NEWS RELEASE

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

August 26th 2011

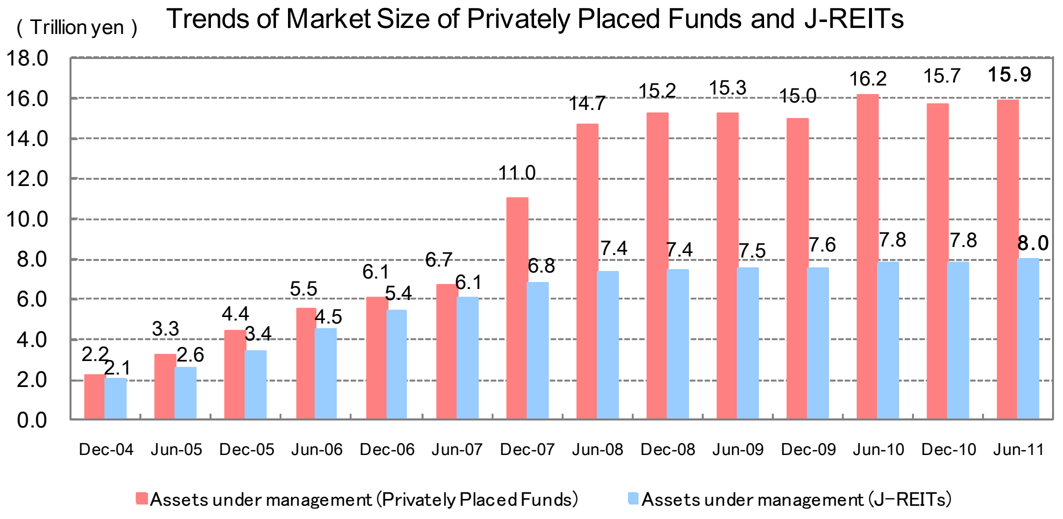
STB Research Institute Co., Ltd

- 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 twelfth such survey based on responses received from 69 real estate investment management companies.
  - <u>Respondents</u>: Real estate investment management companies engaged in origination and management of privately placed real estate funds investing in domestic real estate
  - <u>Number of companies to which questionnaires were sent</u>: 140
  - <u>Number of companies responded</u>: 69 (ratio of valid responses: 49.3%)
  - <u>Time of survey</u>: July 2011
  - <u>Survey method</u>: 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 2011 to be 15.9 trillion yen (on an invested asset basis), which increased approximately 180 billion yen (1.2%) over a six-month period from the 15.7 trillion yen of the previous January 2011 survey.

Market size of privately placed real estate funds is 15.9 trillion yen, reaching 17.6 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. As of the end of June 2011 the market size (on an invested assets basis) is estimated to be 15.9 trillion yen, which increased approximately 180 billion yen (1.2%) over a six-month period from the 15.7 trillion yen (end of December 2010) that was estimated in the January 2011 survey
- In this survey, some managers appeared to have decreased their assets under management by selling property, while others increased their assets by acquiring new property in light of further improvement in the debt financing environment. As a result, overall assets under management increased slightly.
- The effects of the Great East Japan Earthquake on the market of privately placed real estate funds have been limited. However, a majority of managers believed that the nuclear power plant accident had become an obstacle for overseas investors in considering real estate investment in Japan.
- The figure of 15.9 trillion yen is the total invested assets for specialized funds in domestic real estate, which does not include the assets located in Japan which are managed by global funds (Note). When these assets are combined, we estimate that the total market size to be 17.6 trillion yen.

(Note) Global funds: defined by STBRI as meaning those funds managed by foreign-based investment managers which target investments in both Japan and other foreign markets.



source: STB Research Institute

" Survey on Privately Placed Real Estate Funds" July 2011 Survey Results

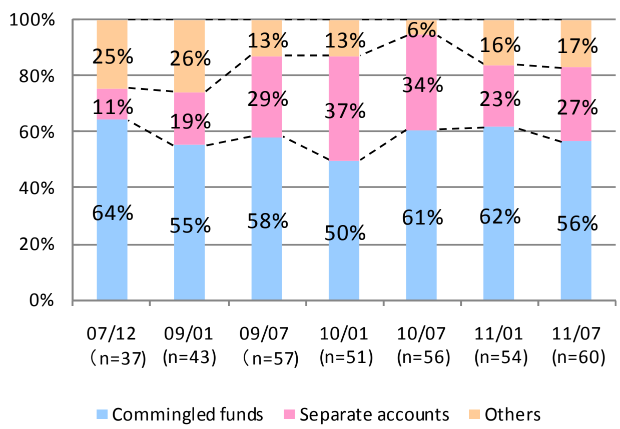
(Note) [n] shown in the charts throughout this document indicates the number of effective responses.

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 56%, while the separate accounts made up 27%. The share of the commingled funds declined, while that of separate accounts increased. The activity to launch commingled funds had been recovering according to the July 2010 survey, this trend continued, however, the July 2011 survey showed a slight slow down in activity.

Fig. 1: Breakdown of Commingled Funds and Separate Accounts



2) New Funds Launched From January to June 2011 ～New Launch, Type, Style, and Period～

Out of a total of 67 respondents, 19 (28%) answered that they launched new funds during the period from January to June 2011. Trends since the July 2009 survey show that approximately 30% of managers have been raising new funds in the first half of each year. This was partly attributable to the fact that there was always a certain level of demand for real estate equity investments, irrespective of fluctuations in the financing environment or the real estate market fundamentals.

The number of newly launched funds was 31, which is a great reduction from the 54 in the July 2010 survey. Of the newly launched funds, the Fixed Property Type accounted for 82%, an increase from 68% in the July 2009 survey, while the Additional Acquisition Type fell to 0% from 16%. With regard to the investment style, the Core Type accounted for 47%, falling substantially from 83% in the July 2009 survey, while the Value-added Type and Opportunity Type accounted for 24% each.

Since there was a limited number of responses, a clear trend of types of newly launched funds could not be identified in the latest survey. However, the result showed that the ratio of the Fixed Property Type increased, while that of the Core Type declined. It was also found that the number of the Fixed Property Type along with the Value-added Type and the Opportunity Type increased. This mainly reflected the fact that there were funds that targeted distressed properties that failed to arrange refinancing, or properties whose already extended loan maturities was arriving, and that there were some investors who could accept a certain level of risk. Meanwhile, since investors grew increasingly cautious about the selection of investment properties, the number of launches of Fixed Property Type funds, whose properties are disclosed to investors in advance, is believed to have risen.

With regard to the investment period, funds with periods of between one and three years accounted for 18%, falling from 35% in the July 2009 survey, while funds with periods of between three and five years rose to 59% from 29%. The funds with periods of five years or more that accounted for 36% in the July 2009 survey fell to 18% in the July 2011 survey. The percentage of funds with medium terms of between three and five years rose compared to the funds with short or long terms.

