NEWS RELEASE

Survey on Private Real Estate Funds in Japan

July 2013– Results

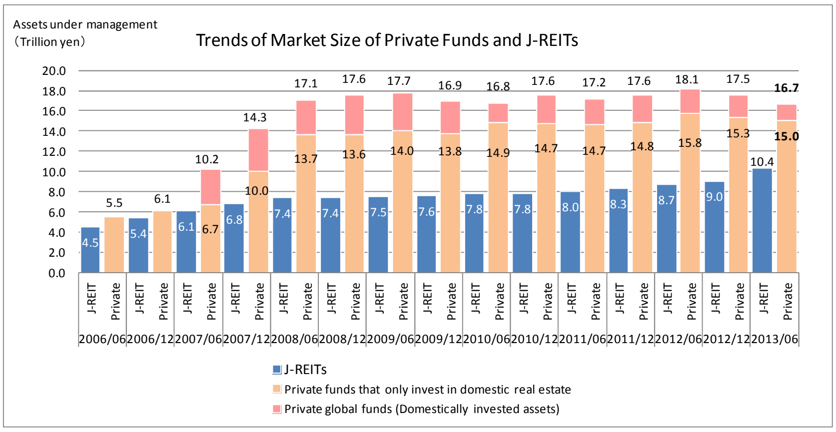
August 28th 2013

Sumitomo Mitsui Trust Research Institute Co., Ltd

- Starting in 2003, Sumitomo Mitsui Trust Research Institute Co., Ltd. has conducted the "Survey on Private Real Estate Funds" as part of its research activities concerning real estate investment markets. This is the 16th survey based on responses to questionnaires received from 63 real estate investment management companies
  - ➢ Survey subject: Real estate investment management companies that set up and manage private real estate funds which are focused on domestic real estate
  - ➢ Number of companies to which questionnaires were sent: 118
  - ➢ Number of companies responded: 63 (ratio of valid responses: 53.4%)
  - ➢ Time of survey: July 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 June 2013 to be 16.7 trillion yen. This figure involves Japanese assets of global funds that we were aware of. The market size as of the end of December 2012 was 17.5 trillion yen, which is a decrease of approximately 880 billion yen (5.0%) over a six-month period from the previous January 2012 survey.

Market size of privately placed real estate funds is 16.7 trillion yen, this includes Japanese assets of global funds

- Transactions became brisk, reflecting the strong real estate transaction market, and each company increased its sales of properties in the existing funds. As a result, there were a number of investment management companies that reduced their assets under management. There were also cases in which certain companies newly listed REITs that were managed by group companies on a stock exchange, and transferred properties from private funds to the REITs. Although new funds were launched in the January–June 2013 period, the amount of properties acquired was limited. As a result, the assets under management of private funds decreased.
- However, as the investment appetite of real estate equity investors has risen significantly, many real estate investment management companies expect investments in Japanese real estate, particularly by overseas capital, to increase.
- The debt financing environment remained favorable, and the average LTV ratio of the funds launched in the January–June 2013 period exceeded 70% on a real estate acquisition value basis.



(*) 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 2013 Survey Results

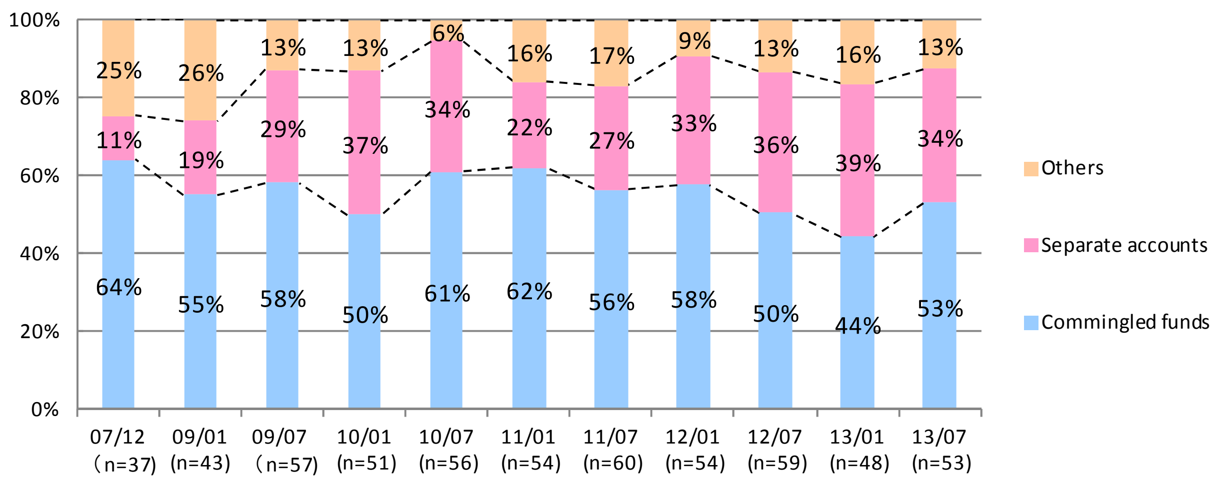
(Note) [n] shown in the charts throughout this document indicates the number of effective responses.

1. Current Status of Fund Management

1）Breakdown of Commingled Funds and Separate Accounts

This survey categorized private funds into two categories, "*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 4,534.5billion yen (53%), while separate accounts stood at 2,921.8 billion yen (34%).

Fig.1 Breakdown of Commingled Funds and Separate Accounts



2）New Funds Launched From January to June 2013

～New Launch, Type, Style, and Period～

Out of a total of 60 respondents, 16 (27%) answered that they launched new funds during the period from January to June 2013, which was a decrease from the 26 (41%) in the July 2012 survey.

Looking at newly launched funds, compared with the July 2012 survey, the ratio of "*Fixed Property Type*" remained almost unchanged, while there were no responses indicating the launch of "*Open-ended Funds*."

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

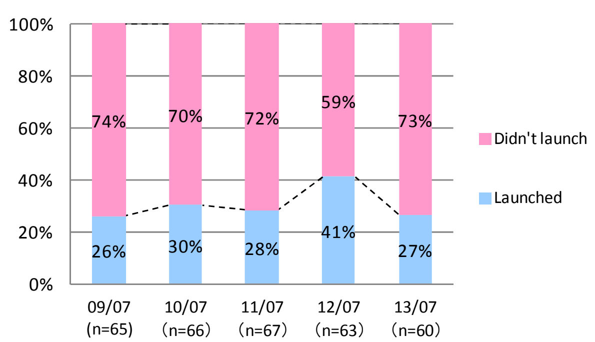
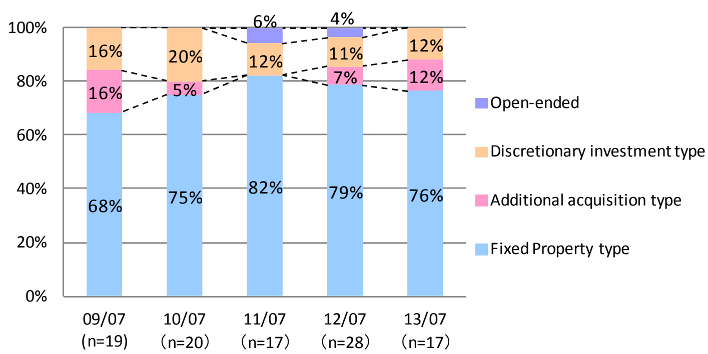


Fig.3 Type of Funds



By investment style, the ratio of "Core" style funds remained almost unchanged, and that of "*Opportunity*" style funds rose from 14% to 24%, while there were no responses indicating the launch of "*Development*" style funds. As for the expected investment period, the response "*Seven years or more*" declined sharply, from 25% to 6%, and "*periods between five and seven*" also dropped from 21% to 6%. A number of funds with a long-term investment period were launched in the January–June 2012 period. Due to the limited number of investment management companies managing the long-term funds, it is believed that the launch of long-term funds in the January–June 2013 period was restrained.

