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J-REIT View: Reflecting on Three Years of J-REITs

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Three years have passed since the first two J-REITs listed in September 2001.

These two J-REITs originally began with a market value of about 260 billion yen. The market has since expanded to consist of fourteen different J-REITs (13 are listed on the Tokyo Stock Exchange and 1 on the Osaka Securities Exchange) and the total market size has grown to exceed 1.5 trillion yen. In other words, the size of the J-REIT market has more than quintupled over the past three years. (Figure 1 indicates the 14 J-REITs presently listed.)

Figure 2 indicates the history of J-REIT market capitalization and the ratio of J-REIT market capitalization to TOPIX market capitalization and Figure 3 indicates the history of J-REIT market capitalization and the ratio of J-REIT market capitalization to market capitalization of real-estate shares on the first tier of the Tokyo Stock Exchange. It is clear that the J-REIT market has consistently grown to date. As of August 26, 2004, the ratio versus the TOPIX market capitalization was 0.431% and the ratio versus market capitalization of real-estate shares on the first tier of the Tokyo Stock Exchange was 27.71%.

Although the ratio versus TOPIX is still small the ratio (at 27.71%) of J-REIT market capitalization to the market capitalization of real-estate shares on the first tier of the Tokyo Stock Exchange reveals that the “presence” of J-REITs has dramatically grown in the past three years.

In addition, the growth in market capitalization of each J-REIT is also pronounced. Figure 4 indicates the top twenty stock names based on market capitalization for the real-estate sector and eight of the twenty are J-REITs. This reveals that the market capitalization of each J-REIT has grown to where they are not inferior to the market

capitalization of real-estate companies. Consequently, a judgment can be made that the stability of J-REITs is growing as a product.

An analysis of market size points to steady growth by the overall J-REIT market and individual J-REITs. However, the truth is that it was not always smooth sailing.

Therefore, this report would like to reflect on the growth of J-REITs over these three years and discuss future prospects for the market.

Figure 1

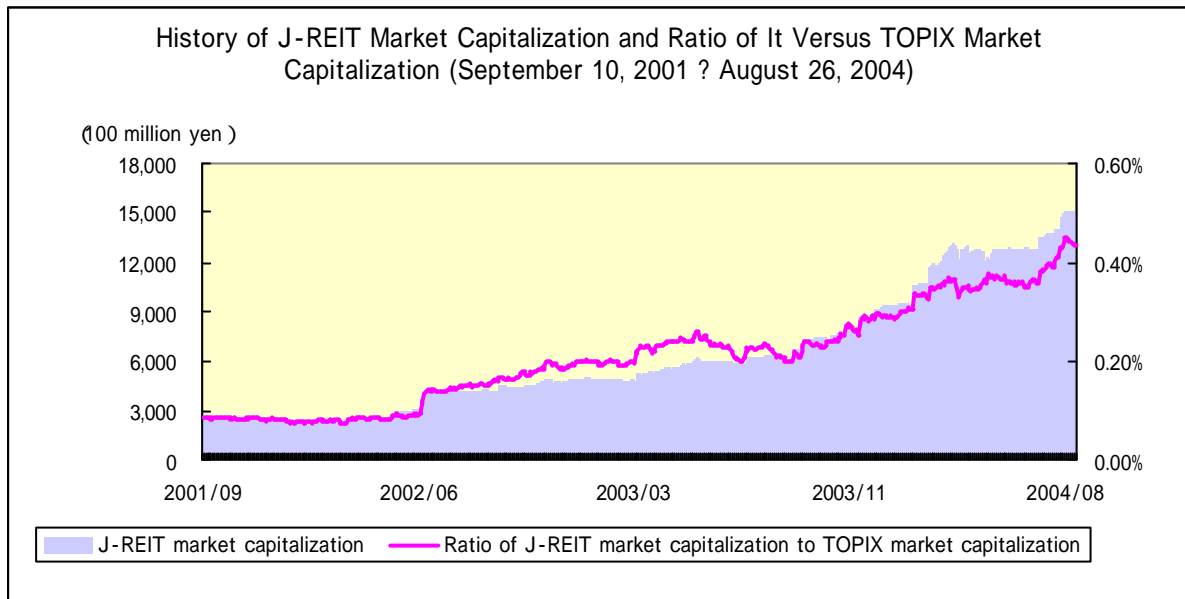
List of Listed J-REITs

Name	Nippon Building Fund, Inc.	Japan Real Estate Investment	Japan Retail Fund Investment	ORIX JREIT Inc.	Japan Prime Realty Investment	Premier Investment Corporation	TOKYU REIT, Inc.
Abbrev.	NBF	JRE	JRF	OJR	JPR	PIC	Tokyu RE
Code	8951 (TSE)	8952 (TSE)	8953 (TSE)	8954 (TSE)	8956 (TSE)	8957 (TSE)	8957 (TSE)
Characteristic	Office building management	Office building management	Commercial facility management	Focused on Tokyo metropolitan area (managed assets are comprehensive)	Nationally distributed properties (managed assets are offices and commercial facilities)	Focused on Tokyo metropolitan area (managed assets are office buildings and commercial facilities)	Dedicated to Tokyo metropolitan area (managed assets are office buildings and commercial facilities)
Address	2-7-2 Yaesu, Chuo Ward	3-3-1 Marunouchi, Chiyoda Ward	Izumikan Kioicho Building, 4-3 Kioicho, Chiyoda Ward	2-4-1 Hamamatsucho, Minato Ward	1-9-9 Yaesu, Chuo Ward	1-2-7 Azabu, Minato Ward	1-12-1 Dogenzaka, Shibuya Ward
Manager	Nippon Building Fund Management Ltd.	Japan Real Estate Asset Management Co., Ltd.	Mitsubishi Corp. – UBS Realty Inc.	ORIX Asset Management Corporation	Tokyo Realty Investment Management, Inc.	Premier Reit Advisors Co., Ltd.	Tokyu Real Estate Investment Management Inc.
Date	16-Mar-01	11-May-01	14-Sep-01	10-Sep-01	14-Sep-01	2-May-02	20-Jun-03
Listed date	10-Sep-01	10-Sep-01	12-Mar-02	12-Jun-02	14-Jun-02	10-Sep-02	10-Sep-03
Primary shareholders of manager	Mitsui Fudosan Co., Ltd. Sumitomo Life Insurance Company	Mitsubishi Estate Co., Ltd. Tokyo M&F Inc. The Dai-Ichi Mutual Life Insurance Mitsui & Co., Ltd.	Mitsubishi Corporation UBS AG	Orix Corp.	Tokyo Tatemono Co., Ltd. Meiji Yasuda Life Insurance Company Taisei Corporation Yasuda Real Estate Co., Ltd. Sompo Japan Insurance Inc.	Ken Corporation Ltd. Nikko Building Co., Ltd. Chuo Mitsui Asset Management Co., Mitsui Sumitomo Insurance Co., Ltd.	Tokyu Corporation Tokyu Land Corporation

