

## INVESTMENT MARKET REPORT

### INVESTMENT CONDITIONS

The July-September quarter saw Japan's economy grow at an annualized rate of 2.6% in real terms, rebounding from the contraction of 1.2% in the April-June quarter, and beating market forecasts of a 1.8% expansion. Mid-year financial reports released by April-March fiscal term companies showed brisk earnings, indicating that the corporate-led recovery mechanism remained intact. Despite the robust economic growth, the quarter saw unemployment increase by 20 bps to 3.8% in August. However, the number of advertised jobs continued to exceed the number of job seekers, ending August at 1.06:1. Sluggish wage growth weighed down consumer spending which moderated to 0.3% q-o-q growth in Q2, down 50 bps from 0.8% growth in Q1. The nationwide core consumer price index also fell for seventh-straight month in August to 0.1% y-o-y.

September's surprise resignation of Prime Minister Shinzo Abe raised a sense of economic uncertainty leading to volatility in stock prices and the benchmark Nikkei average closed down 80.07 points at 15,797.60 following the announcement. The broader TOPIX index, which includes all shares on the Tokyo Stock Exchange's first section, closed at 1,528.27, down 4.12 points. However, the market's concerns proved short-lived and both the Nikkei average and TOPIX index soon recovered to end the quarter at 16,737.63 and 1,620.07 respectively.

With fears that the growing subprime crisis could tip the US into a full-blown recession, the prospect of a September increase in Japanese base rates became increasingly remote and the Bank of Japan left the overnight call rate unchanged at 0.5%. With continued economic uncertainty in the US, many private economists predict that a further hike in the Japanese base rate is unlikely until late in Q1 2008.

Over the quarter the yield on newly issued 10-year Japanese Government Bonds (JGB) declined by 30 bps to 1.7% and the long term prime rate fell 25 bps to 2.25%.

### INVESTMENT TRENDS

The quarter saw the US subprime crisis have only a minimal effect on the Japanese real estate market. Banks and financial institutions became more cautious and started to curb loans to real estate investors and this had some impact upon highly leveraged opportunistic funds. However, core funds with lower loan-to-value ratios were unaffected and the competition for good quality properties remained strong as a consequence. This was demonstrated by the acquisition of Tennozu First Tower by LaSalle Investment Management at an estimated 2.8% NOI cap rate which set a new

*The acquisition of Tennozu First Tower at an estimated NOI yield of 2.8% sets a new benchmark for the Tokyo prime office capitalization rate.*

benchmark for the Tokyo prime office market. Nevertheless, with the 10-year JGB coupon decreasing to 1.7%, the spread over the risk free rate remained a reasonable 110 bps.

On the back of large capital inflows into real estate investment funds and strong demand for office buildings, a survey by the Ministry of Land, Infrastructure and Transport released July 1, 2007 showed average land prices up 5.1% y-o-y for the Tokyo, Osaka, and Nagoya regions. Average commercial land prices and residential prices for the three major metropolitan regions (Tokyo, Osaka, and Nagoya) grew by 10.4% y-o-y and 4.0% y-o-y respectively. Several submarkets within Tokyo's prime districts such as Minato-ku and Shibuya-ku saw growth of over 30%, reflecting investor preference for properties in central locations.

Although the survey found land prices in regional cities to still be trending downwards, the rate of decline slowed and major regional cities such as Sendai and Hakata saw growth comparable to that of Tokyo.

### HOT TOPICS

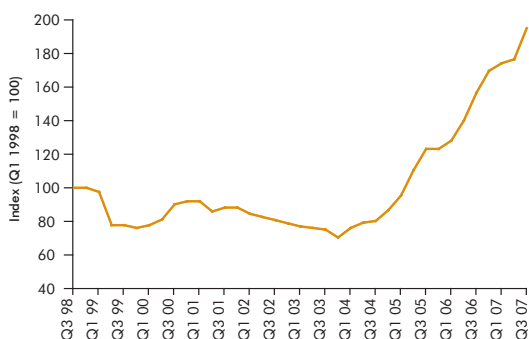
- The benchmark prime office NOI cap rate sharpened by 20 bps to 2.8% over the quarter
- The spread between the benchmark prime Tokyo office yield and 10 year JGB coupon remained approximately 110 bps
- CBRE's Tokyo CFW Grade A office price index increased by 24.6% over the past 12 months
- Net effective Grade A office asking rents in Tokyo's prime Marunouchi/Otemachi/Yurakucho submarket grew 22.8% y-o-y to reach JPY 61,250 per tsubo per month (inclusive of CAM)
- Grade A office vacancy increased to 1.3% as landlords held out for top rents
- In the four-years since Q3 2003, the CFW all-grade office vacancy has decreased by 5.1 points to record 1.6% at the end of the quarter

**SELECTED MAJOR TRANSACTION RECORDS (JULY TO SEPTEMBER 2007) (WORTH OVER JPY 10 BILLION)**  
**EXCHANGE RATE: US\$1 = JPY 115.655**

