NEWS RELEASE

Survey on Privately Placed Real Estate Funds in Japan
July 2010 Survey – Results

August 20th 2010

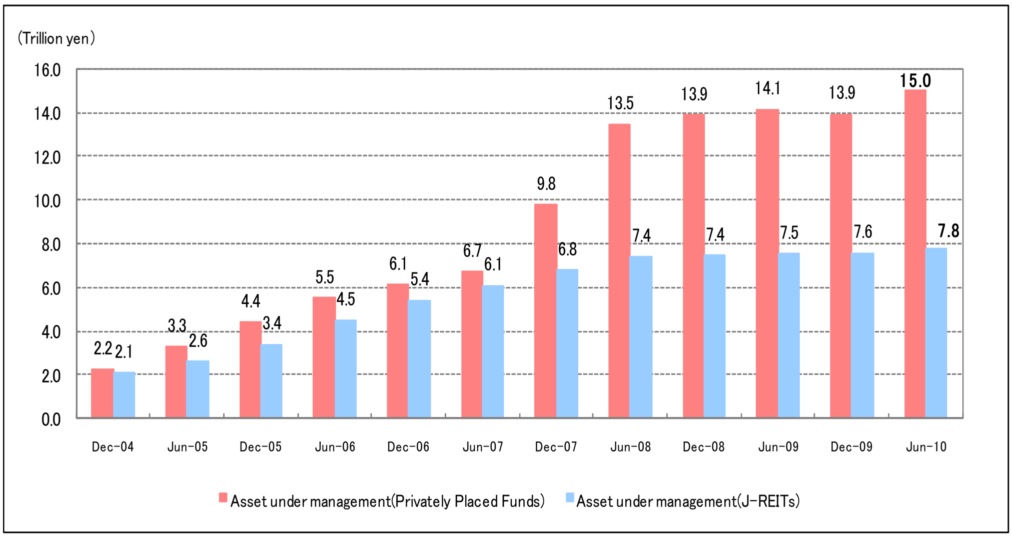
STB Research Institute Co., Ltd

- Since 2003, STB Research Institute Co., Ltd. has been conducting the "Survey on Privately Placed Real Estate Funds" in Japan as part of its research on the real estate investment market. This release is for the tenth such survey based on responses received from 69 real estate investment management companies.
  - Respondents: Real estate investment management companies engaged in origination and management of privately placed real estate funds investing in the domestic real estate
  - Number of companies to which questionnaires were sent: 144（excluding four companies to which questionnaires were not delivered due to unknown address, etc.）
  - Number of companies responded: 69 (ratio of valid responses: 47.9%)
  - Time of survey: July 2010
  - Survey method: Distribution and collection of questionnaires by post and e-mail
- Based on the responses to this survey, hearings and published information, we estimated the market size of privately placed real estate funds as of the end of June 2010 to be 15.0 trillion yen (on invested asset basis). This figure includes 23.6 billion yen of assets managed by the companies that are undergoing corporate restructuring under the Civil Rehabilitation Law or the Corporate Rehabilitation Law. The figure also includes assets managed by companies that have been restructured with new sponsors or with succeeding managers.

- **Market size of privately placed real estate funds is 15.0 trillion yen, reaching 16.1 trillion yen when combined with global funds**
- STB Research Institute has been estimating the market size of privately placed real estate funds since 2003 based on the responses to the survey, hearings from real estate investment management companies (hereafter called "managers"), and published information. It is estimated the size of this particular market was 15.0 trillion yen (invested assets basis) at the end of June 2010. Assets under management ("AUM") increased 1.05 trillion yen or 7.5% in six months from 13.9 trillion yen at the end of December 2009 that was estimated in the January 2010 survey.
- The environment surrounding real estate investment market is gradually improving, including an upturn in the volume of transactions since around the end of 2009. Reflecting this, some managers increased their AUM with origination of new funds and acquisition of properties. The market size of privately placed funds, which had remained flat since 2008, seems to resume growing. Although it is assumed that the appraisal values of some assets were declined, such devaluation should have been offset by an increase in new assets.
- The figure 15.0 trillion yen (invested assets basis) does not include the assets located in Japan which are managed by global funds (Note). When these assets are combined, we estimate the total market size reaches 16.1 trillion yen, which represents a decline by 100 billion yen from 16.2 trillion yen at the end of December 2009.

（Note) Global funds: defined by us meaning the funds managed by foreign-based investment managers which target to invest in both Japan and other foreign markets.

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



source: STB Research Institute

" Survey on Privately Placed Real Estate Funds" July 2010 Survey Results

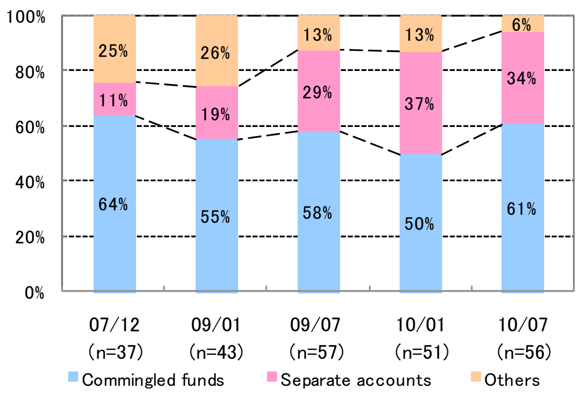
(Note) [n] shown in the graph indicates the number of effective responses.

1. Current Status of Fund Management

1) Breakdown of Commingled Funds and Separate Accounts:

This survey categorized privately placed funds into "commingled funds" that are managed for multiple investors, and "separate accounts" managed for single investors. AUM of the commingled funds managed by the respondents accounted for 61%, while the separate accounts made up 34%. The share of the separate accounts, that had continuously increased in every survey by eight percentage points or more up to the January 2010 survey, declined in this survey, suggesting the activated origination of commingled funds.

Fig. 1: Breakdown of Commingled Funds and Separate Accounts



2) New Funds Launched From January to June 2010:

～New Launch, Type, Style, and Period～

Twenty or 30% out of 66 respondents answered that they originated new funds during the period from January to June 2010. It appears that the increasing investors' appetite (see Fig.15) accompanied by the improvement of debt finance circumstances activated property acquisitions, leading to the new origination of funds.

Of the new funds launched, the fixed property type, in which investment properties are identified at the launch of the fund, accounted for 75% (Fig.3). With regard to the investment style (Fig.4), the core style accounted for 53% of all the newly originated funds, substantially falling from 83% in the July 2009 survey, while the value-added style rose to 21% from 6%. We assume that this reflects the facts that origination of the core style fund was rather difficult due to limited opportunities for acquisition of core properties, while the improvement in equity and debt financing environment allowed manager to take broader strategy and invest in various type of properties.

With respect to the investment period (Fig.5), funds with periods less than five years accounted for 71.4% while those with periods beyond five years accounted for 28.6%. Though the share of the funds with periods beyond five years fell from 36% in the July 2009 survey, it maintains a solid share.