Name	Global One Real Estate Investment	Nomura Real Estate Office Fund, Inc.	United Urban Investment	MORI TRUST Sogo Real, Inc.	Nippon Residential Investment Corp.	TGR Investment, Inc.	Frontier Real Estate Investment
Abbrev.	GO	NOF	UIR	Mori Trust	Ni Residence	TGR	FRI
Code	8958 (TSE)	8959 (TSE)	8960 (TSE)	8961 (TSE)	8962 (TSE)	8963 (OSE)	8964 (TSE)
Characteristic	Office building management (3 major metropolises)	Office building management (Tokyo city center, Tokyo metropolitan area, etc.)	Comprehensive (commercial, hotels, office buildings, residential)	Comprehensive (commercial, hotels, office buildings, residential)	Focused on residential	Focused on Tokyo metropolitan area (managed assets are compound office buildings and commercial facilities)	Commercial facility management
Address	4-1 Kojimachi, Chiyoda Ward	8-5-1 Nishi Shinjuku, Shinjuku Ward	4-1-20 Toranomon, Minato Ward	1-25-5 Toranomon, Minato Ward	2-11-1 Nagatacho, Chiyoda Ward	6-8-1 Nishi Shinjuku, Shinjuku Ward	2-17-22 Akasaka, Minato Ward
Manager	Global Alliance Realty Co., Ltd.	Nomura Real Estate Asset Management Co., Ltd.	Japan REIT Advisors Co., Ltd.	MORI TRUST Co. Ltd.	Pacific Investment Advisors Corporation	Power Investment Co., Ltd.	Frontier REIT Management Inc.
Date	16-Apr-03	7-Aug-03	4-Nov-03	2-Oct-01	6-Dec-02	18-Jan-02	12-May-04
Listed date	25-Sep-03	4-Dec-03	22-Dec-03	13-Feb-04	2-Mar-04	17-May-04	9-Aug-04
Primary shareholders of manager	GMAC Commercial Mortgage Japan Kintetsu Corporation Meiji Yasuda Life Insurance Company Bank of Tokyo-Mitsubishi Trust and Banking Corporation	Nomura Real Estate Development Co., Ltd.	Trinity Investment Trust LLC Marubeni Corporation Anblows Capital Limited Tokyo Yamato Life Insurance Co. Kyokuto Securities Co., Ltd.	MORI Trust Co., Ltd. Parco Co., Ltd. Sompo Japan Sumitomo-Mitsui Banking Corporation UFJ Bank Mizuho Corporate Bank	Pacific Management Corporation Dai-Ichi Life Insurance Morgan Stanley Properties Japan Bank of Tokyo-Mitsubishi Trust Bank Sumitomo Corporation Odakyu Real Estate Co. Ltd.	HS Securities Co., Ltd. Power Management Co., Ltd.	Japan Tobacco Inc.

Prepared by ARES from the Association for Real Estate Securitization Website “J-REIT View

Figure 2



(Remarks) The J-REIT market capitalization was calculated by totaling the market capitalization of already listed J-REITs (including TSE and OSE).

Prepared by ARES from the Association for Real Estate Securitization Website "J-REIT View"

Figure 3

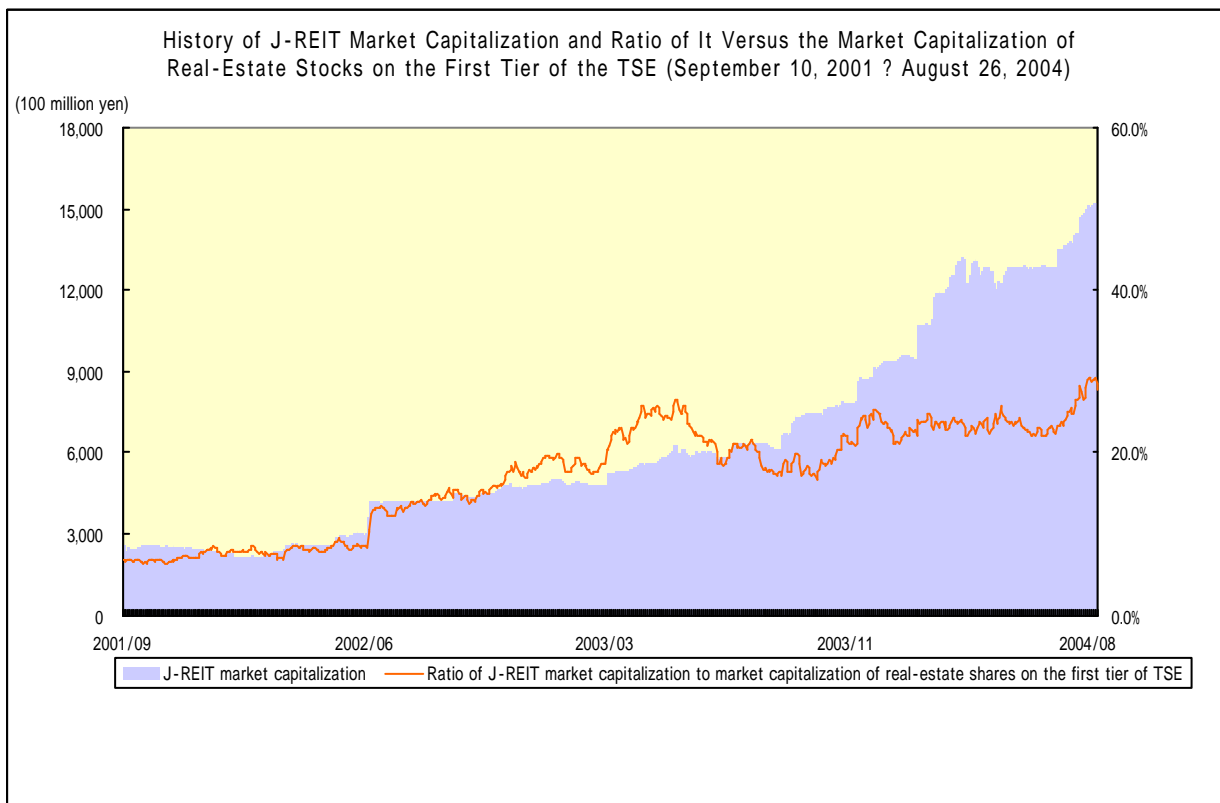


Figure 4

Top 20 Real-Estate Sector and J-REIT Company Market Capitalizations

Rank	Code	Market	Name	Price (Yen)	Market Cap (million yen)
1	8802	TSE 1 st	Mitsubishi Estate	1,202	1,561,620
2	8801	TSE 1 st	Mitsui Fudosan	1,172	965,014
3	8830	TSE 1 st	Sumitomo Realty & Development	1,141	543,214
4	8951	REIT(TSE)	Nippon Building Fund	807,000	294,313
5	8948	TSE 1 st	Leopalace 21 Corporation	1,942	270,994
6	8952	REIT(TSE)	Japan Real Estate	823,000	214,309
7	8953	REIT(TSE)	Japan Retail Fund	796,000	174,724
8	8905	TSE 1 st	Aeon Mall	5,320	159,630
9	8815	TSE 1 st	Tokyu Land	300	137,753
10	8804	TSE 1 st	Tokyo Tatemono	526	133,678
11	8961	REIT(TSE)	MORI TRUST Sogo Reit	817,000	130,720
12	8959	REIT(TSE)	Nomura Real Estate Office Fund	672,000	124,085
13	8955	REIT(TSE)	Japan Prime Realty	284,000	122,120
14	8871	TSE 1 st	Gold Crest	6,680	119,519
15	8870	TSE 1 st	Sumitomo Real Estate Sales	4,150	118,690
16	8954	REIT(TSE)	ORIX J-REIT	647,000	113,466
17	8880	TSE 1 st	Iida Sangyo	3,120	97,831
18	8853	TSE 1 st	Diamond City	4,170	97,536
19	8957	REIT(TSE)	Tokyu REIT	660,000	92,400
20	8895	TSE 2 nd	ArnestOne	3,010	90,300

