

the 2<sup>nd</sup> “Research Study on General Business Companies’  
Attitude and Actions Regarding Real Estate Ownership”  
【Report Summary】

The Association for Real Estate Securitization (ARES) has conducted the 2<sup>nd</sup> “Research Study on General Business Companies’ Attitude and Actions Regarding Real Estate Ownership” and compiled a report on the results. The purpose of this survey is to ascertain general business companies’ actual attitudes and actions concerning purchase/sale and ownership/lease of real estate, while gaining an understanding of the issues regarding potential demand for and the spread of real estate securitization. This is the second survey following the one conducted in fiscal 2004.

As in the previous survey, we conducted a questionnaire survey of publicly traded companies, excluding those in the financial and real estate sectors. We also selected several companies from among the respondents for interviews.

As for the questions in the questionnaire survey, the items carried over from the previous survey were “Real estate acquisition/sales stance and attitude toward ownership of general business companies” and “Experience and intention regarding securitization and monetization of real estate” and the newly established item was “Situation regarding introduction of CRE (Corporate Real Estate) management.”

We sent out questionnaires to 3,494 publicly traded companies excluding those in the financial/real estate sectors, and obtained responses from 312 companies.

(Survey period: November 2, 2006 through December 8, 2006)

The overview of the survey and the main content of the survey results are as follows:

#### 1. Overview of the Survey

##### [1] Target companies of the questionnaire survey

Publicly traded companies excluding those in the financial/real estate sectors: 3,494 companies

##### [2] Questionnaire survey method

Send out and collect questionnaires to and from each company by mail

##### [3] Questionnaire survey period:

Questionnaire mailing: Thursday, November 2, 2006

Questionnaire collection: Wednesday, November 22, 2006 (Deadline for posting response)

(Survey continued beyond this point, final deadline was Friday, December 8)

[4] Content of questionnaire survey

Main question items

① Regarding general business companies' attitude toward real estate ownership (Carried over from previous survey)

★ Stance regarding real state acquisition (Change from conventional to future [ex. proactive↔passive in acquisition] and target real estate)

★ Stance regarding real estate sale (Change from conventional to future [ex. proactive↔passive in sales] and target real estate)

★ Response to impairment accounting (Sale or non-sale of real estate, existence of latent profit after compulsory application)

★ Stance regarding ownership/lease of real estate (Conventional/future stance [ex. primarily own↔primarily lease])

② General business companies' experience and intentions regarding real estate securitization/monetization (carried over from previous survey)

★ Attitude and experience regarding securitization/monetization (awareness/experience [ex. Whether they have implementation experience])

★ Intentions regarding securitization/monetization (intentions to utilize them [ex. proactive↔passive] and target real estate)

★ Hindrances/support needs in utilizing securitization/monetization

③ Situation regarding introduction of CRE management (New item in this survey)

★ Organization control and data management (ex. Intensively by dedicated department↔Individually by department in charge)

★ Management indicator (ex. real estate prices, [if conducting CRE management] ROE/recurring profits)

★ Impact of CRE on decision-making concerning real estate (ex. positive impact↔negative impact)

[5] Questionnaire collection situation

Number of survey target companies: 3,494 publicly traded companies excluding those in the financial/real estate sectors

Number of responding companies: 312 companies (response rate: 8.9%)

(Reference) Collection status for previous survey

Number of survey target companies: Publicly traded companies excluding those in the financial/real estate sectors

Top 2,000 companies in terms of tangible fixed assets

Number of responding companies: 209 companies (response rate: 10.5%)

[6] Overview of interview survey

- Survey target companies: Companies among questionnaire respondents which have introduced CRE management or are taking progressive steps in introducing CRE management
- Number of responding companies: 8 companies

[7] Research organization

- Association for Real Estate Securitization (ARES)

## 2. Main content of the survey results

### 2-1. Japanese companies' attitudes toward and actions concerning real estate ownership and securitization implementation situation

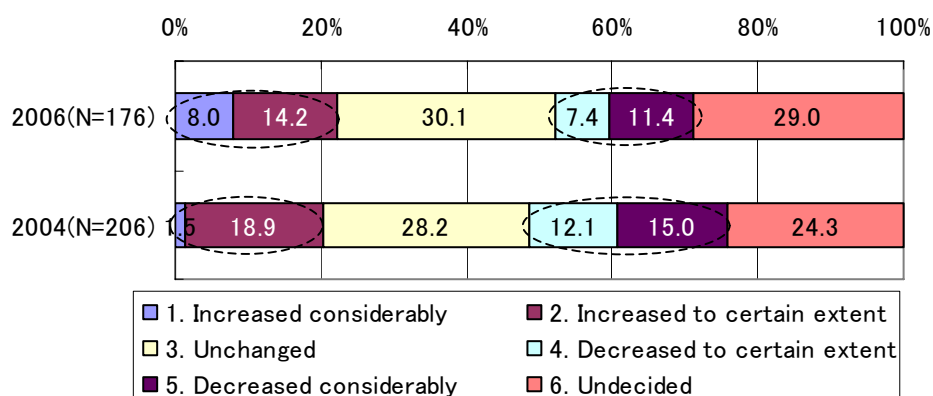
~Although attention is shifting from real estate sale to real estate purchase, there is also an increase in the number of companies that are ambivalent~

~Awareness of securitization/monetization is increasing, and companies are more inclined to utilize them in the future~

#### 1) Stance regarding real estate acquisition

When comparing the increases and decreases in planned real estate acquisition amounts with those from the previous survey, the number of companies that responded “increase (considerably + to certain extent)” grew from 20.4% to 22.2% while the number of companies that responded “decrease (considerably + to certain extent)” dropped from 27.1% to 18.8%. It can be inferred that the stance toward real estate acquisition is becoming more positive. However, the proportion of respondents who answered “undecided” increased (24.3%-->29%), implying a trend that ambivalent companies are on the rise (Chart 1).

