

Japanese Economy

The economy is recovering, despite some weakness in consumption.

- Corporate profits are improving and business investment is increasing.
- The employment situation is improving on a broader basis.
- Exports have been flat and industrial production is increasing moderately.

Japanese Financial Market

- February 21, 2007, The Bank of Japan changed the guideline for money market operations. The overnight call rate raised to 0.5% from 0.25%.
- The environment for the corporate finance is accommodative. The issuing environment for cp and corporate bond is favorable.
- The Bank of Japan will adjust the interest rate gradually while maintaining very low interest rate for some time.

Japanese Financial Market(2)

Land prices are increasing. The real estate fund market is expanding.

Financial Services Agency (FSA) has started to concern 'the bubble economy'.

FSA is checking strictly

- Trust banks are getting tougher to screen trusts.
- Banks are cautious to increase non-recourse loans.
- J-Reits are executing operations in a fair and accurate manner.

Real Estate Market in Japan

Investment Trends

- Japanese real estate remained attractive to both domestic and international investors with the low cost of capital and favorable rent out look.
- In Australia, two Listed Property Trusts (LPTs) with portfolios solely Japanese properties were launched last October. Rubicon Japan Trust became the most actively traded and surged to AUD1.145 from its IPO price AUD1.

SELECTED MAJOR TRANSACTION RECORDS (OCT TO DEC 2006)(WORTH OVER JPY 10 BILLION) EXCHANGE RATE:US\$1 =JPY 119.16

	name	address	sector	seller	buyer	JPY	US\$
◆	Roppongi Hills Gate Tower	Minato-ku,Tokyo	Office	Mori Building	Mori Hills REIT	36,500,000,000	306,310,843
◆	Kouraku Mori (80% stake)	Bunkyo-ku,Tokyo	Office	Mori Building	Mori Hills REIT	27,200,000,000	228,264,518
◆	Access Headquarter	Chuo-ku,Osaka	Office	Access	Risa Partners	23,100,000,000	193,856,999
◆	Roppongi First (46% stake in land and building)	Minato-ku,Tokyo	Office	Mori Building	Mori Hills REIT	21,000,000,000	176,233,635
◆	DaVinci Onarimon	Minato-ku,Tokyo	Office	Y.K.Blueway	DaVinci REIT	13,860,000,000	116,314,199
◆	Toranomon 35 Mori (73.3% stake in building)	Minato-ku,Tokyo	Office	Mori Building	Mori Hills REIT	12,720,000,000	106,747,231
◆	Takashimaya T. S (circa 40% stake in land and building)	Shinjuku-,Tokyo	Retail	-	Tkyu R E	121,000,000,000	1,015,441,423
◆	Diamond City Terrace	Itami City,Hyogo	Retail	Mitsubishi S	Japan Retail	20,300,000,000	170,359,181
◆	Nu Chayamachi	Kita-ku,Osaka	Retail	Hankyu R	Hankyu REIT	19,300,000,000	161,967,103
◆	Komehyo Center	Shinjuku-Tokyo	Retail	Hayato	CGI	15,330,000,000	128,650,554
◆	Moto Azabu Hills (56% stake in land;46.2% in building)	Minato-ku,Tokyo	Resid	Mori Building	Mori Hills REIT	27,300,000,000	229,103,726
◆	Catherina Mita Tower Suite	Minato-ku,Tokyo	Resid	New City	New City REIT	16,200,000,000	135,951,662
◆	Fukazawa House	Setagaya-,Tokyo	Resid	Fukuzawa	TOP REIT	10,635,000,000	89,249,748

□Resid =Residential

Office Investment Market

- ◆ Central five wards Grade A office price index(CBRE) increased 37.8% y-o-y.
- ◆ Prime Tokyo office rents surged by about 30.5% y-o-y.
- ◆ Prime office cap rates steadied at 3% NOI.
- ◆ For private funds, Grade B office buildings in Tokyo CFW and in prominent locations of the regional cities , JPY5billion and over, remained especially desirable.

