

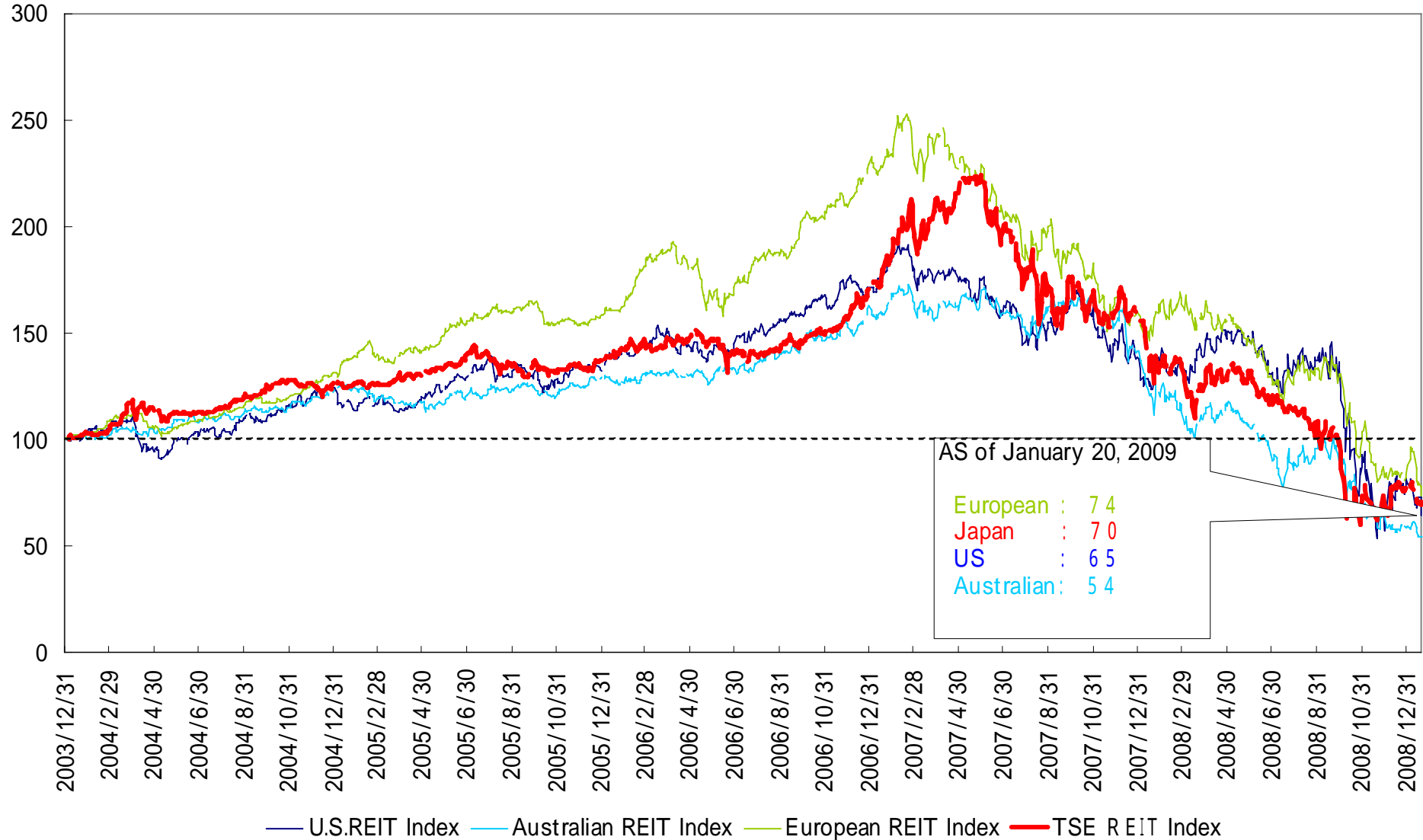
# Reference Materials for Ad Interim Report

# 1. Introduction

# Trends in the Global REIT Market

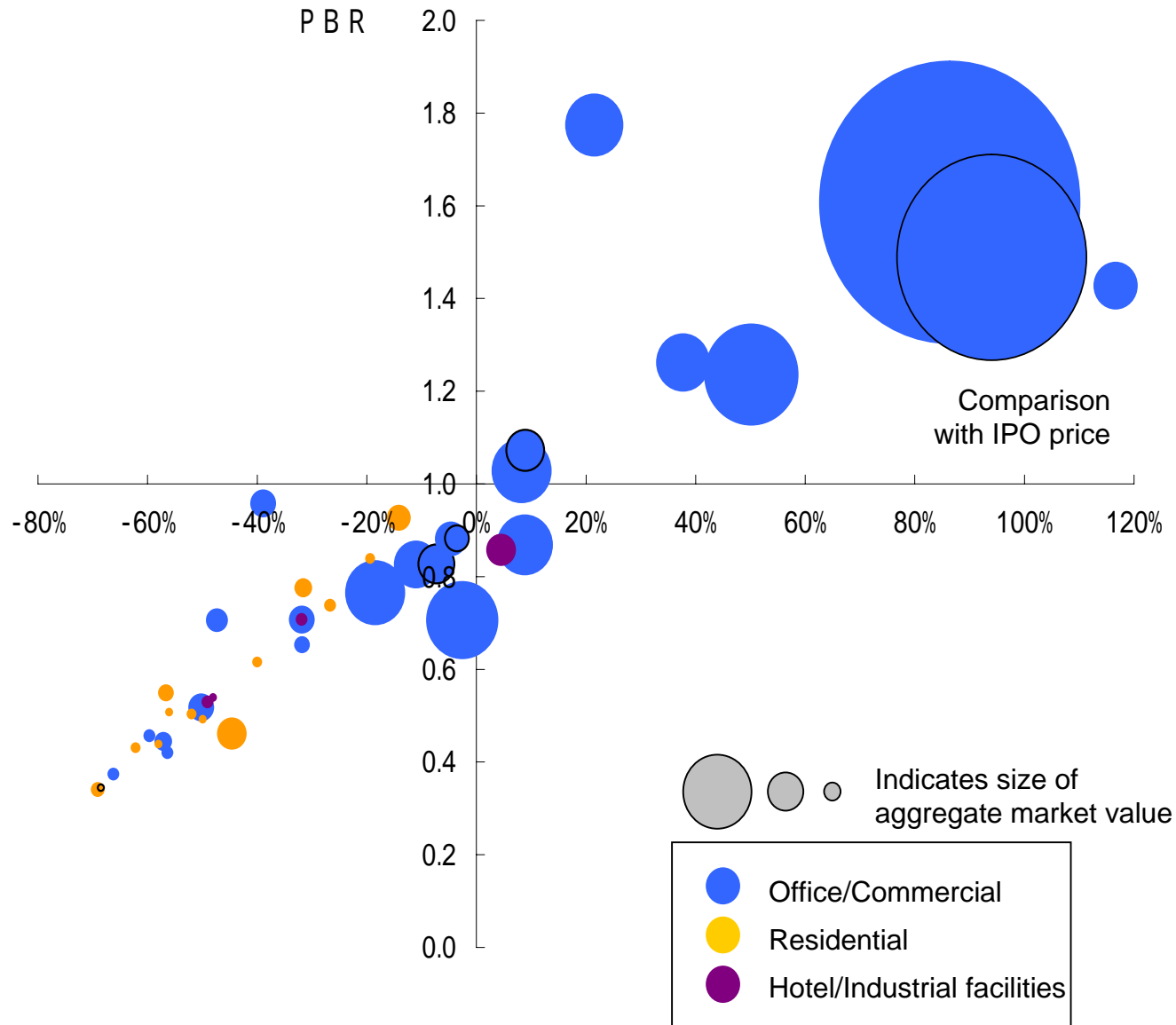
## REIT Index

(Index = 100 on December 31, 2003)



## 2. Need to Restructure J-REITs, Including Mergers

# Various REITs Exist



\* PBR (Price-to-Book Ratio) = Aggregate market value ÷ (Net asset – Dividend)

Source: Prepared by Ministry of Land, Infrastructure, Transport and Tourism based on published data (as of August 22, 2008)

# Clauses Concerning Merger

## Investment Trust and Investment Corporations Act

(Conclusion of Merger Agreement)

**Article 145** Investment corporations may merge with other investment corporations. In this case, the merging investment corporations must conclude a merger agreement.

(Agreement for Absorption-type Merger)

**Article 147** When investment corporations merge by absorption (when an investment corporation merges with another investment corporation, and all rights and obligations of the dissolving investment corporation are succeeded by the surviving investment corporation; hereafter, the same), the following items shall be stipulated in the agreement for absorption-type merger:

- (i) The trade name and address of the surviving investment corporation (hereafter, the “surviving corporation of an absorption-type merger”) and the dissolving investment corporation (hereafter, the “dissolving corporation of an absorption-type merger”) of the merger by absorption
- (ii) Matters concerning the number of investment units in the surviving corporation of an absorption-type merger that will be issued to investors of the dissolving corporation of an absorption-type merger in accordance with the merger by absorption, the method of calculating the number of investment units, and the total contribution by the surviving corporation of the absorption-type merger
- (iii) Matters concerning the allocation of investment units in the previous item to investors of the dissolving corporation of an absorption-type merger (excludes the dissolving corporation of an absorption-type merger and the surviving corporation of an absorption-type merger; the same applies for the next item)
- (iv) The date that the absorption-type merger takes effect (“effective date” in the next article and Provision 4)

2 In cases stipulated by the previous section, with regard to matters raised in (iii) of the previous section, investment units of the surviving corporation of an absorption-type merger shall be issued in accordance with the number of investment units owned by the investors of the dissolving corporation of an absorption-type merger.

