

INVESTMENT MARKET REPORT

INVESTMENT CONDITIONS

The Japanese economy grew 0.8% q-o-q or 3.3% in annualized terms in the January-March quarter, supported by stronger consumer spending and a rebound in housing investment. While the average ratio of active job openings to job applicants declined to 0.95:1, the March unemployment rate of 3.8% was unchanged from December's figure. The improved job situation including solid wage growth helped drive the increase in consumer spending, which grew 0.8% over the quarter. Housing investment grew 4.6% as the confusion surrounding stricter building regulations subsided. Export growth also contributed to the expansion with a decline in demand from the US being offset by increased demand from Europe and Asia. Core nationwide CPI continued to climb amid soaring fuel prices, and March recorded a rise of 1.2% y-o-y to mark six consecutive months of increases.

With the prospect of a further slowdown in the US economy and rising crude oil and material prices, the Bank of Japan kept its interest rate normalization effort on hold and left the overnight call rate unchanged at 0.5%. Most independent economists now predict that a rate hike is unlikely until the first quarter of next year.

Over the quarter, the yield on newly issued 10 year Japanese Government Bonds (JGBs) declined 20 bps from 1.5% to 1.3%, and the long term prime rate fell 20 bps to 2.1%.

INVESTMENT TRENDS

Despite generally favourable real estate fundamentals, Q1 2008 saw banks and financial institutions further curtail lending activity as global sentiment worsened against a backdrop of continued US subprime woes. The credit crunch resulted in highly leveraged investors withdrawing from the market. However, core and core plus funds remained active and the quarter witnessed several landmark transactions including Mitsubishi Estates acquisition of a 73% sectional ownership of the Resona Bank Headquarters in Otemachi, Chiyoda-ku for approximately JPY 162 billion.

The latest Ministry of Land, Infrastructure and Transport (MLIT) land price survey released in March, found continued increases in the average commercial and residential land prices of major cities. Across the three metropolitan

regions of Tokyo, Osaka and Nagoya, the average land price grew by 10.4% y-o-y and 4.3% y-o-y respectively. In Tokyo, certain submarkets of Minato-ku, Shibuya-ku and Shinjuku-ku experienced land price growth of over 30%, as investors purchased properties along the route of the new Tokyo Metro Fukutoshin Line which is due to commence services in June 2008.

In the J-REIT sector, the FSA granted a Tokyo Stock Exchange request to lift the current restrictions on J-REITs from investing in overseas properties after the MLIT issued a standardized appraisal guideline for overseas properties.

Pricing for prime Tokyo office and retail properties remained firm through the quarter, supported by strong demand from core and core plus investors

HOT TOPICS

- Net effective Grade A office rents in Tokyo's Marunouchi/Otemachi/Yurakucho submarket increased 16.3% y-o-y to JPY 65,000 per tsubo per month (inclusive of CAM)
- Average Grade A rents in Tokyo's Central Five Wards fell 4.4% q-o-q to JPY 44,750 per tsubo/month inclusive, but robust rental growth was still evident in specific properties
- Tokyo Grade A office vacancy edged up 30 bps to 1.5%
- The Central Five Ward all-grade office vacancy rate increased 20 bps to 2.0%, but remained significantly below the 10-year average of 4.4%
- Core and core plus funds continued to demonstrate strong demand for well-located, high-quality properties
- The spread between the benchmark prime Tokyo office yield and 10-year JGB coupon increased by 20 bps to 150 bps