§ 1 . The J-REIT Market Expansion Process

An analysis of the expansion process for the J-REIT market to date reveals environmental changes concerning J-REITs in the first year (September 2001 – August 2002), second year (September 2002 – August 2003) and third year (September 2003 – August 2004). The growth process of J-REITs in each of these periods will be reflected on below.

(1) First Year (September 2001 – August 2002)

Initially when the first two J-REITs listed, the stock price for the investment units slumped and became the first test of this period. Figure 5 indicates the price book-value ratio (PBR) of Nippon Building Fund Inc. and Japan Real Estate Investment Corporation.

During the first year the PBR is generally below 1.1 and there are some periods where the PBR fell below one. This represents that the assessment of the J-REITs was below that of the physical real estate. This was a period of pessimistic observation concerning the real estate market in part because of feared deterioration in the office market conditions resulting from the almost simultaneous completion of many large buildings in 2003 (the so-called 2003 problem) and this probably had a negative impact on J-REITs. In addition, since J-REITs are a completely new product, there was an aspect where they were not well known in the period when they hadn't even announced their first year's results. The first year's performances were announced by Nippon Building Fund in March 2002 (announced the results of the year ended in December 2001) and in May 2002 for Japan Real Estate (announced the results of the year ended in March 2002). It is not unusual for there to be anxiety about the actual performance of J-REITs to this point.

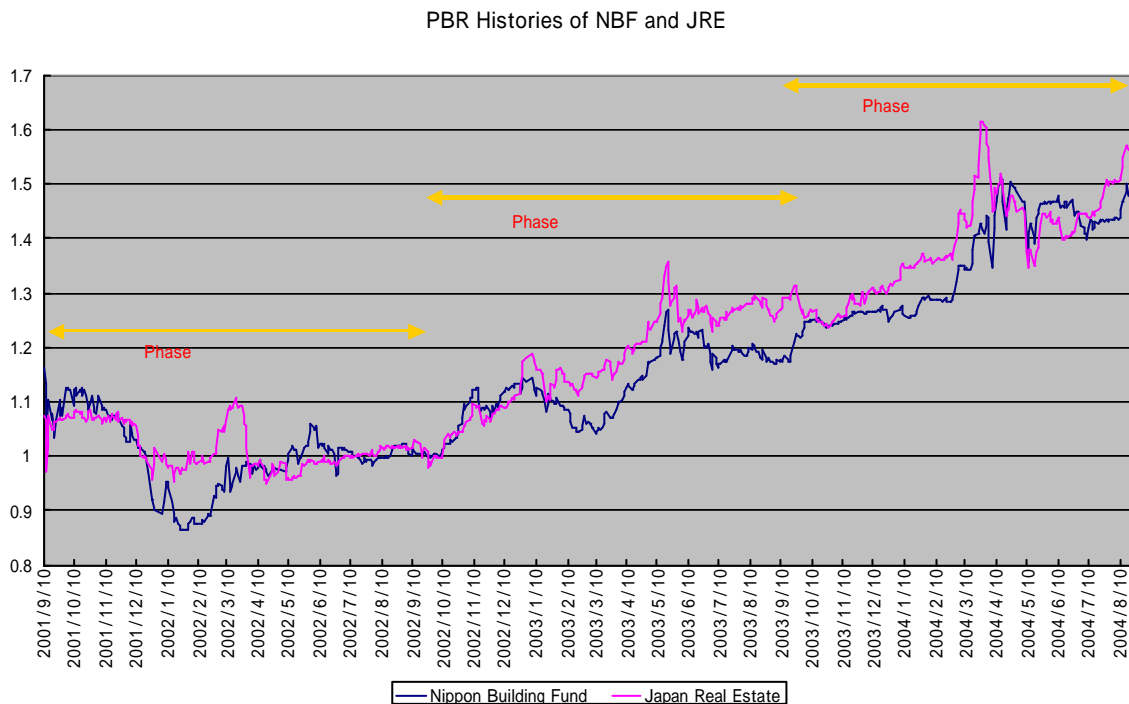
Figure 6 indicates the performances for the first fiscal years of Nippon Building Fund and Japan Real Estate.

As Figure 6 reveals, the net profit and distribution per investment unit recorded for the first fiscal year's of both Nippon Building Fund and Japan Real Estate exceeded their projections upon listing. These results provided a sense of comfort to J-REITs among investors. A look at Figure 5 shows that after they announced their first year

performances, their PBRs both rose from a level significantly below 1 to nearly 1. This is because the anxiety concerning JREIT performances that existed prior to the settlement announcement was wiped away with the announcement of the figures.

Immediately after Nippon Building Fund announced its first year figures, Japan Retail fund listed in March 2002. And in June 2003, soon after Japan Real Estate announced its figures, both ORIX JREIT and Japan Prime Realty listed. The listing timing for these three stocks consisted of an environment where it was relatively easy to list because the anxiety concerning J-REITs had been eliminated to some extent by the results of the pioneering two J-REITs. Figure 7 shows the historical changes in the number of listed J-REITs to date and this period was one in which new listings proceeded at a relatively steady pace. As of the end of August 2002, the market had grown to five J-REITs and a total market capitalization of about 420 billion yen.

Figure 5



Prepared by ARES using releases by the investment corporations and information provided by Bloomberg.

