

“The 7th Questionnaire Survey on Real Estate Investment by
Institutional Investors”

(Overview of survey results)

1. Introduction

The Association for Real Estate Securitization has conducted its 7th “Questionnaire Survey on Real Estate Investment by Institutional Investors” and compiled the results.

This is an annual survey that has been conducted since fiscal 2001 as part of the association’s survey/research activities for the purpose of grasping the realities and challenges in real estate investment in terms of asset management for pension funds and institutional investors such as life insurers, nonlife insurers and regional banks (referred to as “pension funds” and “general institutional investors” in this survey).

This year, surveys were sent out to and collected from 609 pension funds and 189 general institutional investors, a total of 798 parties, from May 18 through June 15, 2007 and responses were received from 123 pension funds and 65 institutional investors, a total of 188 parties.

It can be inferred from the results of this fiscal year’s survey that real estate investment by institutional investors is gradually taking root against the backdrop of an expanding real estate securitization market.

In particular, pension funds’ enthusiasm for real estate investment was high in this survey, implying that there is plenty of room for expansion in the future.

Details of survey results and tabulation results are indicated in section “3. Main Content of Questionnaire Survey Results” of this chapter.

2. Overview on Conducting the Questionnaire Survey

This survey has been conducted annually since fiscal 2001 for the purpose of grasping the realities and challenges in physical real estate and real estate securitization product investments by “pension funds” and “general institutional investors.”

The investment products subject to this survey are “physical real estate,” “J-REIT,” “foreign REIT,”* “real estate private fund, etc.” and “bonds backed by real estate” (*newly added on this survey).

Question items were “existence of investment,” “real estate of interest as investment target,” “important factors when considering investment,” “expected rate of return on investment (ROI),” “distinction of asset class,” “purpose of investment,” “investment period,” “mandate style (pension fund),” etc. for each investment target.

(1) Survey target (survey addressee)

(A) Pension fund

609 organizations* extracted from among employees’ pension fund, fund-type or agreement-type defined-benefit pension plans, qualified retirement pension, public pension and mutual aid associations with total assets of 14 billion yen or more as of the end of March 2007

*Public pension and mutual aid associations were newly added as survey targets this fiscal year

(B) General institutional investors

Total of 189 companies from among life insurers, nonlife insurers, trust banks, regional banks, city banks, etc.

(2) Survey period

May 18, 2007---Mail out (Survey period: Post by June 1 (Friday))

↓

June 5, 2007 ~ Requests for responses to organizations with past records of responding

June 15, 2007---Response deadline

(3) Survey Method

Sending and collecting questionnaire sheets by mail

Prepare and tabulate survey sheets separately for pension funds and general institutional investors

(4) Survey Organization

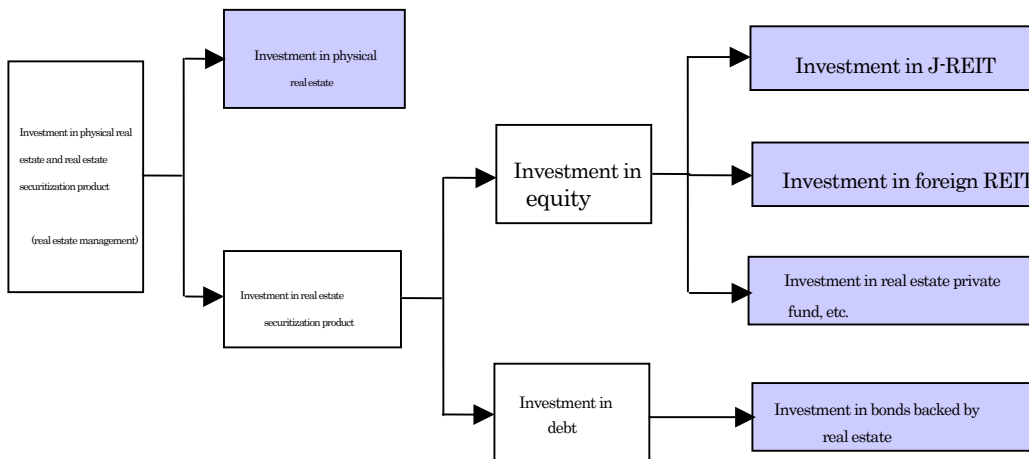
Association for Real Estate Securitization

(5) Major Survey Items

Major survey items for pension funds are as follows:

- (1) Existence of investment in physical real estate and real estate securitization products and distinction of asset class
- (2) Policy asset allocation ratio and current asset allocation ratio
- (3) Purpose of investment by investment target
- (4) Types of real estate of interest as investment target
- (5) Items that seem important when considering investment
- (6) Investment period when making investment
- (7) Expected rate of return on investment (ROI) when making investment
- (8) Mandate style when making investment
- (9) Reason for not making investment
- (10) Adequacy of yield gap between J-REIT dividend yield and long-term interest rates
- (11) Configuration of REIT fund of funds that are of interest as investment target
- (12) Perspective on real estate when investing in bonds backed by real estate
- (13) Prerequisites for expanding investment

(6) Investment Classification in Questionnaire



- A. Investment in physical real estate:** Direct investment in physical real estate or beneficial interest in real estate trust
- B. Investment in J-REIT:** Investment in investment units of J-REIT, or purchase of securities investment trust that incorporates J-REIT into portfolio. Indirect investment in J-REIT via securities investment trust.
- C. Investment in foreign REIT:** Investment in investment units of foreign REIT, or purchase of securities investment trust that incorporates foreign REIT into portfolio. Indirect investment in foreign REIT via securities investment trust.
- D. Investment in real estate private funds, etc.:** Investment in real estate funds with private structure (such as “Tokumei Kumiai” anonymous association investment in limited company SPC) and investment in other equity-type real estate securitization products (such as investment in preferred equity securities issued by specific purpose company under the Act on Securitization of Assets).
- E. Investment in bonds backed by real estate:** Investment in bond-type real estate securitization products backed by real estate or real estate loans including CMBS and RMBS.

**Real estate private fund” and “Other equity-type real estate securitization products” in surveys up to the previous fiscal year were combined and referred to as “real estate private fund, etc.” in this fiscal year’s survey.

(7) Results of Questionnaire Collection

(A) Collection results by addressee

Questionnaire addressee		Sent	Collected	Collection rate (last fiscal year)
Pension fund (A) ※In principle, extracted from pension funds with total assets of 14 billion yen or more as of March 2007		609 (436)	123 (61)	20.2% (14.0%)
(A) Breakdown	Employees' pension fund	268	53	19.8% (10.4%)
	Defined-benefit pension plans	270	64	23.7% (18.5%)
	Qualified retirement pension	42	1	2.3% (3.1%)
	Public pension/Mutual aid associations, etc.	29	4	13.8%
	Unknown/Anonymous	—	1	—
General institutional investor (B)		189 (204)	65 (54)	34.4% (26.5%)
(B) Breakdown	Life insurer	38	9	23.7% (34.2%)
	Nonlife insurer	22	7	31.8% (13.6%)
	City bank, etc.	10	6	60.0% (30.0%)
	Trust bank	23	9	39.1% (52.2%)
	Regional bank	96	34	35.4% (20.7%)
Total (A)+(B)		798	188	23.6% (18.0%)

(B) Collection results by scale of pension assets

Total assets under management (billion yen)	~20 billion yen	Over 20 billion yen~50 billion yen	Over 50 billion yen~100 billion yen	Over 100 billion yen~500 billion yen	Over 500 billion yen	Number of responses
Number of responses from pension fund	29 24.4%	45 37.8%	16 13.4%	27 22.7%	2 1.7%	119 100.0%

以上

3. Main Content of Questionnaire Survey Results

(1) Investment in real estate securitization products has expanded and taken root

(A) For pension funds, investment has expanded and diversified

When looking at the situation regarding pension funds' investment in physical real estate and real estate securitization products, 42% of the pension funds* that responded are investing in physical real estate or some type of real estate securitization product. It can be said that as a whole, investment in real estate securitization products is expanding.