Transaction Date	Building Name	District	Sector	Seller	Buyer	Approximate Price	
						(JPY)	(US \$ Equivalent)
Sep-07	Toranomon Pastoral Hotel	Minato-ku, Tokyo	Hotel	The Mutual Aid Associations of Agriculture, Forestry and Fishery Corporation Personnel	Mori Trust & Da Vinci Advisors	230,899,080,000	1,996,447,019
Sep-07	GINZA Toshiba Building	Chuo-ku, Tokyo	Retail	Toshiba	Tokyo Land Corp	161,000,000,000	1,392,071,246
Sep-07	17 distribution centers	Various	Industrial	Matsushita Electric	Prologis	85,000,000,000	734,944,447
Sep-07	Tennozu First Tower	Shinagawa-ku, Tokyo	Office	Yoyogi Holding TMK (an SPC of Morgan Stanley)	Chandler Nineteen TMK (an SPC of Lasalle Investment Management)	65,000,000,000	562,016,342
Aug-07	Tiffany Ginza Building	Chuo-ku, Tokyo	Retail	Tiffany	Goldman Sachs	38,000,000,000	328,563,400
Sep-07	AEON Yachiyo Midorigaoka Shopping Centre	Yachiyo City, Chiba	Retail	Nomura Fudosan	Japan Retail Fund	30,789,530,000	266,218,754
Jul-07	Omiya Center Building	Saitama City, Saitama	Office	Hibiya Capital (SPC)	GE Real Estate	24,500,000,000	211,836,929
Oct-07	Kobe Regional HVAC Centre	Kobe City, Hyogo	Logistics		Industrial and Infrastructure Fund	18,100,000,000	156,499,935
Sep-07	Pacific Royal Court Minato-Mirai Ocean Tower	Yokohama City, Kanagawa	Residential	DH Development TMK	Nomura Residential Investment	15,221,852,000	131,614,301
Oct-07	IIF Shinonome Logistics Centre	Koto-ku, Tokyo	Logistics	N/A	Industrial and Infrastructure Fund	13,700,000,000	118,455,752
Aug-07	Ito Yokado Yotsukaido	Yotsukaido City, Chiba	Retail	YK Active Peace Corporation	Japan Retail Fund	13,600,000,000	117,591,111
Sep-07	Pacific Royal Court Minato-Mirai Urban Tower	Yokohama City, Kanagawa	Residential	TMK PD Minato Mirai	Nomura Residential Investment	11,715,029,000	101,292,888

**OFFICE INVESTMENT MARKET**

**Central Five Wards Grade A Office Price Index**



With an ever-tightening vacancy rate suggesting further rental growth, the influx of domestic and foreign funds into the Japanese office investment market continued during the third quarter.

The most notable transaction during the quarter was the acquisition of Tennozu First Tower, a 1991 office building of approximately 47,000 sm gross floor area in the Tennozu district of Shinagawa-ku by LaSalle Investment Management (LIM). While details of the transaction have not been fully reported, it is understood that LIM paid JPY 65.0 billion for the property at an estimated NOI cap rate of 2.8% on in-place rents which are believed to be 15-20% below market.

The transaction sets a new benchmark for Tokyo office capitalization rates.

The quarter saw a new foreign investor enter the Japanese market with the Allco Commercial Real Estate Investment Trust (Allco REIT), a listed REIT in Singapore, acquiring Cosmo Plaza Building in Nanko, Osaka for JPY 6.5 billion at an estimated NOI cap rate of 5.2%. Forming part of the Cosmo Square District, the 1997 building comprises 15 stories above ground and 2 stories below ground, and provides a NLA of over 20,000 sm. Allco REIT was listed on the Singapore Exchange in March 2006, and has been actively investing

in properties in Singapore and Australia. The acquisition of Cosmo Plaza Building marked Allco REIT's entry into the Japanese market and was quickly followed by further purchases. In September, they acquired an additional three properties in Tokyo and Osaka for a total of JPY 11.7 billion at a blended NOI yield of 4.7%. The largest of the acquisitions was Galleria Otemae Building in Osaka, purchased for JPY 6.6 billion. The 1978 building comprises of 12 stories with NLA of 10,200 sm and is situated 2 min walk from the subway Tenmanbashi Station and also in the proximity of Osaka Prefectural Head Office. ACO Azabu Aco Building, a 1992 office building of approximately 1,500 sm NLA in Minato-ku, Tokyo is situated 5 min walk from two subway stations, Azabujuban and Akabanebashi. Ebara Techno-Serve Headquarters Building, a 5-story office building with NLA of 5,400 sm in Ota-ku, Tokyo is situated in the proximity of Haneda Airport, and Ebara Techno-Serve occupies the entire building.

In July, GE Real Estate acquired a 49% sectional ownership of Omiya Center Building in Saitama for JPY 12.5 billion. GE has already acquired 51% ownership of the building in December 2006 for JPY 12 billion, and the combined purchase price equates to JPY 24.5 billion, approximately 2.5 times the purchase price in 2004. Situated 6 min walk from JR Omiya Station, the building (built in 1993) provides NLA of 14,600 sm over 14 stories.

J-REITs remained active purchasers during the quarter. In August, Hankyu REIT (HRI) acquired a 33% sectional ownership of Sphere Tower Tennozu, Shinagawa-ku, Tokyo from Global One Investment (GOR) for JPY 9.4 billion at an estimated NOI yield of 3.3%. The 1993 building is 27 stories high with NLA of 26,600 sm, and has direct access from Tennozu Island Station via a pedestrian deck. This marks the biggest transaction between J-REITs to date. Meanwhile, Tokyo Gross REIT (TGR) acquired Kokura Kosan Buildings #7, 17, and 20 in Kita-Kyushu City, Fukuoka from its sponsor, Apaman Shop Holdings, for JPY 3.3 billion at an estimated NOI yield of 6.8%. Office buildings #7 and 20 provide a combined total of 8,200 sm NLA while

building #17 is a parking lot with 328 parking spaces. Creed Office Investment (COI) acquired 6 office buildings, 5 in Tokyo and 1 in Fukuoka. The largest of the acquisitions was COI Ginza 612 in Ginza 6-chome, Tokyo purchased in July for JPY 2.6 billion at an estimated NOI yield of 4.7%. Built in 1982, the 7-story office building is situated 3 min walk from the subway Ginza Station, and provides NLA of 1,400 sm. Other acquisitions include COI Uchikanda Building, a 1989 office building (10 stories with NLA of 1,390 sm) in Uchikanda, Chiyoda-ku, Tokyo purchased for JPY 2.0 billion at an estimated NOI yield of 4.6%. The building is favorably situated in a submarket adjacent to the prime office district of Marunouchi/Otemachi/Yurakucho, and COI plans to add value by carrying out refurbishment work to the building facade and common areas.

