

Market Summary

➤ Recovery in J-REIT market becomes clear – TSE REIT Index comes close to 1,000 points and market capitalization recovers to 3 trillion yen

The TSE REIT Index as of the end of April 2010 was 999.13 points, up 5.3% from the end of the previous month, almost recovering to the level achieved in the summer of 2009. The market capitalization has also returned to the 3 trillion yen level. Even among REIT markets in major countries, J-REITs have risen at the second highest rate following U.S. REITs.

A breakdown of trades by investment sector at the Tokyo Stock Exchange reveals that net buying has been conducted primarily by “life and non-life insurance,” “investment trusts” and “foreigners.”

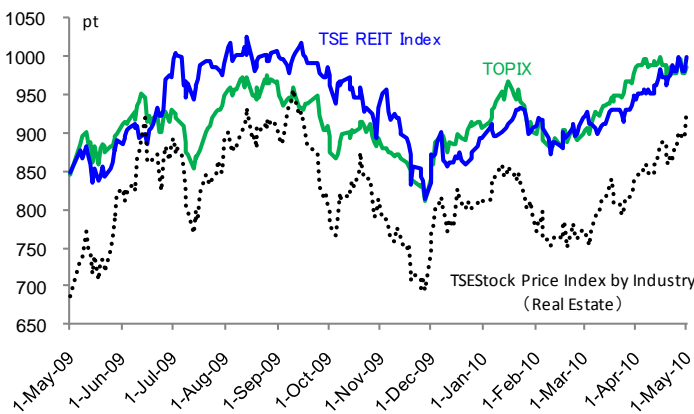
It appears that, in addition to the recovery in the stock market, the steady progress in the reorganization of investment corporations (such as changes to sponsors with higher creditworthiness and mergers) has led to the reevaluation of the J-REIT market.

	End of Apr. 2010	1-month	6-month	1-year
TSE REIT Index (excluding dividends)	999.13	+ 5.3%	+ 7.0%	+ 19.1%
Market cap (bn yen)	31,418	(Note) The dividend yield is a weighted average of the market cap based on dividend forecasts by respective J-REITs.		
Average estimated dividend yield	5.2%			

(Figure 1) Major Market Indices

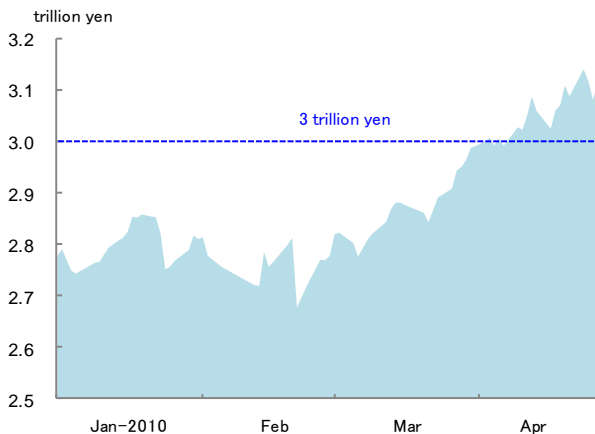
(Source) Prepared by ARES based on disclosed materials of TSE and each J-REIT