(Agreement for Consolidation of Corporations)

**Article 148** When two or more investment corporations consolidate (when two or more investment corporations merge, and all rights and obligations of the dissolving investment corporations are succeeded by the investment corporation established through the merger; hereafter, the same), the following items shall be stipulated in the agreement for consolidation of the corporations:

- (i) The trade name and address of the investment corporation dissolving through the consolidation of the corporations (hereafter, the “dissolving corporation after consolidation of the corporations”)
- (ii) The purpose, trade name, address of headquarters, and total number of authorized investment units of the investment corporation to be established through consolidation of the corporations (hereafter, the “corporation established through consolidation of the corporations”)
- (iii) Matters other than those raised in the previous item stipulated by the rules of the corporation established through consolidation of the corporations
- (iv) Name of the executive officer, supervisory officer, and accounting auditor of the corporation established through consolidation of the corporations at the time of establishment
- (v) Matters concerning the number of investment units in the corporation established through consolidation of the corporations that will be issued in replacement to the investors of the dissolving corporation after consolidation of the corporations in accordance with consolidation of the corporations, the method of calculating the number of investment units, and the total contribution by the corporation established through consolidation of the corporations
- (vi) Matters concerning the allocation of investment units in the previous item to investors of the dissolving corporation after consolidation of the corporations (excludes dissolving corporation after consolidation of corporations; the same applies for the next section)

2 In cases stipulated by the previous section, with regard to matters raised in (vi) of the previous section, investment units of the corporation established through consolidation of the corporations shall be distributed in accordance with the number of investment units owned by the investors of the dissolving corporation after consolidation of the corporations.

# Systemic Revisions, etc. to Promote Mergers of J-REITs

## Improvement of conduit formula determining dividend requirement

### – 1 “Revision of the formula determining the dividend requirement”

The distributed dividends of REITs are included in expenses upon fulfilling various requirements (conduit nature), but the current formula determining the dividend requirement, which is one of the requirements, compares accounting income to taxable income as follows. When there is a large gap between accounting and tax (e.g., treatment of repair costs), a risk would arise that the conduit status cannot satisfy the formula. The latest revision is expected to allow judgment by accounting income alone.

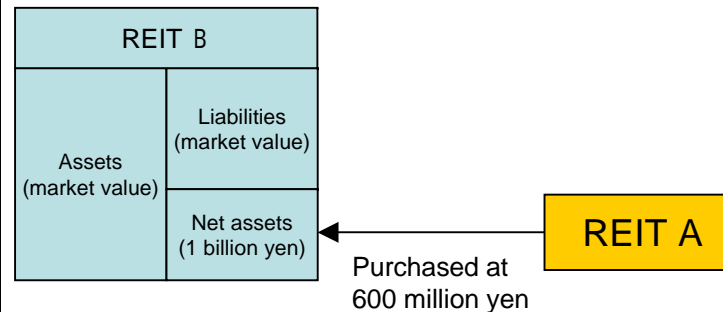
#### (Before revision)

Dividend from **accounting income** > Taxable income × 90%

#### (After revision)

Dividend from **accounting income** > **Accounting income** × 90%

### – 2 “Measure for negative goodwill”



In the case where REIT A merges with REIT B with net assets of one billion yen by absorbing REIT B at a price of 600 million yen, the “negative goodwill” of 400 million yen will be booked as REIT A’s liabilities after the merger. In terms of accounting, the 400 million yen will be recognized as profit\*, but since REIT A did not actually attain 400 million in cash, it cannot fulfill the post-revision formula indicated on the left unless it procures over 360 million yen (400 million yen x 90%) in cash by newly selling property, etc. The measure exempts the amount equivalent to “negative goodwill” for this case from the post-revision formula for the business year that the “negative goodwill” occurs.

\* With regard to the treatment of negative goodwill, the “Financial Accounting Standard for Business Combinations (published by the Accounting Standards Board of Japan on December 26, 2008)” revised equal amortization within 20 years to recording as one-time profit within the applicable business year (Timing of application: Applied from business combinations executed on or after April 1, 2010; however, it can be applied from the first business combination executed in business years commencing on or after April 1, 2009).

# System Revisions, etc. to Promote Mergers of J-REITs

## Clarification of possibility of utilizing delivered money due to merger

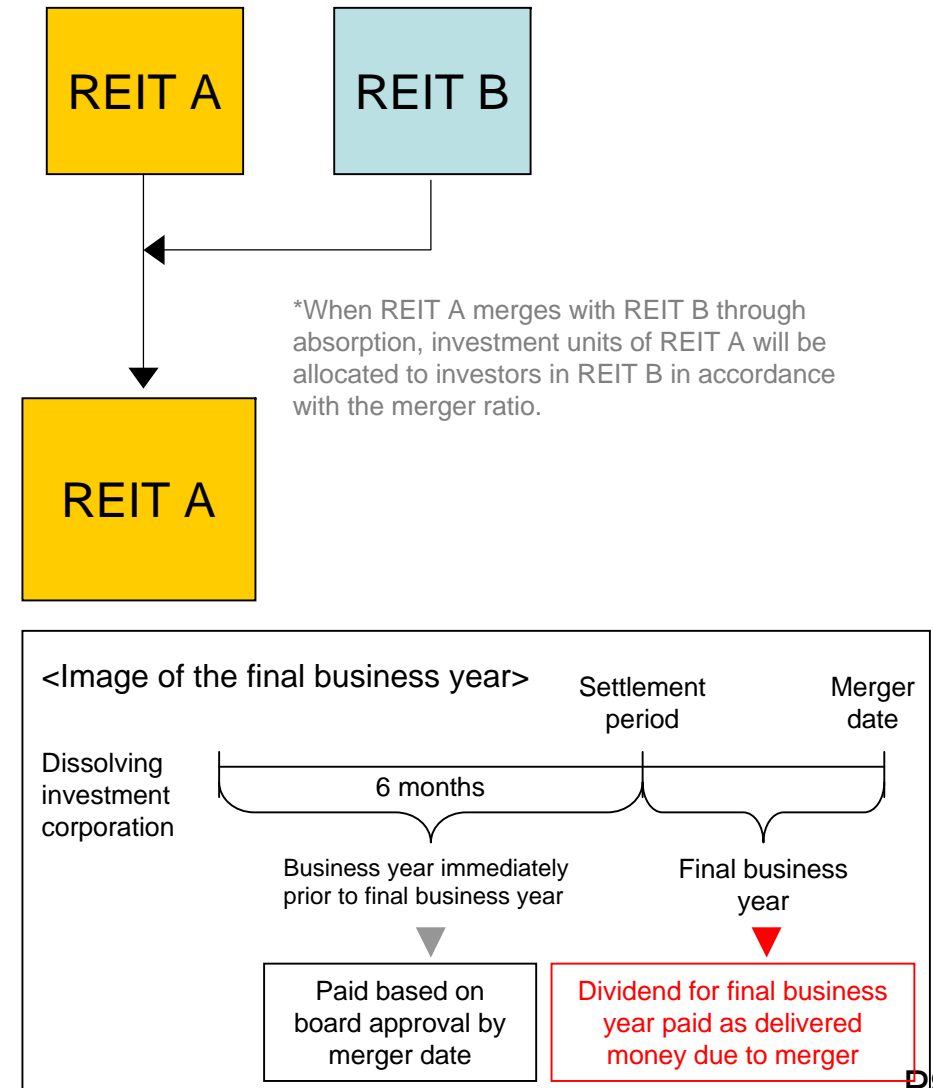
It has been clarified (revisions to cabinet ordinance and regulatory guidelines) that when REIT A merges with REIT B through absorption, cash can be paid to adjust fractions in the merger ratio and to adjust the profit dividend when the settlement periods of the merging parties differ (“delivered money due to merger”).

(Specific example of adjusting fractions in the merger ratio)

Investment units of REIT A will be allocated to the investors in REIT B, but if, for instance, the merger ratio of “REIT A : REIT B = 1 : 2.222” was to be ultimately adjusted to “REIT A : REIT B = 1 : 2,” the 0.222 portion will be paid to investors in REIT B as delivered money due to the merger.

(Specific example of adjusting profit dividend)

The dividend for the dissolving investment corporation for the final business year cannot be paid since a board meeting of the dissolving investment corporation cannot be held. Therefore, the dividend for the final business year will be paid as delivered money due to the merger.



## Outline of Fiscal Year 2009 Tax Reform

### Outline of Fiscal Year 2009 Tax Reform (Ruling party decision on December 12, 2008)

#### XI Other Tax Policies

25 Special exception on taxation of SPCs, etc. shall be reviewed as follows:

- (1) (omitted)
- (2) Requirement that paid dividends exceed an amount equivalent to 90% of distributable income shall be changed to a requirement that paid dividends exceed an amount equivalent to 90% of distributable profit. When there is negative goodwill, necessary adjustment measures shall be taken, such as a deduction from distributable profit in the year that negative goodwill arises.
- (3) Stipulations in laws and regulations concerning investment corporations have clarified the treatment of delivered money due to the merger of investment corporations. In accordance with this, it shall be clarified that delivered money due to a merger, which is comparable to a dividend, be included in paid dividends that are subject to inclusion in expenses.

### Outline of Fiscal Year 2009 Tax Reform (Cabinet decision on December 23, 2009)

#### IX Other

15 Special exception on taxation of SPCs, etc. shall be reviewed as follows:

- (1) (omitted)
- (2) Requirement that paid dividends exceed an amount equivalent to 90/100 of distributable income shall be changed to a requirement that paid dividends exceed an amount equivalent to 90/100 of distributable profit. When there is negative goodwill, necessary adjustment measures shall be taken, such as a deduction from distributable profit in the year the negative goodwill arises.
- (3) Stipulations in laws and regulations concerning investment corporations have clarified the treatment of delivered money due to the merger of investment corporations. In accordance with this, it shall be clarified that delivered money due to a merger, which is comparable to a dividend, be included in paid dividends that are subject to inclusion in expenses.