Chart 1 Increase/decrease in planned real estate acquisition amount (Comparison with previous survey)



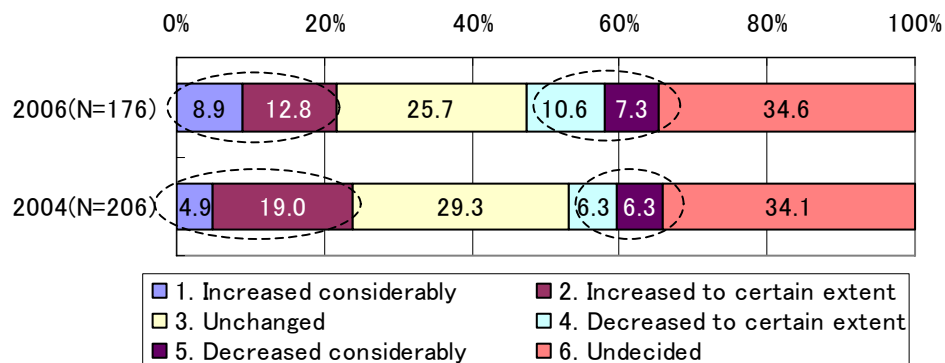
(Note) For this survey (conducted in 2006), comparison was made between the planned acquisition amount for fiscal 2006-2007 and acquired amount in fiscal 2004-2005

For the previous survey (conducted in 2004), comparison was made between the planned acquisition amount for fiscal 2004-2005 and acquired amount in fiscal 2002-2003.

1) Stance regarding real estate sale

When comparing the increases and decreases in planned real estate sales amounts with those from the previous survey, the number of companies that responded “increase (considerably + to certain extent)” fell from 23.9% to 21.7% while the number of companies that responded “decrease (considerably + to certain extent)” rose from 12.6% to 17.9%. It can be inferred that overall, sales are headed downward (Chart 2).

Chart 2 Increase/decrease in planned real estate sale amount (Comparison with previous survey)



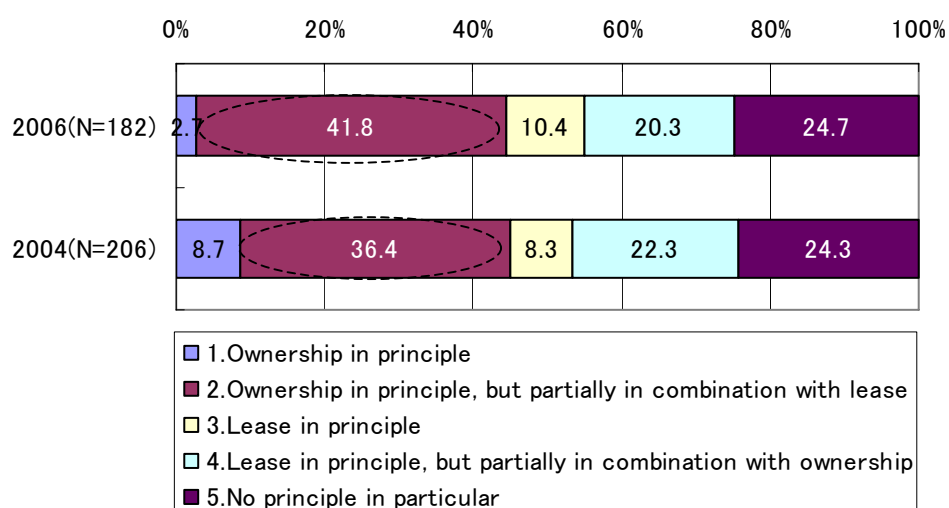
(Note) For this survey (conducted in 2006), comparison was made between the planned sale amount for fiscal 2006-2007 and sold amount in fiscal 2004-2005

For the previous survey (conducted in 2004), comparison was made between the planned sale amount for fiscal 2004-2005 and sold amount in fiscal 2002-2003

2) Stance regarding real estate ownership/lease

When comparing the stance toward ownership/lease with that from the previous survey, the proportion of respondents who answered “ownership in principle, but partially in combination with lease” increased from 36.4% to 41.8%. There is a growing trend in companies choosing ownership in principle, but in combination with lease. (Chart 3)

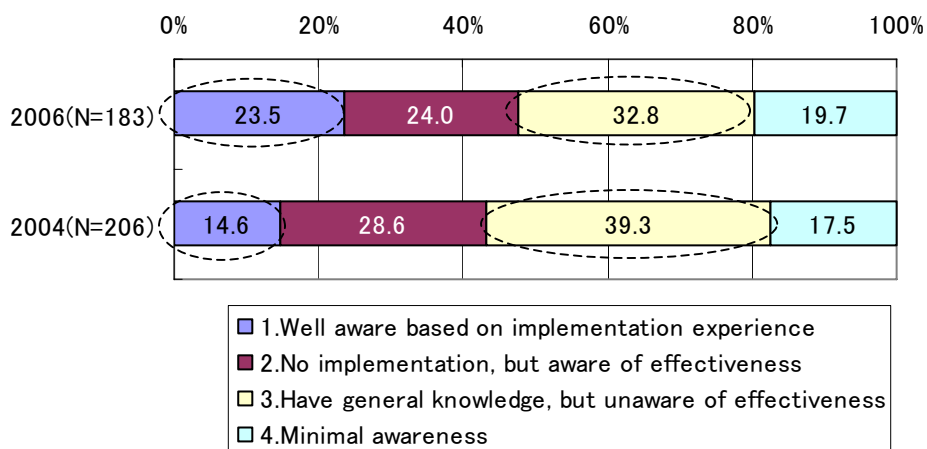
Chart 3 Ownership/lease stance in the future (Comparison with previous survey)



