# NEWS RELEASE

## Survey on Real Estate Investments by Pension Funds in Japan

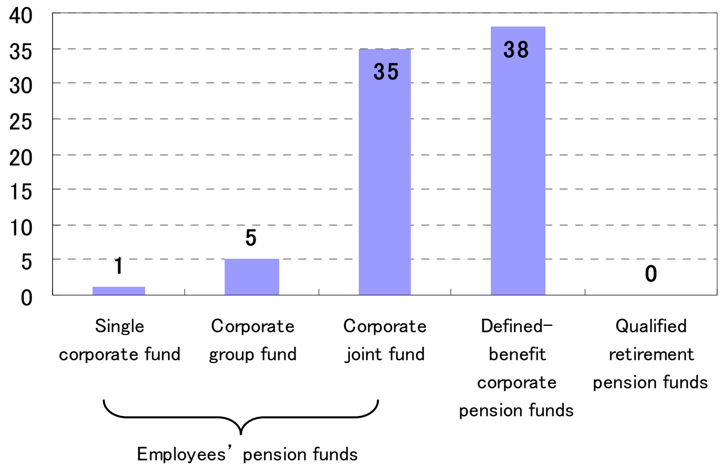
September 2009—Results

November 18th 2009

STB Research Institute Co., Ltd.

- STB Research Institute Co., Ltd. conducted a "Survey on Real Estate Investments by Pension Funds in Japan" to research the current situation, attitudes, and needs of corporate pension funds (hereafter the "fund" or the "funds") with regard to the real estate investment.
- Total 79 funds responded to the survey, our first survey on this subject.
  - Funds surveyed: Employees' pension funds ("Kousei Nenkin Kikin"), Defined-benefit corporate pension funds (including Contractual defined-benefit pension plans which do not set up separate funds), and Qualified retirement pension funds, whose mailing address were able to be identified by us.
  - Number of funds to which questionnaires were sent: 358
  - Number of funds responded: 79 (ratio of valid responses: 22.1%)
  - Time of survey: From late September to early October 2009
  - Survey method: Distribution and collection of questionnaires by post

- The following is a breakdown of the funds that responded to the survey:




The number of Employees' pension funds that responded to the survey was 41, making 52% of the total respondents. The number of Defined-benefit corporate pension funds was 38, making 48%.

No Qualified retirement pension fund responded to the survey.

The total assets under management of the responded funds was 4,026.9 billion yen, and the average assets under management per fund was 54.4 billion yen.

※Please note that questionnaires were sent only to the funds whose mailing address were identified by us, and that the response rate was 22.1%. Hence this survey does not represent the views of all corporate pension funds.

## Results of the Survey

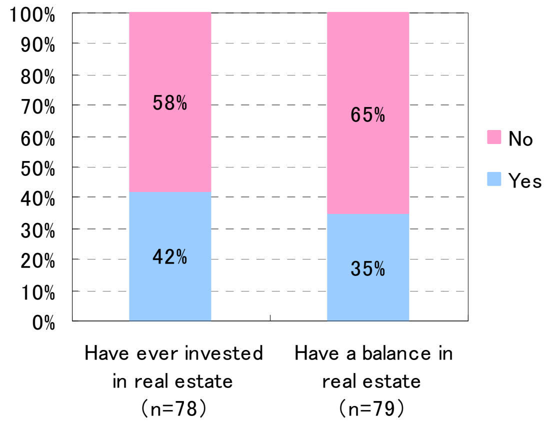
(Note) [n] shown in the graph indicates the number of effective responses.

### I. Past and Current Real Estate Investments

#### 1. Record and Balance of Real Estate Investment

To a question asking whether they have ever invested in real estate, 42% of the respondents answered “Yes”, indicating that a majority of respondents had no record of real estate investments. To a question asking whether they have any real estate investment balance or not, 35% answered “Yes”, meaning that some respondents who have invested in the past have no balance now. The average real estate investment balance per fund for that 35% affirmative respondents was 4.52 billion.

