News Release

Survey on Privately Placed Real Estate Funds in Japan

January 2013- Results

March 4th 2013

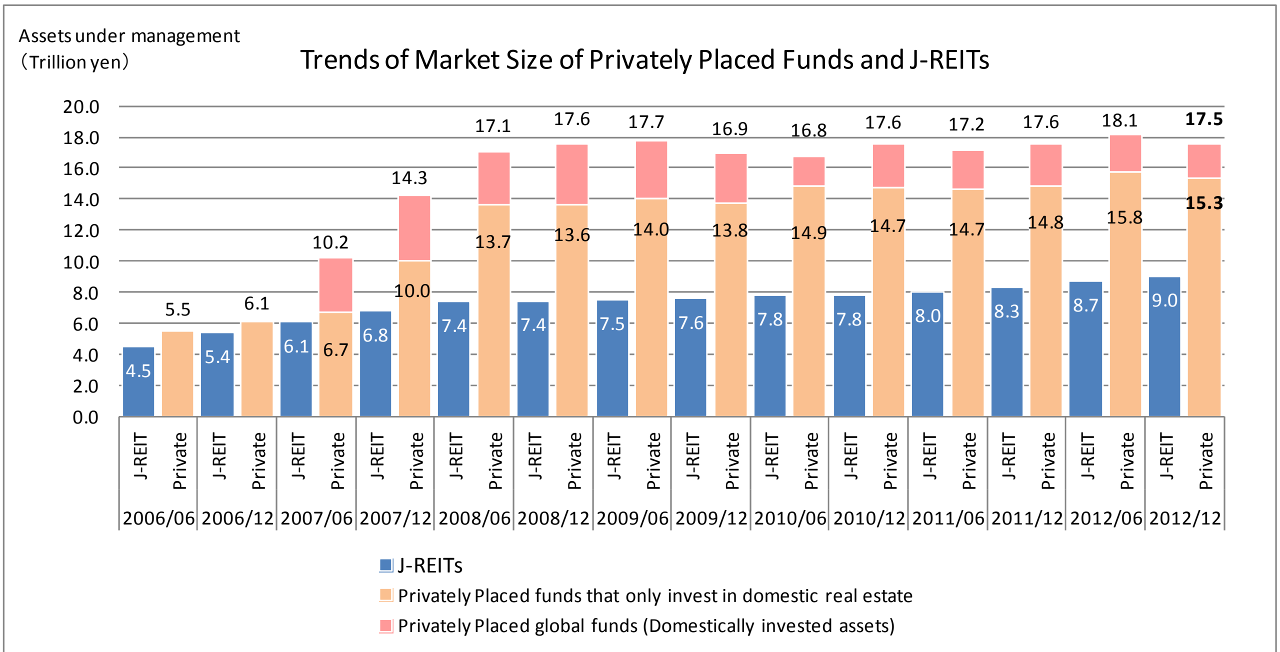
Sumitomo Mitsui Trust Research Institute Co., Ltd

- 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 15th survey based on responses to questionnaires received from 54 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: 120
  - Number of companies responded: 54 (ratio of valid responses: 45.0%)
  - Time of survey: January 2013
  - 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 2012 to be 17.5 trillion yen, this includes Japanese assets of global funds (*) that we were aware of. The market size as of the end of June 2012 was 18.1 trillion yen, which is a decrease of approximately 560 billion yen (3.1%) over a six-month period from the previous July 2012 survey. In this survey, we have revised the past figures to reflect the more detailed data which was obtained.

Market size of privately placed real estate funds is 17.5 trillion yen including Japanese assets of global funds

- The survey found that, due to the increased appetite of equity investors, the continuation of the favorable debt financing environment, and gradual recovery in investment real estate transactions, foreign investment management companies are taking the lead in setting up new funds and expanding assets under management (AUM). Meanwhile, the survey also revealed that many investment management companies are reducing AUM by, among other things, selling part of the property holdings of existing funds (including selling the assets of privately placed funds to establish listed REITs). And, as a result, total AUM of privately placed funds decreased.

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



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

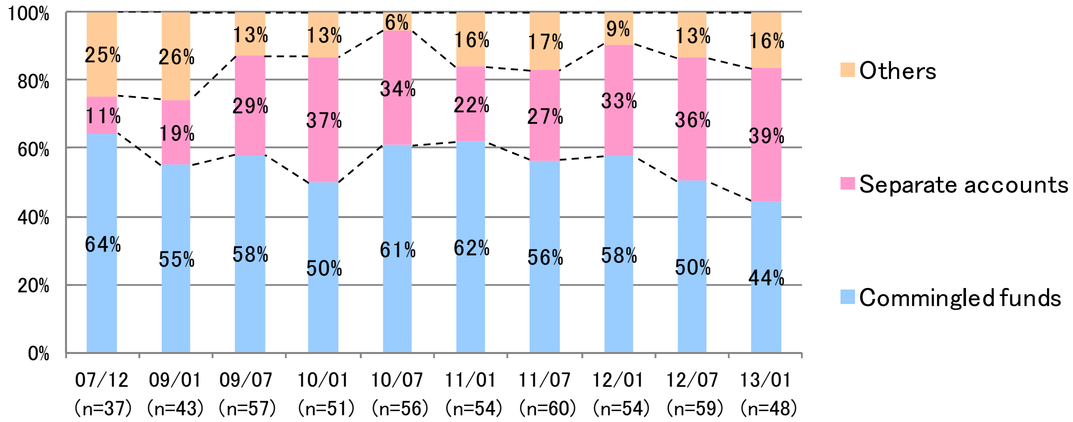
(Note) [n] shown in the charts throughout this document indicates the number of effective responses.

1. Current Status of Fund Management

1) Breakdown of Commingled Funds and Separate Accounts:

This survey categorized privately placed funds into “commingled funds” that are managed for multiple investors, and “separate accounts” managed for single investors. AUM of the commingled funds managed by the respondents stood at 3.8086 trillion yen (44%), while separate accounts stood at 3.3807 trilion yen (39%). The commingled funds’ share of total AUM continues to trend downward.

Fig.1 Breakdown of Commingled Funds and Separate Accounts

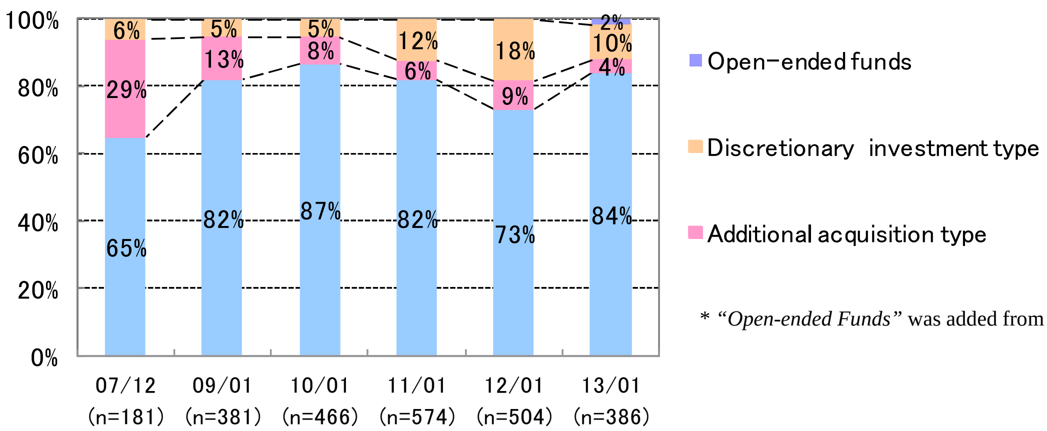


2) A description of funds under management

a. Fund types

The total number of privately placed real estate funds that are currently managed by the respondents, was 484. By type (based on the number of funds), *“Fixed Property Type”* accounted for 84%, *“Additional Acquisition Type”* accounted for 4%, *“Discretionary Investment Type”* accounted for 10%, and *“Open-ended Funds”*, which is a new category in this survey, accounted for 2%. The tendency for investors to prefer the Fixed Property Type, with properties fixed from the start of the investment period, remains strong.

Fig.2 Breakdown of Funds by Type



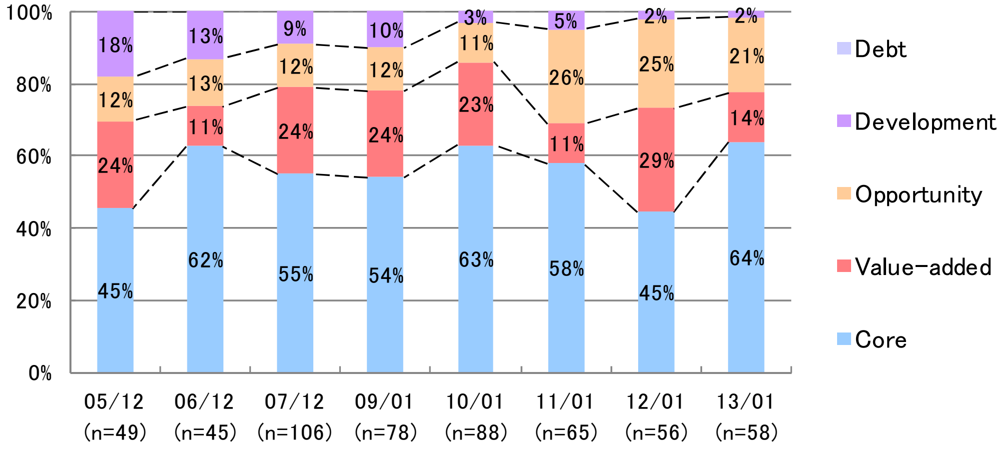
* *“Open-ended Funds”* was added from this survey.