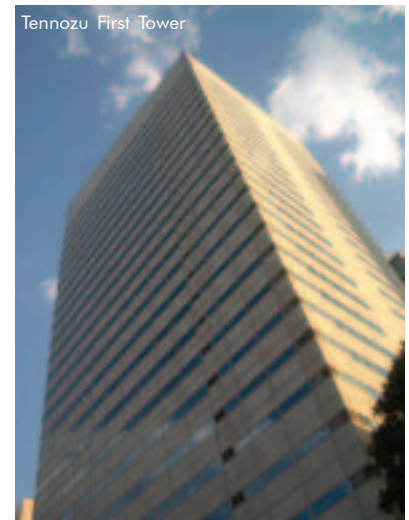
DA Office Investment (DAO) acquired DaVinci Minami Semba in Osaka and DaVinci Kodenmachi in Tokyo for a combined total of approximately JPY 7.2 billion from an SPC of its sponsor, DaVinci Advisors. DaVinci Minami Semba, purchased for JPY 4.8 billion at an NOI yield of 5.0%, is an 8-story high building with NLA of 7,700 sm, and is situated in Osaka's central business district approximately 3 min walk to the Shinsaibashi Station subway line. DAO has acquired properties mainly in Tokyo's Central Five Wards, and this marked their first acquisition in the Kansai region. DaVinci Kodenmachi, purchased for JPY 2.4 billion at an NOI yield of 4.8%, is a 1985 building located in Chuo-ku, Tokyo and provides NLA of 2,400 sm over 8 stories. Nomura Real Estate Office Fund (NOF) acquired

## RESIDENTIAL INVESTMENT MARKET

J-REITs remained the dominant forces in the multi-family residential investment market during the third quarter, making a sizeable number of significant acquisitions. Unlike recent quarters when it has not been uncommon for J-REITs to acquire properties prior to completion, Q3 2007 witnessed what appears to be a growing trend for J-REITs to partner with developers and secure well-located properties even before construction begins.

Nippon Residential Investment (NRI) acquired 14 properties during the quarter. Among the acquisitions were the twin residential towers in the Minato Mirai district of Yokohama, Pacific Royal Court Minato Mirai Ocean Tower and Pacific Royal Court Minato Mirai Urban Tower, purchased for JPY 15.2 billion at an anticipated NOI yield of 5.7% and JPY 11.7 billion at a forecast NOI yield of 5.6%. The 29-story towers are currently under construction, and are expected to be completed in December 2007 and June 2008 respectively with the Ocean Tower having 412 units and providing a NLA of 26,000 sm. The 415-unit Urban Tower is being developed jointly by Daiwa House Industry and NRI's sponsor Pacific Management, and NRI has a master lease of the entire property. In August, NRI acquired 3 residential properties in Tokyo and Chiba for a combined total of JPY 9.2 billion at a blended NOI cap rate of 5.0%. Pacific Residence Yutenji in Meguro-ku (built in 2006, 7 stories) was purchased for JPY 5.9 billion at an NOI yield of 4.7%. The 2 properties in Chiba, Pacific Residence Funabashi I and Pacific Residence Funabashi II, were purchased for JPY 1.7 billion and JPY 1.6 billion respectively.

Yokohama Odori Koen Building in Yokohama from Orix Real Estate for approximately JPY 3.0 billion at an NOI yield of 5.4%, and Kita 3-jo Building in Sapporo from and SPC of Orix Real Estate for JPY 3.4 billion at an NOI yield of 5.5%. Yokohama Odori Koen Building is situated 3 min walk from JR Kannai Station, and provides NLA of 4,200 sm over 11 floors. Kita 3-jo Building is a 1988 building of NLA 5,000 sm, and is situated in the proximity of the subway Sapporo Station and major department stores.



Tennozu First Tower

Crescendo Investment (CIC) acquired 2 office buildings in Tokyo from an SPC of D.B. Zwirn, a US fund management firm, for approximately JPY 2.5 billion. Anwa Tsukasacho Building in Chiyoda-ku (built in 1990, 9-story with NLA of 1,300 sm) was purchased for JPY 1.4 billion at an NOI yield of 4.6%, and Hacchobori MF Building in Chuo-ku (built in 1988, 9-story with NLA of 1,200 sm) was purchased for JPY 1.1 billion at an NOI yield of 4.4%.

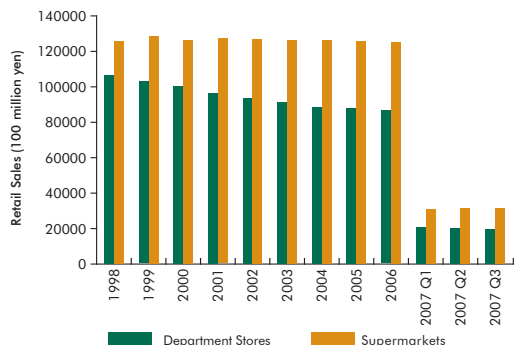
New City Residence Investment (NCR) acquired 3 brand new condominiums in Tokyo for total of JPY 3.7 billion at a blended NOI yield of 4.9%: New City Residence Nakano (1,600 sm NLA, 42 units), New City Residence Yoga (1,500 sm NLA, 45 units), and New City Residence Sumiyoshi (1,400 sm NLA, 60 units). In August, NCR acquired New City Residence Higobashi Tower (6,200 sm NLA, 194 units) in Osaka City for JPY 4.2 billion at an NOI yield of 5.2%.

Joint REIT Investment (JRI) acquired 6 residential properties in Tokyo and other cities. Four properties are newly built in 2007 and 2 properties are scheduled to be completed in 2008. The largest of the acquisitions was J-Flats Gojo Takakura in Kyoto City, purchased for JPY 1.7 billion at an NOI yield of 5.4%. JRI also acquired Higashi-Shinagawa 1-chome Project (tentative name) in Shinagawa-ku for JPY 2.6 billion at an estimated NOI yield of 4.7%. The building (3,000 sm NLA, 94 units) is currently under construction, and is scheduled to be completed in May 2008.

