

**Two hotel REITs make new moves**

**Japan Hotel and Resort to introduce scheme of assigning hotel management, aiming to secure earnings more closely linked to hotel revenues**

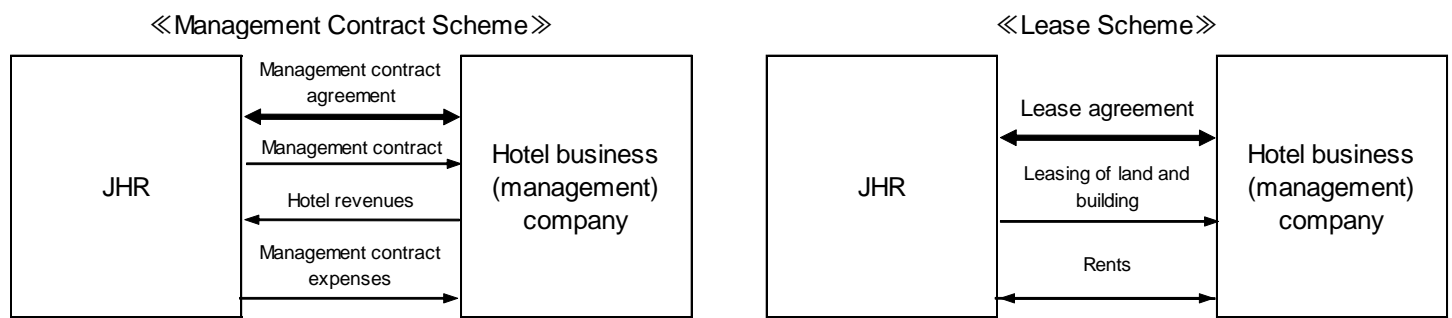
Japan Hotel and Resort, Inc. (JHR, securities code: 8981) announced that it will propose an agenda to its general meeting of unitholders, to be held on September 7, 2010, concerning an amendment to its articles of incorporation that would allow JHR to assign management of hotels it owns to other entities (the management contract scheme) in addition to the leasing of hotels (the lease scheme) it has conducted to date.

The management contract scheme is a structure in which JHR, the hotel owner, concludes a contract with hotel business (management) companies concerning assignment of hotel management. JHR will recognize the amount, calculated by deducting management contract fees from the hotel revenues, as “earnings from the asset management of real estate through assignment of management.”

Presently, the lease scheme, in which owned properties are leased to tenants (lessees) to receive rental income, is the sole real estate management structure employed by J-REITs. When realized, the management contract scheme by JHR will be the first case of introducing such a scheme by a J-REIT.

Even the lease scheme has a variable rent (percentage-of-sales rent) system, primarily employed by hotel and retail facilities, in which rents are linked to revenues (sales and other income) from the properties (although it is typical to build a rent system in which the percentage-of-sales portion is added to the fixed rent portion). JHR has also introduced the variable rent system to five of the eight hotels it manages, with variable rents accounting for 30% of the total rent revenues (for the fiscal period ended August 2009). As JHR puts it, the introduction of the management contract scheme will enable JHR to obtain earnings from the asset management of real estate that are more linked to hotel revenues, while allowing expectations for a simpler management structure that is easier to understand, improved transparency and expanded opportunities to acquire new hotels.

Furthermore, according to JHR, the proposed amendment to the articles of incorporation is the framework building needed to make possible asset management based on the management contract scheme, and at present it has not been determined whether JHR will conclude management contract agreements with existing lessees or other parties. With regard to the five hotels that have introduced the variable rent system, however, JHR will examine whether it will apply the management contract scheme after a comprehensive assessment of the characteristics, management status and other factors of respective hotels, and will announce its decisions by the end of February 2011.



## Overseas fund becomes new sponsor of Nippon Hotel Fund, acquiring 70% stake in asset management company

As of July 29, Rockrise Sdn Bhd (Rockrise), a Malaysian corporation, acquired 70% of the outstanding shares of Japan Hotel REIT Advisors Co., Ltd. (JHRA), to which Nippon Hotel Fund Investment Corporation (NHF, securities code: 8985) consigns asset management. Rockrise is a wholly-owned subsidiary of Real Estate Capital Asia Partners II L.P. (RECAP II), an investment fund conducting real estate investment in Asia using capital from overseas institutional investors.

