NEWS RELEASE

# Survey on Privately Placed Real Estate Funds in Japan
# January 2011– Results

March 10th 2011

**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 eleventh survey based on responses to questionnaires received from 63 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: 163
  - Number of companies responded: 63 (ratio of valid responses: 38.7%)
  - Time of survey: January 2011
  - 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 an invested asset basis) as of the end of December 2010 to be 15.7 trillion yen, which declined by 466.1 billion yen (2.9%) over a six-month period from the 16.2 trillion yen of the previous July 2010 survey. In this survey, we revised the past figures back to December 2007 to reflect additional data obtained.

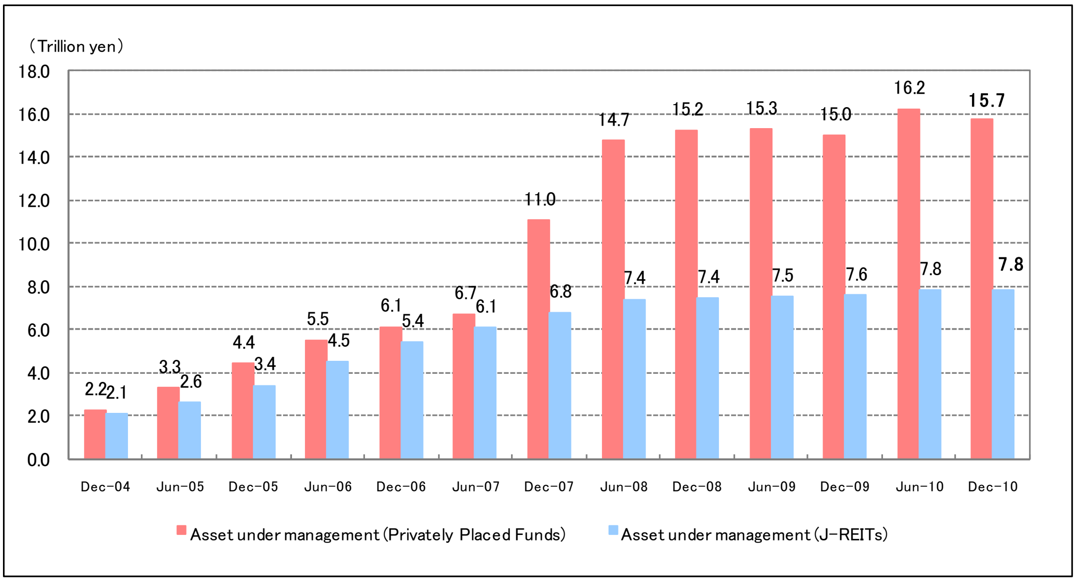
**Market size of privately placed real estate funds is 15.7 trillion yen, or 17.5 trillion yen including assets of global funds**

- 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 the "managers") as well as published information. As of the end of December 2010 the market size (on an invested assets basis) is estimated 15.7 trillion yen, which declined by 466.1 billion yen (2.9%) over a six-month period from the 16.2 trillion yen of the previous July 2010 survey. In this survey, we revised the past figures back to December 2007 to reflect additional data obtained.

- In the previous survey, the market size as of June 2010 increased significantly from the end of December 2009 partly due to (i) increases in assets under management (hereafter called the "AUM") of some managers – mainly large ones – who raised new funds and acquired properties, and (ii) reschedules of redemption in some funds which underpinned the size of the market. In this survey, we found that many managers decreased their AUM due to sales of properties on the back of the somewhat recovered market, as well as devaluations of assets, leading to a decline of the total size of the market as of December 2010.

- The market size of 15.7 trillion yen does not include assets in Japan managed by global funds. We identified some of them in our survey, and combined with them,we estimate that the total market size is 17.5 trillion yen.

**Market Size Changes in Privately Placed Funds and J-REITs**




source: STB Research Institute

(Note 1) In this survey, we asked managers about their AUM in the past, and revised the figures of market size for the period from December 2007 to June 2010.
(Note 2) The figure also includes assets managed by companies that have been restructured with new sponsors or with succeeding managers.
(Note 3) We define the "global fund" as a fund managed by foreign-based manager, which targets real estate investments in various countries.

# "Survey on Privately Placed Real Estate Funds" January 2011-Results

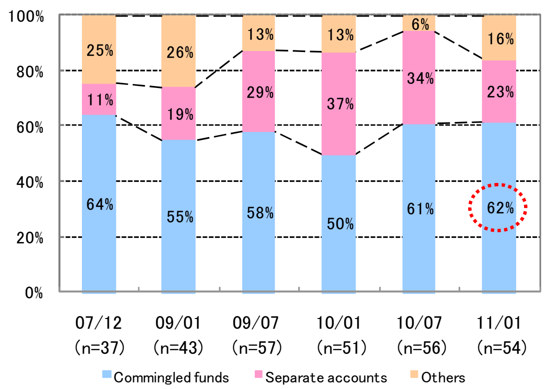
(Note) [n= ] marked in the graphs means the number of effective responses

## 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 managed for multiple investors, and Separate Accounts managed for single investors. Commingled Funds managed by the respondents accounted for 62% of the total AUM of them, while Separate Accounts made up 23%. The trend remained unchanged as Comingled Funds accounted for around 60 percent in the July 2010 survey.

**Fig. 1 Breakdown of Commingled Funds and Separate Accounts**




### 2) Breakdown of fund types and management styles

Fixed Property Type accounted for 82% of the total number of funds, while Additional Acquisition Type accounted for 6% and Discretionary Investment Type accounted for 12%. It is considered that investors' concerns about the quality of assets leads to the strong preference for the Fixed Property Type, in which assets have been identified at the launch of fund. Meanwhile, the ratio of the Discretionary Investment Type has increased compared to the January 2010 survey. The recovery of the appetite of equity investors may have increased the ratio of that type, in which selection of assets is at the discretion of the manager and investment is comparatively high-risk. .

By management style, Core Style accounted for 58% of the total number of funds. Value-added, Opportunity, and Development Styles accounted for 11%, 26%, and 5%, respectively. Compared to the January 2010 survey, the Core Style fell by 5% and the Value-added Style fell by 12%, while the Opportunity Style rose by 15%. The attention to the relatively high-risk Opportunity Style seems to be rising due to (i) gradual increase in investors' risk tolerance reflecting the economic recovery, and (ii) prospective increase (though still limited) in distressed sales of those properties that are facing refinance difficulties.

