

INVESTMENT MARKET REPORT

INVESTMENT CONDITIONS

The October-December quarter recorded real GDP growth of 0.9% q-o-q or 3.7% in annualized terms, far exceeding the market forecast of an annualized 1.5% growth. The greater-than-expected expansion was mainly attributable to an upsurge in business investment which grew 2.9% q-o-q. Strong external demand also contributed to the expansion with exports registering a 2.9% increase. Imports grew by 0.5% q-o-q whilst consumer spending edged up 0.2%, showing an improvement on the 10 bps increase in the previous quarter. Housing investment, however, dropped 9.1% q-o-q as developers and local authorities struggled to adjust to the stricter building regulations introduced earlier in the year. Unemployment remained at 3.8% in December, but the average ratio of job offers to job seekers declined for the second straight month to 0.98:1. Core nationwide CPI rose for the third consecutive month to 0.8% in December as fuel and energy prices continued to escalate.

With signs of an impending US economic slowdown, the Bank of Japan maintained the overnight call rate at 0.5% throughout the quarter. With investors seeking refuge from volatility in global stock markets, the yield on newly issued 10 year Japanese Government Bonds (JGBs) declined 20 bps from 1.7% to 1.5%. Meanwhile, the Mizuho Bank long term prime rate for December increased from 2.25% to 2.3%, up 5 bps over the quarter.

INVESTMENT TRENDS

Foreign and domestic investors remained active during the fourth quarter encouraged by continued low vacancy and robust rental growth in the prime office and retail sectors. Among the most notable transactions were Mitsui Fudosan's acquisition of the Mitsui

Life Insurance Otemachi Building, Tokyo for JPY 117.5 billion and ING Real Estate's purchase of Northport Mall, Yokohama for over JPY 60 billion. However, December saw the debt market begin to experience repercussions of the growing US subprime crisis with banks taking a considerably more cautious stance on providing new real estate loans. The Japanese operations of foreign banks, which had been a major source of debt to overseas investors, were the first to signal the end of readily available finance and high loan-to-values (LTVs). Meanwhile, Japanese banks, which reported comparatively limited subprime losses during the quarter, succumbed to pressure from the Financial Services Authority (FSA)

to curtail lending activities. The sudden credit tightening had an immediate impact on more opportunistic, highly geared funds that were no longer able to obtain the 70-80% LTVs necessary to meet stated target returns. Consequently, many such funds stepped back from the market. However, less highly

leveraged core and core plus funds continued to be active purchasers and competition remained strong for well located, good quality properties.

Within the J-REIT market, LaSalle Investment Management (LIM), a subsidiary of U.S.-based Jones Lang LaSalle, took full control of eAsset Investment Corporation by purchasing all of the outstanding shares of Asset Realty Managers, the REIT's operating company. Meanwhile, US fund Prospect Asset Management Inc. upped its stake in FC Residential Investment to 43% in an attempt to gain control of the REIT. However, the increased holding resulted in FC Residential losing its REIT tax exemption privileges and it was forced to slash its six-month dividend by almost half when compared to a year earlier.

Notwithstanding positive real estate fundamentals, December saw banks faced with growing US subprime woes take a significantly more cautious stance on lending activities

HOT TOPICS

- Net effective Grade A office rents in Tokyo's Marunouchi/Otemachi/Yurakucho submarket grew 18.6% y-o-y to reach JPY 65,500 per tsubo per month (inclusive of CAM)
- Pre-commitments to new schemes continued to run at high levels, but the overall demand for space showed signs of a slight slowdown
- Tokyo Grade A office vacancy decreased 10 bps to 1.2% but Tokyo 23 ward all-grade office vacancy edged up 10bps to 1.8%
- Core/core plus funds continued to drive demand for well located, good quality properties
- The spread between the benchmark prime Tokyo office yield and 10 year JGB coupon increased by 20 bps to 130 bps

**SELECTED MAJOR TRANSACTION RECORDS (JULY TO SEPTEMBER 2007) (WORTH OVER JPY 10 BILLION)
EXCHANGE RATE: US\$1 = JPY 111.715**