※Fig. 3〜5 show the data of newly launched funds in the first half of each year

Fig. 2: Fund Manager's Activity of Launching New Funds in the First Half of Each Year

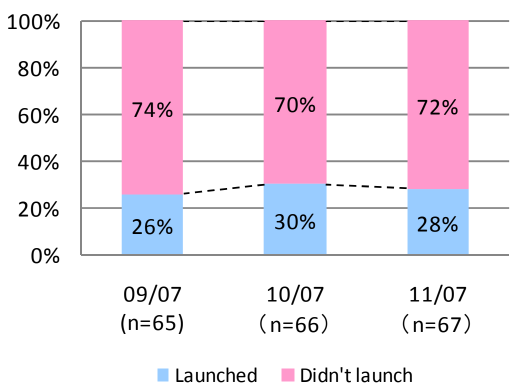


Fig.3: Type of Funds

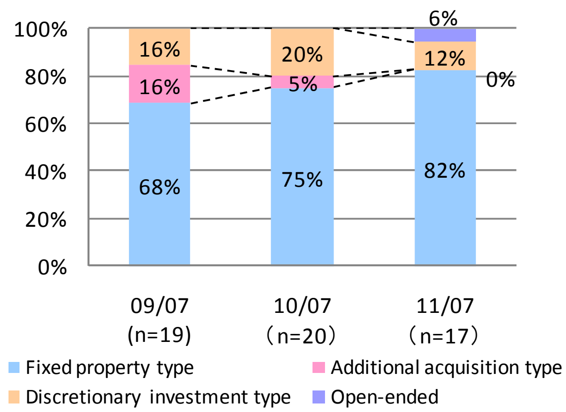


Fig. 4: Investment Style

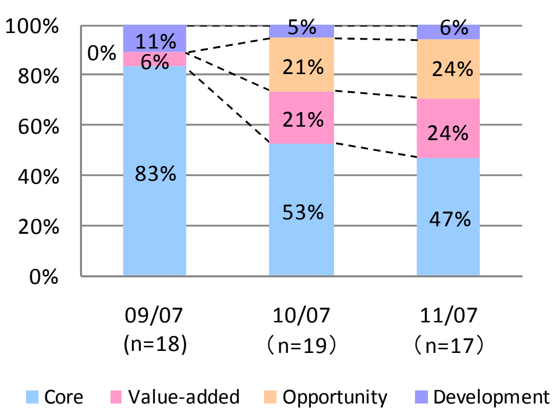
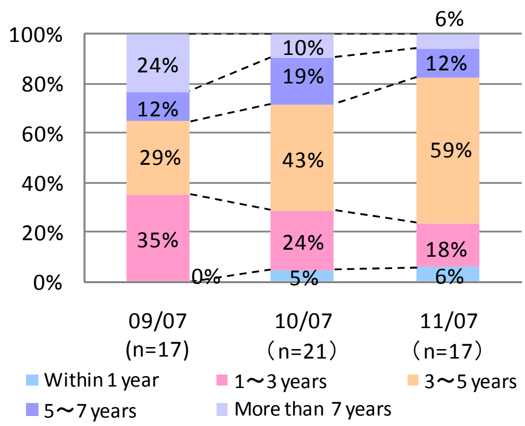


Fig. 5: Investment Period

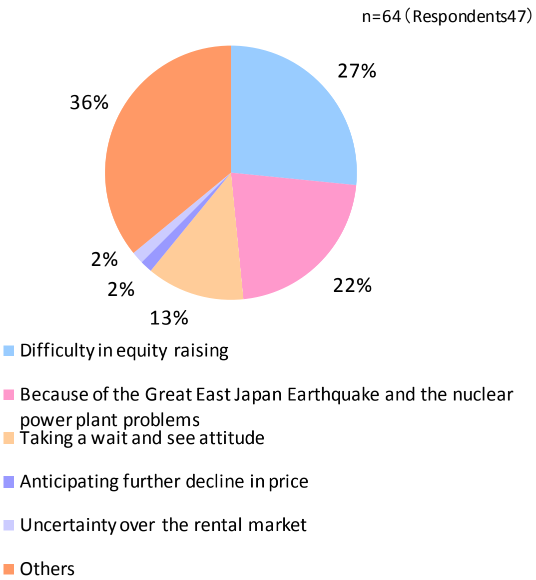


～Reasons for Not Having Launched Funds～

Seventy two percent of respondents answered that they did not launch any new funds during the period from January to June 2011 (Fig 2). Among the reasons for this was, “*Difficulty in equity raising*” which accounted for 27%, this remained unchanged from 26% in the July 2010 survey. The second main reason was “*Because of the Great East Japan Earthquake and the nuclear power plant problems*”, this accounted for 22%, which clearly indicated that the earthquake affected the launch of new funds.

Meanwhile, “*Taking a wait-and-see attitude*”, accounted for 13%, down from 20% in the July 2010 survey. “*Others*” stood at 36%. Among the respondents choosing “*Others*”, nine companies referred to the shortage of appropriate investment properties, including the situation in which properties that met investors’ needs were not available, while six companies said that they were in the period of preparing to launch new funds.

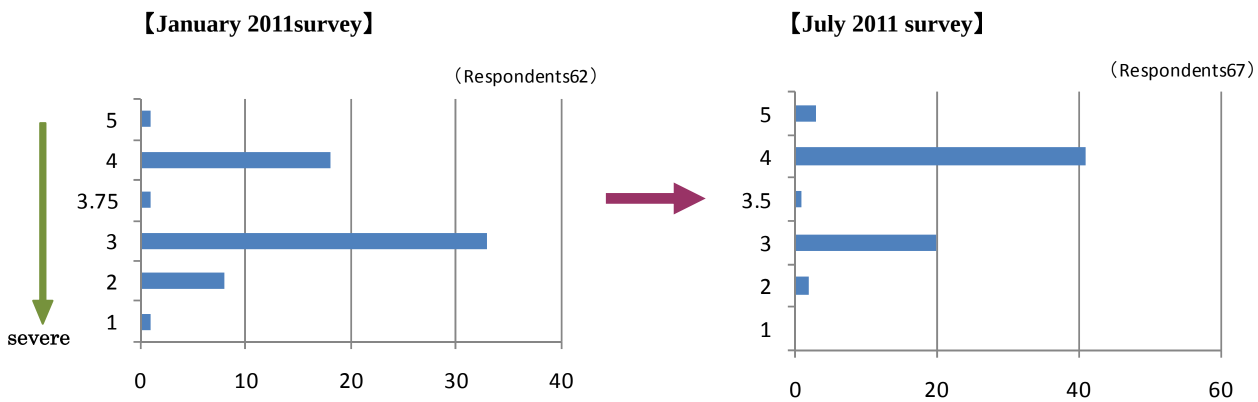
Fig. 6: Reasons for Not Having Launched Funds