**Fig. 2 Breakdown of Funds by Type**

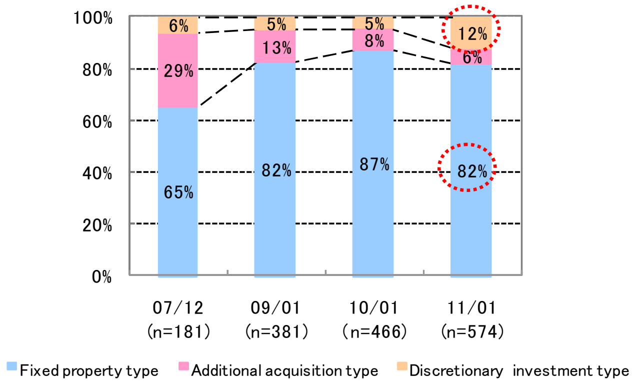
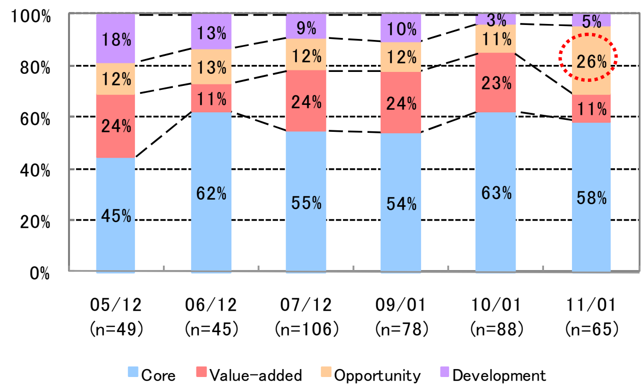



**Fig. 3 Breakdown of Funds by Management Style**




## 3) LTV Ratio

The average LTV ratio of funds under management was 67.4%, down for two consecutive years since December 2008. Meanwhile the projected average LTV ratio of funds to be launched within a year was 63.5%, up for two consecutive years, and the LTV ratio presumably desired by equity investors also rose from the January 2010 survey. We assume that such rises in ratios reflect the current market circumstances where both investors' risk tolerance and lenders' credit stance, have been gradually thawing, although we expect that the LTV ratios, which are at lower than the 70% recorded from 2005 to 2007, will unlikely rise significantly in the future.

**Fig. 4 Average LTV Ratio of Existing Funds**

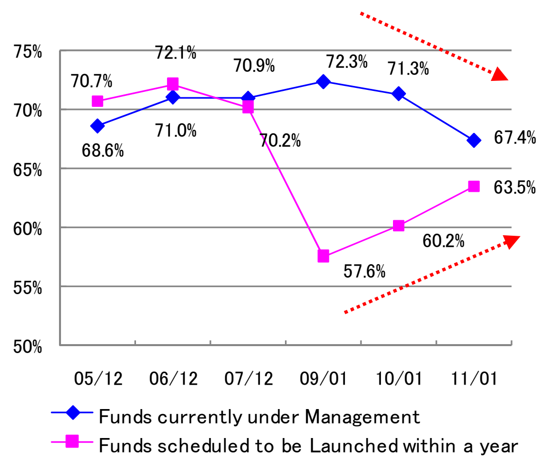
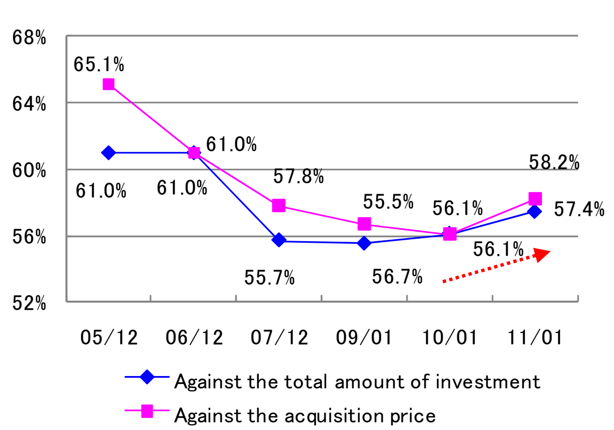


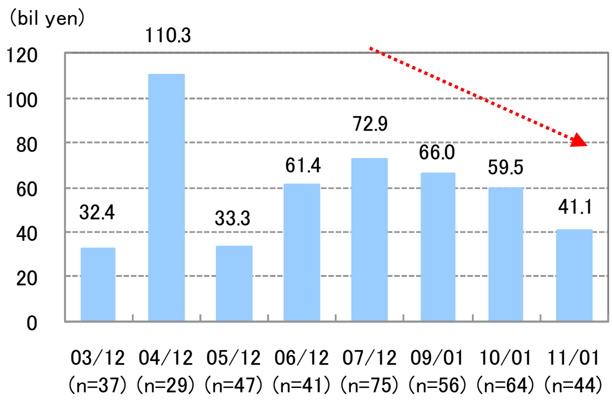

**Fig.5 Average LTV Ratio Presumably Desired by Equity Investors**



## 4)Target Asset Size

The average target asset size of funds under management decreased to 41.1 billion yen per fund from 59.5 billion yen of the January 2010 survey, contracting for three consecutive years since the January 2009 survey, and it is smaller than the size of the December 2006 survey. In spite of the gradual improvement in financing, investments are still limited to properties with stable income and relatively low risk. We think such circumstances made it difficult to launch large funds and prompted some managers to launch single property funds, resulting in diminishing the average asset size of funds.

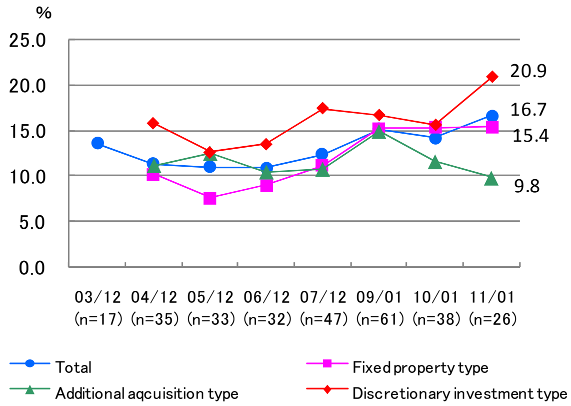
**Fig. 6 Average Target Asset Size**




## 5) Target IRR

The average target IRR of the total funds was 16.7%, up from the January 2010 survey. By fund type, Fixed Property Type remained unchanged at 15.4% from the last survey while Additional Acquisition Type declined to 9.8%. Discretionary Investment Type was up to 20.9%. It should be noted that the number of responses to this question was limited.

**Fig. 7 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 6.4 years in this survey, an extension by 1 year from the last survey in January 2010. By category, the investment period for More Than Six Years represented 57%, a significant increase from the last survey. The reschedules of redemption made by some funds will be one of the reasons for the increase.

**Fig. 8 Average Target Investment Period**

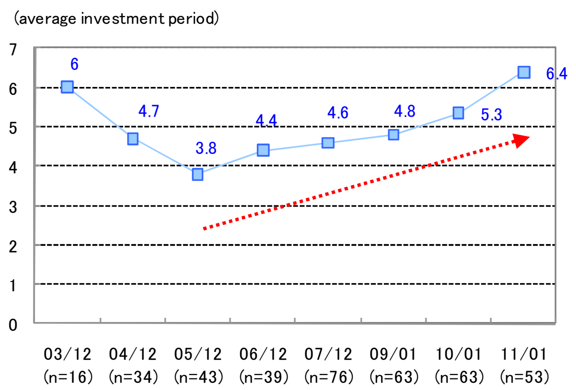
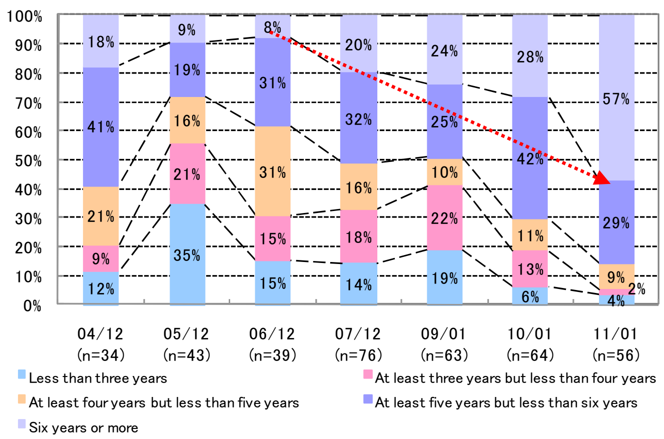



**Fig. 9 Breakdown of Average Target Investment Period**



## 7) Target Property Types and Areas

By property type, shares in Office and Retail types fell slightly, while Residential type remained unchanged. Share of each type has not changed significantly since the December 2007 survey.