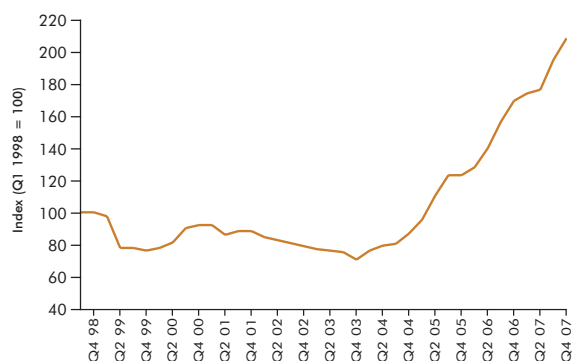
Transaction Date	Building Name	District	Sector	Seller	Buyer	Approximate Price (JPY) (US \$ Equivalent)	
Nov-07	Mitsui Life Insurance Otemachi Building	Chiyoda-ku, Tokyo	Office	Osville TMK (an SPC of Mitsui Life Insurance)	Mitsui Fudosan	117,500,000,000	1,051,783,556
Nov-07	Shinjuku Maynds Tower	Shibuya-ku, Tokyo	Office	YK Neem	DA Office Investment	68,700,000,000	614,957,705
Nov-07	Northport Mall	Tsuduki-ku, Kanagawa	Retail	an SPC of AIG Group	ING Real Estate	60,000,000,000	537,080,965
Nov-07	AEON Mall Musashi Murayama Myuu	Musashi Murayama City, Tokyo	Retail	Musashi Murayama Property TMK (formerly e Asset Investment)	LaSalle Japan REIT	38,400,000,000	343,731,818
Oct-07	Kowa Kawasaki Nishiguchi Building	Kawasaki City, Kanagawa	Office	Kowa Real Estate	Japan Excellent (J-REIT)	32,000,000,000	286,443,181
Dec-07	AER	Sendai City, Miyagi	Office/Retail	Sendai City	an SPC of Secured Capital Japan	28,678,000,000	256,706,799
Dec-07	New City Residence Ikebukuro Precious Tower	Toshima-ku, Tokyo	Residential	Ikebukuro TM GK	New City Residence Investment	27,691,000,000	247,871,817
Nov-07	AEON Mall Kobe Kita	Kobe City, Hyogo	Retail	Kita Kobe Property TMK	LaSalle Japan REIT (formerly eAsset Investment)	19,200,000,000	171,865,909
Oct-07	Akasaka Inter City	Minato-ku, Tokyo	Office	Kowa Real Estate	Japan Excellent (J-REIT)	17,857,000,000	159,844,247
Oct-07	Calsonic Kansei Headquarters Building	Nakano-ku, Tokyo	Office	Calsonic Kansei Corporation	Shimachu	15,500,000,000	138,745,916

OFFICE INVESTMENT MARKET

The office investment market continued to enjoy brisk activity during the quarter despite signs of increased caution on the part of lenders. The largest reported transaction was the acquisition of the Mitsui Life Insurance Otemachi Building, Tokyo by Mitsui Fudosan for JPY 117.5 billion. Completed in 1961, the property provides a total floor area of approximately 48,300 sm over 12 stories above ground and 3 stories underground, and is situated on the corner of Hibiya Avenue. The main tenants include Mitsui Life Insurance and NTT Data. It is understood that Mitsui Fudosan will continue to lease and operate the building while preparing redevelopment plans.

Secured Capital Japan acquired a sectional ownership of AER, an office-retail complex in Sendai City, Miyazaki Prefecture for JPY 28.7 billion from the City of Sendai. The 31-story building developed by the City of Sendai was completed in 1998. The 88% sectional ownership of the office floors and 31% sectional ownership of the retail floors equate to 20,600 sm GFA of office space and 3,450 sm GFA of retail space.

Central Five Wards Grade A Office Price Index



Shoei Co., a domestic real estate firm, purchased Towa Construction Headquarter Building in Chiyoda-ku for JPY 37.7 billion. The 1961 building is located 3 minutes walk from the subway



Kojimachi Station, and has a GFA of approximately 15,000 sm over 8 stories above ground and 2 stories below ground. Towa Construction will continue to occupy the building on sale-and-leaseback agreement until early 2010. It is understood that Shoei plans to redevelop the building after Towa Construction vacates the property.

October saw Japan Excellent, Inc. (JEX) acquire a 25% sectional ownership of Akasaka Inter City in Minato-ku, Tokyo from its sponsor Kowa Fudosan for JPY 17.9 billion at a reported NOI yield of 3.0%. The 2005 building is located 7 minutes from the Tameike Sanno subway station and provides a GFA of approximately 73,000 sm over 29 stories. The office floors are from third to fourteenth floors and the total net leasable office space is 22,500 sm. JEX also acquired Kowa Kawasaki Nishiguchi Building in Kawasaki City from Kowa Fudosan for JPY 32 billion at an estimated NOI yield of 4.9%. The 1988 building is located 6 minutes walk from Keikyu Kawasaki Station, and has a total floor area of approximately 62,000 sm over 21 stories.