3）Circumstances of Debt Finance

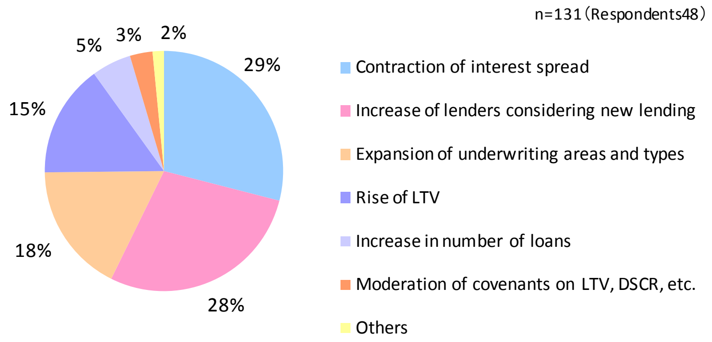
With respect to the circumstances of debt financing, respondents answered by choosing from 1 (most severe) to 5 (least severe). In the January 2011 survey (fig 7), level 3 accounted for 53%, but level 4 accounted for 61% in the July 2011 survey, expressing improved sentiment for the debt finance environment. The debt financing conditions rapidly deteriorated after the collapse of Lehman Brothers, but began to improve in the January 2010 survey, and continued to improve until the July 2011 survey. Reasons for choosing level 4 or level 5 included lenders taking a more active lending stance, a loosening of lending requirements, and even in some cases lenders competing with each other.

Fig. 7: Circumstances of Debt Finance



Responding to a question on how debt finance circumstances changed compared with the period between July and December 2010, 30% of the respondents stated "Unchanged" while the category of "*Slightly improved*" and "Improved" together accounted for 70%. Regarding specific improvement, of the 70% of respondents, 29% chose "*Contraction of interest spread*" followed by "*Increase of lenders considering new lending*" accounting for 28%, "*Expansion of underwriting areas and types*" accounted for 18%, and "*Rise of LTV*" accounted for 15%. These responses indicated that the debt finance environment had noticeably improved.

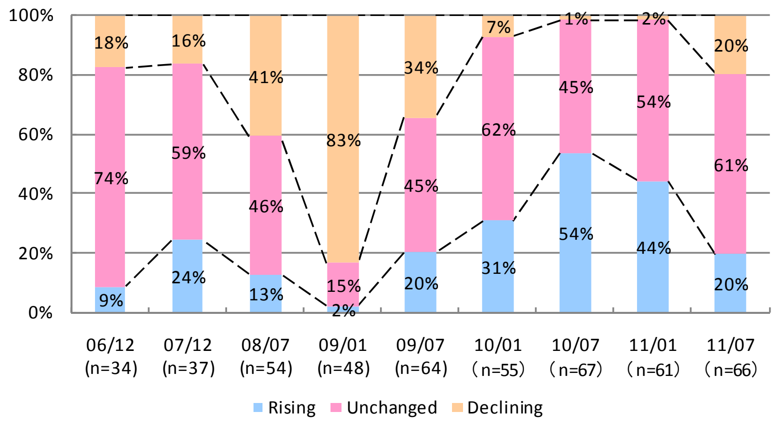
Fig. 8: Which Lending Conditions Improved?



4) Circumstances of Equity Raising
～Appetite of Equity Investors～

With respect to the Appetite of Equity Investors, 61% of respondents answered "*Unchanged*". Meanwhile "*Rising*" fell to 20% from 44% in the January 2011 survey, the share for "*Declining*" which accunted for only 1% and 2% in the July 2010 and January 2011 survey, increaased to 20%. The results of the latest survey showed that equity investors' appetite for investment that had been improving, has actually dramatically deteriorated. This apparently reflected the effects of the Great East Japan Earthquake and the nuclear power plant problems.

Fig. 9: Appetite of Equity Investors for Investment

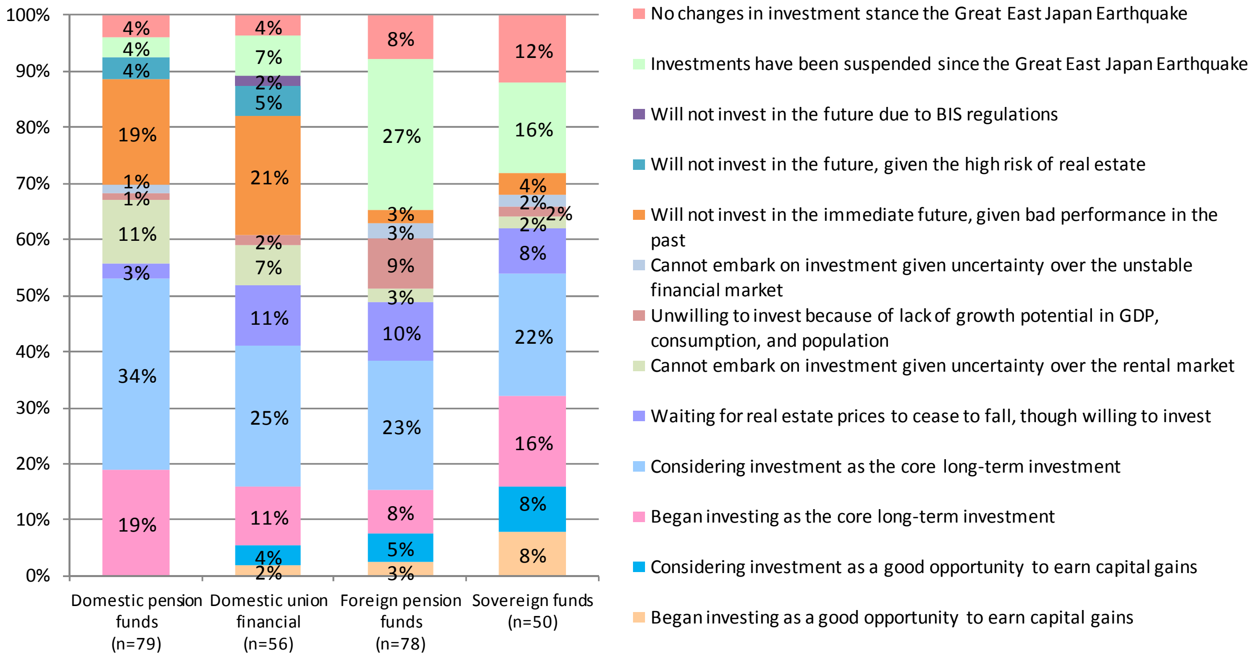


～Investment Attitude of Equity Investors (By Investors Category)～

The managers answered that among domestic investors, 34% of Domestic Pension Funds and 25% of Domestic Union Financial were "*Considering real estate investment as the core long-term investment*", while 19% and 21% of them believed that they "*Will not invest in the immediate future, given the bad performance in the past*". Therefore there were two distinct groups of investors, those who actually experienced losses in the past due to the fact that they began investing when real estate prices had risen to high levels, and those who were considering making investments in the future. Among foreign investors, Foreign Pension Funds and Sovereign Funds showed a positive attitude toward investments, with 23% and 22%, respectively, choosing the answer "*Considering investment as the core long-term investment*" However, 27% of Foreign Pension Funds and 16% of Sovereign Funds responded that they were "*Suspending investments since the Great East Japan Earthquake*" – an answer that was not so common among domestic investors. Among foreign investors, the managers answered that

Foreign Pension Funds and Sovereign Funds showed a positive attitude toward investments, with 23% and 22%, respectively, choosing the answer "*Considering investment as the core long-term investment*" However, 27% of Foreign Pension Funds and 16% of Sovereign Funds are believed to be "*Suspending investments since the Great East Japan Earthquake*" – an answer that was not so common among domestic investors.