The following topics from b. to g. describe "the funds currently under management". This does not refer to all funds managed by respondents, but only to the funds that they could provide data for. The data also includes a small number of global funds that invest in domestic real estate.

b. Management Style

"*Core*" style funds, which place an emphasis on income, accounted for 64%, this is an increase from the 45% in the January 2012 survey. Meanwhile, "*Value-added*" style funds decreased to 14% from the 29% in the January 2012 survey. "*Opportunity*" style funds remained roughly unchanged at 21%.

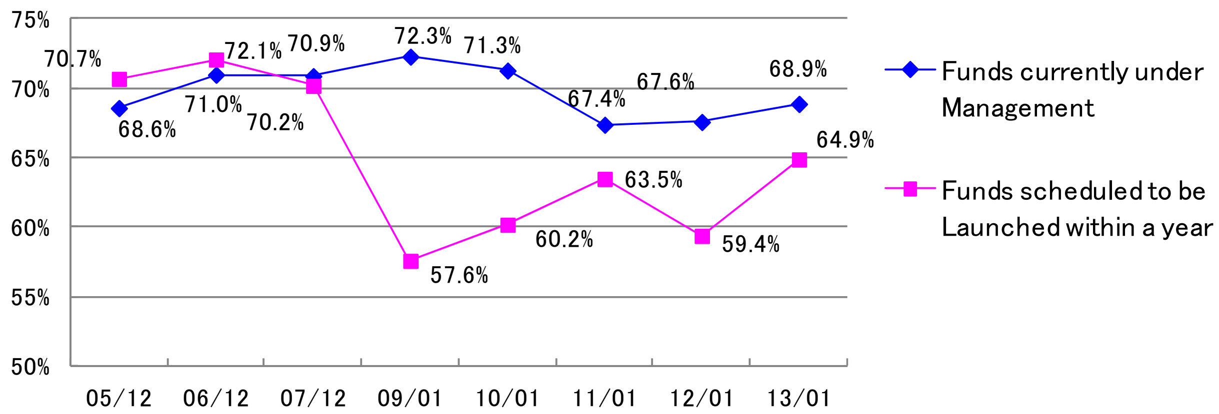
Fig.3 Breakdown of Funds by Management Style



c. LTV Ratio

The average LTV ratio of funds currently under management was 68.9%, rising slightly from 67.6% in the January 2012 survey. The average LTV ratio of funds scheduled to be launched within a year was 64.9%, rising from 59.4% in the January 2012 survey, but still lower than the 68.9% average LTV ratio of funds currently under management. A breakdown of funds scheduled to be launched within a year shows more diversity in the LTV ratios of future funds compared with the January 2012 survey, with many funds targeting a high LTV ratio ranging from 70% to more than 80%, and with some funds targeting equity investment only.

Fig.4 Average LTV Ratio of Existing Funds and Funds to be launched within one year

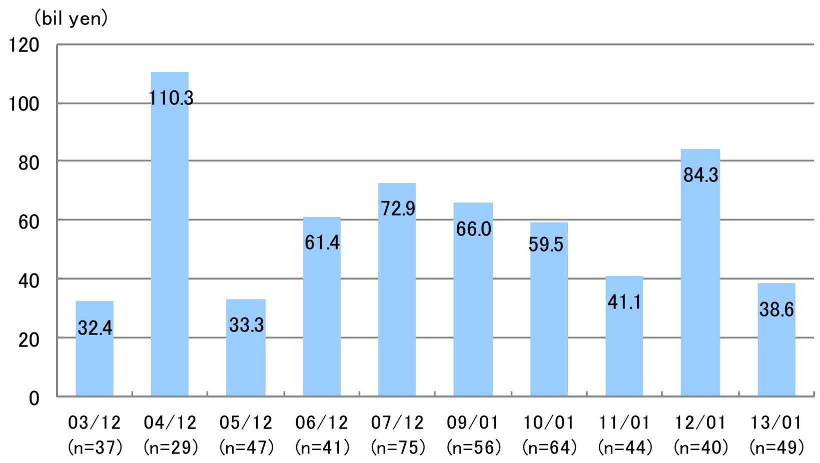


d. Target Asset Size

The average target asset size of funds under management was 38.6 billion yen in the January 2013 survey, decreased significantly from 84.3 billion yen in the January 2012 survey. It should be noted that the survey found many of small funds with target asset sizes of several billion yen, this significantly pushed down the average target asset size.

It should also be noted that due to different funds participating in the survey from year to year and the often wide variation in fund target size, the calculated averages do not express actual volatility.

Fig.5 Average Target Asset Size

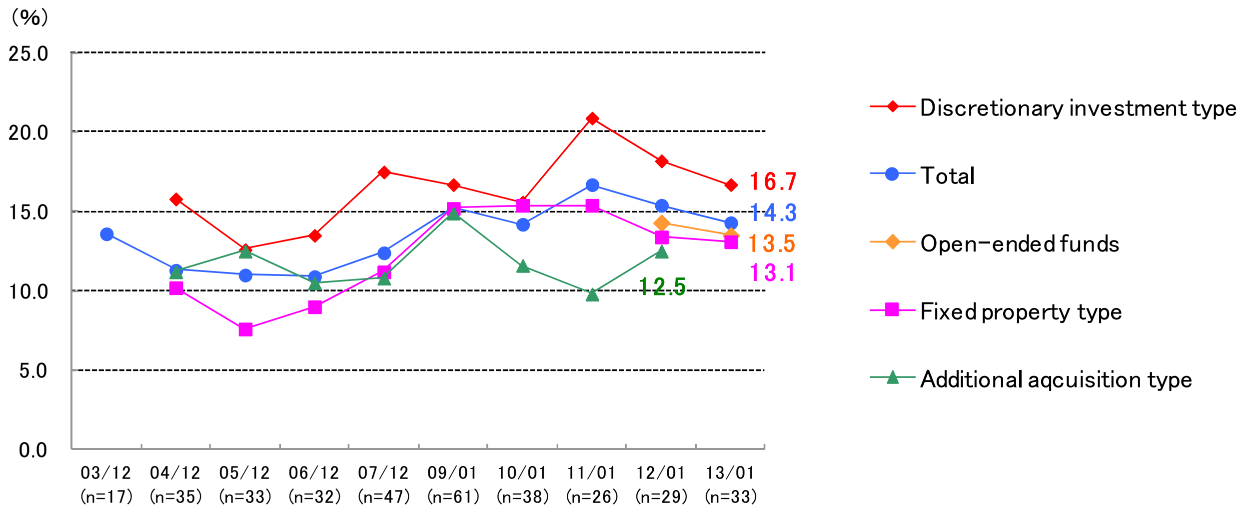


e. Target IRR (Internal Rate of Return)

The average target IRR was 14.3%, slightly down from the January 2012 survey. A breakdown by fund type shows that target IRR fell for all types.

It should be noted that the number of responses to this question was limited.

Fig.6 Average Target IRR



f. Target Investment Period

In the January 2013 survey, the average target investment period of funds currently under management was 6.5 years, continuing its lengthening trend after hitting a low of 3.8 years in the December 2005 survey, but slightly shorter than in the January 2012 survey. The lengthening trend until the January 2012 survey is believed to be largely attributable to continued investment management through refinancing.

A breakdown by investment period (Fig.8) reveals that the decline continues for the response of "*Six years or more*". The response "*At least five years but less than six years*" fell sharply, and the response "*At least four years but less than five years*" increased significantly.

Fig.7 Average Target Investment Period

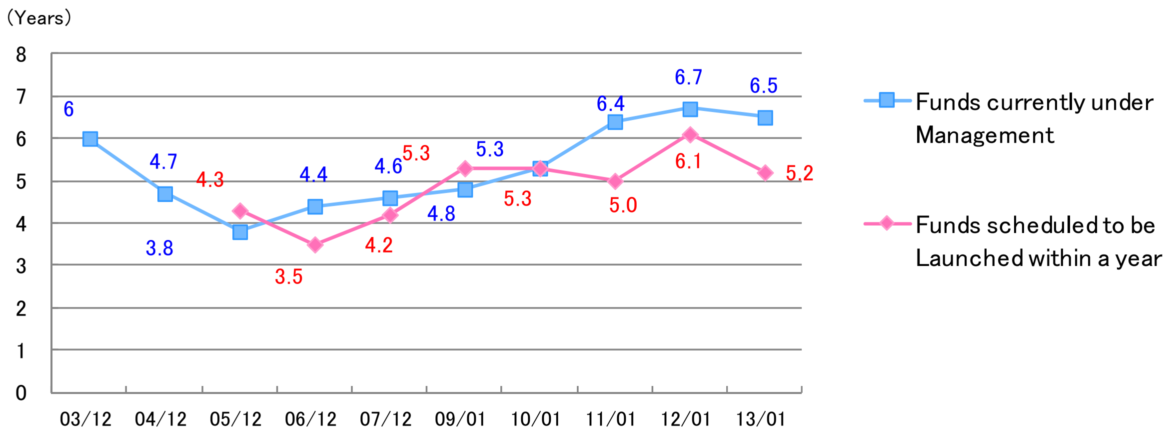
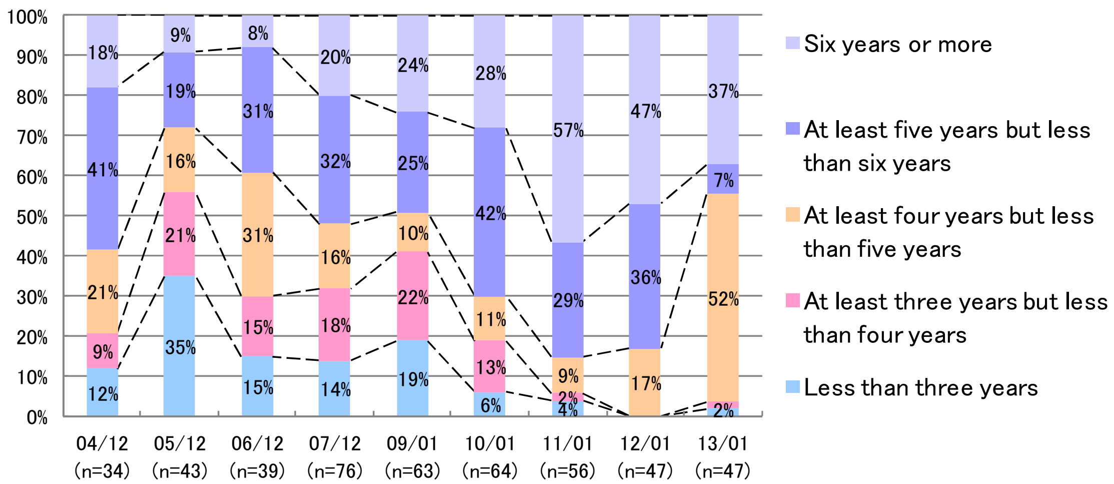