SELECTED MAJOR TRANSACTION RECORDS (JANUARY TO MARCH 2008) (WORTH OVER JPY 10 BILLION)
EXCHANGE RATE: US\$1 = JPY 99.535

Transaction Date	Building Name	District	Sector	Seller	Buyer	Approximate Price	
						(JPY)	(US \$ Equivalent)
Apr-08	Resona Maruha Building	Chiyoda-ku	Office	Resona Holdings	Mitsubishi Real Estate	162,000,000,000	1,627,568,192
Mar-08	Shinsei Bank Building	Chiyoda-ku	Office	Shinsei Bank	Morgan Stanley	118,000,000,000	1,185,512,634
Feb-08	Westin Hotel Tokyo	Meguro-ku	Hotel	Morgan Stanley & Starwood Capital Group	GIC Real Estate	77,000,000,000	773,597,227
Feb-08	Citi Group Center	Shinagawa-ku	Office	Citigroup	Morgan Stanley	48,000,000,000	482,242,427
Feb-08	IIF Haneda Airport Maintenance Centre	Ota-ku	Industrial	Japan Airlines International	Industrial and Infrastructure Fund Investment	42,210,000,000	424,071,934
Feb-08	MM Park Building	Yokohama City	Office	Mitsubishi Estate	Japan Real Estate Investmnet	37,400,000,000	375,747,225
Feb-08	Dengen Kaihatsu HQ Building	Chuo-ku	Office	Corbic Enterprise	Dengen Kaihatsu	30,000,000,000	301,401,517
Mar-08	Shinjuku Centre Building	Shinjuku-ku	Office	Asahi Life Insurance	Japan Prime Realty Investment	21,000,000,000	210,981,062
Mar-08	Surugadai Project	Chiyoda-ku	Office	Aquarius Investment GK	Nippon Building Fund	20,840,000,000	209,373,587
Mar-08	Harumi Island Triton Tower Z	Chuo-ku	Office	Obayashi Corporation	Top REIT	20,000,000,000	200,934,345
Mar-08	Shiomi Koyama Building	Koto-ku	Office	Shinjuku Koyama Building	Urban Investment	20,000,000,000	200,934,345
Mar-08	SORA Shin Osaka 21	Osaka City	Office	Sumitomo Banking & Trust	Nomura Real Estate Office Fund	19,251,000,000	193,409,353
Feb-08	Urban BLD Shinsaibashi	Osaka City	Office/Retail	Urban Corporation	Dekka Immobilien Investment	19,000,000,000	190,887,627
Mar-08	AEON Sapporo Hassamu Shopping Centre	Sapporo City	Retail	Mitsubishi Shoji	Japan Retail Fund Investment Fund	18,440,000,000	185,261,466
Mar-08	Ark Mori Building (2 floors)	Minato-ku	Office	Mori Building	Mori Hills REIT	16,500,000,000	165,770,834
Mar-08	Shin Urayasu Centre Building	Urayasu City	Office	Shin Urayasu Twins TMK	Nippon Building Fund	15,700,000,000	157,733,461
Jan-08	Bon Sejour Grand Suginami Miyamae	Suginami-ku	Other	Goodwill Group	Carlyle	14,618,338,000	146,866,308
Jan-08	Park Tower Shibaura Bayward Urban Wing	Minato-ku	Residential	AIG	Nippon Residential Investment	14,510,000,000	145,777,867
Mar-08	Yokohama Sky Building	Yokohama City	Retail	KK Yokohama Sky Building (a subsidiary of Mitsubishi Jisho)	GK MJ Sogo Fund Seven (Togin Lease)	12,100,000,000	121,565,279
Jan-08	Roppongi Square Building	Minato-ku	Other	Realize, Inc.	Atrium	11,800,000,000	118,551,263
Feb-08	German Centre for Industrial and a Trade	Yokohama City	Office	RREEF Alternative Investments	Dekka Immobilien Investment	11,000,000,000	110,513,890
Mar-08	Kitahama MID Building	Chuo-ku	Office	Atos Capital LLC	MID REIT	10,800,000,000	108,504,546
Mar-08	Urban Terrace Chayamachi	Kita-ku	Retail	Urban Corporation	Dekka Immobilien Investment	10,000,000,000	100,467,172

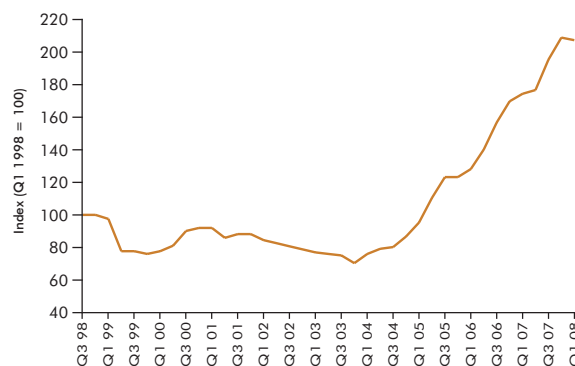
OFFICE INVESTMENT MARKET

As the effects of the US subprime woes on the global economy slowly unfolded, the first quarter of 2008 saw a number of major financial institutions sell their headquarter buildings in what appeared to be an attempt to increase earnings and improve balance sheets.

The largest transaction reported in the quarter was the acquisition of Resona Maruha Building (built in 1978, approximately 74,400 sm GFA in total) in Otemachi, Chiyoda-ku by Mitsubishi Estate. Mitsubishi acquired a 73% sectional ownership of the building for approximately JPY 162 billion from Resona Holdings Inc. Resona will remain in the building until circa 2010 when it plans to relocate to another location.

February saw Morgan Stanley complete the acquisition of Citigroup Center in the Tennozu district of Shinagawa-ku from Citigroup. The 1992 office building is located 1 minute walk from Tokyo Monorail's Tennozu Isle Station and provides 29,000 sm GFA over 22 stories. The transaction price is estimated to be circa JPY 48 billion. Citigroup will continue to occupy the space under a lease expiring in December 2016.

Central Five Wards Grade A Office Price Index



In March, Morgan Stanley also announced the acquisition of the Shinsei Bank Building in the Uchisaiwaicho district of Chiyoda-ku for JPY 118 billion at a rumoured 3.1% NOI capitalization rate. The 1993 office building is located 2 minutes walk from Subway Kasumigaseki Station and provides 62,400 sm GFA over 22 upper and 5 basement floors. The building operates as Shinsei Bank's Headquarters and also accommodates other Shinsei Bank group firms. Shinsei Bank will continue to occupy the current space for a further 3 years after which it plans to relocate. It is understood that Shinsei Bank ran a limited tender process for the property in which just 5 investors were invited to participate.