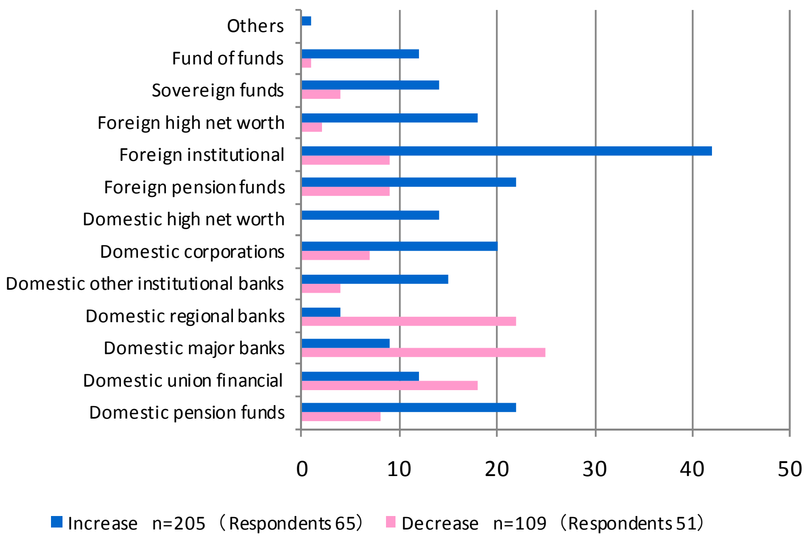
Fig. 10: Investment Attitude of Equity Investors



～Increases and Decreases in Investment Volume by Investor Category～

Of all the investor categories those surveyed said that they expected Foreign Institutional Investors (42 votes) would increase their investment volume, followed by Domestic Pension Funds and Foreign Pension Funds each with 22 votes, and Domestic Corporations with 20 votes. On the other hand, Domestic Major Banks and Regional Banks were expected to decrease their investment volume. These received 25 and 22 votes, respectively.

Fig.11: Increases and Decreases in Investment Volume by Investor Category

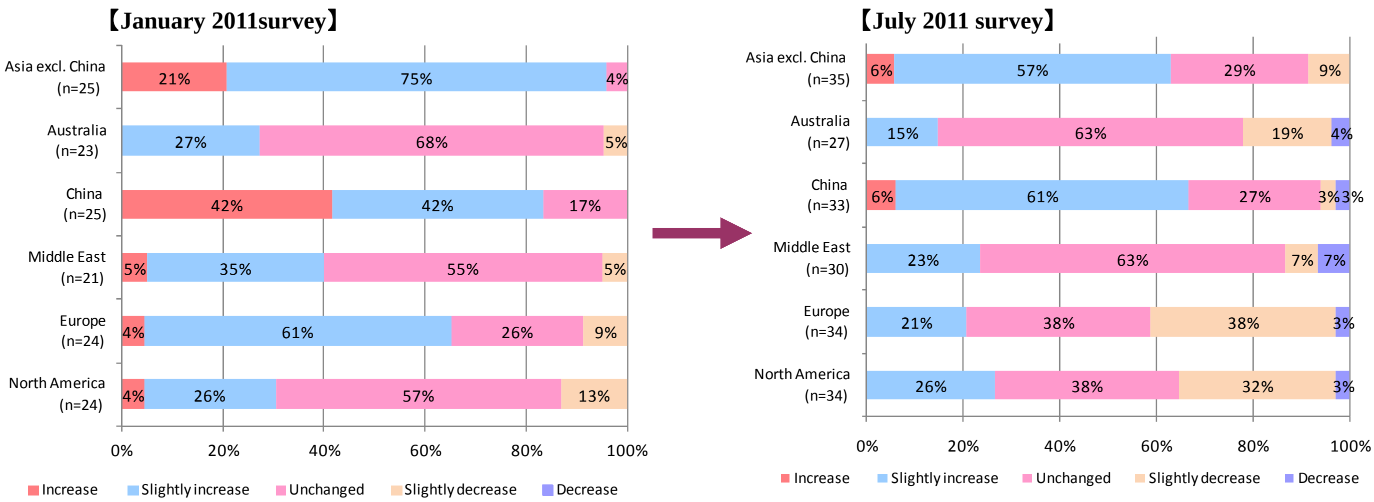


The results were almost the same as those in the January 2011 survey. A substantial number of fund managers believe that due to the BIS Capital Adequacy Requirements, domestic banks are reducing, and will continue to reduce investments. A significant number of managers also expected that foreign investors, Domestic Pension Funds and Domestic Corporations would play key roles in the future.

～Expectation of Cash Inflow from Investors by Region～

Managers' expectations of cash inflow from foreign investors slightly weakened in the July 2011 survey from the January 2011 survey. With respect to investments from investors in Europe and North America, the expectation of "*Slightly decrease*" rose to around 35% in the July 2011 survey from around 10% in the January 2011, representing managers' expectations of declining investments from western countries. For Australia, the expectation of "*Slightly increase*" decreased from 27% to 15%, while the sum of "*Slightly decrease*" and "*Decrease*" increased to 23% from 5%. As for Asia excluding China, the sum of "*Increase*" and "*Slightly increase*" accounted for 96% in the January 2011 survey, which decreased to 63% in the July 2011 survey. Meanwhile, the expectation of "*Increase*" from China declined, while "*Slightly increase*" increased. This indicated changes in managers' expectations that, although funds were expected to continue to flow in from China, the rate of the increase was contracting. Expectations about the Middle East did not change noticeably.

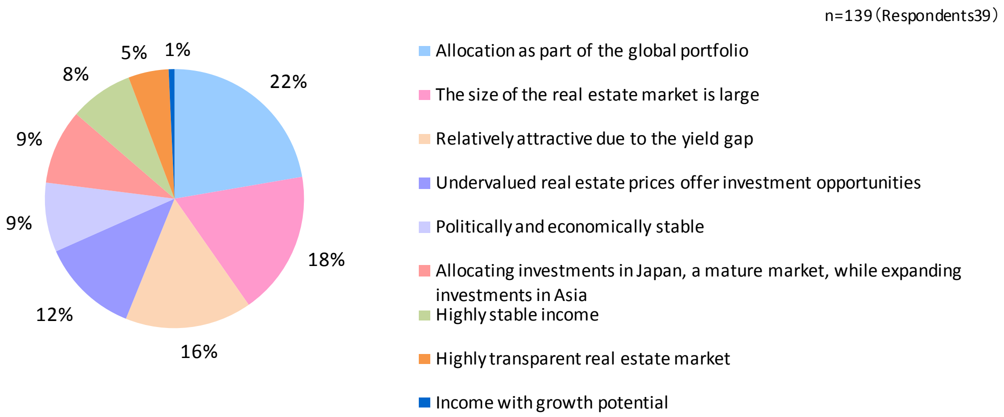
Fig.12: Expectation of Cash Inflow from Investors by Region