(Figure 2) TSE REIT Index



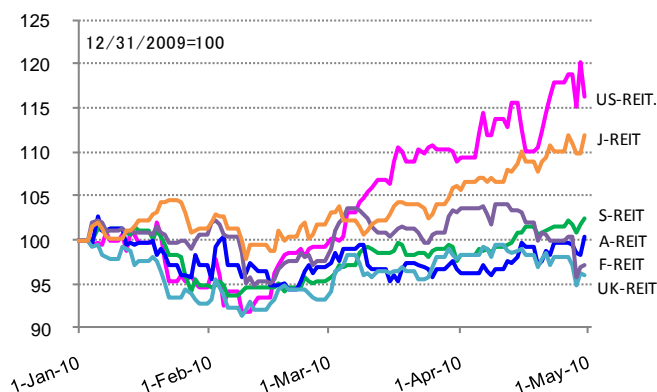
(Source) Bloomberg

(Figure 3) Market Capitalization of J-REITs



(Source) Bloomberg

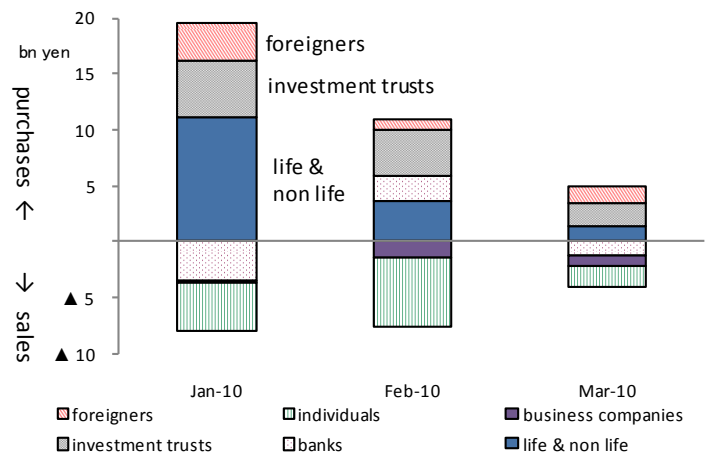
(Figure 4) Global REITs



(Note) J-REIT: TSE REIT Index, US-REIT: FTSE NAREIT Equity REIT Index
 F-REIT: FTSE EPRA/NAREIT France Index, A-REIT: S&P/ASX 200 A-REIT Index
 UK-REIT: FTSE EPRA/NAREIT UK Index, S-REIT: FTSE ST REIT Index

(Source) Bloomberg

(Figure 5) Trading Volume by Investor Type



(Source) TSE

➤ **United Urban and Nippon Commercial reach memorandum of understanding to merge**

On April 22, United Urban Investment Corporation (UUR, securities code: 8960) and Nippon Commercial Investment Corporation (NCI, securities code: 3229) executed a memorandum of understanding to merge, aiming to merge on December 1, 2010. They plan to employ an absorption type merger, with UUR designated as the surviving entity, at a merger ratio of “UUR:NCI = 6:1” (before considering splitting of investment units). The portfolio size after the merger will be approximately 460 billion yen (on an acquisition price basis and consisting of 87 properties), expected to become the largest among comprehensive-type J-REITs. Through the merger, the two REITs aim to enhance revenue stability by expanding the portfolio size and heighten flexibility in asset replacement by utilizing the negative goodwill, among other objectives.

	United Urban	Nippon Commercial	After Merger
Portfolio Size (Note 1)	219.9 billion yen	241.7 billion yen	461.7 billion yen
Number/Type of Properties	50 properties/retail, office, etc.	37 properties/office and retail	87 properties/office, retail, etc.
Sponsor (Note 2)	Marubeni, Credit Suisse and Kyokuto Securities	Pacific Holdings under corporate reorganization proceedings	Marubeni, Credit Suisse and Kyokuto Securities

(Note 1) Based on acquisition price (Note 2) Major shareholders of respective asset managers

(Source) Materials of respective firms

➤ **NTT Urban Development becomes the main sponsor of Premier Investment Corporation**

On April 26, Premier Investment Corporation (PIC, securities code: 8956) announced that NTT Urban Development Co. will acquire a majority (53.1%) of the stocks of Premier REIT Advisors, PIC’s asset management company, to serve as the main sponsor of PIC. In line with this, PIC will issue new investment units by way of third-party allotment (8,700 units, 346,275 yen per unit), with NTT Urban Development as the allottee. As a result, NTT Urban Development will own 6.2% of PIC’s investment units. Funds to be procured through the capital increase (approximately 3 billion yen) will be used for acquiring a new property (Iwamotocho Building).

NTT Urban Development is the comprehensive real estate company within the NTT Group, and one of the largest owners of buildings in Japan. It is claimed that PIC will be able to enjoy reinforced creditworthiness and obtain a pipeline support for new property acquisitions by having NTT Urban Development as the main sponsor.