# Revision of Ordinance and Regulatory Guidelines Concerning Delivered Money Due to Merger

## Revision of the Ordinance for Enforcement of the Investment Trust and Investment Corporations Act (promulgated on January 23, 2009 and enforced on the same day)

(Advance Disclosure Items for Dissolving Corporation of Absorption-type Merger)

Article 193

(omitted)

- 2 In this article, a “merger consideration” refers to the investment units of the surviving corporation of an absorption-type merger **or cash** delivered to investors in the dissolving corporation of an absorption-type merger in replacement of the investment units of the dissolving corporation.
- 3 “Matters concerning the reasonableness of a merger consideration” stipulated in Section 1, Item 1 refers to matters concerning the proportionality of the stipulation (when there is no applicable stipulation, the absence of such stipulation) pertaining to the following items and other items raised in Article 147, Section 1, Items 2 and 3.
  - (i) Matters concerning the reasonableness of the **total** merger consideration (**refers to total investment units and cash**)
  - (ii) (omitted)
  - (iii) If cash was selected as a merger consideration, the reason for such**
- 4 “Matters that should serve as reference for a merger consideration” stipulated in Section 1, Item 2 refers to the following items and other pursuant items (when there is general consent from investors in the dissolving corporation of an absorption-type merger not to indicate or record all or part of these items in written or electromagnetic record, the items subject to such consent shall be excluded).
  - (i) (omitted)
  - (ii) The following items and other items concerning the method of converting into cash the **investment units to be delivered as a** merger consideration
    - a. Market where **applicable investment units** will be traded
    - b. Party to serve as an intermediary, agent, or proxy for the trading of **applicable investment units**
  - (iii) When there is a market price of the **investment units to be delivered as** a merger consideration, matters concerning the price
- 5 (omitted)

# Revision of Ordinance and Regulatory Guidelines Concerning Delivered Money Due to Merger

## Comprehensive Guidelines for Supervision of Financial Instruments Operators, etc. (revised on January 30, 2009 and applied on the same day)

### VI – 2 – 7 Other Considerations

#### VI – 2 – 7 – 3 Considerations Concerning Merger of Investment Corporations

When calculating investment units to be delivered to investors of the dissolving corporation in the case of a merger by absorption, if the merger ratio adjustment money or dividend substitutions (hereafter, “delivered money due to merger”) are delivered to adjust the merger ratio, etc., it must be noted that the items raised in Article 147, Section 1, Item 2 of the Investment Trust and Investment Corporations Act include the amount of delivered money due to merger, the calculating method, and matters concerning the amount of delivered money due to merger allocated according to the number of investor units owned by the investors in the dissolving corporation.

## Treatment of Fractions Less Than One Issued to Investors in Dissolved Investment Corporation

### Investment Trust and Investment Corporations Act

(Treatment of Fractions Less than One)

**Article 149-17** In a case where the investment units of the applicable investment corporation are delivered to the party stipulated in each of the following items in the events raised in each item, if there are fractions of less than one investment unit of the applicable investment corporation, the number of investment units equivalent to the total of those fractions (fractions of less than one for the total shall be omitted) shall be **sold to parties stipulated by the cabinet ordinance**, which is the appropriate method to realize sale at a fair value, and distribute the money obtained from the sale to the applicable party.

(i) **Absorption-type merger** (limited to cases where the applicable investment corporation survives the absorption-type merger)  
**Investors in the dissolving corporation of an absorption-type merger**

(ii) **Investors in the dissolving corporation after consolidation of operations that issues investment units at the time of establishment of the new investment corporation based on the agreement for the consolidation of operations**

**2 Stipulations in Article 88, Sections 2 and 3 shall apply correspondingly in the cases of the previous section.**

### Ordinance for Enforcement of Investment Trust and Investment Corporations Act

(Method of Handling Fractions of Investment Units)

**Article 199** The method established in the cabinet ordinance stipulated in Article 149-17, Section 1 shall be the method stipulated in each item below according to the classification of investment unit

(i) **Sale through trading on the financial instruments market** where the investment security is a security listed on the financial market exchange

(ii) **Sale through trading on the over-the-counter market** where the investment security is an over-the-counter security

(iii) **Sale at a fair and rational price in light of the net asset amount of the investment corporation that issues investment units other than the investment units mentioned in the above two items**

# What is ToSTNeT Trading?

## **Can REITs be traded through ToSTNeT?** (excerpt from the Tokyo Stock Exchange website, “Q&A for Investors on REITs”)

Q: Can REITs be traded through ToSTNeT?

A: REITs can be traded and the trading rules are exactly the same as stocks.

## **What is ToSTNeT trading?** (excerpt from the Tokyo Stock Exchange website)

ToSTNeT trading is the buying and selling of securities and listed derivatives trading on the ToSTNeT market. ToSTNeT trading of cash commodities comprises Single Issue Trading, Basket Trading, Trading on Closing Price and Off-auction Repurchase of a company's own shares.

Also, ToSTNeT trading of futures and options allows Cross-trading by the same participant and different participants.

## **What is the ToSTNeT market?**

The ToSTNeT market refers to the off-auction market of the Tokyo Stock Exchange. Transactions executed on the ToSTNeT market through the electronic trading network system ToSTNeT (Tokyo Stock Exchange Trading Network system) are referred to as off-auction trading.

In response to the sophistication and diversification of off-auction trading, the Tokyo Stock Exchange revised its off-auction market system and established the “ToSTNeT Market” on January 15, 2008.

Domestic stocks, foreign stocks, and convertible bonds (CBs) listed on the auction market are all listed on the ToSTNeT market and are available for off-auction trading. The main types of trading are Single Issue Trading, Basket Trading, Trading on Closing Price and Off-auction Repurchase of a company's own shares.

# Thinking on Merger Ratio Calculation Method

## Thinking on Merger Ratio Calculation Method

Various methods can be conceived of in calculating the valuation of a firm, which is required when calculating the merger ratio. The following are examples of working group considerations:

### Market Price

Market value of investment corporation

### NAV (Net Asset Value)

Definition of NAV (from ARES "Real Estate Securitization Handbook 2008-2009")

"Appraised value of real estate, etc. incorporated in investment corporation less liabilities such as loans"

Appraised value represents the valuation of assets at the current market price and is not an appraisal. However, it is difficult to grasp the current market price in actuality. There are various methods to calculate NAV, but a simplified method to calculate NAV using an appraisal, for example, is as follows:

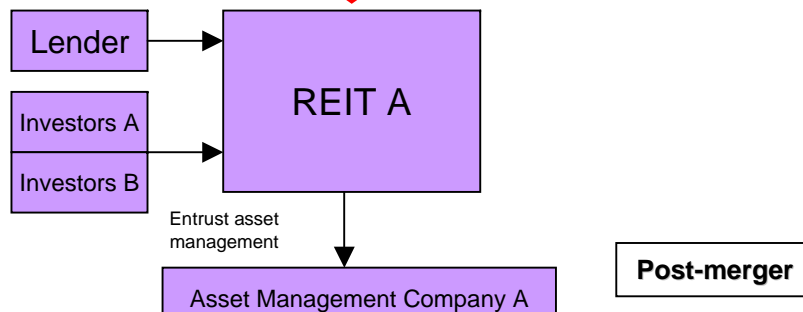
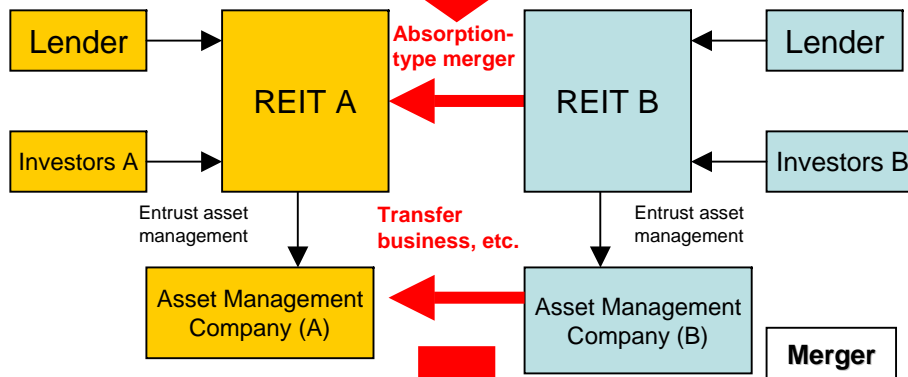
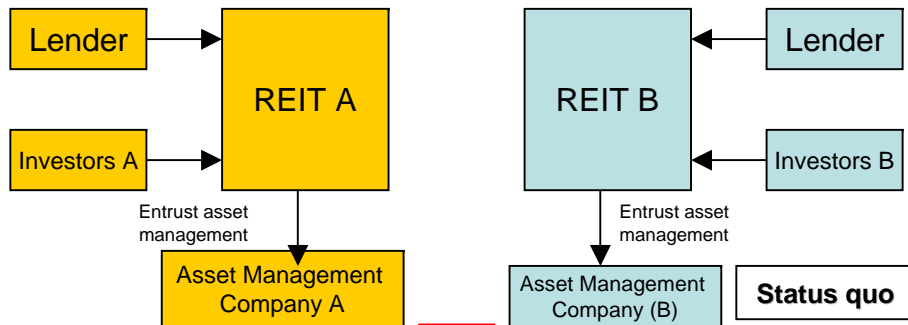
Simplified NAV = Net assets [post dividend] + (Total appraised value - Total book value)

\*Net assets [post dividend] = Net assets - Total distribution

(from Masters Training Program Textbook 203 [ARES])