～Reason for Foreign Investors Moving into / Not Investing in the Japanese Real Estate Market～

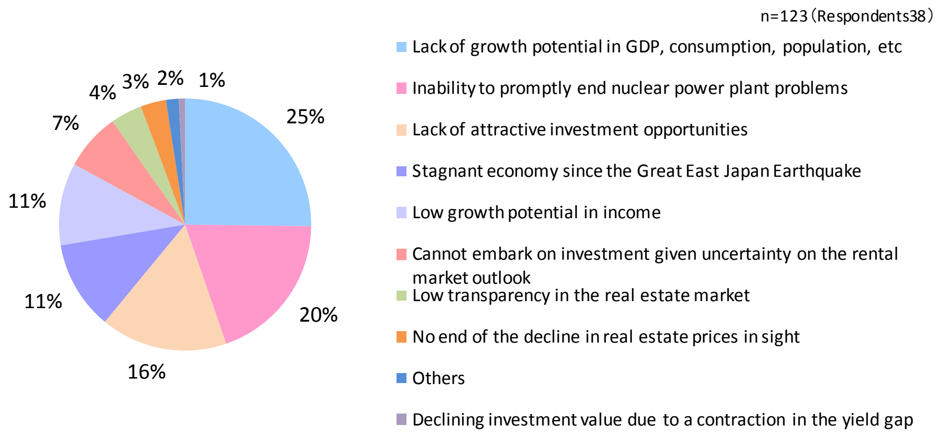
With regard to the reasons for investors moving into the Japanese real estate market, "*Allocation as part of the global portfolio*" accounted for 22%, this was followed by 18% for "*The size of the real estate market is large.*" and 16% for a "*Relatively attractive due to the yield gap*". The top two reasons were the same as those in the January 2011 survey.

Fig.13: Reason for Foreign Investors Moving into the Japanese Real Estate Market



Meanwhile, with respect to the reasons for investors not investing in Japan, 25% of respondents, the largest share, answered "*Lack of growth potential in GDP, consumption, population, etc.*". The next largest category, 20%, answered "*Inability to promptly end nuclear power plant problems*". It turned out that, at the time of the survey, there were many managers who believed that the nuclear power plant problems prevented foreign investors from making real estate investments in Japan.

Fig.14: Reasons for Foreign Investors Not Investing in the Japanese Real Estate Market



5) Circumstances for Acquisition and Disposition

With respect to the acquisition of properties, 40% of respondents, the largest category, answered that they sought acquisition opportunities but "*Did not agree on prices*", this was a slight decrease from the 46% in the January 2011 survey. Meanwhile, 37% of respondents answered that they "*Acquired*", this was an increase from the 25% in the January 2011 survey. Though circumstances for acquisition remained difficult, since the gap between expected acquisition and sales prices slightly narrowed, the number of concluded transactions was believed to have increased. Meanwhile, considering the fact that the volume of transactions in the J-REIT market temporarily dropped after the earthquake, the March 11 disaster appeared to have also affected acquisitions by privately placed funds. The large number of respondents that replied "*Acquired*" maybe due to a number of transactions that were concluded before the earthquake.

With respect to the disposition of properties, 48% of respondents answered "*Unchanged*", 33% of respondents answered that the circumstances had "*Improved*", and 8% answered "*More severe*". With the number of managers answering "*Unchanged*" exceeding that of "*Improved*" the results indicated that a number of managers believed that circumstances for sale did not improve further.

Fig.15: Circumstances for Acquisition

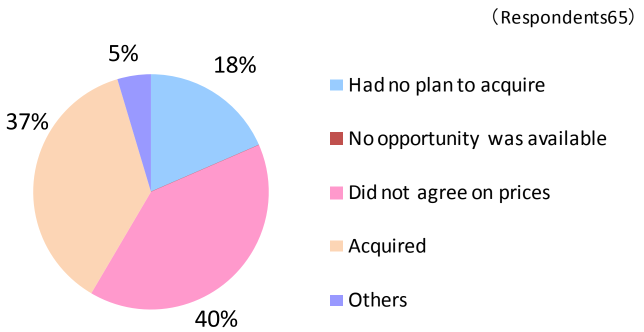
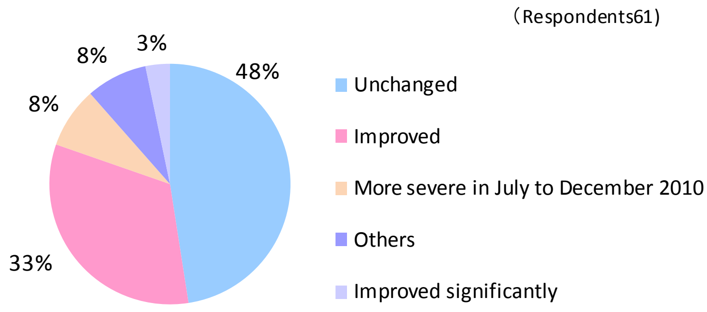


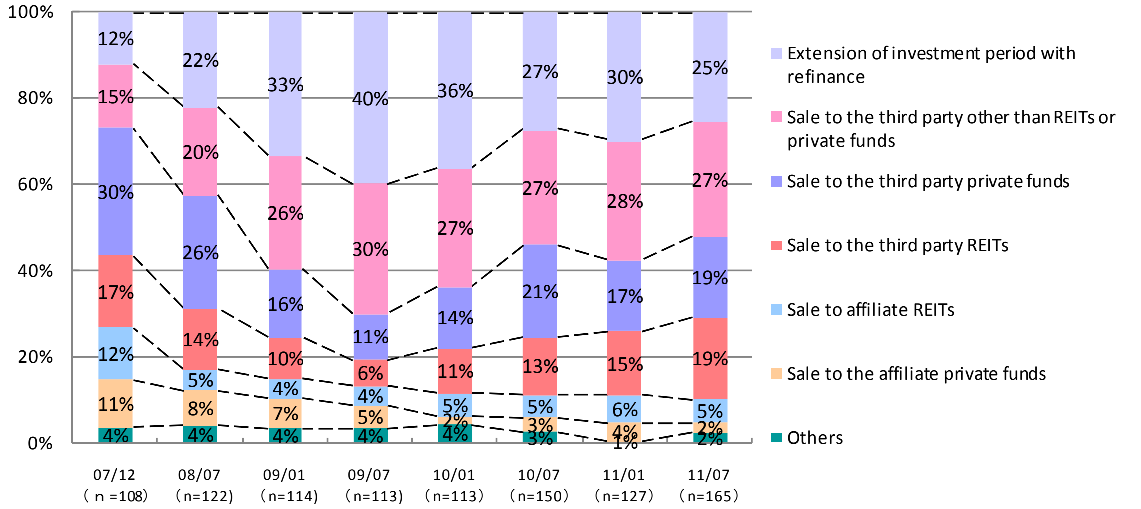
Fig. 16: Circumstances for Disposition



6) Change in Exit Strategies

With respect to the exit options probable over the next one year, the largest share of 27% chose "*Sale to the third party other than REITs or private funds*". The answer for "*Extension of investment period with refinance*" accounted for 25%, falling from 30% in the January 2011 survey. Meanwhile, "*Sale to the third party private funds*" and "*Sale to third party REITs*" accounted for 19% each, a slight increase from the January 2010 survey. These results showed that exit options other than refinance, such as "*Sale to general business companies*", "*Sale to the third party REITs*", and "*Sale to the third party private funds*", were expanding.