Fig. 2: New Launch of Funds

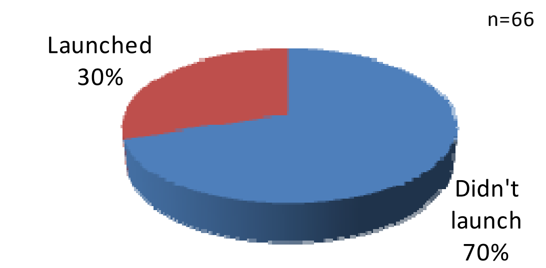


Fig.3: Type of Funds

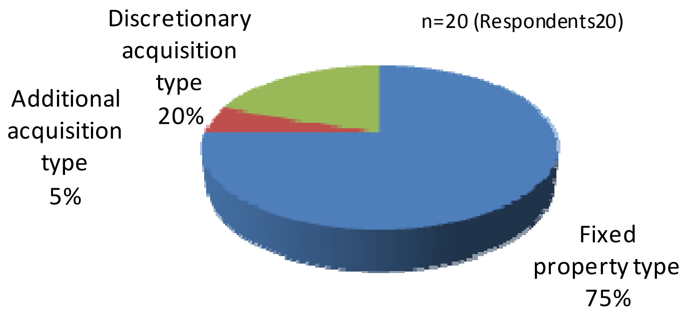


Fig. 4: Investment Style

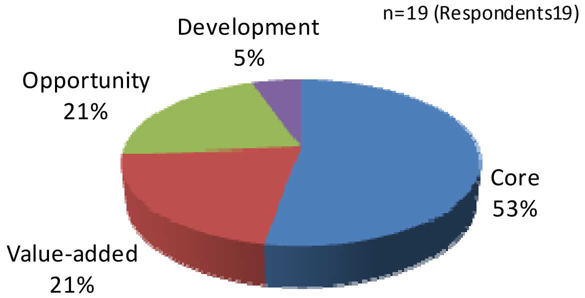
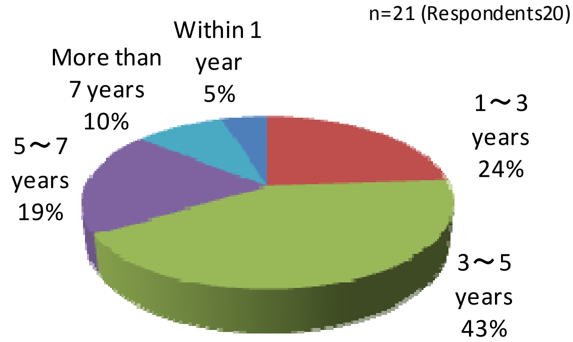


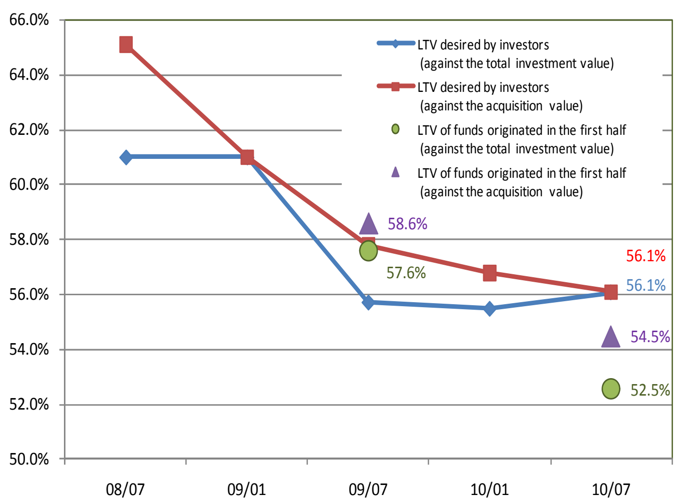
Fig. 5 Investment Period



～LTV Ratio～

The average LTV ratio of funds launched from January to June 2010 was 54.5% (hereafter, the LTV ratio is based on the acquisition price), lower than the average "Expected LTV ratio desired by investors" of 56.1%.

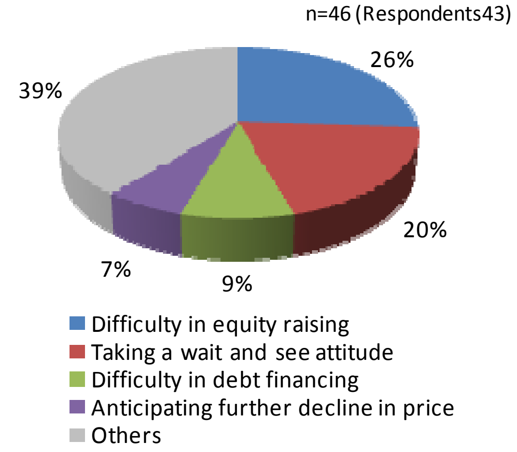
Fig. 6 LTV Ratio



～Reasons for Not Having Launched Funds～

Meanwhile, 70% of respondents answered that they did not launch any new fund during the period. Among the reasons for that, “Difficulty in equity raising” and “Taking a wait-and-see attitude” accounted for 46% in total, while “Anticipating further decline in price” and “Difficulty in debt financing” substantially fell to 7% and 9%, respectively from 14% and 24% in the July 2009 survey. The ratio of “Others” increased from 14% to 39%. Among “Others”, many referred to the scarce opportunity for property acquisition including a wide offer-bid price gap.

Fig. 7 Reasons for not Having Launched Funds



3）Evaluation of Real Estate Held by Funds

With respect to frequency of the external appraisals after acquisition of property, 85% managers responded they apply it annually, confirming that an annual external appraisal prevails in the market as general practice. With respect to the frequency of internal evaluation by manager, 46% managers responded that they conduct it “Annually”, followed by 21% for “Quarterly” and 15% for “Semi-annually”, almost the same ratios as in the July 2009 survey. The survey showed that managers conduct quarterly or semi-annual mark-to-market evaluations internally rather than externally.

Fig. 8 Frequency of External Appraisal

【July 2010 survey】

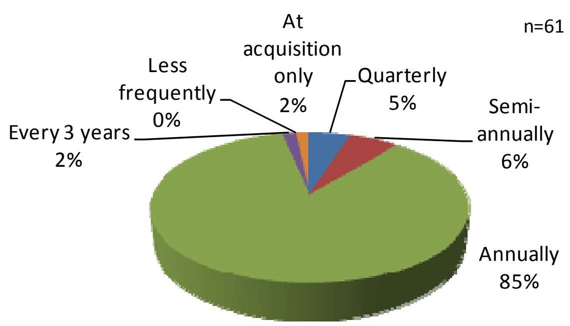
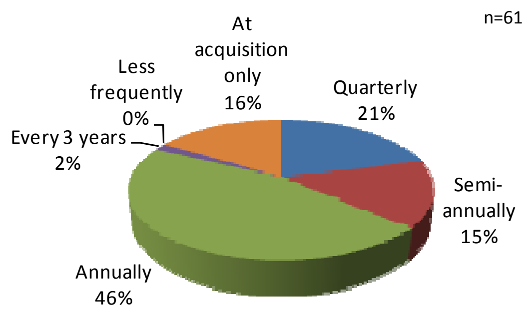