Hotel Investment Market

- ◆ All Nippon Airways (ANA) and Seibu Holdings plan the disposal of hotel and leisure resort facilities.
- ◆ ANA is going to sell 13 domestic hotel properties, including its flagship ANA Hotel Tokyo and Manza Beach Hotel in Okinawa.
- ◆ Seibu Holdings continued to dispose its non-performing hotel and ski resorts.

Residential Investment Market

- ◆ Two new J-REITS with premium residential asset launched. The Nippon Accommodations Fund and Mori Hills REIT. Average NOI cap rate is around 4.7%.
- ◆ Residential properties in regional cities, such as Nagoya, Sapporo remained popular Purchases, with an average NOI yield of 5.88%.

Industrial Investment Market

- ◆ A number of domestic developers plans to construct investment-grade logistics facilities, lease them to tenants and sell them to the market.

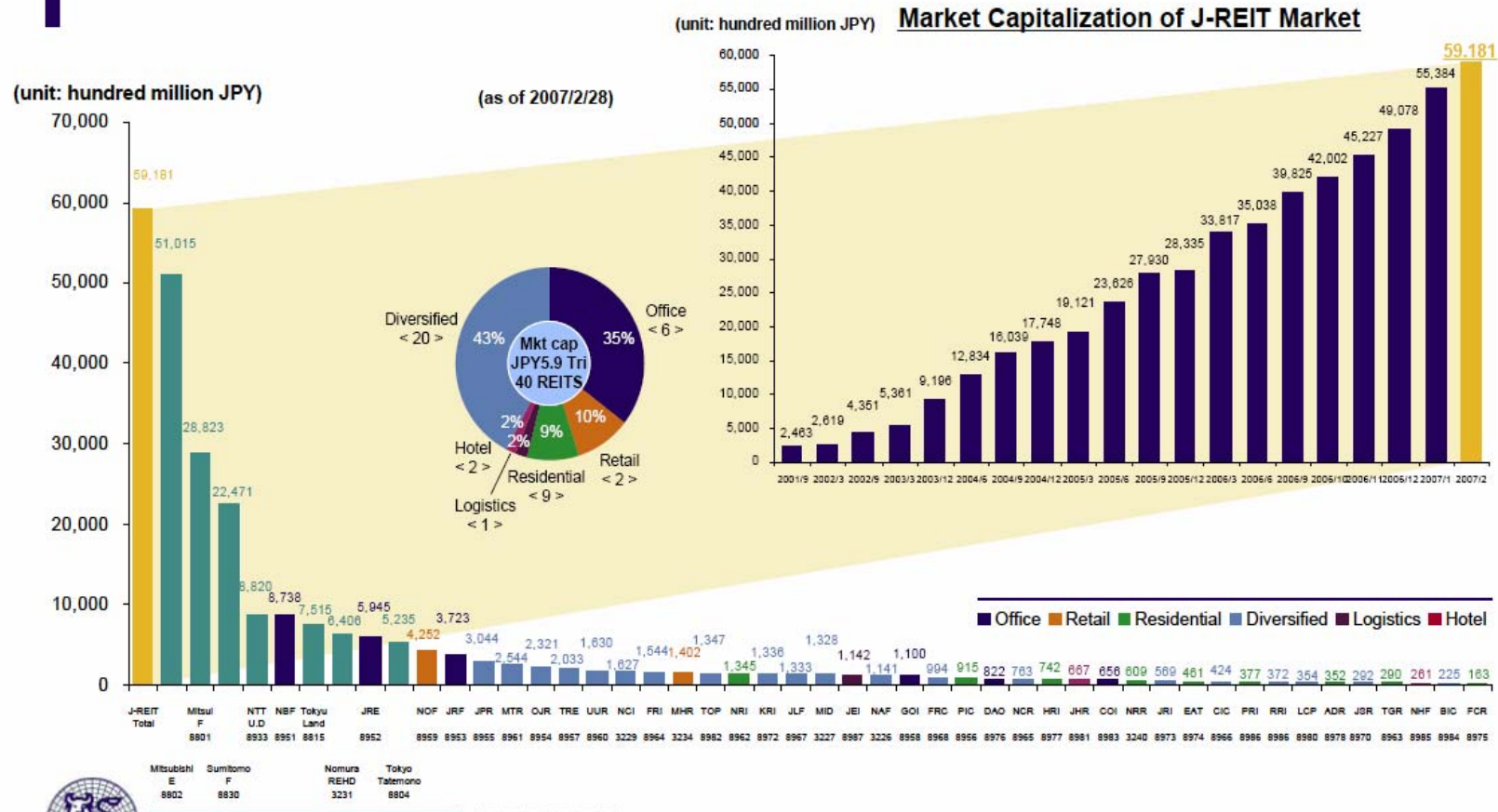


Retail Investment Market

- ◆ The retail investment remained brisk as a general shortage of quality retail properties which helped push up rents for prime space.
- ◆ The largest was Tokyu Real estate's acquisition of 40% interest in Takashimaya Times Square for JPY121billion.
- ◆ J-REITS have been active buyers of regional retail assets. NOI cap rate is around 5.3%.

J-REIT Market Update (Feb, 2007)

Equity Market Cap (as of Feb. 28th, 2007)



Source: Outstanding units from Financial Statements/Prospectus, Unit Prices as of 2007/2/28 from Factset



YTD Capital Market Trend

Performance in February, 2007 ⁽¹⁾

TSE REIT Index: 5.7% increase

[\(1/31\) 2,212.51](#) ⇒ [\(2/28\) 2,337.70](#)

TOPIX Real Estate Index: 6.8% increase

[\(1/31\) 2,106.77](#) ⇒ [\(2/28\) 2,249.25](#)

Nikkei average: 1.3% increase

[\(1/31\) JPY17,383.42](#) ⇒ [\(2/28\) JPY17,604.12](#)

10-year JGB yield: 0.068 point decrease (price increase)

[\(1/31\) 1.704%](#) ⇒ [\(2/28\) 1.636%](#)