As for investment conditions by target, investment was centered on "real estate private fund, etc." until last year. What is notable for this survey is that while investment in "real estate private fund, etc." (22%) stayed at previous year's levels, the shares of those who have already invested in "J-REIT" (20%) and "foreign REIT" (19%) have doubled in comparison to last year.

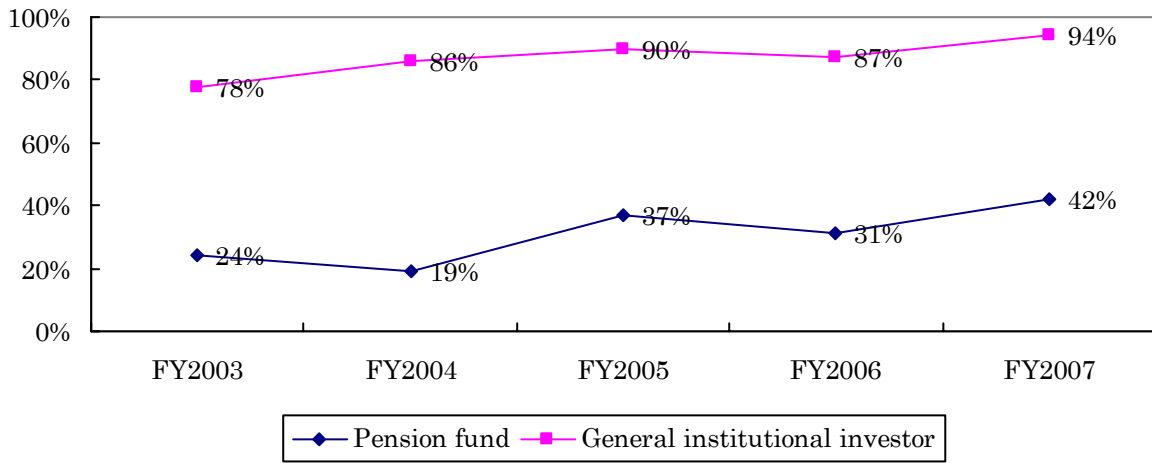
Also, when classifying pensions' total AUM into "under 20 billion yen," "20 billion yen ~ Under 50 billion yen," "50 billion yen ~ Under 100 billion yen" and "100 billion yen or more," and looking at investment conditions into major investment targets according to the scale of pension assets, one can understand that the larger the asset scale, the larger their investment record for "real estate private fund, etc." On the other hand, pension funds with small asset scale have high investment records in "REIT" and "foreign REIT." It can be said that investment in "J-REIT" and "foreign REIT" which allow for investment with small funds is progressing.

As for pension funds, diversification of managed assets and expansion in investor demographics are discerned in accordance with the expansion of the real estate securitization product market and diversification of products.

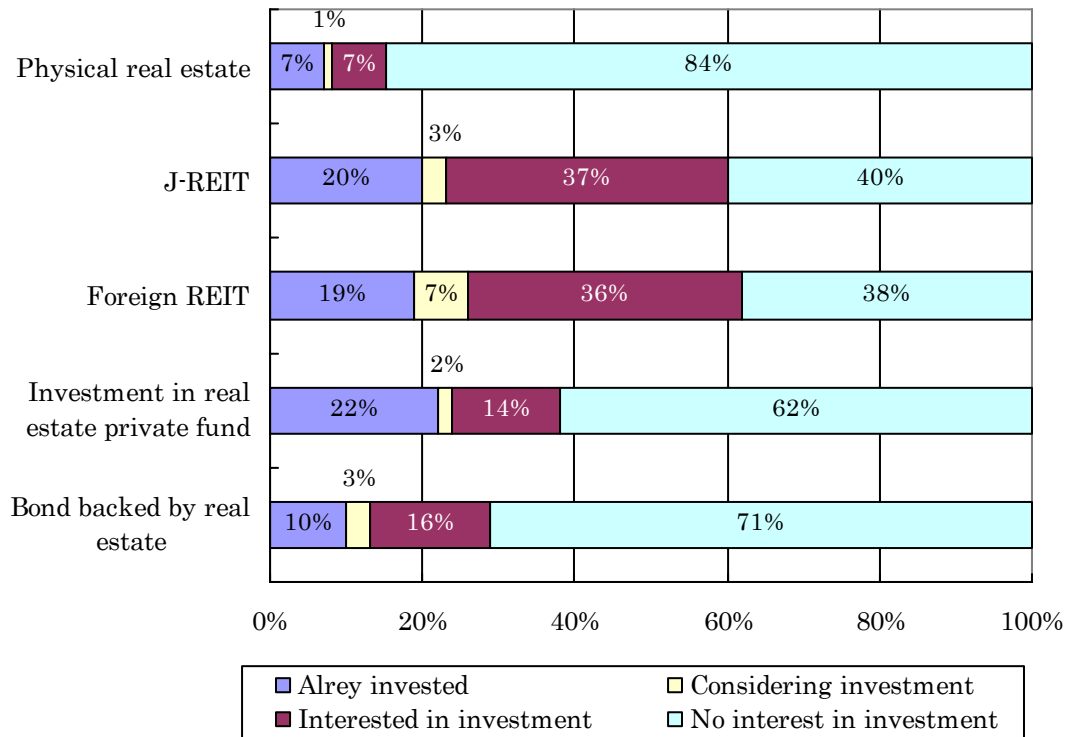
As for distinction of asset class, many pension funds are considering "real estate as an asset class" next to "a substitute asset for bonds."

[Refer to 1-(1), 1-(2), 1-(3) and 1-(4)]

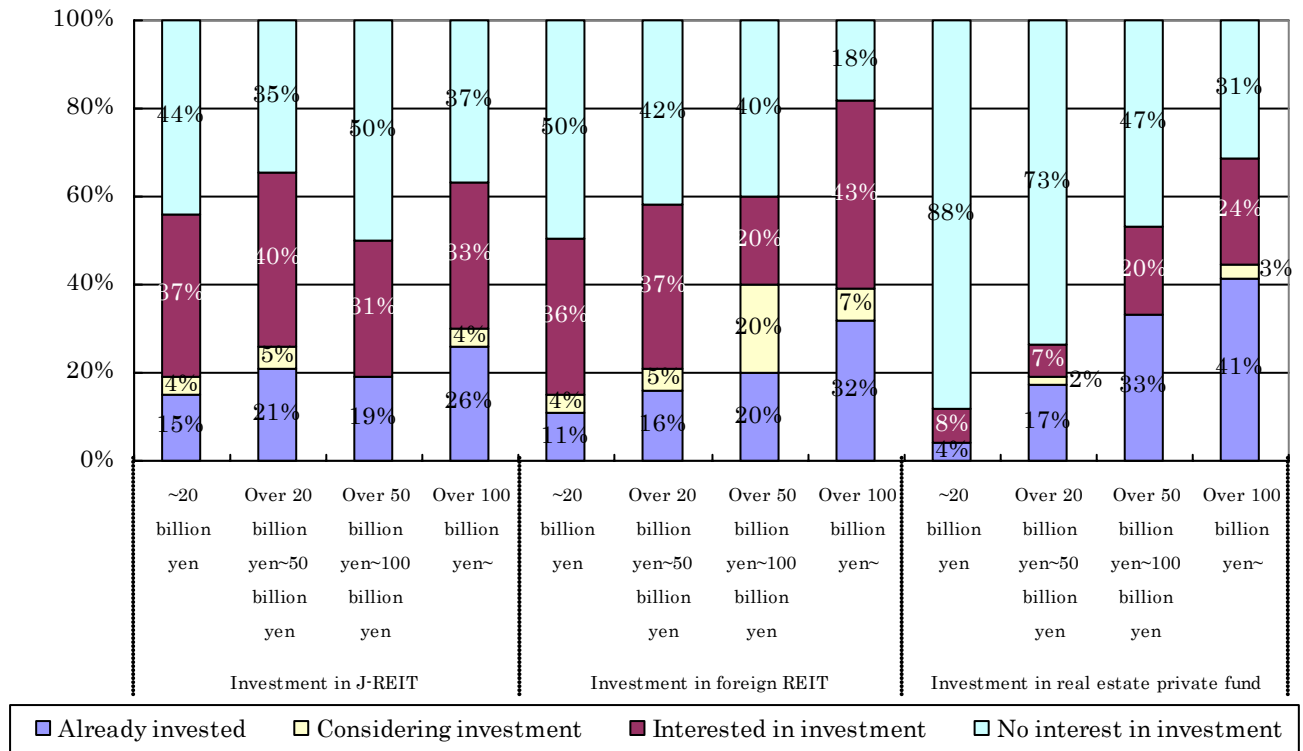
[Figure: 1-(1)] Percentage of Respondents Investing in Physical Real Estate or Listed Real Estate Securitization Products