March also saw DaVinci Advisors acquire the Okato Shoji Tokyo Branch Building for approximately JPY 5 billion from Okato Shoji, an Osaka-based domestic financial brokerage firm. The 1997 building is located 5 minutes walk from Subway Hatchobori Station, and provides 5,000 sm GFA over 8 stories. Okato Shoji will continue to occupy the building on a sale-and-leaseback arrangement.

In February, Deka Immobilien of Germany acquired the Urban BLD Shinsaibashi in Shinsaibashi, Osaka for approximately EUR 120 million (JPY 19 billion). Completed in 1981, the retail and office building is home to Apple Store and provides GFA of 13,000 sm over 12 upper and 2 basement floors.

J-REITs were active purchasers during the quarter. In February, Japan Real Estate Investment (JRE) completed the acquisition of the MM Park Building in the Minato Mirai district of Yokohama City from Mitsubishi Estate. The 2007 office building has direct access from Minato Mirai Station and provides NLA of 38,700 sm over 15 stories with the price of JPY 37.4 billion equating to an estimated NOI yield of 4.8%. In the following month, JRE acquired a sectional ownership (approximately 35% of building and 40% of land) of Musashi Kosugi STM Building in Musashi Kosugi, Kawasaki City for JPY 4 billion at an estimated NOI yield of 5.8%. Completed in 1990, the building is located 3 minutes walk from JR Musashi Kosugi Station and provides GFA of 23,000 sm over 8 stories.

Mori Hills REIT (MHR) acquired a 7.5% sectional ownership of the Ark Mori Building from its sponsor, Mori Building, for JPY 16.5 billion. The 1986 building is located near Tameike Sanno and Roppongi 1-chome Subway Stations, and forms part of the Ark Hills office and retail complex. MHR acquired the 12th and 22nd floors of the building (total NLA of approximately 4,000 sm) which were fully occupied at the time of acquisition. The estimated NOI of JPY 429.67 million equates to a yield of 2.6%, but in-place rents are understood to be significantly below the building's current market rent.

Japan Prime Realty (JPR) acquired a 40% sectional ownership (totaling approximately 20,000 sm NLA) of the Shinjuku Center Building in the Nishi-Shinjuku district of Shinjuku-ku for JPY 21 billion at an estimated NOI yield of 3.8%. The 1979 building is situated in the Nishi-Shinjuku Skyscraper District and has a direct access from the underground concourse that stretches from JR Shinjuku Station to the Tokyo Metropolitan Government Building.

The quarter also saw Creed Office Investment (COI) acquire 5 office buildings in Tokyo for a total of approximately JPY 10.4 billion. The largest among the acquisitions was TK Kichijoji Building in Kichijoji, Musashino City, purchased for JPY 3.5 billion at an estimated NOI yield of 5.1%. The 1989 building is located 6 minutes walk from JR Kichijoji Station and provides NLA of 4,180 sm over 8 stories. The other 4 buildings are: DSM Jimbocho Building in Chiyoda-ku (1,900 sm NLA, built in 1994) purchased for JPY 2.6 billion at an estimated NOI yield of 4.5%, DSM Nihombashi-Kakigaracho Building in Chiyoda-ku (2,380 sm NLA, built in 1988) purchased for JPY 1.9 billion at an estimated NOI yield of 5.0%, NE Kudan Building (1,330 sm NLA, built in 1991) purchased for JPY 1.2 billion at an estimated NOI yield of 5.0% and TK Kudan Building (1,300 sm NLA, built in 1997) purchased for JPY 1.1 billion at an estimated NOI yield of 4.4%.

Meanwhile, Nomura Real Estate Office Fund (NOF) acquired SORA Shin Osaka 21 in Osaka City through a public tender offer for JPY 19.3 billion at an estimated NOI yield of 4.2%. The 1994 building is located 8 minutes walk from JR and Subway Shin-Osaka Station and provides net leasable area of 22,000 sm over 21 stories above ground and 2 stories below. NOF also acquired JCB Sapporo Higashi Building in Sapporo City (9,100 sm NLA, built in 1966) for JPY 3.7 billion at an estimated NOI yield of 5.5% and Toho Edogawabashi Building (2,100 sm NLA, built in 1993) in Bunkyo-ku, Tokyo for JPY 2.1 billion at an estimated NOI yield of 4.5%.

In March, Top REIT (TOP) acquired a sectional ownership of Harumi Island Triton Square Office Tower Z in the Harumi district of Chuo-ku. Completed in 2001, the 34-story office building provides a total floor area of 267,100 sm, with TOP purchasing approximately 11,000 sm NLA for JPY 20 billion at an estimated NOI yield of 4.3%.