4) Awareness of real estate securitization and monetization

When comparing the awareness level with regard to real estate securitization and monetization with that from the previous survey, the proportion of respondents who answered “well aware based on implementation experience” increased significantly from 14.6% to 23.5%, while the response “have general knowledge, but unaware of effectiveness” dropped, indicating that the awareness/effectiveness of securitization is increasingly permeating (Chart 4).

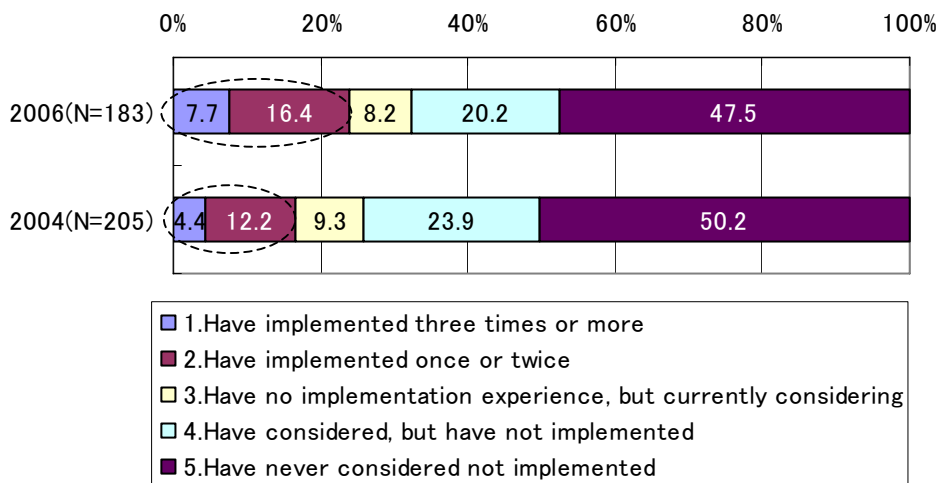
Chart 4 Awareness concerning securitization/monetization (Comparison with previous survey)



5) Real estate securitization, monetization implementation experience

As for implementation of/experience in real estate securitization and monetization, many respondents, approximately half (47.5%), said “have never considered nor implemented,” as was the case in the previous survey. However, those who said “three times or more” and “once or twice” increased from 4.4→7.7% and 12.2%→16.4%, respectively. This indicates an increase in real estate securitization implementation experience (Chart 5).

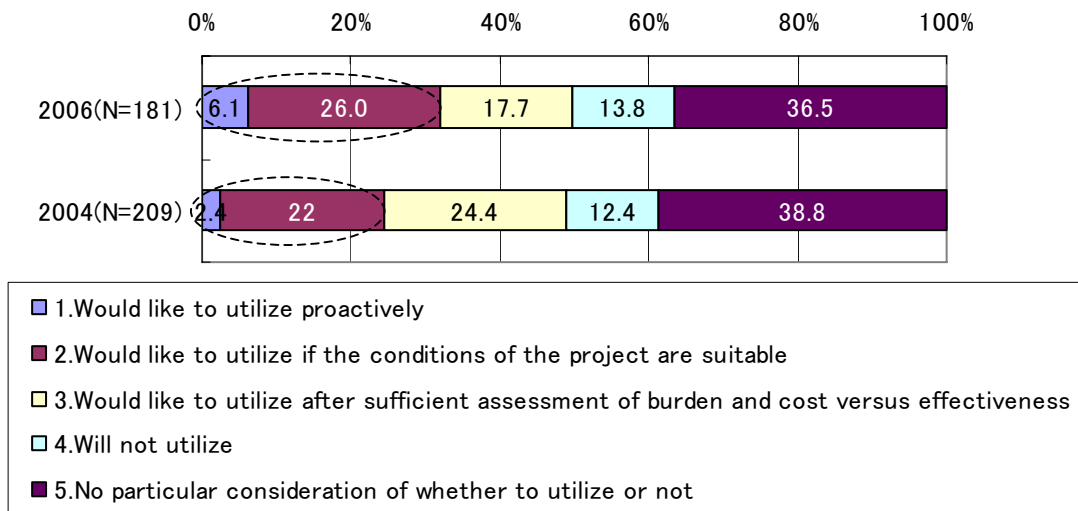
Chart 5 Implementation or consideration of securitization/monetization (Comparison with previous survey)



6) Intention of utilizing real estate securitization, monetization (Sales-type securitization)

As for the intention of utilizing sales-type real estate securitization, the total of respondents who answered “will not utilize” and “no particular consideration of whether to utilize or not” combined exceeded 50%, as was the case in the previous survey. However, “would like to utilize proactively” and “would like to utilize if the conditions of the project are suitable” responses both increased compared to the previous survey, indicating increased interest in securitization among general business companies (Chart 6).