Fig. 4 Investment Style

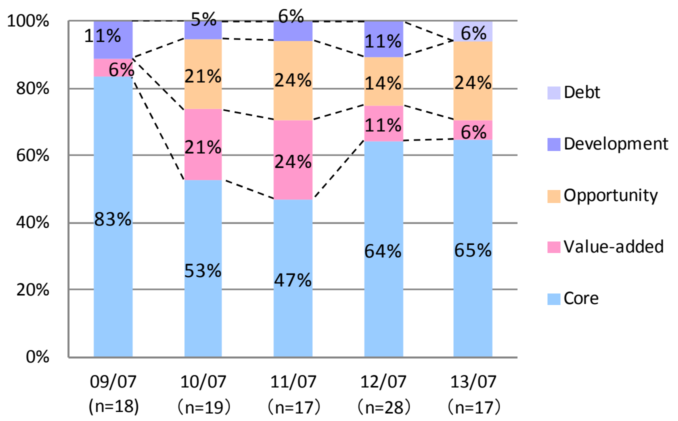
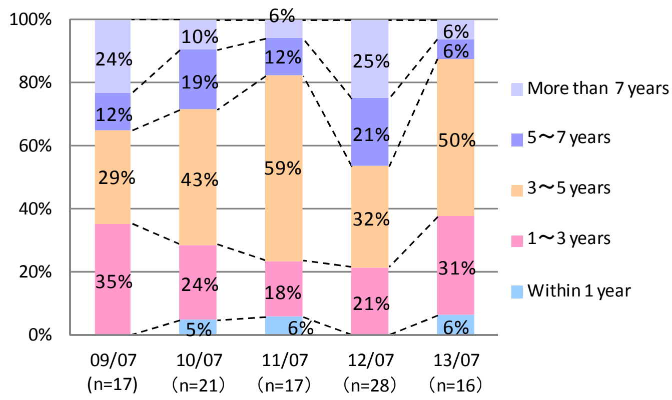


Fig. 5 Investment Period

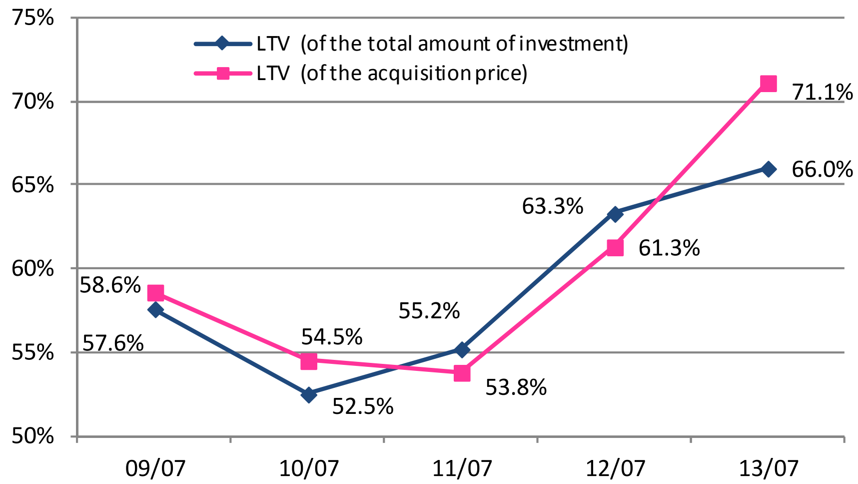


*Please refer to the Definitions of Terms on page 17 for the details of "*Fixed Property Type*," "*Additional Acquisition Type*," "*Discretionary Investment Type*," "*Open-ended Funds*," "*Core*," "*Value-added*," "*Opportunity*," and "*Development*."

～LTV Ratio～

The average LTV ratio of the funds launched in the first half of 2013 (January–June) was 66.0% of the total amount of investment and 71.1% of the acquisition price, maintaining an upward momentum. The reasons for the rise in the average LTV ratio include an increase in the number of funds that set the LTV ratio at a high level under the circumstances of the favorable debt financing (Fig.8).

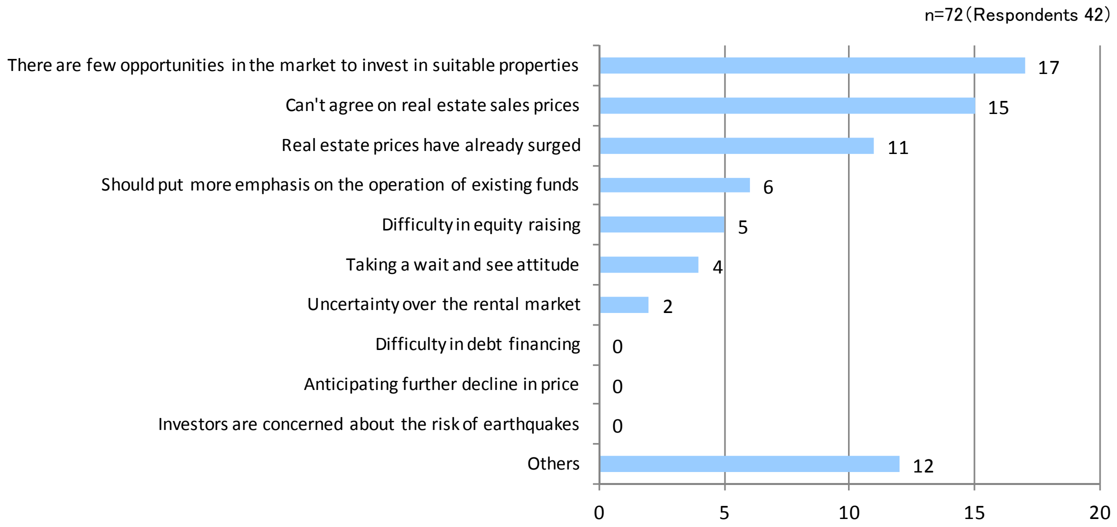
Fig.6 LTV Ratio



～Reasons for Not Having Launched Funds～

More than 70% of investment management companies did not launch any new funds during the period from January to June 2013 (Fig. 2). The top reasons for this were "*There are few opportunities in the market to invest in suitable properties*" (17 votes) and "*Can't agree on real estate sales prices*" (15 votes). In addition, a quarter of respondents (11) chose "*Real estate prices have already surged*" indicating they feel acquisition prices appeared to be overvalued.

Fig.7 Reasons for Not Having Launched Funds



3）Circumstances of Debt Financing

Regarding debt financing, respondents answered by choosing from 1 (*Very severe*) to 5 (*Very improved*). The most frequent answer was "4" with30 respondents, followed by "3" with 20 respondents.

Compared with the survey in January 2013, the number of respondents that chose "3" rose from 4 to 20, and those that chose "5" declined from 17 to 12. Because no respondents indicated "*Very severe*" or "*Severe*," the increase in the number of respondents that chose "3" was not the deterioration of the debt financing environment, but the fact that the debt financing environment continued to be favorable.

Regarding specific improvement, 39 respondents specified "*Contraction of interest spread*", followed by "*Expansion of underwriting areas and types*" which accounted for 32 respondents, and "*Increase of lenders considering new lending*" which accounted for 25 respondents. "*Contraction of interest spread*" was also the most popular response in the January 2013 survey. This indicates that spreads have been contracting further.

Fig.8 Circumstances of Debt Financing

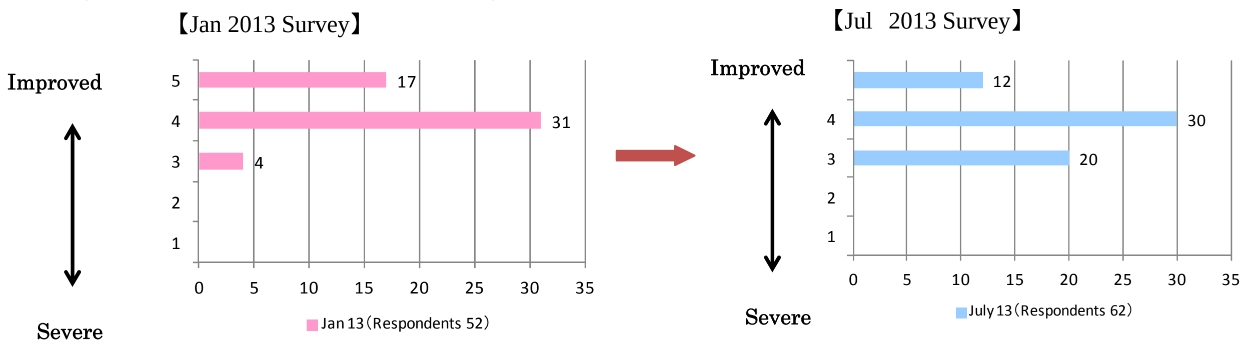
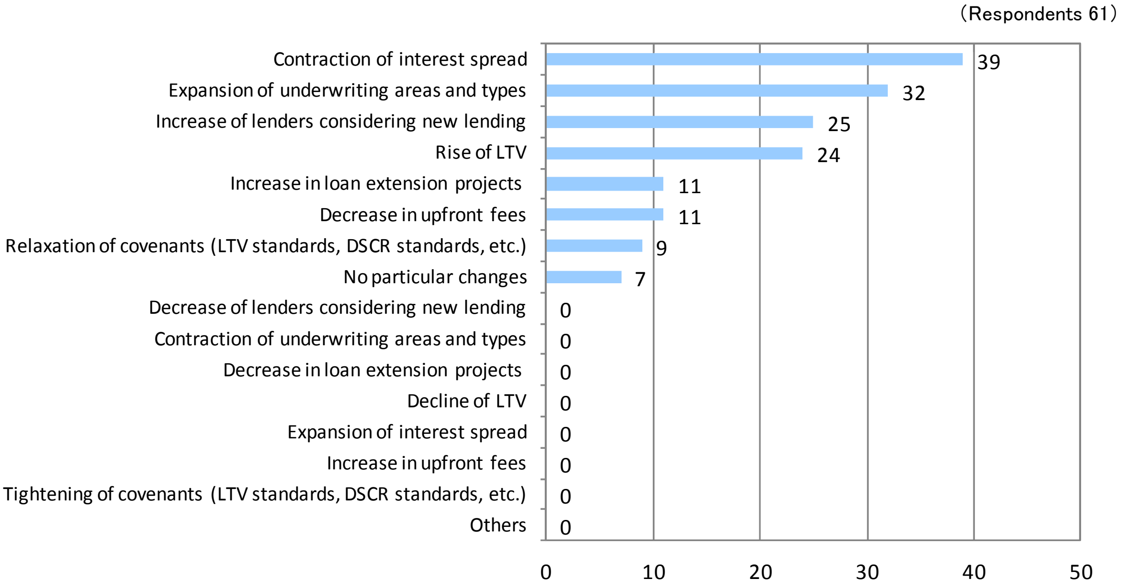


