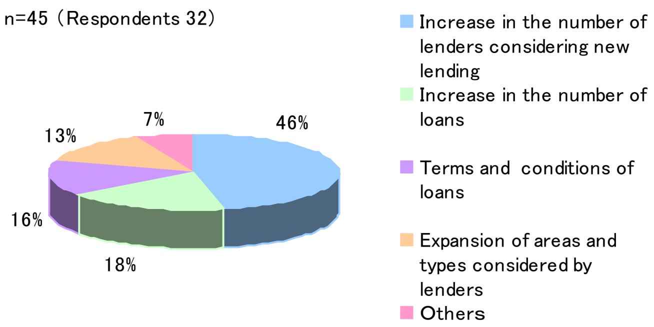
【July 2009 survey】 **【January 2010 survey】**



In reply to the question of which debt financing conditions improved, 46% of respondents pointed to “Increase in the number of lenders considering new lending”. Meanwhile, 18% responded with “Increase in the number of loans,” 16% with “Terms and conditions of loans,” and 13% with “the Expansion of the areas and types considered by lenders.” (This question was made only to those who answered that debt financing circumstances have “improved” or “slightly improved”.)

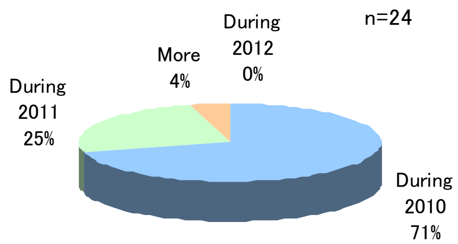
To the question of how long the severe debt financing circumstances would last, 71% expected that it would continue “through 2010,” suggesting that, combined with responses described above, most of managers expect that the severe circumstances would improve before the end of the year. (This question was made only to those who answered that debt financing circumstances have become “more severe” or “unchanged”.)

Fig. 13 Which Lending Conditions Improved?



※ This question is only for those who answered that debt financing conditions “have slightly improved” or “have improved.”

Fig. 14 How Long Do You Think the Severe Debt Financing Situation will last?



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

9) Circumstances of Equity Raising

～ Appetite of Equity Investors for Investment～

The largest percentage, 62%, of respondents answered that the appetite of equity investors for the real estate investment remained “Unchanged.” The share of respondents answering the appetite was “Declining” fell from 83% in the last January 2009 survey, to only 7%. The share of answer that the appetite was “Rising” was significantly increased from just 2% in the January 2009 survey, to 20% in the July 2009 survey, and to 31% in this January 2010 survey, indicating a consistent improvement in the appetite equity investors.

Fig. 15 Appetite of Equity Investors for Investment

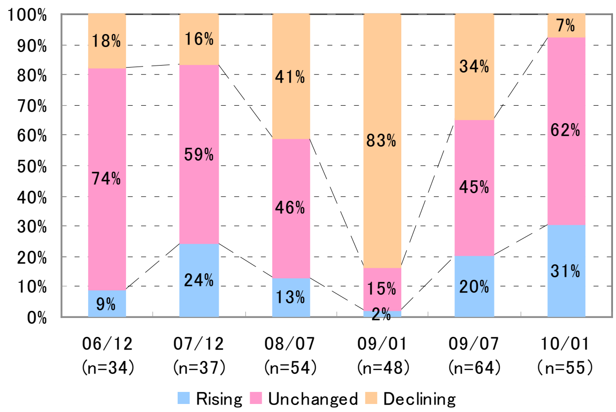
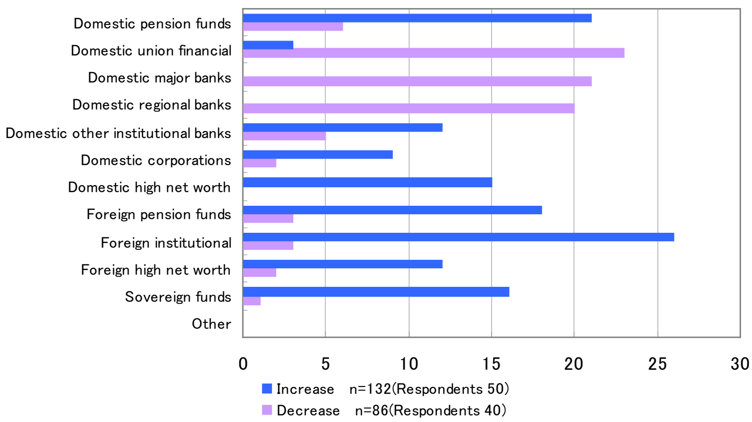


Fig.16 Forecast for Investor’s Investment Volume: Increase or Decrease?