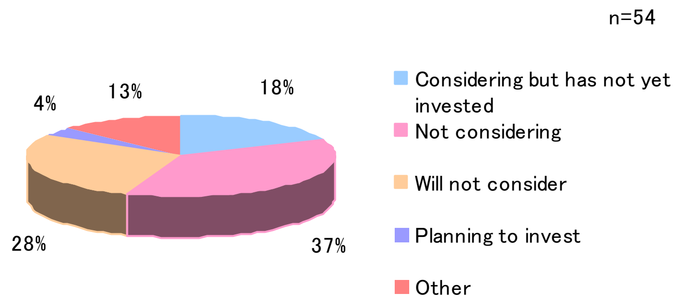
（Fig.1：Investment record and balance）




#### 2. Consideration for Real Estate Investments(Respondents with “no” balance)

Out of total respondents answering they had no balance in real estate, the largest share of 37% answered they were “Not considering” real estate investment, and the second largest 28% answered “Will not consider” it. Combining these two, 65% of respondents excluded real estate from their investment targets. On the other hand, 4% of the respondents answered they were “Planning to invest”, and 18% answered “Considering but has not yet invested”, suggesting that there are funds that include real estate in the future scope of investment. “Other” included answers by four respondents that said, “Considered but did not invest.”

（Fig.2：Consideration for Real Estate Investment ）

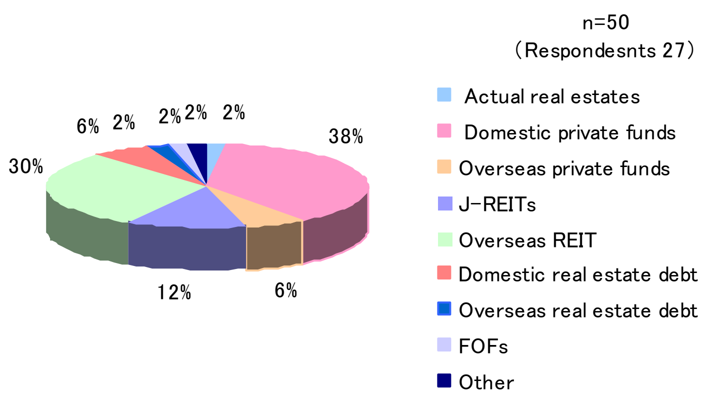



#### 3. Investment Category (Respondents with balance)

As to the breakdown of real estate investment by category, the largest number of 19 funds (38%) chose “Privately placed domestic real estate funds” (hereafter, the “private funds”), followed by 15 funds (30%) choosing “Overseas REITs”.

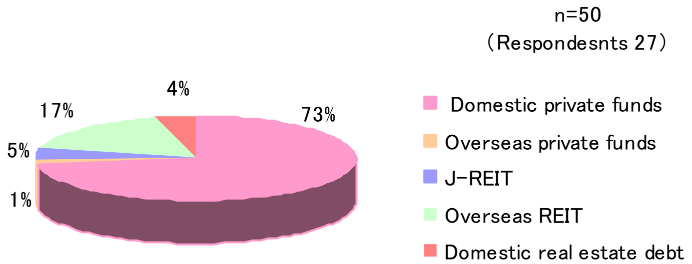
73% of the total real estate investment balance of respondents was for the private funds and the average balance per fund was 4.61 billion yen, far exceeded other categories. Investments in the private funds accounted for a very large part of the real estate investment by the funds. We consider that this is partly because minimum unit for investment in the private funds is larger than other categories.

