News Release

Survey on Privately Placed Real Estate Funds in Japan
July 2012– Results

August 27th 2012

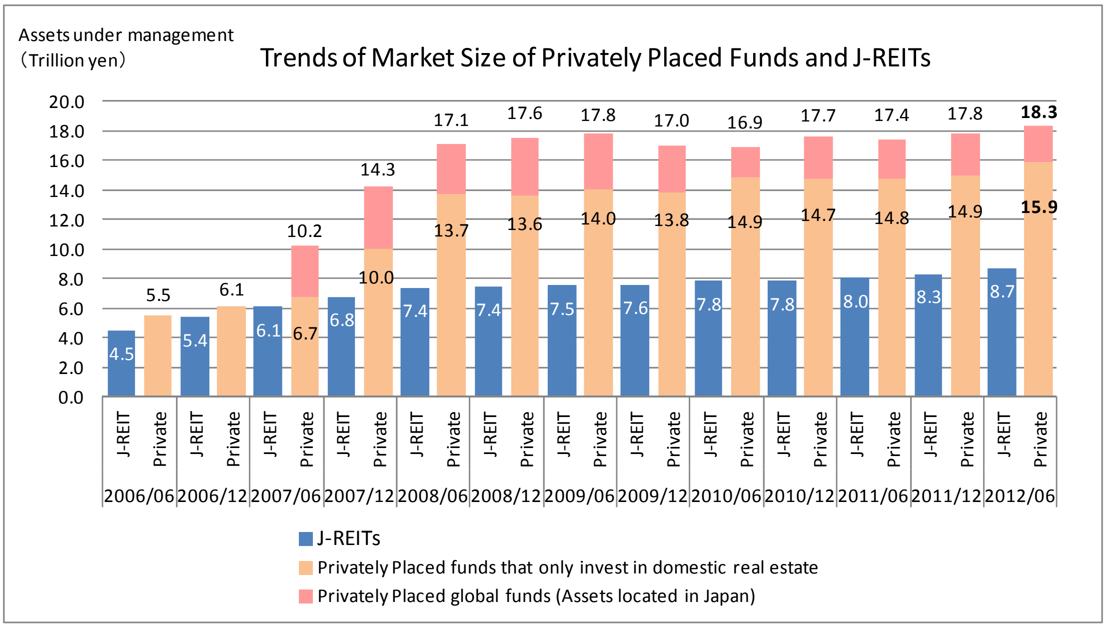
Sumitomo Mitsui Trust Research Institute Co., Ltd

- Starting in 2003, Sumitomo Mitsui Trust 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 14th survey based on responses to questionnaires received from 66 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: 135
  - Number of companies responded: 65 (ratio of valid responses: 48.9%)
  - Time of survey: July 2012
  - 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 June 2012 to be 18.3 trillion yen. This figure involves Japanese assets of global funds that we were already aware of. The market size as of the end of December 2011 was 17.8 trillion yen, which is an increase of approximately 540 billion yen (3.0%) over a six-month period from the previous January 2012 survey. In this survey, we have revised the past figures to reflect additional data obtained.

<The market size of privately placed real estate funds is 18.3 trillion yen, this includes Japanese assets of global funds>

- The Sumitomo Mitsui Trust 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 June 2012 the market size including Japanese assets of global funds（※）is estimated to be 18.3 trillion yen, which is an increase of approximately 540 billion yen (3.0%) over a six-month period from the 17.8 trillion as of the end of December 2011.
- In this survey some managers appeared to have decreased their assets under management by selling property and liquidating the funds. While some managers increased their assets by acquiring new properties in light of the improved conditions from six months ago for launching funds, including the gradual recovery in investment property transactions, favorable conditions for debt financing, and the increasing appetite of equity investors. As a result, there was an increase in the overall assets under management. Looking at the breakdown of these assets, the growth rate of funds that only invest in domestic real estate showed an increase at the end of June 2012 compared to the end of 2011 and this increase notably exceeded that of the increase in global funds .

（*） We define the “global fund” as a fund targeting real estate investments in various countries including Japan.



“ Survey on Privately Placed Real Estate Funds” July 2012 Survey Results

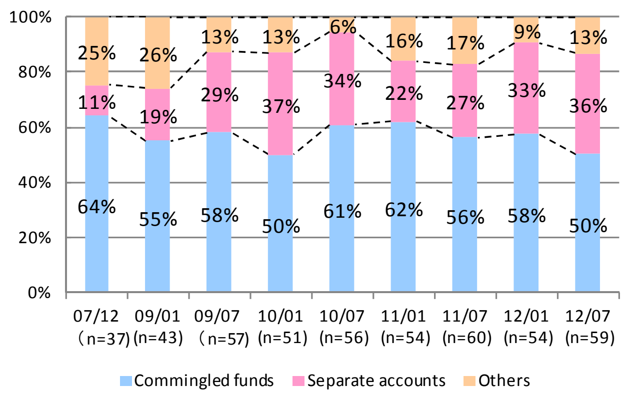
(Note) [n] shown in the charts throughout this document indicates the number of effective responses.

1. Current Status of Fund Management

1）Breakdown of Commingled Funds and Separate Accounts

This survey categorized privately placed funds into two categories, “commingled funds” that are managed for multiple investors, and “separate accounts” which are managed for single investors. AUM of the commingled funds, which is managed by the respondents, stood at 5,228.0 billion yen (50%), while separate accounts stood at 3,753.1 bilion yen (36%). The share of comingled funds decreased from 58% in the January 2012 Survey.

Fig.1 Breakdown of Commingled Funds and Separate Accounts



2）New Funds Launched From January to June 2012

～New Launch, Type, Style, and Period～

Out of a total of 63 respondents, 26 (41%) answered that they launched new funds during the period from January to June 2012, which was an increase from the 19 (28%) in the July 2011 survey. The reasons for the increase are considered to be the favorable environment for launching funds, including the improved financing environment, and to an extent, an increase in the appetite of real estate equity investors. The number of newly launched funds was 49, which was an increase from the 31 in the July 2011 survey.

Of the newly launched funds, the number of *“Fixed Property Type”* was 22, which was an increase from the 14 in the July 2011 survey. With regard to the investment style, the number of *“Core”* style funds was 18, which is a great increase from the 8 in the July 2011 survey. With regard to the investment period, the number of the funds with periods of between five and seven years was 6, and the number of funds with periods of seven years or more was 7. The percentage of funds with long terms of five years or more rose. It seems probable that the number of funds with stable returns over a long period actually increased in response to the needs of investors, especially investors in pension funds.