Fig. 9 Frequency of Internal Evaluation

【July 2010 survey】

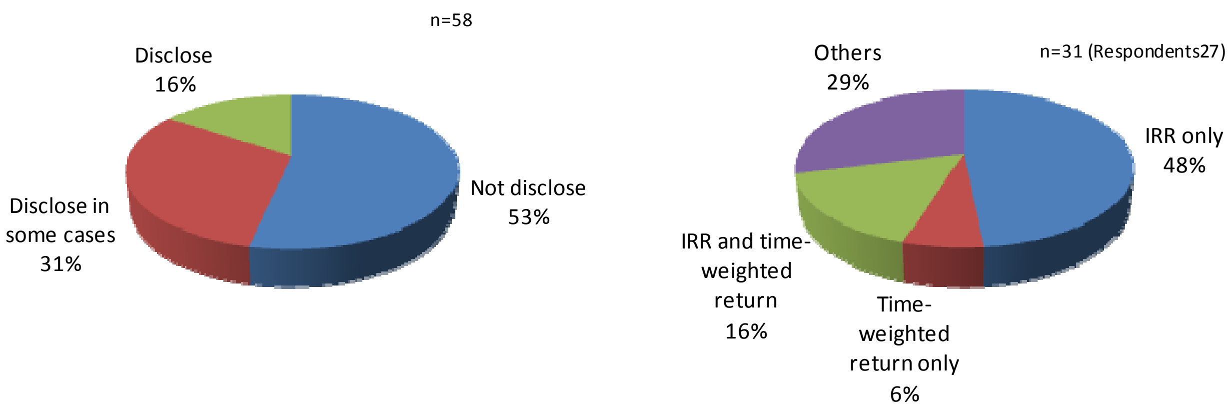


4) Disclosure of Fund Performance

With respect to the disclosure of their past performance for new fund raisings, 53% of the respondents selected "Not disclose in principle", exceeding 47% of those who selected "Disclose in principle" and "Disclose in some cases". As to the performance indicator they use for the disclosure, 48% answered "IRR only", and 16% answered "IRR and time-weighted return".

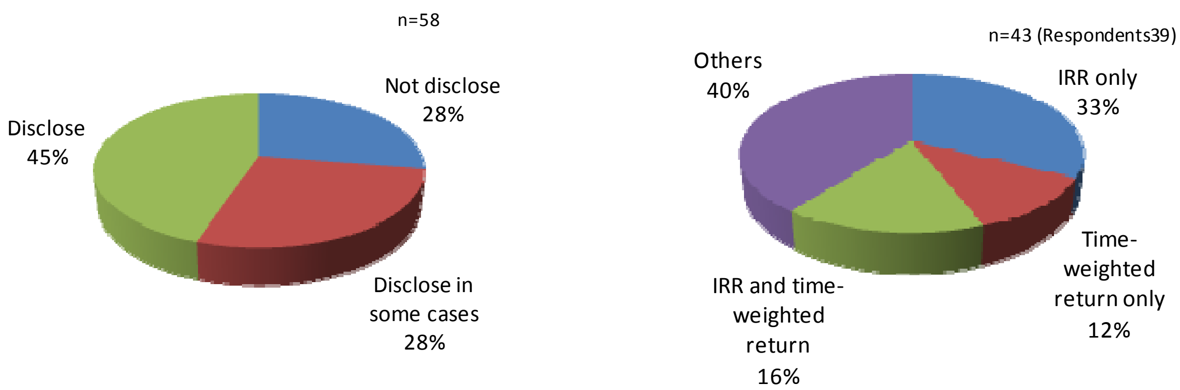
Regarding the disclosure of the fund performance during investment, managers who selected "Disclose in principle" and "Disclose in some cases" accounted for 73% in total, showing that more managers disclose fund performances during management. As to the performance indicator used for the disclosure, "IRR only" made up 33%, lower than that of the past performance for new fund raisings, while "Others" accounted for 40% which includes rent, NCF, cap rate, etc., as mentioned in the descriptive answers.

Fig. 10 Disclosure of Past Performance For New Fund Raisings and Indicator Used



* This question was asked to respondents who chose "Disclose in principle" and "Disclose in some cases"

Fig. 11 Disclosure of Fund Performance During Investment and Indicator Used



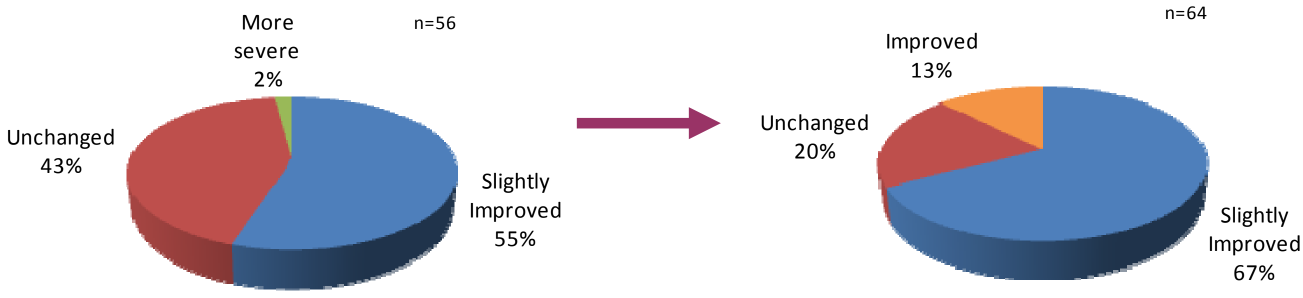
* This question was asked to respondents who chose "Disclose in principle" and "Disclose in some cases"

5) Circumstances of Debt Finance

In this survey, answers for "Improved" and "Slightly improved" accounted for 13% and 67%, respectively, reaching 80% in total, a significant improvement compared to the January 2010 survey in which "Improve" was zero and "Slightly improved" was 55%. "Unchanged" accounted for 20%, and no respondent chose "More severe" in this survey. It appears that the improving trend of debt finance circumstances has become even more evident than the time when the January 2010 survey was conducted.

Fig. 12 Circumstances of Debt Finance

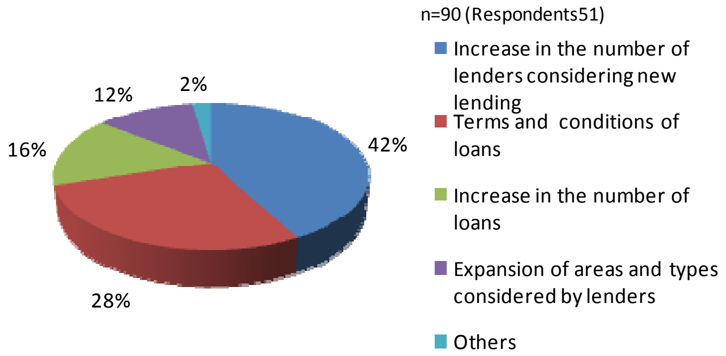
【January 2010 survey】 **【July 2010 survey】**



With respect to the respondents who answered the circumstances have "Improved" or "Slightly improved", we further posed a question as to which lending conditions improved, and 42% of them selected "Increase in the number of lenders considering new lending", 28% selected "Terms and conditions of loans", 16% selected "Increase in the number of loans," and 12% selected "Expansion of the areas and types considered by lenders".

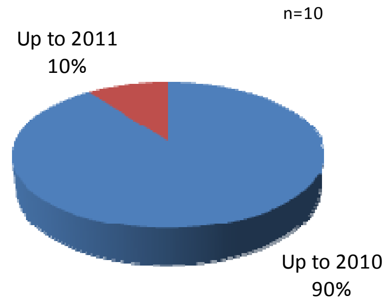
With respect to the respondents who answered the circumstances became "More severe" or remained "Unchanged", we further posed a question as to how long such circumstances would last, and found that 90% of them expected it would last "Up to 2010". The respondents who expected it would last "Up to 2011" was 10% compared to 25% in the January 2010 survey, suggesting that many managers expect that the debt finance circumstances will improve earlier than they had previously expected.