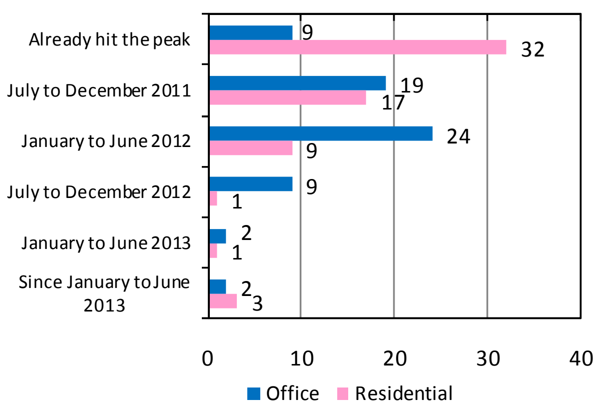
Fig. 17: Exit Options Probable Over the Next One Year



2. Outlook for the Market and Management

1) The Bottoming out of Rents

Fig. 18: The Bottoming out of Rents



A large number of managers believed that the bottoming-out timing of office rents would be within one year of July 2011, with 19 managers expecting it to be the period from "*July-December 2011*" and 24 managers expecting it to be the period from "*January-June 2012*" Considering that, in the January 2011 survey, 11 managers chose the period for bottoming out as "*January-June 2011*" and 26 managers expected it to be "*July-December 2011*" the latest survey showed that managers' expectation for the timing of bottoming out moved forward by six months. Regarding the bottoming-out of rents in the residential sector, 32, a majority of managers, expected that "*rents had already begun bottoming out in the first half of 2011,*" followed by 17 managers expecting it in the period of "*July-December 2011*" These results suggested that a majority of managers believed that rents had already bottomed out or that they would bottom out in 2011.

2) **Forecast for Real Estate Transactions in 2011**

With respect to the forecast for real estate transactions in 2011, the largest share, 35%, answered that transactions by private funds would "*Remain unchanged*", this was followed by 28% who opted for "*Slightly increase*",. For transactions by J-REITs, 32% of managers expected that transactions would "*Increase slightly*, ", 29% thought they would "*Begin rising*" and 26% said transactions would "*Continue to increase*". The survey showed that many managers expected that transactions by J-REITs would become active earlier than those by privately placed funds.

Fig.19: Transactions by Privately Placed Funds

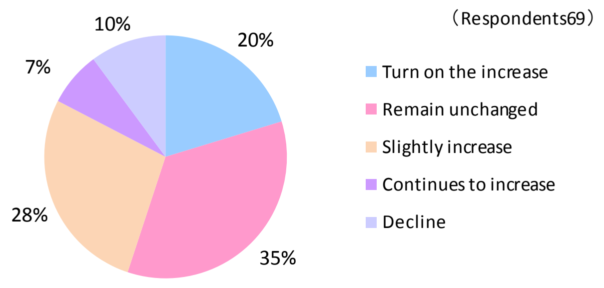
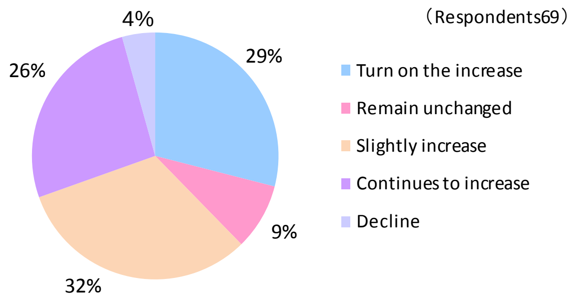


Fig.20: Transactions by J-REITs



3) **Investment Strategies of Managers**

~Target Sectors and Areas~

With respect to the target property sector for investment, the share of "*Office*" decreased, while those of "*Logistics*" and "*Hotel*" increased slightly from the January 2011 survey. This appears to have reflected the fact that certain investors reduced the share of their investments in offices since offices often attracted too many buyers, resulting in strong competition for acquiring them. The share of offices, however, still accounts for 33%, one-third of overall investments. In terms of area, the share of the "*Tokyo central 5 wards*" remained almost unchanged from the January 2011 survey. Meanwhile, the shares of "*Tokyo 23 wards*" and "T*okyo metropolitan area*" declined, but that of the "*Kinki area*," "*Nagoya area*" and "Others (mainly Fukuoka Prefecture)" increased. The results of the latest survey suggested that managers began to choose quality properties even in Tokyo and the Tokyo metropolitan area. It also appeared that trading activities were still limited and some investors began targeting properties in regional areas.

Fig. 21: Target Property Types

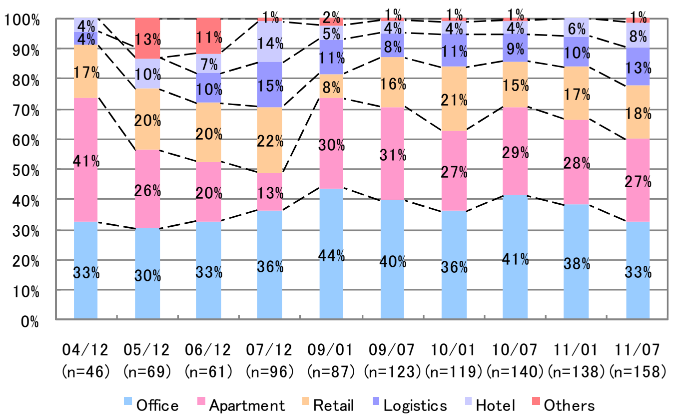
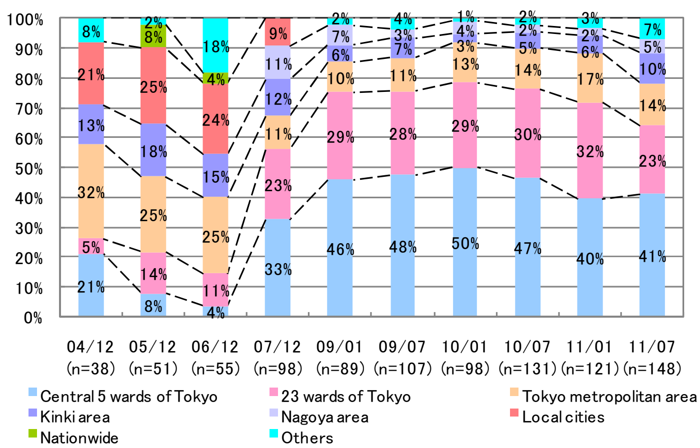