By investment area, 23 Wards of Tokyo accounted for the most, followed by Tokyo Metropolitan area. The breakdown did not change significantly from the January 2010 survey, with a slight fall in Tokyo Metropolitan area and Local area, and a slight rise in 23 Wards of Tokyo and Nagoya area

* Each fund gave multiple answers for their target types and areas. The numbers of answers are aggregates of them.

**Fig. 10 Target Property Types**

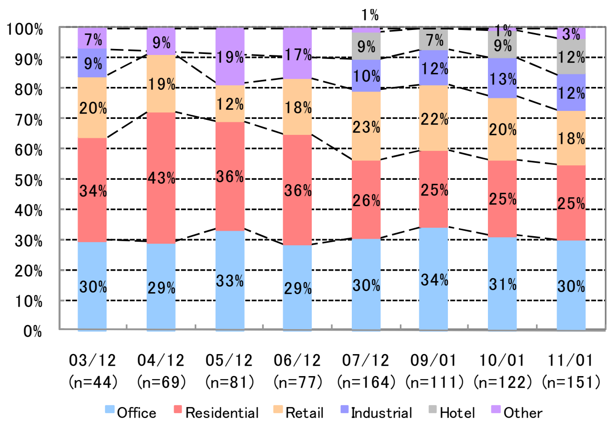
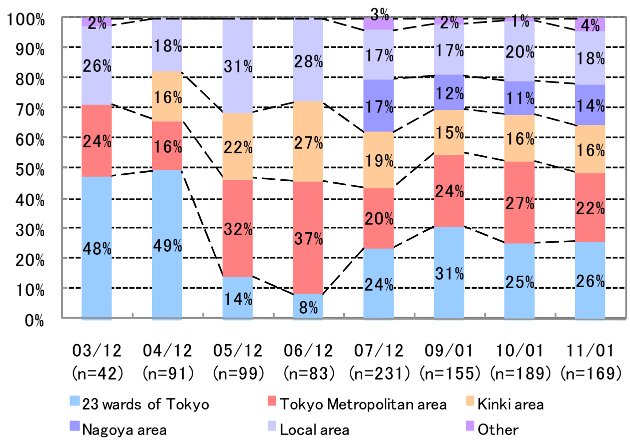



**Fig. 11 Target Areas**




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

* 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 69%, answered that the circumstances have "Slightly improved", while no one chose "More severe". Answers for "Improved" and "Slightly improved" accounted for approximately 90% in total, clearly indicating an improvement in the debt financing circumstances.

With regard to the improved conditions, 34% of respondents pointed to "Increase of lenders considering new lending". Meanwhile, 23% pointed to "Contraction of interest spread," and 17% to "Expansion of the underwriting areas and types."

**Fig. 12 Circumstances of Debt Financing**

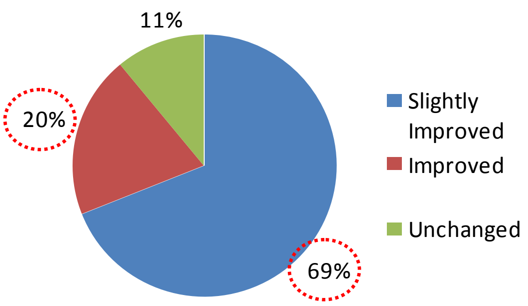
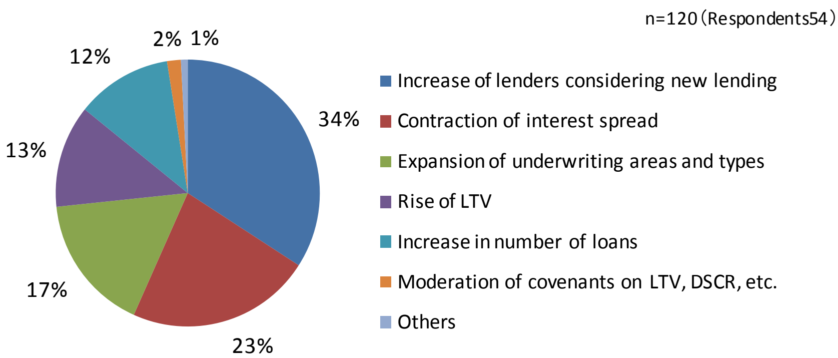



**Fig. 13 Improved Debt Conditions**



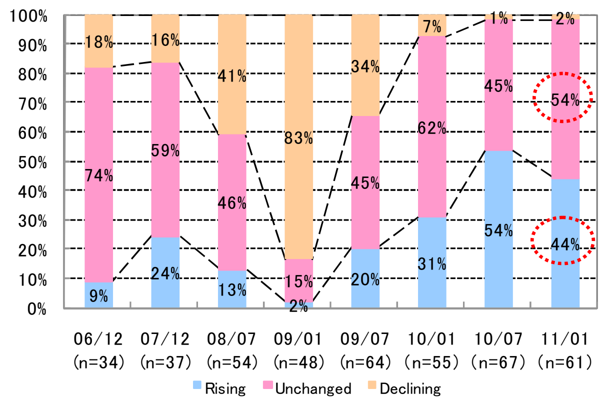

※ This question is only for those who answered that debt financing conditions have Slightly improved or Improved.

## 9) Circumstances of Equity Raising

### (a)Appetite of Equity Investors

In the last survey, a majority of managers answered that the equity investors' appetite for investment was increasing. In this survey, 54% of respondents answered that such trend remained unchanged, while 44 % answered that the appetite was further increasing.

**Fig. 14 Appetite of Equity Investors**

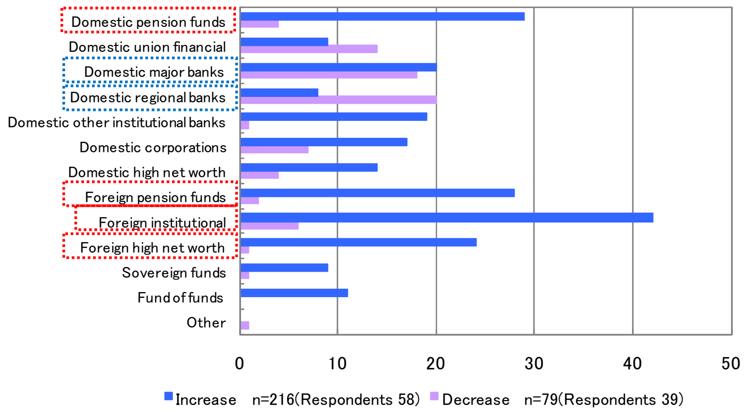



### (b)Expectation for Volume Change By Investor

The largest 42 respondents answered that they expected Foreign Institutional Investors would increase their investment volume, followed by Domestic Pension Funds with 29 respondents, Foreign Pension Funds with 28, and Foreign High Net Worth with 24. There was an apperant anticipation for a volume increase by foreign investors compared with domestic investors.

They expected Domestic Regional Banks and Major Banks would decrease their investment volume with 20 and 18 respondents, respectively.