# Merger Simulation Model

## Flow of merger (in the case of absorption-type merger)

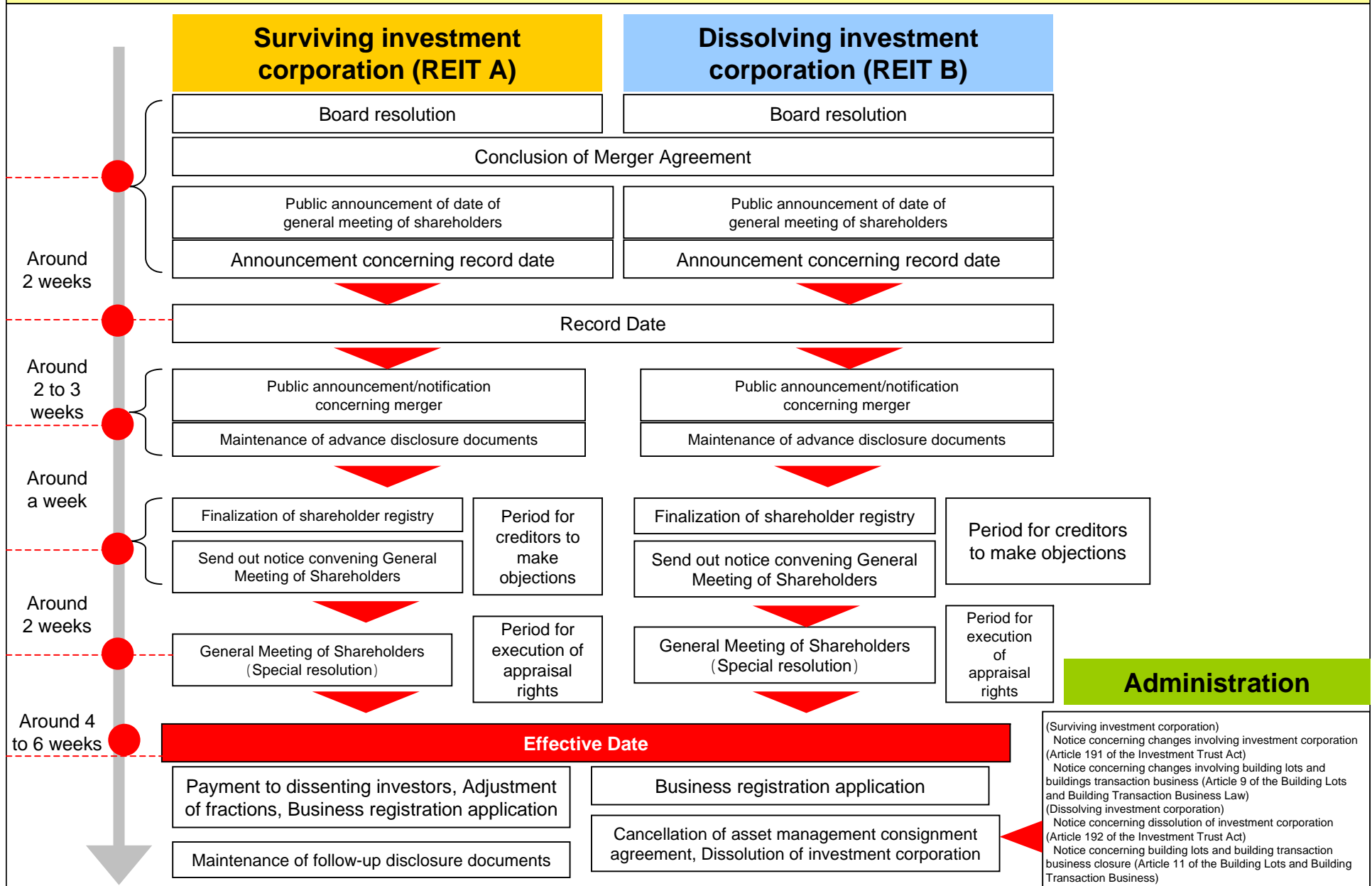


## Considerations debated by WG

- Calculation of merger ratio · · · · · Must be fair merger ratio, full explanation to investors essential
- Fraction adjustment for merger ratio · · Utilize delivered money due to merger (clarify possibility of utilizing after revision of Cabinet Office ordinance, etc.)
- Debt finance · · · · · coordination with lenders, etc. required
- Fraction adjustment at time of delivery of investment units · · Sell using ToSTNet trading
- Dividends from dissolved investment corporation · · Dividends for the final business year paid by using delivered money due to merger (clarify possibility of utilizing after revision of Cabinet Office ordinance, etc.)
- Treatment of negative goodwill · · · · · Expected to be deducted from conduit formula for the year in which it arose

# Merger Simulation Model

## Schedule



## Changes in Major Shareholders (Sponsors) at Asset Management Companies

For J-REITs, there are neither case examples of mergers of investment corporations nor changes in asset management companies. There are examples of changes in major shareholders (sponsors) at asset management companies.

Date	Asset Management Company	Description
Dec. 2008	Creed REIT Advisors (Japan Office Advisors) *Trade name change as of December 22, 2008	<b><u>Creed</u></b> <b><u>Ichigo Asset Trust</u></b> *All of the shares owned by main sponsor Creed and other shareholders were transferred to Ichigo Asset Trust.
Nov. 2008	Morimoto Asset Management	<b><u>Morimoto</u></b> <b><u>Daiwa House Industry</u></b> *Daiwa House Industry acquired shares owned by main sponsor Morimoto and CapitaLand, raising its stake from 10.0% to 73.5%. Morimoto's stake declined from 50.1% to 20.0%.
Oct. 2008	re-plus REIT Management (Mikasa Asset Management) *Trade name change as of October 24, 2008	<b><u>Re-plus</u></b> <b><u>AppleRingo Holdings (Oaktree)</u></b> *AppleRingo Holdings (Oaktree) launched a TOB for the investment corporation while simultaneously acquiring 35% of the shares in the asset management company from re-plus. After the bankruptcy of re-plus, Oaktree additionally acquired a 55% stake, and ultimately a 90% stake.
March 2008	Frontier REIT Management	<b><u>Japan Tobacco</u></b> <b><u>Mitsui Fudosan</u></b> *Japan Tobacco transferred its 100% stake to Mitsui Fudosan.
Nov. 2007	LaSalle Investment	<b><u>Asset Managers</u></b> <b><u>LaSalle Investment Advisors</u></b> *Asset Managers purchased all shares owned by other shareholders and transferred them entirely to LaSalle Investment Advisors. The investment corporation's trade name was changed from eAsset Investment Corporation to LaSalle Japan REIT Inc.

## Example of Concern Regarding Protection of Dissenting Investors When Delisting Investment Corporation

- With regard to making a REIT open-ended, which allows redemption of investment units at the investor's request (converting to an open-ended structure violates the Tokyo Stock Exchange's delisting rules, resulting in delisting), a special resolution by the general meeting of stakeholders is required. Although an investor protection process exists, will the reason for converting to an open-ended structure, various procedures and other information disclosure sensitive to investor protection be implemented as items recognized as a reference for investors executing voting rights on reference material at the general meeting of stakeholders?
- When redeeming investment units to dissenting investors, redemption at a "fair price in light of assets owned" (Article 125, Section 1 of the Investment Trust and Investment Corporations Act) is required. How do you explain the grounds for such an amount to investors?

<Violates the criteria for delisting in Article 1218-2-11 of the security listing regulations of the Tokyo Stock Exchange>

Listing regulations (criteria for delisting)

Article 1218 (omitted)

2 A REIT will be delisted if any of the following items apply. The handling of each item shall be stipulated by the enforcement rules.

(omitted)

(11) With regard to a listed REIT, in a case where redemption of investment units at an investor's request or cancellation during the trust agreement period at beneficiary request is made possible by a change in the investment corporation's rules or the investment trust contract

(omitted)

## 3. J-REIT Governance

## J-REITs Incur Administrative Penalties Due to Conflicts of Interest or Inadequate Internal Control

J-REITs incur administrative penalties due to conflicts of interest or inadequate internal control

### Company A (December 2008) [Punishment: Business improvement order (Management company only)]

When a management company **acquired property from an interested party**, with regard to one property, **it failed to take measures** to satisfy standards specified in the investment policy, etc. concerning the acquisition of property using asbestos stipulated by the management company and caused **the investment corporation to incur unnecessary expenses**.

Also, for another property, the management company had the investment corporation acquire the property without considering that there would not be rental revenues during the period of renovations and additions to the structure.

### Company B (October 2008) [Punishment: Business improvement order (Regarding petition for commencement of civil rehabilitation proceedings: Investment corporation and management company; Regarding advisory from Securities and Exchange Surveillance Commission (November 2008): Management company only)]

With regard to the investment corporation filing a petition for commencement of civil rehabilitation proceedings, it became necessary to have the investment corporation and management company take all possible measures from the perspectives of preservation of the investment corporation's assets, prohibition of unreasonable expenditures, and investor protection.

Also, when the management company conducted a capital increase through third-party allotment, **despite the fact that one outside director opposed** at the investment committee, which requires approval from all outside directors with voting rights, the management company processed this as having reached a decision by a majority vote and **took measures such as writing minutes that ran counter to the truth**.