（Fig.3：Investing categories : Number of funds ）



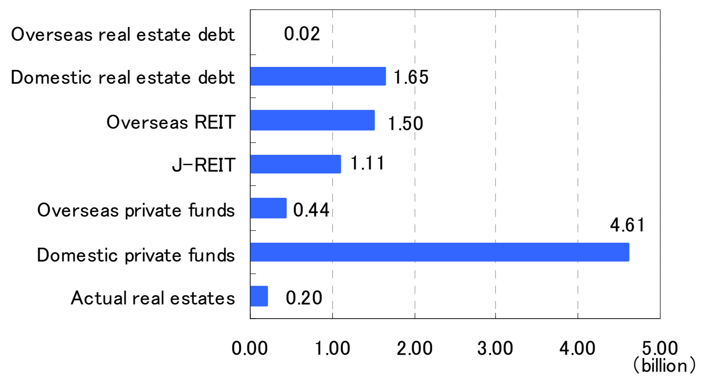
Although the number of funds invested in “Domestic real estate debt” was only three (6%), the average investment balance was relatively large 1.65 billion yen. “Overseas REITs” accounted for a larger percentage than “J-REITs”, both in terms of number of respondents and investment balance.

（ Fig.4 : Investing categories : Total balance ）




※Actually,「 Actual real estates」accounted for 0.17%、「Overseas real estate debt」 accounted for 0.02%.They are unshown in a graph because of much lower rate,

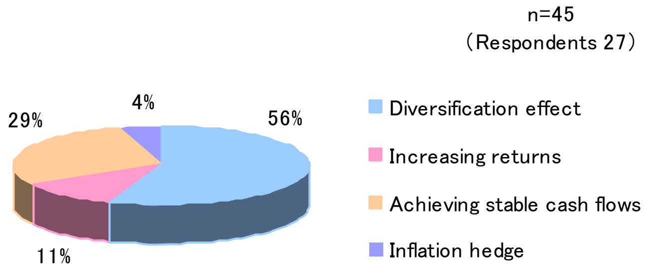
（ Fig.5 : Investing categories : Average balance per fund ）




### 4. Investment Purpose (Respondents with balance)

A majority of respondents chose “Diversification effect” for the purpose of real estate investment, indicating their emphasis on risk diversification of portfolio. Answers for “Achieving stable cash flows” accounted for 29%, while only 11% of the respondents chose “Increasing returns”. The result shows respondents’ investment attitude to pursue a stable income return rather than higher return generated by capital gain.

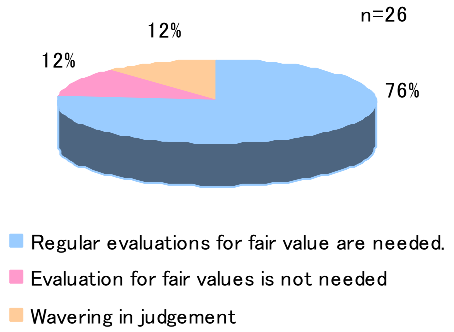
（ Fig.6 : Investment purpose ）



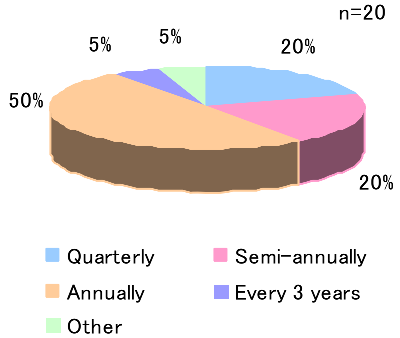

### 5. Necessity for Asset Evaluation (Respondents with balance)

With respect to evaluation for underlying real estate (including trust beneficiary rights) during the investment period, 76% of respondents chose “Regular evaluation for fair values is necessary” while only 12% chose “Evaluation for fair values is not necessary”. As to the frequency of evaluation, 90% of that 76% respondents indicated that it was necessary at least once a year, including 50% for “Annually”, 20% for “Quarterly” and 20% for “Semi-annually”.