Fig.8 Breakdown of Average Target Investment Period



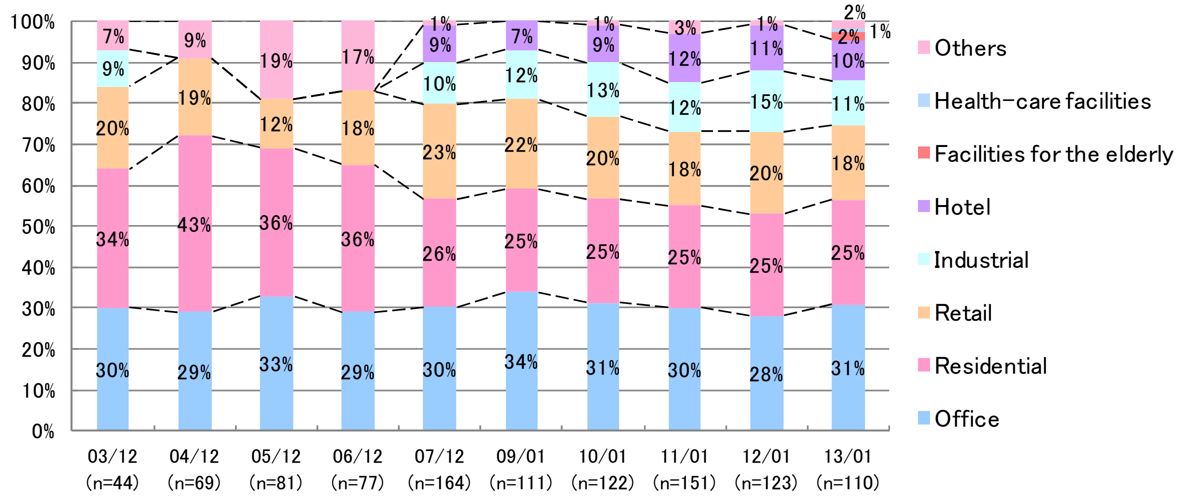
g. Target Property Types and Areas

* Multiple answers to questionnaires were allowed in this survey item.
The figures represent the ratios of answers against the total number of answers.

Regarding property types, in the January 2013 survey, the share of *"Office"* slightly increased, *"Retail"* and *"Industrial"* fell slightly, while "*Residential*" remained unchanged. The share of each type has not changed significantly. "*Facilities for the elderly*" and "*Health-care facilities*", which are newly added categories in this survey, accounted for 2% and 1%, respectively.

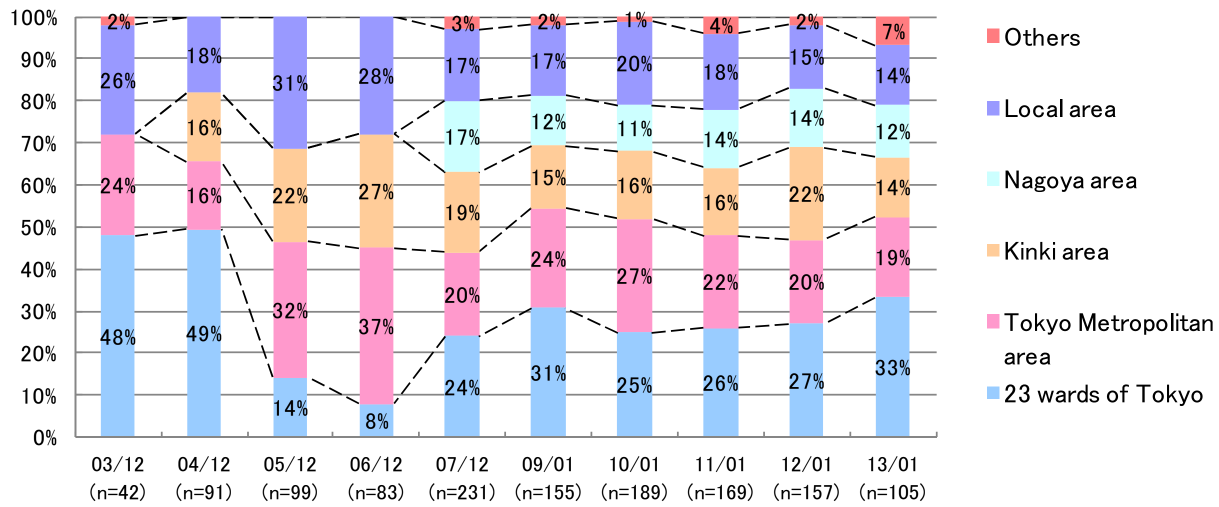
By investment area, the highest response rate was*"23 Wards of Tokyo"* at 33%, followed by *"Tokyo Metropolitan area"*, and *"Kinki area "* The "*23 Wards of Tokyo*" response rate rose from the January 2012 survey, the "*Tokyo Metropolitan area*" response rate decreased slightly, and "*Kinki area*" and "*Nagoya area*" response rates declined. The ratio of investment in central Tokyo is believed to have risen on expectation of a sustained recovery in the rental and transaction markets in this region.

Fig.9 Target Property Types



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

Fig.10 Target Areas

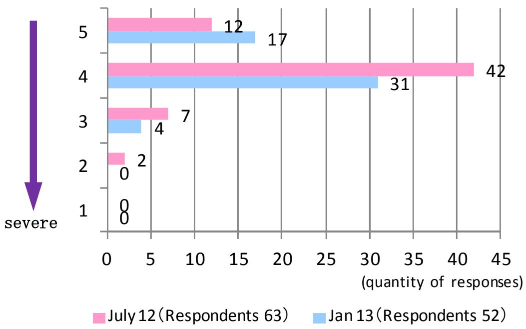


* In 03/12, the Kinki and Nagoya areas were included in Local areas, whereas in 04/12 through 06/12, the Nagoya area was included in Local areas.
* The Kinki area was called the Osaka area until the January 2009 survey. The constituent prefectures remain the same.

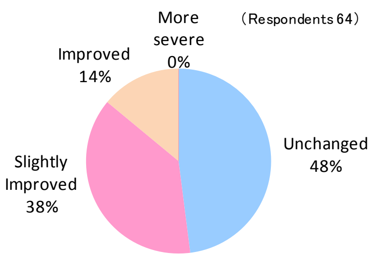
3) Circumstances of Debt Finance

Regarding debt financing, respondents answered by choosing from 1 (most severe) to 5 (least severe). The survey found that debt finance circumstances have eased, with "4" being the most popular response, chosen by 31 respondents (60% of total responses), followed by "5" with 17 respondents (33% of total responses). When responding to a question on how debt finance circumstances changed between the July-December 2012 period and the January-June 2012 period, 55% chose "*Slightly improved*" and "*Improved*", followed by "*Unchanged*" with 45%. Meanwhile, in this survey, no respondents selected "*More severe*" and "*Slightly severe*". These responses reflect a continued improvement in debt financing. Regarding specific improvement, of the respondents who answered "*Slightly improved*" and "*Improved*", 29% specified "*Contraction of interest spread*", followed by "*Expansion of underwriting areas and types*" and "*Rise of LTV*" which accounted for 20% and 18% respectively.

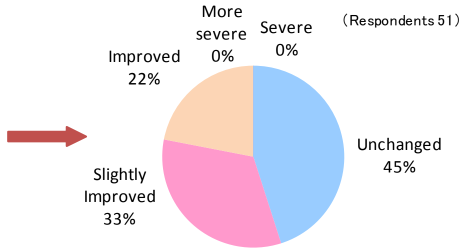
Fig.11 Circumstances of Debt Financing



【Jul 2012 Survey】



【Jan 2013 Survey】

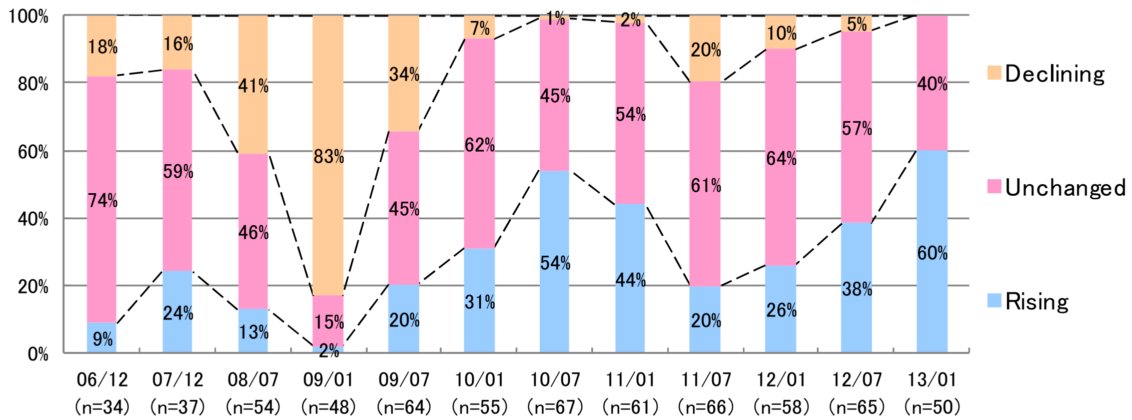


4) Circumstances of Equity Raising

a. Appetite of Equity Investors

With respect to the appetite of equity investors, compared to the July 2012 survey, the results clearly indicate an increase in the appetite of equity investors, with the "*Rising*" response rate jumping to 60%, from 38% in the July 2012 survey, and with response rates of 40% for "*Unchanged*" and 0% for "*Declining*."