### Company C (September 2008) [Punishment: Business improvement order (Management company only)]

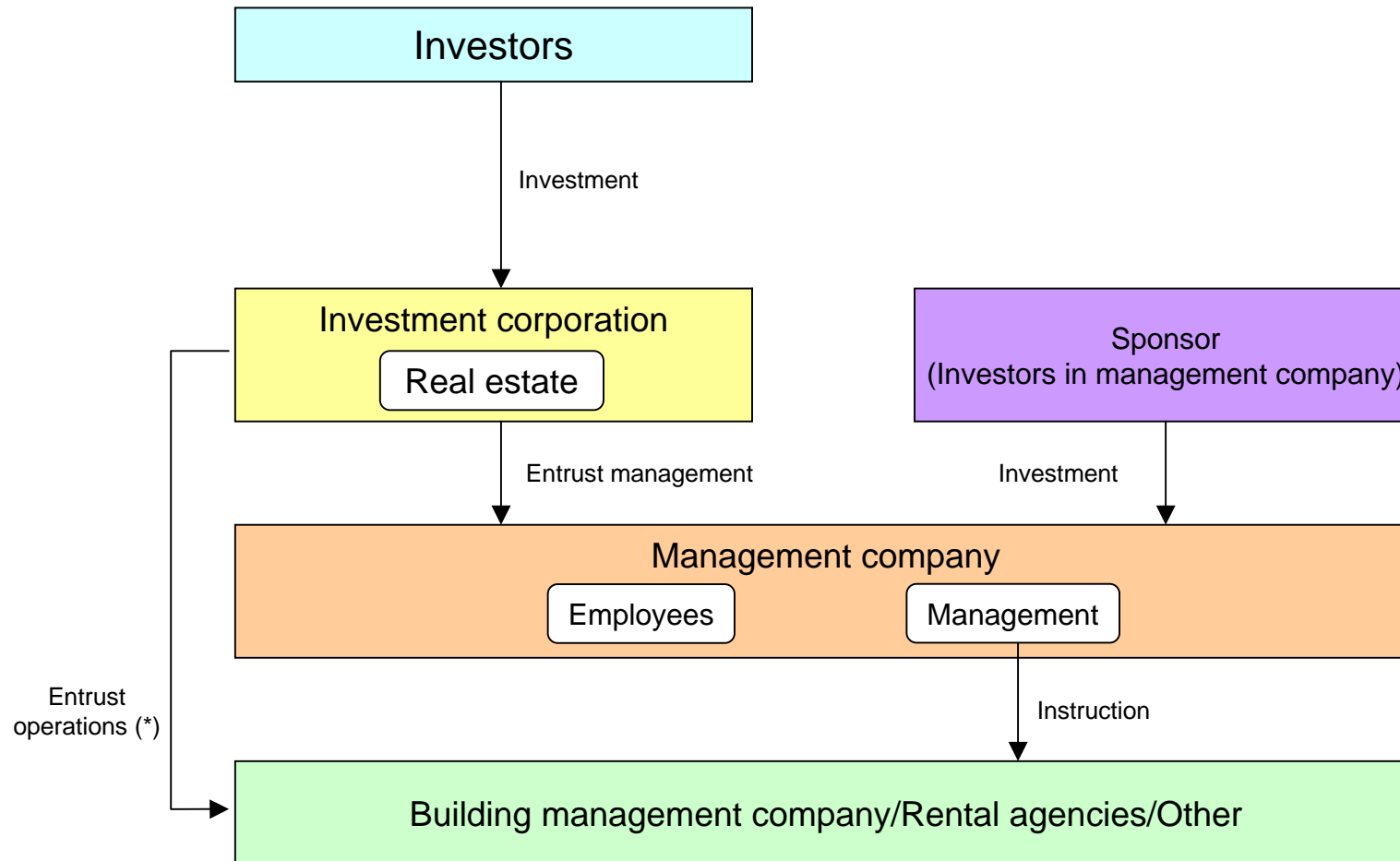
With regard to obtaining an appraisal at the time of acquiring an asset, the company took inappropriate actions that impaired the appraiser's independence, such as **asking the appraiser for an appraisal that was equal to or more than the asking price of the seller (an interested party of the management company)**. Furthermore, the company was engaged in **inappropriate processes in selecting appraisers**, such as asking for estimates from multiple appraisers until obtaining a price that was close to the asking price and selecting the appraiser that presented the highest price.

### Company D (March 2008) [Punishment: Business improvement order (both the investment corporation and management company) ]

At time of acquiring an asset, the **investment corporation shouldered costs that should have been born by the seller (an interested party of the management company) exceeding the appropriate price of the asset**. Also, the management company, which is supposed to adequately control the investment corporation's sales contracts, failed to do so in this case.

# REIT Schemes in Different Countries

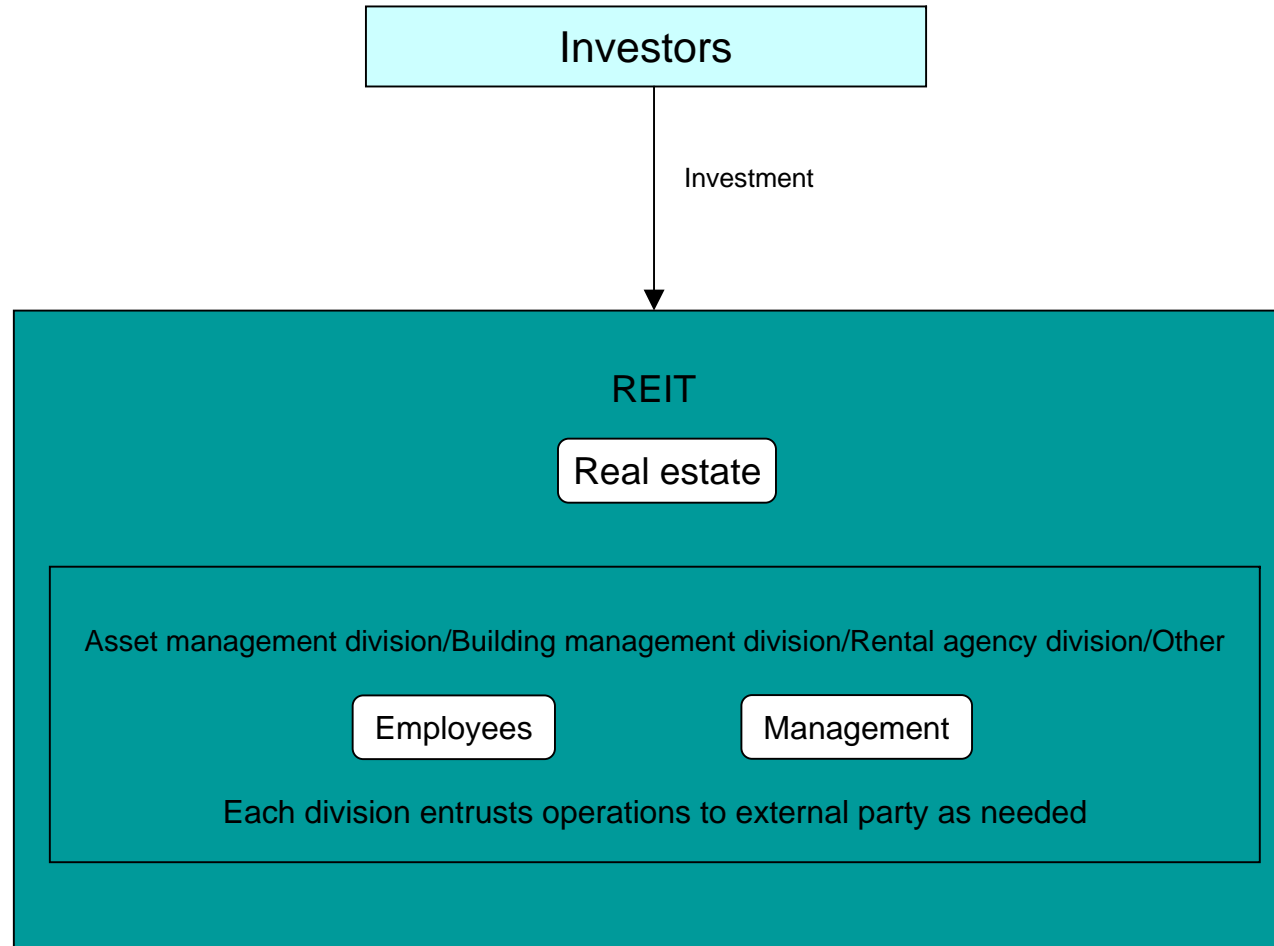
## 1. Japan (J-REITs) ~External management structure~



(\*) However, there are cases where operations are re-commissioned via management companies.