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

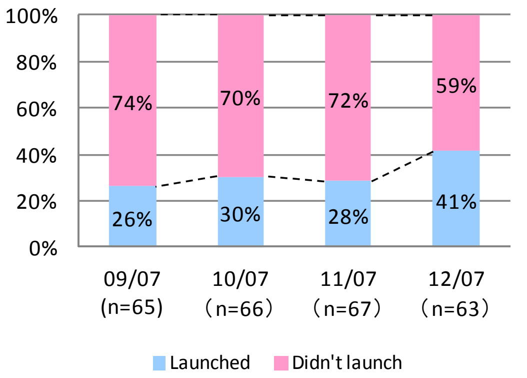


Fig.3: Type of Funds

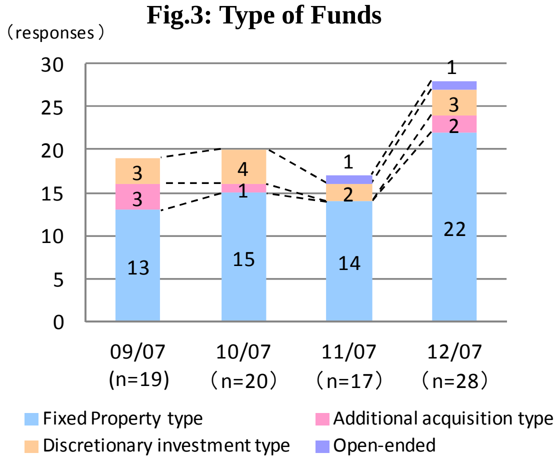


Fig. 4: Investment Style

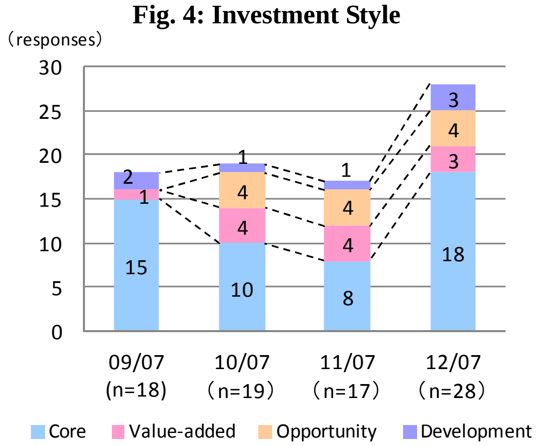
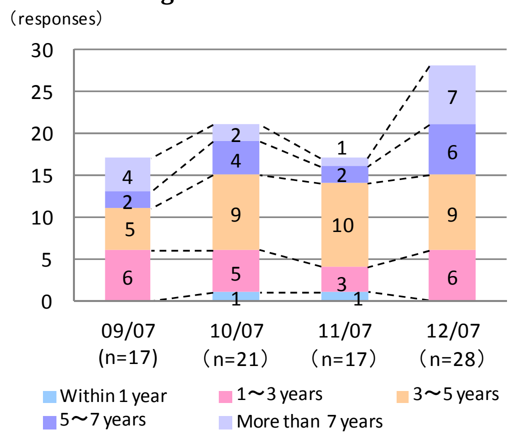


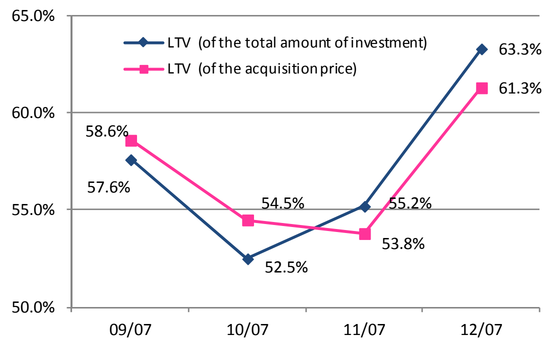
Fig. 5: Investment Period



〜LTV Ratio〜

The average LTV Ratio of funds launched from January to June 2012 was 63.3% of the total amount of investment, and 61.3% of the acquisition price, which rose 8.1% and 7.5% respectively from the July 2011 survey. One reason for the increase in the average LTV ratio is that the number of funds with an LTV ratio of around 70% increased given the favorable conditions in debt financing, as described below.

Fig.6：LTV Ratio

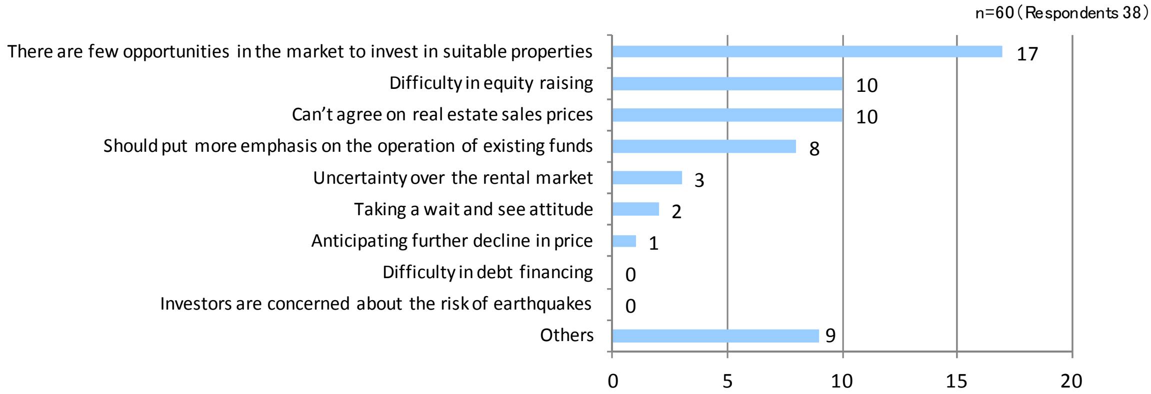


〜Reasons for Not Having Launched Funds〜

About 60 percent of respondents answered that they did not launch any new funds during the period from January to June 2012 (Fig 2). As the reasons for this, the most common answer was *"There are few opportunities in the market to invest in suitable properties"* with 17 respondents, followed by *"Difficulty in equity raising"*, *"Can't agree on real estate sales prices"*(10 respondents each).

Compared to the July 2011 survey, where the main reason was *"Difficulty in equity raising"* (17 respondents), indicates that the main factor preventing the launch of funds is the lack of opportunities in the market to invest in suitable properties, rather than difficulties in raising equity.