This arrangement will change the shareholder composition of Premier REIT Advisors to NTT Urban Development having 53.1%, Ken Corporation having 30.0%, SOHGOH REAL ESTATE having 10.0%, The Chuo Mitsui Trust and Banking having 4.9% and Nikko Properties having 2.0%.

➤ **FC Residential announces issuance of new investment units by way of third-party allotment to Ichigo Asset Group**

On April 6, FC Residential Investment Corporation (FCR, securities code: 8975) announced that it will issue new investment units, totaling 27,776 units, by way of third-party allotment to the two special purpose companies belonging to Ichigo Asset Group. With the issue price at 180,000 yen per unit, FCR will procure a total of approximately 5 billion yen and use the funds to repay borrowings. As a result of the capital increase, the number of FCR’s outstanding investment units will be 60,476 units, with Ichigo Asset Group becoming a unitholder having approximately a 46% equity share.

Ichigo Asset Group consists of an independent investment advisory company and investment trusts it manages. It is also the largest unitholder of Japan Office Investment Corporation (securities code: 8983) as well as the 100% shareholder of Japan

Office's asset management company.

The payment date of this third-party allotment is scheduled for May 12. However, a major unitholder (SJ Securities LLC holding 7,600 units) filed a petition for temporary injunction as of April 26.

➤ **MORI TRUST Sogo Reit acquires property that is among the largest in J-REIT: Tokyo Shiodome Building (110 billion yen)**

On April 13, MORI TRUST Sogo Reit, Inc. (MTR, securities code: 8961) acquired a 50% joint ownership in Tokyo Shiodome Building (Minato Ward, Tokyo) from Mori Trust, its sponsor, at 110 billion yen. This is one of the largest property acquisitions ever conducted by J-REITs (see the table below.)

Major Acquisitions by J-REIT (Total acquisitions of over 50 Billion yen)

Property Name	Investment Corporation	Acquisition Price (billion yen)	Location	Acquisition Period	Remarks
Shinjyuku Maynds Tower	DA Office	133.8	Shibuya-ku, Tokyo	Jul. 2007	Including additional interest acquired in Dec. 2007
Tokyo Shiodome Building	MORI TRUST Sogo Reit	110.0	Minato-ku, Tokyo	Apr. 2010	
Kitanomaru Square	Japan Real Estate	81.6	Chiyoda-ku, Tokyo	Feb. 2006	
Shiodome Building	Japan Real Estate	75.9	Minato-ku, Tokyo	Jan. 2010	Including initial acquisition in Dec. 2008
JFE Building	Nippon Building Fund	74.1	Chiyoda-ku, Tokyo	May. 2001	Already transferred in Apr. 2006
Twin 21	MID REIT	68.7	Chuo-ku, Osaka City	Aug. 2006	
NBF Hibiya Bldg.	Nippon Building Fund	63.5	Chiyoda-ku, Tokyo	Oct. 2005	
Higashi-Totsuka Aurora City	Japan Retail Fund	50.5	Totsuka-ku, Yokohama City	Mar. 2006	

(Source) Materials of respective J-REIT

The property, having a total floor area of over 191,000 m² and built in 2005, is a large-scale mixed-use building comprised of office floors, a hotel and retail facilities. MTR will employ a sale-and-leaseback method in which it will master lease the property to Mori Trust after acquisition (lease periods of 10 years for offices and retail facilities and approximately 25 years for the hotel portion) in order to secure stable revenues through long-term fixed rents. The assumed NOI cap rate by MTR is 4.45%.