（ Fig.7 : Necessity for evaluation ）




（ Fig.8 : Required frequency ）

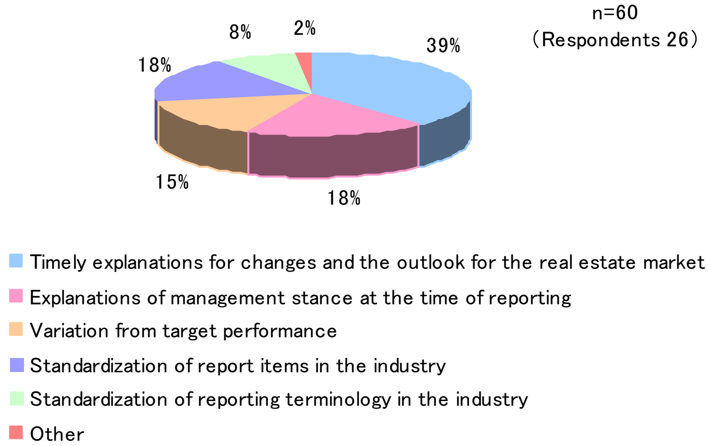


### 6. Reporting matter (Respondents with balance)

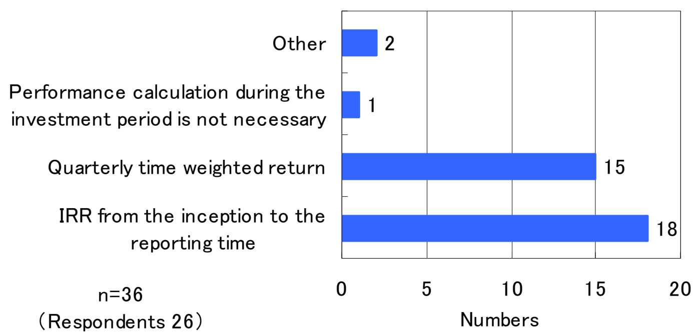
Regarding the matters on the management report required to managers and industry, "Timely explanations for changes and outlook for the real estate market" was ranked top with 39% respondents, followed by "Explanation for management stance at the time of reporting" and "Standardization of reporting items in the industry" with 18% each.

As to performance indicators required on the report, "IRR from the inception to reporting time" was chosen by 18 respondents (50%), and "Quarterly time weighted return" by 15 (42%). There was one respondent (3%) choosing "Performance calculation during the investment period is not necessary". Most of the respondents required either IRR or the time weighted return, including eight respondents requiring both IRR and the time weighted return.

（Fig.9：Required reporting matter）




（Fig.10：Required performance indicator）

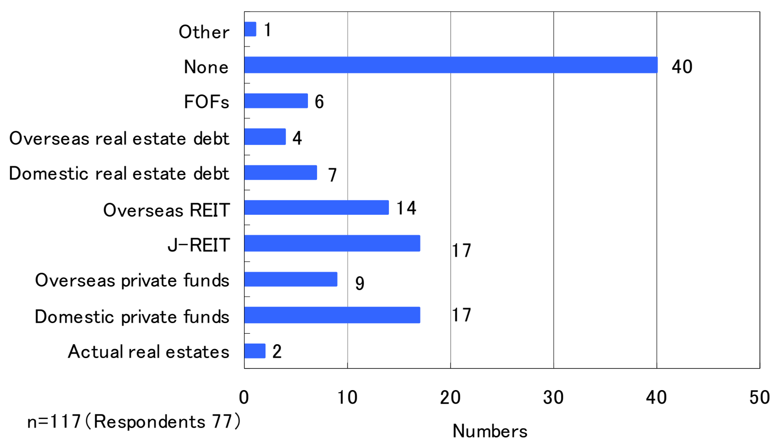



## II. Future Real Estate Investments (Questions to All Funds)

### 1. Target Category

Forty out of 77 respondents chose "None" in the list of real estate categories, indicating that more than half of them did not have plan to expand real estate investments. The categories in which the respondents wanted to increase investments were "Privately placed domestic real estate funds" and "J-REITs," that were chosen by 17 respondents each, and "Overseas REITs" by 14 respondents. Although the current number of funds and their investment balance for "Overseas REITs" were more than double as much as "J-REITs" (see Fig. 3), "J-REITs" was chosen as a future real estate investment target by a slightly larger number of respondents than "Overseas REITs". Domestic equity investment products, including private funds and J-REITs, were chosen by more respondents than products in other categories.