# REIT Schemes in Different Countries

## 2. U.S. (U.S. REITs) ~Internal management structure~

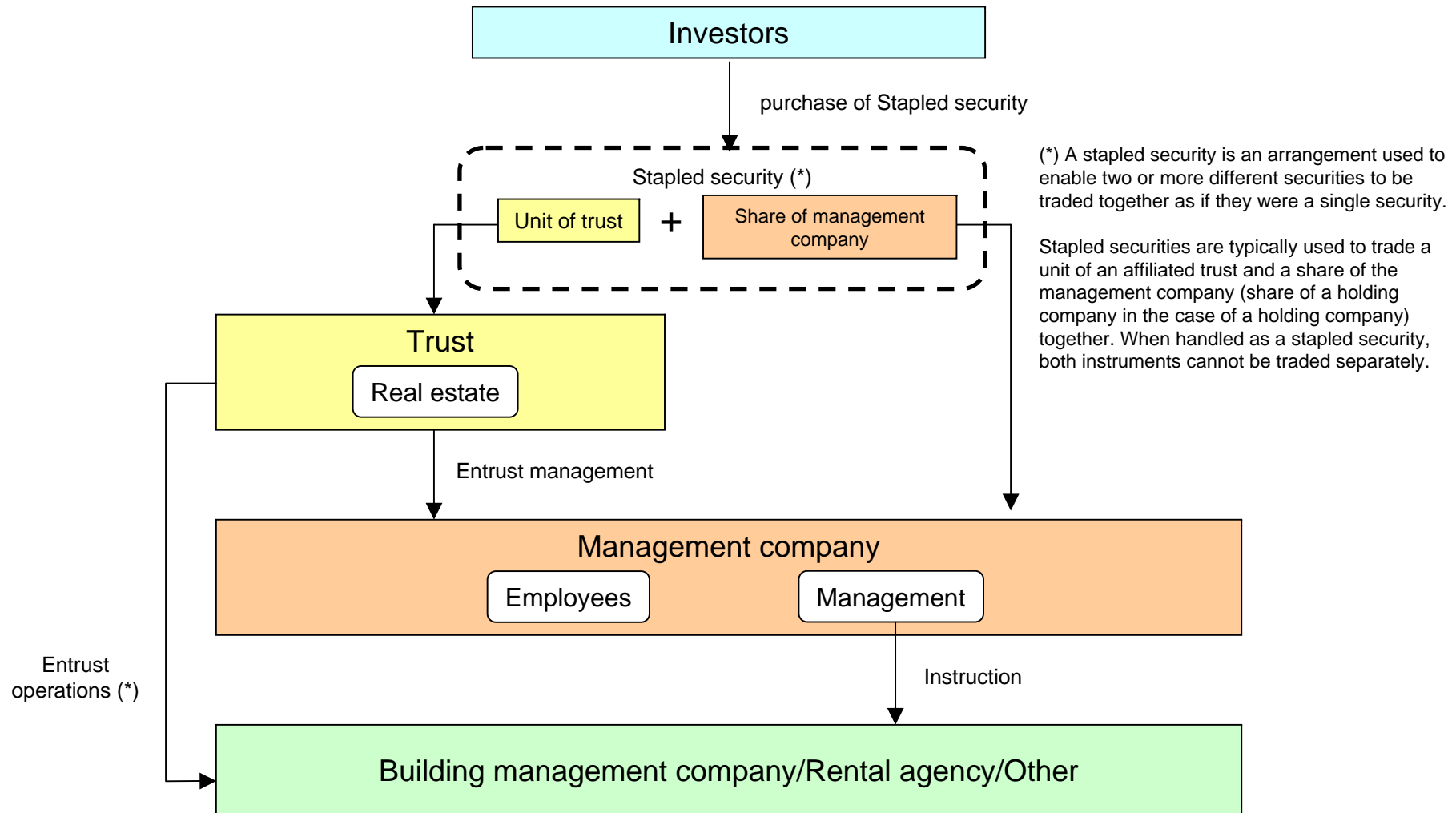


# Major Advantages and Disadvantages of Internal and External Management

	Advantages	Disadvantages
External Management	<ul style="list-style-type: none"> <li>· Easier to gain cooperation from the sponsor since the management company is a subsidiary of the sponsor. (e.g., operation management capability, securing human resources, property supply function, credit capability, etc.)</li> <li>· Tax benefits (possible to include dividends in expenses because it is deemed as a conduit since it does not manage assets on its own)</li> </ul>	<ul style="list-style-type: none"> <li>· Possibility of conduct conflicting with investor interests since asset management is entrusted to an external management company</li> <li>· Since asset management is entrusted to an external management company, costs for establishing the investment corporation and ensuring the management company acts in accordance with investor interests (e.g., costs to monitor management company operations, incentive remuneration to management company) tend to lead to higher costs compared to internal management</li> </ul>
Internal Management	<ul style="list-style-type: none"> <li>· Conduct conflicting with investor interests less likely to occur since asset management is handled internally</li> <li>· Since asset management is handled internally, costs tend to be lower due to the absence of costs needed in the case of external management to ensure the management company takes action in accordance with investor interests</li> </ul>	<ul style="list-style-type: none"> <li>· Since asset management is handled internally and there is no external management company that is a subsidiary of the sponsor, it is hard to gain sponsor cooperation</li> <li>· Since asset management is handled on its own, there is risk that its attribute as conduit is lost and tax benefits cannot be obtained</li> </ul>

# REIT Schemes in Different Countries

## 3. Australia (Stapled structure)



(\*) However, there are cases where operations are re-commissioned via management company

# Investor's Guide



## “Australian Real Estate - A Legal Guide for Foreign Investors”

Blake Dawson, together with Jones Lang LaSalle, have published Australian Real Estate - A Legal Guide for Foreign Investors to assist investors in understanding the Australian commercial real estate market and the legal and taxation aspects of Australian real estate transactions (May 30, 2008).

[http://www.blakedawson.com/Templates/Publications/x\\_publication\\_content\\_page.aspx?id=51705](http://www.blakedawson.com/Templates/Publications/x_publication_content_page.aspx?id=51705)

Major Australian law firm Blake Dawson introduces laws and tax practices pertaining to the Australian real estate market to foreign investors.

### Section that introduces stapled securities (P37)

#### External management and stapled securities

The idea of an external manager is deeply rooted in the legal structures used for real estate funds in Australia. In the classic structure, the real estate is held on trust for the investors by a trustee and the business of managing the fund is carried on by a separate manager. More recently, for REITs and for some unlisted real estate funds such as wholesale real estate funds, the roles of the trustee and manager have been combined into a single responsible entity. This is still external management. The ownership and control of the manager is separate from the ownership and control over the real estate assets.

In the classic structure, the trustee's role is passive. It holds the assets for unitholders and distributes the net income of the fund to them. The manager makes all the decisions concerning the operation of the fund and undertakes all negotiations, reporting and other activities to implement those decisions.

In the new structures using responsible entities, the responsible entity performs both the passive trustee role and also provides (as part of its own business, not the business of the trust) fund management services for the benefit of the unitholders. Its function is therefore still to act as an external manager.

However, the principle of external management has recently become qualified by the market practice of stapling securities. The shares in the manager and the units in the REIT are both listed and they are quoted and traded on the ASX as if they were a single security. They cannot be traded separately.

The stapled structure effectively changes the REIT to an internal management structure for investor purposes. This has developed in the market in recent years partly in response to investor demand for returns to the manager to be more closely aligned with investor interests and partly due to the vulnerability of managers in REIT takeovers.

The stapled structure is preferred in Australia to a simple corporate structure where a listed company holds the assets. This is because of the tax advantages where the assets are passively held in trust for unitholders and the active management is undertaken by a separate vehicle.

(Japanese translation of the underlined portion)

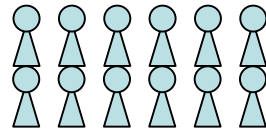
ステーブルド型は、投資家にとりREITを実質的に内部運用体制へと変えるものである。このステーブルド型は近年市場で発展してきたものであるが、資産運用会社の収益と投資家利害をより一致させるべきであるという投資家のニーズへ対応するとともに、REITの買収に際して資産運用会社の脆弱性に対処することが発展の理由として挙げられる。

# Example of Strengthening Governance

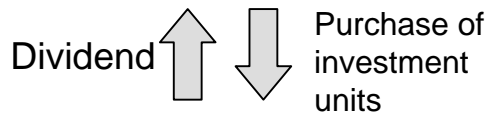
## Strengthening Investment Corporation's Monitoring of Duty of Loyalty, etc. of Management Companies

The major task of executive officers of investment corporations as representative of investors is to monitor whether management companies' handling of asset management based on the consignment contract with the investment corporation is fully performing its Duty of Loyalty, Duty of Care, etc. to the investment corporation.

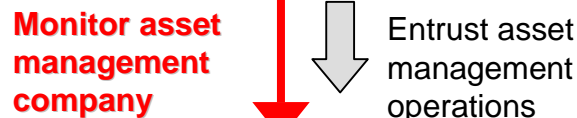
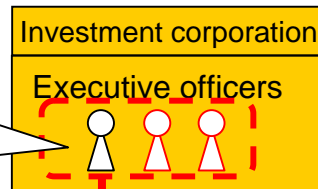
Investment corporations may as well secure the personnel and funds required to monitor the Duty of Loyalty, Duty of Care, etc. of management companies so that its executive officers can fully and proactively perform their duties (increase board members, partial outsourcing of monitoring function as necessary, etc.).



Investors



**Secure personnel and funds required to monitor Duty of Loyalty and Duty of Care of management company**



Asset management company  
(Financial instruments business operator)

## Duty of Loyalty and Duty of Care of Asset Management Companies

· Financial Instruments and Exchange Act

(Duties to Right Holders)

Article 42 A Financial Instruments Business Operator, etc. shall engage in Investment Management Business with loyalty to Right Holders (meaning the persons prescribed in the following items for the Categories of Business listed in the respective items; hereafter, the same shall apply in this Subsection):

(i) business of conducting the act specified in Article 2(8)(xii): the other party of the contract set forth in (a) or (b) of said item;

(ii) business of conducting the act specified in Article 2(8)(xiv): the person who holds rights indicated on Securities listed in said item or other rights designated by a Cabinet Order; and

(iii) business of conducting the act specified in Article 2(8)(xv): the person who holds rights listed in (a) to (c) of said item or other rights designated by a Cabinet Order as prescribed in said item.

2 A Financial Instruments Business Operator, etc. shall engage in Investment Management Business with due care of a prudent manager for Right Holders.

# Executive Officers of Investment Corporations

## How many executive officers must an investment corporation have?

Stipulated by the Investment Trust and Investment Corporations Act, with the number stipulated by respective investment corporations in their bylaws

(Change to investment corporation bylaws (general meeting of shareholders resolution) is required when increasing the number to exceed the number of executive officers stipulated by the bylaw)

### Investment Trust and Investment Corporations Act

Article 95 Investment corporations shall establish the following organizations:

- (i) **One, two or more executive officers**
- (ii) Supervisory officers totaling at least one more than the number of executive officers
- (ii) Board
- (iv) Accounting auditor

### Example of investment corporation bylaw

(Number of executive officers and supervisory officers)

Article **The number of executive officers shall be two or less**, and the number of supervisory officers shall be three or less. However, the number of supervisory officers must be at least one more than the number of executive officers.

## Is it possible for investment corporations to outsource operations?

The Investment Trust and Investment Corporations Act requires outsourcing of the following operations. There are also cases where investment corporations entrust real estate management to real estate management companies.