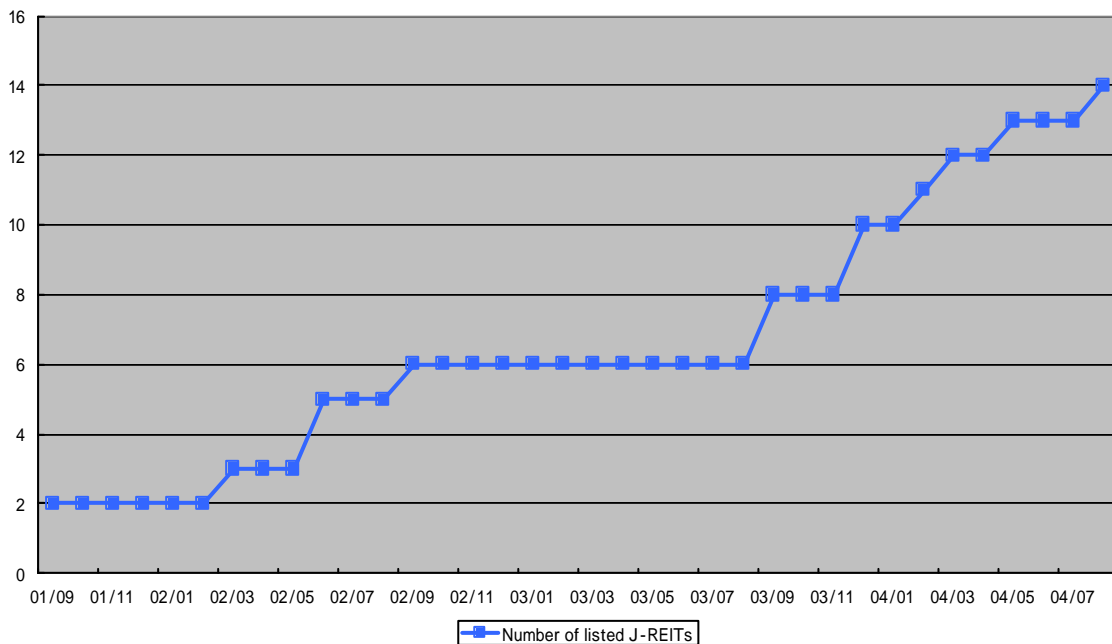
Figure 6:

First Fiscal Year Results for NBF and JRE

Investment Corporation		Nippon Building Fund	Japan Real Estate
Fiscal Year		Year ended 12/ 2001	Year ended 3/2002
		First Year	First Year
Net Profit (million yen)	Performance	5,340	2,403
	Projection on listing	4,560	2,100
Total assets (million yen)		256,847	161,809
Net assets (million yen)		154,239	83,663
Net assets per unit (yen)		549,482	521,591
Distribution per unit (yen)	Performance	19,026	14,983
	Projection on listing	16,200	13,000

Figure 7

Historical Change in Listed J-REIT Quantities



(2) Second Year (September 2002 – August 2003)

Soon after entering the second year, Premier Investment Corporation listed (September 2002) to bring the total number of listed J-REITs to six. However as Figure 7 shows, there were no new listings over the next year. The second year was a difficult year for new listings probably due to some factor in the actual real estate market or J-REIT market.

On the other hand, the prices of J-REITs all went up during this period. Also as Figure 5 indicates, the PBRs of Nippon Building Fund and Japan Real Estate rose during this period. This rising trend reveals the rise in assessment of J-REITs. Thanks to the efforts of the J-REITs they paid dividends greater than forecast and this was disclosed in the annual reports. This probably led to the heightened appraisal of J-REITs.

There were also outside factor positively impacting J-REITs at this time. For example, the tax rate on J-REIT dividends was lowered from 20% to 10% from April 2003 and the tax rate on gains from the transfer of J-REITs was also reduced from 20% to 10%. This tax revision effectively increased dividends received by J-REIT investors and led to the expectation of rising J-REIT prices (this tax revision was announced in the overview of tax revisions in December 2002 and had a positive impact on investment unit prices at that time). Other positive news included the TSE REIT index being started in April 2003 and Morgan Stanley International incorporating two J-REITs (Nippon Building Fund and Japan Real Estate) in official stocks comprising its MSCI Japan Index in correlation with a revision of the stocks comprising the index. Further, the Investment Trust Association of Japan changed its self-regulatory rules in July 2003 so that formation of a Fund of Funds that invests in REITs became possible. Both J-REITs and overseas REITs can now be incorporated into fund of funds, making it easy for investors to make a diversified investment into global REITs through a fund of funds and to invest in REITs from a sum of about 10,000 yen. The opening of funds of funds to this channel ought to have spread personal investment into J-REITs.

In other words, although there was no growth in the number of J-REITs listed during this period, the assessment of J-REITs rose and the price of J-REIT units showed an upward trend to the efforts of individual J-REITs and outside factors that promoted J-REIT growth. As of the end of August 2004, there were six J-REITs listed with a

total of market cap of about 620 billion yen.

(3) Third year (September 2003 – August 2004)

Soon upon entering the third year, Tokyu REIT and Global One Real Estate listed. These were the first listings in a year. As Figure 7 shows, listings proceeded at a fast pace thereafter, reaching twelve J-REITs at the end of March 2004 and fourteen at the end of August 2004. In addition to the increase in listed J-REITs, Nippon Residential, the first J-REIT specializing in residences listed in March 2003 and the second J-REIT specializing in commercial and retail, Frontier Real Estate, listed, bringing diversification to the J-REITs (Figure 8). Moreover, the OSE opened a J-REIT market in December 2003 and Fukuoka Stock Exchange in August 2004; thus even the J-REIT markets have begun to diversify (Tokyo Gross Reit Investment listed on May 17, 2004 to become the first OSE listed J-REIT. There are presently no listed J-REITs on the FSE, but there is anticipation of their listing).

In addition to the increase in the number of J-REITs in this period, there was also a remarkable increase in price. Figure 9 indicates the history in price of J-REIT investment units and clearly shows a price increase in the third year. In particular, this trend has been strong between January and March 2004 (although the price adjusted somewhat in April 2004, the price increase trend has continued thereafter).

Figure 10 shows the PBR as of August 27, 2004. The higher the PBR, the higher the premium appraisal in the market of the investment unit compared to the net asset booked. As a result of the price increases over the past year, the PBR of each J-REIT has reached a level of 1.2–1.6. This point reveals the great change in market conditions today from the period when J-REITs began being listed and the PBRs were below 1. However, it is difficult to judge whether this level is a premium or discount. The appropriate PBR level for J-REITs is expected to emerge as the J-REIT market matures further.

During this period, the number of listed J-REITs increased along with the prices and as a result the market size rapidly grew. There is a need for sufficient study to determine whether this is a temporary development or represents the J-REITs entering their growth phase. However, plans have been announced for 10 or more J-REIT listings and an increase in listing and diversification is expected to continue for the time being.