Fig. 13 Which Lending Conditions Improved?



※ This question was posed only to those who answered that debt financing conditions have "Improved" or "Slightly improved".

Fig. 14 How Long Do You Think the Severe Debt Financing Circumstances Will Last?



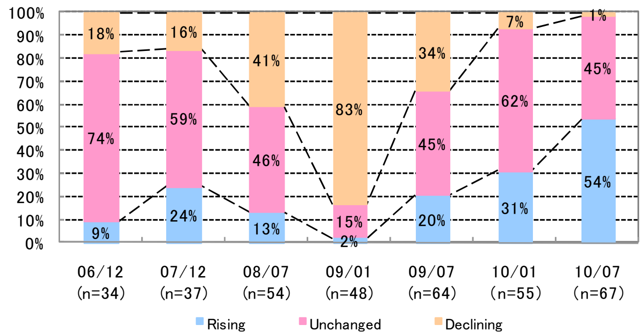
* This question was posed only to those who answered that debt conditions have become "More severe" or "Unchanged".

6）Circumstances of Equity Raising

～Appetite of Equity Investors～

Fifty four percent (54%) of respondents answered that the appetite of equity investors for investment was “Rising”, exceeding 45% of those answering “Unchanged”. The share for “Declining” was only 1%, falling for three consecutive surveys since its peak in the January 2009 survey. It appears that the improvement in the equity investors’ appetite for investment was becoming more evident.

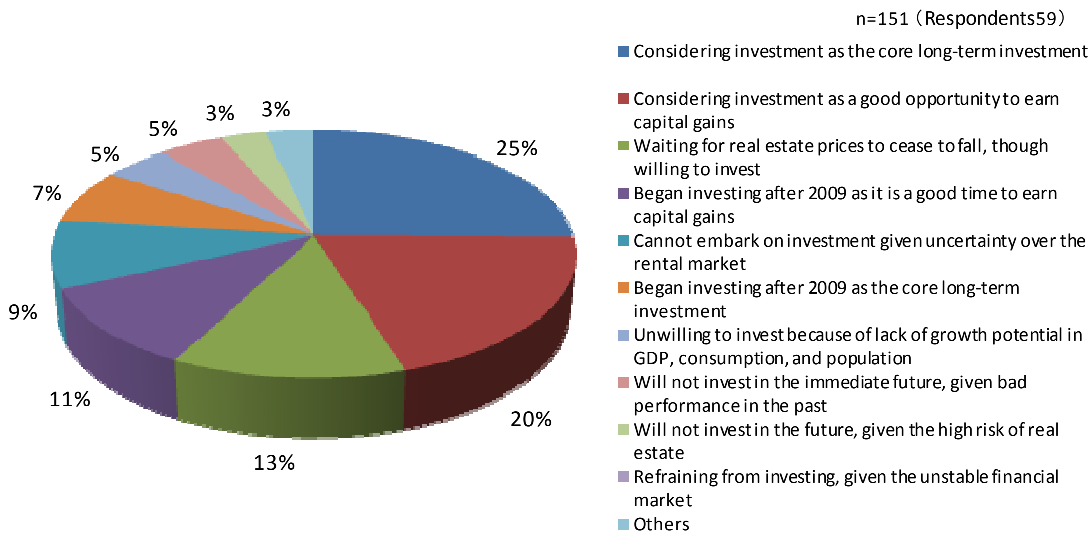
Fig. 15 Appetite of Equity Investors for Investment



～Investment Attitude of Equity Investors～

With respect to the attitudes of equity investors toward real estate investment, 25% of respondents answered that investors were “Considering investment as the core long-term investment”, and 20% answered that they were “Considering investment as a good opportunity to earn capital gains”, both ranking high. Meanwhile, answers suggesting a relatively negative attitude of investors accounted for one fourths of respondents, including those answered that investors “Cannot embark on investment given uncertainty over the rental market” (9%).

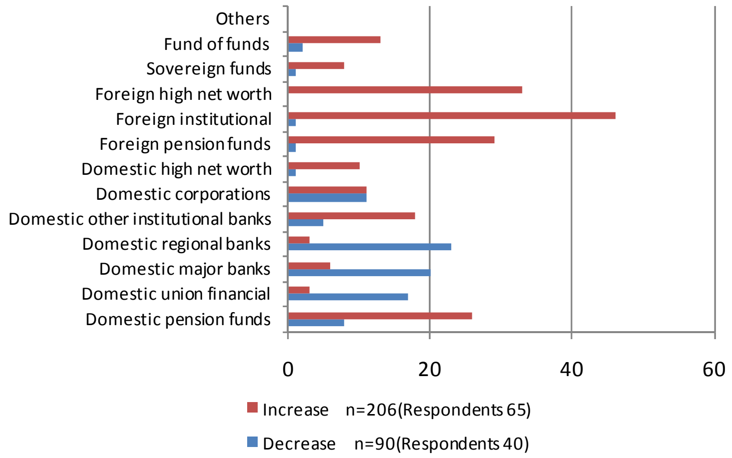
Fig. 16 Investment Attitude of Equity Investors



～Forecast for Investor's Investment Volume～

With respect to the investment volume of each investor listed in the Figure 17, we asked whether it would be expected to "increase" or "decrease". The result was; the foreign investors shared 60% of the total 206 answers for "increase" given to all the listed investors, while the domestic investors shared 40%. The share of foreign investors kept more than 50% as it did in the January 2010 survey. On the other hand, of the total 90 answers for "decrease", the share of the foreign investors was only 3% while that of the domestic investors was 97%.

Fig.17 Forecast for Investor's Investment Volume: Increase or Decrease?

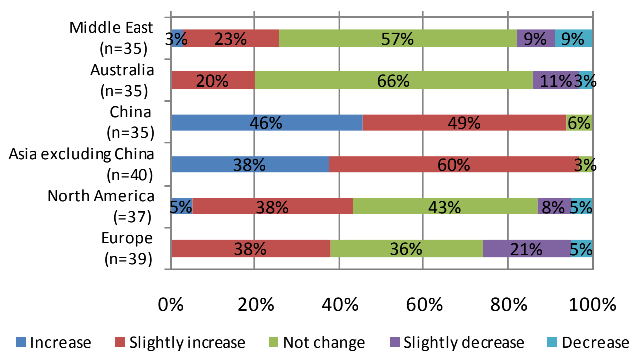


Of foreign investors, many managers expected that "Foreign institutional investors", "Foreign high net worth" and "Foreign pension funds" would increase their investment volumes. Those who expected an increase in the volume of "Sovereign funds" declined by half to 8 in this survey from 16 in the January 2010 survey. Of domestic investors, many respondents expected that "Domestic pension funds" and "Domestic other institutional investors" would increase their investment volumes, while many managers expected a decline in the volume of domestic financial institutions. Of domestic investors, managers seemed to have high expectations for domestic pension funds as they might increase alternative investments to diversify their portfolios.

～Expectation for Foreign Investors By Region～

A total of more than 70% of respondents expected that investments by Middle Eastern and Australian investors would "Not change", "Slightly decline" or "Decline", while more than 90% of respondents expected investments by Chinese and Other Asian investors would "Increase" or "Slightly increase", displaying high expectations of managers for Asian investors. Those who expected that investments by North American investors would "Increase" or "Slightly increase" amounted for 43% in total, while 38% expected that investments by European investors would also "Slightly increase," beginning to show signs of improvement.