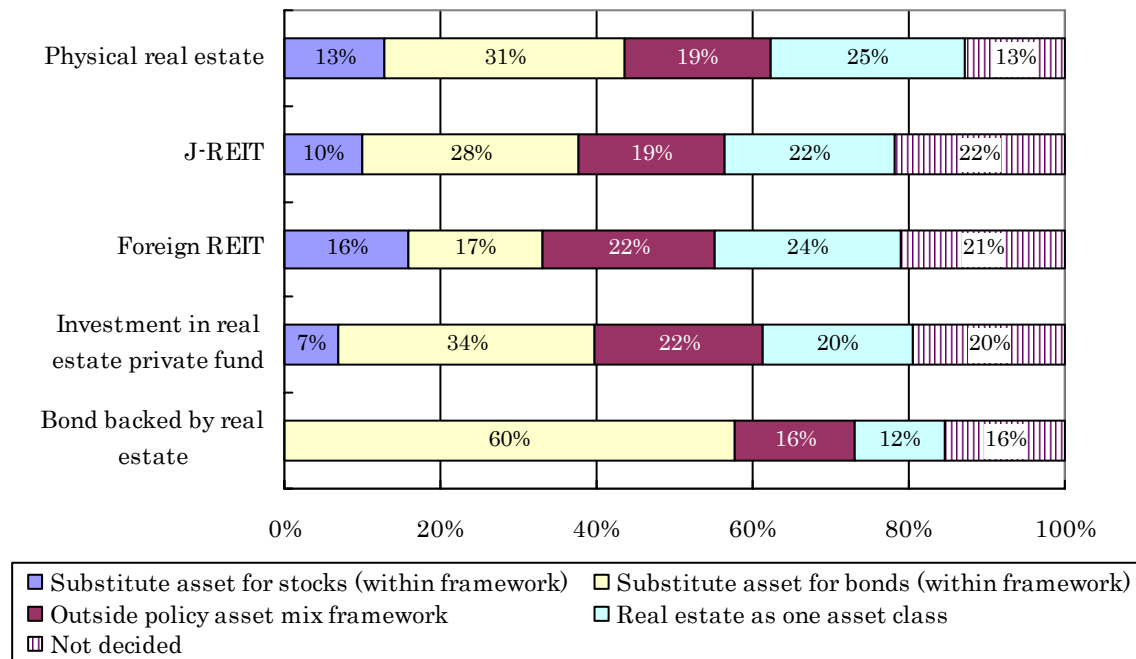
[Figure: 1-(2)] Investment by Investment Target (Pension Funds)



[Figure: 1-(3)] Investment by Pension Fund AUM Size



[Figure: 1-(4)] Distinction of Asset Class by Investment Target (Pension Funds)



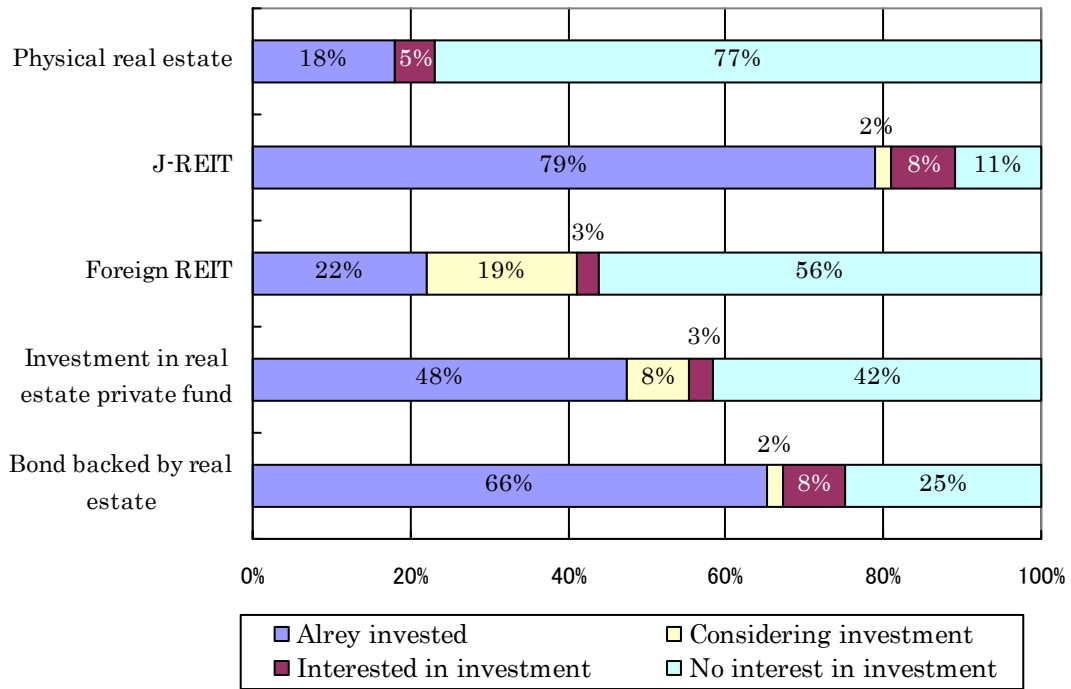
(B) For general institutional investors, investment in real estate securitization products has taken root

With general institutional investors, the percentage of those investing in physical real estate or

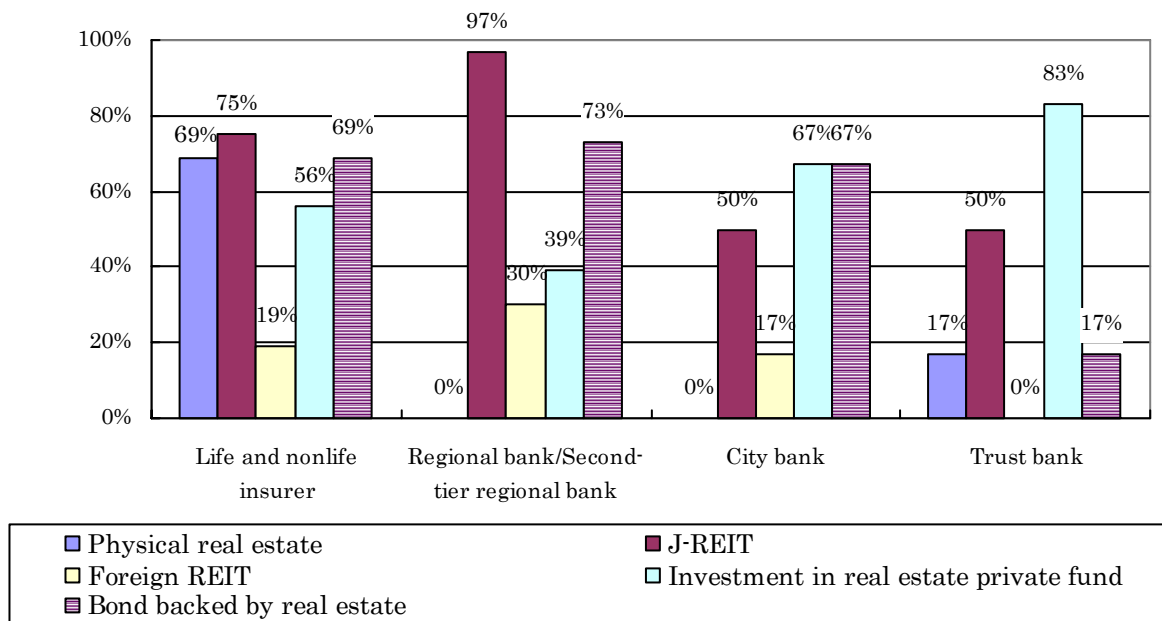
real estate securitization products reaches 94%. More specifically, about 80% invest in “J-REIT,” about 50% in “real estate private fund,” and about 70% invest in “bonds backed by real estate,” showing that investment in real estate securitization products has taken root.