July saw Advance Residence Investment (ARI) acquire 2 brand new properties in Chiba and Mie prefectures: DUO Station Higashi Matsudo Nibankan, purchased for JPY 1.1 billion at an NOI yield of 6.0%, and Grand Court Kameyama, purchased for JPY 1.6 billion at an NOI yield of 6.5%. In August, ARI acquired 2 additional properties in Tokyo and Osaka. Artis Kinshicho in Sumida-ku, purchased for JPY 4.2 billion at an estimated NOI yield of 5.0%, is scheduled to be completed in December 2007, and Zeus Ryokuchi Premium in Osaka, purchased for JPY 979 million at an NOI yield of 5.7%, was completed in May 2007.

## RETAIL INVESTMENT MARKET

### National Sales of Large-Scale Retail Stores



The highest value transaction reported in the retail sector during the third quarter was the acquisition of the Ginza Toshiba Building by Tokyu Land for JPY 161 billion. The landmark building (built in 1934) occupies a prominent position at the Ginza 5-chome crossroads and comprises 9 stories above ground with 4 underground and offers a GFA of approximately 40,000 sm. Tokyu Land's portfolio lacks landmark properties comparable to Shin-Marunouchi Building of Mitsubishi Estate and Nihombashi Mitsui Tower of Mitsui Fudosan, and the acquisition of the prime Ginza Toshiba Building will improve their portfolio. Given the buildings age, Tokyu Land envisions redevelopment into a large-scale, multi-purpose complex in the future.

In August, Goldman Sachs acquired the prime Tiffany Ginza Building for JPY 38.0 billion. Tiffany will continue running the store through a long-term lease. The acquisition represented a rare opportunity to acquire a prominent Ginza property and market opinion suggests the purchase price equated to a circa 2.5% NOI yield.

## INDUSTRIAL INVESTMENT MARKET

Rising investor confidence in Japanese logistics facilities as investment grade assets was further underscored by plans for a new J-REIT, the Industrial and Infrastructure Fund Investment (IIF), to list on the Tokyo Stock Exchange in October 2007. Sponsored by Mitsubishi Corporation and UBS, IIF will be the second J-REIT to focus on the sector. In preparation for listing on TSE, IIF acquired 8 logistics properties including IIF Shinonome Logistics Center in Koto-ku, Tokyo which was purchased for JPY 13.7 billion at an NOI yield of 5.3%. In a first for the J-REIT market, IIF also acquired infrastructure facilities with the purchase of the IIF Kobe Regional Heating/Cooling Center in Kobe City for JPY 18.1 billion at an NOI yield of 3.8%.

In July, Japan Logistics Fund (JLF) acquired four logistics facilities in Hyogo and greater Tokyo regions for a total consideration of JPY 21.1 billion. Among the acquisitions was Yokohama Fukuura Logistics Center in Yokohama, purchased through a related party for JPY 9.8 billion at an NOI yield of 5.8%. Situated within a 2 km radius of two

Creed Office Investment (COI) acquired Fiesta Shibuya for approximately JPY 3.2 billion at an NOI yield of 4.0%. Located 6 min walk from JR Shibuya Station, the building (built in 1979) has GFA of 1,400 sm over 9 floors and is fully let as of August 2007. It is understood that COI is planning an extensive refurbishment to increase the property value.



Tiffany Ginza Building

In July, US-based Pembroke Real Estate acquired 6 properties in Roppongi from the domestic real estate developer Adesso at an undisclosed price. Situated opposite Tokyo Midtown, the purchased properties form a plot of approximately 830 sm, and include Roppongi First Building (8 stories, 700 sm GFA) and Alcazar Yagi (8 stories, 820 sm GFA). It is understood that Pembroke and Adesso plan to jointly redevelop the area but detailed plans have yet to be made public.

Investor demand for suburban shopping centers also remained strong with the Japan Retail Fund (JRF) acquiring Aeon Yachioyo-Midorigaoka Shopping Center in Chiba for JPY 30.7 billion at an NOI yield of 3.1%. Built in 2005, the shopping center offers a GFA of approximately 13,000 sm over 6 stories, and has direct access from Yachio-Midorigaoka Station via a pedestrian deck. Meanwhile, Rubicon Japan Trust (RJT) acquired Outlet Mall Rism in Saitama, the nation's first large-scale outlet mall opened in 1993, for JPY 6.8 billion at an estimated NOI yield of 5.0%.

highway interchanges, the logistics center provides a GFA of approximately 36,000 sm over 6 stories.

ProLogis remained a dominant force during the third quarter with the acquisition of 17 large-scale distribution centers from Matsushita Electric Industrial Co. for an estimated JPY 85.0 billion in what is the largest-ever transaction reported for the sector. The facilities are dispersed around the Osaka and greater Tokyo regions, and have a combined GFA of approximately 415,000 sm. Matsushita Logistics, a Matsushita Electric's logistics subsidiary, will continue to occupy 15 of the facilities on a sale-and-leaseback arrangement.

Similarly, AMB Property remained acquisitive with the purchase of 8 logistics facilities in Chiba and other cities for approximately JPY 20.0 billion. Among the acquisitions were AMB Funabashi 7, 8 and 9 in Funabashi, Chiba, which have a combined GFA of approximately 47,000 sm.

## HOTEL INVESTMENT MARKET

A number of foreign luxury hotels have made their debuts in Tokyo in recent years. Following the opening of the Ritz Carlton in March 2007, the third quarter saw the opening of the Peninsula Hotel in Yurakucho, Chiyoda-ku. Despite speculation that the opening of several foreign luxury hotels would pose a threat to the domestic hotel business, the market remained relatively stable and witnessed brisk activities.

The largest transaction during the quarter was the joint acquisition of the Toranomom Pastoral Hotel (39,000 sm GFA, 313 guest rooms) by Mori Trust and DaVinci Advisors for approximately JPY 231.9 billion. Toranomom Pastoral occupies approximately 16,000 sm of land in the prime Toranomom district of central Tokyo, and Mori Trust and DaVinci intend to develop multi-purpose office and residential complex. The hotel will remain in operation for at least 2 more years.