Figure 8:

Classification of Property Types for Listed J-REITs

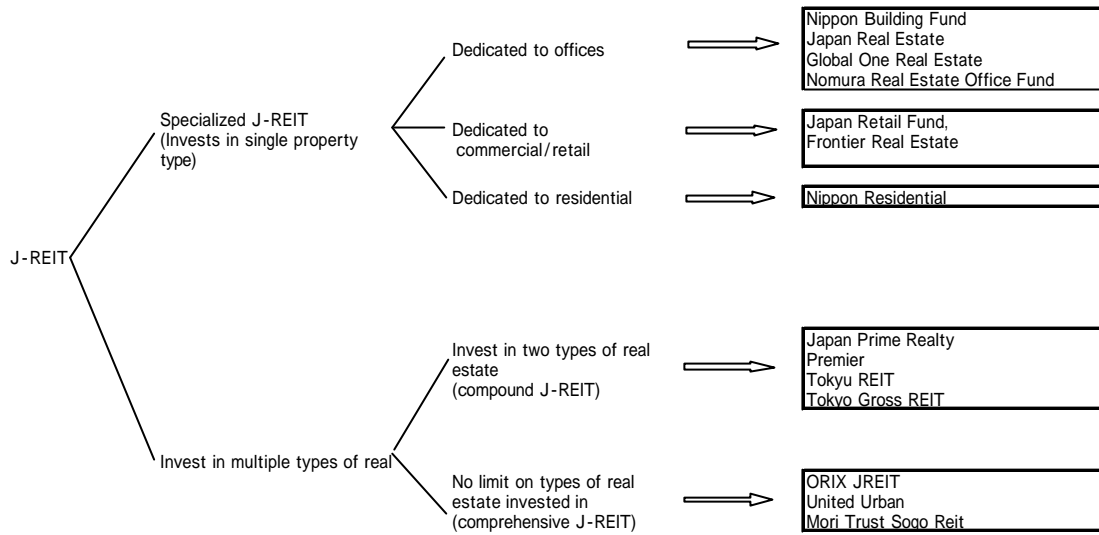


Figure 9

Pricing History of J-REIT Investment Unit Prices

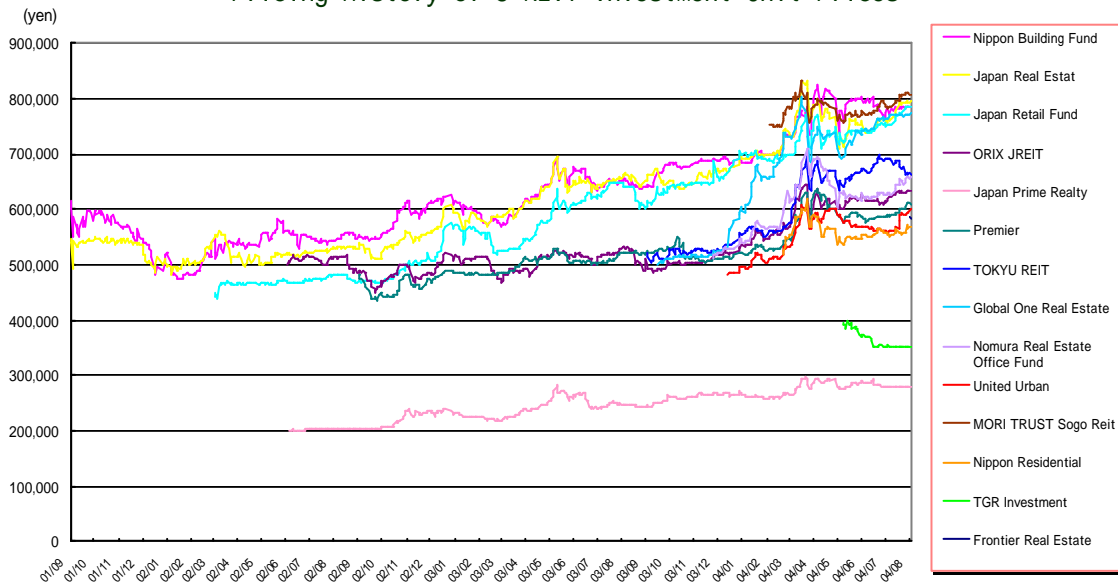


Figure 10

Price Book-value Ratio (PBR) of J-REITs

Code	Investment Corporation	Net Asset Per Unit (A) (based on annual announcement)	Investment Unit Price (B) (closing price on August 27, 2004)	Price Book- value Ratio (A)/(B) (PBR)
8951	Nippon Building Fund	545.640 (as of 6/30/2004)	813.000	1.49
8952	Japan Real Estate	527.677 (as of 3/31/2004)	832.000	1.58
8953	Japan Retail Fund	501.639 (as of 2/29/2004)	784.000	1.56
8954	Orix REIT	503.535 (as of 2/29/2004)	632.000	1.26
8955	Japan Prime Realty	213.321 (as of 6/30/2004)	293.000	1.37
8956	Premier	481.278 (as of 4/30/2004)	627.000	1.3
8957	Tokvu REIT	520.888 (as of 1/31/2004)	666.000	1.28
8958	Global One	610.331 (as of 3/31/2004)	811.000	1.59
8959	Nomura Real Estate Office Fund	492.820 (as of 4/30/2004)	690.000	1.4
8960	United Urban	473.202 (as of May 31, 2004)	615.000	1.3
8961	Mori Trust Sogo Reit	515.238 (as of March 31, 2004)	829.000	1.61
8962	Nippon Residential	485.437 (as of May 31, 2004)	593.000	1.22

(Note) The figure for net asset per unit is based on the announced settlement figure.

(Note) Tokyo Growth REIT and Frontier Real Estate are not listed in the table because they haven't closed their first fiscal year and announced results yet.

§ 2 . The Roles Played by J-REITs

The value of real estate acquired by J-REITs over this three-year period exceeds 1.7 trillion yen on an acquisition price basis as of the end of August. By serving the role of the buyer, J-REITs have enabled the original real estate owner to fulfill its need to sell the property. Furthermore, investors have obtained the opportunity to invest in real estate without losing liquidity through the J-REIT investment. The following reflects on these roles of J-REITs.

(1) Role played by J-REITs in the actual real estate market

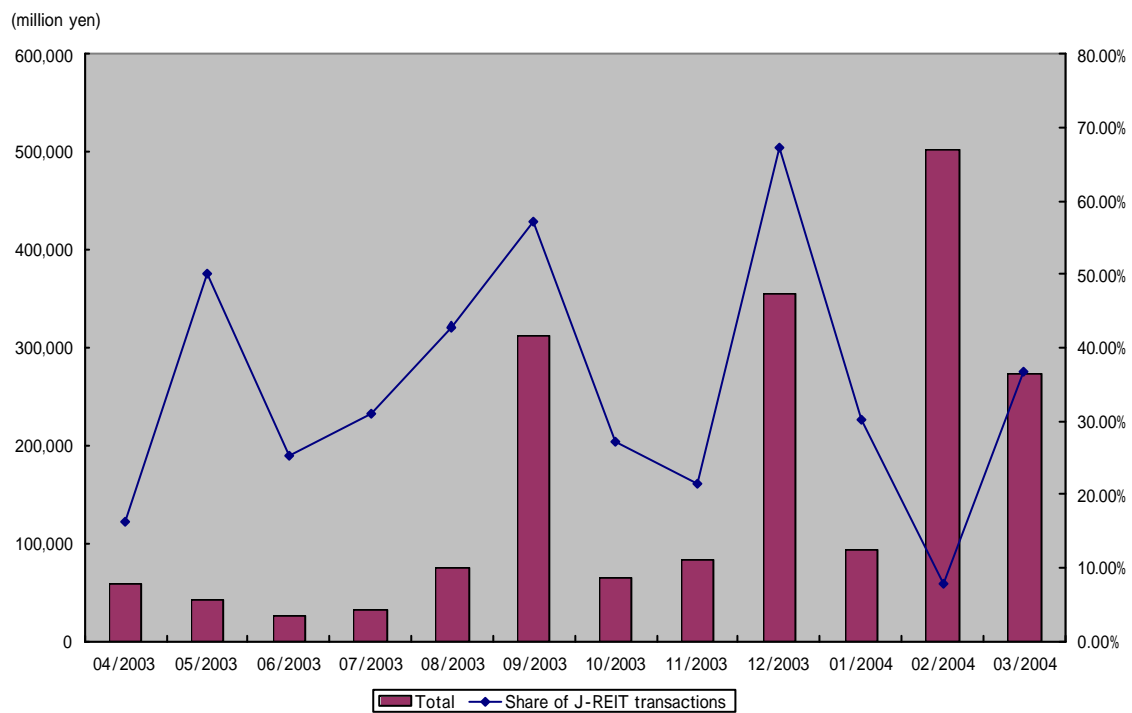
Figure 11 indicates the history of real-estate transactions by listed companies in Fiscal 2003 and monthly histories for the share of the total companies by J-REIT transactions. The J-REIT share has fluctuated between 10% and 70% of the overall total for fiscal 2003, total real-estate transactions by listed companies reached about 1.916 trillion yen. Of this, real-estate transactions with J-REITs as the buyer totaled about 699 billion yen or 36.5% of the overall total. Thus J-REITs are playing a very large role in the actual real-estate market.