Outsourcing administrative matters (e.g., reparation and maintenance of the register of unitholders)

..... Article 117 of the Investment Trust and Investment Corporations Act

Outsourcing asset management of its assets (e.g., acquisition or transfer of real estate)

..... Article 198 of the Investment Trust and Investment Corporations Act

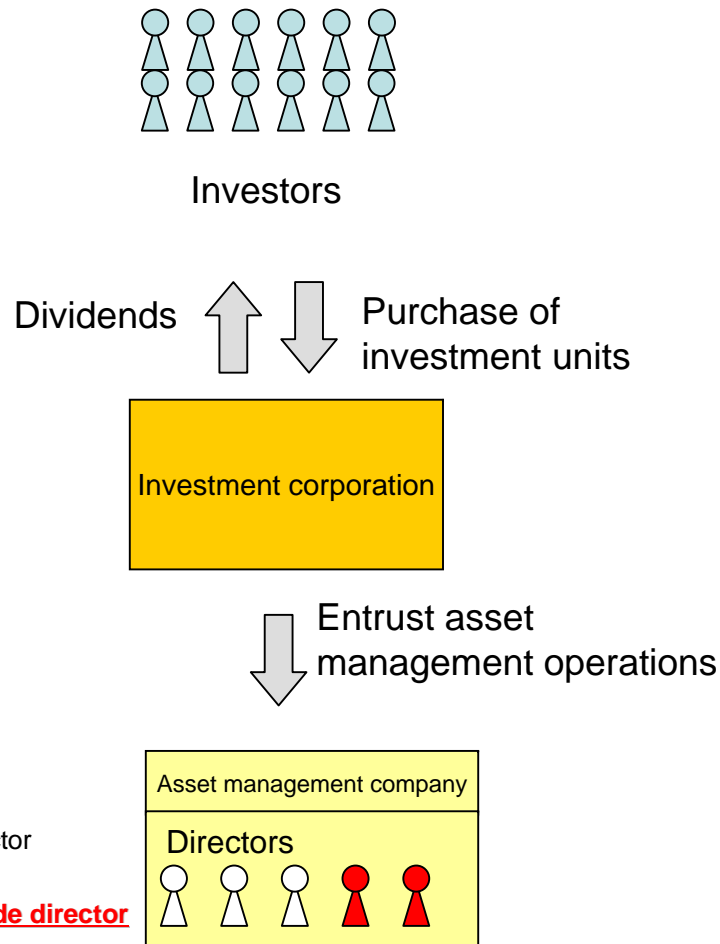
Outsourcing custody of its assets (e.g., custody of vital documents such as registration certificates of real estate)

... Article 208 of the Investment Trust and Investment Corporations Act

# Example of Strengthening Governance

## Selection of outside directors at management companies

From the perspective of strengthening governance at a management company and heightening investor confidence, the investment corporation can consider selection of highly independent outside directors that can be expected to monitor execution of operations at a management company from the perspective of securing investor profit.



### What is an Outside Director?

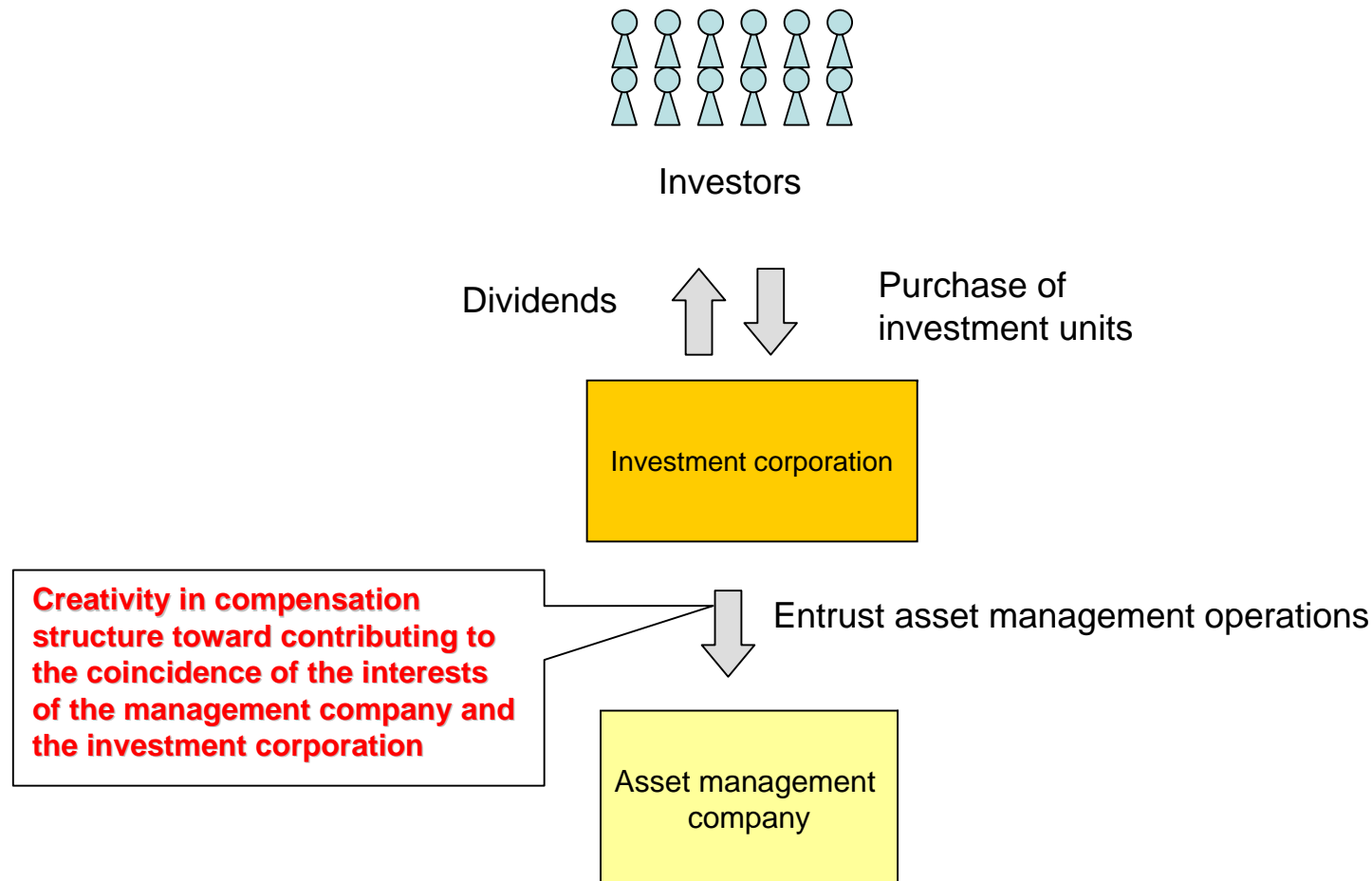
The Companies Act Article 2 (xv) defines the outside director as “a director of any Stock Company who is neither an Executive Director nor an executive officer, nor an employee, including a manager, of such Stock Company or any of its Subsidiaries, and who has neither ever served in the past as an executive director nor executive officer, nor as an employee, including a manager, of such Stock Company or any of its Subsidiaries,” thus demanding the role of making management decisions from an objective standpoint of not executing operations.

Outside directors are often introduced for the purpose of strengthening supervisory activities of the Board of Directors amid calls for companies to strengthen the separation of the execution and supervision of management.

## Example of Strengthening Governance

### Further creativity in compensation structure of management companies

Even more creativity can be considered regarding the compensation structure at a management company toward contributing to the coincidence of the interests of the management company and the investment corporation.



## Example of Management Fee

### Management Fee Case Example 1

Management fee = Basic Fee 1 + Basic Fee 2

Type of Fee	Calculation Method and Timing of Payment
Basic Fee 1	<b>Total assets multiplied by 0.15%</b> (fractions of less than one yen omitted) shall be the Basic Fee 1. "Total assets" refers to the total assets indicated on the Balance Sheet (limited to that approved by Article 131 Section 1 of the Investment Trust and Investment Corporations Act) for the investment corporation's fiscal term immediately prior to the first day of the applicable business period. The payment date of the Basic Fee 1 shall be within the applicable business period.
Basic Fee 2	<b>Distributable amount multiplied by 3.0%</b> (fractions of less than one yen omitted) calculated each fiscal term shall be the Basic Fee 2. When there is a loss carried forward in the net income before taxes before the Basic Fee 2 is deducted in accordance with GAAP, "distributable amount" refers to the amount after such loss carried forward is covered. The payment date of the Basic Fee 2 shall be within a month after board approval of financial documents, etc. (refers to financial documents, etc. stipulated by Article 129 of the Investment Trust and Investment Corporations Act) concerning the applicable business period.

### Management Fee Case Example 2

Management fee = Basic Fee 1 + Basic Fee 2

Type of Fee	Calculation Method and Timing of Payment
Basic Fee 1	<b>Amount equivalent to 2.5%</b> (fractions of less than one yen omitted) of rent, common expenses, parking fees, auxiliary income, facility rental fees, facility installation fees, delay damages, cancellation fees or similar charges in accordance with the cancellation of rental agreements and other profit arising out of the rental of the real estate under management (including beneficiary interests in trust acquired by the investment corporation and other assets backed by real estate; hereafter, "real estate" in this article) calculated every settlement date (however, this excludes profit from the sale of real estate and other assets under management; hereafter, "rent revenue" in this section). Based on the fiscal management plan the company entrusted with asset management submits to the investment corporation at the beginning of every year in line with the asset management consignment contract, the amount equivalent to 2.5% of rent revenue for the preceding three months will be paid on the last day of March, June, September, and December each year (the business day immediately prior when such date is a bank holiday) and the excess and deficiency will be balanced upon approval of accounts without delay.
Basic Fee 2	<b>Amount equivalent to 3%</b> (fractions of less than one yen omitted; however, negative values deemed as 0 yen) of <b>net income before taxes</b> before the Basic Fee 2 calculated every settlement date is deducted (however, when there is a loss carried forward, the amount after covering all such) and shall be paid upon approval of accounts without delay. If the pay corresponds to a period short of an accounting period, the pay shall be adjusted per diem.

\*Management fees are indicated on "investment corporation rules" posted on each investment corporation's website.