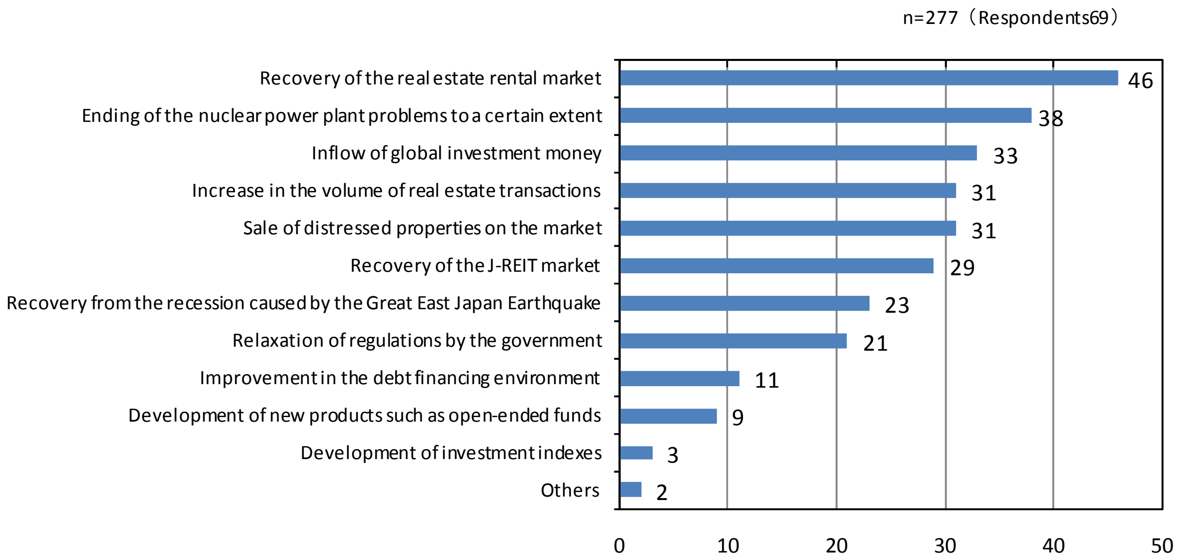
Fig. 22: Target Areas



4）Necessary Changes for Improvement of Privately Placed Real Estate Fund Market

With respect to changes necessary for the improvement of the privately placed funds market, the answer to "*Recovery of the real estate rental market*" was most commonly chosen among all surveys from July 2010 to July 2011. The number of managers answering to "*Inflow of global investment money*" has also increased since the July 2010 survey. However, in the July 2011 survey, the second most common answer was "*Ending of the nuclear power plant problems to a certain extent.*" A number of managers anticipate investments from foreign investors. The latest survey showed that the nuclear power plant problems that were discouraging such foreign investments need to end as soon as possible. Meanwhile, while the largest number of managers, 46, selected "*Improvement in the debt financing environment*" in the January 2010 survey, only 11 selected the same in the July 2011 survey. This suggested many managers thought that the debt financing environment had improved to such a level that it was no longer an issue needing to be addressed.

Fig.23: Necessary Changes for Improvement of Privately Placed Real Estate Fund Market



5）Effects of the Great East Japan Earthquake

With respect to the future effects of the Great East Japan Earthquake on the privately placed real estate funds business, 81% of managers answered that the impact was limited. In line with these results, 78% answered that there were no major changes with regards to the question of investment policies or investment judgment standards being revised after the earthquake.

As reasons for answering the "*Impact was limited*" and "*No particular impact,*" the largest number of managers selected "*Damage to buildings in the investment areas was limited,*" followed by "*Economic damage was temporary*" and "*Foreign investors have a strong investment appetite for real estate in Japan over the long term.*" Meanwhile, the survey showed some managers, albeit few, with concerns about a stagnant economic recovery in Japan and trends of foreign investors avoiding investment in Japan, which would have a serious impact on future business.

Fig.24: What was the Impact of the Great East Japan Earthquake?

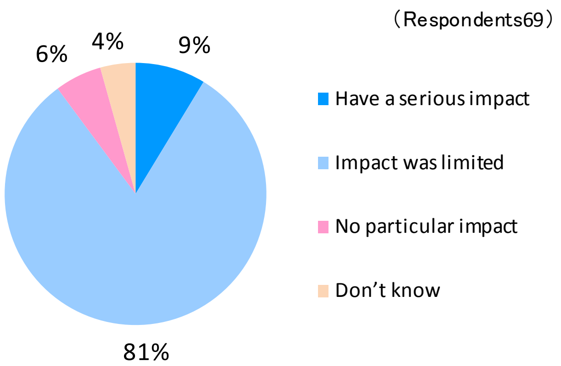


Fig.25: Which Property Types have had their Strategies Revised?

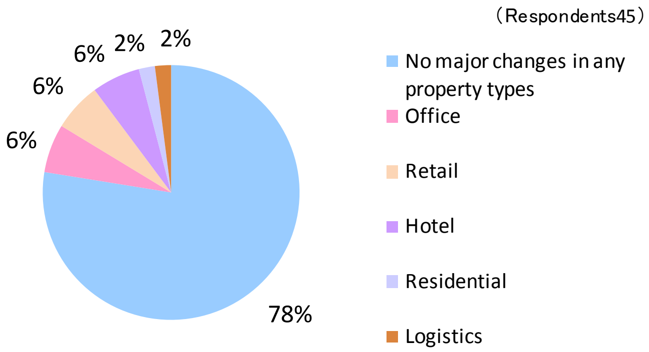
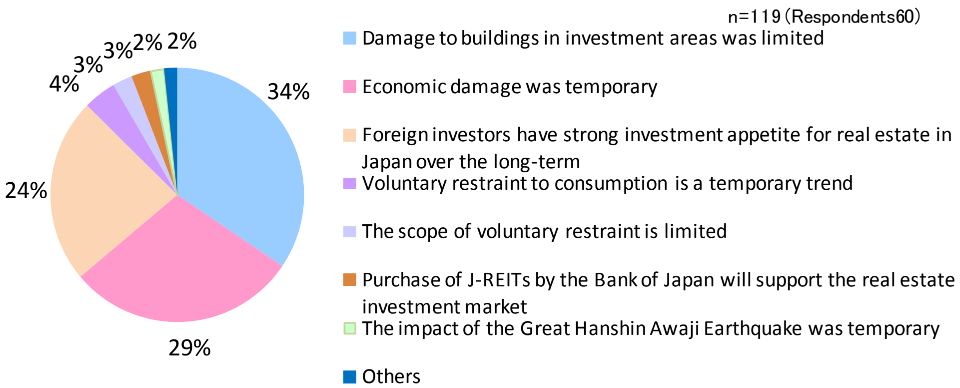


Fig.26: Reasons for "Impact was limited" and "No particular impact"



6) Fund Manager's Activity of Management Business Targeting Overseas Real Estate

With respect to the question of fund manager's activity of management businesses targeting overseas real estate, 61% of managers said that they had "*No plans now or in the future.*" On the other hand, in addition to 12% of managers who had already made overseas investments, 24% responded that they were "*Currently investigating.*" The number of managers engaged in overseas investments is likely to increase in the future. Among targeted countries, China received the largest votes, 22%, followed by Singapore, the United Kingdom and the United States.