Shinsei Bank Building



Resona Maruha Building

RESIDENTIAL INVESTMENT MARKET

Despite sentiment that the residential sector was suffering most as a consequence of the US subprime fallout, Q1 2008 saw J-REITs continue to acquire multi-family residential properties. However, we understand that many of the acquisitions which closed during the first quarter were actually negotiated towards the end of 2007 when sentiment towards the residential sector was comparatively less bearish. We therefore expect the second quarter to provide a clearer picture of trends in the residential investment market.

The largest individual acquisition during the quarter was Park Tower Shibaura Bayward Urban Wing, purchased by Nippon Residential Investment (NRI) for JPY 14.5 billion at an estimated NOI yield of 4.2%. Completed in 2005, the 29-story building is located 8 minutes walk from JR Tamachi Station and provides NLA of approximately 13,500 sm with 190 units. NRI also acquired Cosmo Gracia Kinshicho Aqver for JPY 2.9 billion at an estimated NOI yield of 4.8%. Just completed in February 2008, the 14-story building is located 8 minutes walk from JR and Subway Kinshicho Station and provides NLA of 3,400 sm with 99 units.

Meanwhile, Q1 2008 saw Advance Residence Investment (ARI) acquire 8 residential properties in Tokyo and other cities. In February, ARI acquired 5 residential properties in the Kobe and Tokyo regions for a total of JPY 5.1 billion. The largest of the acquisitions was Artis Kobe Port Island in Kobe City, Hyogo Prefecture, purchased from Itochu Corporation for JPY 1.9 billion. The property is

comprised of two buildings, South Wing (10 stories) and Center Wing (2 stories), and located 6 minutes walk from Naka Koen Station of Kobe New Transit Line. The buildings are fully leased to the Student Information Center Group and the estimated NOI of JPY 108.69 million equates to an NOI cap rate of 5.7%. In March, ARI acquired 2 residential properties in Kobe and Tokyo: Artis Kobe Port Island North Wing in Kobe for JPY 1.8 billion at an estimated NOI yield of 5.6% and Preiade Kokuryo in Chofu City, Tokyo for JPY 930 million at an estimated NOI yield of 5.3%.

The Nippon Accommodations Fund (NAF) acquired 7 residential properties during the quarter. In March, NAF acquired 3 properties from its sponsor Mitsui Fudosan: Park Axis Nihombashi Hamacho in Chuo-ku (2006, 6,999.83 sm NLA, 118 units) for JPY 5.5 billion at an estimated NOI yield of 4.8%, Park Axis Monzen Nakacho in Chuo-ku (2007, 1,886.39 sm, 55 units) for JPY 1.7 billion at an estimated NOI yield of 4.8% and Park Axis Nishi Funabashi in Funabashi City, Chiba (2007, 2,074.35 sm, 55 units) for JPY 1.0 billion at an estimated NOI yield of 5.5%.

In the largest portfolio acquisition, Meiho Enterprise purchased 20 residential properties in Tokyo and other cities from Ecology REIT, a planned J-REIT that cancelled its listing due to the unfavourable market conditions. The REIT was sponsored by 4 companies including Meiho Enterprise. The portfolio was acquired for approximately JPY 29 billion with the most expensive asset being Sun Full Toyosu ProCentury in Koto-ku, Tokyo at JPY 4.3 billion.

RETAIL INVESTMENT MARKET

The first quarter saw Japan Retail Fund (JRF) acquire AEON Sapporo Hassamu Shopping Center in Sapporo City for JPY 18.4 billion at an estimated NOI yield of 5.0%. The 2006 shopping center is located 5 minutes walk from JR Hassamu Station and provides total floor space of 102,000 sm over 4 stories. The property is leased by AEON under a 20-year master lease agreement and subleased to approximately 150 specialty stores including Uniqlo and ABC Mart.

In January, United Urban Investment (UUR) acquired Daiei Takarazuka Nakayama in Takarazuka City, Hyogo Prefecture for JPY 4.3 billion at an estimated NOI yield of 5.3%. The 1997 building provides 16,730 sm NLA over three stories with Daiei occupying the space under a lease expiring in 2017. The property is located near major highways and two railway stations.

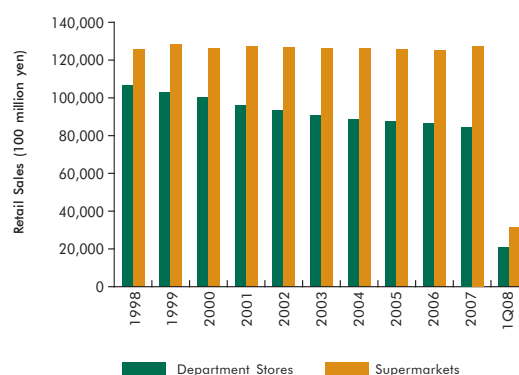
January also saw Fukuoka REIT Corp. (FRC) acquire Kurume Higashi Kushihara SC in Kurume City, Fukuoka Prefecture from its sponsor for JPY 2.5 billion at an estimated NOI yield of 6.1%. The 2007 shopping center is located along two national highways and provides a total floor space of 6,500 sm over 3 stories. In March, FRC also acquired K's Denki Kagoshima Honten in Kagoshima City, Kagoshima Prefecture for JPY 3.6 billion at an estimated NOI yield of 5.7%. Completed in 2007, the 3-story building provides a GFA of 7,300 sm and Kyshu K's Denki is the sole tenant.