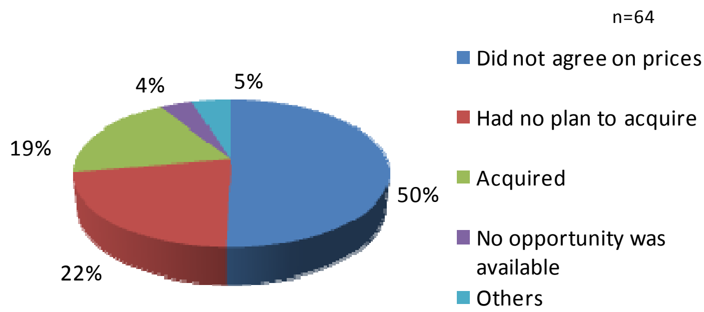
Fig.18 Expectation for Foreign Investors by Region



7) Circumstances for Acquisition and Sale of Properties

With respect to the acquisition of properties, 50% of respondents, the largest share, answered that they sought acquisition opportunities but" Did not agree on prices". The next largest share, 22%, answered that they "Had no plan to acquire" properties. The result indicates that circumstances for acquisition still remained difficult in spite of the improvements of equity and debt finance circumstances.

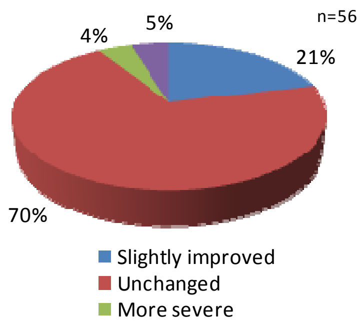
Fig.19 Circumstances for Acquisition



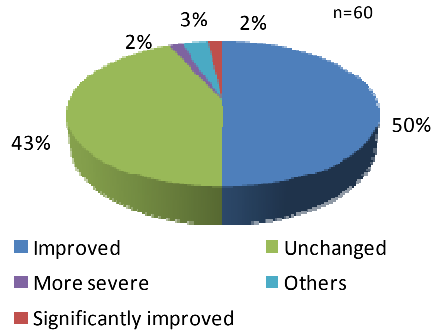
With respect to the sale of properties, 50% of respondents answered that the circumstances had "Improved", exceeding 43% answering "Unchanged." The circumstances for the sale seem to have improved significantly from the January 2010 survey, in which 70% answered "Unchanged".

Fig. 20 Circumstances for Sale

【January 2010 survey】



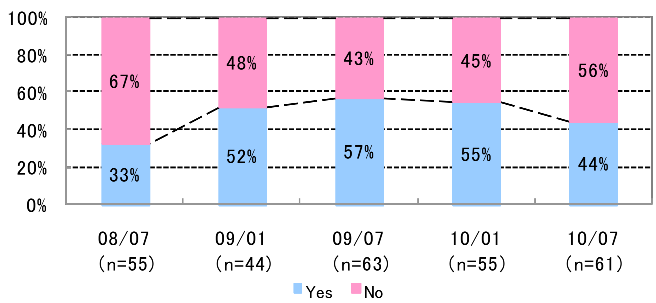
【July 2010 survey】



8) Change in Exit Strategies

Forty four percent (44%) of respondents answered that they had changed exit strategy, falling from 55% in the January 2010 survey. Breakdown of the change was; "Suspension of sale with refinance" accounted for the largest share of 45%, followed by 24% of "Reset of exit sale price" and 12% of "Suspension of sale by extending loan maturity".

Fig. 21 Did you Change Exit Strategies?



With respect to the exit options available over the next one year, "Extension of investment period with refinance" accounted for 27%, falling from 36% in the January 2010 survey. "Sale to the third party private funds" accounted for 21%, and "Sale to the third party REITs" for 13%, increasing from 7% and 2%, respectively from the January 2010 survey, suggesting that exit options are expanding.

Fig. 22 Details of Changes

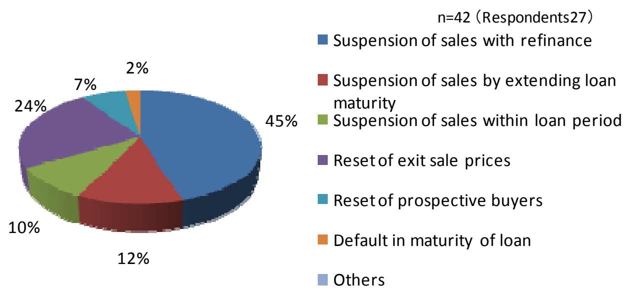
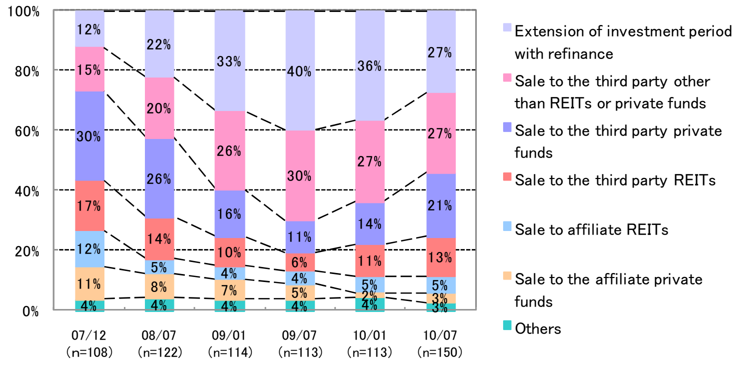


Fig. 23 Exit Options Available Over the Next One Year



2. Outlook for the Market and Management

1）Peak-out Timing of Cap Rate and Bottom-out Timing of Rent

With regard to the peak-out timing of the cap rate, the largest number of respondents answered that the peak had already been hit in 2009 for both office and apartment sectors. Respondents answering that the peak-out timing would be in or after 2011 accounted for only about 10% for both sectors. Most managers considered that cap rates had peaked-out or would peak-out by the end of 2010.

With regard to the bottom-out timing of the office rent, "July to December 2010" and "January to June 2011" gained large numbers of answers. For the apartment rent, the answers spread from "Already hit the bottom" in 2009" to "January to June 2011," suggesting that a market consensus had not yet been made.

Fig. 24 Peak-out Timing of Cap Rates

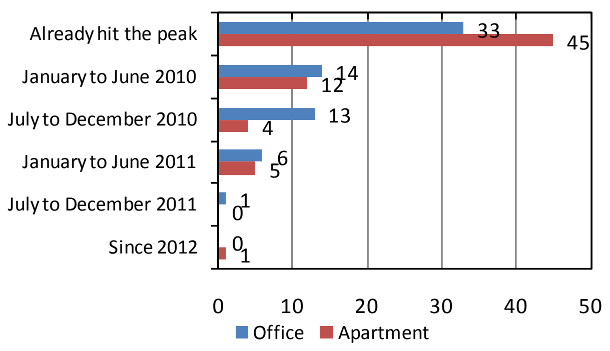
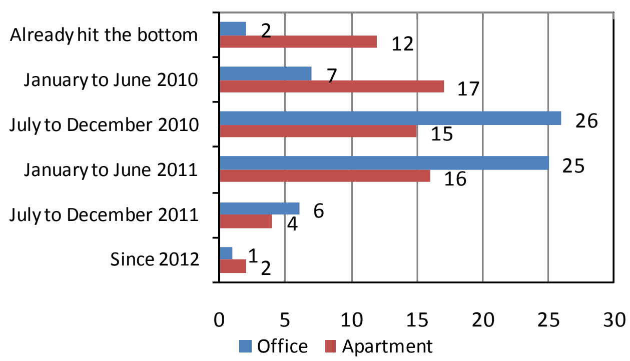


Fig. 25 Bottom-out Timing of Rents



2）Cap Rate Forecast by Area

The majority of respondents, at 52%, answered that the cap rate over the next one year for the office sector would “Decline” in the central 5 wards of Tokyo. For the 23 words of Tokyo (excluding the 5 words), 60% of respondents answered that it would “Remain unchanged” while 22% said that it would “Decline”. Meanwhile, for Kinki and Nagoya, the total of “Significantly rise” and “Rise” accounted for about 50%, suggesting that the outlook for regional cities was still bleak.