～Forecast for Investor's Investment Volume ～

With respect to the real estate investment volume, 45% of respondents expected an increase in the volume of domestic investors, and 55% expected that of foreign investors. The percentage of foreign investors continued to exceed 50%.

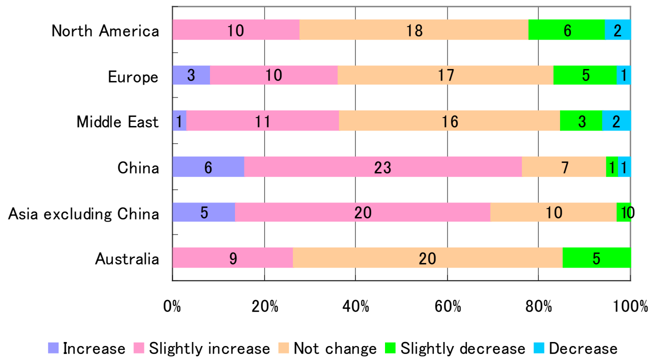
Of foreign investors, a large number of respondents expected that "Foreign institutional investors," "Foreign pension funds," and "Sovereign wealth funds" would increase their investment volumes. Of domestic investors, many respondents anticipated that "Domestic pension funds" and "Domestic high net worth" would increase their volumes. On the other hand, substantial number of respondents expected a continued decline of investment volume of domestic financial institutions.

Managers seem to have high anticipations for foreign investors, including sovereign wealth funds of emerging economies, which are expected to increase foreign currency reserves and expand their investments, as well as for domestic pension funds which might increase their alternative investments.

～Expectation for Foreign Investors By Region～

While a half of all respondents expected that investments into Japanese real estate by investors in North America, Europe, the Middle East, and Australia would "Not change", more than 70% of respondents expected investments by investors in China and other Asian countries would "Increase" or "Slightly increase", showing a high expectations for Asian investors.

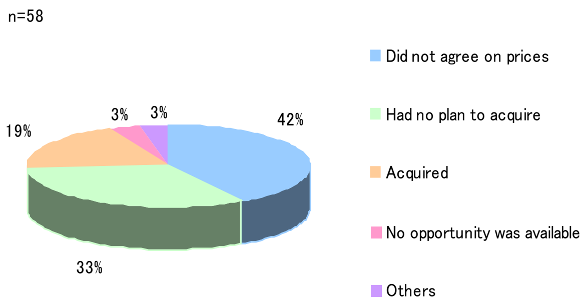
Fig.17 Expectation for Foreign Investors by Region



10) Circumstances for Acquisition and Sale of Properties

With respect to the acquisition of properties, 42% of respondents, the largest share, answered that they sought acquisition opportunities but" Did not agree on prices". The next largest share, 33%, stated that they "Had no plan to acquire" properties. The result indicates that the sluggish transaction market remained unchanged.

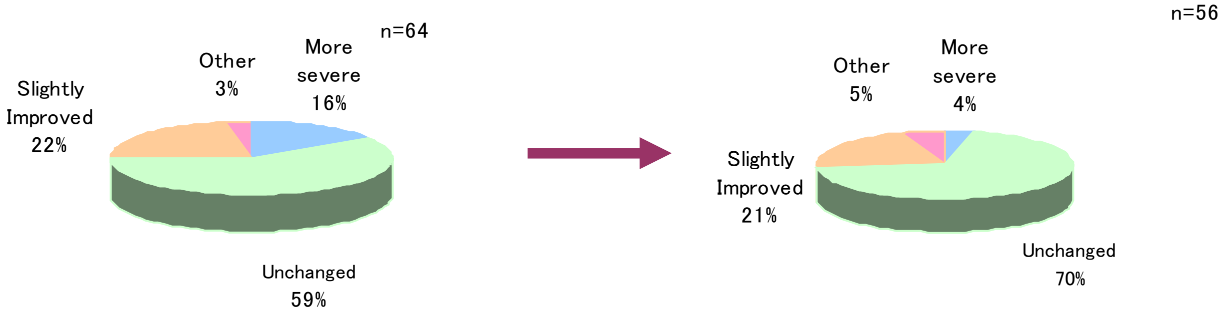
Fig. 18 Circumstances for Acquisition



With respect to the sale of properties, 70% of respondents answered they saw "Unchanged" in the difficult circumstances, while 21% responded "slightly Improved". The share of respondents who answered that the circumstances were "More severe" declined sharply, from 16% in the July 2009 survey to 4% this time, suggesting that the circumstances remained tough, but they see a signs of bottoming-out.