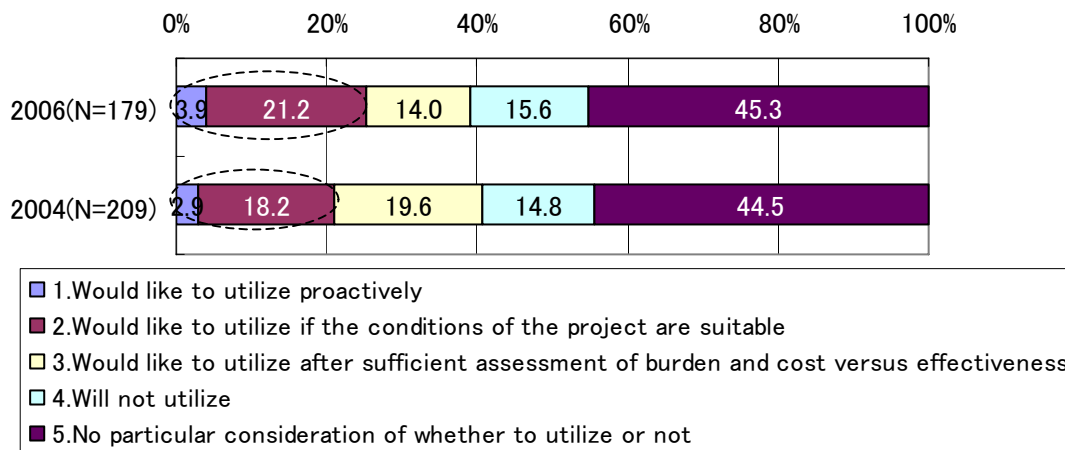
Chart 6 Intention of utilizing securitization/monetization with regard to sale (Comparison with previous survey)



7) Intention of utilizing real estate securitization, monetization (Acquisition-type securitization)

As for the intention of utilizing acquisition-type real estate securitization, the total of respondents who answered “will not utilize” and “no particular consideration of whether to utilize such or not” combined was sizable, as was the case with sales-type securitization. However, “would like to utilize proactively” and “would like to utilize if the conditions of the project are suitable” responses both increased compared to the previous survey, indicating increased interest in securitization among general business companies (Chart 7).

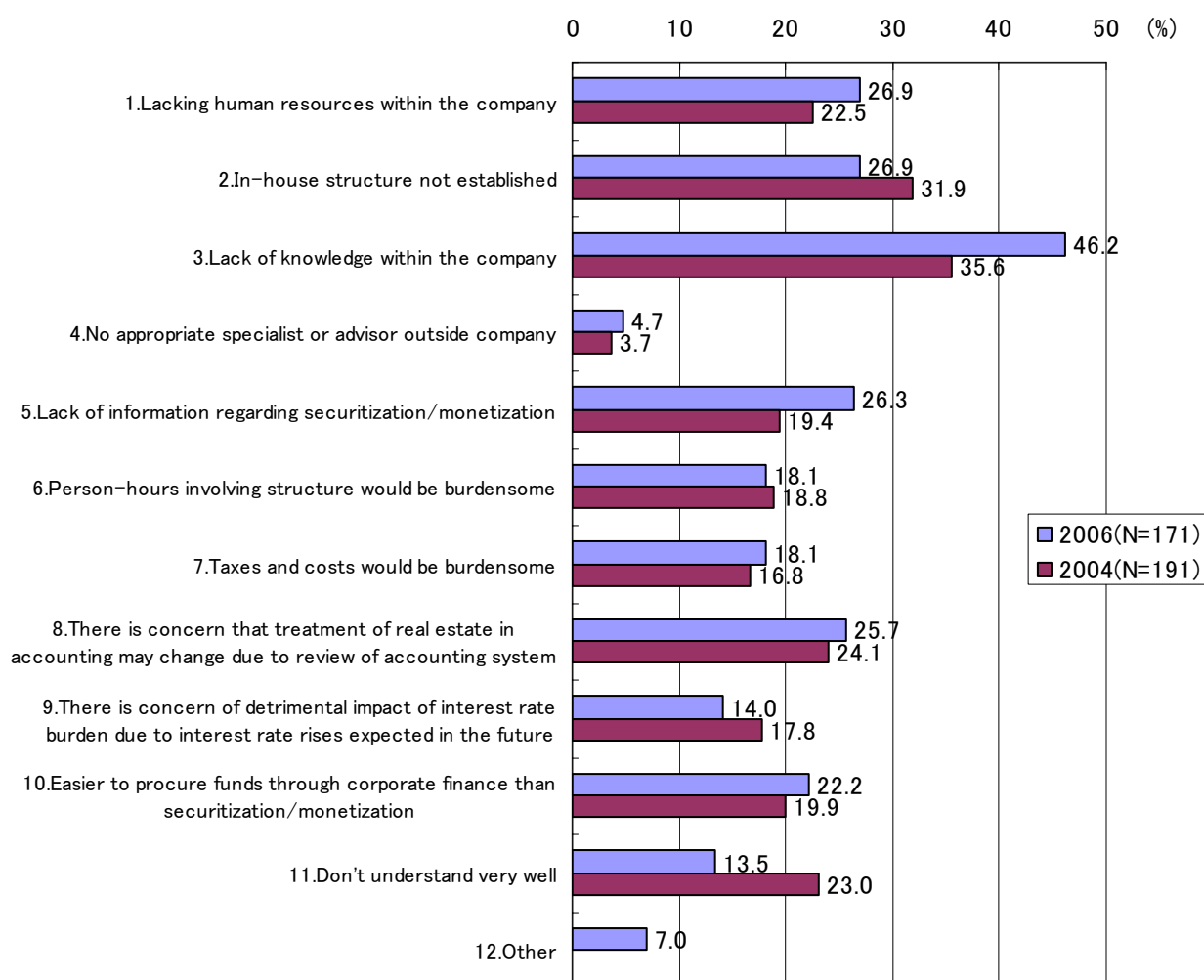
Chart 7 Intention of utilizing securitization/monetization in acquisition with regard to acquisition (Comparison with previous survey)