**Fig. 15 Expectation for Volume Change By Investor**



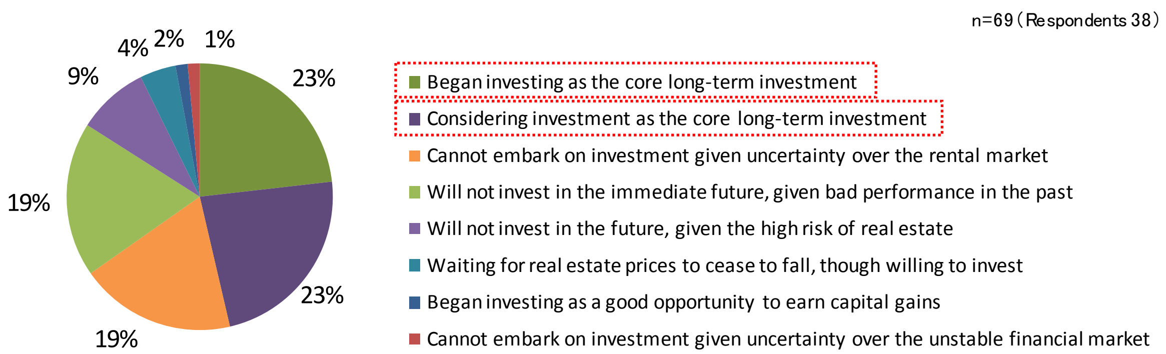

### (c)Investment Attitude of Equity Investors

Many managers answered that Domestic and Foreign Pension Funds were pursuing long term core investment strategies, while Foreign Institutional and High Net Worth investors were pursuing capital gain opportunities.

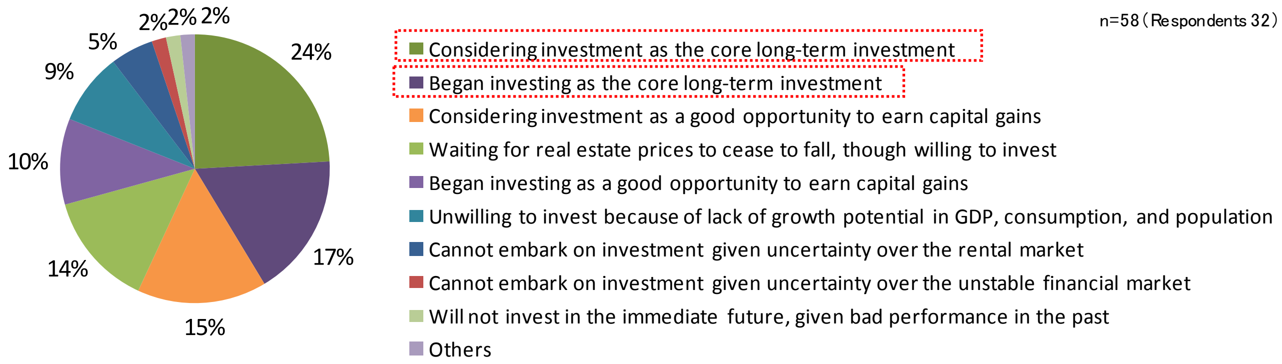
As to Domestic Major Banks and Regional Banks, an expectation for future investment constraint due to the Basel regulation came to the top on the managers' answers.