Fig.12 Appetite of Equity Investors

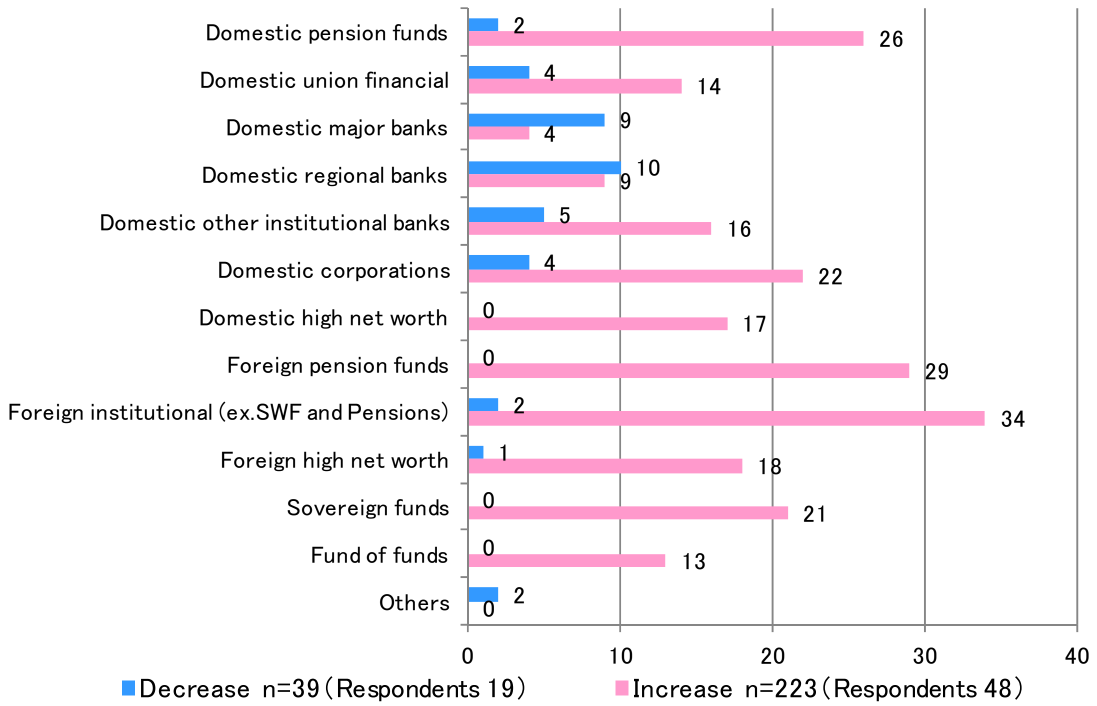


b. Increases and Decreases in Investment Volume by Investor Category

Of all the investor categories, those surveyed said that they expected "Foreign Institutional Investors" (excluding SWF and Foreign Pension Funds), (34 votes) would increase their investment volume, followed by "Foreign Pension Funds" (29 votes), and "Domestic Pension Funds" (26 votes).

On the other hand, "Domestic Regional Banks" (10 votes) and "Domestic Major Banks" (9 votes) were expected to decrease their investment volume. There were many managers who considered, that due to the BIS Capital Adequacy Requirements, the investment volume by domestic banks was likely to decline. However, managers expected growth in the investment volume of pension funds, institutional investors (other than banks), and high net worth individuals, regardless of whether they are domestic or foreign.

Fig.13 Expectation for Volume Change By Investor

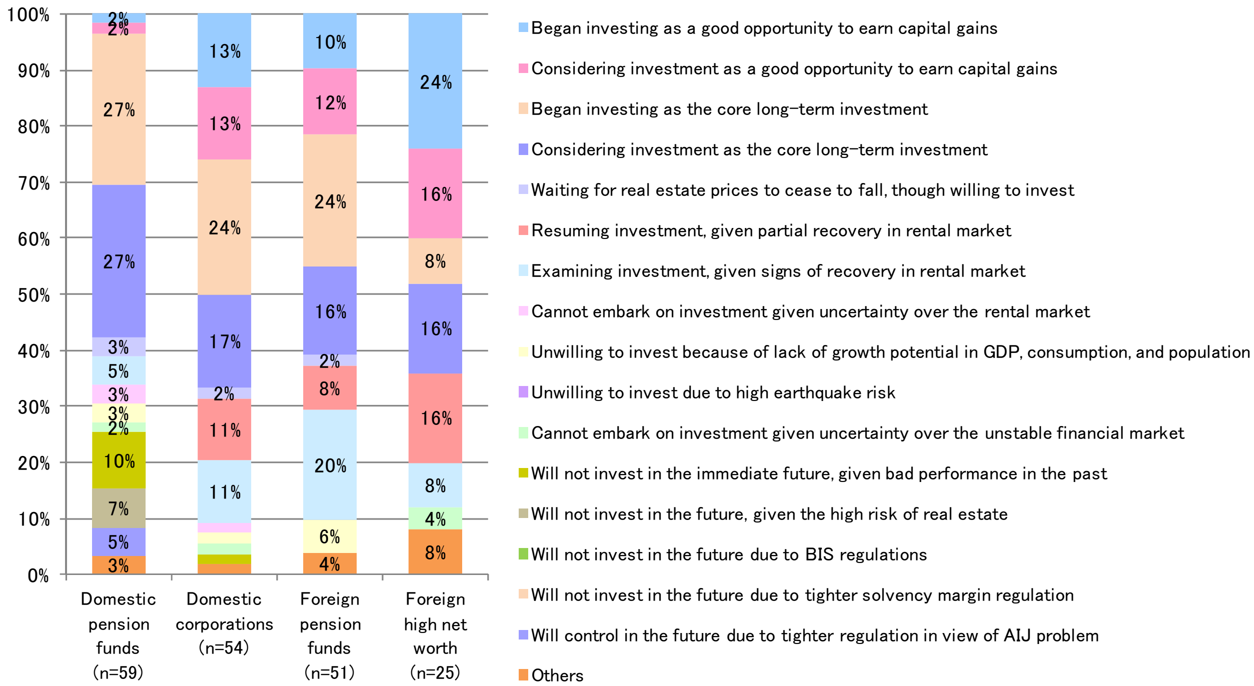


c. Investment Stance of Equity Investors (by investor category)

When investment management companies were asked about the investment stance of equity investors by investor category, a relatively large number responded that domestic pension funds, domestic corporations and foreign pension funds invested for the purpose of core long-term investment. According to this survey, responses indicating that domestic corporations, foreign pension funds and foreign high net worth investors saw investment as a good opportunity to earn capital gains remained at a reasonable level. Overall, , responses indicating a positive investment stance for domestic corporations, foreign pension funds and foreign high net worth investors accounted for almost 90% of the total, this included responses related to the rental market.

On the other hand, there were some signs of a negative investment attitude, with 10% responding that domestic pension funds "*Will not invest in the immediate future, given bad performance in the past*," and 7% responding that domestic pension funds "*Will not invest in the future, given the high risk of real estate*."

Fig.14 Investment Attitude of Equity Investors

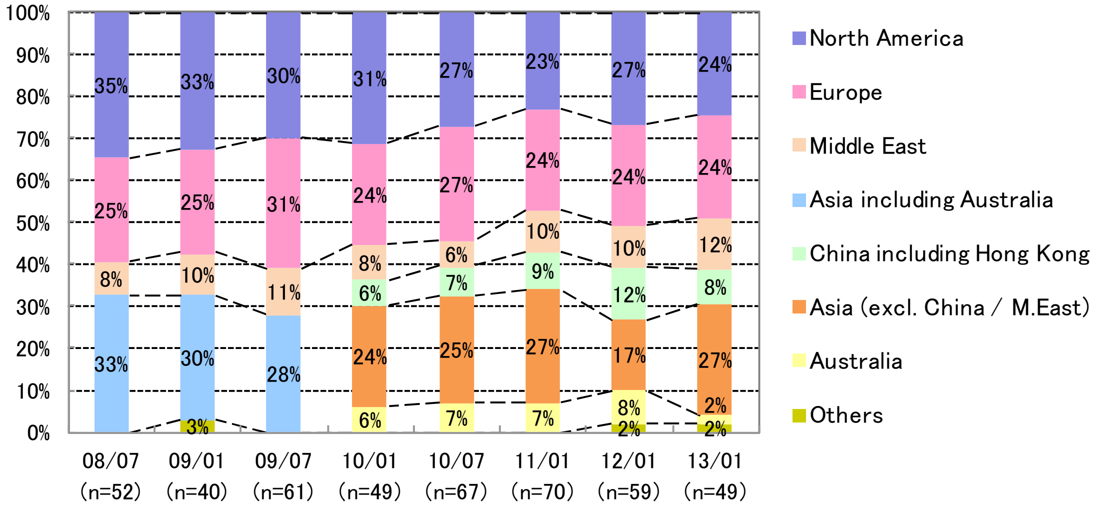


* Multiple answers (up to three answers) to questionnaires were allowed in this survey item. The figures represent the ratios answers against the total number of answers.

d. Sources of Foreign Funds by Country or Region

The highest response rate was 27% (based on the number of respondents) for investors from *"Asia excluding China and Middle East"*, followed by *"North America"* and *"Europe"* with 24% each. In the January 2013 survey, the "*China including Hong Kong*" response rate was 8%, down from 12% in the January 2012 survey.