### 8) Hindrances in utilizing real estate securitization, monetization

As was the case in the previous survey, the largest number of companies raised “lack of knowledge within the company” as a hindrance in utilizing securitization. Ranking second were “lacking human resources within the company” and “in-house structure not established.” The top three are problems within the company. The fourth-ranked “lack of information regarding securitization/monetization” is among the items that have increased significantly compared to the previous survey. The fifth most common response, “there is concern that treatment of real estate in accounting may change due to review of accounting system” increased compared to the previous survey as well. Concerning this, we have heard some companies that we interviewed saying that the “moving of assets off the balance sheet through securitization has become less likely to be approved over the past year or two, as indicated by the demand for consolidation of SPC.” The unclear treatment of real estate in accounting is pointed out as being among the hindrances to securitization/monetization (Chart 8).

Chart 8 Factors hindering securitization/monetization (Comparison with previous survey; multiple answers allowed)



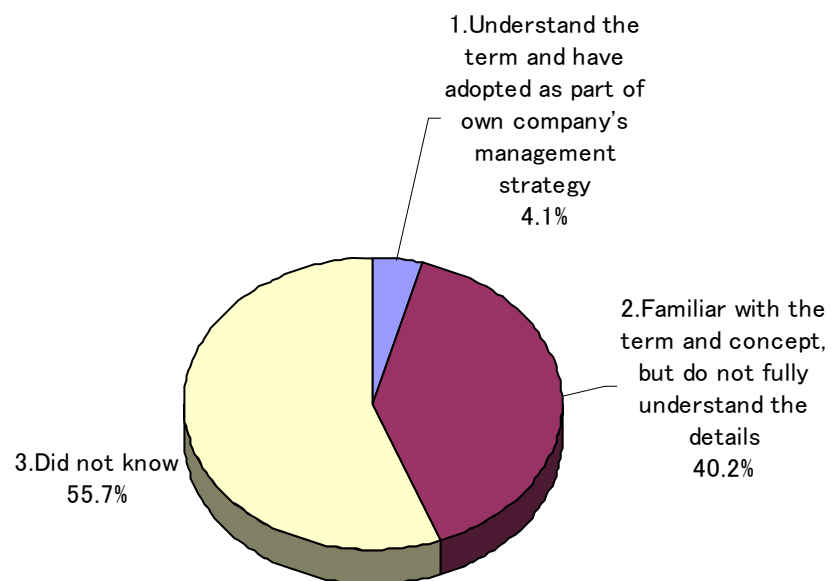
2-2. Situation regarding introduction of CRE management in Japanese companies

~The concept itself has not permeated, but some companies are making efforts to strategically utilize real estate~

1) Awareness of CRE

There are very few companies that “understand the term CRE and have adopted strategically,” representing only 4.1% (12 companies) of the respondents of the questionnaire survey (Chart 9).

Chart 9 Awareness of CRE



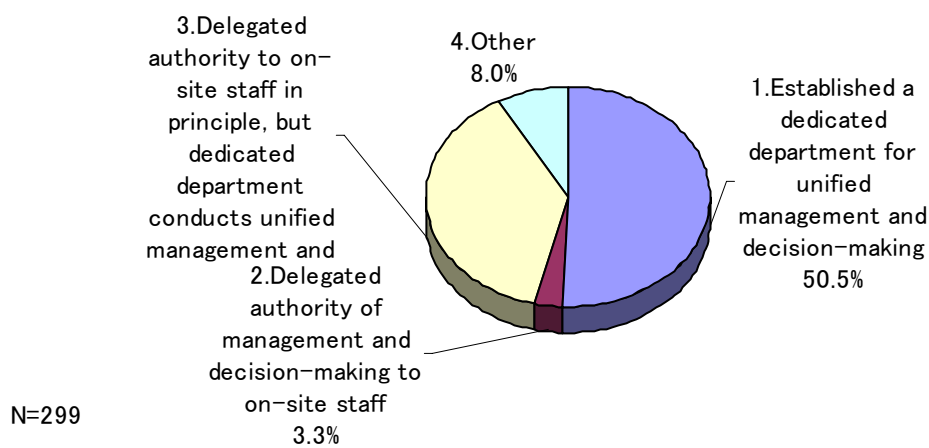
N=296

2) Organization control of real estate management

Companies that have “established a dedicated department for the management of real estate and decision-making” comprised a majority, or 50.5% of the respondents, indicating a trend that companies are trying to utilize real estate strategically, although the concept has not permeated (Chart 10).

Meanwhile, in the interview survey, companies voiced that they are currently at an early stage of dealing with the understanding and managing of real estate they own in a unified manner, and will reinforce such efforts in the future.