In November, Creed Office Investment (COI) acquired five office properties in Tokyo and other cities for a total of JPY 6.6 billion at a blended NOI yield of 6.0%. The largest of the acquisitions was

Chitose Building in Meguro-ku, purchased for JPY 2.8 billion. Situated 1 minute walk from the subway Ikejiri Ohashi Station, the 1993 building provides an NLA of 2,390 sm over 10 stories and was fully leased at the time of acquisition.

November also saw DA Office Investment (DAO) acquire a 42.9% sectional ownership of Shinjuku Maynds Tower in Shinjuku-ku, Tokyo from an SPC of its sponsor, DaVinci Advisors, for JPY 68.7 billion at an estimated NOI yield of 4.0%. Combined with the already acquired stake in the building, DAO's total stake in the building reached over 85% with the November acquisition.

In December, Global One Real Estate Investment (GOR) acquired Yodobashi Flex Tower in Osaka for JPY 7.8 billion. Completed in 2006, the building is located 3 minutes walk from the subway Yodoyabashi Station and offers an NLA of approximately 7,400 sm over 12 stories. The annual NOI of JPY 465 million translates to an NOI yield of 5.9% at 100% occupancy. The same month also saw Kenedix Realty Investment (KDX) acquire 9 office buildings, 4 within Tokyo and 5 in other cities, from an SPC of its sponsor Kenedix, for approximately JPY 32 billion at a blended NOI cap rate of 5.4%. The four Tokyo buildings acquired were: Hiei Kudan Kita Building (an 85% sectional ownership) in Chiyoda-ku for JPY 7.6 billion, Ikejiri Ohashi Building in Meguro-ku for JPY 2.4 billion, KDX Hamacho Nakanohashi Building in Chuo-ku for JPY 2.3 billion and KDX Kanda-Misakicho Building in Chiyoda-ku for JPY 1.4 billion.

Also in December, a consortium led by Mitsui Fudosan acquired the Aomi Q Section in the Rinkai district, also known as the Tokyo Waterfront City, for approximately JPY 35.1 billion from the Tokyo

Metropolitan Government. The Aomi Q Section has a land area of approximately 33,000 sm, and Mitsui and its partners plan to develop a multi-complex building of office and retail space. Slated for completion in January 2012, the building is expected to have 22 stories above ground and 2 stories underground with a total floor area of 205,530 sm.

Meanwhile, Tokyo Tatemono acquired the Aomi R Section for approximately JPY 49.1 billion with plans to construct a 20-story high multi-complex building of office and retail space. The planned building will have a GFA of approximately 166,500 sm, and is expected to open in March 2012. Tokyo Tatemono will also build elevators and escalators to create a better access to Tokyo Teleport Station.

Nippon Commercial Investment (NCI) acquired 5 office buildings during the fourth quarter. Among the acquisitions were Towa Hamamatsucho Building (4,670 sm NLA) and Leera Hijirizaka (4,260 sm NLA) in Minato-ku, purchased for a total price of JPY 11.3 billion at an estimated NOI yield of 4.7% and 5.0% respectively.



RESIDENTIAL INVESTMENT MARKET

J-REITs remained active buyers in the residential sector during the October to December period, with 79 acquisitions totaling JPY 129.2 billion in value. The largest acquisition of the quarter was New City Residence Ikebukuro Precious Tower, purchased by New City Residence Investment (NCR) for JPY 27.7 billion at an estimated NOI yield of 4.3%. Completed in 2006, the 32-story tower is located 2 minutes walk from JR Ikebukuro Station, and provides an NLA of 25,100 sm with 404 units. NCR also acquired 5 other residential properties within Tokyo: New City Residence Shinjuku for JPY 3.6 billion at an estimated NOI yield of 4.7%, New City Residence Monzen Nakacho East for JPY 3.0 billion at an estimated NOI yield of 4.8%, New City Residence Togoshi Ekimae for JPY 2.1 billion at an estimated NOI yield of 4.8%, New City Residence Kuramae for JPY 1.6 billion at an estimated NOI yield of 4.9% and New City Residence Oshiage for JPY 1.3 billion at an estimated NOI yield of 5.1%.