Fig.15 Sources of Foreign Funds by Country or Region



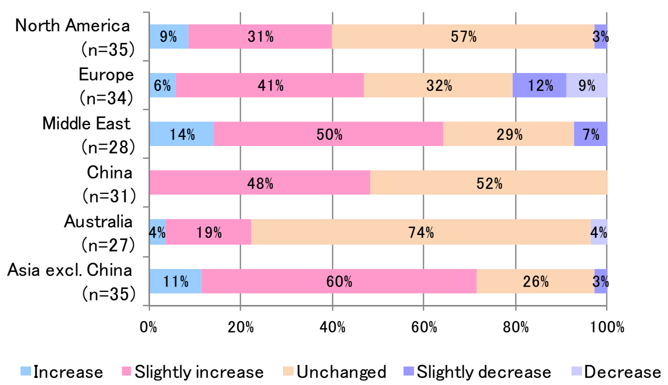
* Since the January 2010 survey, Asia-Pacific has been broken down into China, Middle East, Asia (excluding China and Middle East), and Australia.
* In the January 2011 survey, questions were asked separately for institutional investors and individual investors. The figures of 11/01 in Fig.16 shows the total of institutional and individual investors.

e. Expectation of Cash Inflow from Investors by Region

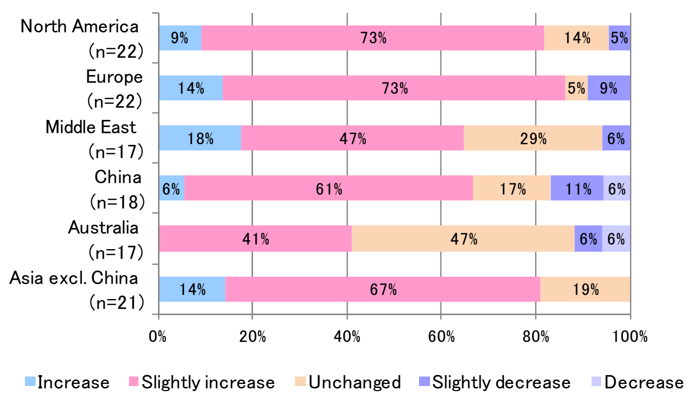
Compared to the July 2012 survey, for all regions, the share of managers who responded with "*Increase*" and "*Slightly increase*" grew. In particular, there was a marked increase in the share of "*Slightly increase*" in relation to North America and Europe. Results suggest that the expectation of cash inflow from foreign investors is improving on the positive outlook for a sustained recovery in Japan's domestic rental and transaction markets.

Fig.16 Expectation of Cash Inflow from Foreign Investors By Region

【Jul 2012 Survey】



【Jan 2013 Survey】



"Reasons for Foreign Investors entering or not entering the Japanese Real Estate Market"

Regarding reasons for investors entering the Japanese real estate market, the most comon response (25 respondents) was "*The size of the real estate market is large.*" followed by "*Allocation as part of the global portfolio*", with 24 respondesnts, and "*Relatively attractive due to the yield gap*" with 21 respondesnts. The top three reasons were the same as those in the January 2012 survey.

The reasons "*Highly stable income,*" "*Making investment in Japan, a mature market, while expanding investment in Asia*" and "*Rental market is in a recovery phase*" secured a reasonable level of votes, with 16 respondents each.

As for the reasons for investors not entering the Japanese market, the most common response (24 respondents) was "*Lack of growth potential in GDP, consumption, population, etc.*", followed by "*Low growth potential in income*" with 16 respondesnts, and "*Lack of attractive investment opportunities*" with 11 respondents.

Fig.17 Reasons for foreign investors investing in Japan

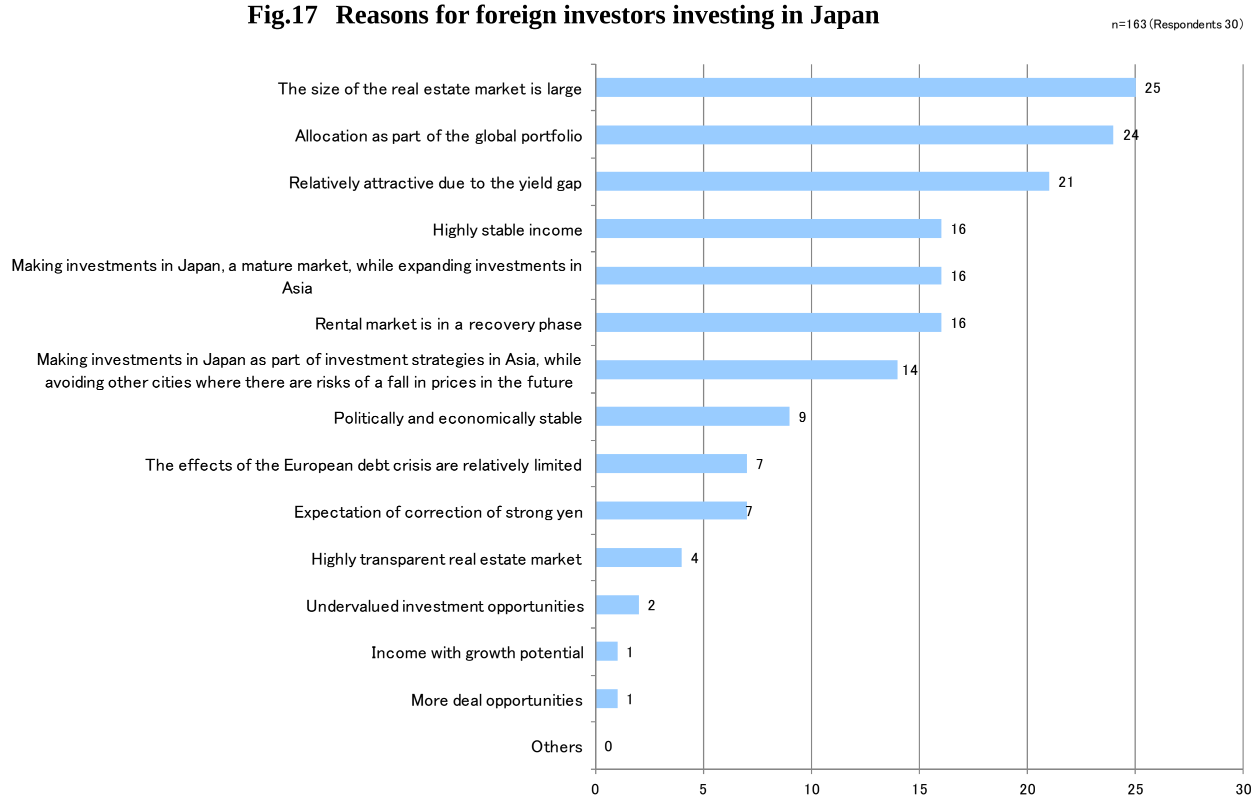
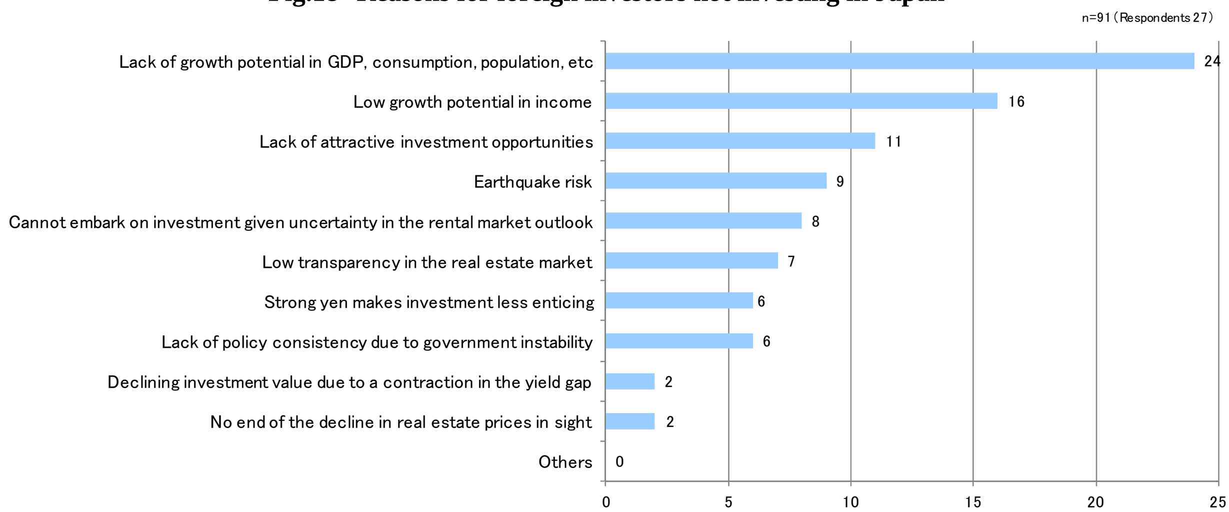


Fig.18 Reasons for foreign investors not investing in Japan



5) Circumstances for Acquisition and Sale of Properties

Looking at circumstances for acquisition, the number of respondents answering "*Acquired*" was 51%, up from 42% in the July 2012 survey. As for the number of properties examined for acquisition (assessment of profitability, etc.), "*11 ~ 30 properties*" was the most popular response, with 18 respondents, followed by "*10 properties or less*," with 14 respondents. The most common reason for not acquiring property was "*Failure to reach agreement on price*," with 36 respondents.