Fig.7：Reasons for Not Having Launched Funds

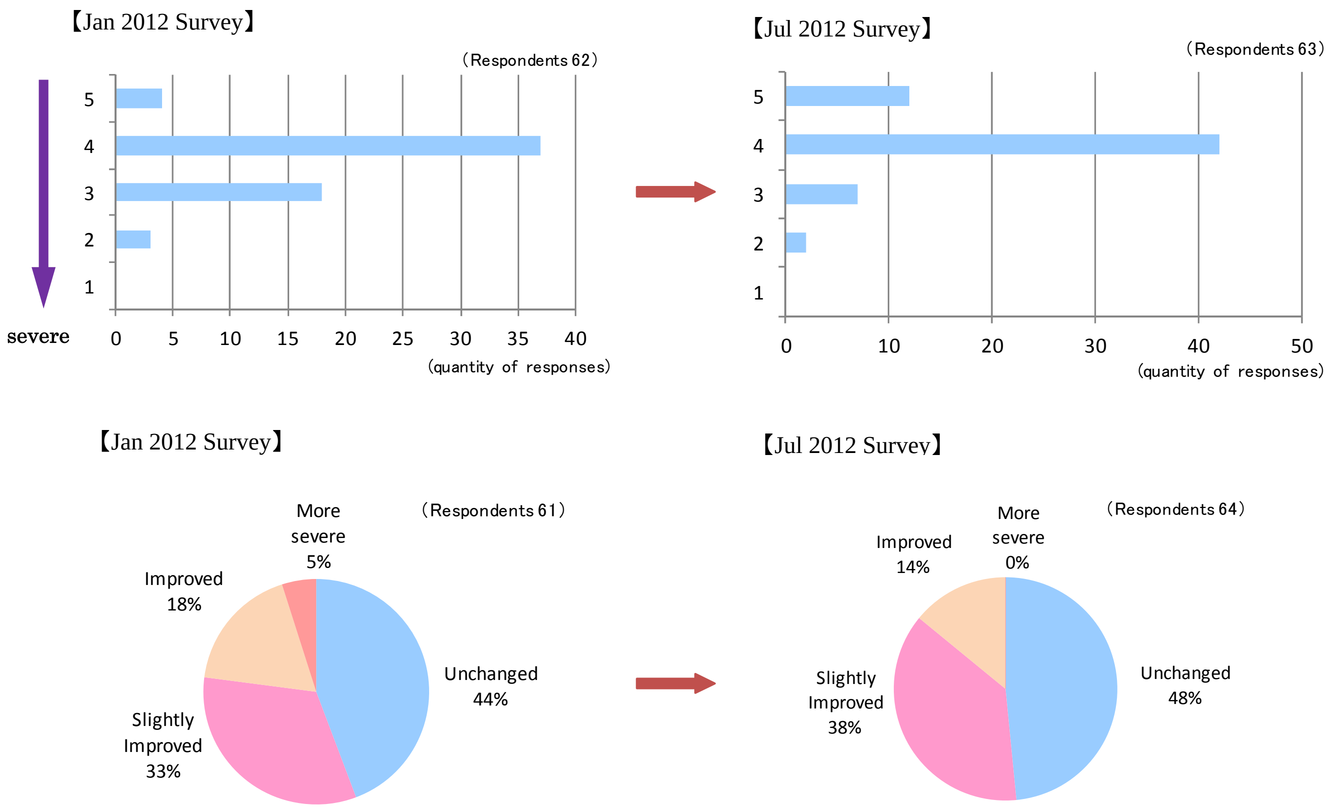


3）Circumstances of Debt Finance

Regarding debt financing, respondents answered by choosing from 1 (most severe) to 5 (least severe). The most frequent answer was "4" with 42 respondents, followed by "5" with 12 respondents. The respondents of "4" and "5" increased from the July 2011 survey, in which "4" had 37 respondents and "5" had 4 respondents.

Responding to a question on how debt finance circumstances changed between the January-June 2012 period and the July-December 2011 period, answers for *"Slightly improved"* and *"Improved"* together accounted for 52% of the total and no respondents chose *"More severe"*. This indicates a continuous improvement in debt financing. Regarding specific improvement, of the respondents who answered *"Slightly improved"* and *"Improved"*, 30% of them specified "*Contraction of interest spread*", followed by *"Expansion of underwriting areas and types"* which accounted for 24%, and "*Increase of lenders considering new lending*" which accounted for 20%. The answers indicate that due to the limited number of lending opportunities, there was more competition among lenders, which resulted in lower interest rates.

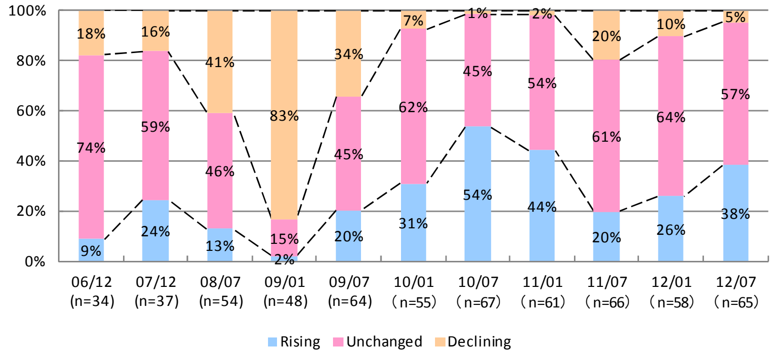
Fig.8 Circumstances of Debt Financing



4) Circumstances of Equity Raising

a. Appetite of Equity Investors

Fig.9 Appetite of Equity Investors

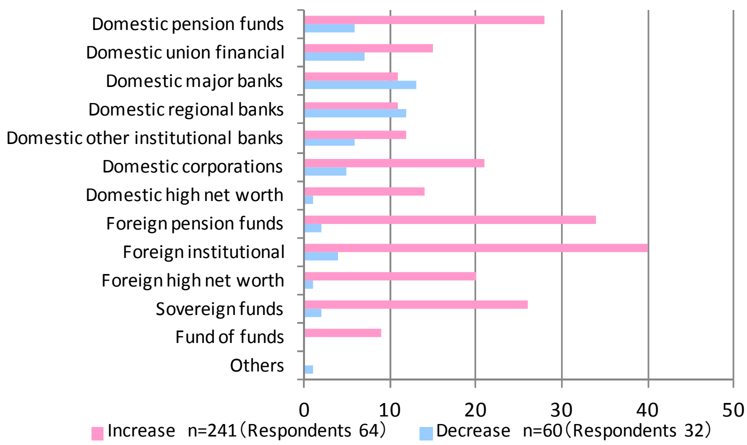


With respect to the appetite of equity investors, 57% of respondents answered *"Unchanged"*. Compared to the January 2012 survey, *"Rising"* increased from 26% to 38%, and *"Declining"* decreased from 10% to 5%.

The July 2011 survey, which was conductedsoon after the Great East Japan Earthquake, showed that partly because of the effects of the earthquake and the problems with the nuclear power plants, the investment appetite, which had been improving in the aftermath of the Lehman Brothers collapse, began to deteriorate. However, the July 2012 survey indicates that the upward trend shown in the January 2012 survey continued.

b. Increases and Decreases in Investment Volume by Investor Category

Fig.10 Expectation for Volume Change By Investor



Of all the investor categories, those surveyed said that they expected *"Foreign Institutional Investors"* (40 votes) would increase their investment volume, followed by *"Foreign Pension Funds"* (34 votes), and *"Domestic Pension Funds"* (28 votes). The three most common answers were the same as those reported in the January 2012 survey.

The ratios of domestic investors and overseas investors across all categories were 54% and 46%, while the ratios of domestic investors exceeded those of overseas investors. Compared to the January 2012 survey, in which the domestic-overseas ratio was 49% and 51%, this survey suggests that managers have been focusing more on domestic investors.