Source: Bloomberg

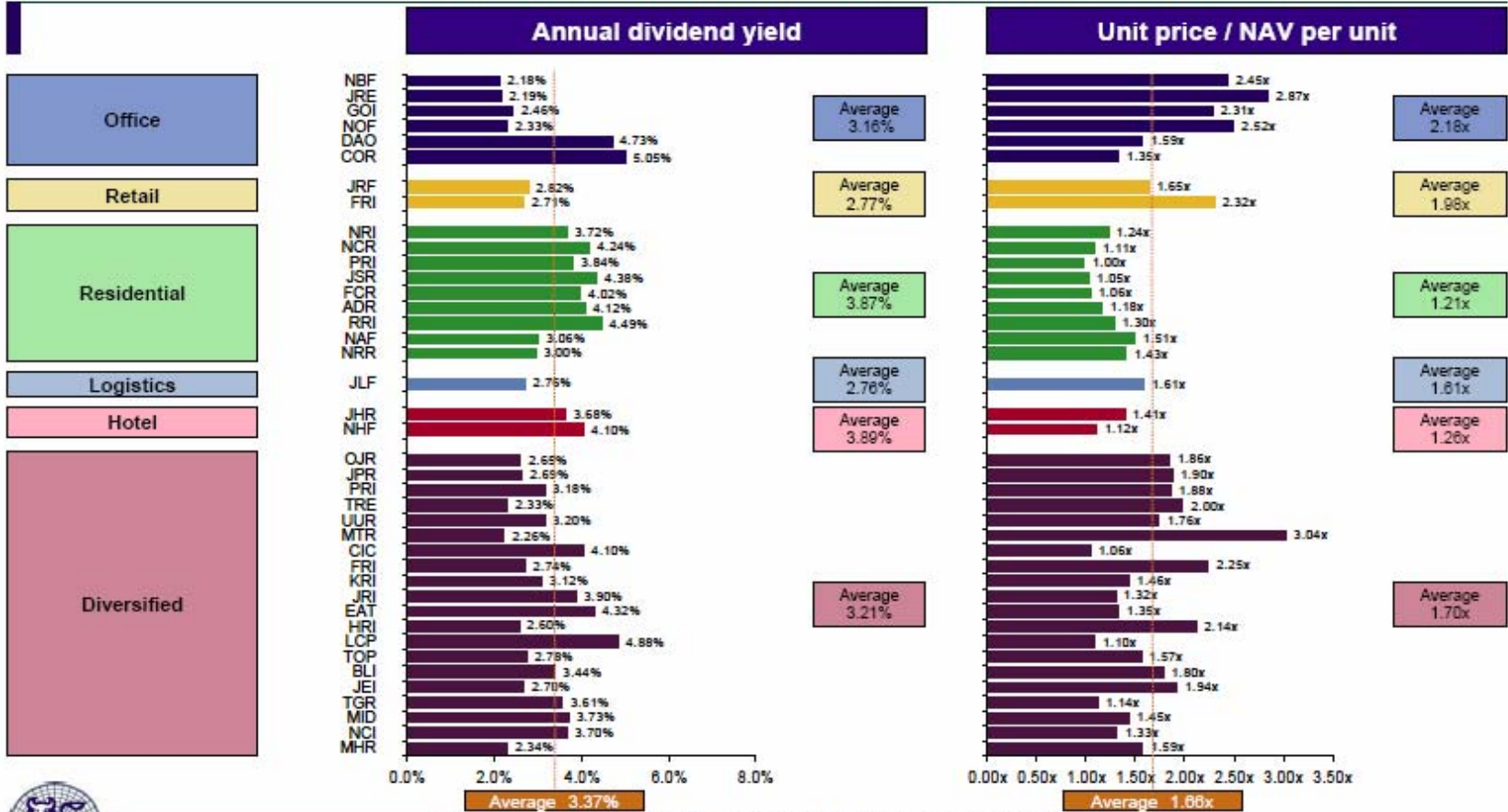
(1) February 28, 2006 = 100

(2) 10 years bond yield is indicated as its absolute value (%)