[Refer to Chart 1-(5), 1-(6), 1-(7)]

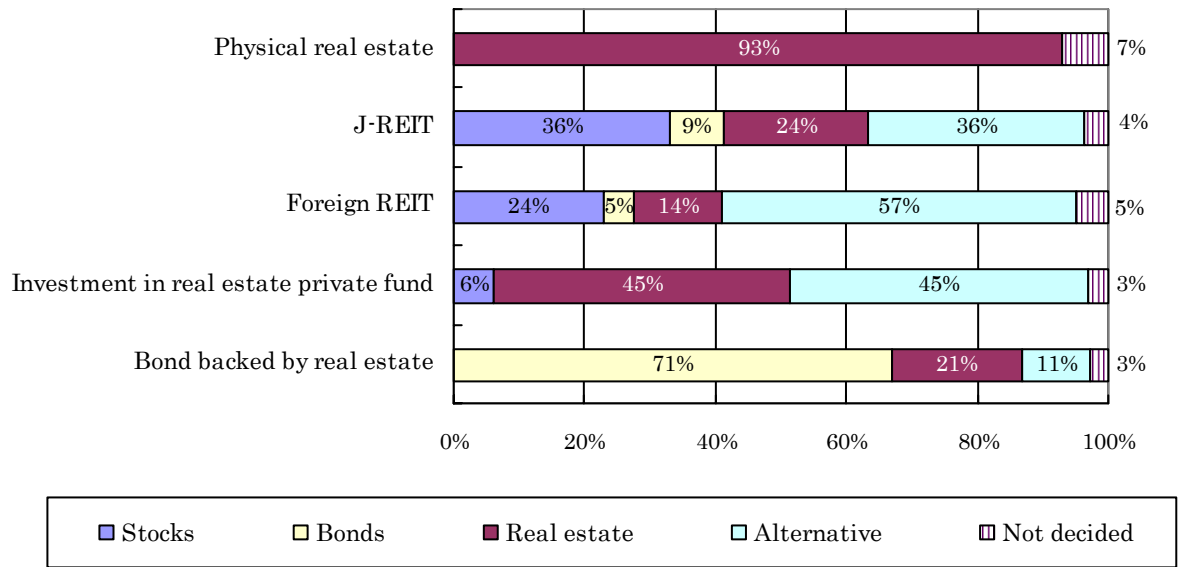
[Figure: 1-(5)] Investment by Investment Target (General Institutional Investors)



[Figure: 1-(6)] General Institutional Investors Investment Situation by Attribute



[Figure: 1-(7)] Distinction of Asset Class by Investment Target (General Institutional Investors)



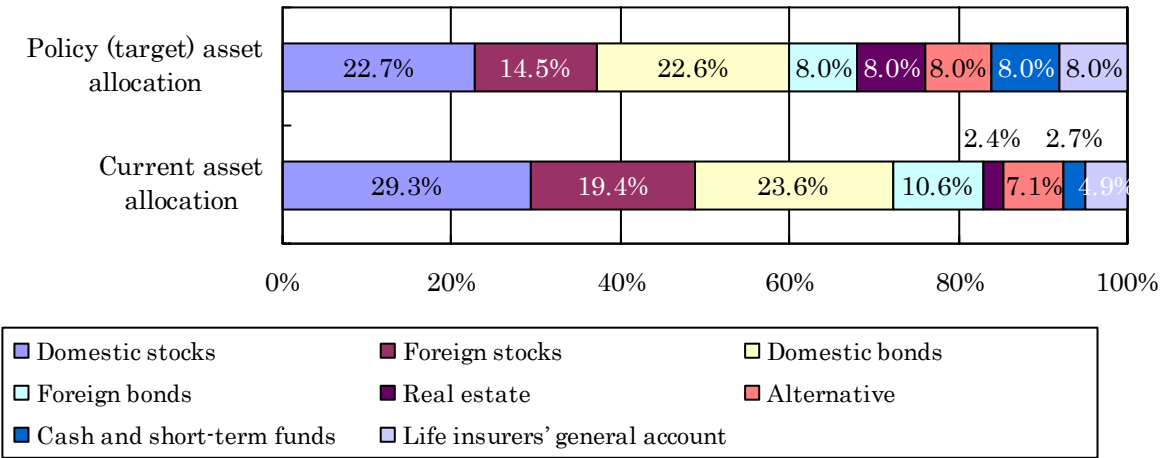
(2) Asset allocation to “Real estate” is on upward trend

As for the percentage of “real estate” in current (track record) asset allocation (Note: what is included in “real estate” depends on respondent’s definition), it was 2.4% for pension funds (valid response: 106) and 9.8% for general institutional investors (valid response: 23). Asset allocation to “real estate” has increased compared to the previous year (pension fund: 1.2%, general institutional investor: 6.1%) for both parties.

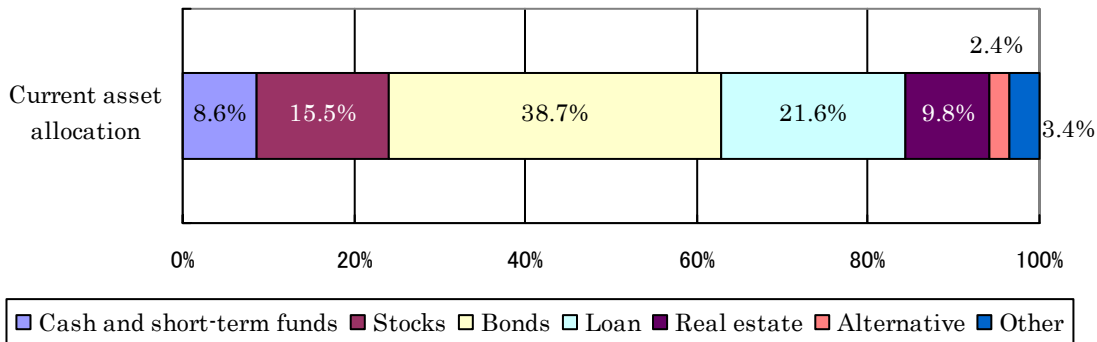
Also, in terms of policy (target) asset allocation for pension funds, the target allocation for real estate is 8.0%, but the fact that actual asset allocation has not reached the target also goes to show the status quo in which pension funds’ enthusiasm for real estate investment is high, but investment records have not caught up.