With respect to the apartment sector’s cap rate over the next one year, about a half of respondents answered that the cap rate would “Decline” in both the central 5 wards and the 23 words of Tokyo (excluding the 5 words). In contrast, a total of more than 80% of respondents answered that the cap rate would “Remain unchanged”, “Rise” or “Significantly rise” in the Tokyo Metropolitan, Kinki, and Nagoya areas, showing that many managers do not expect a turnaround of cap rate over the next one year in these areas.

We have found an improvement of managers’ sentiment for cap rates in Fig.24 above. However, taking the answers shown in Fig.26 and 27 into consideration, it seems that such an improvement is limited to the 23 words area in Tokyo.

Fig. 26 Forecast for Office Cap Rate by Area

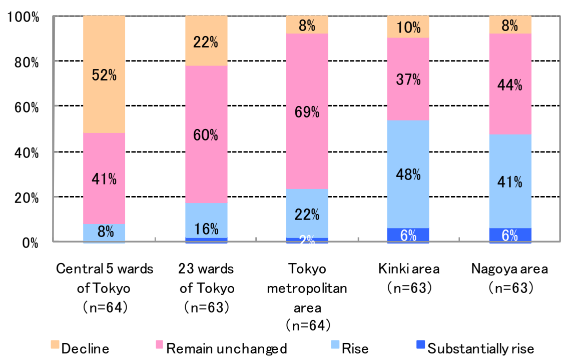
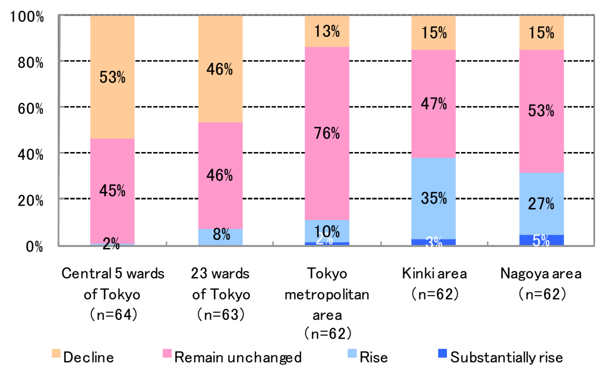


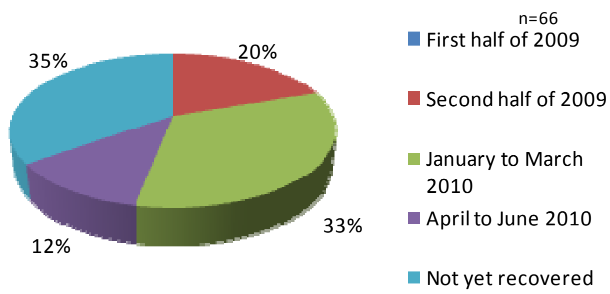
Fig. 27 Forecast for Apartment Cap Rate by Area



3） Recovery of Real Estate Transactions

Many managers recognized a recovery of the real estate transaction activity, as 65% of respondents in total answered that the transaction activity had started recovering by June 2010, though the largest share was for “Not yet recovered” at 35%. The share of respondents answering that the recovery had started by March 2010 accounted for 53% in total.

Fig. 28 Recovery Time of Real Estate Transactions



4) Investment Strategies of Managers

～Target Sectors and Areas～

With respect to the target property sector for investment, shares of “Office” and “Apartment” increased slightly from the January 2010 survey, while those of “Retail” and “Logistics” declined. In terms of the area, total share of the “Central 5 wards of Tokyo” and “23 wards of Tokyo” slightly decreased after the consecutive increase since the January 2009 survey, though it maintained above 70% since then, showing the strong focus of managers on Tokyo.

Fig. 29 Target Property Types

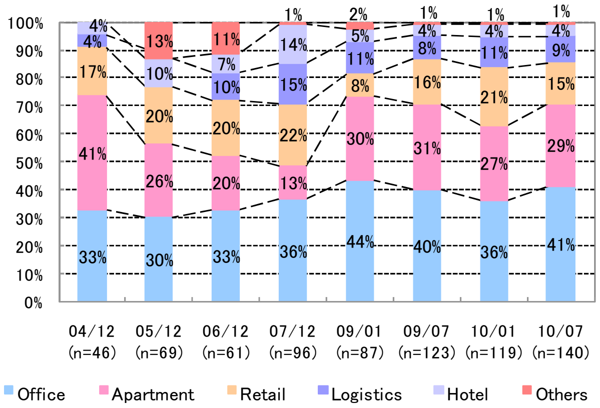
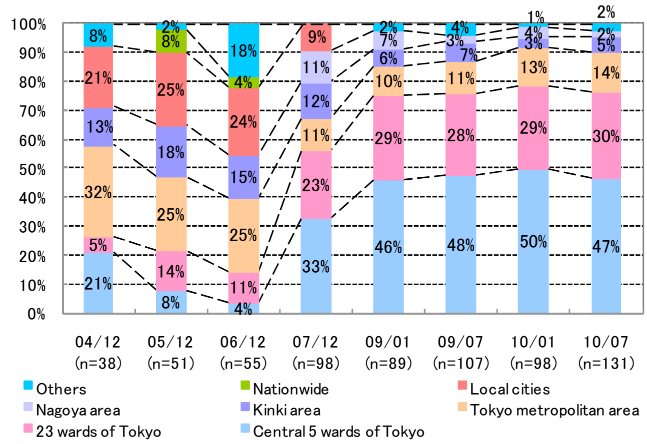


Fig. 30 Target Areas



～Details of Target Property Types～

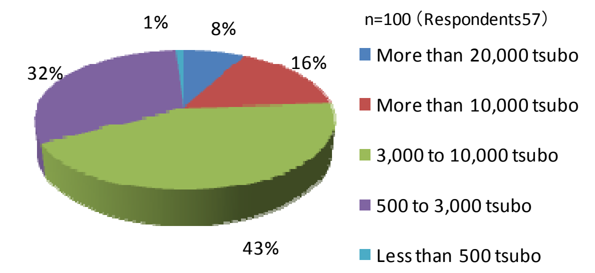
For the office sector, we asked about target size and location of property. As to the size, a total of 75% of respondents targeted on properties with a total floor area of “3,000 to 10,000 tsubo” and “500 to 3,000 tsubo,” while a total of 24% targeted on larger properties with “more than 10,000 tsubo” and “more than 20,000 tsubo”. In terms of the location, more than a half of respondents targeted on the “Central 5 wards of Tokyo”, and 25% on the “23 wards of Tokyo” (excluding the Central 5 wards), that is, more than 80% of managers targeted on Tokyo.