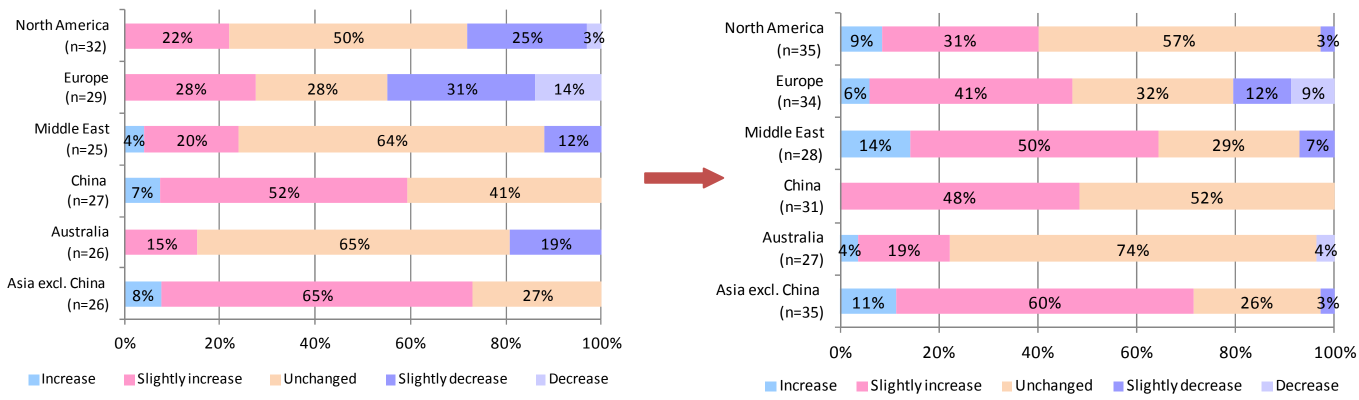
However, *"Domestic Major Banks"* and *"Domestic Regional Banks"* were expected to decrease their investment volume. These received 13 and 12 votes, respectively.

c. Expectation of Cash Inflow from Investors by Region

Managers' expectations of a cash inflow from foreign investors by region improved from the January 2012 survey in each region. Regarding the Middle East, the combined total of *"Increase"* and *"Slightly increase"* rose significantly to 64% from 24% in the January 2012 survey, also North America increased from 22% to 40%. With respect to inflows from investors in Europe, in the January 2012 survey, the combined total of *"Decrease"* and *"Slightly decrease"* accounted for 45%. However, in this survey, the combined total of *"Increase"* and *"Slightly increase"* accounted for 47%. Inflows from investors have clearly recovered since January 2012, when there were concerns about a decline in the appetite of equity investors due to the European debt crisis.

Fig.11 Expectation of Cash Inflow from Foreign Investors By Region

【Jan 2012 Survey】 【Jul 2012 Survey】



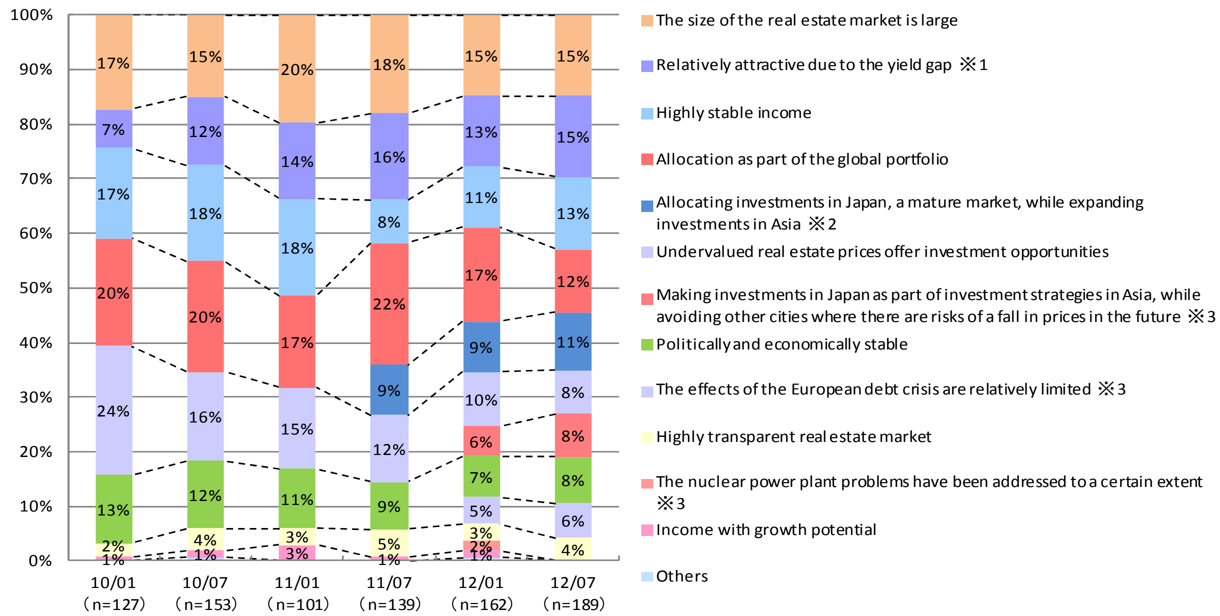
～Reasons for Foreign Investors investing or not Investing in the Japanese Real Estate Market～

As for the reasons for investors moving into the Japanese real estate market, the most comon responses were "*The size of the real estate market is large*" and "*Relatively attractive due to the yield gap*", followed by "*Highly stable income*". The share of "*Allocation as part of the global portfolio*", which was the most common response in the January 2012 survey, decreased slightly.

As for the reasons for investors not investing in Japan, the most common response was "*Lack of growth potential in GDP, consumption, population, etc.*", followed by "*Low growth potential in rental income*".

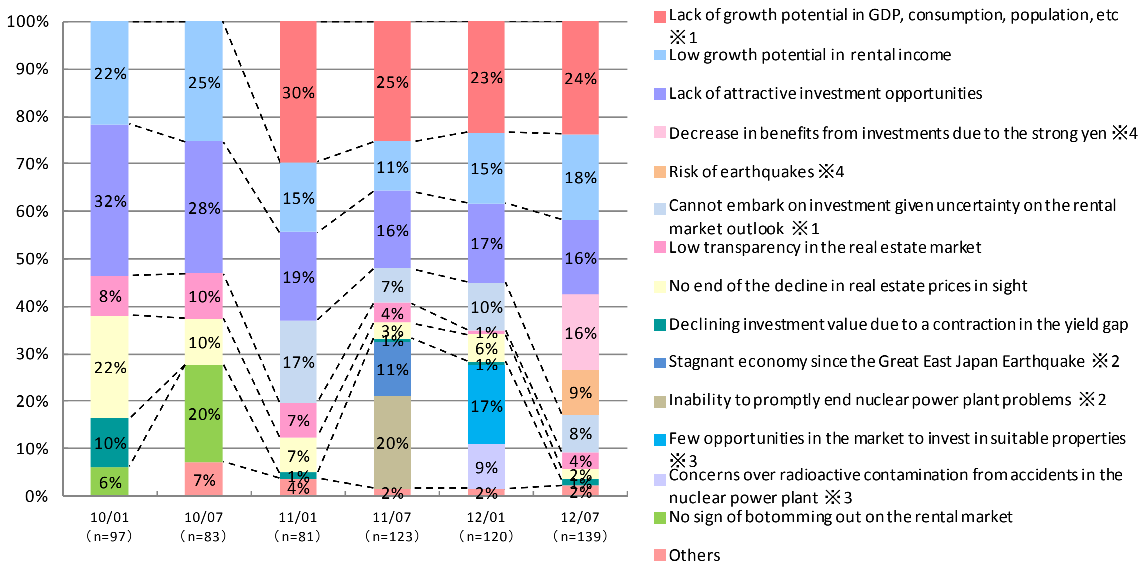
These results suggested that managers believed that some investors appreciated the large size of the real estate market and the highly stable income, while other investors did not invest because of the low growth potential as a nation and the relatively small rental increase.