■ Nikkei Average ■ TOPIX Real Estate Index ■ TSE REIT Index ■ 10yr JGB Yield

J-REIT Market Update

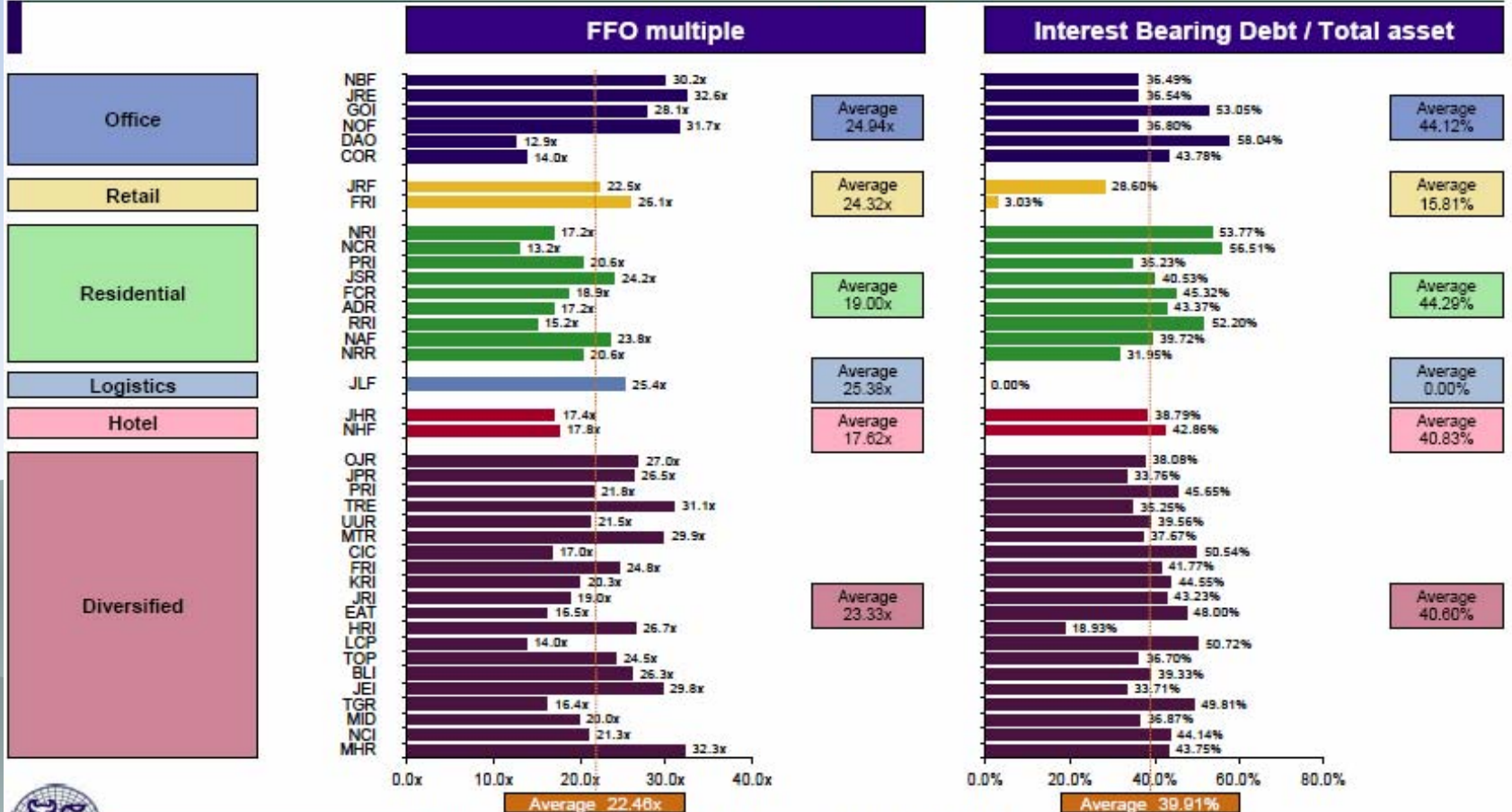
Valuation of the TSE listed J-REITs (as of Feb. 28th, 07)



(1) Please refer to the "comparative analysis" for the methodologies. Averages are weighted by the market capitalization