Fig.9 Changes in Circumstances of Debt Financing



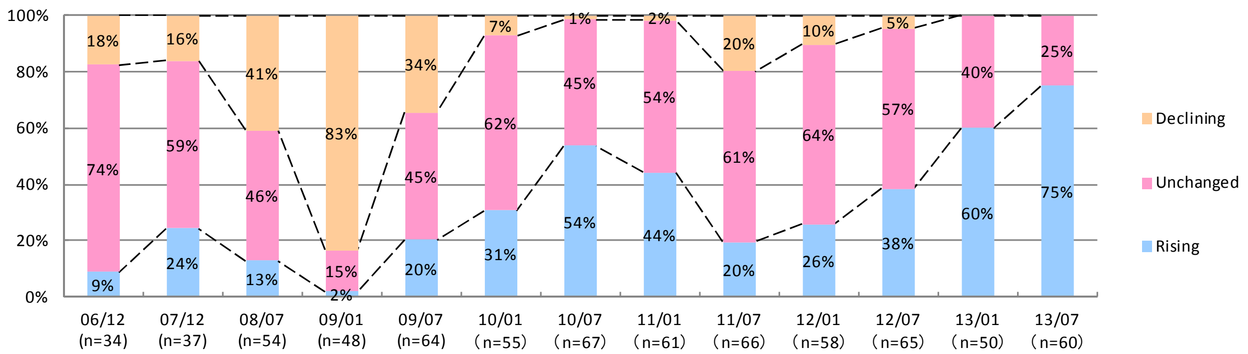
4) Circumstances of Equity Raising

a. Appetite of Equity Investors

With respect to the appetite of equity investors, 75% of respondents answered "*Rising*," marking a rise for the fourth consecutive term since the July 2011 survey (20%). Meanwhile, there was no response for "Declining" and 25% of respondents chose "*Unchanged*."

With the expectation of a recovery in the real estate rental and transaction markets, it is assumed that the investment appetite of real estate equity investors including domestic and foreign pension funds and foreign institutional investors has been growing further.

Fig.10 Appetite of Equity Investors

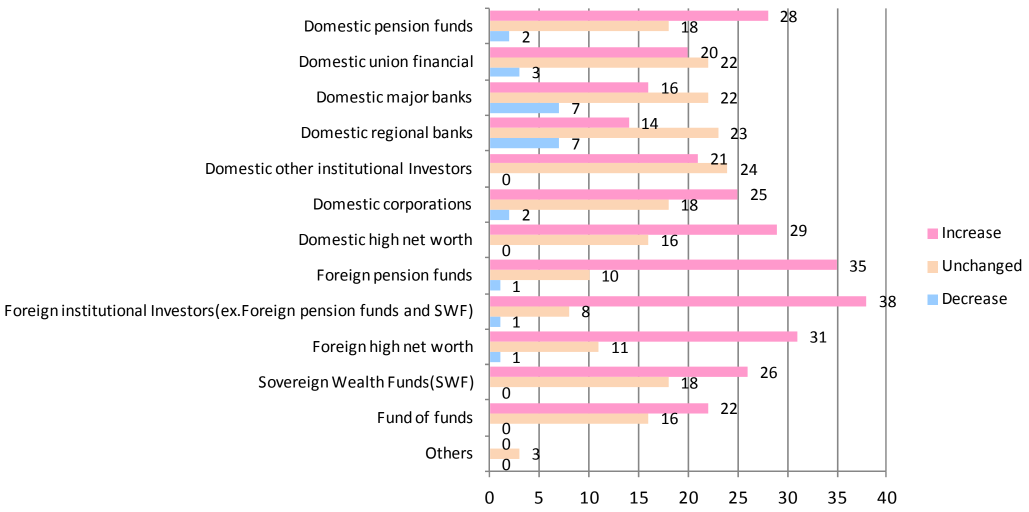


b. Increases and Decreases in Investment Volume by Investor Category

"*Foreign Institutional Investors (excluding Foreign Pension Funds and SWF)*" attracted the largest number of respondents (38 votes) as investors whose investment volume would increase in the future, followed by "*Foreign Pension Funds*" (35 votes) and "*Foreign High Net Worth*" (31 votes), representing popular responses for the expectation that the investment volume of foreign investors would increase.

Moreover, regarding "*Domestic Major Banks*" and "*Domestic Regional Banks*" whose investment volume was considered to decrease, the number of responses in this survey choosing "*Increase*" exceeded that of "*Decrease*." In general, compared with the January 2013 survey, the number of responses that supported the expectation of a higher investment volume increased.

Fig.11 Expectation for Volume Change By Investor

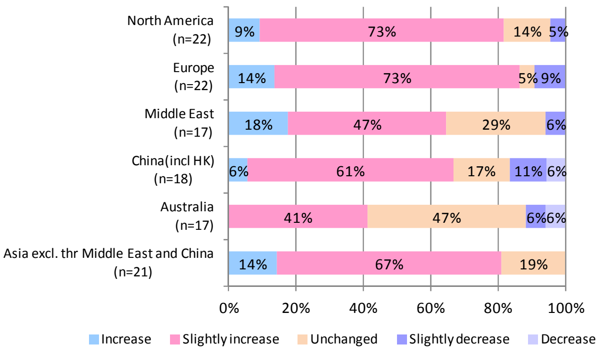


c. Expectation of Cash Inflow to Japanese Real Estate from Foreign Investors

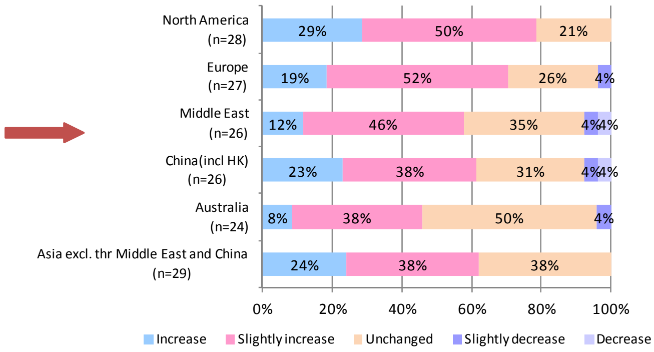
The expectation of a cash inflow to Japanese real estate from foreign investors generally improved compared with the January 2013 survey. The share of "*Slightly increase*" declined in all regions except the Middle East, and the share of "*Increase*" grew. Specifically, the share of responses choosing "*Increase*" grew from 9% to 29% in North America, from 14% to 19% in Europe, from 6% to 23% in China (including Hong Kong), from 0% to 8% in Australia, and from 14% to 24% in Asia excluding the Middle East and China.

Fig.12 Expectation of Cash Inflow to Japanese Real Estate from Foreign Investors

【Jan 2013 Survey】



【Jul 2013 Survey】



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

Regarding the reasons for foreign investors entering the Japanese real estate market, the most common responses were "*The size of the real estate market is large*" (27 votes), "*Politically and economically stable*" (26 votes), and "*Allocation as part of the global portfolio*" (24 votes). In addition, 21 respondents selected a newly introduced category, "*Expectation of an economic recovery from Abenomics*," representing the hopes for a recovery in the economy and the real estate market under the administration led by the Liberal Democratic Party of Japan.