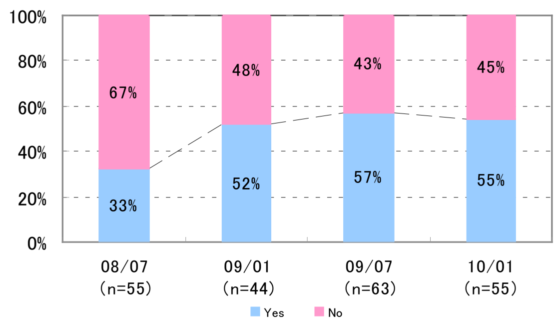
Fig. 19 Circumstances for Sale

【July 2009 survey】 **【January 2010 survey】**



11) Change in Exit Strategies

Fig. 20 Did you Change some Exit Strategies?



A majority of respondents at 55% affirmed that they changed some exit strategies, roughly the same ratio as in the July 2009 survey. Looking at the details of changes, "Suspension of sales with refinance" accounted for 52%. "Reviews of exit sale prices" and "Suspension of sales by extending loan maturity" accounted for 18% and 13%, respectively.

With respect to the options available over the next one year, 36% of respondents chose "Extension of investment period with refinance". As those funds launched in 2006 and 2007 are considered holding many properties with loan maturities coming around 2009 and 2010, the number of refinance negotiations in 2010 will remain substantial.

Meanwhile, "Sales to the third party privately placed funds" increased by 3% from the July 2009 survey, to 14%, and "Sales to the third party REITs" rose by 5% to 11%, some signs of expansion in sale options.

Fig. 21 Details of Changes

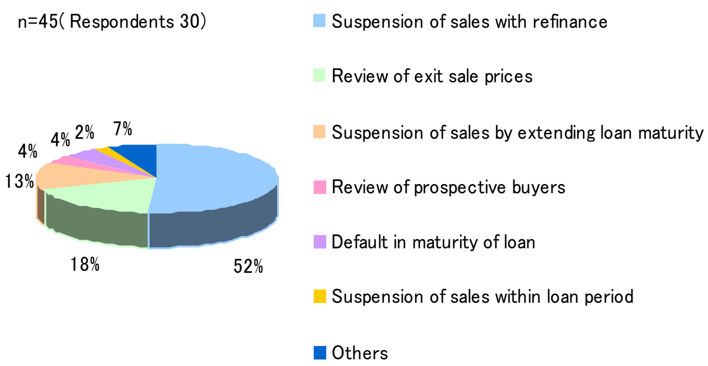
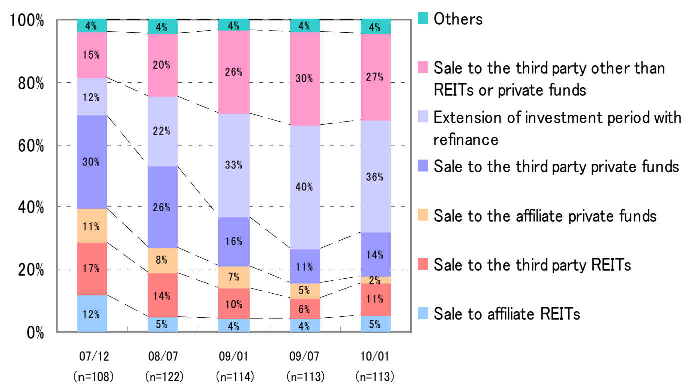


Fig. 22 Options Available Over the Next One Year



2. Outlook for Real Estate Investment and Management

1) Peak-out Timing of Cap Rates / Bottom-out Timing of Rents

With regard to the peak-out timing of cap rates, the largest number of respondents answered that the "The peak was hit in 2009" for both offices and residential sectors. As for the office sector, there were also similar numbers of respondents picking "From January to June 2010" or "From July to December 2010". The survey indicates that a majority of managers considers the cap rate would have been peaked-out by the end of 2010 in the office sector, while it has already peaked out in the residential sector. With regard to the bottom-out timing of rents, the largest number of respondents expected "From July to December 2010" for the office sector, and "From January to June 2010" for the residential sector, indicating that managers expect earlier bottom-out of rent in the residential sector than in the office sector.