[Refer to Chart 2-(1), 2-(2)]

[Figure: 2-(1)] Asset Allocation (Pension Funds)



[Figure: 2-(2)] Asset Allocation (General Institutional Investors)



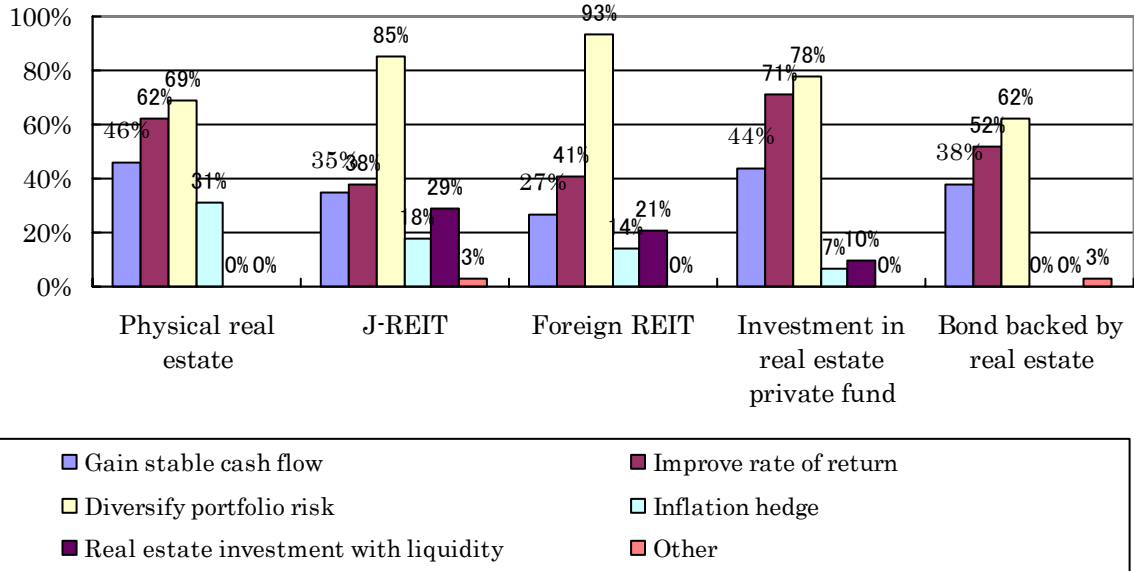
(3) Emphasis on “Diversification of portfolio risk” as purpose of investment

As for the purpose of investment in respective investment targets for those respondents who are either “investing,” “considering investing” or “interested in investing,” many cited it was to “diversify portfolio risk,” to “gain stable cash flow” and “improve rates of return.” Pension funds in particular had a tendency to focus on “diversify portfolio risk,” while general institutional investors showed the tendency to focus on “improve rate of return.”

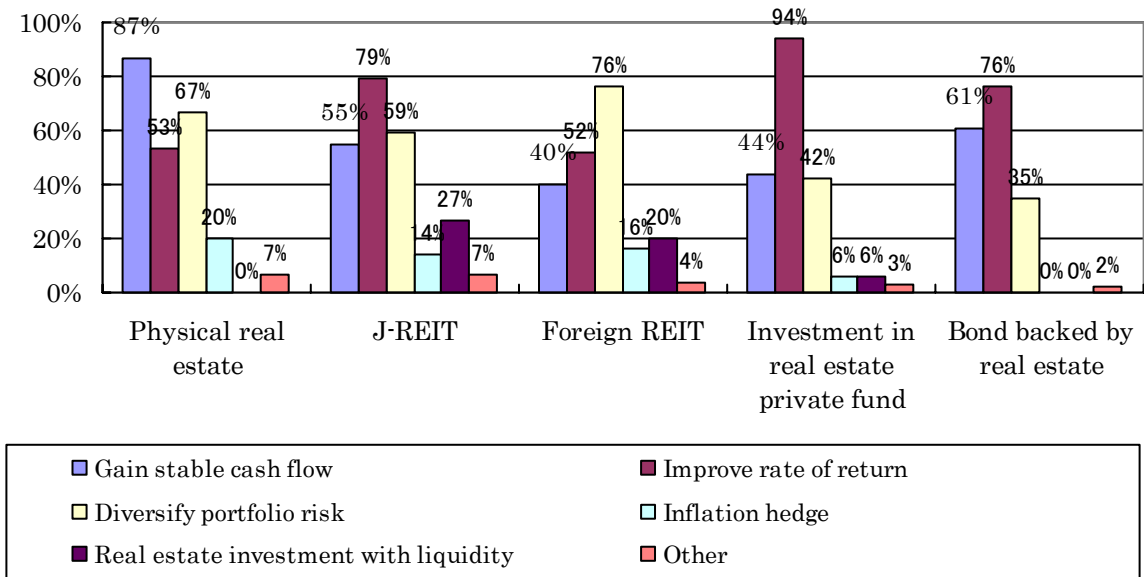
Also, when asking those who cited “improve rates of return” as purpose of investment about what the focus is of the rate of return, they generally emphasized “income gain” over “capital gain.”

[Refer to Chart 3-(1), 3-(2), 3-(3), 3-(4)]

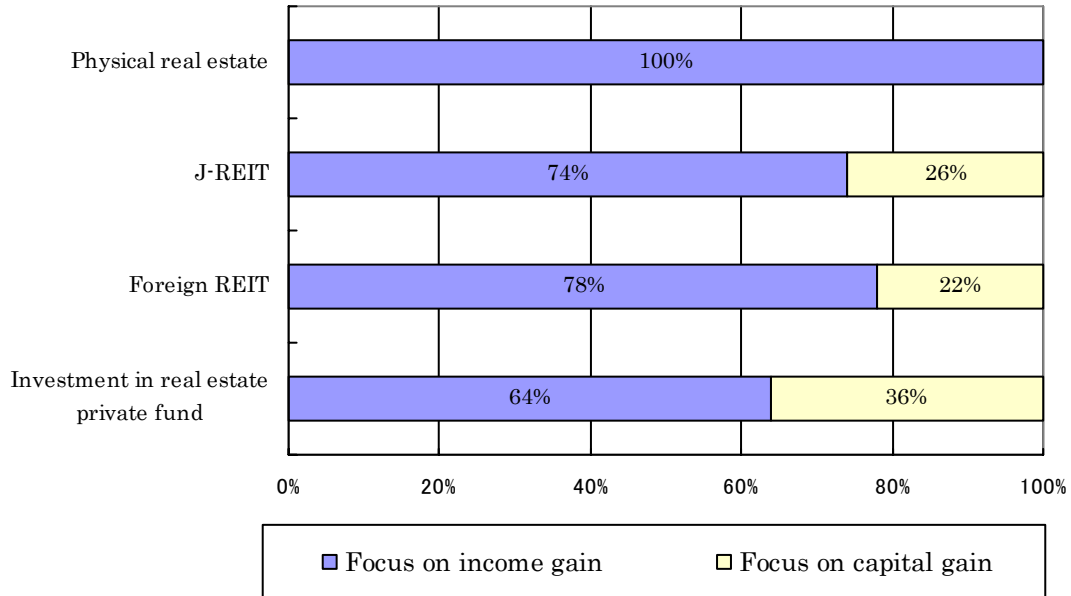
[Figure: 3-(1)] Purpose of Investment by Investment Target (Pension Funds)



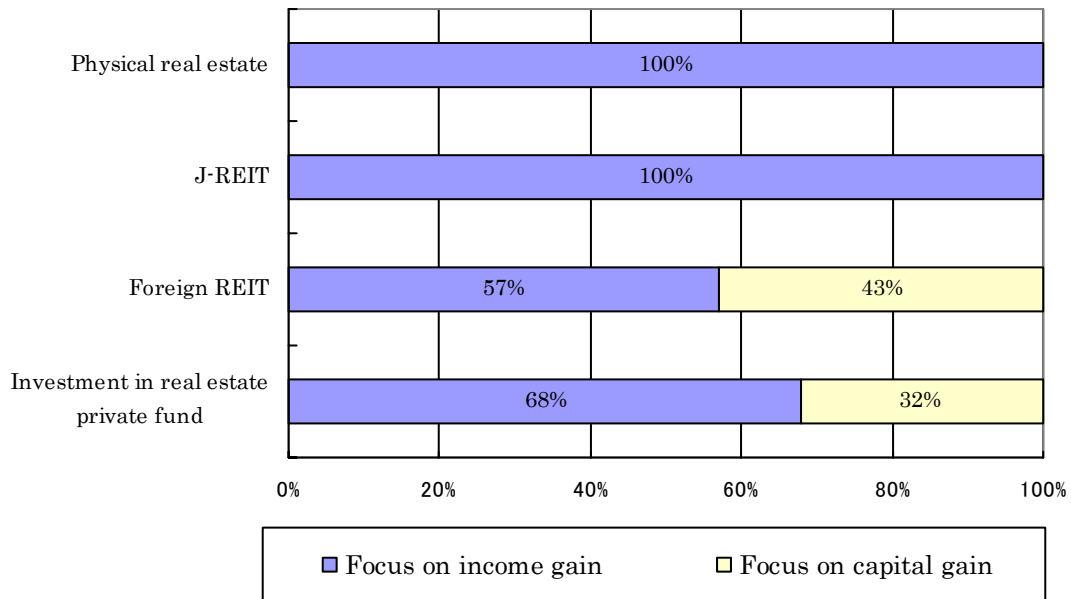
[Figure: 3-(2)] Purpose of Investment by Investment Target (General Institutional Investors)