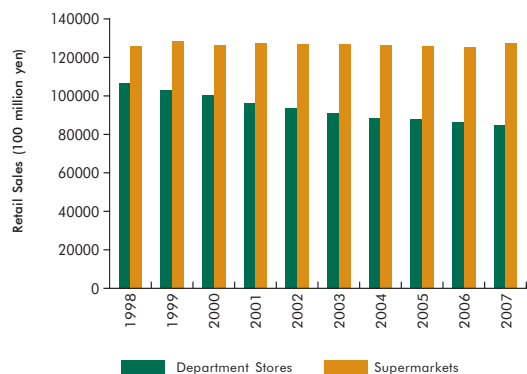
The quarter also saw Re-plus (REP) acquire a total of 22 residential properties. In November, REP acquired five residential properties in Tokyo and other cities for JPY 6.2 billion from an SPC of its sponsor, Re-plus K.K. The largest of the acquisitions was Colonnade Kasuga in

Bunkyo-ku, purchased for JPY 3.1 billion at an estimated NOI cap rate of 5.2%. Completed in 1991, the 12-story building is located 9 minutes walk from the subway Myogadani Station, and provides 4,300 sm NLA with 44 units. During the same month, REP acquired a further 11 residential properties in Tokyo for JPY 9.5 billion at a blended NOI yield of 5.0%. Among the acquisitions was Storia Jingumae in Shibuya-ku, purchased through a related-party transaction for JPY 3.2 billion at an estimated NOI yield of 4.3%. The 2004 building is located 8 minutes walk from the subway Meiji Jingumae Station, and provides 2,000 sm NLA with 49 units. In December, REP acquired six single-residence properties in Kobe and other cities for a total of JPY 2.9 billion at a blended NOI yield of 6.2%. All properties were completed in 2007 and the largest of the portfolio was Do Sannomiya East in Kobe City, a 9-story building with 63 units, purchased for JPY 731 million.

Meanwhile, Starts Proceed Investment (SPI) acquired 20 residential properties for JPY 14.7 billion through a related party transaction. The largest of the acquisitions was Proceed Nishi-Arai, Adachi-ku, Tokyo purchased for JPY 5.2 billion at an estimated NOI cap rate of 6.9%.

RETAIL INVESTMENT MARKET

National Sales of Large-Scale Retail Stores



In one of the largest retail transactions of the year, the fourth quarter saw ING Real Estate acquire Northport Mall in Tsuzuki-ku of Yokohama for an amount in excess of JPY 60 billion. Completed in March 2007, the mall provides a total floor area of 126,000 sm and tenants include a home center, supermarket and cinema as well as specialty shops. It has direct access from Yokohama City Subway Center Kita Station via a pedestrian deck and it also benefits from a large parking lot that accommodates approximately 1,600 cars. It is understood that the purchase price equates to a sub 4.0% NOI yield on passing rents.

In another significant transaction, eAsset Investment Corporation acquired AEON Mall Musashi Murayama Myuu (130,470 sm NLA) in Musashi Murayama City, Tokyo for JPY 38.4 billion at an estimated NOI yield of 4.0%. eAsset also acquired AEON Mall Kobe Kita

(128,000 sm NLA) in Kobe for JPY 19.2 billion at an estimated NOI yield of 4.7%. Both properties were sold to eAsset by LaSalle Investment Management (LIM) following their purchase of a 100% stake in Asset Realty Managers, the REIT's operating company.

In November, Nippon Commercial Investment (NCI) acquired Keiyo D2 Kariba IC in Kanagawa Prefecture for JPY 4.4 billion at an estimated NOI yield of 5.1%. The 2007 building is situated along the National Route No. 1 and provides 10,600 sm GFA over 5 stories. NCI also acquired Albore Sendai in Miyagi Prefecture for JPY 3.1 billion at an estimated NOI yield of 5.4%. The 1997 property is located 4 minutes walk from the subway Hirose Station, and provides 3,130 sm NLA over 7 stories.

December saw United Urban Investment (UUR) acquire Tip's Machida Building in Machida City, Tokyo for JPY 4.1 billion. The 1992 retail building provides a GFA of 8,100 sm over 7 stories. The occupancy rate at the time of acquisition was 100% with the estimated NOI of JPY 270 million equating to a cap rate of 6.5%. During the same month, Japan Retail Fund (JRF) acquired Jingumae 8953 Building for JPY 2.4 billion at an estimated NOI yield of 4.9%. The one-month-old building is located 3 minutes walk from the subway Meiji Jingumae Station, and provides GFA of 670 sm over 3 stories.