For the apartment sector, we asked about target type and location. As to the type, a total of 78% of respondents targeted on “Single use type” and “DINKS type”. In contrast, “High-end type” and “Luxury type” that are relatively volatile in terms of rent accounted for only 4% and 1%, respectively. As to the location, the “Central 5 wards of Tokyo” and the “23 wards of Tokyo” accounted for 64% in total, while the “Tokyo metropolitan area” gained 14%, indicating a higher attention to the suburbs of Tokyo in the apartment sector than in the office sector.

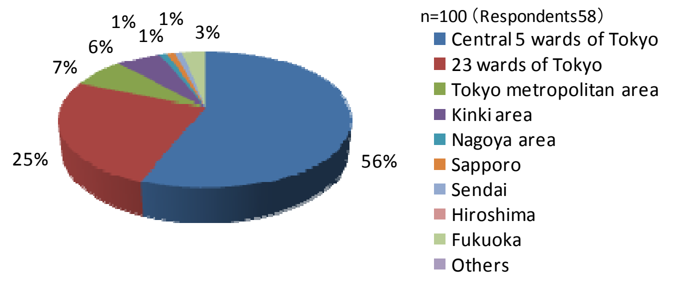
For the retail sector, we asked about target type and location. As to the type, 70% chose “Downtown store”, and 30% chose “Suburban shopping center”. Regarding the location, shares of the “Central 5 wards Tokyo”, “23 wards of Tokyo”, “Tokyo metropolitan area” and “Kinki area” accounted for 22%, 19%, 19% and 17%, respectively, showing that answers were more dispersed than for office and apartment sectors.

Fig. 31 Details of Target Property Type and Location

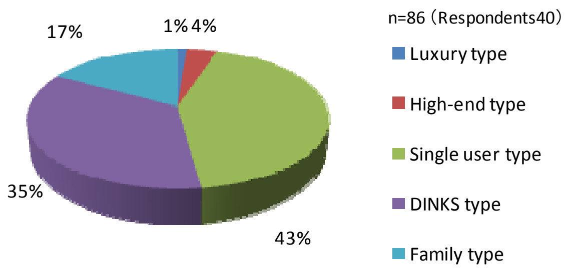
【Office size】



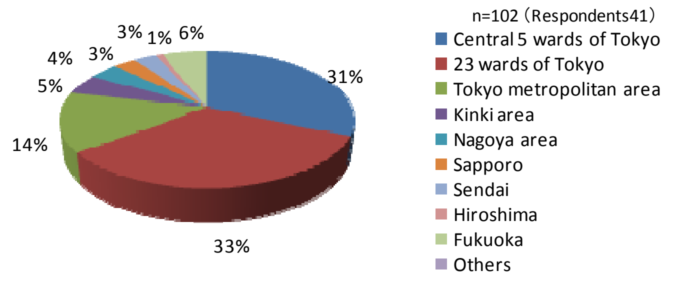
【Office location】



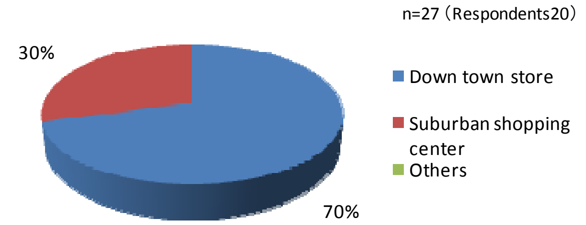
【Apartment type】



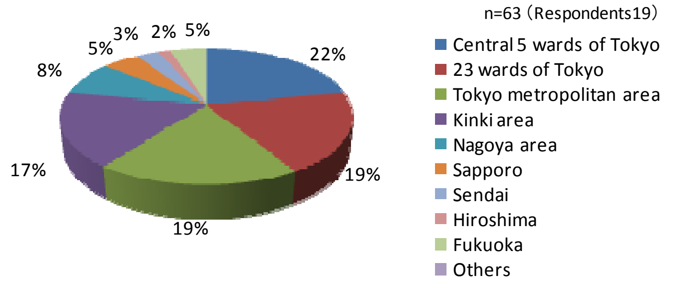
【Apartment location】



【Retail type】



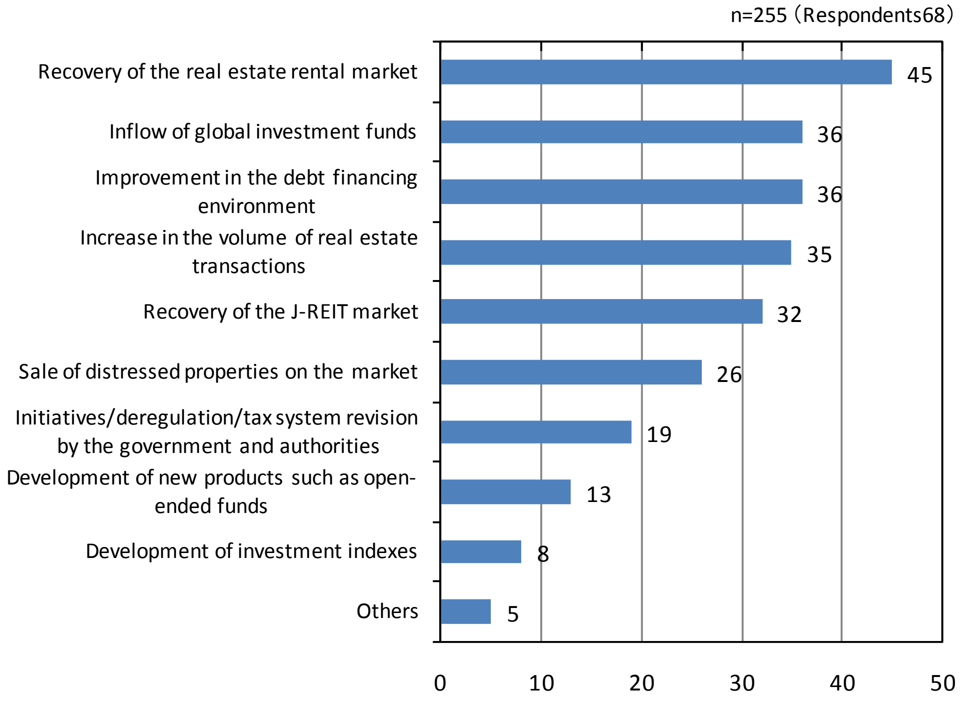
【Retail location】



5）Necessary Changes for Recovery

With respect to changes necessary for the privately placed funds market to recover, the most frequent answer was “Recovery of the real estate rental market”, followed by “Inflow of global investment funds”, “Improvement in the debt financing environment”, “Increase in the volume of real estate transactions” and “Recovery of the J-REIT market”. “Development of new products such as open-ended funds”, an item newly added to this survey, also drew 13 replies, showing that quite a few managers think that diversification of products is necessary.

Fig.32 Necessary Changes for Recovery



6）Environmentally Friendly Real Estate Investment

With respect to the environmentally friendly real estate investment, the most frequent answer was “Interested in but not consider investment”, which accounted for 62%. Meanwhile, a total of around 20% respondents answered that they have “Already invested” or that they are “Interested in and consider investment”.