[Figure: 3-(3)] Focus Items in Terms of “Improve Rate of Return” (Pension Funds)



[Figure: 3-(4)] Focused Items in Terms of “Improve Rate of Return” (General Institutional Investors)



(4) Items of importance when considering investment

When looking at items of importance when considering investment, the top items for both pension funds and general institutional investors alike were “stability in revenue” and “quality of real estate owned by fund” like the previous year. But this fiscal year, the importance of “track record and capability of management company” has relatively increased for as items to be studied for “J-REIT,” “foreign REIT” and “real estate private fund.” Also particularly notable is the fact that pension funds raised “correlation with other assets” in terms of “foreign REIT,” which has been newly added

to the survey target starting this fiscal year.

(Refer to Chart 4)

[Figure: 4] Items Deemed Important in Considering Investment

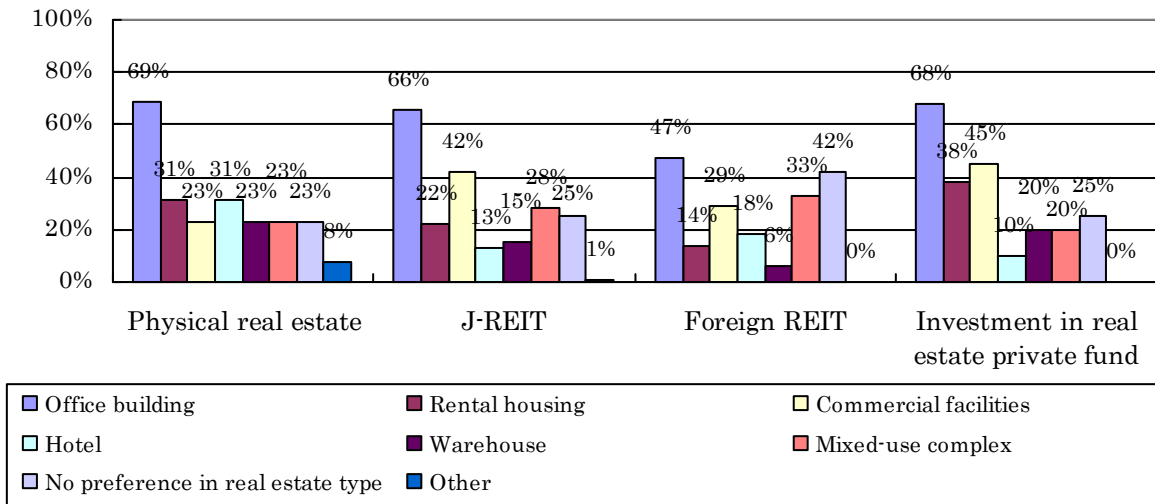
	Pension fund		General institutional investor	
Physical real estate	1st	Stability in revenue	1st	Stability in revenue
	2nd	Return on investment	2nd	Quality of acquired real estate
	3rd	Quality of acquired real estate	3rd	Return on investment
J-REIT	1st	Stability in revenue	1st	Quality of real estate owned by fund
	2nd	Track record and capability of management company	2nd	Track record and capability of management company
	3rd	Return on investment	3rd	Stability in revenue
Foreign REIT	1st	Stability in revenue	1st	Future outlook of real estate market
	2nd	Track record and capability of management company	2nd	Track record and capability of management company
	3rd	Correlation to other assets	3rd	Stability in revenue
Investment in real estate private fund	1st	Track record and capability of management company	1st	Track record and capability of management company
	2nd	Stability in revenue	2nd	Quality of real estate owned by fund
	3rd	Quality of real estate owned by fund	3rd	Return on investment

(5) Type of property diversifies

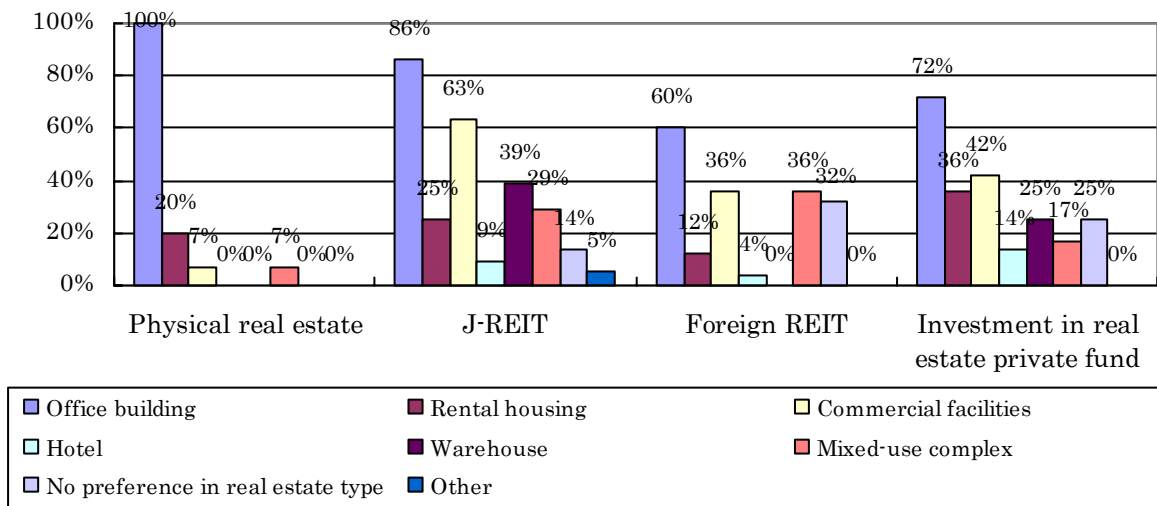
As for the type of real estate that is of interest as an investment target, both pension funds and general institutional investors alike showed a high interest in “office” as in the previous fiscal year, but the interest in other uses are diversifying as well, as characterized by many responding, “no preference in real estate type.” Properties for “J-REIT” and “real estate private fund” is centered on offices, but the spreading of needs to rental housing, commercial facilities, mixed-use facilities, etc. can be detected.

[Refer to Chart 5-(1), 5-(2)]

[Figure 5-(1)] Properties of Interest as Investment Targets (Pension Funds)



[Figure 5-(2)] Properties of Interest as Investment Target (General Institutional Investors)