Regarding reasons for foreign investors not to enter the Japanese real estate market, the most common responses were "*Lack of growth potential in GDP, consumption, population, etc.*" (25 votes), "*Low growth potential in income*" (21 votes), and "*Lack of attractive investment opportunities*" (21 votes). These responses indicate the concerns over Japan's sluggish economic growth and the lack of investment opportunities. It is therefore believed that there is a limited appetite for investments in Japanese real estate from foreign investors who value growth potential.

Fig.13 Reasons for Foreign Investors Investing in Japan

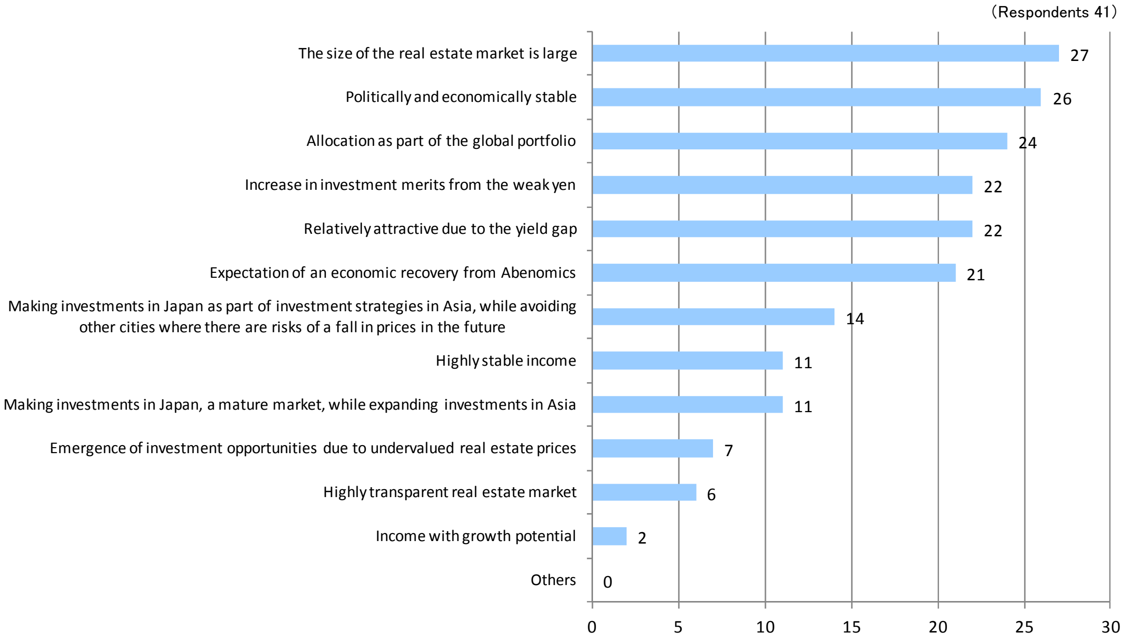
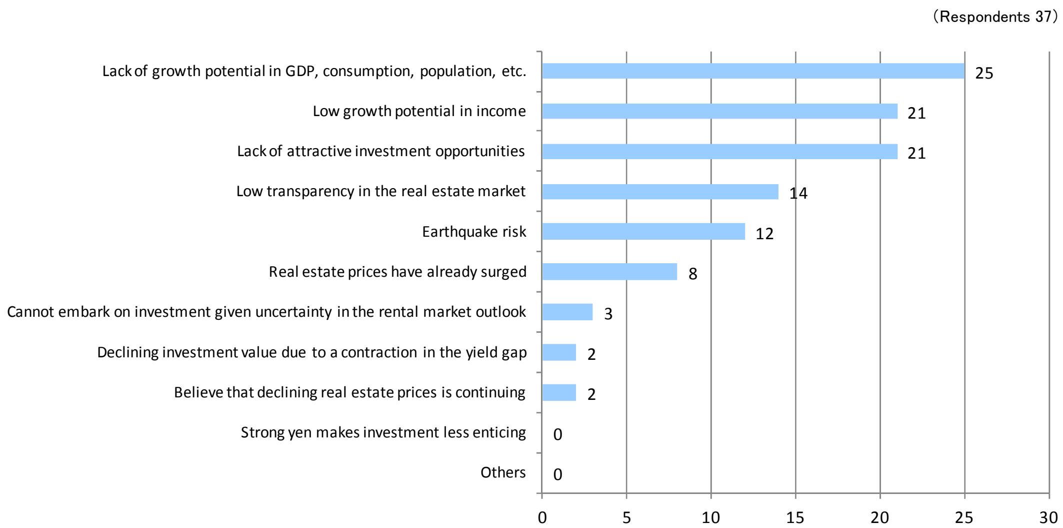


Fig.14 Reasons for Foreign Investors Not Investing in the Japanese Real Estate Market



5） Circumstances for Acquisition and Disposition of Properties in the First half of 2013

Looking at the circumstances for acquisition, the number of respondents answering "*Acquired*" was 49%, a slight decrease from the 51% in the January 2013 survey. As for the number of properties examined for acquisition (assessment of profitability, etc.), 7 respondents answered "*31–50 properties*" and 11 respondents answered "*51 properties or more*." An increase in the share of these answers compared with the January 2013 survey suggests a strong appetite for acquiring properties and a rise in the number of properties for potential acquisition available in the market. The most common reasons for not acquiring property were "*Can't agree on prices*" (19 votes) and "*Severe competition in bids*" (9 votes).

Turning to the circumstances for disposition in the first half of 2013, compared with the second half of 2012, 29 respondents answered "Improved" and 18 respondents chose "Slightly improved" while zero respondents answered "More severe" or "Slightly severe," showing an improvement in the sales environment.

Fig.15 Circumstances for Acquisition

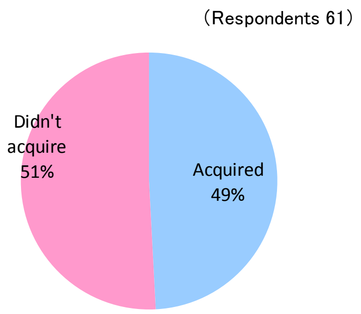


Fig.16 Number of properties examined for acquisition

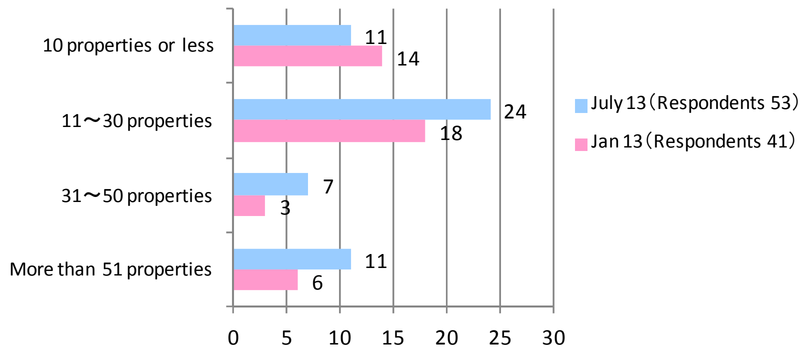


Fig.17 Reason for not acquiring property

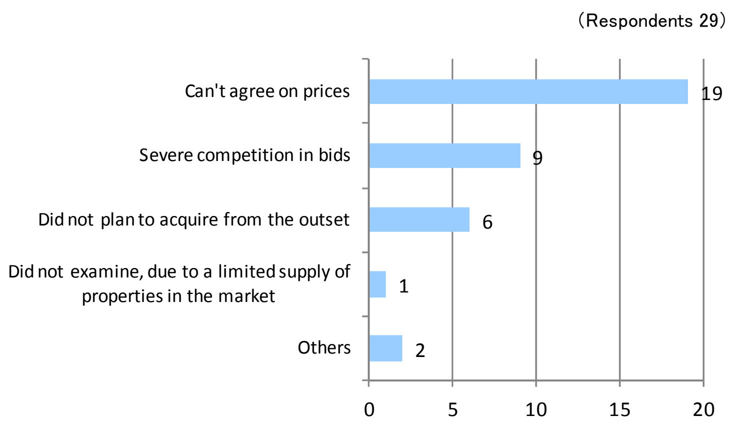
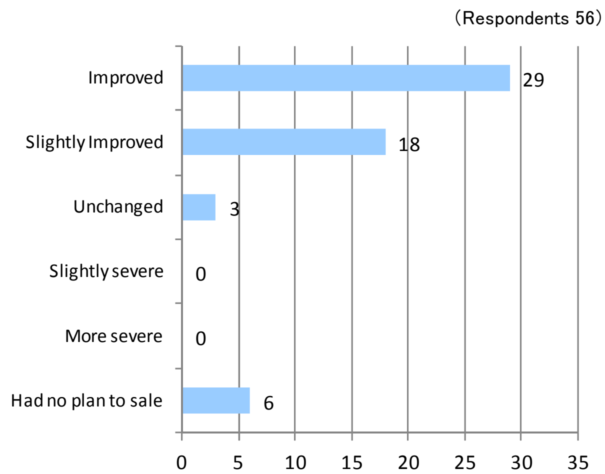