Fig. 23 Peak-out Timing of Cap Rates

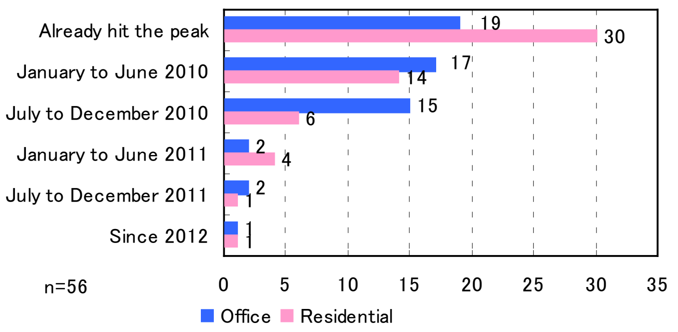
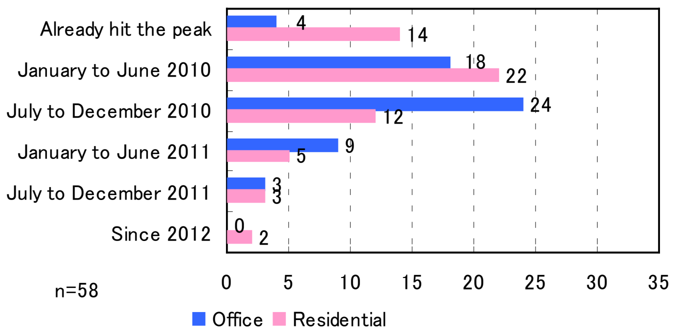


Fig. 24 Bottom-out Timing of Rents



2) Cap Rate Forecast by Area

About 70% of respondents answered that the office cap rate over the next year for the office sector would "Remain unchanged" in the Central 5 Wards of Tokyo and the 23 Wards of Tokyo (excluding the Central 5 Wards), while 21% of respondents answered it would "Fall" in the Central 5 Wards of Tokyo. On the other hand, a majority of respondents expected that it would "Rise" in the Tokyo Metropolitan area, Kinki area, and Nagoya area. As to the cap rate over the next year for the residential sector, the shares of respondents answering that it would "Remain unchanged" were about 70% for the Central 5 Wards of Tokyo and the 23 Wards of Tokyo and more than 50% for the Tokyo Metropolitan area, while shares answering that it would "Fall" were 25% for the Central 5 Wards of Tokyo and 18% for the 23 Wards of Tokyo. With respect to the Kinki and Nagoya areas, about 40% of respondents expected it would "Remain unchanged", while nearly 50% responded it would "Rise".

Taking these survey results into consideration, we consider that the prevailing sentiment among respondents that turnarounds of cap rates have already started, as described in the previous section, might be limited only to major areas in Tokyo.

Fig. 25 Forecast for Office Cap Rate by Area

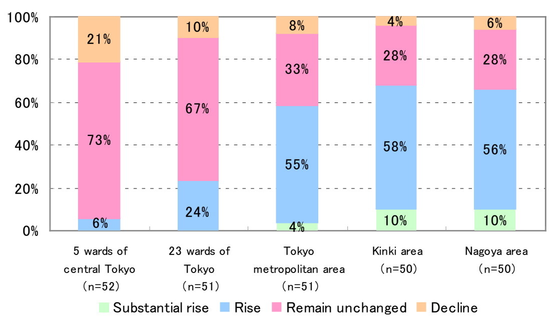
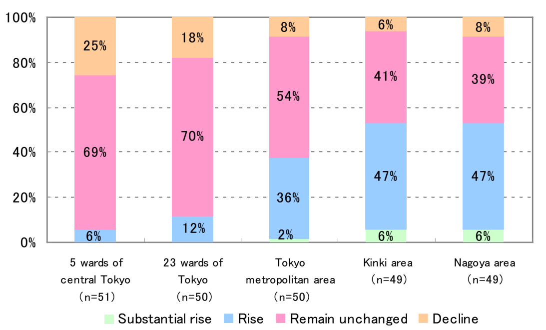