Fig.12 Reasons for foreign investors investing in Japan



※1:Since the 2010/07 survey this has been changed from "Yield gap due to low-interest rate" in the 2010/01 survey
※2:This category has been included since the July 2011 Survey.
※3:This category has been included since the January 2012 survey.

Fig.13: Reasons for Foreign Investors Not Investing in the Japanese Real Estate Market



※1: This category has been included since the January 2011 survey.
※2: This category included only in the July 2011 survey
※3: This category included only in the January 2012 survey
※4: This category has been included since the July 2012 survey.

5) Circumstances for Acquisition and Disposition of Properties

With respect to the acquisition of properties, in this survey the most common response (42% of respondents) was "*Acquired*". In the January 2012 survey, the most common response (43%) was "*Sought acquisition opportunities but did not agree on prices*", suggesting that the circumstances for acquisition have been improving.

With respect to the disposition of properties, the most common response (44% of respondents) was "*The severe status remains unchanged*", Meanwhile, "*Improved*"(42%) and "*Improved significantly* "(7%) together accounted for 49%, indicating that about half of the respondents see signs of improvement.

Fig.14 Circumstances for Acquisition

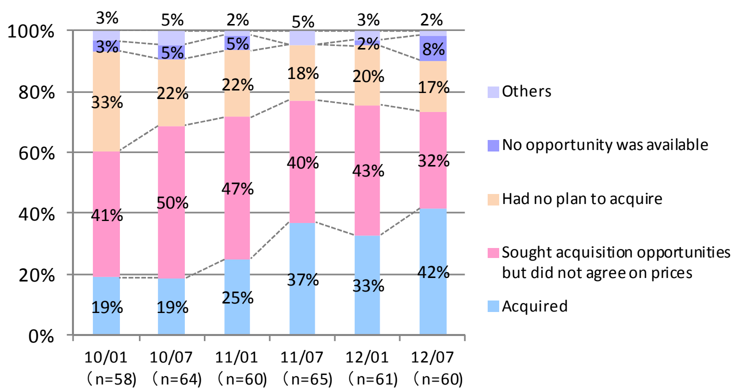
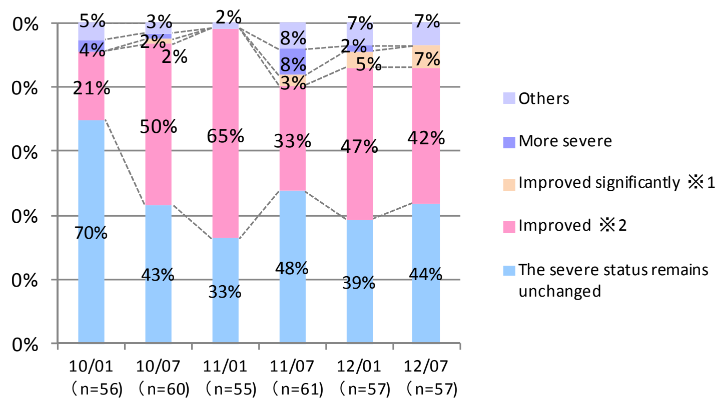


Fig.15 Circumstances for Disposition



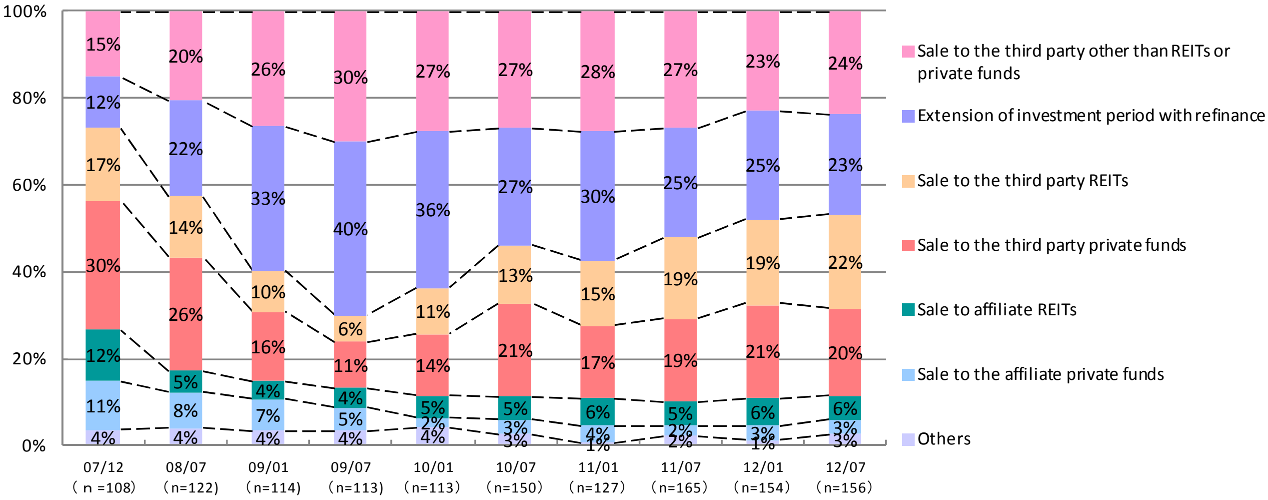
※1: This category was not included in the January 2010 survey and the January 2011 survey.
※2: This category in the Jan 2010 survey, the Jan 2011 survey, and the Jan 2012 survey was "Slightly improved"

6) Exit Strategies

With respect to the exit options available over the next one year, the largest share of 24% chose "*Sale to the third party other than REITs or private funds*". The second largest share (23% of respondents) was "*Extension of investment period with refinance*", the latter has been on a declining trend since the January 2011 survey. Meanwhile, "*Sale to third party REITs*" accounted for 22%, continuing a steady rise from 6% in the July 2009 survey.

These results showed that, in light of the ongoing improvement in the appetite of REITs and private funds to acquire properties, as shown below, the exit strategies of funds appear to have been gradually shifting from "*Extending the investment period with refinancing.*" and "*Sale to general business companies*", to "*Sale to third-party REITs*" and "*Sale to third-party private funds*".

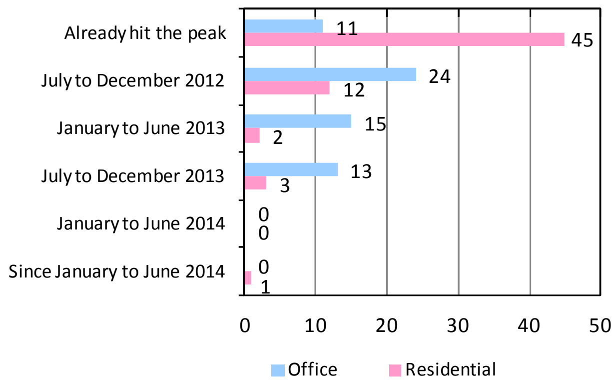
Fig.16 Exit Options Available Over the Next One Year



2. Outlook for the Market

1) The Bottoming out of Rents

Fig. 17: The Bottoming out of Rents



With respect to the bottom-out timing of office rents, the largest number of managers answered it would be hit from "*July-December 2012*". With that in mind, in the January 2012 survey, the largest number of managers answered it would be hit from "*July-December 2012*". This indicated that many managers have not changed their expectation that the timing of the bottoming out of office rents would be in 2012.