Fig.18 Circumstances for Disposition

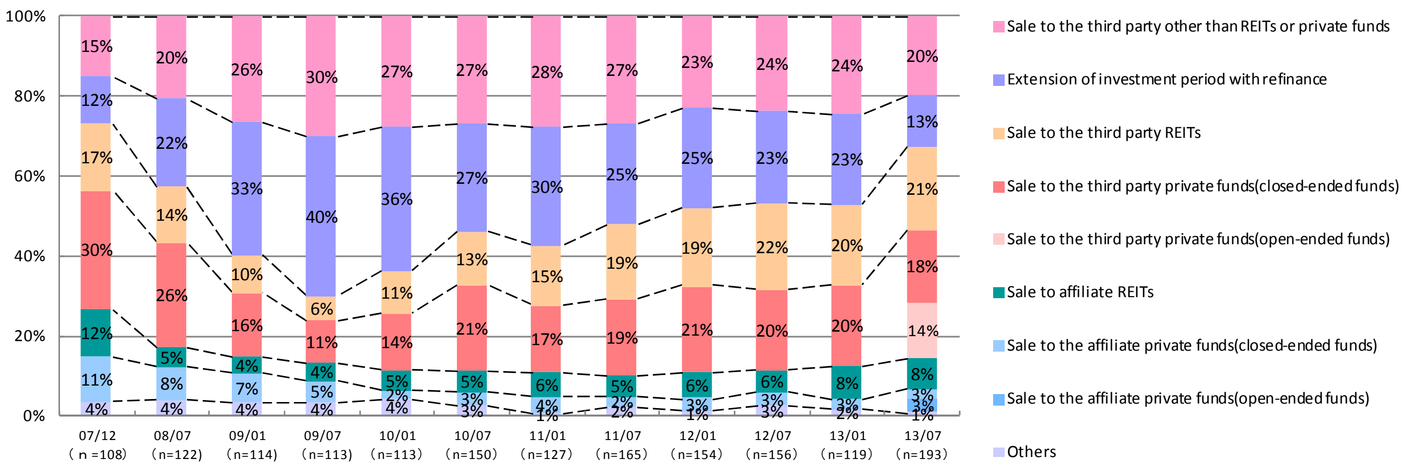


6）Exit Strategies

With respect to the exit options available over the next one year, the largest share of 21% chose "*Sale to the third party REITs*". The second largest share (20% of respondents) was "*Sale to the third party other than REITs or private funds*", and " *Sale to the third party private funds (Closed-ended Funds)*" (18% of respondents), " *Sale to the third party private funds (Open-ended Funds)*" (14% of respondents). Meanwhile, the share of "*Extension of investment period with refinance*" came to 13%, a significant drop from the 23% in the January 2013 survey.

In this survey, in which closed-ended funds and open-ended funds were separated for the first time, it was also confirmed that a certain number of investment management companies regarded open-ended funds as a purchaser. The sales environment has been improving, and conditions are assumed to be favorable in the future for the redemption of existing private estate funds.

Fig.19 Exit Options Available Over the Next One Year



*Since the July 2013 survey, privately placed real estate funds have been segmentalized to closed-ended funds and open-ended funds.

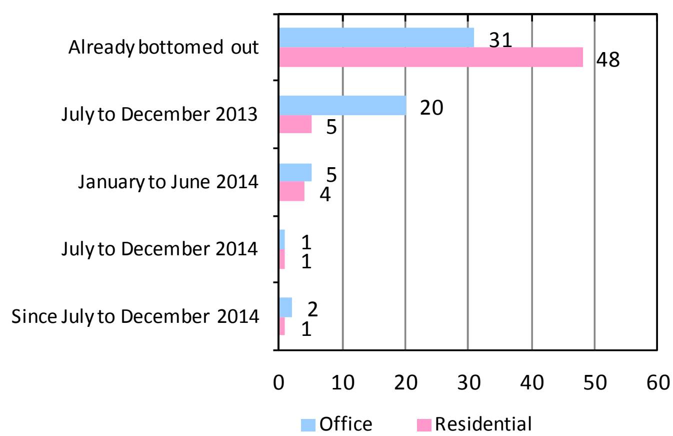
2. Outlook for the Market

1）Timing of the Bottoming out of Rents

As for the office sector, an overwhelming majority (31 companies), answered "*Already bottomed out*", followed by "*July to December 2013*" (20 companies).

Regarding the timing of the bottoming out of residential rents, the largest number of respondents answered "*Already bottomed out*" (48 companies), and only a limited number of respondents chose other answers.

Fig. 20 Timing of the Bottoming out of Rents



2） Cap Rates Forecast by Area

〈Office〉

The number of respondents who answered that the cap rate would “*Decline*” increased in all areas compared with the January 2013 survey. In the previous survey, many respondents answered that the cap rate in the central five wards of Tokyo would “*Decline*.” In this survey, more areas had responses that the cap rate would “*Decline*.”

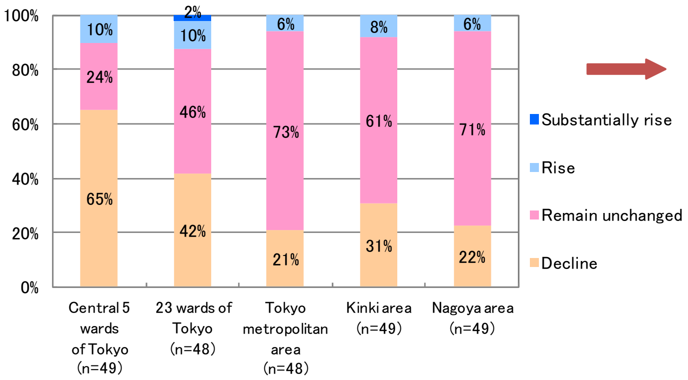
〈Residential〉

The number of respondents who answered that the cap rate would “*Decline*” increased in all areas compared with the January 2013 survey. Approximately half of respondents also answered that the cap rate would “*Decline*” in other areas.

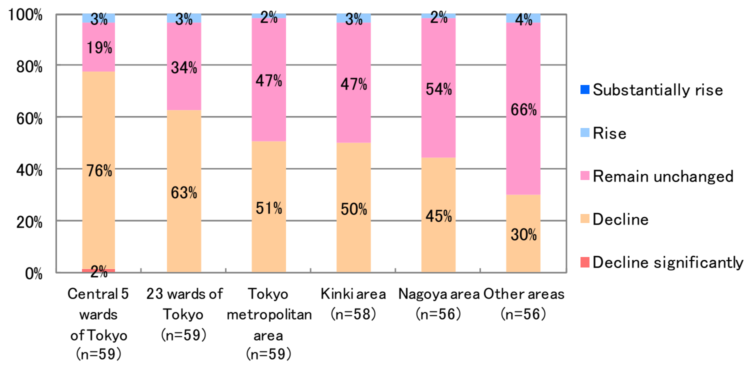
Fig. 21 Forecast for Cap Rates by Area

〈Office〉

【Jan 2013 Survey】

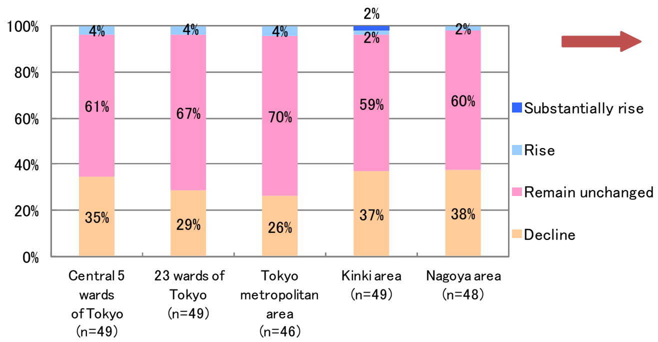


【Jul 2013 Survey】

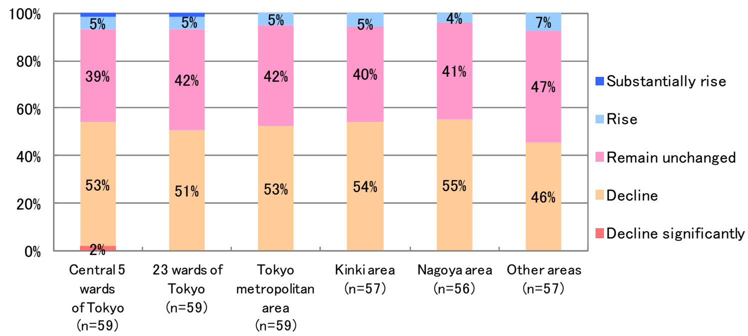


〈Residential〉

【Jan 2013 Survey】



【Jul 2013 Survey】



3) Real Estate Transaction Activities in the first half of 2013 and Forecast

Responding to a question on how the transaction activities in the January to June 2013 period changed compared with the July to December 2012 period, the most common response (40 votes) was "*Increased*." and "*Increased significantly*" had 8 respondents , suggesting that many respondents have experienced an increase in real estate transactions.