One of the main investors in RECAP II is the major Singaporean real estate company City Developments Limited (CDL), which also has a 54% stake in Millennium & Copthorne Hotels plc, an owner and operator of more than 120 hotels in 19 countries around the world.

Rockrise had the relevant JHRA stocks transferred from Creative Renovation Group Japan, which had owned a 35% equity interest, and other parties. Meanwhile, Kyoritsu Maintenance Co., Ltd. continues to own 25% of JHRA stocks. Kyoritsu Maintenance serves as the operator of four hotels including The Beach Tower Okinawa, a flagship property of NHF.

NHF is a REIT specialized in hotels, owning 17 properties primarily comprising business hotels in the three major metropolitan areas. However, its portfolio size is as small as approximately 37.4 billion yen on an acquisition price basis, and NHF has not acquired any new properties for about two and a half years due to financial restrictions and other reasons. With RECAP II becoming the parent company of JHRA (through Rockrise), NHF expects to realize additional fund procurement by utilizing RECAP II's networks with financial institutions as well as to expand opportunities to acquire new properties.

Shareholder Composition of JHRA

«Before Stock Transfer»

Shareholder	Ratio
Creative Renovation Group Japan	35.0%
Kyoritsu Maintenance	25.0%
Kyokuto Securities	15.0%
Shin Nippon Air Technologies	10.0%
ORIX Real Estate Corporation	5.0%
Capital Advisers	5.0%
Ken Corporation	5.0%

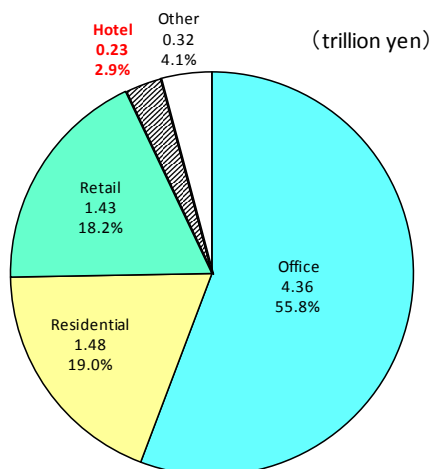
«After Stock Transfer»

Shareholder	Ratio
Rockrise Sdn Bhd	70.0%
Kyoritsu Maintenance	25.0%
ORIX Real Estate Corporation	5.0%

(Source) Prepared by ARES based on a press release of NHF.

### «Reference»

Hotels account for about 3% of real estate owned by J-REITs



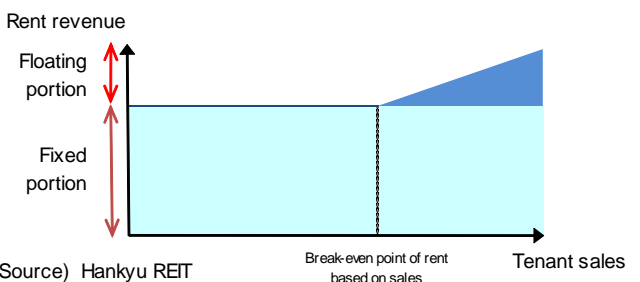
(Classification by primary usage and based on acquisition prices as of the end of May 2010. Prepared by ARES.)

Ratios of fixed rent and floating rent in entire portfolio

Investment Corporation	Fixed Rent	Floating Rent
Japan Hotel and Resort	70.0%	30.0%
Fukuoka REIT	89.1%	10.9%
Japan Retail Fund	90.9%	9.1%
TOP REIT	95.8%	4.2%
Hankyu REIT	96.4%	3.6%
Frontier Real Estate	99.0%	1.0%

(Source) Prepared by ARES

Chart of Ordinary Rent Based on Sales System



(Source) Hankyu REIT

## **DA Office to change its trade name to Daiwa Office Investment Corporation in September – Daiwa brand also applied to its properties**

DA Office Investment Corporation (DAO, securities code: 8976) has announced that it will change its trade name to Daiwa Office Investment Corporation as of September 1. In this regard, DAO will propose an agenda of changing its articles of incorporation to the general meeting of unitholders to be held on August 20. In addition, DAO is in a process of sequentially changing the name of its owned properties (primarily, buildings whose names still contain the former sponsor's name) to the Daiwa brand, and will complete the name change for all of the 25 target properties by September.