Figure 12 indicates the top twenty transfer prices for real-estate transactions by listed companies in fiscal 2003.

The properties appearing in Figure 12 all sold for more than 10 billion yen and include eight properties bought by J-REITs. Clearly, J-REITs are major buyers among large real-estate transactions.

Figure 11

History of Real Estate Transaction Amounts by Listed Companies and Share Comprised by J-REIT Transactions (Fiscal 2003)



Prepared by ARES based on data provided by Jutaku Shinposha

Properties acquired by J-REITs are properties that match the investment standards of J-REITs designated from beforehand. Therefore, they are relatively superior properties that have cleared a certain level of standards. As real-estate risk came to the fore after collapsing of the bubble, general companies that were the original holders of these properties even sold relatively superior properties so that they could relieve themselves of the risk of holding said properties.

Then why were J-REITs able to become the buyers as these general companies decided to sell these types of real estate? This happened because J-REITs are able to procure enormous funds from many investors while general companies when wanting to buy real estate are forced to borrow from a bank or to apply funds originally to be used in other businesses to purchase funds so that funds for the purchase can be procured. On the other hand, under present economic conditions it is not easy for a general company to procure funds for obtaining real estate worth more than 10 billion yen. In addition, it is difficult to own real estate under present circumstances where real-estate risk has come to the fore without know-how on risk control. In this regard, J-REITs are able to obtain expensive properties because of their sophisticated management know-how and wealth of funding ability.

If there were no J-REITs, the sold properties would have probably been sold at far lower prices and in some cases not even have been sold. Based on this point, JREITs appeared as a “powerful buyer of real estate” to the slumping real-estate market and have contributed to the activation of the real-estate market.

Figure 12: Transfer Prices in Real Estate Transactions by Listed Companies

Rank	Seller	Buyer	Type	Address	Lot Size	Transfer Price	Announced Date
1	Mizuho Bank	Tokyo Prime Stage	BIT	1-chome Otemachi, Chiyoda Ward	8,495	112,000	Feb. 2004
2	Mizuho Bank	First You	BIT	1-chome Uchisaiwaicho, Chiyoda Ward	13,269	105,000	Feb-04
3	Taisei Corporation	Mahre	BIT	1-chome Kaigan, Minato Ward	10,776	58,675	Mar-04
4	Tokyu Corporation	CT Realty	BIT	Sakuragaokacho, Shibuya Ward	9,395	40,200	Feb-04
5	Nomura Real Estate Development	Nomura Real Estate Office Fund	BIT	1-chome Nishi Shinjuku, Shinjuku Ward	4,668	36,730	Dec-03
6	Taiheiyō Cement	Coop	L, E	Toyou, Koto Ward	-	37,200	Dec-03
7	Tobu Department Store	Tobu Railway	L, E	1-chome Hanakawado, Taito Ward	55,748	53,772	Feb-04
8	Urban Development Corporation	Takashimaya	L, E	2-chome Akebonocho, Tachikawa City	3,579	55,600	Feb-04
9	Sompo Insurance	Tokyo Prime Stage	BIT	1-chome Otemachi, Chiyoda Ward	2,539	53,000	Feb-04
10	Ishikawajima Harima Heavy Industries	TOB Funding	L, E	3-chome Toyou, Koto Ward	-	30,000	Feb-04
11	Platinine Investment	Japan Building Fund	BIT	1-chome Shirogane, Minato Ward	4,373	27,600	Sep-03
12	MS Property Investment	Global One Real-estate Investment	BIT	1-chome Otemachi, Chiyoda Ward	1,088	23,495	Dec-03
13	Just Capital	Tokyu Real Estate	BIT	1-chome Otemachi, Chiyoda Ward	1,861	23,260	Dec-03
14	Nichimo, Nichimo Community and Nichimo Development	Urano Asset SPC	BIT	Shibuya Ward, Yokohama City and Saitama City	-	23,100	Jan-04
15	SBS Asset Funding	Tokyu Real Estate	BIT	4-chome, Yoga, Setagaya Ward	21,315	22,400	Sep-03
16	Ken Plus Eight, Ken Plus Two	United Urban	BIT	3-chome, Nishi Shinjuku, Shinjuku Ward	6,215	21,100	Dec-03
17	Cleo Nihonbashi Honcho	Nomura Real Estate Office Fund	BIT	2-chome Nihonbashi Honcho, Chuo Ward	3,196	20,600	Dec-03
18	TC Asset Management	Seiryu	L, E	Nerima Ward, Setagaya Ward, etc.	14,050	19,000	Aug-03
19	NEC	Kamoi Properties and MET Yokohama Kamoi Development	BIT	Ikonobercho, Tsuzuki Ward, Yokohama	131,625	18,400	Nov-03
20	DNO Investments	Global One	BIT	2-chome Higashi Shinagawa, Shinagawa Ward	6,106	16,082	Sep-03

(Unit: Numerical scale m2, transfer price is 1 million yen, "-" is not disclosed)

Prepared by ARES using data provided by the Jutaku Shinposha

(2) J-REITS as financial products

J-REITs are assets with the properties of real estate in the sense that cash flow generated by the real estate is distributed. Considering the fact that they are listed products and such, the properties of J-REITs and real estate do not match. In other words, J-REITs are new financial products that provide investors with properties differing from real estate and existing financial products; thus they enlarge the choices available for investing. Information on the types of risks and return possessed by J-REITs is important to the investor.

J-REITs are products that gain dividends using funds obtained through rents. Therefore, taking into consideration the experience that rents on average are more stable than corporate earnings and the point that the leverage levels of each J-REIT is relatively low, it can be hypothesized that J-REITs are a product with less risk than stocks. J-REITs also have the aspect of being developed as products with middle risk and middle return.

However, as to whether or not these properties actually exist in the market must be analyzed based on transaction data in the market.