**Fig. 16 Investment Attitude of Equity Investors**

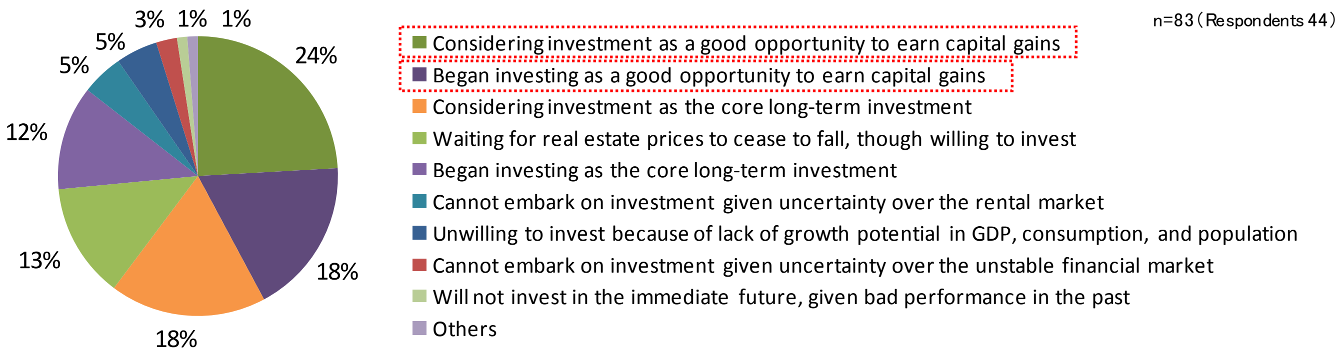
**【Domestic Pension Funds】**



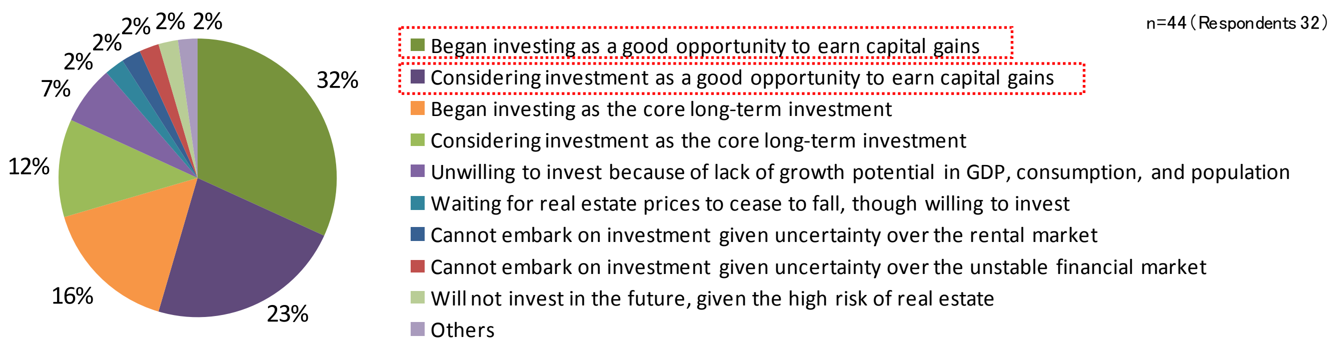
【Foreign Pension Funds】



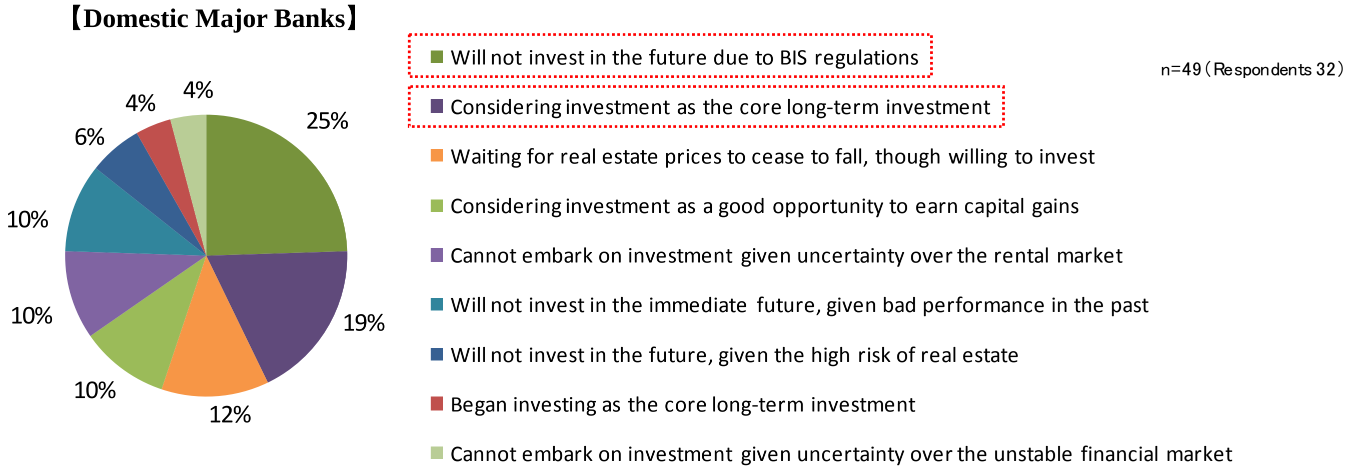

【Foreign Institutional】



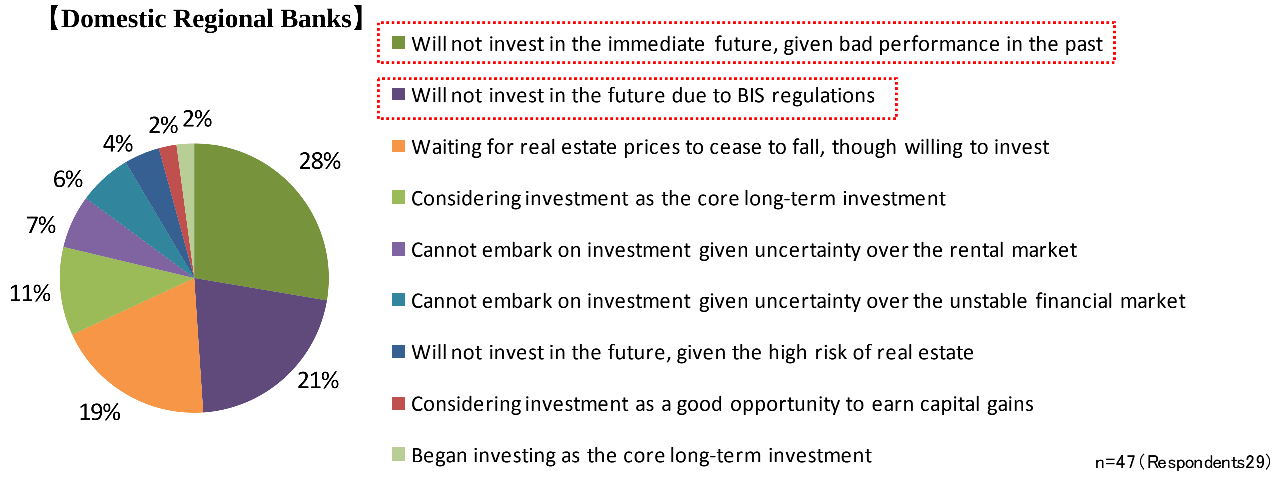

【Foreign High Net Worth】




【Domestic Major Banks】



**【Domestic Regional Banks】**



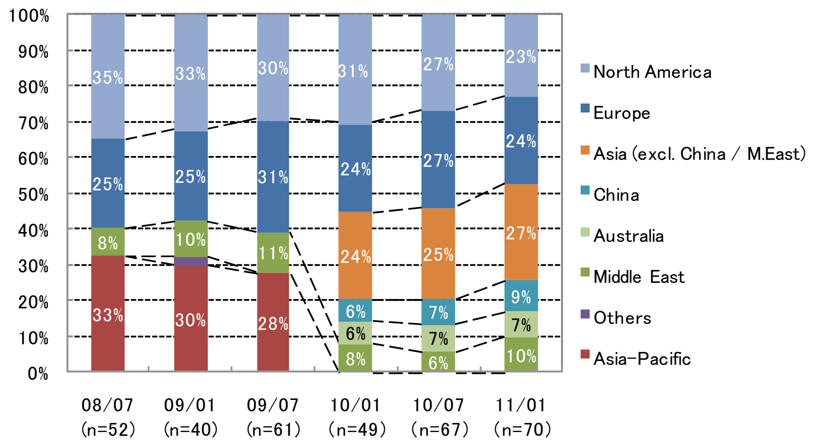

### (d)Sources of Foreign Funds Under Management

The highest response rate was for investors from Asia (excluding China and Middle East) at 27%, followed by Europe at 24%, while Asian investors excluding Chinese and Middle Eastern consist of a half of total individual investors, supposedly raising their rate.

The rate for investors from North America was 23%, on the decrease from 35% of the July 2008 survey, while those from China, at 9% increased for two consecutive surveys from 6% of the January 2010 survey.

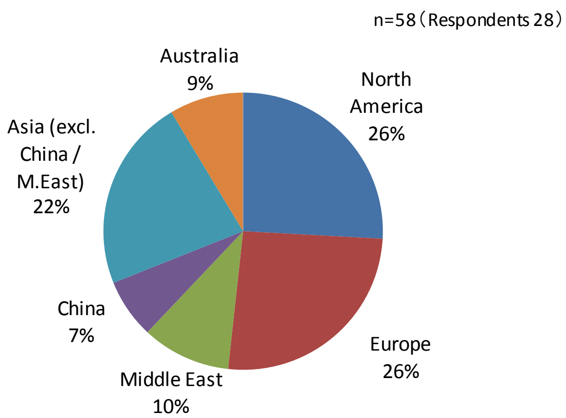
As to the institutional investors, the highest responses were for North America and Europe at 26% each, followed by Asia (excluding China and Middle East) at 22%.

**Fig. 17 Sources of Foreign Funds Under Management**

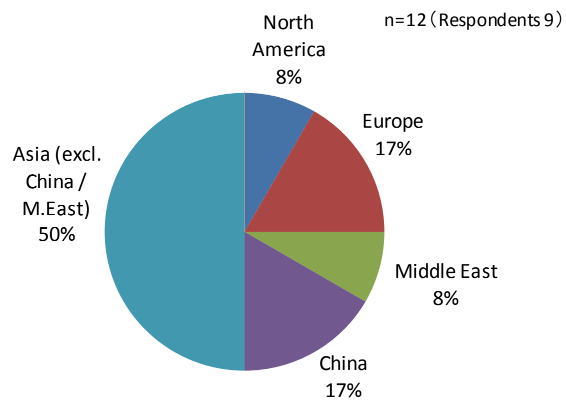



＊ Since the January 2010 survey, Asia-Pacific has been broken down into China, Middle East, Asia (excluding China and Middle East), and Australia.
＊ In this survey, questions were asked separately for institutional investors and individual investors. Fig.17 shows the total of institutional and individual investors for the respective region.