Turning to circumstances for sale in the second half of 2012 compared to the first half of 2012, circumstances for sale show improvement, with zero respondents answering "*More severe*" and "*Slightly severe*" compared with 8 respondents answering "*Improved*" and 20 respondents answering "*Slightly improved*."

Fig.19 Circumstances for Acquisition

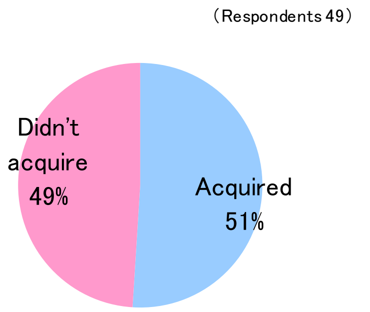


Fig.20 Examined for acquisition

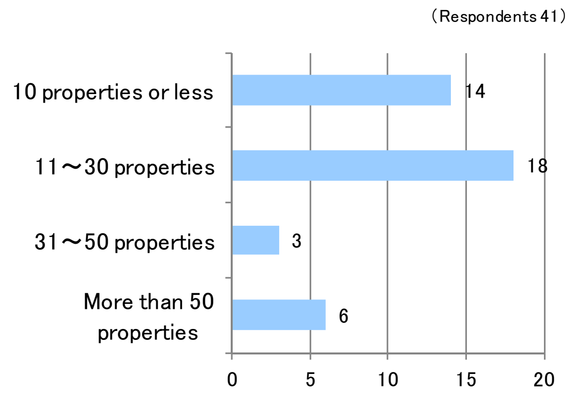


Fig.21 Reason for not acquiring property

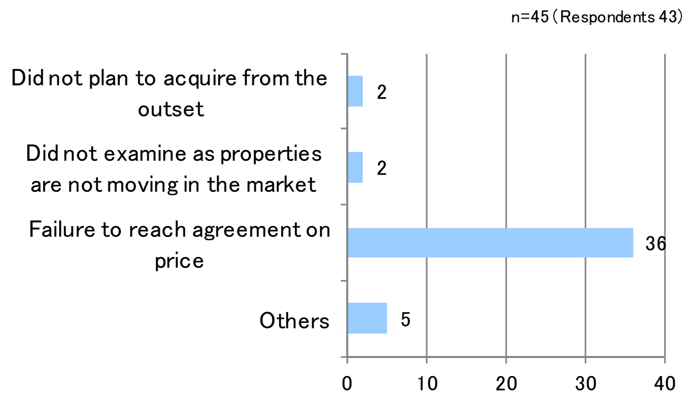
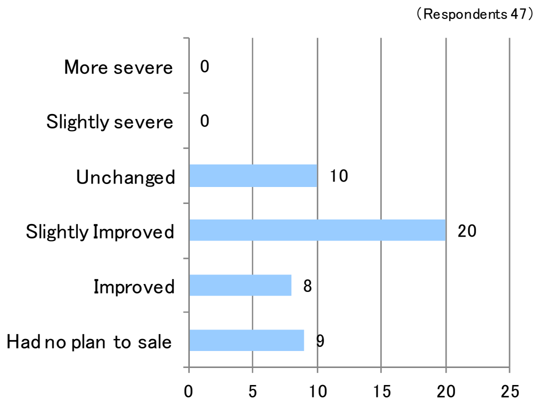


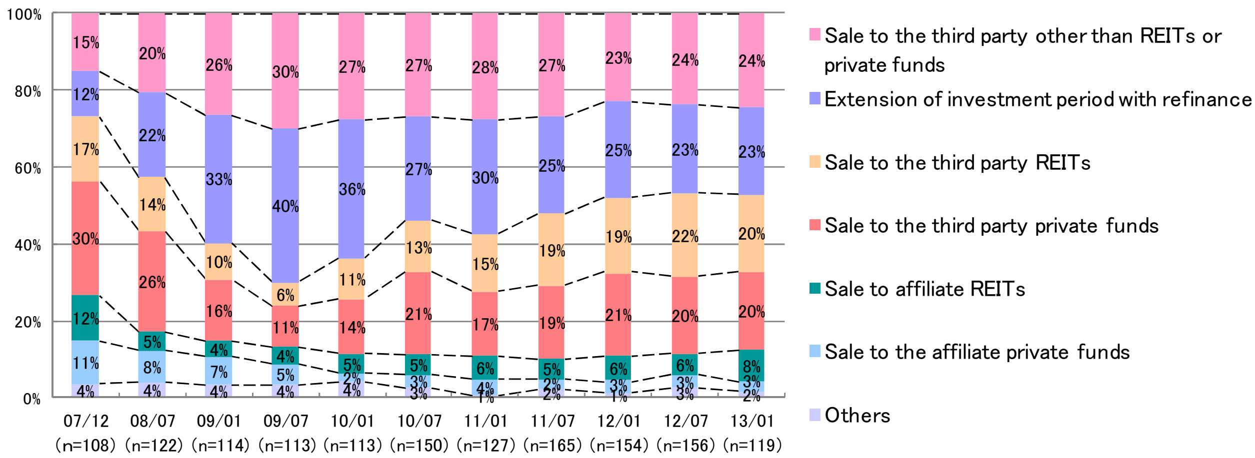
Fig.22 Ease of disposition



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"*, followed by *" Sale to the third party REITs"* and *" Sale to the third party private funds"* with 20% each.

Fig.23 Exit Options Available Over the Next One Year



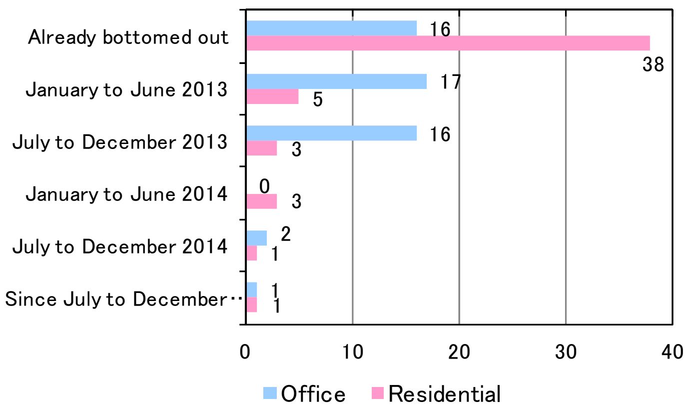
2. Outlook for the Market and Management

1) The Bottoming out of Rents

Regarding the timing of the bottoming out of rents, the majority of respondents said that office rents would stop declining in 2013, with 17 respondents answering "*January to June 2013*" and 16 respondents answering "*July to December 2013*," compared with 16 respondents answering "*Already bottomed out*"

As for the residential sector, an overwhelming majority (38 respondents), answered "*Already bottomed out*". This indicates that a good majority of managers believe the residential rental market has already bottomed out. .

Fig. 24: The Bottoming out of Rents



2) Real Estate Transaction Activity for the Second Half of 2012 and Forecast.

Responding to the question of how the transaction activity changed between the first and second halves of 2012, the most common response (31 respondents) was "*Slightly Increase*." Meanwhile, "*Increase significantly*" had 6 respondents, suggesting that the transaction environment is on the road to recovery.

Regarding expectation of investment transactions by privately placed funds and J-REITs in the first half of 2013 (January to June), 68% of respondents answered that transactions by privately placed funds would "*Slightly increase*" and 14% said that transactions by privately placed funds would "*Increase significantly*." Meanwhile, 36% of respondents answered that transactions by J-REITs would "*Slightly increase*," and 52% said that transactions by J-REITs would "*Increase significantly*." The results show there are more managers with stronger expectations that investment transactions by J-REITs will be the first to significantly pick up, while investment transactions by private funds will see a milder recovery from January 2013..

Fig. 25: Changes in Transaction Activity

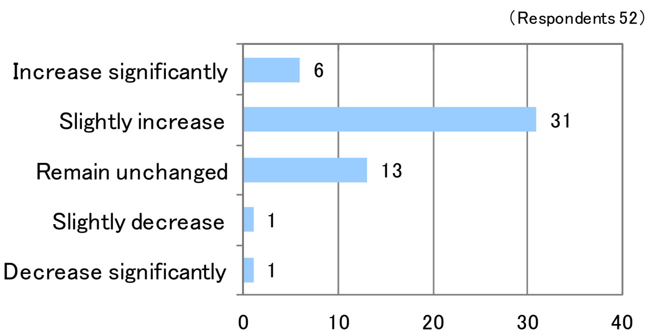
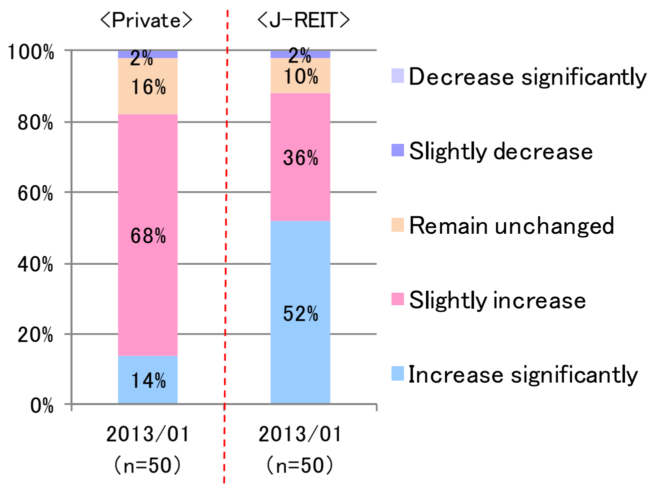


Fig.26 Transactions by privately placed funds and J-REITs



3) Managers' Investment Strategies for Target Sectors and Areas

* Multiple answers to questionnaires were allowed in this question.
These percentages represent the share of answers for each investment category and area against the total number of answers.