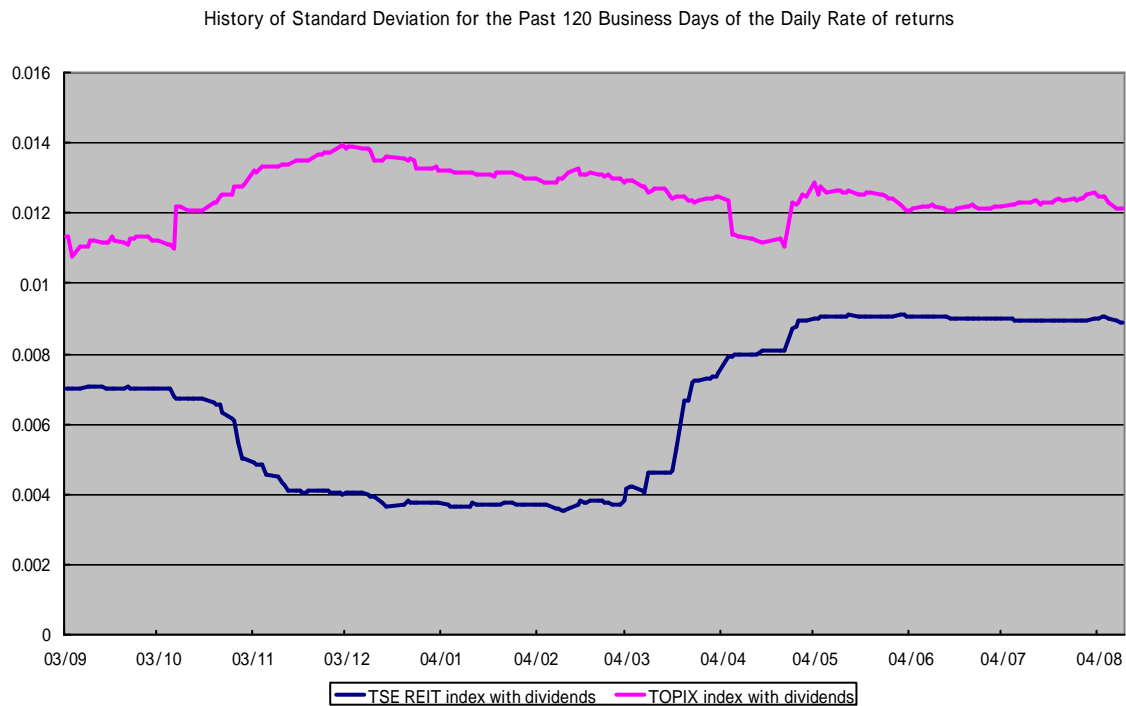
Figure 13 indicates the standard deviation for the most recent 120 business days (about 6 months) with regard to the daily rate of returns of the TSE REIT index (including dividends) and the TOPIX index with dividends included.

Figure 13 indicates that the standard deviation for the REIT index is consistently lower than that for the TOPIX index. Since standard deviation is an index for measuring risk, this proves that J-REITs have less risk than stocks.

It is also possible to hypothesize without conducting an empirical analysis that J-REITs have less risk than stocks. However, there is a limit on the product properties of J-REITs that can be grasped without conducting an empirical analysis. For example, this analysis is essential to understand the relationship J-REITs has with stocks and to understand the relationship that J-REITs have with bonds. However, there is a limit on the empirical analyses that can be conducted during the formative periods of a market due to the lack of transaction data. Presently, three years of transaction data

have been accumulated, so that finally the factual analysis of J-REIT product properties is gradually being conducted.

Figure 13



(Note) The daily rate of returns indicated in the table are daily rates based on consecutive compound interest and are specifically calculated in the following manner.

(Daily rate of returns of concerned business day versus the previous business day) = $\log(\text{Price on concerned business day}) - \log(\text{price on previous business day})$

In this formula, log indicates a natural logarithm.

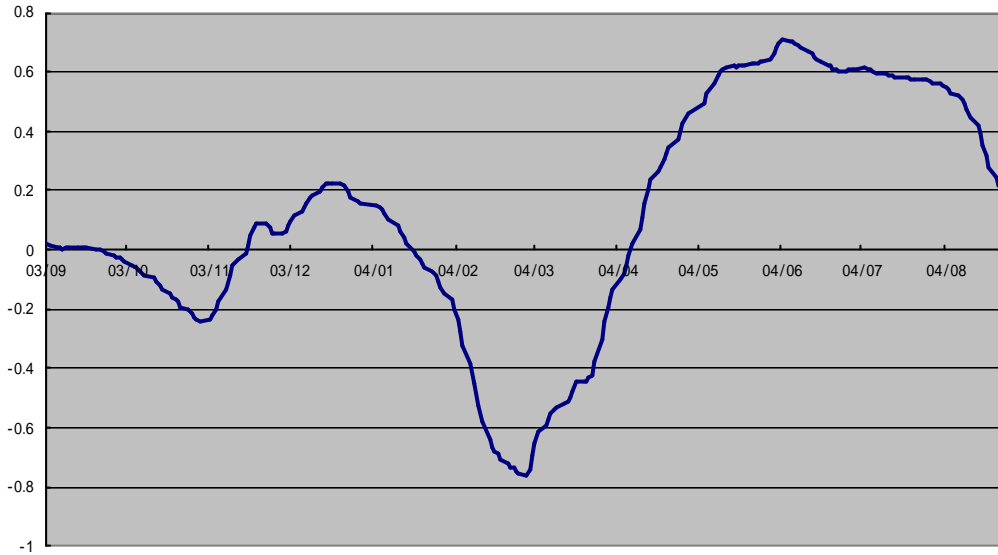
In this report, the definition of daily rate of returns is the same as indicated here.

Prepared using data provided by Bloomberg.

Figure 14 indicates the correlation coefficient fluctuation for the past 120 business days (about 6 months) between the TSE REIT index (no dividend) and 10-year government bond return. Figure 15 indicates the correlation between the daily rate of returns of the TSE REIT index with dividends included and the daily rate of returns TOPIC index with dividends included for the past 120 business days (about 6 months).