December also saw GE Real Estate acquire Qiz Hiroo in Hiroo, Minato-ku, Tokyo for a reported purchase price of approximately JPY 10 billion. Completed in November 2007, the office-retail complex building is located 4 minutes walk from the subway Hiroo Station, and provides 5,200 sm GFA over 12 upper and 2 basement floors.

INDUSTRIAL INVESTMENT MARKET

Established investors in the Japanese logistics market such as the Japan Logistics Fund (JLF), ProLogis and J-REP continued to be active during the fourth quarter. In December, JLF acquired the Komaki Logistics Center in Komaki, Aichi Prefecture for JPY 2.1 billion at an estimated NOI yield of 5.2%. The 1994 building has a net leasable area of 9,500 sm. This was the first fully reported transaction for a logistics facility in Nagoya region. During the same month, J-REP acquired J-REP Logistation Mizuecho in Kawasaki City, Kanagawa from Obayashi Corp, a Japanese general contractor. Slated for completion in November 2008, the facility will provide a GFA of 126,550 sm. It is located within a few minutes drive from a major highway.

December also saw Yamato Transport Co. acquire a 12,900 sm factory site and an office building near Haneda Airport from Ebara Corp., a domestic fluid machinery manufacturer, for JPY 84.5 billion with plans to construct a large scale distribution center. Ebara Corp.

will occupy the office building which is currently under construction with a total floor space of approximately 30,000 sm over 12 stories.

Meanwhile, Prologis unveiled plans to develop three new distribution centers. Scheduled to be completed in August 2008 are Prologis Park Koriyama I in Fukushima Prefecture (25,400 sm GFA) and Prologis Park Iwatsuki in Saitama Prefecture (31,840 sm GFA). Prologis Park Misato II in Misato, Saitama Prefecture (61,300 sm GFA) is scheduled to complete the following month.

Marking its entry into the Japanese logistics market, the fourth quarter saw the Singapore listed MacarthurCook Industrial REIT (MI-REIT) purchase the Mediceo Medical Omiya Logistics Center in Saitama. The 4-story warehouse of 8,700 sm GFA and 3-story office building of 400 sm were purchased for JPY 2.2 billion at an estimated NOI yield of 5.3%. Mediceo Medical Co., Ltd. currently occupies the property under a 5-year renewable lease.

HOTEL INVESTMENT MARKET

The fourth quarter witnessed a raft of new developments planned for the Japanese hotel market. October saw Pacific Management Corp. (PMC) unveil plans to develop a new hotel "W Yokohama" jointly with Starwood Hotel & Resort Worldwide Inc. in the Minato Mirai district of Yokohama. Slated for completion in 2010, the 245-unit hotel will provide a total floor space of approximately 41,000 sm over 8 stories. The development will be Starwood's first "W" branded hotel in Japan. According to the press release, the project cost is estimated to be circa JPY 23 billion.

Over 20 hotels are reported to be built in Okinawa in the next few years. Scheduled to open in autumn 2008, Okinawa Intercontinental Hotel (temporary name) in Ginowan City, Okinawa, is expected to be 34 stories high with 428 rooms with a total floor area of 44,600 sm. The hotel is being developed by Joint Corporation, and will be managed by Hospitality Network K.K, a subsidiary of Intercontinental Hotels Corp. Other investors that are reported to be planning hotel developments include Risa Partners, Zecc Co., Ltd. and Zephyr Co. Ltd.

Meanwhile, in Kobe, at least five hotels are reported to be planned for completion during the next couple of years. Resorttrust Inc., a Nagoya-based hotel and resort developer, will open Hotel Trusty Kobe Naniwacho in late 2008. The hotel is located in the former foreign settlement district, and is expected to provide 141 rooms over 13 stories. Due for completion in 2009 is Hotel La Suite Kobe Harbour Land, an 11-story high, all-suite hotel of 70 rooms, developed by La Suite, an Osaka-based developer.

Ishin Hotels Group, a Tokyo-based hotel management firm established jointly by Soros Real Estate Investors and Westmont Hospitality Group in 2001, acquired Hotel Serai Fukuoka in Hakata, Fukuoka for JPY 1.8 billion in December. The 1997 hotel is located 7 minutes walk from JR Hakata Station and has 175 rooms over eight stories. During the same month, Ishin Hotels also acquired two hotels in Tokyo for an undisclosed amount: Hotel Sun Route Ikebukuro (175 rooms, 5,600 sm GFA) and Hamilton Inn Ochanomizu (72 rooms, 1,800 sm GFA).