Regarding the response rates for target property types, "*Office*" decreased from 33% to 26% (53 respondents to 41 respondents), while "*Logistics*" increased from 10% to 15% (16 respondents to 23 respondents), and "*Facilities for the elderly*" increased from 4% to 9% (7 respondents to 14 respondents). Turning to the response rates for target areas, while "*Central 5 wards of Tokyo*" decreased from 43% to 34% and "*23 wards of Tokyo*" decreased from 28% to 21%, "*Tokyo metropolitan area*" increased from 14% to 20%, "*Kinki area*" increased from 9% to 12%, and "*Nagoya area*" increased from 3% to 8%. These results infer that managers are shifting their investment target to high yield property types and areas based on expectations that competition over the acquisition of offices and other properties in central Tokyo will gradually intensify in the future with a bottoming out and recovery of the sales market.

Fig.27 Target Property Types

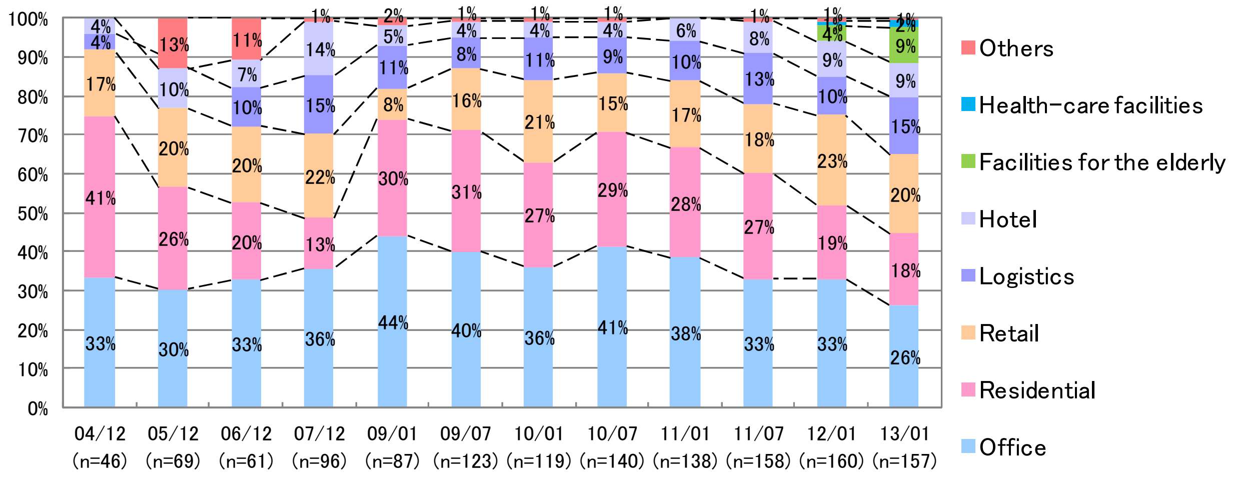
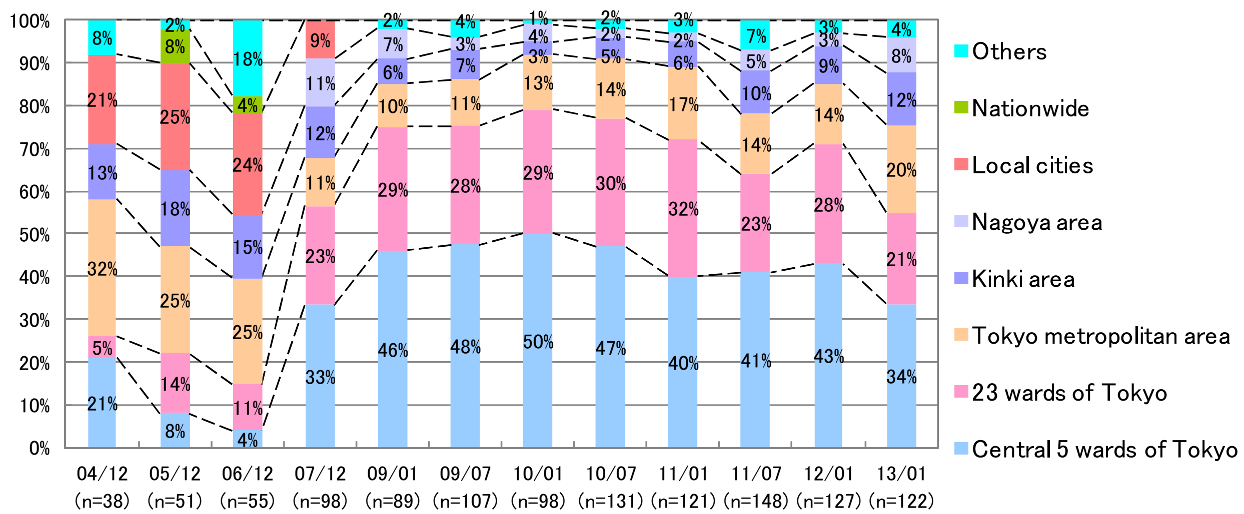


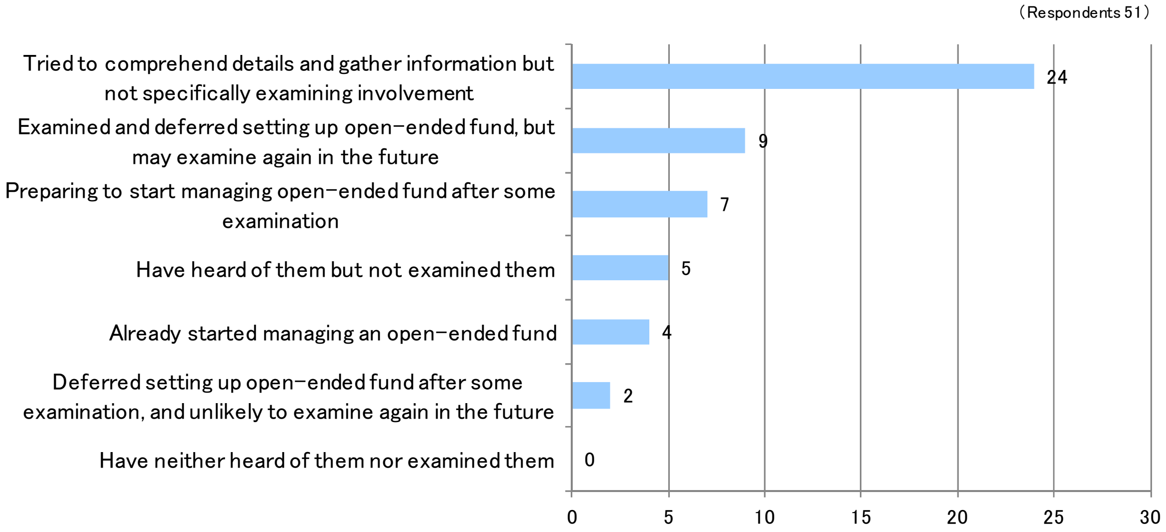
Fig.28 Target Areas



4) Managers' Involvement with Open-ended Funds

Regarding managers' involvement in open-ended funds, although the majority of investment management companies have no involvement, with 24 respondents answering "*Not specifically examining involvement*," the number of investment management companies that have actually set up or currently manage an open-ended fund is starting to increase, with 4 respondents saying "*Already started managing an open-ended fund*" and 7 respondents saying "*Preparing to start managing open-ended fund after some examination*," indicating that interest in open-ended funds among investment management companies is increasing.

Fig.29 Managers' involvement with Open-ended Funds



5) Important Factors Necessary for Improvement

With respect to important factors necessary for the recovery of the privately placed funds market, the largest share, 33 respondents, answered *"Increase in the supply of investable real estate"*, this was followed by *"Recovery of the real estate rental market"* with 31 respondents, and "*Inflow of global investment money"* with 27 respondents.

Regarding conditions necessary to increase the supply of investable real estate to the market, the largest share, 35 respondents, answered "*Banks' release of real estate collateral to the market*," this was followed by "*Promotion of CRE strategy*," with 18 respondents, and "*Diversification of investable property types*," with 17 respondents.