In September, Mitsui Fudosan became the major shareholder of Imperial Hotel Ltd. by acquiring 33.2% of the outstanding shares from Kokusai Kogyo Co. (owned by the US investment fund Cerberus Capital Management) for approximately JPY 86.2 billion. Imperial Hotel runs three hotels under the same brand: the Imperial Hotel Tokyo, the Imperial Hotel Osaka, and Kamikochi Imperial Hotel.

Originally opened by the Japanese government in 1840 to accommodate visiting foreign dignitaries, the Imperial Hotel Tokyo occupies a prominent position in the Hibiya district, only a block away from the recently opened Peninsula Hotel. The main building of the hotel (built in 1970) is currently under renovation with the JPY 17 billion project due to be completed by the end of 2008. Mitsui and Imperial Hotel are understood to be planning an all-inclusive redevelopment including two other buildings Mitsui owns in the area so as to revitalize the Hibiya district as a whole.

In August, Japan Hotel and Resort (JHR) acquired Oriental Hotel Hiroshima for JPY 9.9 billion at an NOI yield of 6.3%. Built in 1993, the 251-room hotel is situated 5 min drive from JR Hiroshima Station and comprised of 23 stories above ground and 2 stories underground with GFA of approximately 14,000 sm.

Nippon Hotel Fund Investment (NHF) acquired Comfort Hotel Shin-Yamaguchi in Yamaguchi Prefecture for JPY 866 million at an NOI yield of 6.1%. The 2007 hotel is 8 stories high with NLA of approximately 3,000 sm. Greens Hotels, a domestic hotel management firm, manages the hotel under a 20-year fixed term lease.

## J-REIT MARKET

The Tokyo Stock Exchange's REIT index marked a year-to-date low of 1,799.23 on September 10, dipping below 1,800 for the first time in roughly 10 months. It set another yearly low of 1,774.18 on September 18, down 32.1% since its peak but up 4.2% over the year. Despite a significant decrease of 58.0% in net purchases from the previous quarter to JPY 33.8 billion, foreigners continued to be the most active investors of J-REITs during the third quarter, accounting for approximately 58.3% of total trading value. The decline was largely attributed to the reversal in foreign investors' total sales and purchase during the month of June and July, as foreign investors sold their shares in J-REITs to partially offset losses incurred by the US subprime crisis. The net sales of foreign investors exceeded their purchases by JPY 37.6 billion in June and JPY 20.3 billion in July, but they again turned net buyers in August with net purchases of JPY 38.3 billion.

Underpinned by growing investor confidence, the quarter saw the unveiling of plans for a new J-REIT, the Industrial and Infrastructure Fund Investment (IIF) to be listed on Tokyo Stock Exchange in October

2007. Sponsored by Mitsubishi Corporation and UBS, IIF has invested over JPY 60 billion in nine logistics and infrastructure facilities and aims to increase its total investment value to JPY 200 billion in the next two to three years. The IIF will be the first J-REIT to list in almost 8 months.

FC Residential Investment (FCR) may be forced to drastically cut its dividend payments, as the large holdings in the firm by the US investment fund Prospect Co. will likely cause the REIT to be stripped of its eligibility to benefit from the tax exemption. In order to qualify for the special tax treatment, the REIT cannot be categorized as a family-owned company, which, under the Japanese Corporate Tax Law, is defined as an entity with three or fewer of the largest shareholders holding more than 50% of its outstanding shares. According to the recent Major Shareholding Report filed with FSA, the combined stakes held by the top three shareholders of FCR at the end of September was 56.1%, with Prospect Asset Management holding 42.0% stake.

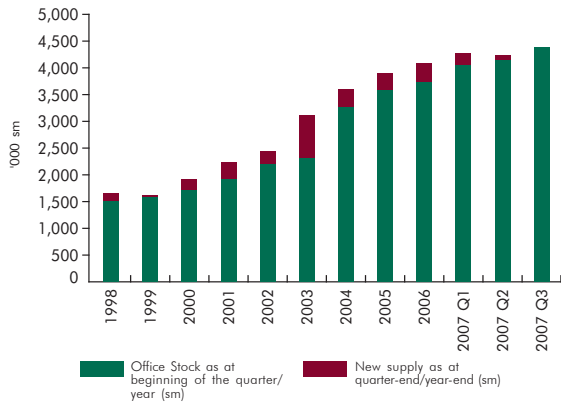
## TOKYO CENTRAL FIVE WARDS OFFICE LEASING MARKET

A shortage of prime office space continued to drive rents upwards during the third quarter, with Kasumigaseki Common Gate in Chiyoda-ku being the only Grade A building completed during the quarter, providing 26,200 sm of leasable space. In Marunouchi/Otemachi/Yurakucho submarket, the average prime office rent inclusive of CAM reached JPY 61,250 per tsubo per month in third quarter, an increase of 6.5% q-o-q and 20.1% y-o-y. Average prime rents in Roppongi/Akasaka submarket grew to JPY 53,000 per tsubo

per month, an increase of 1.9% q-o-q and 13.4% y-o-y. The overall average rent for Grade A office space within the Central Five Wards grew to JPY 52,250 per tsubo per month (inclusive of CAM), an increase of 5.6% y-o-y and 20.1% y-o-y.