Regarding expectation of investment transactions by private funds and J-REITs in the second half of 2013 (July to December), 65% of respondents answered that transactions by J-REITs would "*Increase*" and 6% said "*Increase significantly*", totaling 71%. Meanwhile, 69% of respondents answered that transactions by private funds would "*Increase*," and 5% said "*Increase significantly*", totaling 74%.

No respondents indicated that transactions by either J-REITs or private funds would "*Decrease significantly*," and a number of respondents expected investment transactions by listed or unlisted funds to continue to grow.

Fig.22 Real Estate Transactions (July-Dec 2012 to Jan-Jun 2013)

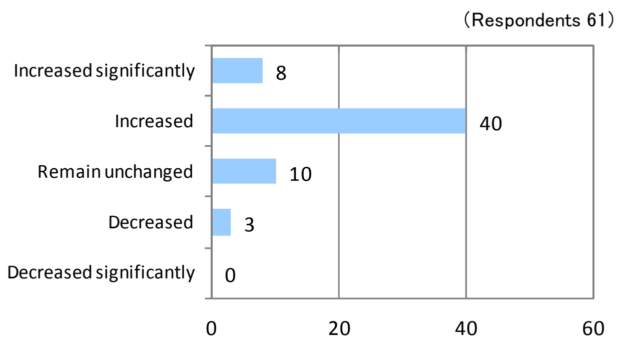
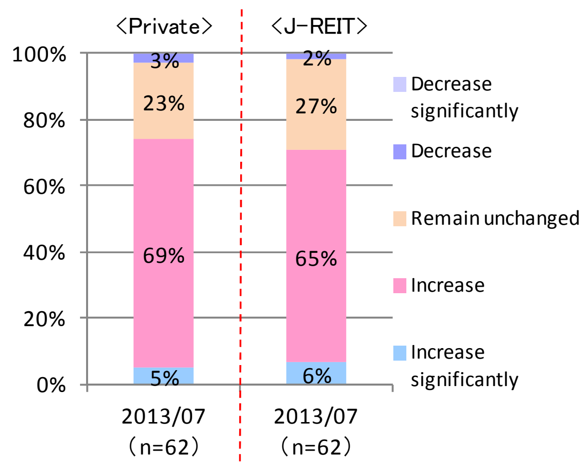


Fig.23 Forecast for Transactions by private funds and J-REITs in the second half of 2013



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 27 respondents, answered that they "*Seek to develop a better understanding and gather information, but not working on a detailed study*".

Regarding open-ended funds, while some respondents answered "*Have heard of them but not examined them*" (8 votes), 7 respondents indicated that they were "*Preparing to start managing an open-ended fund after some examination*," 7 respondents answered that they have "*Examined and deferred setting up an open-ended fund, but may examine again in the future*," and 6 respondents answered that they have "*Already started managing an open-ended fund*." These responses show that a certain number of investment management companies have been examining or managing specific open-ended funds.

As for the target investors of open-ended funds, the largest number of managers chose "*Domestic Pension Funds*" (12 votes), suggesting that currently a majority of managers target domestic institutional investors including domestic pension funds.

Fig.24 Managers' involvement with Open-ended Funds

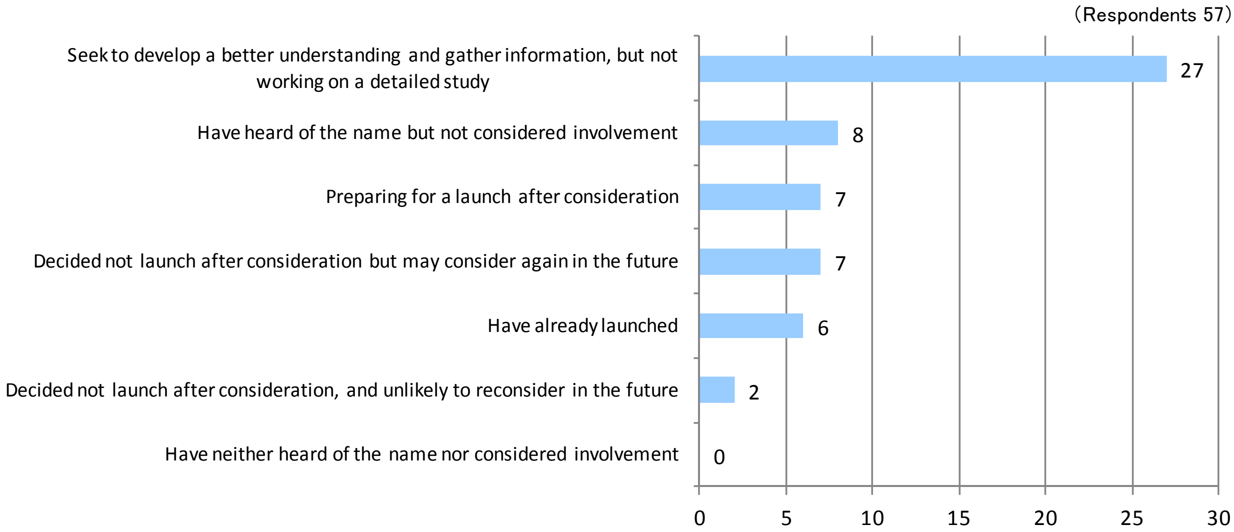
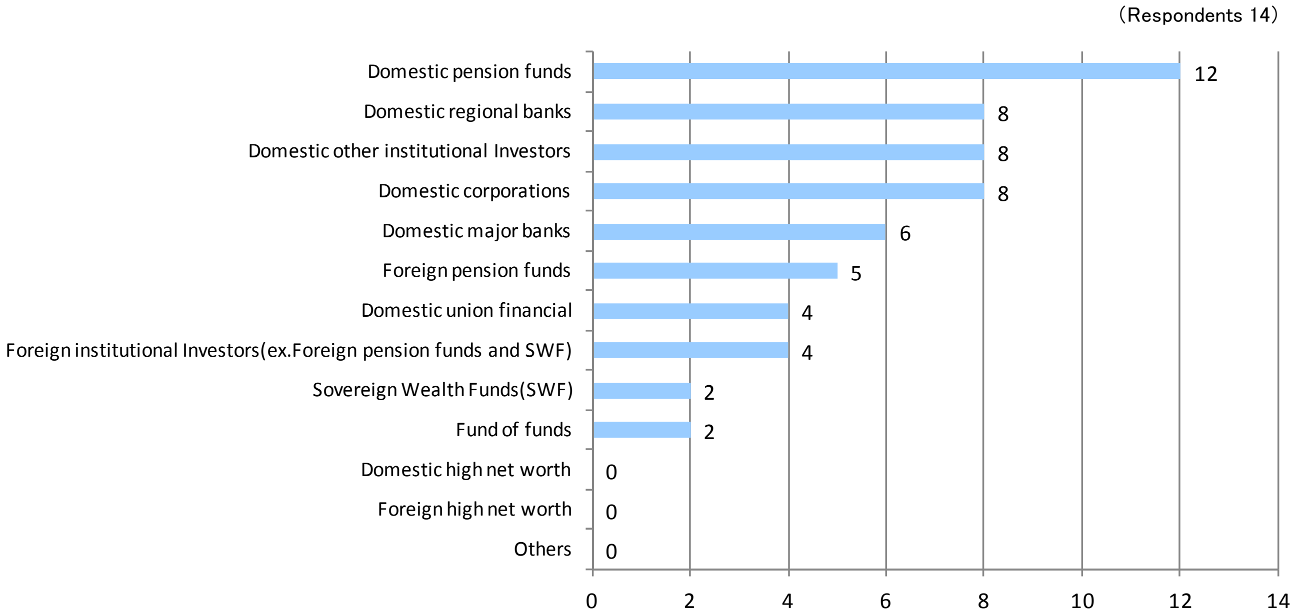


Fig.25 Target Investors of Open-ended Funds



2) Real estate investments by pension funds

Eighty nine percent of respondents "*Expect*" real estate investments by domestic pension funds to increase. As the reasons for it, respondents pointed out that, although pension funds are long-term investors fitting real estate investments, their current allocation to real estate was still low. As for the category of the pension funds that are expected to increase investments, "*Government Pension Investment Fund (GPIF)*" and "*Corporate pension (employees' pension fund and defined benefit corporate pension fund)*" attracted 39 respondents each.