Chart 10 Organization control of data management

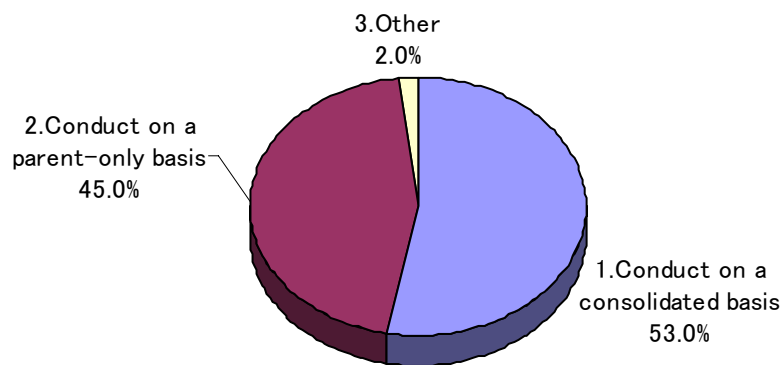


3) Scope of real estate data management/decision-making (Consolidated basis/parent-only basis)

As for real estate management and decision-making, the number of respondents who “conduct on a consolidated basis” (53.0%) topped those who “conduct on a parent-only basis” (45.0%) (Chart 11). As many companies are promoting group management to enhance corporate value, it seems that they are establishing strategies for real estate utilization on a consolidated basis as well.

Moreover, voices were heard in the interview survey saying they “would like to reinforce data management on a parent-only basis and eventually broaden that to a consolidated basis.”

Chart 11 Scope of data management and decision-making



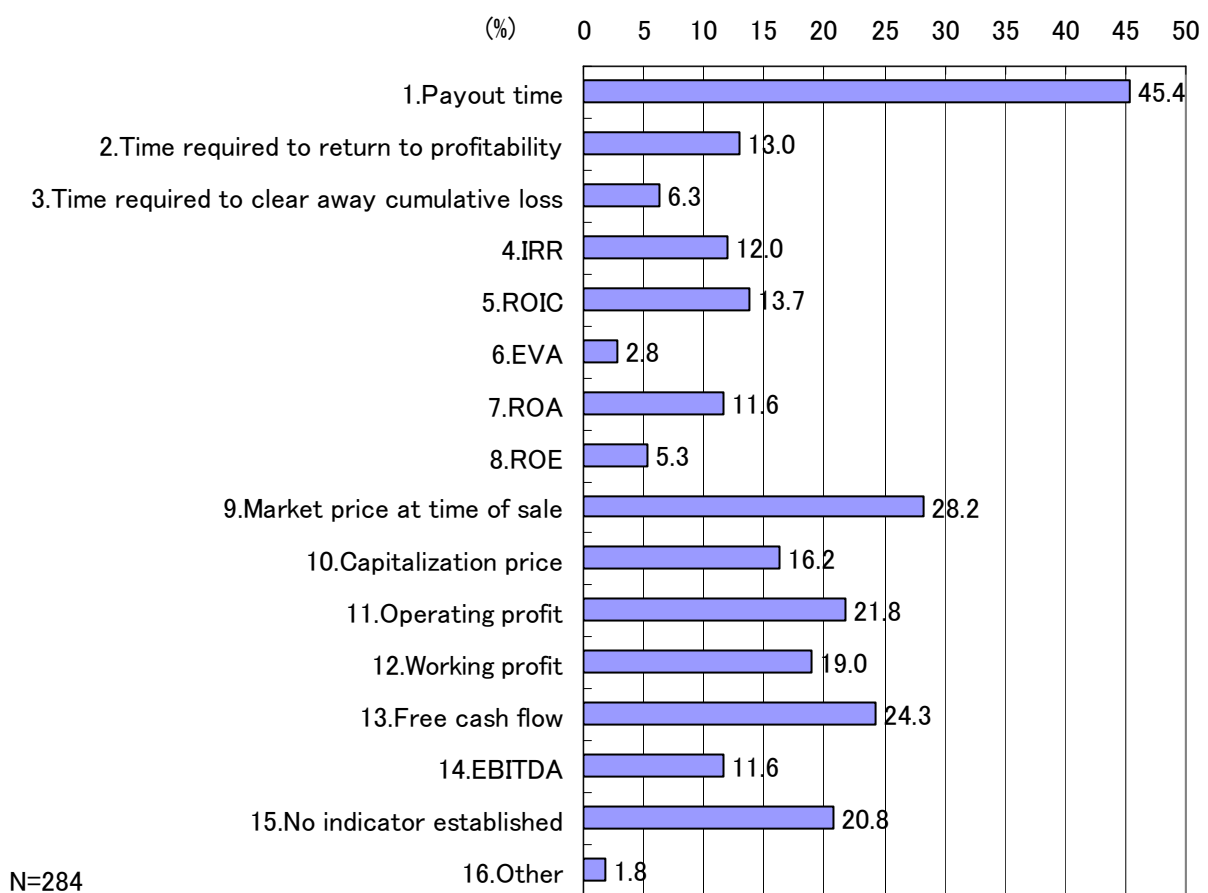
N=302

3) Management indicator for real estate management

The most popular indicator for real estate management was “payout time” (45.0%: multiple answers allowed) (Chart 12). This can be said to have gained practical support, stemming from factors such as being easy to calculate as a barometer of investment safety.

Additionally, the interview survey showed some companies are progressive, applying indicators for company-wide strategies such as “ROIC” and “EVA” to real estate management as well. On the other hand, there were cases where management indicators for real estate such as payout time were used for individual real estate while maintaining an awareness of the company-wide strategy.