The steady upward trend in rents has encouraged cost-conscious occupiers to seek more affordable locations to accommodate expansion requirements and the Rinkai submarket of Koto-ku showed

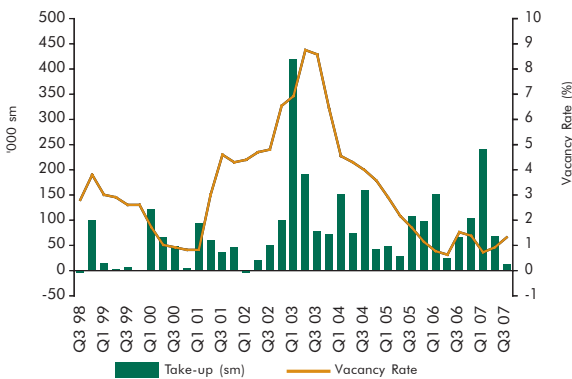
### Cumulative Stock and New Supply of Grade A Properties in Central Five Wards



a substantial 5.9% q-o-q improvement in vacancy as it absorbed the expansion demand of companies moving out of the prime office districts. Companies that relocated/expanded into the Rinkai submarket include Fujitsu Mission Critical Systems (Trade Pier Odaiba) and Toyo Construction Co. (Aomi Frontier Building).

The all-grade vacancy rate in the submarkets of Shinagawa-Station-East-Exit and Higashi-Shinagawa dropped below 0.5% level to 0.4% and 0.3% respectively, and vacancy rate for Tokyo's 23 Wards fell by 20-basis points from the previous quarter to 1.7%. In contrast, the Grade A vacancy rate increased to 1.3% over the quarter as landlords held out for top rents.

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



Major landlords of prime offices in the Tokyo's Central Five Wards continued to hold bullish views on rental growth and the quarter saw many owners seek substantial rental increases from existing tenants. Under Japanese lease legislation, rental negotiation is not limited to the renewal period, and both landlords and tenants are free to propose a review of rent at any time during the lease term, unless otherwise stipulated in the initial lease contract.

The law states that both landlords and tenants are allowed to propose a rental review, based on the conviction that the in-place rents are either below or above market. If the parties involved cannot reach an agreement, either party can request judicial arbitration. A judge will then offer a resolution, e.g. a new rent. If both parties accept the

resolution, the rental negotiation is now complete; if one party refuses to accept the resolution, the other may file a civil suit to achieve rental increase or decrease.

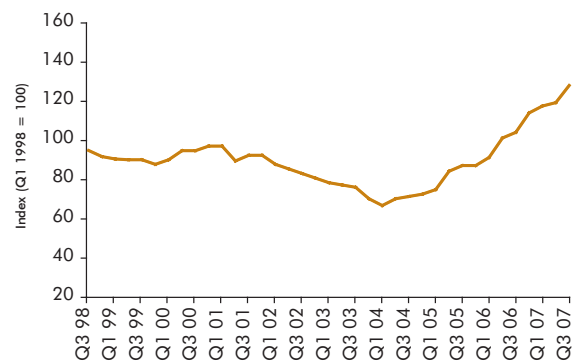
Historically, it has been rare for a review to be invoked outside of the renewal period due to the deeply rooted tradition to solve disputes outside the judicial realm. However, the third quarter saw DaVinci Advisors in negotiation with 20 tenants of Shinjuku Maynds Tower to lift rents by as much as 40% to JPY 40,000 per tsubo per month (inclusive of CAM). The 1995 building was developed on a plot formerly owned by Japan National Railway as part of Shinjuku South Exit Redevelopment Project, and many of the original tenants were affiliated companies of then newly privatized Japan Railway (JR) and enjoyed preferred rentals at below-market rates. As of August 2007, it is understood that DaVinci had agreed rental increases with 11 tenants and filed suits against a further 6 tenants after failing to reach agreement at arbitration. According to the plaintiff's complaint, the current rents for the 6 tenants at Shinjuku Maynds Tower average around JPY 25,000 per tsubo per month (inclusive of CAM), which DaVinci considers at least 46% below market rates. Media reports suggest that a number of landlords are considering whether to adopt a similar approach in order to lift rents at buildings where in-place rents are substantially below market.

While new supply in 2008 is expected to drop to nearly 50% level of total new supply in 2007, a number of large-scale buildings are slated for completion, including Marunouchi Trust Tower Main and the tentatively named Akasaka Biz Tower. Vacancies in new Grade A buildings are extremely rare, and the majority of these buildings are expected to open fully let. Looking ahead, rents are expected to continue an upward trend for the foreseeable future, backed by persistent strong demand and the continued shortage of prime office space.

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

Area	Current Vacancy Rate	Q-o-q Change % pts
Rinkai (Koto-ku)	8.6%	-5.9%
Sendagaya/Jingumae (Shibuya-ku)	1.2%	-2.3%
Shinjuku (Shinjuku-ku)	2.7%	-1.1%
Shibaura/Kaigan (Minato-ku)	1.1%	-1.0%
Kamata (Ota-ku)	1.5%	-0.9%

### Central Five Wards Grade A Office Rental Index



## DEVELOPMENT FOCUS: REVITALIZATION OF NISHI-SHINJUKU

The history of Nishi-Shinjuku development goes back to the late 60's when the Yodobashi Purification Plant (1898 - 1965) was relocated to the outskirts of Tokyo, leaving a vast open space of land. During subsequent decades, the 96 hectares of land that included the former waterworks site on the west side of JR Shinjuku Station has seen high-rise buildings spring up to become known as the Nishi-Shinjuku Skyscraper District and one Tokyo's major business districts.

There has been no new large-scale office buildings constructed in the Nishi-Shinjuku district since 2003, and the lack of new stock has made the district relatively less attractive when compared to the prime Marunouchi/Otemachi/Yurakucho district or newly developed office submarkets such as Shiodome and Shinagawa. As a consequence, a number of private and government-led projects have been launched in order to revitalize the area.

Sumitomo Realty & Development Corp. is leading many of the redevelopment projects, including the renovation of their landmark building, Shinjuku Sumitomo Building (built in 1974, 52 stories above ground and 4 stories underground with GFA of approximately 177,500 sm). The Nishi-Shinjuku Seven City Site Project, slated for completion in May 2008, entails the construction of a 26-story residential tower and a 6-story office building (approximately 8,500 sm total NLA).