**【Institutional Investors】**



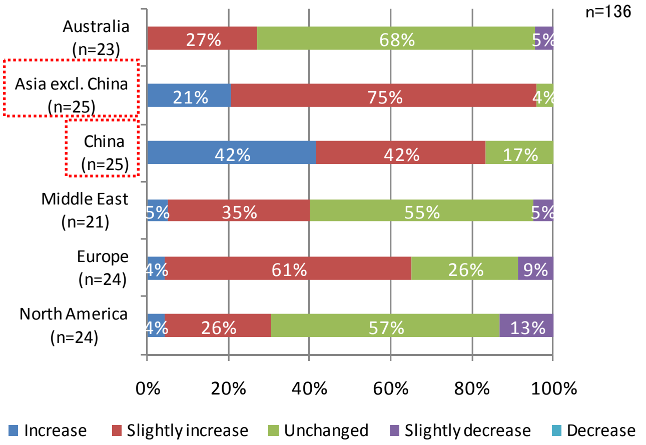

**【Individual Investors】**



### (e)Expectation for Foreign Investors By Region

Managers' anticipation for increase in the investment volume is especially high for Chinese and Other Asian investors, with answer to "Increase" and "Slightly increase" accounted for 84% for Chinese investors, and 96% for Other Asian investors. There was no response to "Decrease" for any of the regions, indicating managers' high expectations for foreign investors.

**Fig. 18 Expectation for Foreign Investors By Region**




## 10) Circumstances for Acquisition and Sale of Properties

With respect to the acquisition of properties, 46% of respondents, the largest share, answered that they sought acquisition opportunities but "Did not agree on prices". The next largest share, 25%, responded they have "Acquired". Although circumstances for acquisition still remained difficult, it can be seen that the acquisition of properties is gradually progressing.

With respect to the sale of properties, 65% of respondents answered "Slightly Improved", while no one answered "More severe", suggesting that they see a signs of improvement.

**Fig. 19 Circumstances for Acquisition**

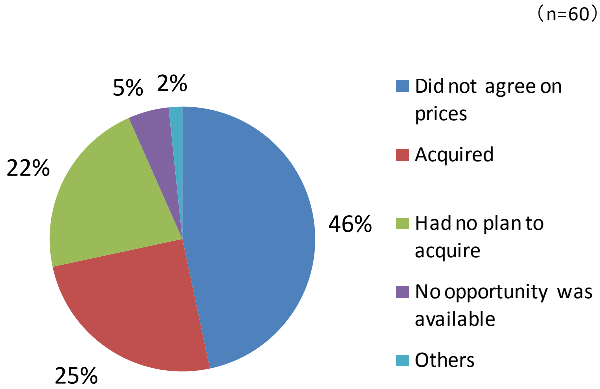
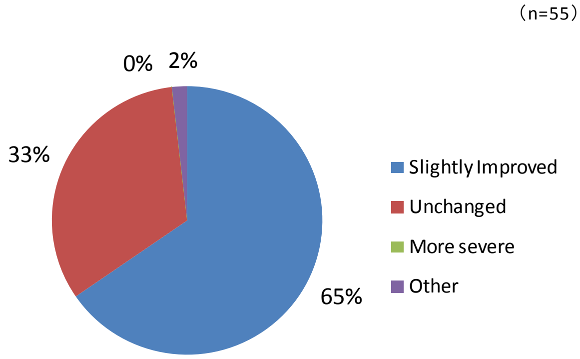



**Fig. 20 Circumstances for Sale**



## 11) Change in Exit Strategies

Fifty five percent of respondents answered that they have changed some exit strategies. Such changes include "Suspension of sales with refinance" (accounted for 40% of total responses) and "Review of exit sale prices" (accounted for 24%).

With respect to the options available over the next one year, the largest share of 30% chose "Extension of investment period with refinance", followed by 28% for "Sale to the third party other than REITs or private funds". The fairly high share for the latter option suggests that properties that do not meet the current rigid investment qualification such as those located in local cities are often sold to local owner-users.

**Fig. 21 Did you Change some Exit Strategies?**

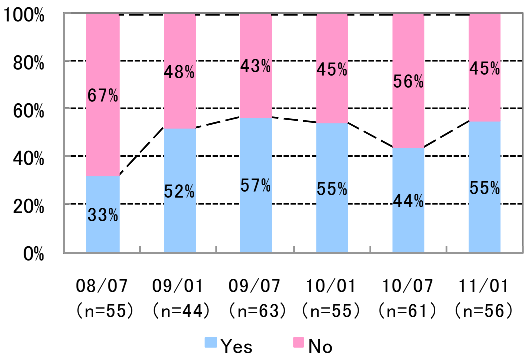



**Fig. 22 Details of Changes**

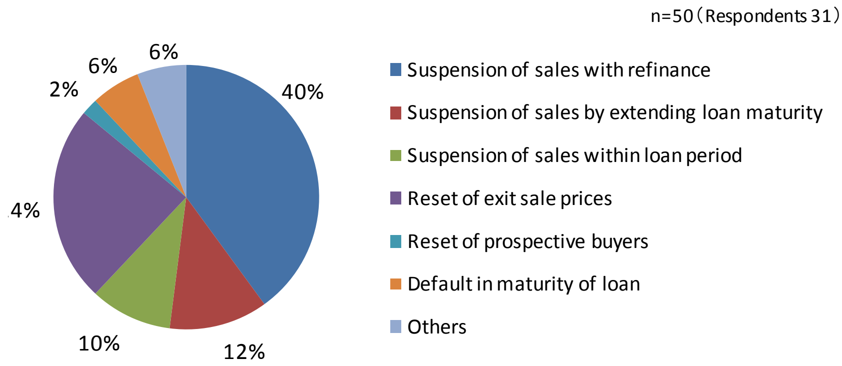
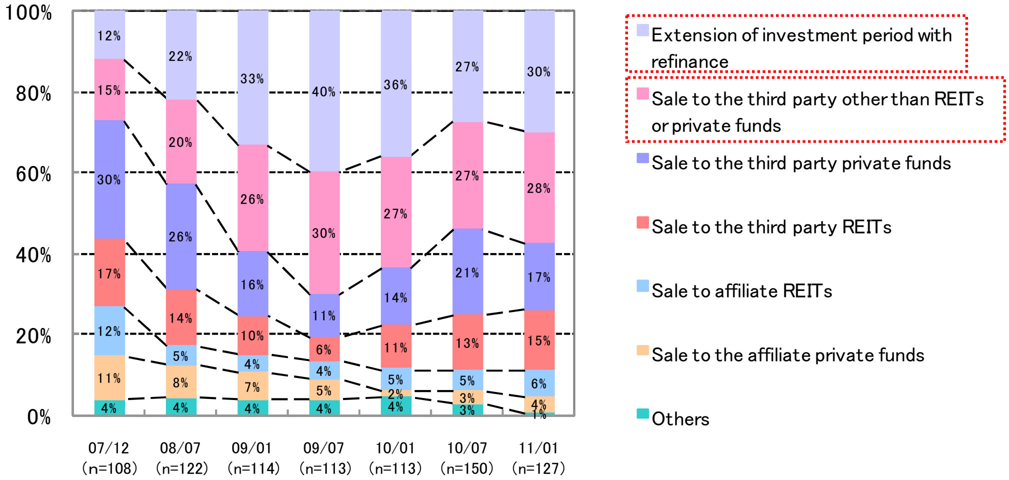



**Fig. 23 Options Available Over the Next One Year**



## 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 peak had been "already hit" in or before 2010 for both offices and residential sectors. In particular, nearly a half of managers answered so for residential properties. With regard to the bottom-out timing of rents, the largest number of managers answered it would be hit "From July to December 2011" for the office sector, and it had been "already hit" in or before 2010 for the residential sector. Managers' responses rather diverged on the bottom-out timing of office rents, showing their different views on the market.