In Osaka, Deka Immobilien Investment of Germany acquired Urban Terrace Chayamachi in Kita-ku for approximately JPY 10 billion. The 2006 retail complex comprises 3 buildings (approximately 4,130 sm GFA) and is located 3 minutes walk from Umeda Station of Hankyu Line in a prime retail precinct.

Back in Tokyo, Tokyu REIT (TRE) acquired a sectional ownership of Daikanyama Forum. The 1993 property comprises two wings, with TRE acquiring a 100% ownership of the East Wing (2-stories, 1,400 sm GFA) and a 64% sectional ownership of the West Wing (5-stories, with approximately 1,200 sm GFA purchased). The acquisition price of JPY 4.1 billion equates to an estimated NOI yield of 3.0%.

Meanwhile, Japan Prime Realty (JPR) acquired a 16.73% sectional ownership of Shinjuku 3-chome East Building in Shinjuku-ku. JPR had acquired a 4.28% sectional ownership of the same property in 2007, and the March 2008 purchase brings its stake in the property to 21.01%. Completed last year, the building houses major retailer Marui Shinjuku and a cinema complex and provides 25,000 sm GFA over 14 upper and 3 basement floors. The acquisition price of JPY 2.2 billion is reported to equal a yield of 3.7% on an NOI basis.

National Sales of Large-Scale Retail Stores



INDUSTRIAL INVESTMENT MARKET

The scarcity of industrial and semi-industrial land in the greater Tokyo and Osaka regions has led investors to eye the growth potential of regional cities as new/alternative logistics hubs, and the first quarter witnessed some notable new developments in the Kyushu and Tohoku regions.

ProLogis was among the investors exploring these locations, unveiling plans to develop three additional distribution centers in Iwanuma City, Miyagi Prefecture, Kiyama City, Saga Prefecture and Zama City, Kanagawa Prefecture over the next 2 years. The largest among the three is Prologis Parc Zama, a multi-tenant distribution center with 140,000 sm GFA expected to be completed in June 2009.

In March, LaSalle Investment Management (LIM) and Inui Tatemono unveiled a joint project to develop a large-scale logistics facility in Hakata Bay, Fukuoka Prefecture. LIM and Inui Tatemono plan to construct a 6-story facility of approximately 150,000 sm GFA on a site of 44,000 sm acquired from the City of Fukuoka for approximately JPY 5.6 billion. The scheme is scheduled for completion in 2010.

HOTEL INVESTMENT MARKET

The first quarter saw GIC Real Estate, the property investment arm of the Government of Singapore Investment Corporation acquire The Westin Tokyo for JPY 77 billion from Morgan Stanley and Starwood Capital Group. Built in 1994, the five-star hotel is located adjacent to Yebisu Garden Place complex in Ebisu, Shibuya-ku, and provides 438 rooms over 23 stories above ground. The price equates to JPY 175,800,000 per room.

The quarter also saw Nippon Hotel Fund (NHF) acquire 2 hotels. In January, NHF acquired Hotel The Elcy Matsuyama in Matsuyama City, Ehime Prefecture for JPY 1.4 billion at an estimated NOI cap rate of 7.1%. The 1991 hotel is located within 1 minute walk from Hon'machi 3-chome Station on Iyo Line, and provides a total floor space of 5,100 sm over 11 stories. The following month, NHF acquired Comfort Hotel Kure in Kure City, Hiroshima Prefecture. Currently under development with completion scheduled for next year, the hotel will provide NLA of 3,100 sm over 11 stories. The price of JPY 1.0 billion equates to an anticipated NOI cap rate of 6.5%.

J-REIT MARKET

The Tokyo Stock Exchange's J-REIT Index marked a year-to-date low of 1,285.34 on March 17, dipping below 1,300 for the first time since December 2003. It subsequently bounced back to end the first quarter at 1,460.85, but remained substantially below the level of 1,868.57 at which it closed out last year. The continued decline has been largely attributable to negative sentiment surrounding the sluggish domestic housing market, a further slowdown in the US economy and a sharp appreciation of the yen.

Foreign investors who ended 2007 as net buyers turned net sellers in January 2008 with net sales exceeding the purchases by JPY 23.8 billion. After turning net buyers in February, foreigners again turned net sellers in March with net sales of JPY 21.1 billion. In contrast, banks were significant buyers during the first quarter of 2008, with net purchases growing from JPY 23.3 billion in Q4 07 to JPY 34.7 billion.