J-REIT MARKET

The Tokyo Stock Exchange's J-REIT Index closed the fourth quarter at 1,868.57, down 744.41 points or 28.5% since its record high in May. The total market capitalization, which reached JPY 6.79 trillion as of May 2007, dropped 24.2% to JPY 5.14 trillion at the end of December 2007. New J-REIT listings for 2007 totaled only two: Nomura Real Estate Residential (NRF) in February and the Industrial & Infrastructure Fund (IIF) in October, down from 12 in the previous year. Amid the unfavorable market conditions, December saw three J-REITs cancel their planned listings: the AIG-affiliated J-REIT Toshin Hojin (office REIT with total asset size of JPY 100 billion), ABLE REIT Investment (residential REIT with total asset size of JPY 39.1 billion), and Ecology REIT (residential REIT with total asset size of JPY 30 billion).

Investor interest in the J-REIT market remained fundamentally intact during the fourth quarter despite its lackluster performance. After a peak of buying in February, foreign investors swung to net sellers during June as many were forced to unwind positions as US subprime worries began to escalate and the yen started to appreciate. Throughout the remainder of the year, overseas investors fluctuated between being net buyers and sellers but ended 2007 as net buyers to

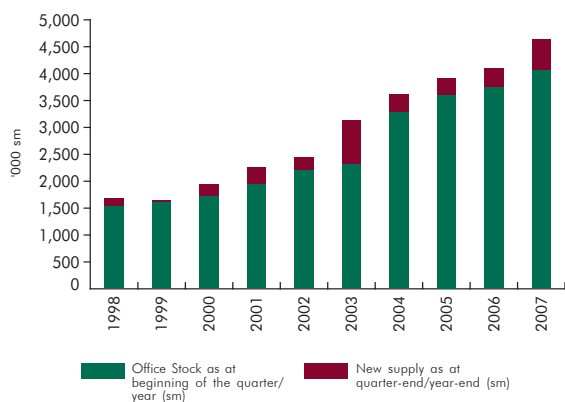
the value of JPY 392.8 billion. With the weighted average dividend yield for the 42 listed J-REITs ending the year at 3.85%, the spread over the benchmark 10-year JGB yield, which dropped to 1.5% over the quarter, increased to 235 bps and the widening gap continued to prove appealing to many investors.

In as early as May 2008, the Ministry of Land, Infrastructure and Transport (MLIT) and FSA are expected to lift the current restriction on J-REITs from investing in overseas properties. Current Tokyo Stock Exchange regulations do not allow J-REITs to invest in real estate outside Japan due to concerns regarding how best to appraise overseas properties. However, under the envisioned system, a standardized evaluation guideline will be introduced, and overseas properties are to be evaluated by accredited appraisers in Japan jointly with local appraisers and in accordance with the new guidance. A J-REIT that plans to incorporate an overseas property into its portfolio will therefore be required to obtain an appraisal report on the subject property drawn up by both foreign and Japanese appraisers. Despite the added complications, the Japanese authorities are hopeful that the new plan will attract more investors through the benefits of increased diversification.

TOKYO CENTRAL FIVE WARDS OFFICE LEASING MARKET

The fourth quarter saw the completion of five Grade A buildings, adding 244,800 sm of leasable space to the market. This was nearly 10 times more than the previous quarter's new Grade A supply when only one building was opened. Among the five new buildings were Grand Tokyo South Tower and Grand Tokyo North Tower (providing a total NLA of 140,400 sm) in the prime Marunouchi district. Both buildings opened fully let, reflecting the continuing demand for large, high-grade office space. Shiodome Building (previously known as Shiodome I-2 Project/NLA 74,900 sm) also opened in December with full occupancy.

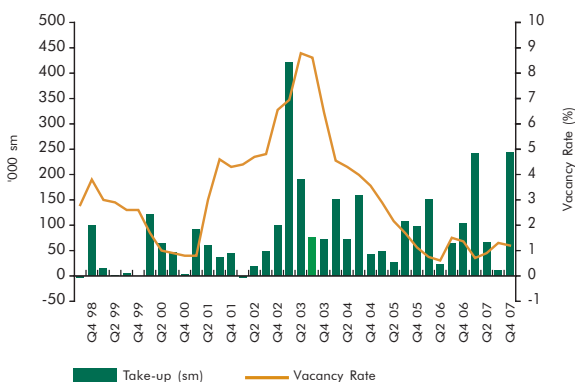
Cumulative Stock and New Supply of Grade A Properties in Central Five Wards



With the prime office leasing market remaining tight throughout the quarter, Grade A vacancy rate declined to 1.2%, down 10 basis points from the previous quarter. While the average vacancy rate for all-grade office buildings in Tokyo's 23 Wards edged up 10 basis points q-o-q to 1.8%, the great majority of business districts (more than three quarters of those monitored) continued to register vacancy rates below the 3.0% level.