**Fig. 24 Peak-out Timing of Cap Rates**

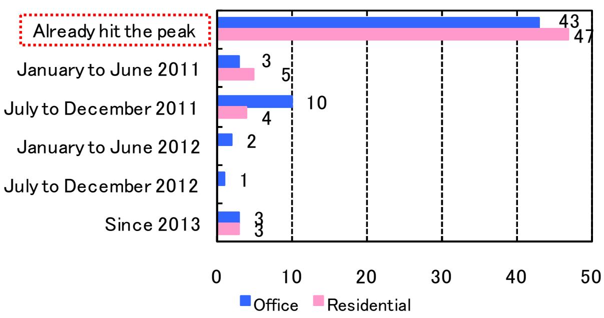
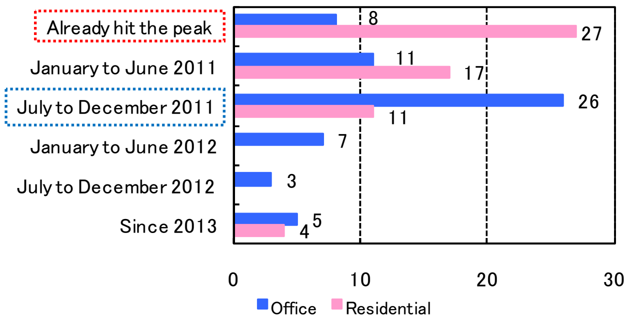



**Fig. 25 Bottom-out Timing of Rents**




### 2) Cap Rate Forecast by Area

The majority of respondents expected that the cap rate over the next one year for the office sector would "Decline" in Central 5 Wards of Tokyo, while "Remain unchanged" in the other areas. 27% of respondents expected it would "Decline" in 23 Wards of Tokyo, and only 9% expected declines in Tokyo Metropolitan, Kinki, and Nagoya areas. This indicates that many managers thought that the improvement of the office cap rate in the central Tokyo had not diffused to other areas yet.

As to the cap rate over the next year for the residential sector, the majority of respondents expected "Decline" in Central 5 Wards of Tokyo, while "Remain unchanged" in the other areas. Expectation for the decline of cap rate in Tokyo Metropolitan, Kinki, and Nagoya areas were all 23%, rising from the 13% (Tokyo Metro) and 15% (Kinki and Nagoya) of the last July 2010 survey. The ratio of managers who expected contraction of cap rates in local cities was on the rise.

**Fig. 26 Forecast for Office Cap Rate by Area**

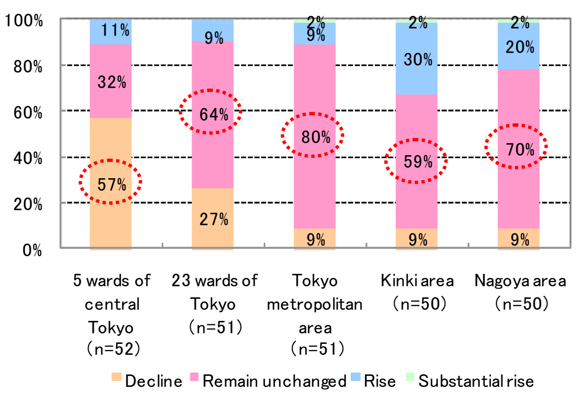
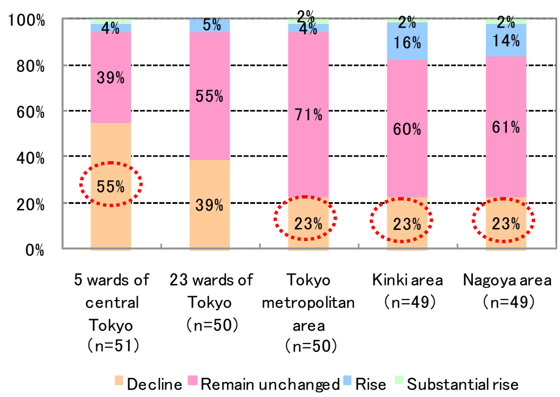


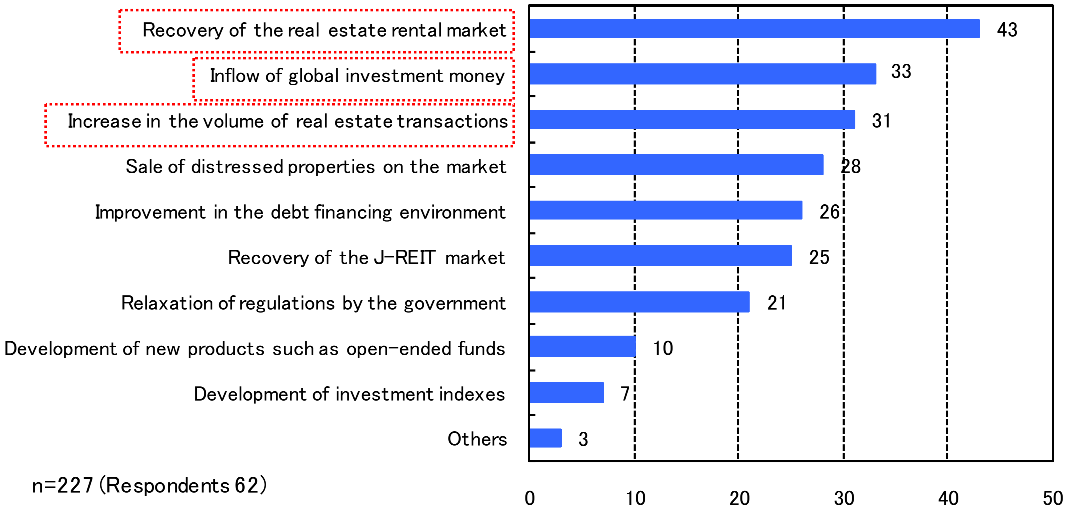

**Fig. 27 Forecast for Residential Cap Rate by Area**



### 3) Necessary Changes for Recovery

With respect to changes necessary for the recovery of the privately placed funds market, the most frequent answer was "Recovery of the real estate rental market", followed by "Inflow of global investment money", and "Increase in the volume of real estate transactions". Recoveries of lease market and transaction market were the most urgent concerns for managers.

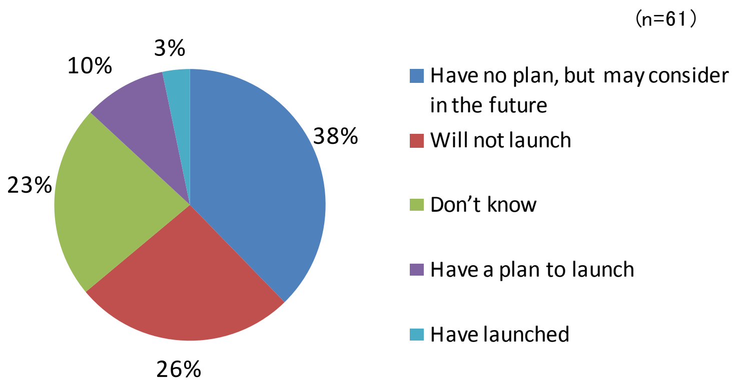
**Fig.28 Necessary Changes for Recovery**




### 4) Launch of Open-ended Funds

The largest share with 38% of respondents answered that they "Have no plan, but may consider in the future" to launch open-ended funds. Meanwhile the combined total of responses for "Have launched" and "Have a plan to launch" was only 13%. This suggests that in spite of increasing interest in open-ended funds, many managers are still taking a wait and see attitude.