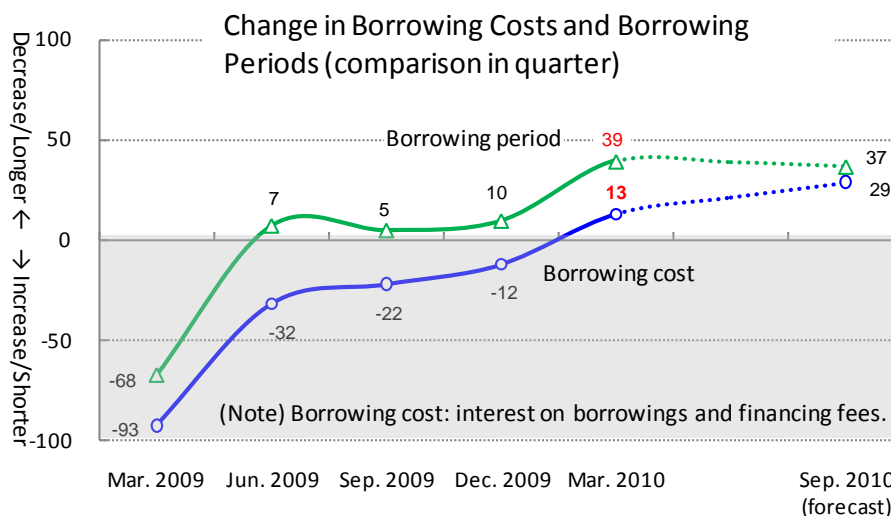
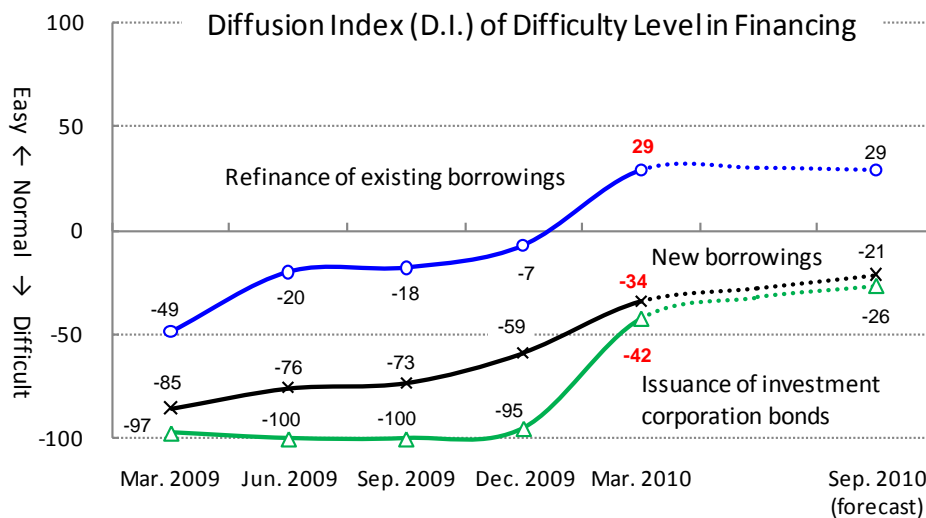
At the same time, MTR sold Akasaka-Mitsuke MT Building (Minato Ward, Tokyo) to Mori Trust at 26.9 billion yen. MTR claims that these deals will reduce the average building age of its portfolio from approximately 22 years to approximately 14 years and enhance revenue stability. After the transactions, its portfolio size will be 283.0 billion yen, about 1.4 times the value before the transactions, and the ratio of office buildings in its portfolio composition will rise to 75.9% (compared to 65.9% before) and the ratio of properties in central Tokyo will stand at 76.6% (compared to 66.8% before). Furthermore, since the LTV will temporarily surpass its standard ratio (maximum 50%), MTR will revise its financial planning in order to lower the ratio below the standard ratio.

➤ J-REITs see continued improvement in fund procurement environment: ARES survey

The fifth “Questionnaire Survey on Fund Procurement Environment for J-REITs,” conducted by The Association for Real Estate Securitization (ARES) targeting asset management companies of all the listed J-REITs, has revealed that the fund procurement environment as of the end of March 2010 improved significantly compared with three months ago.

Improvements in the Diffusion Index (D.I.) of Difficulty Level were clearly observed for not only the issuance environment of investment corporation bonds, where a large improvement was found, but also for refinance and new borrowings. In addition, the D.I. on borrowing costs turned to improve for the first time since the survey started in March 2009, as the number of REITs that replied that “borrowing costs dropped (compared with three month ago) increased significantly.

On the other hand, some REITs still face an extremely severe fund procurement environment. Accordingly, we should continue to closely watch the trend of the fund procurement environment for all J-REITs.