Fig.26 Real estate investments by pension funds

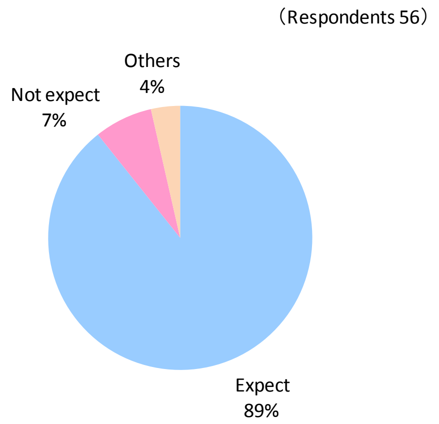
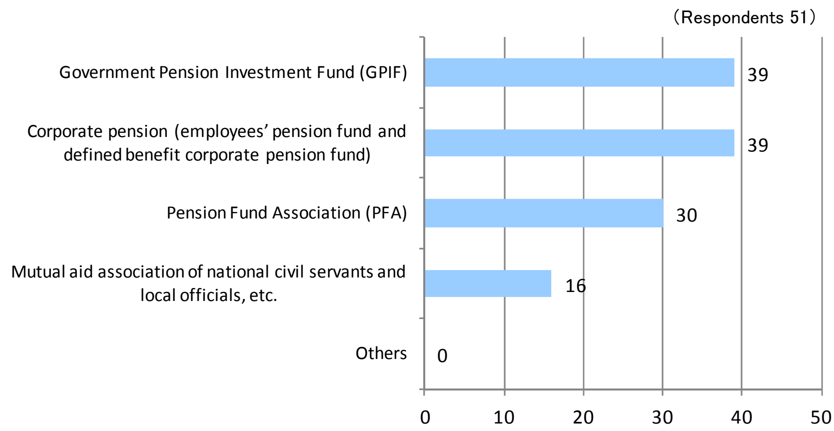


Fig.27 Expectation for the real estate investment by each category of pension funds



3) The effects of Abenomics on the real estate market

With respect to the effects of Abenomics on the real estate market, 30 respondents each chose "*It would bring about positive effects*" and "*Not sure, depending on the success of Abenomics*." Although there was still uncertainty in terms of the success of Abenomics, only one respondent answered "*There are concerns over possible negative effects, such as the occurrence of a bubble*." The survey showed an equal number of investment management companies adopting a conservative view and anticipating positive effects from Abenomics.

Regarding the changes in the equity finance environment that will take place over a year by continuation of Abenomics, 45 respondents answered "*Increase in investment capital supported by the expectation for higher real estate prices*," 35 respondents answered "*Inflows of investment capital into the private real estate fund market on the back of the buoyant stock market and the J-REIT market*," and 23 respondents chose "*Increase in the investment capital of foreign investors with the depreciation of the yen*."

Fig.28 The effects of Abenomics

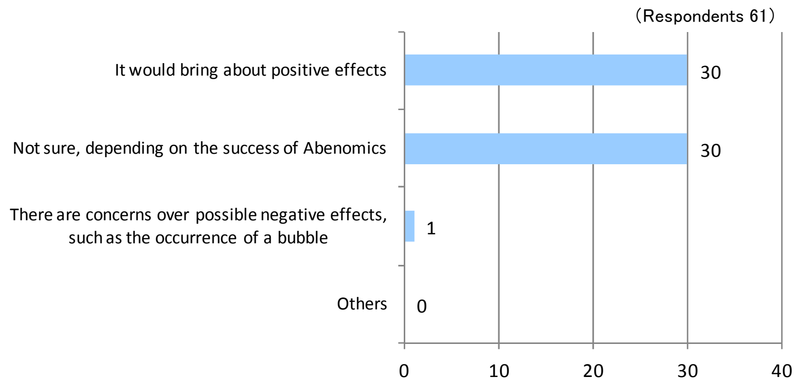
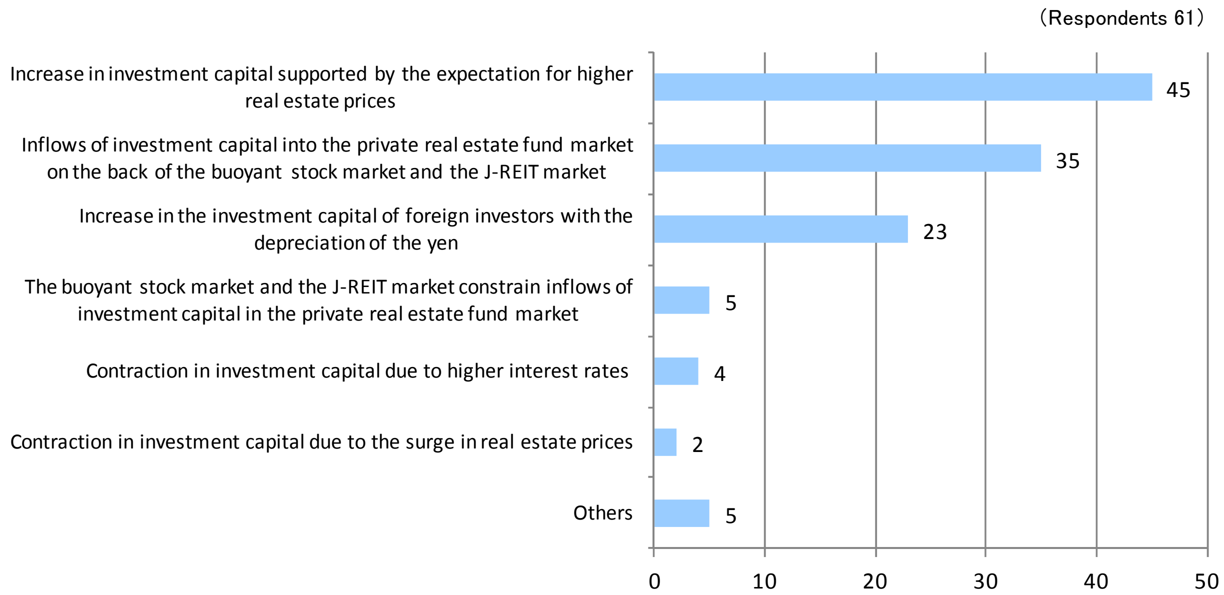


Fig29 Changes taking place over a year by continuation of Abenomics in the equity finance environment



4) 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, more than half of respondents answered "*No plans now or in the future*," while the share of respondents who answered "*Have already launched*" increased from the January 2013 survey, to approximately a quarter (24.1%).

As for the reason for not entering the overseas real estate investment management business, a large number of respondents answered "*Will focus on investments in Japan*" (48%). Although a number of investment management companies currently tend to focus on domestic investment businesses, there are apparently a certain number of investment management companies that are targeting overseas real estate for their investments.