**Fig.29 Development of new products such as open-ended**



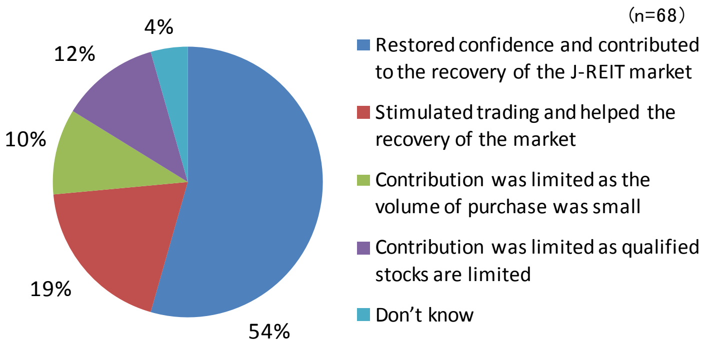
### 5) Impact of BOJ's Purchase of J-REITs

Around 70% of managers consider that The Bank of Japan's purchase has contributed to the recent recovery of the J-REIT market, as a total of 73% of respondents said that either it "Restored confidence and contributed to the recovery of the J-REIT market" or it "Stimulated trading and helped the recovery of the market".

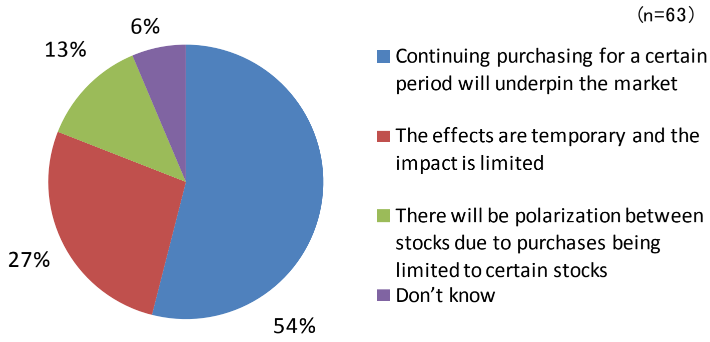
With regard to the future impact on the J-REIT market, the most popular response was "Continuation of the program for a certain period will underpin the market", which accounted for 54% of all responses. Meanwhile, answers for "It will have only a temporary effect and limited impact" and "It will bring about a bifurcation of stocks due to the qualification hurdle" made up 40% in total. Opinions on the future impact were diverged.

**Fig.30 Impact of BOJ's purchase of J-REITs funds on the J-REIT market**

**【Impact on the Market】**

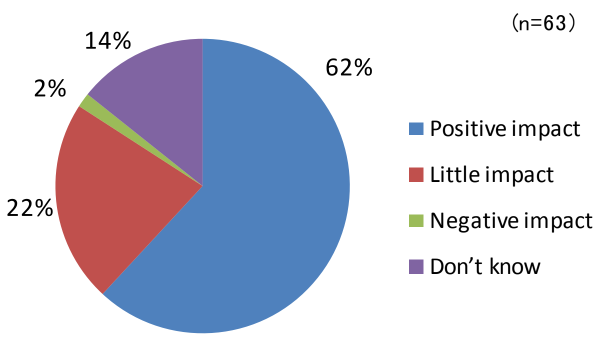



**【Future Impact】**




62% of respondents answered that the BOJ's purchase of J-REITs would have a "Positive Impact" on the privately placed fund market. The main reasons cited for this answer were prospective increases in the transaction volume and exit options in the market.

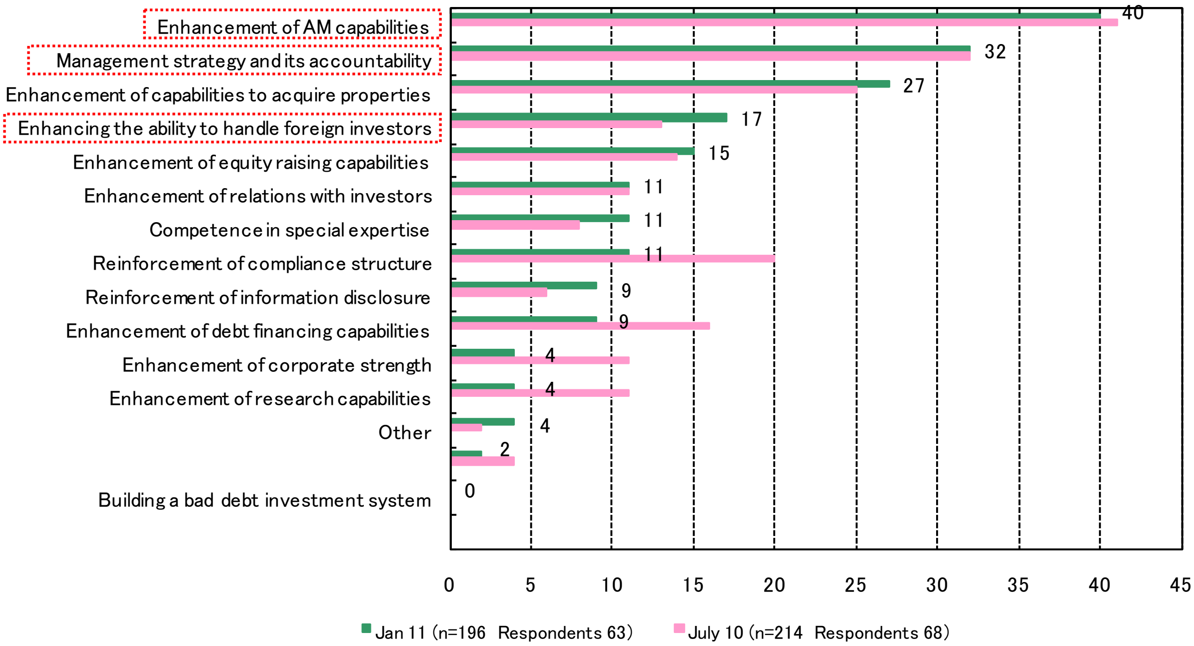
**Fig.31 Impact of BOJ's purchase of J-REITs funds on the privately placed fund market**



## 6) Requirements for Sustainability and Growth of Managers

The most frequent answer for this matter was "Enhancement of asset management capabilities" followed by "Management strategy and its accountability". The result was similar to those of the January 2010 and July 2010 surveys, and respondents emphasized enhancing their basic asset management capabilities. Furthermore, "Enhancing the ability to accommodate foreign investors" was ranked highly, showing that satisfying foreign investors, who they anticipated would increase investments in Japan, was deemed to be an urgent issue to be tackled.

**Fig.32 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. This does not include products governed by the Act Concerning Designated Real Estate Joint Enterprises. |
| 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 |
| Closed-ended fund | This refers to privately placed real estate funds with stipulations on the management period. |
| Open-ended fund | This refers to privately placed real estate funds without stipulations on the management period. The system enables participation, cancellation and reimbursement for a certain period. The value of the holding is calculated based on the appraisal value at the time. |
| ＜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) : | 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. |
| 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. |

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