J-REIT Market Update

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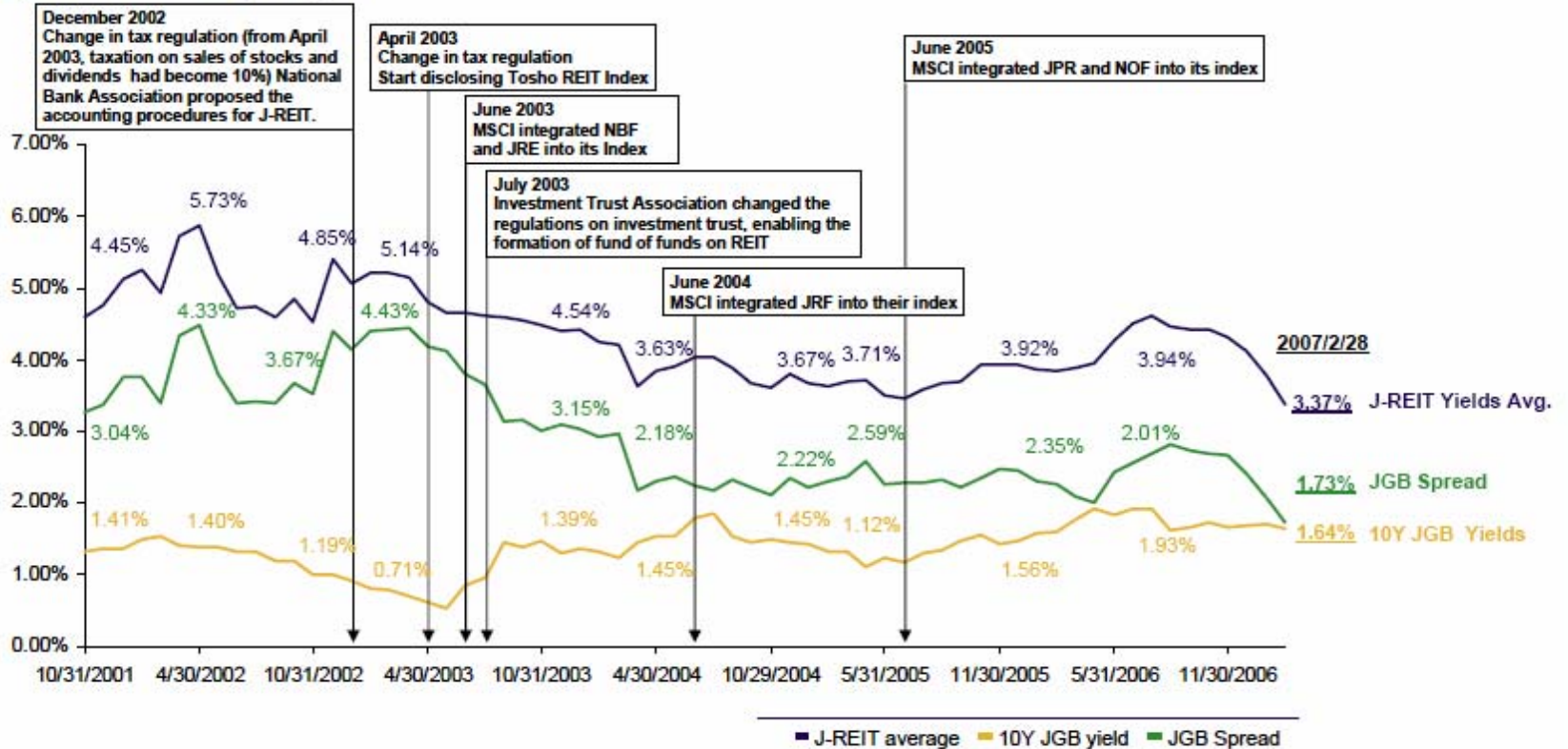


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J-REIT Yields Trend

J-REITs vs. 10-year JGB



* J-REIT Yields Average calculated by taking average of each REIT's yield since IPO

REIT Index Performance by Country

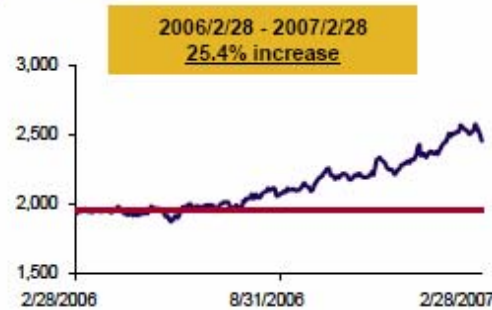
US REIT



Source: Bloomberg

RMS

AUS LPT



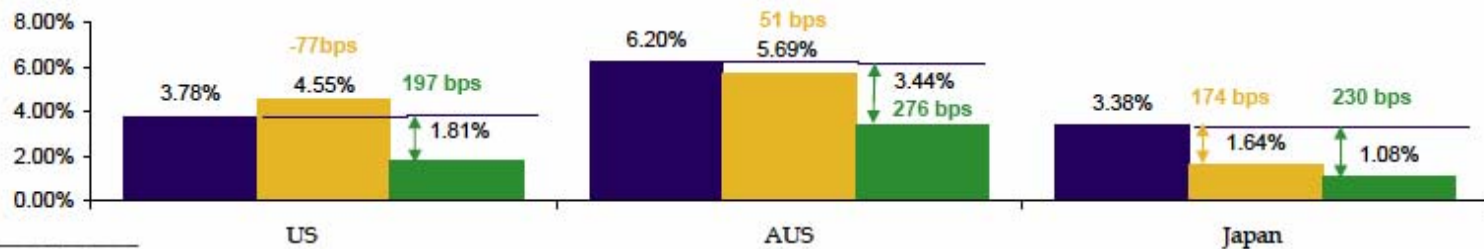
S&P ASX Property Trust

J-REIT



TSE REIT Index

REIT Yields vs. 10yr Government Bonds Yields vs. Stock Index Dividend Yields



Source: Bloomberg.