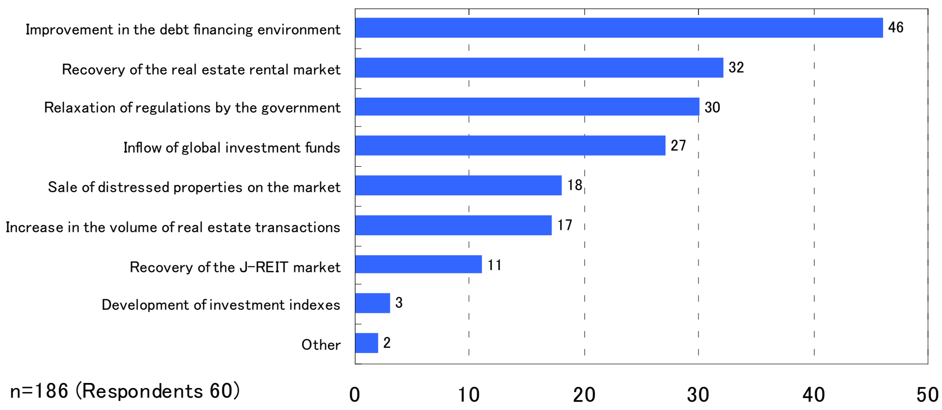
Fig. 26 Forecast for Residential Cap Rate by Area



3) Necessary Changes for Recovery

With respect to changes necessary for the privately placed funds market to recover, the most frequent answer was "Improvement in the debt financing circumstances**",** followed by "Recovery of the leasing market", "Relaxation of regulations by the government", and "Inflow of global investment funds", indicating managers are seeking improvements primarily in the financing circumstances and leasing market.

Fig.27 Necessary Changes for Recovery

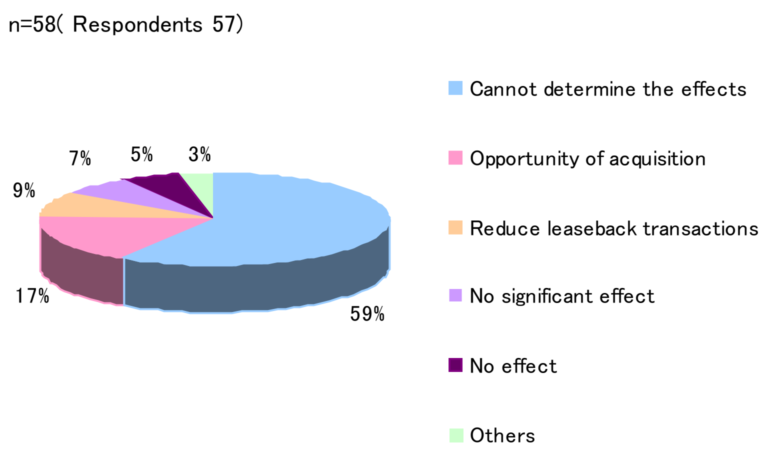


4) Effects of International Financial Reporting Standards (IFRS)

With respect to the effects on the fund management of the International Financial Reporting Standards (IFRS), which is expected to be applied for listed companies, 59% of respondents reserved answers saying that they "Cannot determine the effects " based on information currently available, and a majority of managers seems to take a wait-and-see attitude.

It was also found that some managers recognize the introduction of IFRS as a business opportunity, as 17% of respondents answered that, if real estate for investment is evaluated at fair value, it would provide with an "Opportunity of acquisition" of good properties sold by listed companies. On the other hand, some respondents were concerned about a business model based on the off-balancing of real estate, answering that it would hamper "off-balance-sheet transactions and "Reduce leaseback transactions" with listed companies."