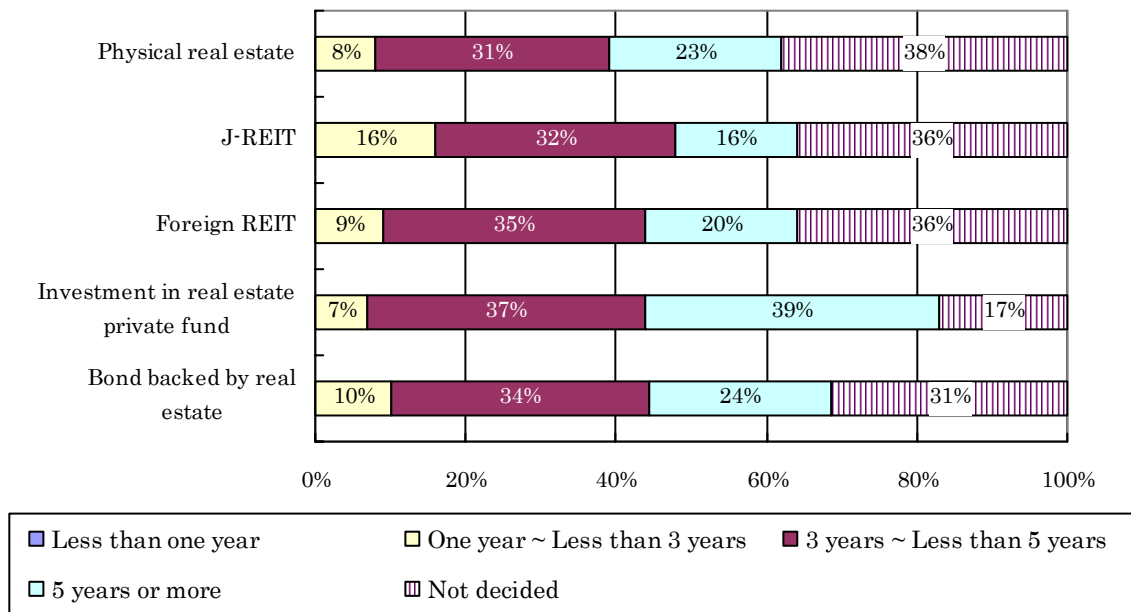


((6) Investment period is mainly 3 years ~ Less than 5 years

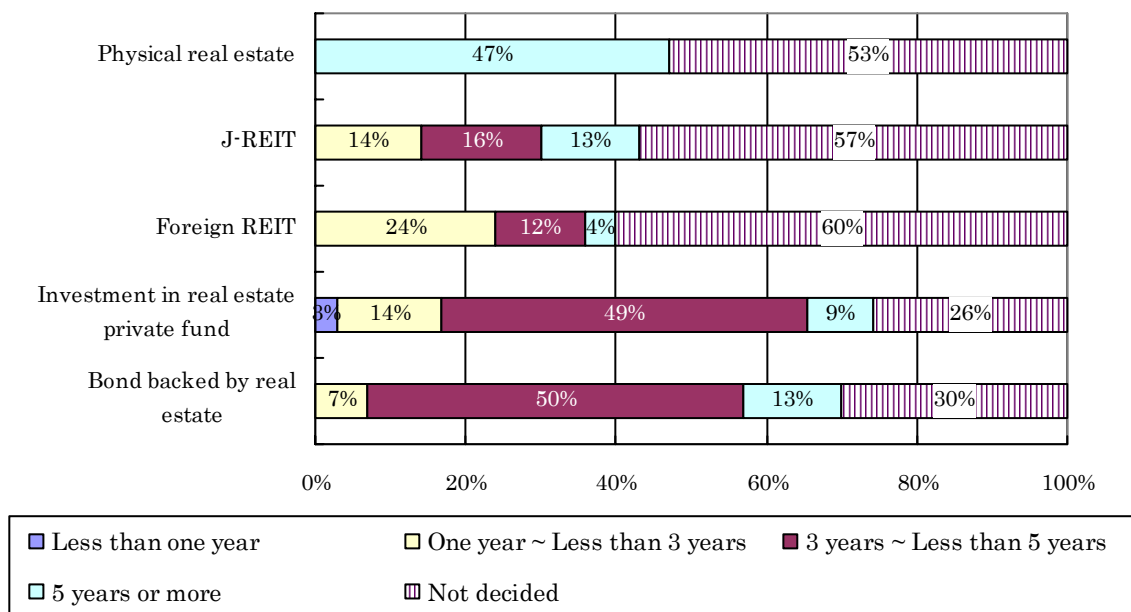
When looking at investment periods by investment targets, the mainstream for both pension funds and general institutional investors alike is “3 years ~ Less than 5 years,” aside from the fact that general institutional investors’ investment in “J-REIT” and “foreign REIT” is short-term. For “real estate private fund, etc.” in particular, the number of pension funds that responded “5 years or more” exceeded “3 years ~ Less than 5 years,” indicating that they are assuming a longer term investment compared to general institutional investors because of the nature of their funds.

[Refer to Chart 6-(1), 6-(2)]

[Figure: 6-(1)] Investment Period of Investments (Pension Funds)



[Figure: 6-(2)] Investment Period of Investments (General Institutional Investors)



(7) Expected rate of return on investment is on a downward trend

The average of expected rate of return on investment by investment target generally indicated a downward trend compared to the previous fiscal year, excluding pension funds' expected rate of return on investment for "physical real estate." In addition, the level of expected rate of return on investment for "foreign REIT," added to survey target from this fiscal

year, was higher than the level for “J-REIT.”

General institutional investors are expecting lower rates of return on investment than those expected by pension funds for all investment targets excluding “investment in real estate private funds.”

As for the yield gap between J-REIT dividend yield and long-term interest rates, the majority replied “adequate.”

(Refer to Chart 7)

[Figure: 7] Secular Comparison of Expected Rate of Return on Investment (ROI) by Investment Target

	Pension fund				General institutional investor			
	FY2004	FY2005	FY2006	FY2007	FY2004	FY2005	FY2006	FY2007
Physical real estate	5.3%	6.0%	5.0%	8.2%	6.9%	6.4%	6.0%	5.6%
J-REIT	4.9%	5.0%	6.1%	5.9%	4.6%	4.7%	5.8%	5.6%
Foreign REIT	-	-	-	6.9%	-	-	-	6.3%
REIT fund of funds	-	5.8%	6.4%	6.5%	-	5.4%	7.0%	5.8%
Investment in real estate private fund	7.7%	7.6%	7.6%	7.4%	9.7%	8.9%	9.6%	9.2%
Bond backed by real estate	5.3%	5.3%	4.4%	4.2%	1.7%	3.3%	3.8%	2.1%

*In surveys for FY 2003, FY 2004 and FY 2007, respondents were asked for the absolute value of expected rate of return on investment. In surveys for FY 2005 and FY2006, respondents were asked for the range of expected rate of return on investment.

*Figures for FY2003, FY 2004 and FY 2007 are averages of valid responses. Figures for FY 2005 and FY 2006 were reached by multiplying the average of each range by the number of responses and dividing it by the number of funds (companies) that gave valid responses.

(8) High needs for establishment of market infrastructure

Amid expanding real estate investment, the major issues in investment pointed out by pension funds were “real estate investment index serving as a benchmark,” “improvement of credibility in real estate appraisal” and “standardization of real estate investment-related information.”