(Source) Fifth “Questionnaire Survey on Fund Procurement Environment for J-REITs” conducted by ARES

➤ **Nippon Commercial borrows 8 billion yen from Real Estate Market Stabilization Fund**

Nippon Commercial Investment Corporation (NCI, securities code: 3229) received a loan of 8 billion yen granted by the Real Estate Market Stabilization Fund on April 8. This is the second case of utilizing loans from the Fund, following Prospect Reit Investment Corporation (securities code: 8969) in March.

NCI will use the procured funds for the redemption of its investment corporation bonds. The borrowing period of the loan is approximately 2 years and 5 months, with an initial spread of 3.96984%.

➤ **Japan Real Estate issues investment corporation bonds totaling 10 billion yen – to be used for redeeming its existing investment corporation bonds**

On April 23, Japan Real Estate Investment Corporation (JRE, securities code: 8952) issued investment corporation bonds (through public offering) totaling 10 billion yen, with a maturity period of 5 years and an annual interest rate of 1.26%. The bonds got rated AA- by S&P, A1 by Moody's and AA by Rating and Investment Information, Inc. (R&I).

JRE will use the procured fund for the redemption of its 10 billion yen of investment corporation bonds maturing in April.

➤ **First "TSE Dividend Focus 100" ETF to be listed**

On April 26, the Tokyo Stock Exchange approved the listing of the "Listed Index Fund Japan High Dividend (TSE Dividend Focus 100)", which invests in the constituent stocks of the TSE Dividend Focus 100 Index" that started calculations in March (planned listing date: May 14.) The fund administrator is Nikko Asset Management. The Index is comprised of the 100 issues (90 stocks and 10 REITs) that were selected with a focus on market caps and estimated dividend yields. (Refer to ARES J-REIT Report Vol. 4.)

According to TSE, this is the first listing of an ETF that focuses on dividend yields.

Major Constituent Stocks of the "TSE Dividend Focus 100 Index"

	Code	Company	Weight
1	7751	CANON	11.01%
2	2503	Kirin Holdings	9.04%
3	5201	Asahi Glass	7.23%
4	8306	Mitsubishi UFJ Financial Group	4.86%
5	4519	CHUGAI PHARMACEUTICAL	2.76%
6	8952	Japan Real Estate Investment Corp	2.73%
7	8951	Nippon Building Fund Inc.	2.46%
8	8316	Sumitomo Mitsui Financial Group	2.18%
9	7974	Nintendo	2.16%
10	7309	SHIMANO	2.16%

(Note) As of April 20, 2010 (Source) Tokyo Stock Exchange

For reference, the following ETFs, which are linked to the TSE REIT Index, invest in J-REITs.

- "NEXT FUNDS REIT INDEX ETF"
Managed by Nomura Asset Management;
net assets totaling 5.1 billion yen (as of April 30, 2010)
- "Listed Index Fund J-REIT (Tokyo Stock Exchange REIT Index" Bi-Monthly Dividend Payment Type"
Managed by Nikko Asset Management;
net assets totaling 2.8 billion yen (as of April 30, 2010)

➤ **Property transactions: acquisition price totaling 337.6 billion yen for January - April 2010** <surpassing through-year results of 246.7 billion yen for 2009>

- ✓ MORI TRUST Sogo Reit acquired Tokyo Shiodome Building at 110 billion yen and sold Akasaka-Mitsuke MT Building at 26.9 billion yen
- ✓ Premier announced acquisition of Iwamotocho Building (6.7 billion yen)
- ✓ Japan Office announced sale of COI Nihonbashi Honcho Building (1.96 billion yen)
- ✓ Nippon Building Fund announced changes in the price and acquisition date of a property (NBF Ueno Building) planned for acquisition
 - (Before change) 11.175 billion yen → (after change) 10.4 billion yen
 - (Before change) April 30, 2010 → (after change) January 31, 2011

This report is provided to inform readers about the J-REIT market, and is not intended to solicit investments. Information in this report is not necessarily up-to-date, and ARES does not guarantee its correctness or completeness. Information in this report is subject to change or revisions without prior notice.