In July 2009, Daiwa Securities Group Inc. became the new sponsor of DAO, replacing the initial sponsor daVinci Holdings. The change of the trade name and building names is intended to demonstrate the fact that DAO is a member of the Daiwa Securities Group and to regenerate the brand image.

## **Starts Proceed gets listed on TSE – now listed on multiple markets including the JASDAQ market**

Starts Proceed Investment Corporation (SPI, securities code: 8979) was listed on the real estate investment trust securities market of the Tokyo Stock Exchange on July 27. On and after the date, SPI's investment units can be traded on two markets – the TSE and the JASDAQ market on which SPI is already listed.

Listed on the JASDAQ market in November 2005, SPI had been alone among listed REITs (37 investment corporations at present) in that it was not listed on the TSE. As a reference, Fukuoka REIT Corporation (securities code: 8968) is another REIT that is listed on multiple markets (listed on the TSE and the Fukuoka Stock Exchange in June 2005.)

SPI cited two points as reasons why it was also listed on the TSE: (1) It is necessary for SPI to expand its investor base and to conduct smoother fund procurement in order to realize external growth (expansion of the portfolio size), and (2) The fact that SPI alone is not listed on the TSE may cause disadvantages in a possible merger or reorganization amid the mergers and reorganizations proceeding among investment corporations. (However, SPI says that, at present, there is no specific plan for a merger and the like, and that SPI has no intention to proactively work on these measures.)

## **FC Residential announces holding of general meeting of unitholders and resignation of Executive Director and Supervisory Directors**

On July 15, FC Residential Investment Corporation (FCR, securities code: 8975) announced its policy concerning a request from the major unitholder SJ Securities LLC to convene a general meeting of unitholders to discuss such agenda as dismissing the present Executive Director and Supervisory Directors of FCR. (Refer to ARES J-REIT Report Vol. 8.) According to FCR's announcement, the present Executive Director and Supervisory Directors will resign from their posts in an aim to secure enhanced transparency in the operations of the investment corporation. Succeeding directors will be selected at the general meeting of unitholders scheduled for September 16. FCR says it is under discussion with related parties, including SJ Securities, regarding candidates for the succeeding directors, and plans to announce them in mid-August.

Furthermore, SJ Securities owned 23.24% of FCR's investment units outstanding as of the end of April. However, according to the report by large unitholders submitted by the end of July, SC Securities' stake rose to 29.42% as Ichigo Asset Management acquired investment units from Prospect Asset Management.