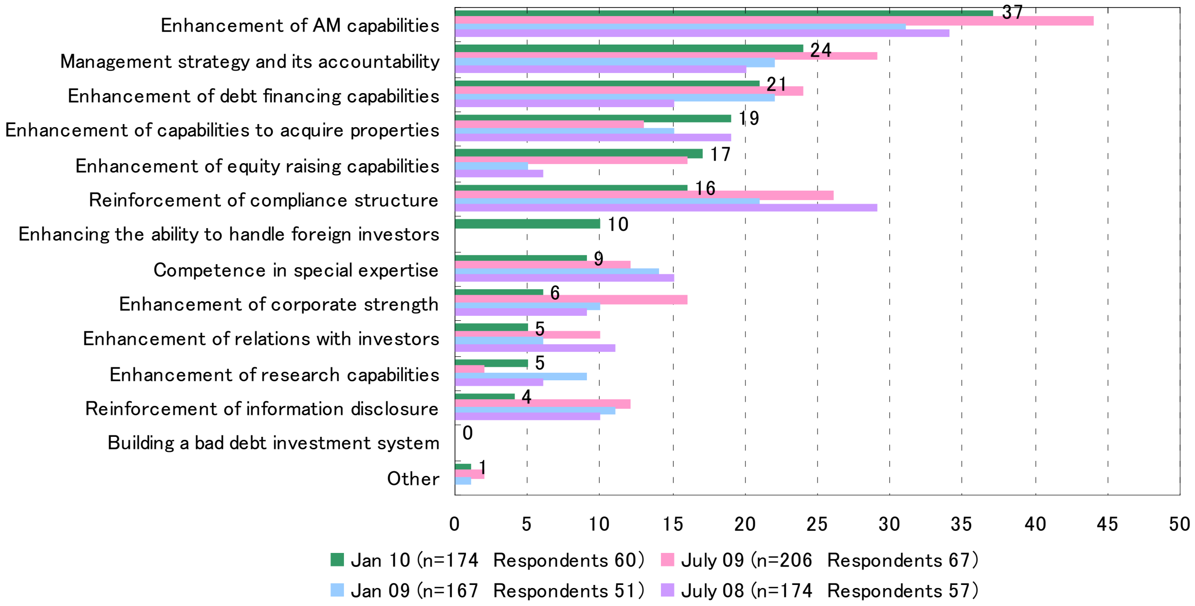
Fig. 28 Effects of International Financial Reporting Standards (IFRS)



5) Requirements for Sustainability and Growth of Managers

The most frequent answer was “Enhancement of asset management capabilities” followed by “Management strategy and its accountability”. The result was similar to those of the January 2009 and July 2009 surveys, and respondents emphasized enhancing their basic asset management capabilities. “Enhancing debt financing capabilities” and “Enhancing equity financing capabilities” also ranked high and these are recognized as major requirements to overcome the lingering difficult financing circumstances.

Fig.29 Requirements for Sustainability and Growth of Managers



Definitions of Terms

The definitions of terms used in this report are as follows;

Privately placed real estate fund:	The privately placed real estate fund is a structure under which investors' funds are managed by professional investment managers. In this report, commingled funds that are designed for multiple investors, and separate accounts, investment programs for single investors are both categorized as privately placed funds.
＜Fund Type＞	
Fixed property type:	A type of fund in which properties to be invested have been identified at the launch of the fund
Additional acquisition type:	A type of fund in which certain percentage of properties to be invested have been identified at the launch of the fund, leaving additional investments after the launch usually at the discretion of manager subject to pre-determined investment guidelines
Discretionary investment type:	A type of funds in which the properties to be invested have not been identified at the launch of the fund, and properties are acquired after the launch at the discretion of a manager subject to pre-determined investment guidelines; Also called a blind pool type
＜Management Style＞	
Core style:	An investment style in which stable long-term investments are envisaged by investing in sound properties generating steady income flows
Opportunity style:	An investment style in which high-risk high-return investments are contemplated, such as investments in currently unstable properties seeking for a large capital gain by increasing value with improvement of asset and/or management, by betting on the market cycle, or by employing a large discount power for bulk transactions. Opportunity style may exploit various opportunities, such as investment in development type projects and corporate stocks.
Value-added style:	An investment style that lies between Core and Opportunity, and aiming at both income gains and capital gains
Development style:	An investment style that specializes in achieving development gains
＜Investment Area＞	
Tokyo Metropolitan Area:	Tokyo excluding 23 Wards, Kanagawa, Saitama, and Chiba Prefecture
Kinki Area:	Osaka, Kyoto, Hyogo, Nara, Wakayama, and Shiga Prefecture
Nagoya Area:	Aichi, Gifu, and Mie Prefecture
LTV（Loan To Value）:	A The Loan to Value (LTV) ratio is a ratio of debt against asset value. Asset value represents the appraisal value, actual acquisition price, or total investment cost for acquisition. In this survey, investment managers are requested to specify whether they used the actual acquisition price or the total investment cost. If the total investment cost was used, it is translated to an estimated acquisition price by applying the average expenses ratio for acquisition of properties.
IRR (Gross) :	The internal Rate of Return (IRR) is the discount rate that makes the present value of future cash flows of an investment equal its current value of the investment. In this report, we use the gross IRR which is before deductions of asset management fees and withholding tax.

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