Fig.27: Fund Manager's Activity of Management Business Targeting Overseas Real Estate

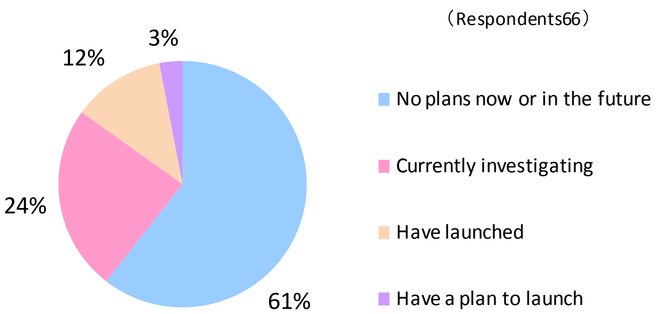
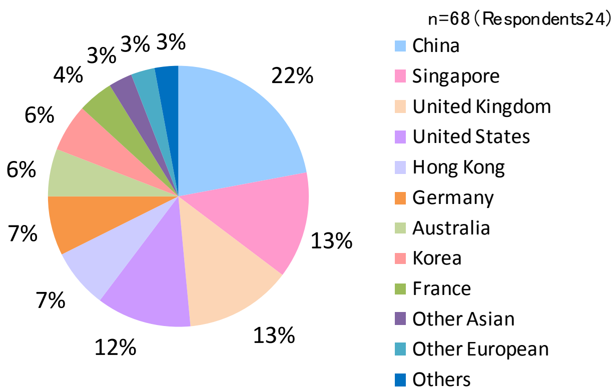


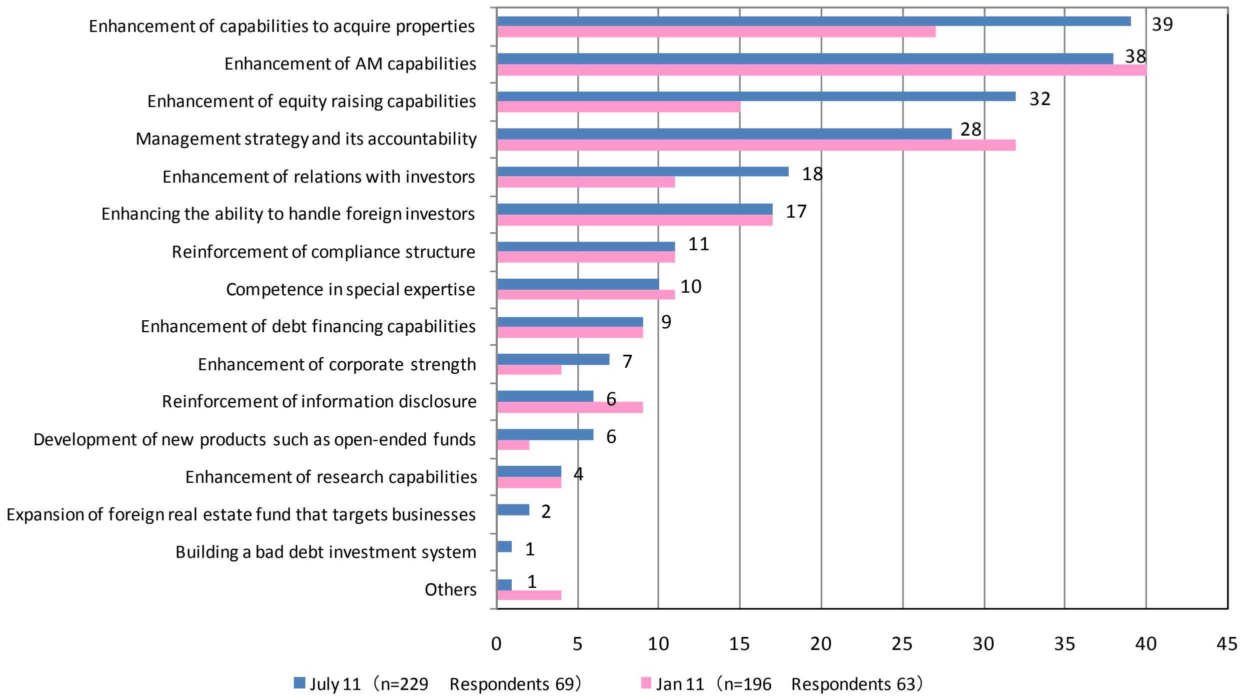
Fig.28: Target Countries



7) Managers' Requirements for Future Growth and Sustainability of their Businesses

The most frequent answer to the question about requirements for the future growth and sustainability of their business was "*Improving property-acquisition abilities,*" which rose in ranking from the January 2011 survey. The number of managers selecting "*Improving equity-raising abilities*" was more than double compared to the January 2011 survey. These results indicate increasing difficulties in acquiring investment grade properties and in equity-raising. Meanwhile, "*Improving asset management abilities*" and "*Management strategy and its accountability,*" which were ranked as the two most common items in the July 2010 and January 2011 survey, continued to attract a large number of managers in the latest survey.

Fig.29: Managers' Requirements for Future Growth and Sustainability of their Businesses



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 fund 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 flow of an investment equal to its current value of the investment.

Contact:

STB Research Institute Co., Ltd.

3F Kamiyacho Central Place. 4-3-13, Toranomon, Minato-ku, Tokyo

105-0001, Japan

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

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

Disclaimer:

1. Any materials provided by STB Research Institute Co., Ltd. (hereafter, "STBRI"), including this document, are for informational purposes only, and are not intended to invite, solicit, mediate, broker, or sale products including real estate and financial instruments, services, rights or other transactions. Please use your own judgment when making final determinations on securities selection, investment decisions or use of this document.
2. Although any materials provided by STBRI, including this document, are prepared based on information which STBRI considers reliable, STBRI cannot be held responsible for their accuracy or completeness. In addition, as this document was prepared based on the information available at the time of preparation or research, all contents provided herein represent the judgments at the time at which the material was prepared. The contents of this document are subject to change without prior notice.
3.
4. STBRI is not a real estate appraiser, nor provide clients with any appraisal reports on real estate properties. STBRI is a real estate investment advisor authorized by the related Japanese law and regulation, and conducts advisory services for investment judgments based on the values or value analyses of investment products. In the process of implementing advisory services, STBRI may calculate asset values of real estate properties. However, such calculations are for the necessity of implementing advisory services, and calculated values are not indicated with single values, but with multiple indications, ranges or distributions.