## Tokyu Land Group establishes REIT specialized in residential properties

– aiming to expand portfolio size of REIT for listing

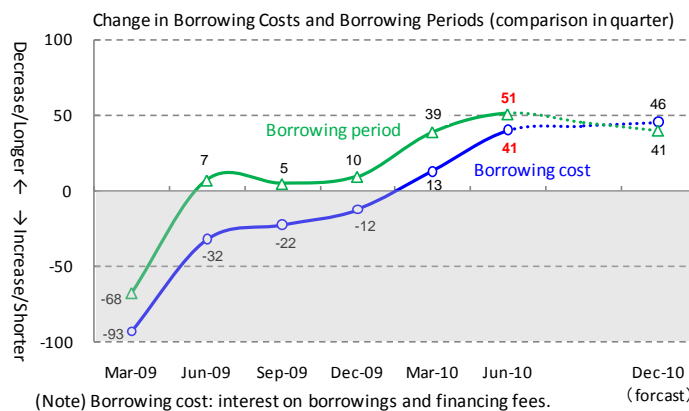
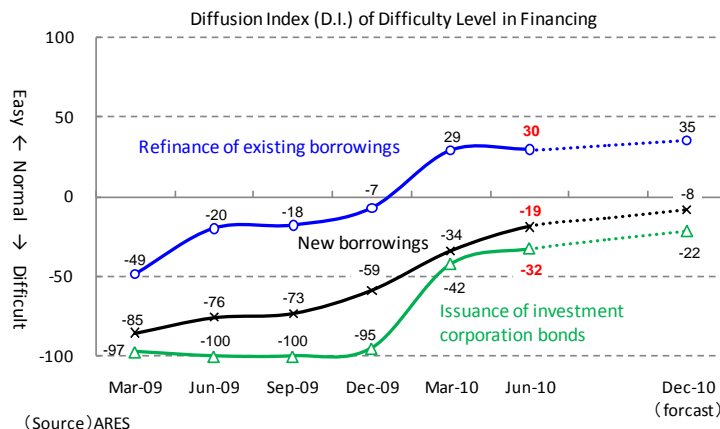
TLC Realty Management Inc., a wholly-owned subsidiary of Tokyu Land Corporation, established Comforia Residential Investment Corporation, an investment corporation targeting investment in residences for lease, in July. TLC Realty Management will work to expand the portfolio size of the new entity, and will aim to get it listed in the future as a REIT specialized in residential properties.

The policy of the investment corporation is to focus investment on such assets as compact condominiums in the Tokyo metropolitan area and residences for the elderly that are expected to increase in the future. The Tokyu Land Group will provide support so that the investment corporation can grow stably. For example, Tokyu Land will supply residences for lease that should match the investment criteria.

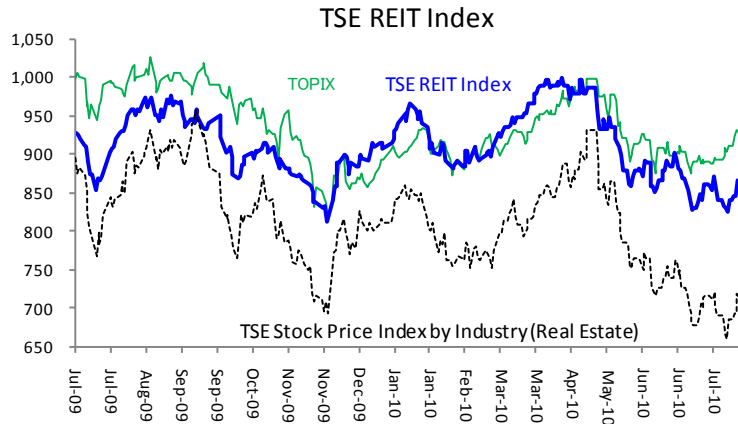
At present, the Tokyu Land Group has the group company Tokyu Real Estate Investment Management Inc. conduct asset management for TOKYU REIT, Inc. (securities code: 8957), which invests in office buildings and retail facilities.

## ARES questionnaire survey reveals calming fund procurement environment for J-REITs

The Association for Real Estate Securitization (ARES) conducted its sixth “Questionnaire Survey on Fund Procurement Environment for J-REITs” at the end of June 2010, targeting asset management companies of all listed J-REITs. The Diffusion Index (D.I.) of Difficulty Level in Financing continued to show a trend of slow improvement, although the rate of improvement was lower than the fifth survey conducted at the end of March. A larger number of investment corporations replied that they actually sensed improvements in borrowing costs and borrowing periods. As a whole, the fund procurement environment surrounding J-REITs is arguably regaining a more composed state.