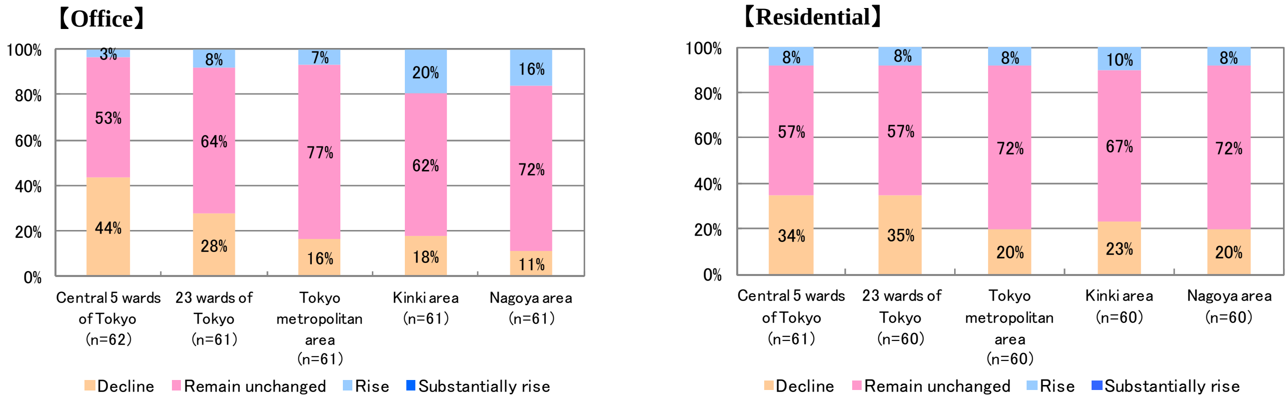
Regarding the bottoming-out of rents in the residential sector, 45 respondents expected that "*rents had already hit the peak*", suggesting that a majority of managers believed that residential rents had already bottomed out.

2) Cap Rates Forecast by Area

The majority of managers answered that the office cap rate would "*Remain unchanged*". However, for the central 5 wards of Tokyo, the 23 wards of Tokyo and the Tokyo metropolitan area, the share of "*Decline*" exceeded that of "*Rise*", indicating that a majority of managers believed that the office cap rate decline is well underway in Tokyo, Kanagawa, Saitama, and Chiba.

The majority of managers answered that the residential cap rate would "*Remain unchanged*". Meanwhile, the share of "*Decline*" exceeded the sum of "*Rise*" and "*Substantially rise*". This shows that a certain amount of managers believed that the residential cap rate would decline not only in Tokyo but also in local regions.

Fig. 18：Forecast for Cap Rates by Area



3)Environment and Forecast for Real Estate Transactions

Responding to a question on how the transaction environment in the January to June 2012 period changed compared with the July to December 2011 period, the largest share of 42% chose "*Slightly increase*", and the sum of "*Slightly Increase*" and "*Increase significantly*" accounted for 50%, suggesting that half of the respondents have experienced an increase in real estate transactions.

For transactions by J-REITs, the combined total of "*Slightly Increase*" and "*Increase significantly*" accounted for 75%, meanwhile, transactions by privately placed funds accounted for 61%. No respondents answered that the transactions by J-REITs would "*Slightly decrease*" and "*Decrease significantly*". This showed that many managers expected that transactions by J-REITs would expand earlier and those by privately placed funds would also increase at a later date in the footsteps of the J-REITs.

Fig.19: Real Estate Transactions (July-Dec 2011 to Jan-Jun 2012)

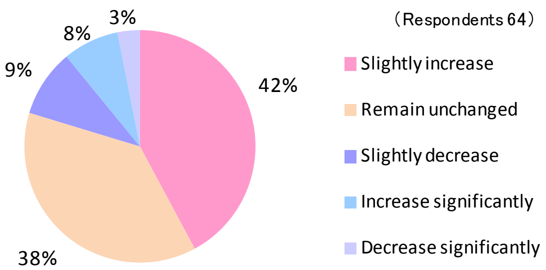
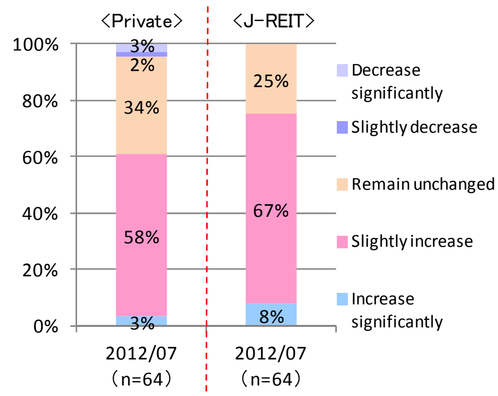


Fig.20: Forecast for Transactions by privately placed funds and J-REITs



3. Business Environment of Private Real Estate Investment Management

1）Managers' Involvement with Open-ended Funds

With respect to the involvement with open-ended funds, the largest share, with 46% of respondents, answered that they "*Seek to develop a better understanding and gather information, but not working on a detailed study*". Meanwhile, "*Decided not to launch after consideration, but may consider again in the future*" (13%), "*Preparing for a launch after consideration*" (11%) and "*Have already launched*" (11%) accounted for 35% in total, suggesting that a certain amount of managers have an interest in the open-ended funds.

As for the target investors of open-ended funds, the largest number of managers chose "*Domestic Pension Funds*", suggesting that currently a majority of managers target domestic investors including domestic pension funds.

Fig.21 Managers' involvement with Open-ended Funds

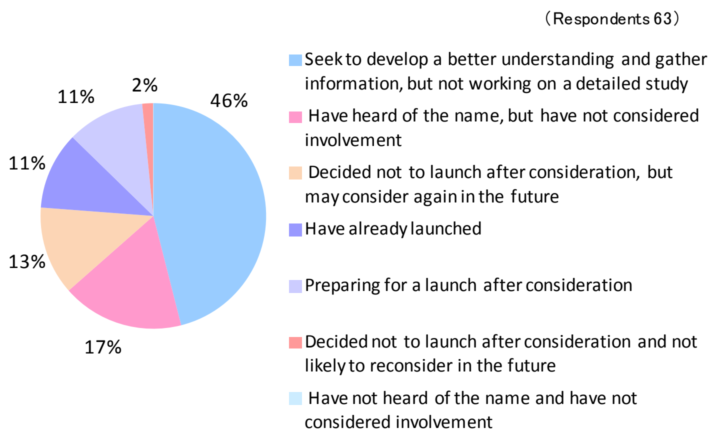
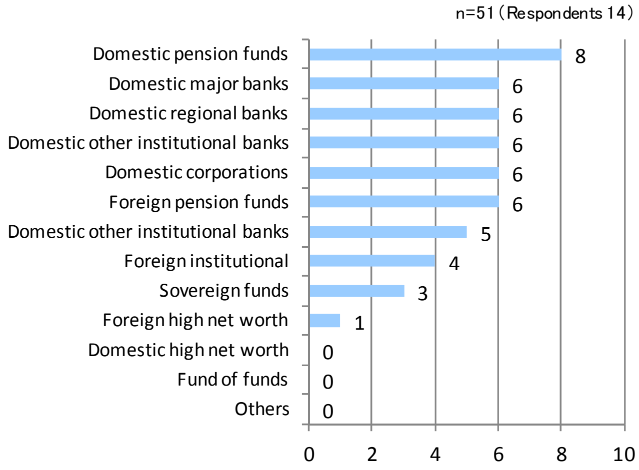