J-REITs remained active purchasers during the first quarter and February saw the Japan Logistics Fund (JLF) acquire Urayasu Chidori Logistics Center II in Urayasu City, Chiba (6,200 sm NLA over 5 stories, completed in 2001) for JPY 1.6 billion at an estimated NOI yield of 5.3%. JLF also acquired Ichikawa Logistics Center in Ichikawa City, Chiba (18,700 sm NLA over 4 stories, completed in 2008) for JPY 4.6 billion, also at an estimated NOI yield of 5.3%.

February also witnessed the first significant acquisition of a industrial property with the Industrial and Infrastructure Fund (IIF) acquiring the IIF Haneda Airport Maintenance Center 1 & 2 (36,200 sm NLA over 7 stories, built in 1993) for JPY 42.2 billion at an estimated NOI yield of 4.6%. During the same month, Deka Immobilien of Germany acquired the German Center for Industry and Trade in Yokohama for approximately EUR 70 million (JPY 11 billion) from RREEF Alternative Investments, a real estate fund division of the Deutsche Bank Group. Developed in 1987, the office and laboratory/warehouse complex is located 15 minutes walk from JR Kamoi Station and provides total floor space of 23,000 sm over 5 stories.

In March, Mitsui Fudosan unveiled plans to develop Mercure Hotel Sapporo (tentative name) in the prime business and tourism district of Susukino, Sapporo City. Slated for completion in May 2009, the 285-unit hotel will provide a total floor space of 18,100 sm over 15 stories.

Meanwhile, LaSalle Investment Management acquired a newly completed business hotel, SB4 Tower, in the Shimbashi district of Minato-ku for an undisclosed amount. The hotel is located 4 minutes walk from JR Shimbashi Station, and provides 220 rooms over 16 stories.

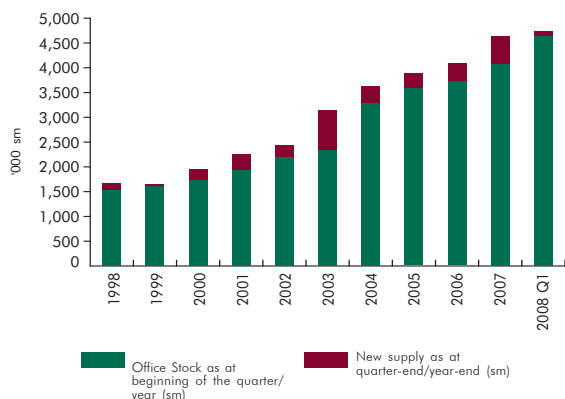
The quarter also saw the Palace Hotel Co. reveal plans to rebuild its flagship hotel in Chiyoda-ku, Tokyo. The Palace Hotel Tokyo is a 10-story-high luxury hotel built in 1961 and is situated in the prime Marunouchi location overlooking the moats and grounds of the Imperial Palace. It is understood that the hotel will be shut down in early 2009 for demolition and redevelopment. According to the media reports, the new hotel will open in late 2011 and comprise two 23-story towers with hotel and office wings.

A new tax revision law passed in March 2008 changed the definition of a family-owned company under the Investment Corporation Law. In order to qualify for special tax treatment, a J-REIT cannot be defined as a family-owned company, which, before the revision, was defined as an entity with three or fewer of the largest shareholders holding more than 50% of its outstanding shares. The amended legislation now defines a family-owned company as an entity with one shareholder holding more than 50% of its shares. Consequently, FC Residential Investment (FCR), which was stripped of its eligibility for tax exemption and forced to drastically cut its dividend payment for the six-month period ending October 2007, will again be eligible for J-REIT tax exemption status for its next dividend payment. According to the Major Shareholding Report filed with FSA in February 2008, FCR's largest shareholder, Prospect Asset Management, holds a 45.59% stake.

TOKYO CENTRAL FIVE WARDS OFFICE LEASING MARKET

The prime office leasing market remained tight throughout the first quarter of 2008. However, temporary large-scale vacancies created by several relocations caused Grade A vacancy to increase by 30 basis points to 1.5%. At the same time, a general deterioration in business sentiment following further turmoil in global financial markets encouraged some occupiers to put expansion plans on hold, and the take-up of secondary vacancy was slower than in previous quarters. Nevertheless, Grade A vacancy continued to remain below the 2% level which was last exceeded in the first quarter of 2005. Vacancy for all-grade office buildings in Tokyo's Central Five Wards rose slightly over the quarter, increasing 20 bps to 1.9%, but remained substantially below the ten year average of 4.4%. Vacancy for all-grade offices in the Tokyo's 23 Wards also edged up 20 bps to reach 2.0%.