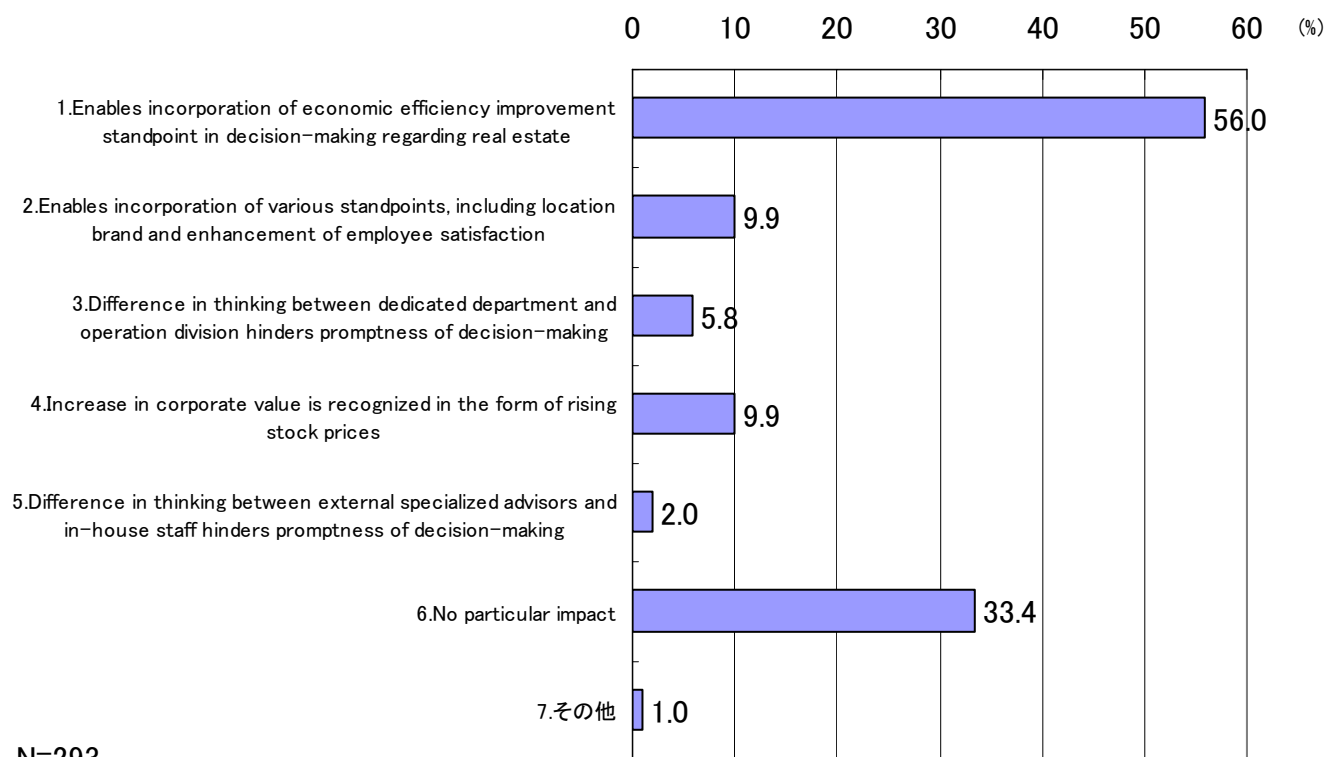
Chart 12 Management indicator (Multiple answers allowed)



4) Impact of centralizing real estate management and decision-making

As for the impact of centralizing (unifying) real estate management and decision-making, the most common response was “enables incorporation of economic efficiency improvement standpoint” (56.0%) (Chart 13). This is thought to be based on the fact that companies are now able to distinguish between real estate that should be owned from those that shouldn’t from a company-wide standpoint.

Chart 13 Impact of centralizing real estate management and decision-making



## 5) Achievements and issues in the introduction of CRE management

As we conducted an interview survey on companies who have introduced CRE management, the following achievements and issues in promoting introduction of CRE management emerged. There is one achievement <(1)> and two issues <(2)(3)>, which signifies that CRE management has only just begun as far as general business companies are concerned.

### (1) Establishment of company-wide real estate management perspective

The introduction of CRE management has enabled the shift from the conventional management method of dealing with owned properties on an individual basis, to a method where real estate owned by the entire company is taken over uniformly and viewed from a strategic standpoint. This can be recognized as an achievement.

### (2) Coherence of company-wide management and real estate management criteria

As the next step following “company-wide management perspective,” the promotion of CRE management requires an awareness of the coherence among company-wide management strategies, notably financial strategies. The management criteria of real estate must be either the same as the indicator that serves as a company-wide goal, or something that conforms to it. Thus, for instance, a company that has established ROIC as the company-wide base and real estate management indicator may have a real estate property that has positive cash flow but falls below the ROIC standard the company has established. In this case, the real estate property may be deemed as having low performance and may potentially become a target for sale.

### (3) Necessity of leadership by top management

In many cases, control of a company’s real estate is decentralized to various divisions and departments within the company. The introduction of CRE management would mean consolidating these real estate properties to a certain department. To make this happen, top management must recognize the necessity of CRE management, and disseminate it throughout the company under strong leadership.