Fig.30 Managers' Involvement with the Overseas Real Estate Management Business

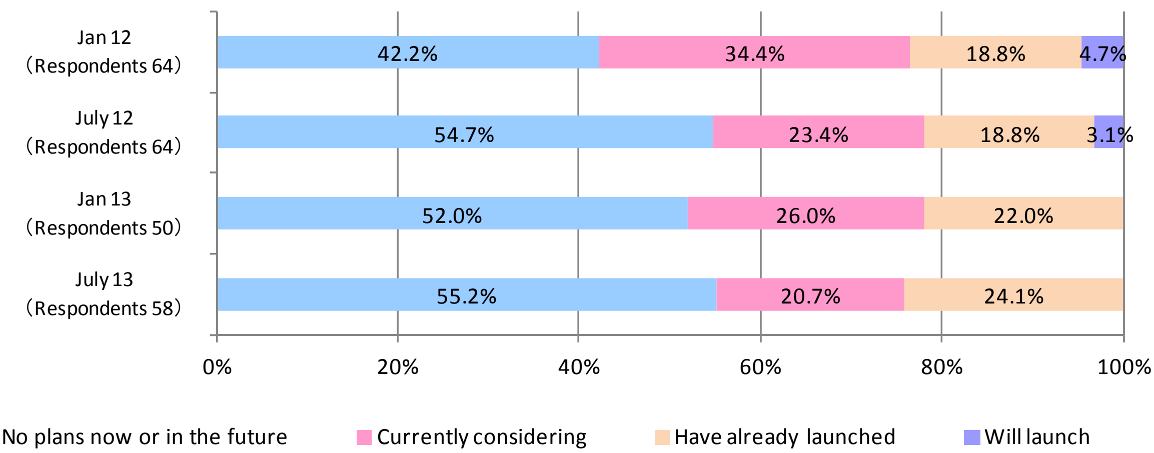
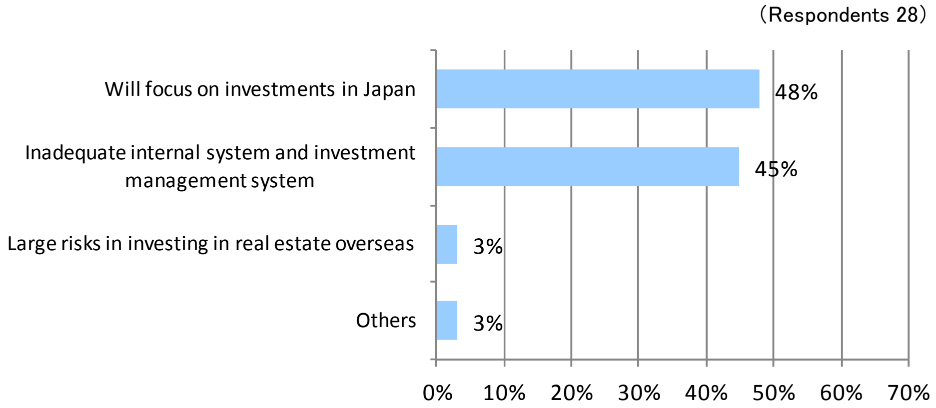


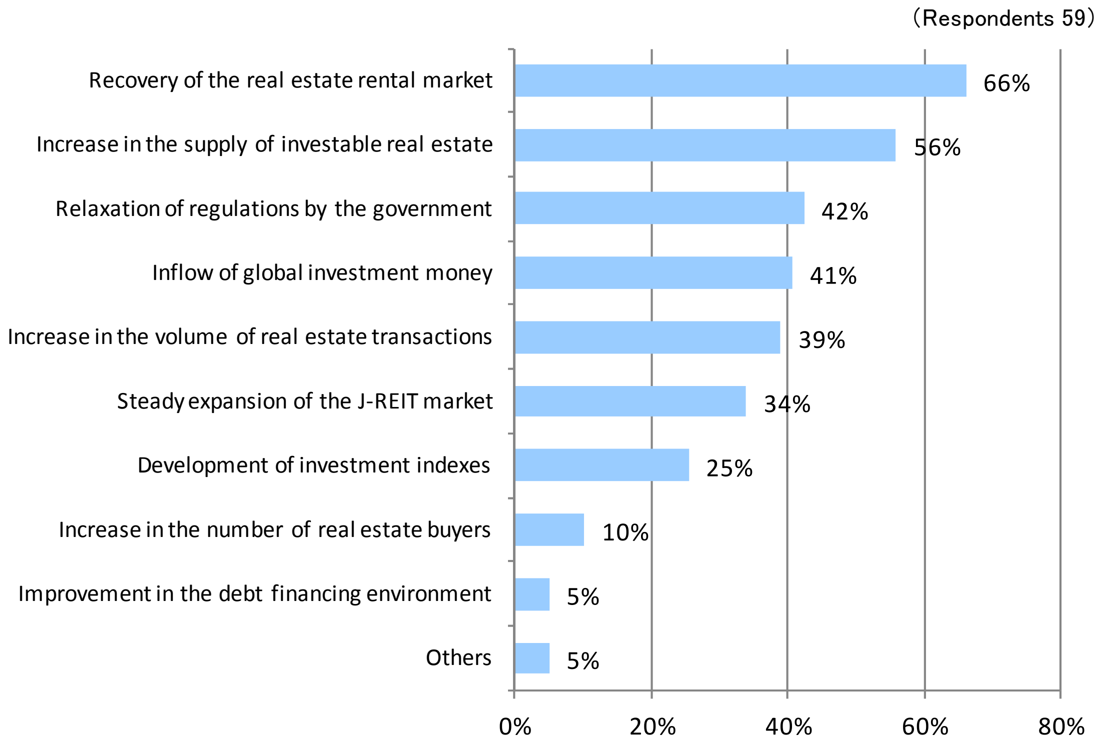
Fig.31 Reasons for Not Doing the Overseas Real Estate Management Business



5) Important Factors for Improvement in the Private Real Estate Funds Market

With respect to important factors necessary for the recovery of the private real estate funds market, the most common answer was *"Recovery of the real estate rental market"* this shows that there are a number of investment management companies that value the growth of cash flows. A number of respondents also answered, "*Increase in the supply of investable real estate*" (56%) and "*Relaxation of regulations by the government*" (42%).

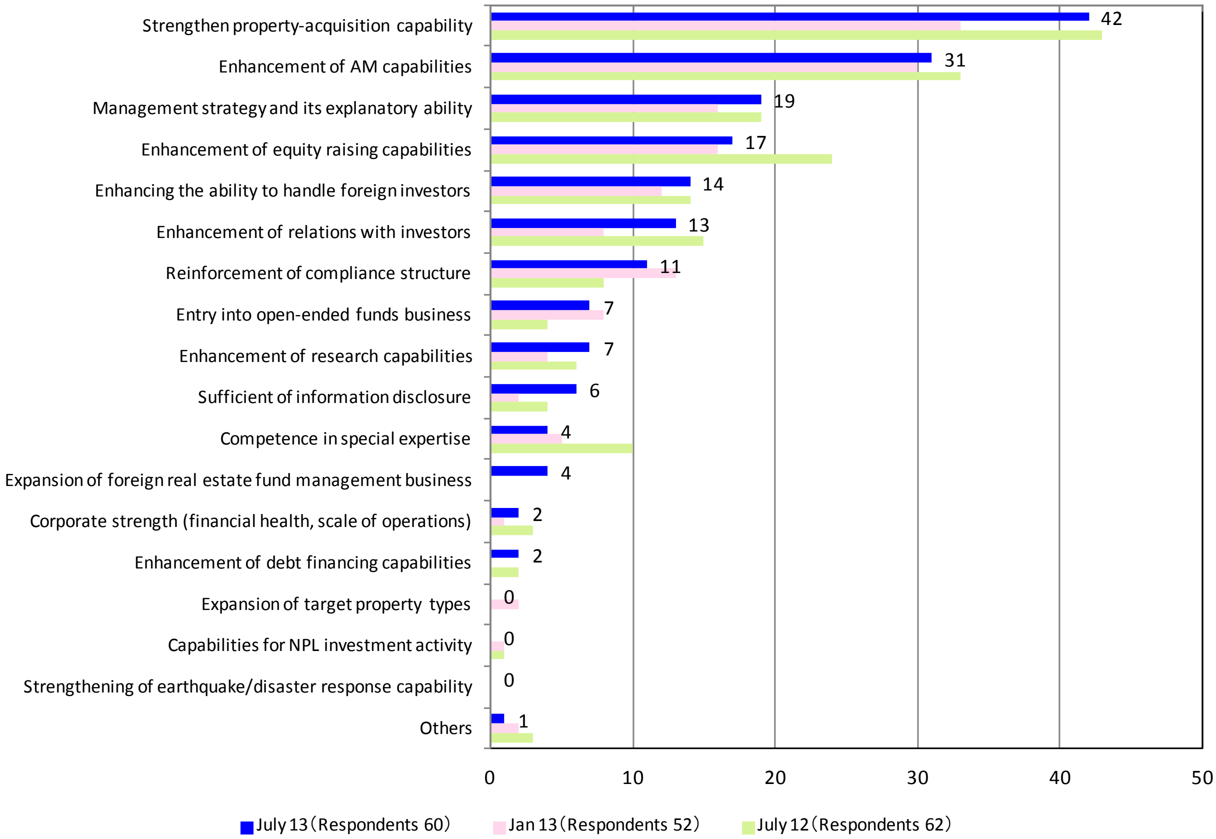
Fig.32 Important Factors for Improvement in the Privately Placed Real Estate Funds Market



6) 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*" (42 votes), followed by *"Enhancement of AM capabilities"* (31 votes).These responses represent a situation, in which, while real estate equity investors' appetite for investments is growing, real estate prices are rising, and having enhanced capabilities to acquire properties has become more desirable.

Fig.33 Manager's 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.

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