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



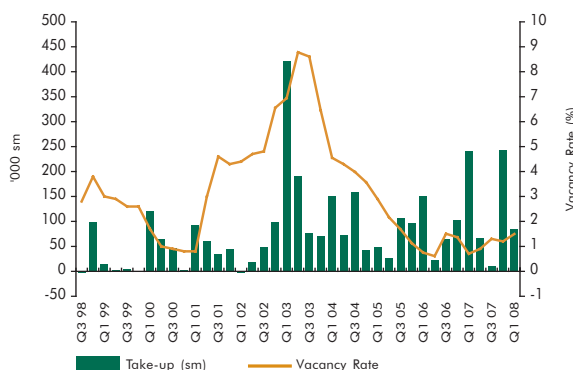
In the submarkets of Marunouchi/Otemachi/Yurakucho and Shinagawa-Station-East-Exit vacancy remained below the 1.0% level. The submarkets of Horidome/Higashi-Nihombashi in Chuo-ku and Sendagaya/Jingumae in Shibuya-ku, also experienced limited availability with the vacancy rate for all-grade office buildings falling below two percent to 1.9% and 1.8% respectively. However, the all-grade vacancy rate in Roppongi/Azabu submarket increased 40 bps over the quarter to reach 3.7%. With prime office vacancy edging-up, vacant space is taking longer to lease and the number of Grade A buildings with vacant space reached almost 30% of total stock as of March 2008, compared to circa 20% a year earlier. Prospective tenants now enjoy a stronger negotiating position than in recent years, but robust rental growth is still evident in specific submarkets and properties. Grade A rents in all CFW submarkets recorded positive growth over the year, with the prime Marunouchi/Otemachi/Yurakucho submarket registering an increase of 16.3% y-o-y (exclusive of CAM). In the same submarket the top quoting rent has reached JPY 80,000 per tsubo per month inclusive.

While landlords in prime office districts continue to hold bullish views on rental growth, the past few quarters have shown signs of a slowdown in the rate of rental increases, and Q1 2008 saw some submarkets record rental declines. The average prime office rent inclusive of common area management fee edged down 0.8% q-o-q to JPY 65,000 per tsubo per month, recording the first decline in more than ten quarters. In the submarkets of Roppongi/Azabu and Shiodome, average Grade A rents dropped 5.9% q-o-q to JPY 51,750 per tsubo per month (inclusive of CAM) and 7.8% q-o-q to JPY 50,500

per tsubo per month (inclusive of CAM) respectively. The overall average rent for Grade A offices in the Central Five Wards also dropped 4.3% q-o-q to reach JPY 44,750 per month per tsubo (exclusive of CAM). The supply of new Grade A space in 2008 is expected to be substantially below 2007's total of 563,000 sm. Q1 2008 saw only one Grade A completion; Akasaka Biz Tower in Minato-ku, which provided 99,000 sm of net leasable space to the market and which opened fully leased. With no Grade A building completions scheduled for the second quarter and only two buildings, or 63,000 sm of net leasable space, expected to come on stream during the remainder of the year, the market will continue to experience a scarcity of high quality supply.

Despite uncertainties surrounding the market in the near term, we expect the tight supply conditions to offset any softness in occupier demand with the overall average rent for Grade A offices resuming an upward trend next year, albeit at a slower rate of growth than seen in the recent past.

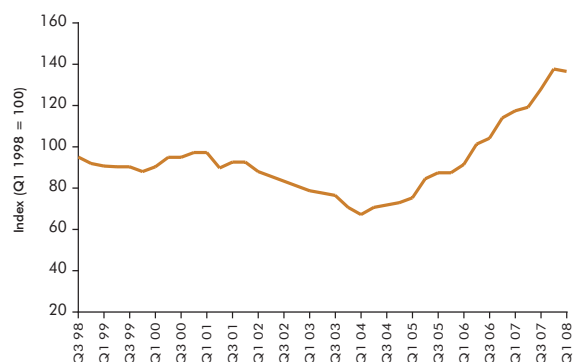
Take-up & Vacancy of Grade A Office Properties in Central Five Wards



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

Area	Current Vacancy Rate	Q-o-q Change % pts
Hamamatsucho/Shiba Koen	2.5%	-1.4%
Yotsuya/Shinanomachi	2.6%	-0.5%
Nihombashi/Yaesu/Kyobashi	1.4%	-0.4%
Horidomecho/Higashi-Nihombashi	1.9%	-0.4%
Yoyogi	1.8%	-0.3%

Central Five Wards Grade A Office Rental Index



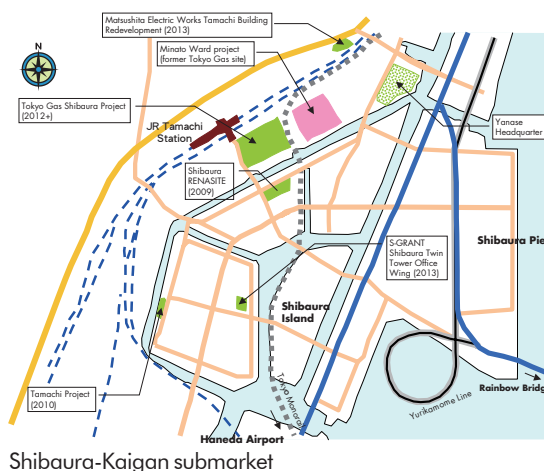
DEVELOPMENT FOCUS: THE SHIBAURA-KAIGAN DISTRICT - A FURTHER DEVELOPMENT POTENTIAL

Stretching out on the southeast side of JR Tamachi Station is Shibaura-Kaigan, an area of reclaimed land in the inner Tokyo Bay. Reclamation of the district began in 1906 during the Meiji Era as part of a ship lane dredging project in which the soil dredged from the downstream of Sumida River was used to create islands in Shibaura and surrounding areas. By the time Shibaura Pier was completed in the early 1930s, the main geomorphic features of the present-day Shibaura landscape were established.