# Market



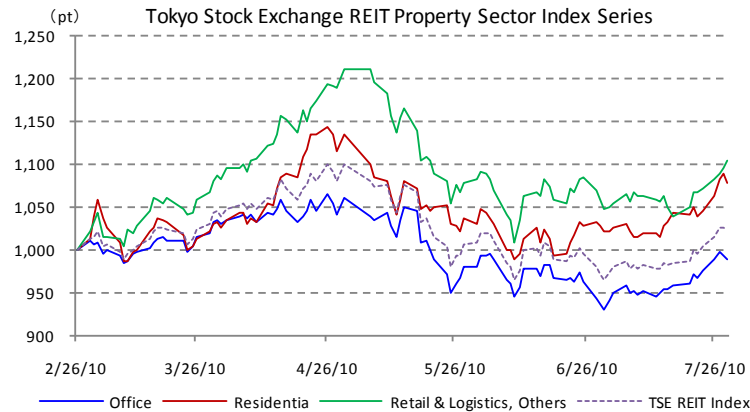
(Source) Bloomberg

### Market Indices

	End of July. 2010	1-month	6-month	1-year
TSE REIT Index	919.31	+5.0%	+1.5%	-7.2%
Market cap (bn yen)	2,995	(Note) The dividend yield is a weighted average of the market cap based on dividend forecasts by respective J-REITs.		
Average dividend yield	5.5%			

### Stock Market (Reference)

	End of July. 2010	1-month	6-month	1-year
TOPIX	849.50	+1.0%	-5.7%	-10.6%
NIKKEI 225	9,537.30	+1.6%	-6.5%	-7.9%
TSE Real Estate	690.66	-0.4%	-12.8%	-22.5%



(Note) Feb. 26, 2010 = 1,000

(Source) Tokyo Stock Exchange

### TSE REIT Property Sector Index Series

	End of July. 2010	1-month	6-month	1-year
Office	978.29	+5.3%	N/A	N/A
Residential	1,070.42	+4.7%	N/A	N/A
Retail & Logistics, Others	1093.62	+4.5%	N/A	N/A

## Asset Transaction

### (Acquisitions)

#### • ORIX JREIT

Expanded portfolio size to over 300 billion yen with acquisition of ORIX Meguro Building

#### • Frontier Real Estate

Expanded portfolio size to over 200 billion yen with acquisition of two retail facilities in July

#### • Japan Prime Realty

Additionally acquired a 25% interest in co-ownership equity of BYGS Shinjuku Building, becoming sole owner of the property

#### • Industrial & Infrastructure Fund

Postponed acquisition of IIF Shinsuna Data Center, initially scheduled for July, to the end of September 2013 at the latest

### (Property Sales)

#### • Japan Rental Housing Investments

Decided to sell Hilltop Yokohama Negishi (former Isogo Flat) in September

The property is a family-type condominium building with 279 units in total located in Isogo Ward, Yokohama City, and was formerly subleased by Central Japan Railway Company (JR Tokai) as its company housing. The sublease contract was terminated in April 2010, and JRH initially planned to conduct leasing of the property. As Tosei Corporation offered a purchase price at a level near the book value, however, JRH decided to sell the property to the company at 5.1 billion yen.

Portfolio Size  
(based on acquisition prices, as of the end of July 2010)

Investment Corporation	Acquisition Price	
Nippon Building Fund	779.5 bn yen	
Japan Retail Fund	656.5 bn yen	
Japan Real Estate	643.9 bn yen	400.0 bn yen
Nomura Real Estate Office Fund	378.6 bn yen	
Advance Residence	350.5 bn yen	
Japan Prime Realty	331.5 bn yen	
ORIX JREIT	300.9 bn yen	300.0 bn yen
MORI TRUST Sogo Reit	283.0 bn yen	
DA Office	269.1 bn yen	
Nippon Commercial	241.8 bn yen	
Kenedix Realty	235.7 bn yen	
United Urban	219.9 bn yen	
Mori Hills REIT	211.9 bn yen	
Frontier Real Estate	206.8 bn yen	200.0 bn yen
BLife	192.9 bn yen	
Nippon Accommodations Fund	187.0 bn yen	
TOKYU REIT	186.1 bn yen	
Japan Excellent	181.0 bn yen	
TOP REIT	175.0 bn yen	
MID REIT	161.1 bn yen	
Japan Rental Housing	160.0 bn yen	150.0 bn yen

(Source) Prepared by ARES

*This report is provided to inform readers about the J-REIT market, and is not intended to solicit investments. Information in this report is not necessarily up-to-date, and ARES does not guarantee its correctness or completeness. Information in this report is subject to change or revisions without prior notice.*

E-mail: [research@ares.or.jp](mailto:research@ares.or.jp)