The vacancy rate for all-grade office buildings in the Marunouchi/Otemachi/Yurakucho submarket stayed below 1.0% throughout 2007 with a minimal 0.3% vacancy recorded in the fourth quarter. Vacancy fell below the 1.0% level in the submarkets of Muromachi/Honcho (0.9%), Shimbashi (0.9%) and Toyochō (0.8%). In contrast, the vacancy rate in Roppongi/Azabu submarket jumped 210 basis points to 3.3% between the first and fourth quarters. This substantial rise in vacancy

Take-up & Vacancy of Grade A Office Properties in Central Five Wards



was mainly attributable to several large blocks of space being vacated by corporations that relocated to other submarkets.

The average prime rent inclusive of common area management fees reached JPY 65,500 per tsubo per month in the fourth quarter, an increase of 6.9% q-o-q and 18.6% y-o-y. Average prime rents in Roppongi/Azabu grew to JPY 55,250 per tsubo per month, an increase of 4.2% q-o-q and 12.2% y-o-y despite the increased availability in the submarket. The overall average rent for Grade A offices in the Central Five Wards registered an increase of 1.0% q-o-q and 15.3% y-o-y to reach JPY 52,750 (inclusive of CAM). However, the rate of growth showed a noticeable slowdown when compared to the previous quarter's increase of 5.6% q-o-q and 20.1% y-o-y. Pre-commitments to new schemes continued to run at high levels, but the overall demand for space appears to have diminished slightly, and broker sentiment suggests that the rate of rental growth will continue to slow over coming months.

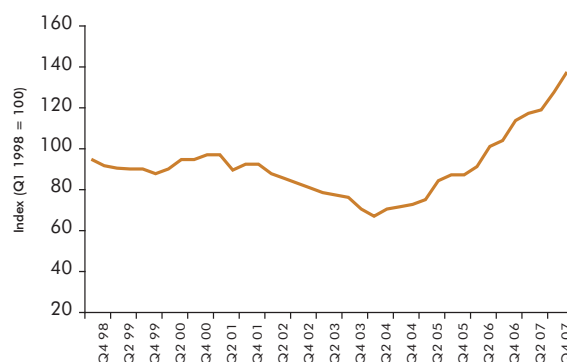
Nevertheless, the continued rise in rents and limited availability in prime locations has encouraged cost-conscious tenants with large requirements for contiguous space to seek more affordable locations in peripheral areas. The submarkets of Rinkai and Tsukiji/Kachidoki/Harumi were among those to benefit from this trend, absorbing expansion demand of large space occupiers, including Medicsight K.K.'s relocation to Harumi Island Triton Square.

Our latest figures indicate that the Grade A office supply for the year 2008 and 2009 will reach circa 162,000 sm and 300,000 sm NLA respectively. Although the supply level for both 2008 and 2009 is estimated to reach only about a half of 2007 level, it is anticipated that there will also be some slowing in pre-commitment activity, and as a result, rental growth may plateau in some of the worst-affected submarkets.

Submarkets with greatest vacancy improvements over the quarter (all-grade office buildings)

Area	Current Vacancy Rate	Q-o-q Change % pts
Rinkai (Koto-ku)	5.3%	-3.3%
Koraku/Kasuga/Koishikawa (Bunkyo-ku)	2.5%	-0.9%
Iwamotocho/Higashi-Kanda/Soto-Kanda (Chiyoda-ku)	2.1%	-0.8%
Shinjuku (Shinjuku-ku)	1.9%	-0.8%
Asakusa/Asakusabashi (Taito-ku)	3.4%	-0.6%

Central Five Wards Grade A Office Rental Index



DEVELOPMENT FOCUS: THE LOOP ROAD NO.2 SHIMBASHI-TORANOMON REDEVELOPMENT PROJECT

The Loop Road No.2 Project is one of the Government's decades-old development projects. Initially formulated in 1946 by the Ministry of War Damage Reconstruction (the current Ministry of Land, Infrastructure and Transportation), the project outline has been modified several times over the years, but it is yet to be fully materialized.