Fig.30 Important Factors Necessary for Improvement

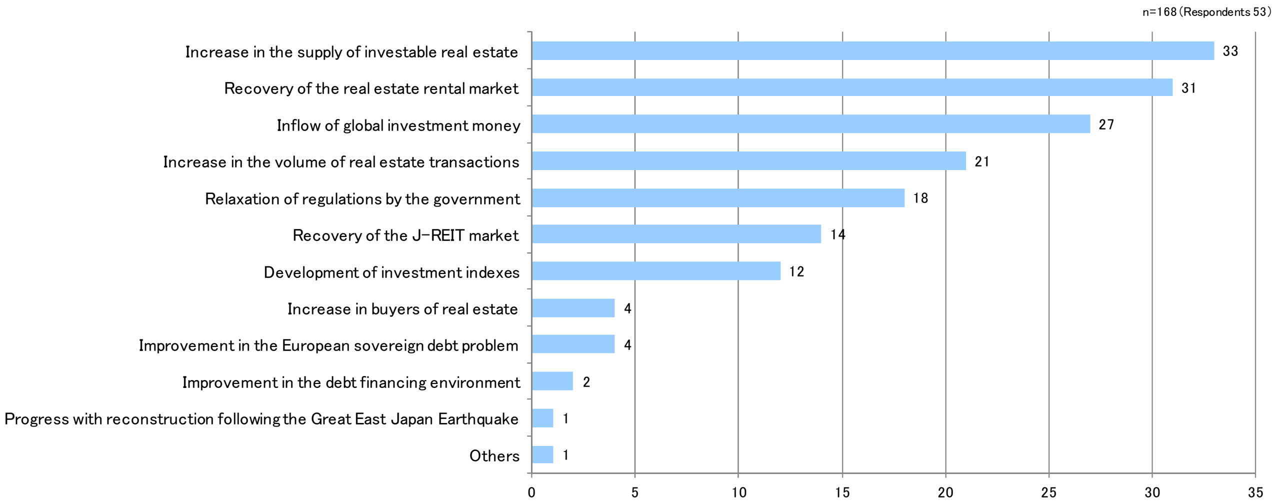
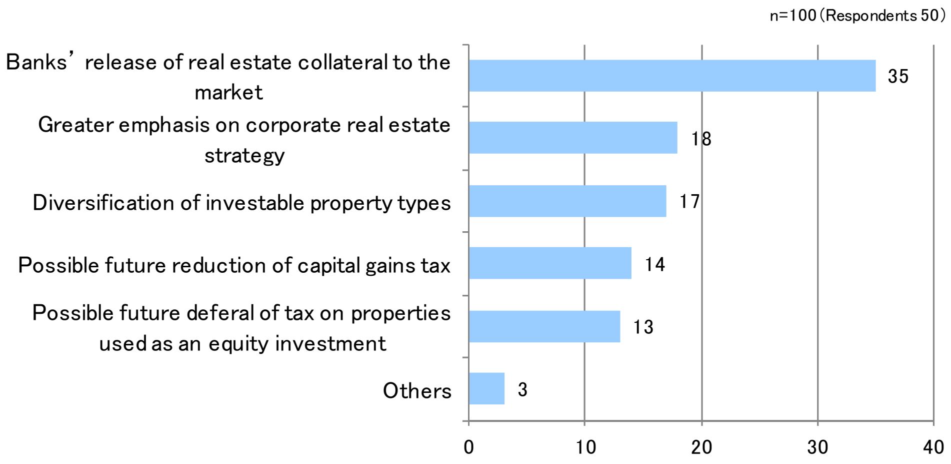


Fig.31 Conditions necessary to increase supply of investable real estate to the market



6) Fund 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, 52% of managers said that they had "*No plans now or in the future*", which decreased from 55% in the July 2012 survey. On the other hand, the share for "*Currently considering*" increased to 26% from 23%, and those for *"Have already launched"* increased to 22% from 19%. These results showed that the number of managers who were considering developing an overseas real estate management business had slightly increased over the preceding six months.

Fig.32 Fund Managers' Involvement in the Overseas Real Estate Management Business

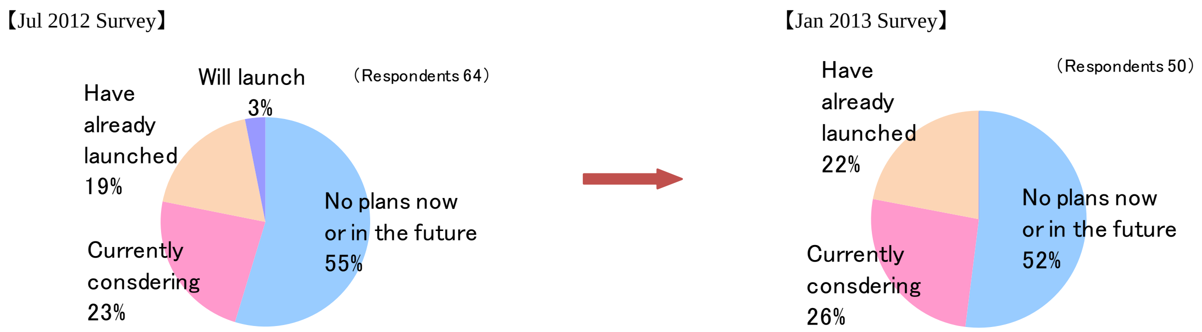
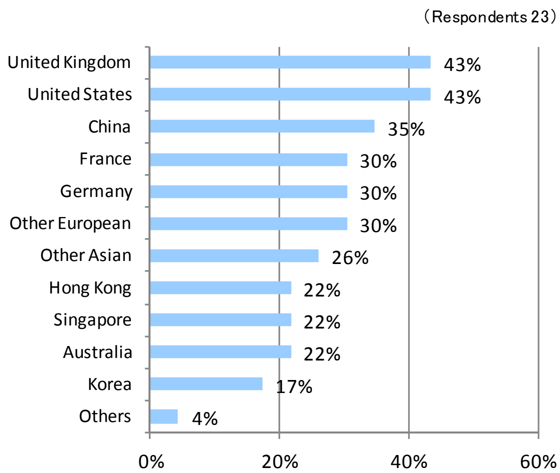


Fig.33 Target countries

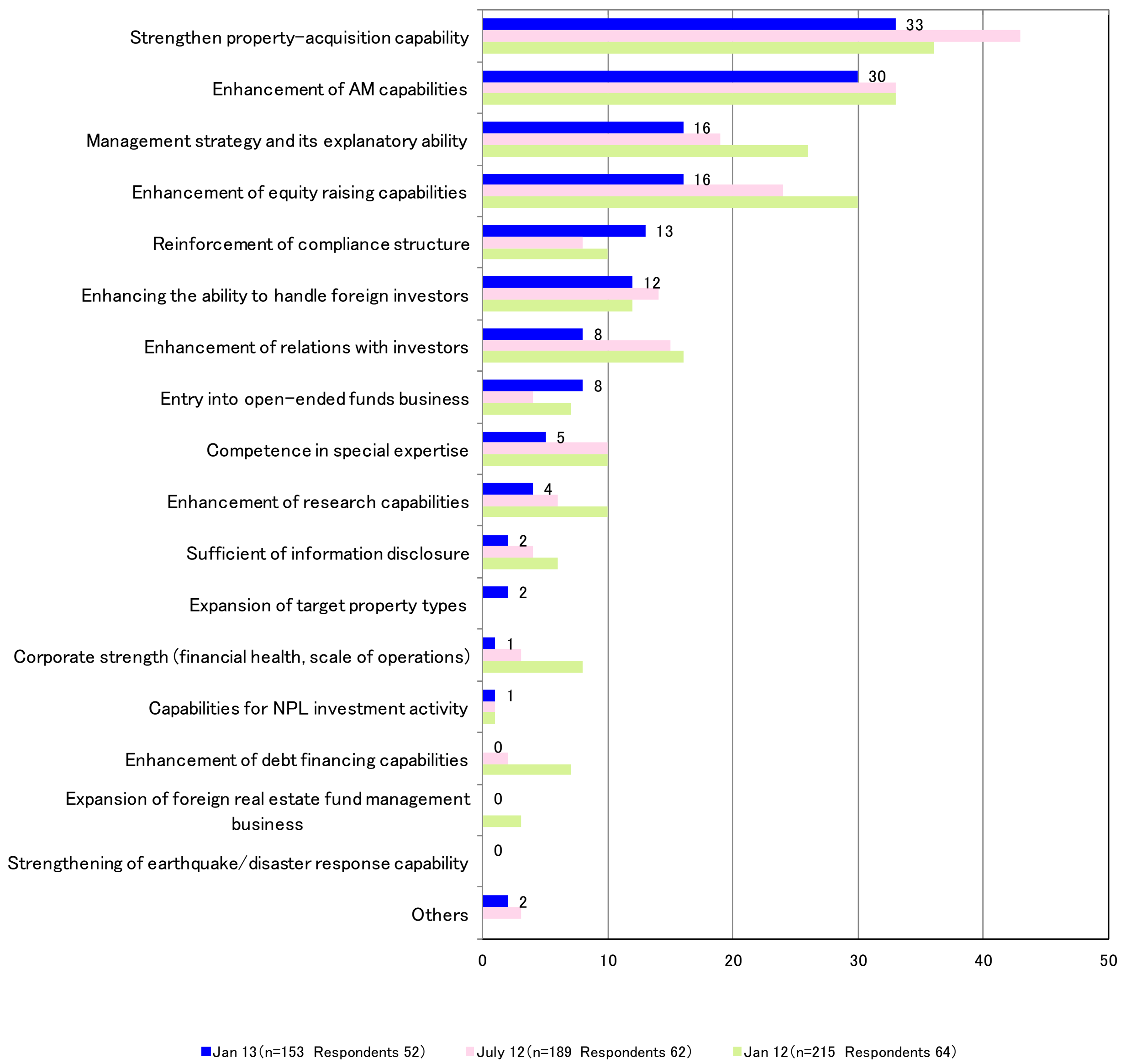


As for targeted countries, the highest response rate of 43% was for *"The United States"* and *"The United Kingdom"*, followed by *"China"* with 35%. In the January 2012 survey "*China*" had the largest share, with 54.8% of the total, whereas in the January 2013 survey, its share decreased significantly. Results show that compared with the January 2012 survey, investment interest has shifted from Asia, including China and Singapore, to the United States and Europe.

7) 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 "*Strengthen property acquisition capabilities*," followed by "*Enhancement of AM capabilities*", "*Management strategy and its accountability*" and "*Enhancement of equity raising capabilities*." Although both investors' appetite and the transaction situation showed a slight improvement in the January 2013 survey, compared with the levels in the previous survey, the results showed that there were still difficulties in acquiring investable properties.

Fig.34 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 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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