## Example of Management Fee

### Management Fee Case Example 3

Management fee = Basic Fee 1 + Basic Fee 2 + Incentive fee

Type of Fee	Calculation Method and Timing of Payment
Basic Fee 1	<p>Total of amounts obtained by following calculating formula <b>according to total appraised value of managed assets</b> as of the end of the previous business period.            Here, total appraised value of managed assets refers to the total of the appraised values of respective real estate properties (real estate that is the trust asset in the case of beneficiary interest in real estate).            [Calculating Formula]            · Portion whose total appraised value of managed assets of 200billion yen or less multiplied by 0.150%            · Portion whose total appraised value of managed assets exceeds 200billion yen multiplied by 0.125%            Fee for the applicable period shall be paid by the settlement period of the applicable business period.</p>
Basic Fee 2	<p>Total of amounts obtained by the following calculating formula <b>according to recurring cash flow</b> during the applicable business period. Here, recurring cash flow refers to depreciation cost and amortization of deferred asset added to the recurring profit/loss and excluding profit/loss on sales and appraisal of specified assets (excluding those booked under extraordinary income and expenses) (hereafter "CF"). When calculating Basic Fee 2, the CF before deduction of Basic Fee 1, Basic Fee 2 and the Incentive Fee stipulated below shall serve as the criteria.            [Calculating Formula]            · Portion whose CF is 5billion yen or less multiplied by 6.0%            · Portion whose CF exceeds 5 billion yen multiplied by 5.0%            Fee shall be paid within two months of the settlement period pertaining to the applicable business period.</p>
Incentive fee	<p>Amount obtained by the following calculating formula <b>according to investment unit price (closing price)</b> on the Tokyo Stock Exchange during the applicable business period. However, the following calculating formula shall be promptly reviewed if the investment corporation merges or splits investment units.            [Calculating Formula]            · (Average closing price of investment unit during applicable business period - highest price among the average closing prices of respective business periods up until the previous business period) × number of outstanding investment units as of the end of the previous business period × 0.4%            Average closing price of investment unit shall be calculated by totaling the investment unit price (closing price) on each business day of the applicable business period and dividing it by the number of business days. Business days without closing prices shall be excluded from the calculation.            If the average closing price of the investment unit during the applicable business period does not exceed the highest price among the average closing prices of respective business periods up until the previous business period, the fee shall be 0yen.            Fee shall be paid within two months of the settlement period pertaining to the applicable business period.</p>

Management fees are indicated on "investment corporation rules" posted on each investment corporation's website

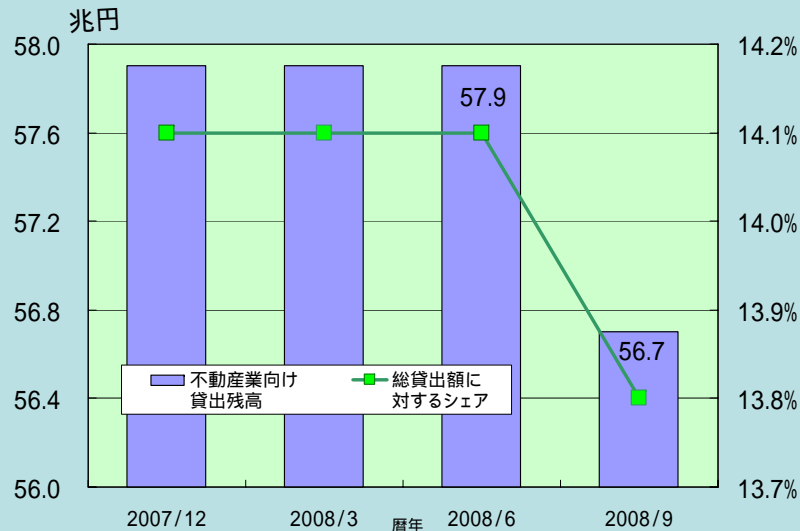
## 4. Financing for J-REITs

# Funding Support Utilizing Crisis Response Facilitating Operations of the Japan Finance Corporation

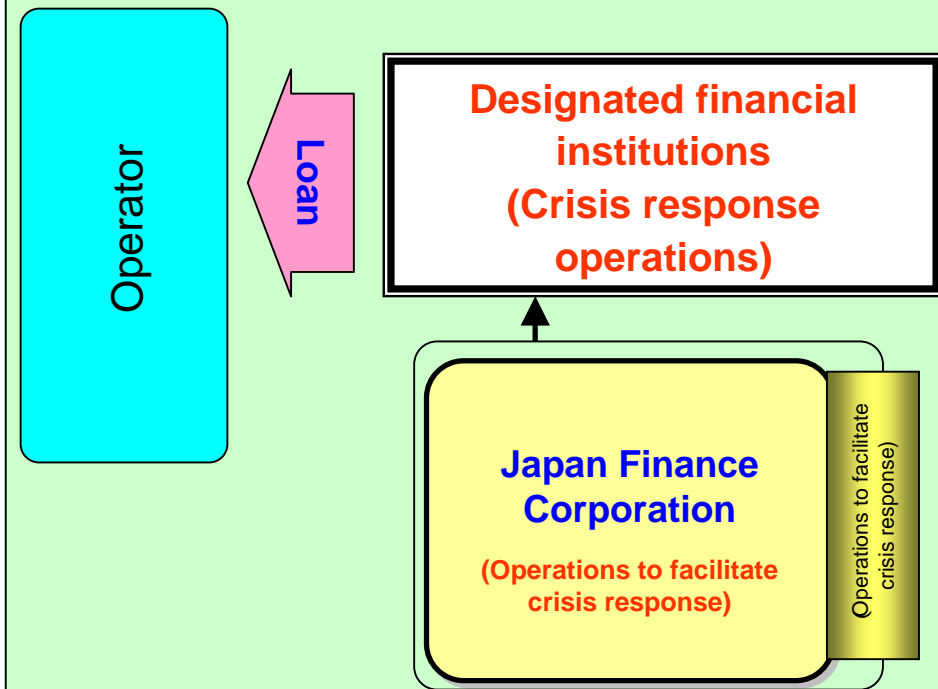
Due to the impact of the turmoil in the global financial market triggered by the subprime loan problem, domestic financial institutions are tightening their lending stance toward the real estate industry. In response to the rapid credit crunch, we will provide funding support to housing and real estate operators with sound businesses by utilizing the crisis response facilitating operations of the Japan Finance Corporation.  
 (Announcement by the Ministry of Land, Infrastructure, Transport and Tourism, December 15, 2008)

## Contraction of funds for operators

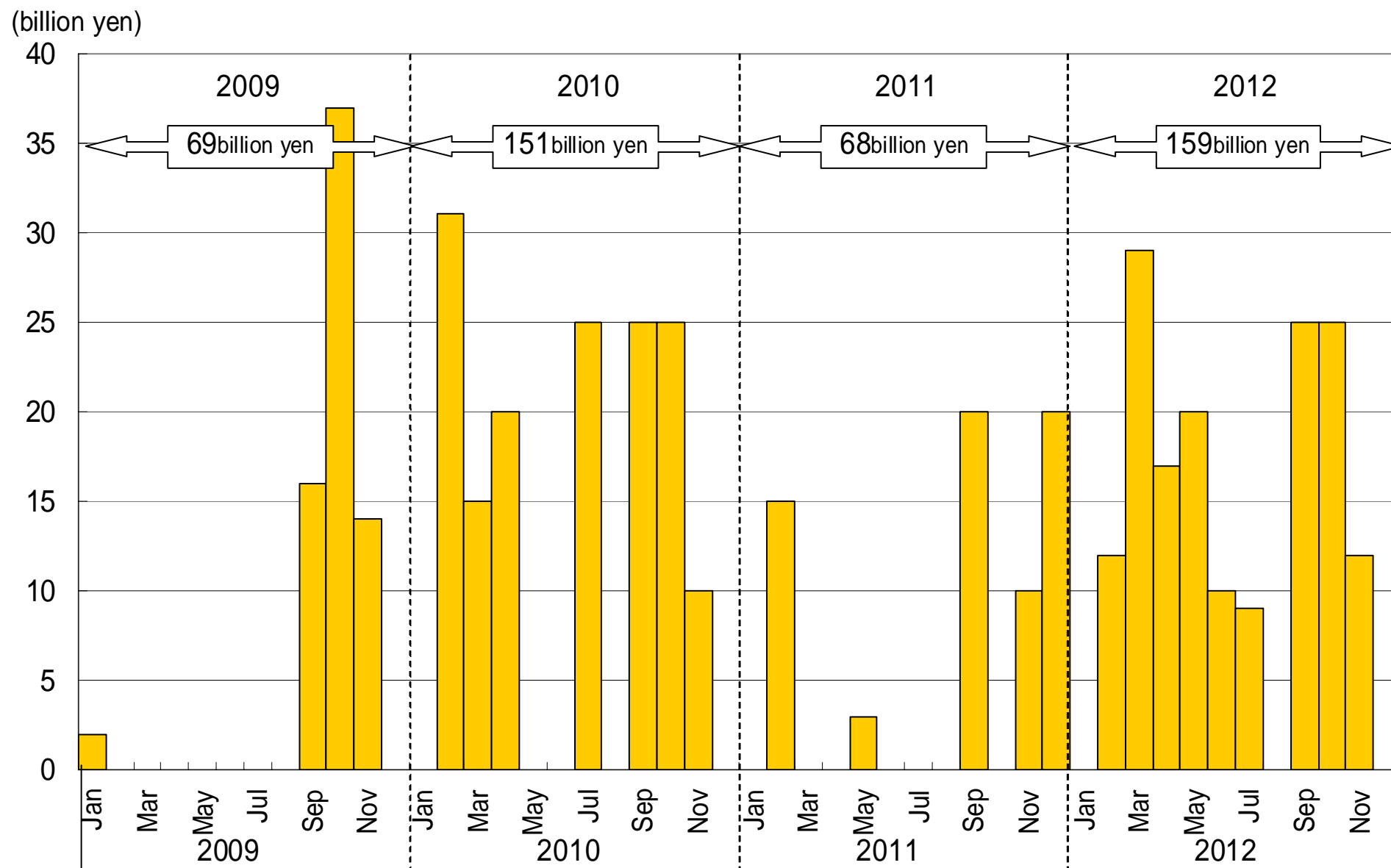
Loans outstanding for the real estate industry declined by 1.2 trillion yen from the end of June to the end of September



## Funding support utilizing crisis response facilitating operations of the Japan Finance Corporation



# Redemption Schedules for Investment Corporation Bonds



\*As of late December 2008