Figure 14

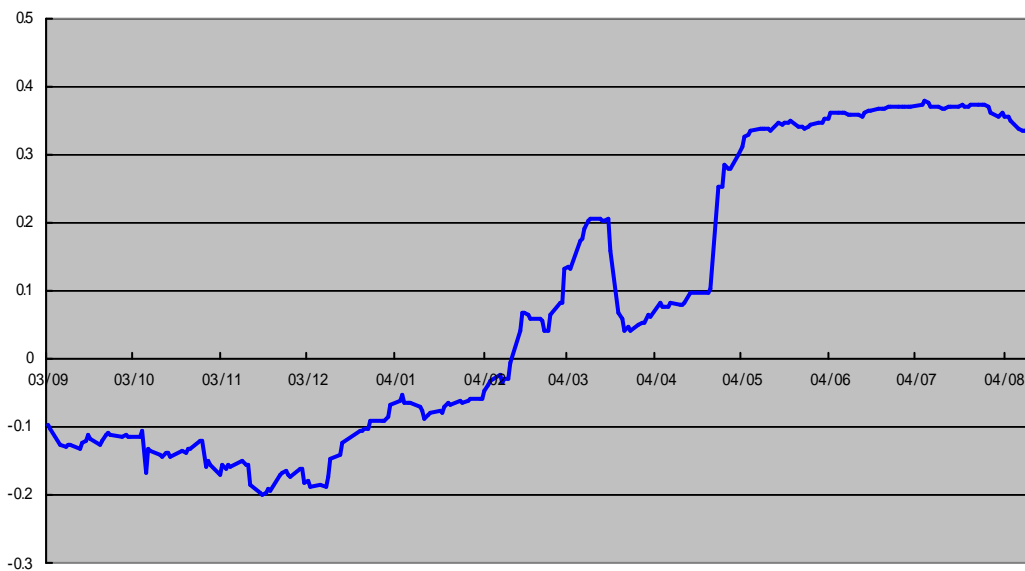
History of Correlation Coefficient for TSE REIT Index (without dividend) and 10-Year Government Bond Returns for the Past 120 Business Days



Prepared by ARES using data provided by Bloomberg

Figure 15

Correlation between Daily Rate of returns of the TSE REIT Index with Dividends and the Daily Rate of returns of the TOPIX Index with Dividends



Prepared using data provided by Bloomberg

Figure 14 and Figure 15 portray that there is a great change in the correlation between the J-REIT price and government bond return and the correlation between J-REIT rate of returns and TOPIX rate of returns. Therefore, at least for the period to date, the position that J-REITs have enjoyed a stable correlation with stocks and bonds cannot be taken. This may be in part due to the fact that in the market's formative period J-REITs have not been solidly appraised and also due to outside factors that could cause variations in this correlation. In either case, there is a need for more long-term and detailed analyses to grasp the product properties of J-REITs.

The "J-REIT Product Property Study Group" of the Association of Real Estate Securitization (ARES) is trying to clarify the properties of J-REITs as financial products using financing methodologies. The analyses to date have included a measurement of the impact at the same point and the multiplier effect at different points in the relationship between J-REITs and excess returns of stocks/bonds using weekly data. The results have indicated that the variations in excess returns of compact, low liquidity stocks shown in the TSE index (second tier) has a very significant impact on the excess returns of J-REITs when analyzing the relationship at identical points. As for the relationship between differing points, compact, low liquidity stocks cannot provide an explanation concerning J-REITs but it was verified that variations in the excess returns of bonds and power/gas stocks has a significant impact on the variations in the excess returns of J-REITs during the following week. Furthermore, it was also verified that over time the item with an impact on J-REITs shifted from power/gas stocks to bonds.

The results of the study group in fiscal 2002 have been compiled in the paper on the results of the Policy Research Institute for Land, Infrastructure and Transport as the paper of Professor Kazuhiko Ohashi of the graduate school at Hitotsubashi University. The results of the study group in fiscal 2003 are also expected to be compiled as a paper in the same format.

As more market data accumulates, it will become possible to conduct diverse and highly precise empirical analyses and the appeal of J-REITs will grow further as the properties of J-REITs as financial products become clear.

§ 3 . Future Issues

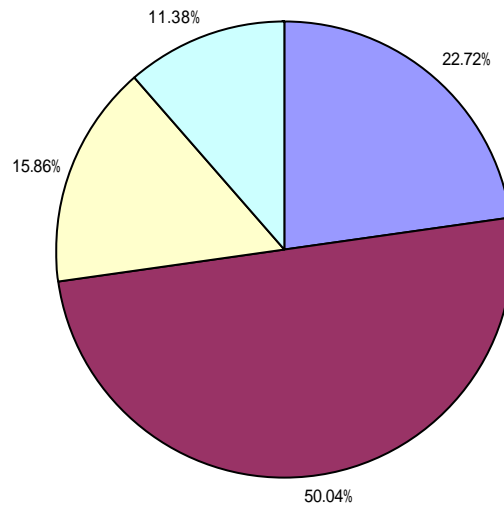
The J-REIT market will continue to expand simultaneous to a diversification in the fund types comprising the market and the superiority and inferiority of each J-REIT will become clear over time. Although each J-REIT is identical in the sense that they invest in real estate, there are differences in the criteria used for products they invest in and the financial strategies. In addition, this difference will become clear even if the investment subjects and financial strategies are similar as there are differences in the actual management abilities of each. It is a natural phenomena that, as long as the individual REITs conduct management with risk, differences in the superiority and inferiority of their management results will emerge.

Within these conditions, there is a greater need for a market to form that will allow each J-REIT to be properly appraised.

Presently, there is a rich and accurate amount of disclosure information provided by each J-REIT. However, in a situation where the diversification of J-REITs leads to greater complexity in the information, cases will probably occur where the disclosed information is mistakenly understood by investors and the understanding is inadequate. In addition, there may also be investors who hold back from investing because they cannot understand the disclosed information. Therefore, there is a need to enhance the framework for conveying the disclosed information of J-REITs to investors in a more easy to understand format.

Figure 16

Composition of Investors in 12 J-REIT Issues
(simple calculation based on quantities of investment units)



■ Individuals, etc ■ Financial institutions (including securities companies) ■ Other Japanese companies ■ Foreigners, etc

Figure 16 indicates the composition ratio of investors for the 12 J-REIT stocks. The ratio of individual investors is still low presently. An easier to understand format for conveying disclosed information on J-REITs to investors may lead to a greater ratio of personal investors. In that sense, there is a greater role hereafter for analysts and financial planners to play; however, ARES must also strive to analyze the product characteristics of J-REITS along with broadcasting information on J-REITs from a neutral standpoint as a nonprofit corporation.

What's ARES?

The Association for Real Estate Securitization (ARES), established in 1990 on the name of the Council for Real Estate Syndication. Then it launched in 2002 as the public incorporated association upon receiving approval by the Financial Service Agency and the Ministry of Land, Infrastructure and Transport and, is engaged in various activities to smoothly implement and run the securitization process for real estate properties in Japan, planning a system that ensures fair-trading, developing infrastructure and improving the systems that has just started.

Current membership companies, which include many major Japanese real estate and financial players, are 168.

The Association's Mission and Purposes

By promoting the sound development of the real estate securitization market, the Association for Real Estate Securitization seeks to expand the range of investment opportunities available to institutional and individual investors. Moreover, through the funds that they invest, it seeks to promote the realization and contribute to the growth of its economy.

The Association engages in the undermentioned activities for purposes of coordinating securitization-related corporations and groups from different industries, developing a sound securitization market, securing social acceptance of securitization products, and protecting investors.

Principal activities

1. Research and study of real estate securitization and related products.
2. Reports, to pertinent organizations, of proposals and opinions resulting from research and study.
3. Guidance and advice to members about legal matters, appropriate marketing of products, and investor protection.
4. Support for resolving investor complaints about the securitization operations of members
5. Providing securitization-related information to general investors and others; public relation and other public awareness-promoting activities.