During the 1950's and 1960's, the district flourished with factories and housing facilities for the workers. After the mid 1970's, however, factories began to disappear with offices and houses being constructed in their place. Since the early 1990's, condominium development has been quite noticeable, and 2007 saw the completion of two residential towers, Shibaura Island Air Tower (48 stories, 880 units) and Shibaura Island Grove Tower (49 stories, 883 units).

One of the most notable projects currently underway is the Shibaura RENASITE project, the redevelopment of a former Shibaura Industrial University site, which provides approximately 7,600 sm of land space and is located 5 minutes walk from JR Tamachi Station East Exit. The project site is divided into three districts: University District A (Shibaura Industrial University), Office District B (Shibaura Renasite Tower) and Hotel District C (Washington Hotel). Slated for completion in April 2009, this will be the first project of its kind in which a higher education institution and private businesses formed a City Planning Association to jointly develop an integrated "city" for business and education.

The Shibaura Industrial University facility will provide approximately 12,700 sm GFA over 9 stories, with the University intending to allow vacant class rooms to be used as rental spaces for company trainings, meetings and conferences. Office District B is being jointly developed by Nippon Steel City Produce, Inc. and Nippon Tochi-Tatemono Co.



Ltd. The office tower will provide GFA of 27,300 sm over 19 stories above ground and 2 stories underground with a standard floor area of approximately 1,000 sm. Hotel District C will see the development of a Washington Hotel by an SPC of Hankyu Investment Partners. The hotel will provide a GFA of 5,500 sm over 11 floors with 216 rooms. Most of the rooms will be for single occupants, with plans to offer special packages catered towards business and university related visitors to the adjacent districts.

Another notable project in the area is the Tokyo Gas Shibaura Project. The 2.2 hectares site (Shibaura 3-chome) is the property of Minato Ward located on the southeast side of JR Tamachi Station. Tokyo Gas will acquire this plot in exchange for their adjacent plot (Shibaura 1-chome) of 3.2 hectares, a former Tokyo Gas Engineering Research Laboratory site. Tokyo Gas has selected Mitsui Fudosan and Mitsubishi Estate as partners to construct 2 high-rise office towers and a commercial complex. At present, an elementary school, sports center and other public facilities stand on the project site, and these facilities will be relocated to the adjacent Tokyo Gas plot once soil contamination clean-up procedures are complete. Negotiations continue between Tokyo Gas and Minato Ward to finalise details of project, and completion of the scheme is unlikely before 2012 at the earliest.

Other projects in the area include Sumitomo Realty's Tamachi Project, a redevelopment of former Nomura Co., Ltd. Headquarter Building in Shibaura 4-chome (approximately 23,800 sm GFA, expected completion in 2010), S-GRANT Shibaura Twin Tower Office Wing in Shibaura 4-chome (approximately 16,357 sm GFA, expected completion in 2013) and Matsushita Electric Works Tamachi Building Redevelopment in Shiba 4-chome by Kowa Real Estate (size TBD, expected completion in 2013). Media reports also suggest that Yanase, a domestic luxury car dealer, is planning a large-scale redevelopment of its Shibaura 1-chome headquarters.

TOKYO REGION RESIDENTIAL CONDOMINIUM MARKET

According to the Real Estate Economic Institute, a total of 13,970 owner-occupier residential units (down 22.2% y-o-y) were released in the Tokyo metropolitan region (which comprises Tokyo, Kanagawa, Chiba and Saitama) during the 3-month period ending February 2008.

With the exception of the Tokyo suburbs which recorded 9.7% y-o-y

increase, the supply of new condominium declined in all regions: Kanagawa (down 45.4% y-o-y), Saitama (down 23.0% y-o-y), Chiba (down 15.2% y-o-y), and the Tokyo 23 wards (down 2.0% y-o-y).

Per unit prices increased in all regions. The Tokyo 23 wards saw an increase of 38.3% y-o-y to JPY 56.5 million whilst Chiba saw an increase of 16.4% y-o-y to JPY 36.4 million.

JAPAN INDUSTRIAL CONSTRUCTION STARTS

A sharp decline in construction starts of large-scale warehouses last quarter that resulted from tougher building regulations showed a substantial recovery during the 3-month period ending in February 2008, delivering a total of 606,798 sm of new industrial space to the

market, an increase of 91.1% over the quarter. The total large-scale warehouse construction starts for the 12 months leading to February 2008 reached 3.4 million sm, down 17.9% over the previous 12 months period.



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