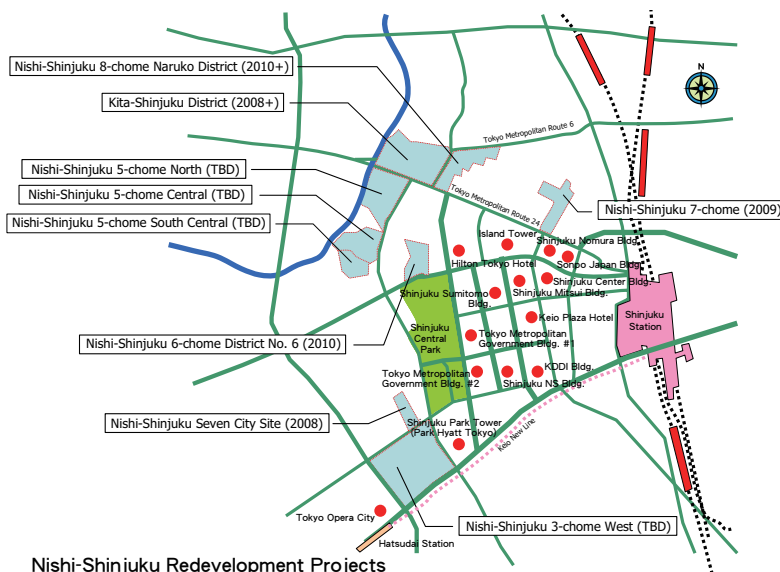
On the north of Shinjuku Central Park is the 1.3 hectares site for the Nishi-Shinjuku 6-chome District No.6 Redevelopment. The project is led by a redevelopment consortium of which Sumitomo Realty is a member. The 46-story residential tower (approximately 123,000 sm GFA) and 17-story office building (approximately 31,000 sm GFA) are scheduled to be completed in January 2010. Sumitomo Realty's landmark Nishi-Shinjuku 7-chome development is scheduled to be

completed in April 2009, and will comprise an office and residential complex of 33 stories above ground and 2 stories underground with GFA of approximately 38,000 sm. Situated further to the west of Sumitomo's Nishi-Shinjuku 7-chome project are two redevelopment

sites alongside Tokyo Municipal Route 6 and 24. The Nishi-Shinjuku 8-chome Naruko District Redevelopment site covers approximately 2.5 hectares of underdeveloped area packed with small houses and shops. The 42-story multi-complex office, retail and residential building (approximately 172,000 sm GFA) and a 11-story residential building (approximately 8,000 sm GFA) are scheduled for completion in 2010 or early 2011. Adjacent to the Nishi-Shinjuku 8-chome Naruko District Redevelopment site is the Kita-Shinjuku District Redevelopment site. The

project led by Tokyo Metropolitan Government entails a multi-complex development of office, retail and residential buildings. The site will be divided into four sections, and will include a 35-story (95,000 sm GFA) office and retail tower and a 20-story residential tower. The redevelopment is currently underway with the expected completion in 2008 or early 2009.

There are 4 more redevelopment sites in the Nishi-Shinjuku district, totaling 13.2 hectares. The largest is the Nishi-Shinjuku 3-chome West Redevelopment. The 8.5 hectares site will be transformed into a multi-complex structure of office, retail and residences, with direct access to the new subway station to be created between Keio New Line Shinjuku and Hatusudai Stations. The underground walkway that currently connects JR Shinjuku Station and the Nishi-Shinjuku Skyscrapers District will be stretched further west to reach the Nishi-Shinjuku 3-chome district. Moreover, this new multi-business complex will have pedestrian decks connecting it to neighboring Tokyo Opera City and Shinjuku Park Tower which houses the Park Hyatt Tokyo.



Nishi-Shinjuku Redevelopment Projects

## TOKYO REGION RESIDENTIAL CONDOMINIUM MARKET

Stricter regulations on construction plans went into effect in June, precipitating a 7.8% decline in housing investments for the July-September quarter. The revised construction standards law made certification of building blueprints more rigorous, significantly delaying housing starts.

According to the Real Estate Economic Institute, a total of 15,462 owner-occupier residential units (down 8.0% y-o-y) were released in the Tokyo metropolitan region (which comprises Tokyo, Kanagawa,

Chiba and Saitama) during the 3-month period ending August 2007.

The supply of new condominium declined in the Tokyo 23 wards (down 25.8% y-o-y) and Chiba (down 21.1% y-o-y), while other areas showed increase: the Tokyo suburbs (up 29.9% y-o-y), Kanagawa (up 2.4% y-o-y), and Saitama (up 16.7% y-o-y).

Per unit prices increased in all regions. The Tokyo suburbs saw an increase of 15.0% y-o-y to JPY 43.1 million and Saitama saw an increase of 15.3% y-o-y to JPY 38.9 million.

## JAPAN INDUSTRIAL CONSTRUCTION STARTS

Construction starts of large-scale warehouse totaled 1,095,868 sm during the period between June to August 2007, and a decrease of 18.2% over the quarter and 1.0% over the year. The 12 months

leading to August 2007 saw a total of 4.2 million sm of new industrial space being delivered, up 9.8% over the previous 12 months period.



● **CB RICHARD ELLIS OFFICES**

## ASIA OFFICES

### HONG KONG

34/F Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong  
Telephone: (852) 2820 2800  
Facsimile: (852) 2810 0830

Suite 2109-12, 21/F  
Sun Life Tower, The Gateway  
15 Canton Road, Tsimshatsui  
Kowloon, Hong Kong  
Telephone: (852) 2820 8100  
Facsimile: (852) 2521 9517

### BEIJING

**PEOPLE'S REPUBLIC OF CHINA**  
Suite 1203-1205, 12/F  
Beijing Fortune Plaza, Tower A  
7 Dong San Huan Zhong Road  
Chaoyang District, Beijing 100020  
People's Republic of China  
Telephone: (86) 10 5820 9288  
Facsimile: (86) 10 5820 9088/9188