(1) NAREIT for the U.S., Dividend yield from Merrill Lynch Monthly Research Report for Australia, Average of all TSE listed J-REITs for Japan

(2) S&P500 for the U.S., ASX All Ordinaries for Australia, TOPIX for Japan

■ REIT Yields(1)

■ 10yr Govt Bonds

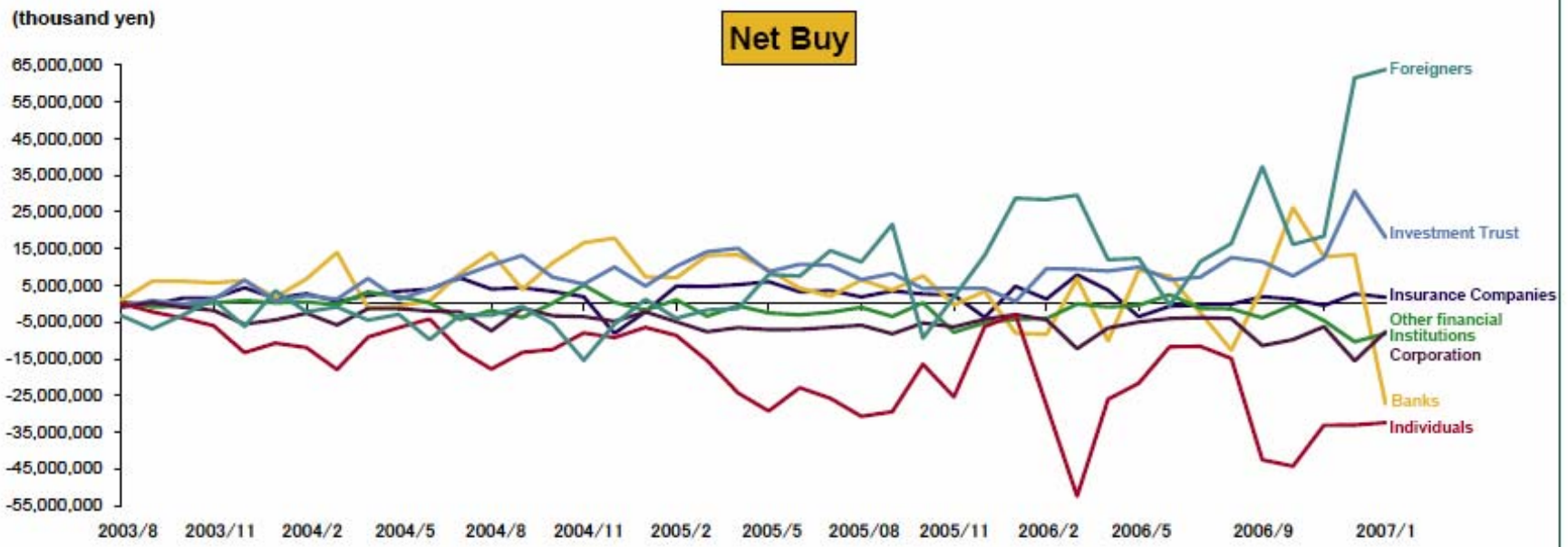
■ Index Dividend Yields(2)