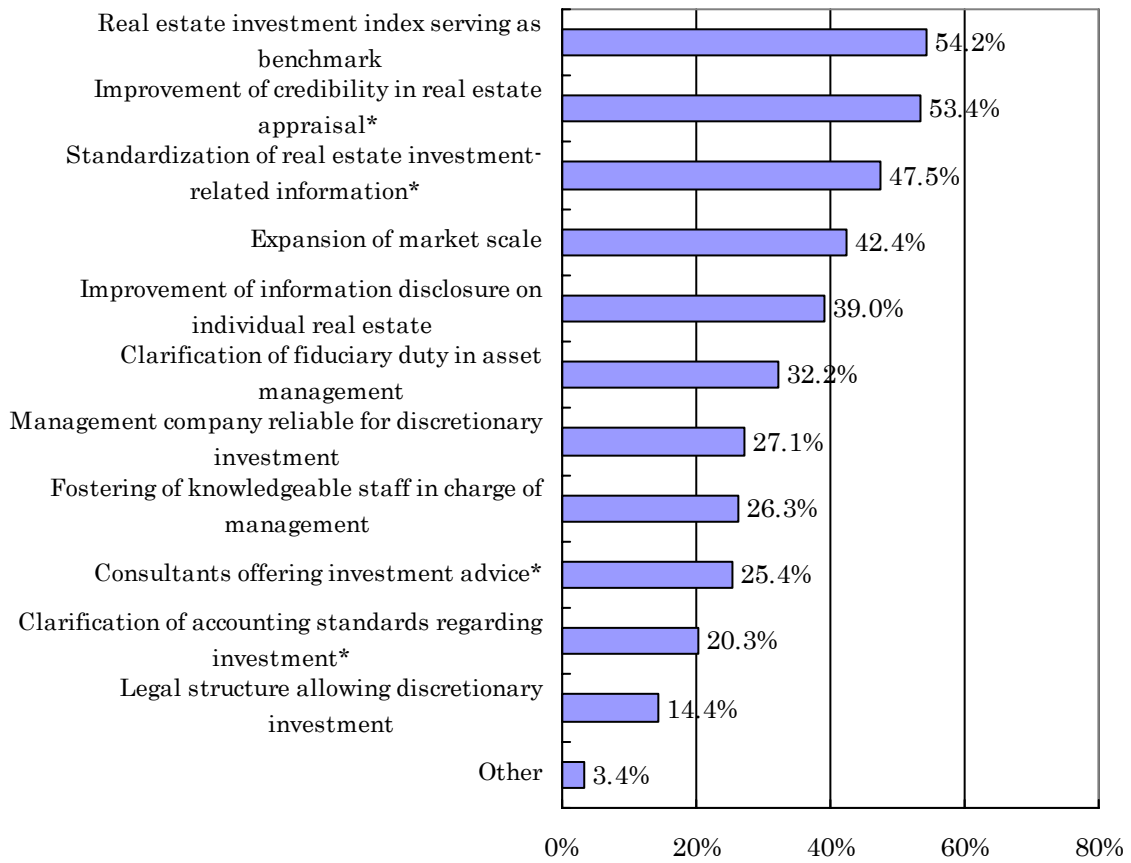
On the other hand, 70% or more of general institutional investors pointed out “improvement of information disclosure on individual real estate.” Other common responses were “improvement of credibility in real estate appraisal,” “fostering of knowledgeable staff in charge of management,” “expansion of market scale” and “standardization of real estate investment-related information.”

Furthermore, needs for “legal structure allowing discretionary investment” was the least common response from both pension funds and general institutional investors.

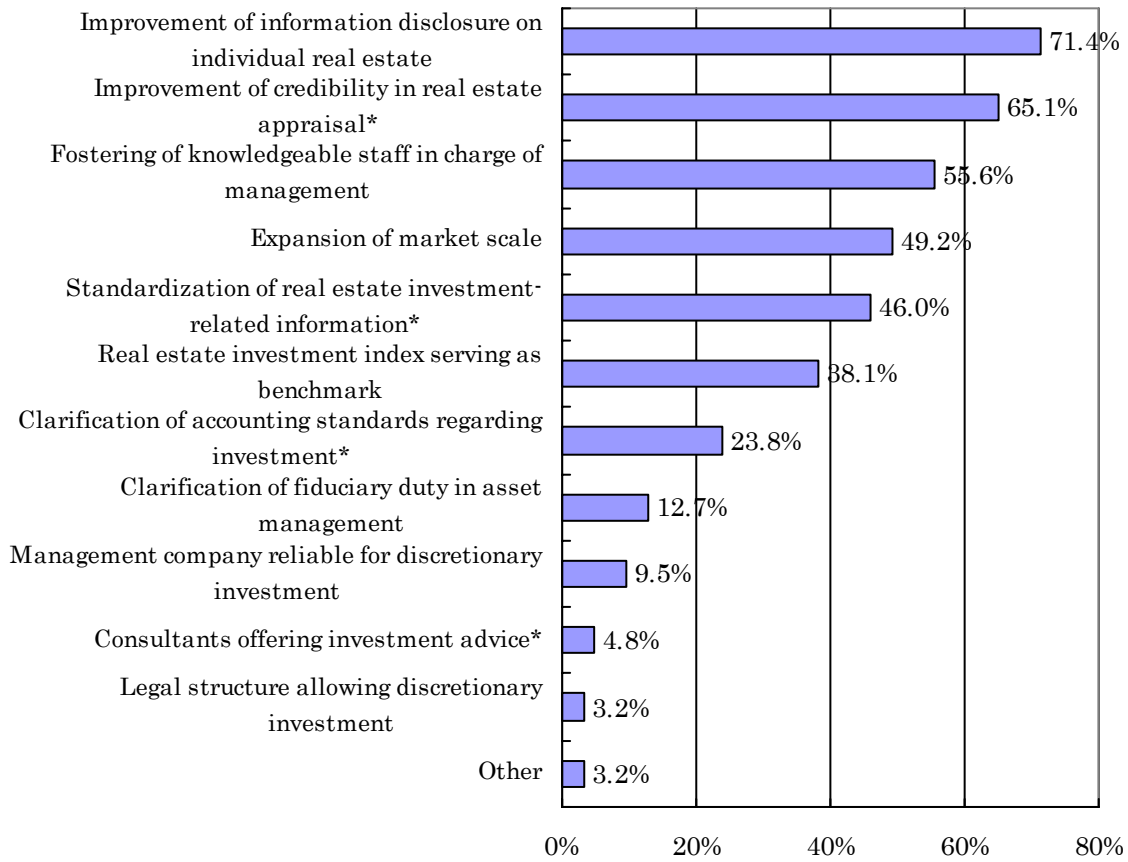
[Refer to Chart 8-(1), 8-(2)]

*denotes item newly added in this fiscal year's survey

[Figure: 8-(1)] Prerequisites for Real Estate Investment (Pension Funds)



[Figure: 8-(2)] Prerequisites for Real Estate Investment (General Institutional Investors)



When respondents not interested in investment were asked the “reason for not investing,” the mainstream responses were “do not understand product attributes” and “scarce information on individual case,” another indicator of the necessity of information disclosure on individual real estate.

Also, given that there are relatively few responses citing the absence of a benchmark as a reason for not investing, needs for a real estate index that serves as a benchmark can be considered to be of the respondents who are already investing, or are interested in investing.

[Refer to Chart 8-(3)]

[Figure: 8-(3)] Reason for Not Investing in Physical Real Estate/Real Estate Securitization Products

	Pension fund		General institutional investor	
Physical real estate	1st	Low liquidity	1st	Low liquidity
	2nd	No understanding of physical real estate attributes	2nd	Scarce information on individual case
	3rd	Scarce information on individual case	3rd	No understanding of physical real estate attributes
J-REIT	1st	Do not understand product attribute	1st	Expected ROI does not match
	2nd	Scarce information on individual funds	2nd	Lack of management track record / Few brands and small scale / High volatility of investment unit prices
	3rd	Few brands/Small scale		
Foreign REIT	1st	Do not understand product attribute	1st	Scarce information on individual funds
	2nd	Scarce information on individual funds	2nd	Do not understand product attribute
	3rd	No benchmark	3rd	Lack of management track record
Investment in real estate private fund	1st	Do not understand product attribute	1st	Scarce information on individual funds
	2nd	Scarce information on individual funds	2nd	Do not understand product attribute
	3rd	No benchmark	3rd	Lack of management track record / No benchmark / Market conditions not favorable
Bond backed by real estate	1st	Do not understand product attribute	1st	Scarce information on individual case
	2nd	Scarce information on individual case	2nd	Expected ROI does not match
	3rd	No benchmark	3rd	Do not understand product attribute No benchmark

(9) Future outlook of the market (indicator) is “plus” (on an upward trend)

According to indicators that suggest the future outlook of the financial and capital markets as well as the real estate market in the coming year, long-term interest rates, stock prices, land prices and office rent are all on the plus side, making for an overall forecast of an upward trend. (Chart 9)

[Figure: 9] Secular Comparison of Future Outlook on Financial/Capital Market and Real Estate Market (in coming year)

	Pension fund		General institutional investor	
	FY2006	FY2007	FY2006	FY2007
Long-term interest rates	83	57	83	73
Stock prices	42	68	50	75
Land prices	50	58	76	84
Office rent	48	53	80	92

*Indicator: Value obtained when subtracting the ratio (%) of respondents that said “downtrend” from the ratio of respondents that said “uptrend”

“0” is the equilibrium. Plus indicates forecast of an uptrend and minus indicates that of a downtrend. The closer the value is to 100, the stronger the trend.