### SHANGHAI

**PEOPLE'S REPUBLIC OF CHINA**  
Suite 3201, 3203-3206  
32F, K. Wah Center  
1010 Huai Hai Middle Road  
Shanghai 200031  
People's Republic of China  
Telephone: (86) 21 2401 1200  
Facsimile: (86) 21 5403 7519

### GUANGZHOU

**PEOPLE'S REPUBLIC OF CHINA**  
Suite 1401-1402, Guangzhou  
International Electronics Tower  
403 Huanshi Road East  
Guangzhou 510095  
People's Republic of China  
Telephone: (86) 20 2883 9200  
Facsimile: (86) 20 2883 9248

### CHENGDU

**PEOPLE'S REPUBLIC OF CHINA**  
Suite 2906, Building A, Times Plaza  
No. 2, Zong Fu Road,  
Chengdu 610016  
People's Republic of China  
Telephone: (86) 28 8667 0222  
Facsimile: (86) 28 8667 2121

### TIANJIN

**PEOPLE'S REPUBLIC OF CHINA**  
Room 903, Tower A  
The Exchange  
No. 189, Nanjing Road  
Heping District, Tianjin 300051  
People's Republic of China  
Telephone: (86) 22 8319 2178  
Facsimile: (86) 22 8319 2180

### TAIPEI, TAIWAN

7/F Cosmos Building  
134 Sec 3  
Minsheng East Road  
Taipei, Taiwan  
Telephone: (886) 2 2713 2266  
Facsimile: (886) 2 2712 3065

### SINGAPORE

Six Battery Road, #32-01  
Singapore 049909  
Telephone: (65) 6224 8181  
Facsimile: (65) 6225 1987

### TOKYO, JAPAN

5/F, Shuwa Daiichi  
Hamamatsucho Bldg  
2-2-12 Hamamatsucho  
Minato-ku  
Tokyo 105-0013, Japan

1/F Shuwa Daiichi  
Hamamatsucho Bldg  
2-2-12 Hamamatsucho, Minato-ku  
Tokyo 105-0013, Japan  
Telephone: (81) 3 5470 8850  
Facsimile: (81) 3 5470 8801

### SEOUL, KOREA

12/F, Korea First Bank Building  
100 Gongpyung Dong  
Jongro-ku, Seoul  
Korea 110-702  
Telephone: (822) 2170 5800  
Facsimile: (822) 2170 5899

### NEW DELHI, INDIA

Press Trust of India Building  
Ground Floor  
4 Parliament Street  
New Delhi 110 001, India  
Telephone: (91) 11 4239 0200  
Facsimile: (91) 11 2331 7670

### MUMBAI, INDIA

9A, 2nd Floor, Laxmi Tower  
C-25, G Block  
Bandra Kurla Complex Bandra (E)  
Mumbai 400 051, India  
Telephone: (91) 22 2652 7628/7665  
Facsimile: (91) 22 2652 7655

### BANGALORE, INDIA

3rd Floor, The Hulkul  
81/37, Lavelle Road  
Bangalore 560 001, India  
Telephone: (91) 80 5112 1240-49  
Facsimile: (91) 80 5112 1239

### CHENNAI (MADRAS), INDIA

2-C&D, Gee Gee Emerald  
151 Village Road, Nungambakkam  
Chennai 600 034, India  
Telephone: (91) 44 2821 4599  
Facsimile: (91) 44 2821 4607

### HYDERABAD, INDIA

Eden Garden 8-2-595/3/5  
Road No:10, Banjara Hills  
Hyderabad 500 034, India  
Telephone: (91) 40 2335 8887  
Facsimile: (91) 40 2335 8886

### PUNE, INDIA

CB Richard Ellis South Asia Pvt.  
Limited  
Row House No. 33, Hermes Heritage  
Phase I, Nagar Road  
Shashtri Nagar, Pune 411006, India  
Telephone: (91) 20 2661 6733  
Facsimile: (91) 20 2661 6734

### JAKARTA, INDONESIA

7th Floor, Permata Bank Tower I  
Jalan Jenderal Sudirman Kav. 27  
Jakarta 12920, Indonesia  
Telephone: (62) 21 523 7337  
Facsimile: (62) 21 523 7227

### MANILA, PHILIPPINES

Suite 1003-1005  
10/F Ayala Tower One &  
Exchange Plaza, Ayala Avenue  
1200 Makati City,  
Philippines  
Telephone: (632) 752 2580  
Facsimile: (632) 752 2571

### BANGKOK, THAILAND

46th Floor, CRC Tower  
All Seasons Place  
87/2 Wireless Road  
Lumpini, Pathumwan  
Bangkok 10330, Thailand  
Telephone: (66) 2 654 1111  
Facsimile: (66) 2 685 3300-1

### PHUKET, THAILAND

12/9 Moo 4  
Thepkrasattri Road Koh Kaew  
Amphur Muang  
Phuket 83000, Thailand  
Telephone: (66) 76 239 967  
Facsimile: (66) 76 239 970

### HANOI, VIETNAM

Unit 12A, Vincom City Tower  
191 Ba Trieu Street  
Hanoi, Vietnam  
Telephone: (844) 220 0220  
Facsimile: (844) 220 0210

### HO CHI MINH CITY, VIETNAM

Unit 1301, Me Linh Point Tower  
2 Ngo Duc Ke Street, District 1  
Ho Chi Minh City, Vietnam  
Telephone: (848) 824 6125  
Facsimile: (848) 823 8418

11, Thao Dien, An Phu  
District 2, Ho Chi Minh City  
Vietnam  
Telephone: (848) 744 2621/22  
Facsimile: (848) 744 2620

For more information regarding the  
marketview, please contact:

Andy Hurfurt, Director

CBRE Research

CB Richard Ellis Japan

1/F Shuwa Daiichi Hamamatsucho Bldg

2-2-12 Hamamatsucho, Minato-ku

Tokyo 105-0013, Japan

Tel: (81) 3 5470 8850

Fax: (81) 3 5470 8801

andy.hurfurt@cbre.co.jp

**CBRE**  
CB RICHARD ELLIS