The Loop Road No.2 (Kanjo 2-gosen) is not actually a "loop" as the name suggest. In the original plan, the road was to start from Shimbashi in Minato-ku and loop along what used to be the outer mote of the Edo Castle (the current Imperial Palace) to the end point of Kanda-Sakumacho at Showa Avenue in Chiyoda-ku. Today, the road is partially completed from Toranomon to Kanda-Sakumacho (it shares a part of Sotobori Avenue), but the section between Shimbashi and Toranomon is yet to be completed. This Shimbashi-Toranomon section came to be known as "McArthur Highway," stemming from the rumor that General Douglas McArthur during the post-World War II occupation era demanded the construction of a military road in order to secure a direct route from the US Embassy in Toranomon to Takeshiba Pier in the Tokyo bay area.

In 1993, the starting point of the Road was changed to Ariake in Koto-ku (Tokyo Big Sight Crossing), stretching the total length of the Road from approximately 9.2 km to 14 km. When the Shimbashi-Toranomon section (the missing link in the Loop Road No.2) is completed, it will provide a smoother access between Central Tokyo and the Rinkai District, effectively integrating the Rinkai District into Central Tokyo business districts.

In 2002, the Project was officially formulated into "the Loop Road No.2 Shimbashi-Toranomon Redevelopment Project," which entails the construction of four multi-use buildings in three districts and the construction of the Loop Road No.2 Shimbashi-Toranomon section.



The Loop Road No.2 in this section will have both above ground and underground tunnel structures. The three districts are: District I (Shimbashi District, located near JR Shimbashi Station), District II (Seinenkan District, in the corner of Sakurada Avenue and the Loop Road No.2) and District III (Toranomon District, the 17,100 sm plot above the underground tunnel Loop Road No.2). Prior to the 1989 revision of the Road Act, construction of building structures above roads was not permitted. District III (Toranomon District) will take advantage of this measure and will integrate the underground Loop Road No.2 into the building structure.

The first development to be completed was Grand-Suite Toranomon in the District II (Seinenkan District). Opened in 2007, the 21-story residential tower provides a total floor space of 14,400 sm with 122 units. The second project currently underway is the office/residential/retail complex in the District I (Shimbashi District). The construction is scheduled to begin in April 2008 and is expected to complete in the fall of 2010. The building will have 16 stories above ground and 2 stories underground with a GFA of 14,100 sm.

The development of District III (Toranomon District) is still under planning stage. The Tokyo Metropolitan Government has chosen Mori Building as a development partner, taking into consideration their achievements such as Roppongi Hills and Omotesando Hills.

Under the plan, two buildings are to be constructed: one of the buildings will be a 250-meter high office/residential/hotel complex with a total floor space of approximately 249,000 sm. It will have 51 stories above ground and 5 stories underground, and the underground Loop Route No.2 will run through the basement parking floors. The majority of the floors is expected to be allocated for office space but the date of commencement of construction is not yet known.

TOKYO REGION RESIDENTIAL CONDOMINIUM MARKET

According to the Real Estate Economic Institute, a total of 14,801 owner-occupier residential units (down 24.7% y-o-y) were released in the Tokyo metropolitan region (which comprises Tokyo, Kanagawa, Chiba and Saitama) during the 3-month period ending November 2007.

With the exception of the Tokyo suburbs which recorded 2.7% y-o-y

increase, the supply of new condominium declined in all regions: the Tokyo 23 wards (down 39.3% y-o-y), Saitama (down 21.5% y-o-y), Kanagawa (down 27.3% y-o-y), and Chiba (down 15.0% y-o-y).

Per unit prices increased in all regions. The Tokyo suburbs saw an increase of 10.6% y-o-y to JPY 45.6 million whilst Chiba saw an increase of 14.4% y-o-y to JPY 35.5 million.

JAPAN INDUSTRIAL CONSTRUCTION STARTS

Construction starts of large-scale warehouse totaled 317,508 sm during the 3-month period ending November 2007, a sharp decline of 71.0% over the quarter and 55.9% over the year. The 12 months leading to November 2007 saw a total of 3.7 million sm of new industrial space being delivered, down 1.0% over the previous 12

months period. Stricter building regulations passed in June have contributed to the slow down. However, the drop in construction starts is a delay rather than a decline in the number of projects, and it is expected that industrial construction starts in coming months will bounce back to the earlier levels.



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