Fig.22 Target Investors of Open-ended Funds

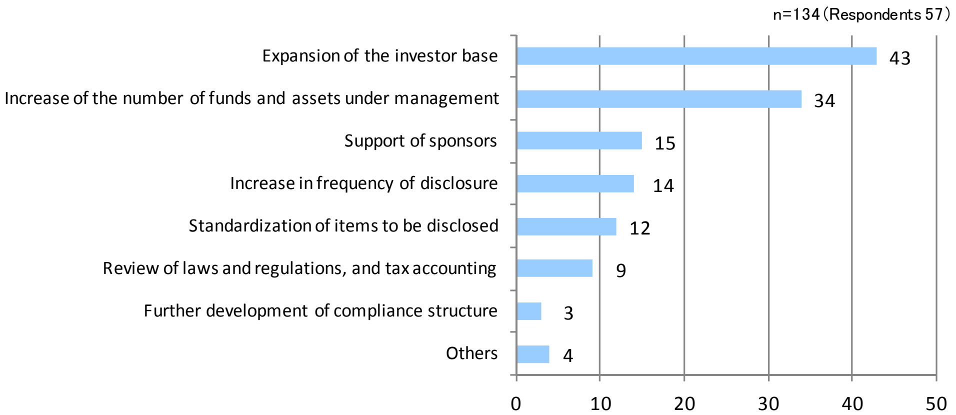


With respect to the factors necessary for the expansion of the open-ended funds market, the largest number, 43 respondents, answered *"Expansion of the investor base."* The main investors are domestic institutional investors, including pension funds in the present circumstances. However, a majority of managers consider that raising funds from a wide range of investors is necessary for the market expansion..

Meanwhile, a certain amount of managers chose *"Increase in frequency of disclosure"* and *"Standardization of items to be disclosed"*. These responses showed that not an insignificant number of managers consider disclosure to be an important factor as well as publicly traded J-REITs.

As many as 15 respondents answered *"Support of sponsors"* which suggests that managers believe that some investors pay attention to the sponsor support systems associated with the acquisition and sale of properties, including "pipeline support" agreements, and other investors feel that the creditworthiness of sponsors affects a fund' financing.

Fig.23: Factors Necessary for the Expansion of the Open-ended Funds Market



2) Managers' Involvement in the Overseas Real Estate Management Business

With respect to the question of fund managers' involvement in the overseas real estate management business, 55% of managers said that they had "*No plans now or in the future*", which increased from 42% in the January 2012 survey. As for the reasons for not engaging in the overseas real estate management business, the most common answer was *"Inadequate internal systems and investment management systems"* (59%), followed by *"Will focus on investments in Japan"* (38%). The survey showed that many managers focus on the domestic real estate management business at present.

Fig.24: Managers' Involvement with the Overseas Real Estate Management Business

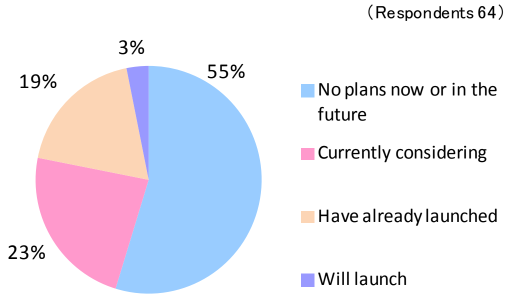
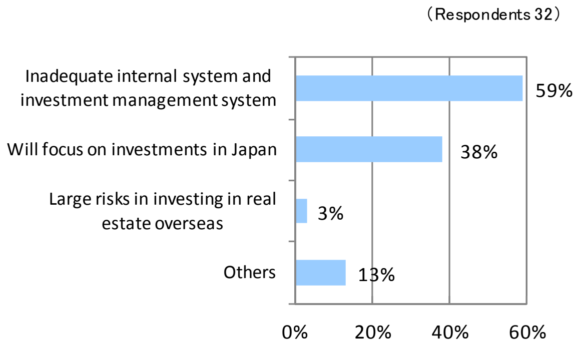