In terms of the benefit of the investment, 27%, the largest percentage, of respondents expected “Improvement in reputation as a manager”, followed by “Preparation for tighter regulations in the future” and “Cost cutting effect”, accounting for 18% and 17%, respectively.

As to the issue of the investment, 22% of respondents selected “Improvement in performance is unexpected” and 18% chose “There is no objective evaluation standard for environmentally friendly real estate”, both ranking high. However, answers were dispersed without concentrating on any particular item, showing that many managers have various challenges.

Fig.33 Environmentally Friendly Real Estate Investment

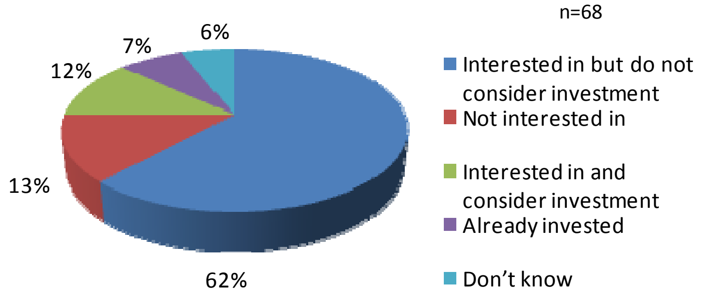


Fig.34 Benefit of Investing in Environmentally Friendly Real Estate

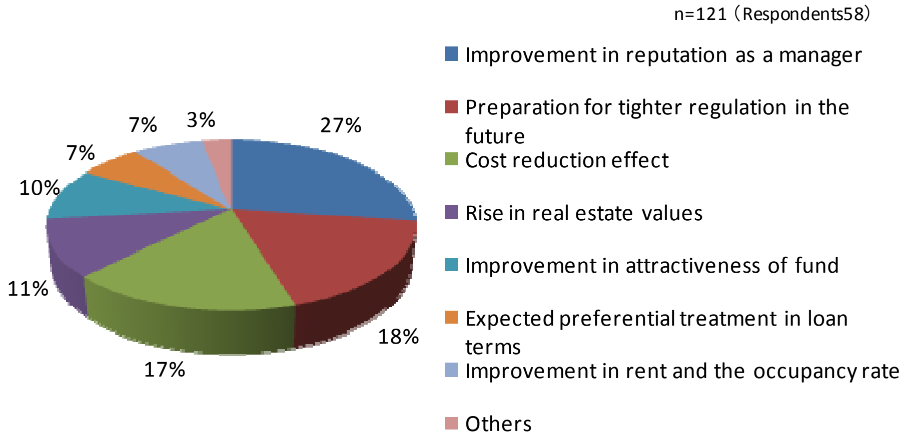
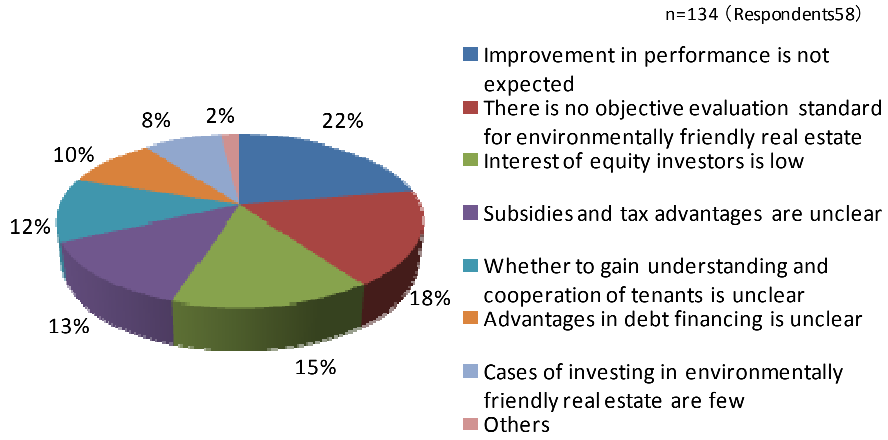


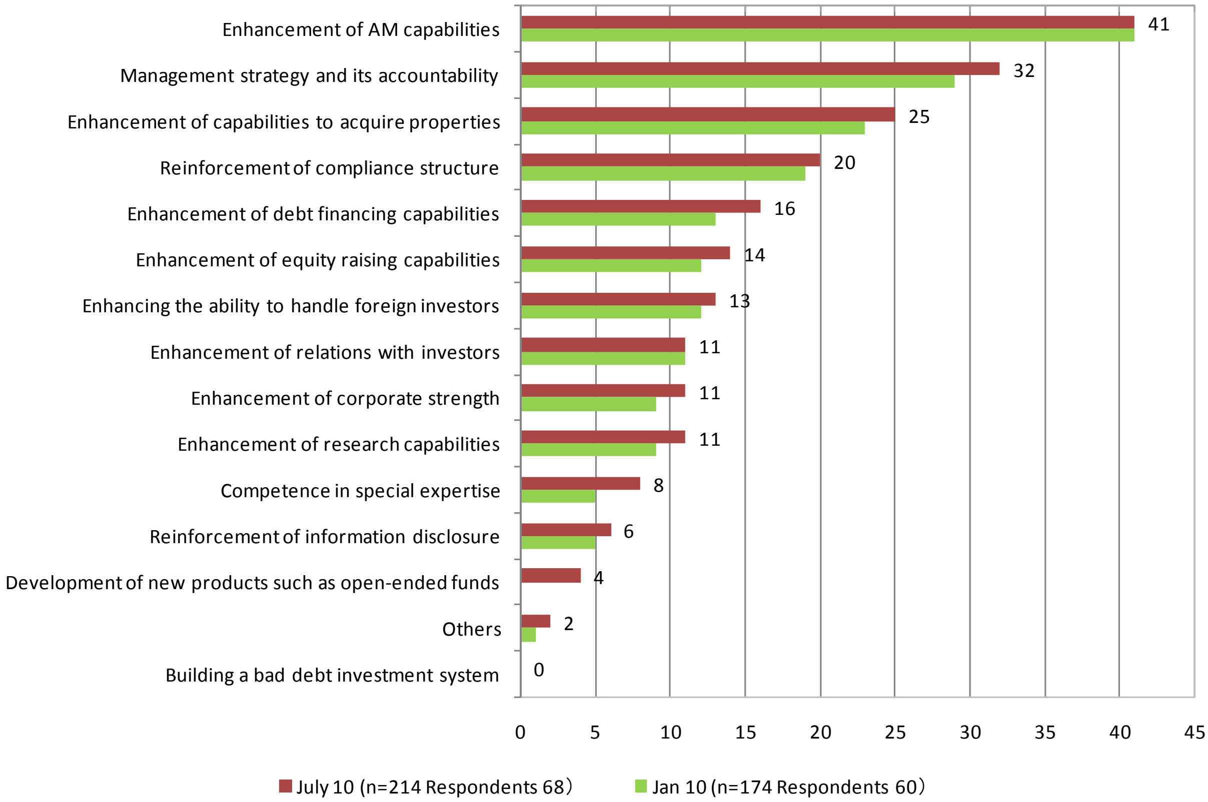
Fig.35 Issue of Investing in Environmentally Friendly Real Estate



7) 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 results were generally the same as in the January 2010 survey, indicating that asset managers continued to focus on strengthening basic abilities as an asset manager.

Fig.36 Requirements for Sustainability and Growth of Managers



* An item "Development of new products such as open-ended funds" was newly added to the list of choices.

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.

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

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