J-REIT Market Update

Monthly Net Trading Volume by Investor Category

Monthly Net Trading Volume by Investor Category



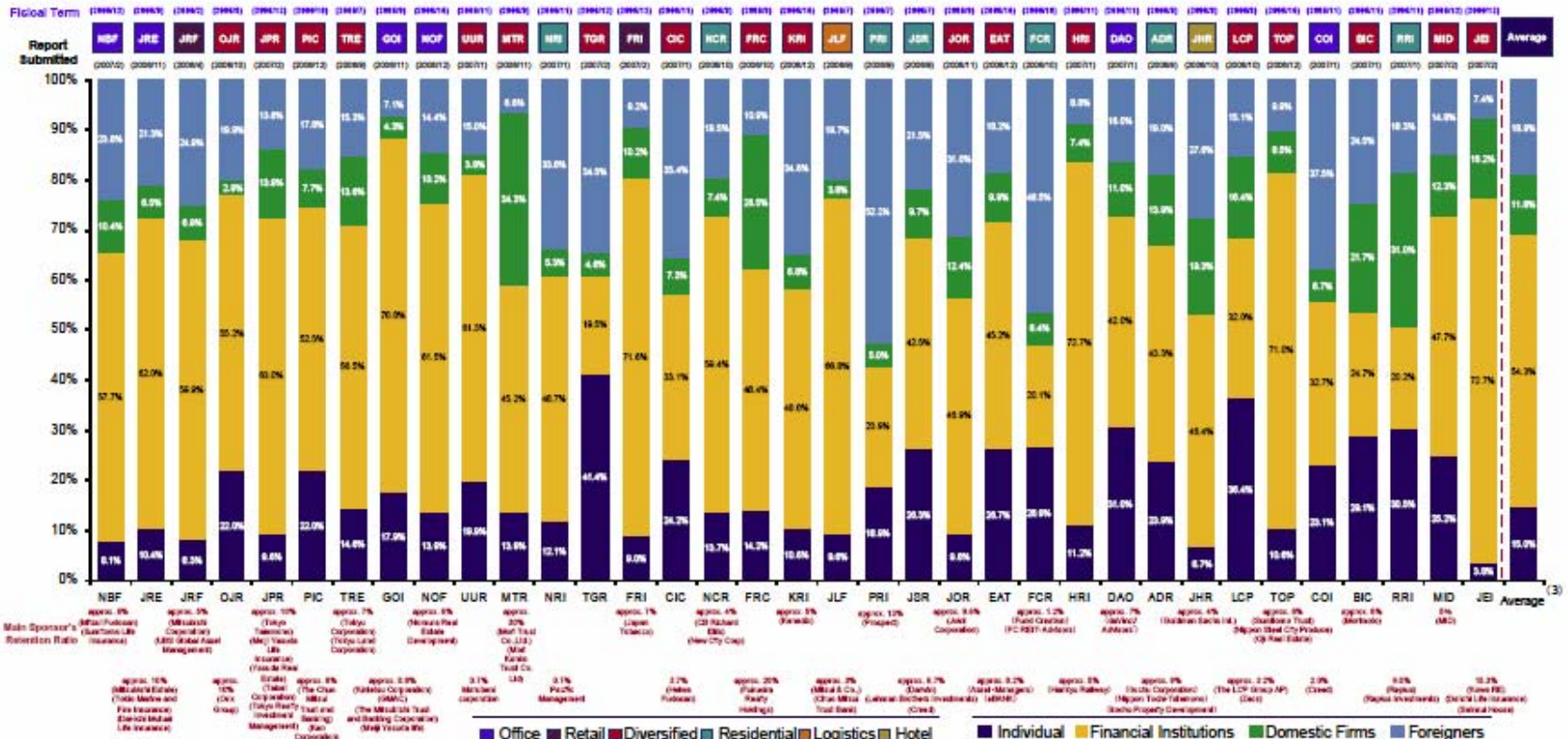
- Insurance Companies
- Banks
- Other Financial Institutions (Other than Banks and Insurance Companies)
- Investment Trusts
- Corporation
- Individuals
- Foreigners



Source: Tokyo Stock Exchange

Selected Japan Real Estate Capital Markets Overview

Selected J-REIT Shareholders Composition (Number of Units)



(1) Units held by securities firms and JASDEC undisclosed and therefore not reflected in the data.
 (2) Source: Fiscal Results Announcement Presentation.
 (3) JPR's units are divided by 2.5 for comparative purposes.