Fig.25: Reasons for Not Doing the Overseas Real Estate Management Business

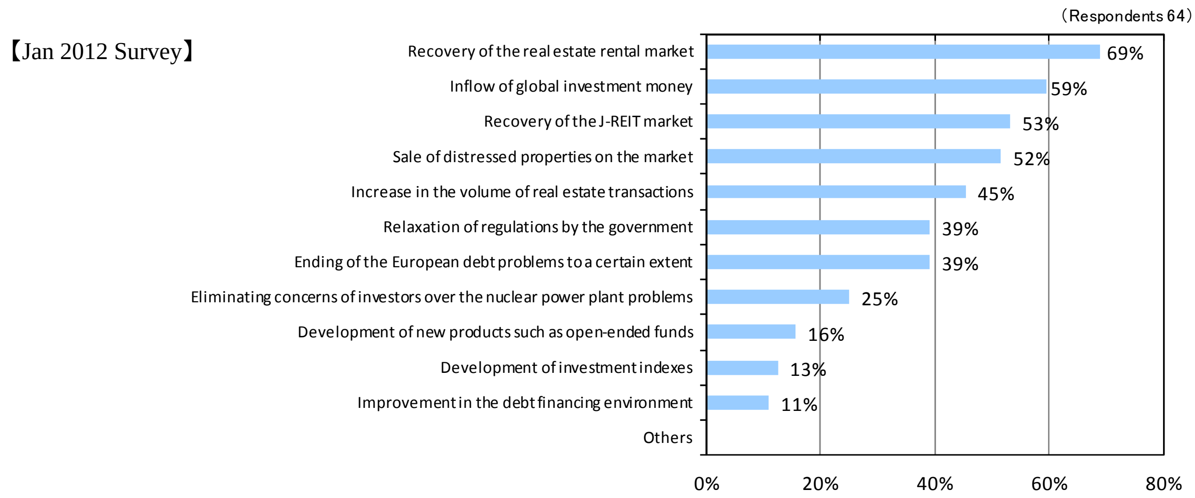


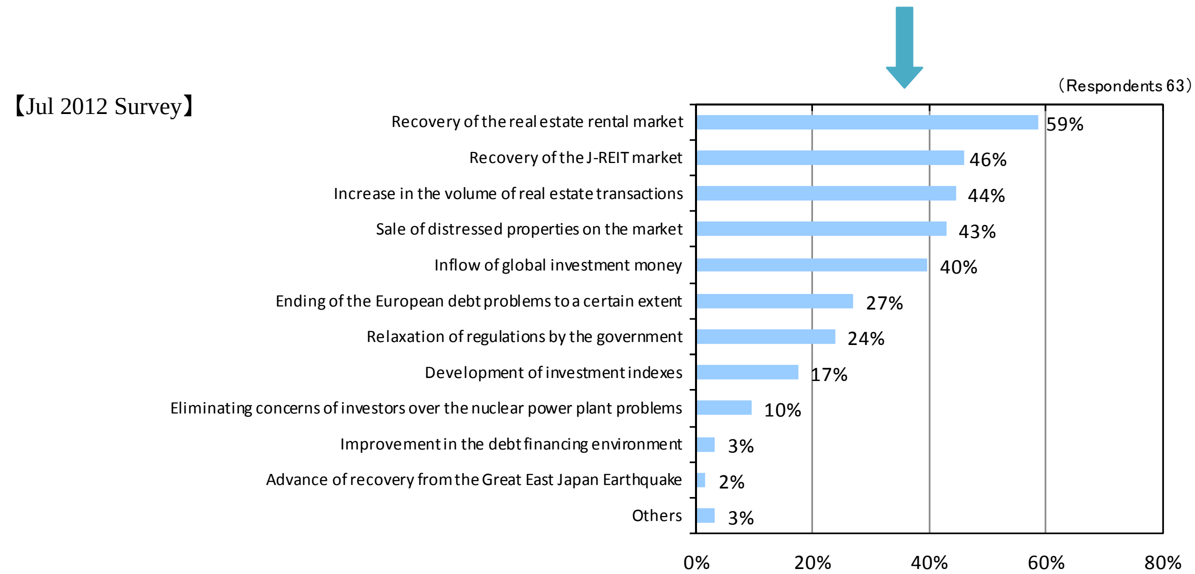
3) Important Factors for Improvement in the Privately Placed Real Estate Funds Market

With respect to important factors necessary for the recovery of the privately placed real estate funds market, the most common answer was *"Recovery of the real estate rental market"*, followed by *"Recovery of the J-REIT market"*, and *"Increase in the volume of real estate transactions"*. The share of responses for "Inflow of global investment money", which was the second-largest share (59%) in the January 2012 survey, decreased to 40%.

There are many managers who think that for improvement in the privately placed real estate funds market, a recovery in the domestic real estate rental market is of more importance than the inflow of global investment money.

Fig.26: Important Factors for Improvement in the Privately Placed Real Estate Funds Market





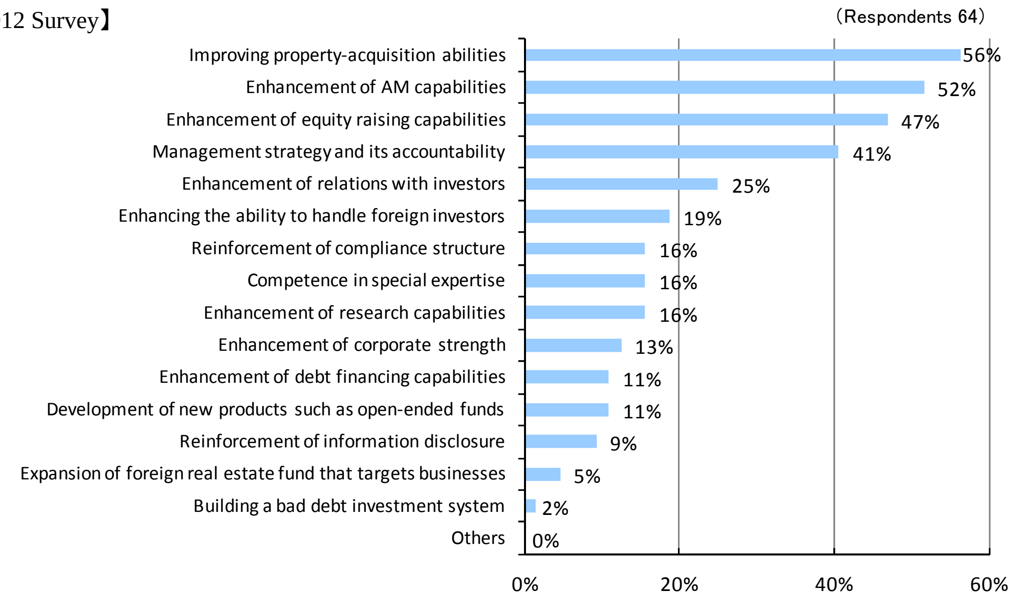
4) Managers' Requirements for Future Growth and Sustainability of their Businesses

The most common answer to the question regarding requirements for the future growth and sustainability of their businesses was "*Improving property-acquisition abilities*", followed by *"Enhancement of AM capabilities"* and *"Enhancement of equity raising capabilities"*. The six most common answers were the same as those reported in the January 2012 survey.

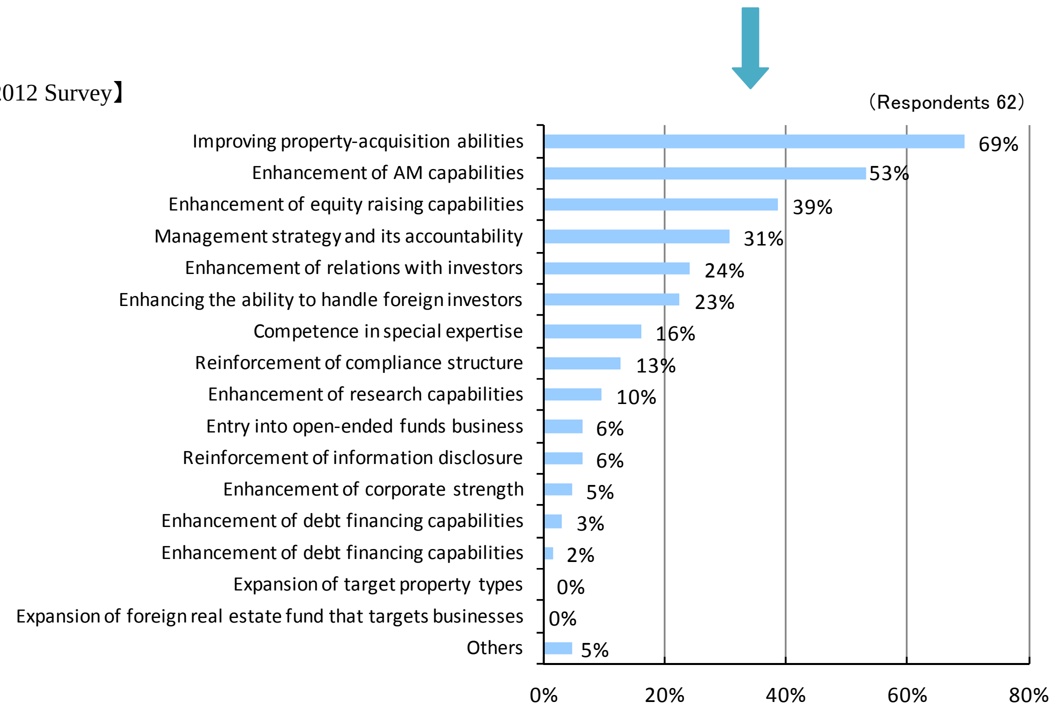
The share of managers who chose "*Improving property-acquisition abilities*" increased to 69% from 56% in the January 2012 survey. In the July 2012 survey, it has become apparent that both investors' appetite and the transaction situation has improved and as a result many managers are now looking at the acquisition availability of desirable properties for launching new funds.

Fig.27: Manager's Requirements for Future Growth and Sustainability of their Businesses

【Jan 2012 Survey】



【Jul 2012 Survey】



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.

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