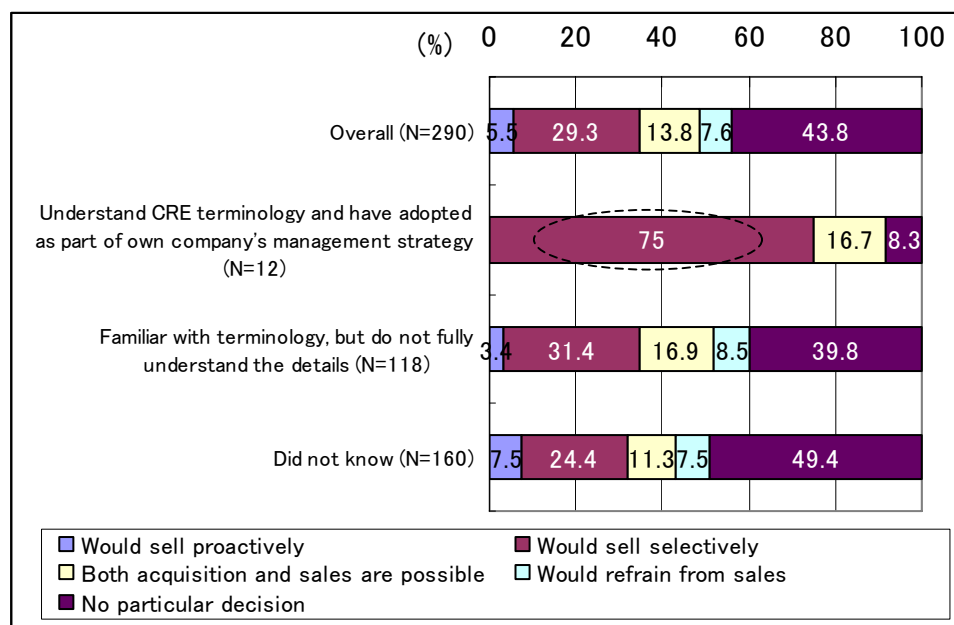
2-3. Relationship between introduction of CRE management and attitude/action concerning real estate ownership

~Promoting introduction of CRE management may lead to acceleration of real estate sales~

1) Relationship between CRE management and willingness to sell real estate

As for companies that have adopted CRE management as part of their management strategy, many of them responded that they “would sell selectively” and none answered that they “would refrain from sales” (Chart 14). This signifies a trend among companies that have adopted CRE management of moving forward with real estate sales. In other words, the introduction of CRE management can be considered as prompting the review and selection of the company’s real estate, and clarifying which real estate should be kept and which should be sold. Our country’s current situation is that companies are still burdened with unnecessary real estate. Therefore, CRE management is thought to more than likely be working in the direction of promoting “sales.”

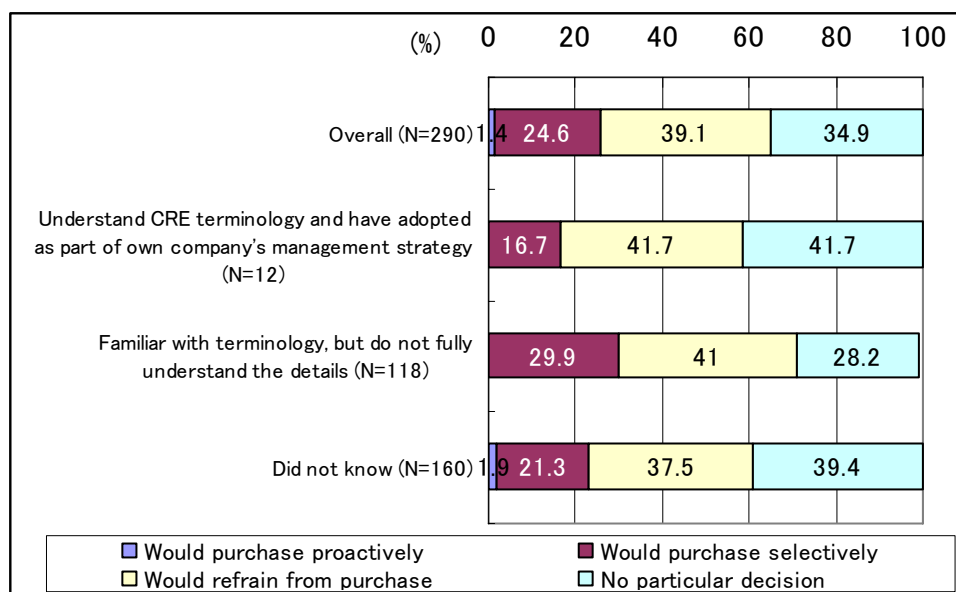
Chart 14 Relationship between CRE management and willingness to sell real estate



2) Relationship between CRE management and willingness to acquire real estate

There is no significant difference seen in the willingness to acquire real estate between companies that have adopted CRE management as part of their management strategy and companies who are not aware of CRE management (Chart 15). It can be assumed that companies who have introduced CRE management and sold unnecessary real estate would, as a next step, acquire real estate to expand their core business. In the interview survey, there were cases in which companies that have adopted CRE management acquire real estate, but overall, there were more cases of real estate being sold. It would appear that companies are currently in the stage of selling excess real estate.

Chart 15 Relationship between CRE management and willingness to acquire real estate



3) Relationship between CRE management and ownership/lease of real estate

The most frequent response among companies that have adopted CRE management was that they “lease in principle, but partially in combination with ownership” (Chart 16). This signifies that companies are adopting pinpoint strategies with an awareness of utility value for and relationship with their business through the introduction of CRE management. For instance, each company is promoting “management of non-ownership” based on lease, while continuing ownership for its core business. Furthermore, the fact that as many as 41.7% of the companies that have adopted CRE management responded that they have “no principle in particular” can be viewed as indicating a stance of flexible employment of ownership and lease depending on management strategies.

Chart 16 Relationship between CRE management and ownership/lease of real estate