（Fig.11：Target category）



## 2. Desirable Terms of Investment (*)

**(*Including private funds, actual real estate, and trust beneficiary rights)**

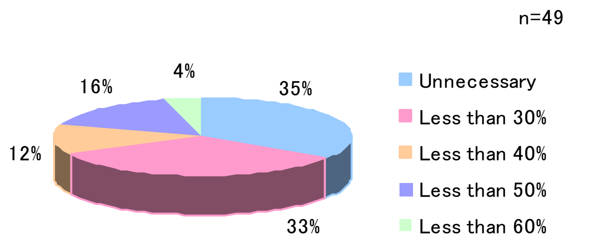
### 1) Target Expected Return

The average of target expected IRRs (before management fees and income tax) was 7.3%. The average of target expected total returns (income return plus capital return) for real estate investment was 6.7%, higher than 5.2% for the total portfolio.

### 2) Desirable Loan To Value Ratio

35% of respondents answered that leverage was “Unnecessary”, followed by “Less than 30%” for desirable LTV ratio chosen by 30% of respondents, although 57.8% was the average of answers by asset managers in terms of LTV ratio desired by investors, according to our recent survey to asset managers in July 2009. The result of this survey suggests that corporate pension funds desire a stable and low risk investment with lower or even no leverage.

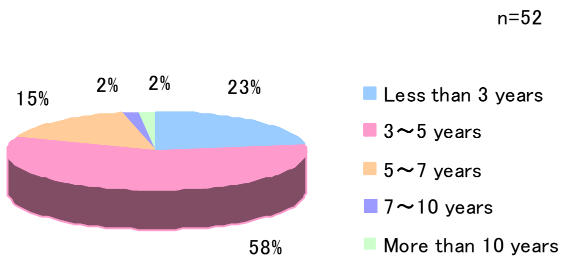
（Fig.12：Desirable LTV ratio）




### 3) Desirable Investment Period

23% of respondents chose the desired investment period for “Less than 3 years”, 58% chose “3 to 5 years”, 15% chose “5 to 7 years”, and only 4% chose periods more than 7 years. While there were a considerable number of respondents desiring shorter period, a majority of respondents desired an exit from real estate investment in 3 to 5 years, though the characteristic of their investment is long-term.

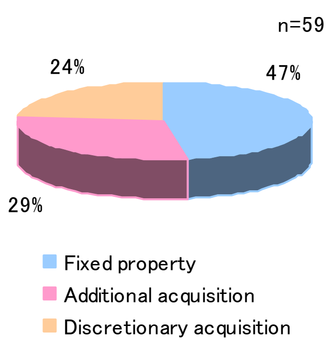
（Fig.13：Desirable investment period）



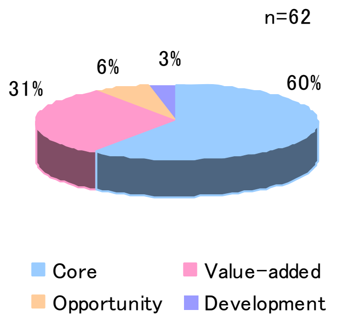

### 4) Desirable Fund Type / Investment Style

A largest share (47%) of the respondents chose “Fixed property” type, a type of funds in which underlying properties are identified at the inception. The remaining respondents were separated into “Additional acquisition” type and “Discretionary acquisition” type. By risk level, 60% of the respondents concentrated in low-risk, stable “Core” style which emphasizes stability in income returns. However, 31% chose “Value-added” style, indicating that a considerable share of respondents was pursuing higher returns.

（Fig.14：Desirable fund type）



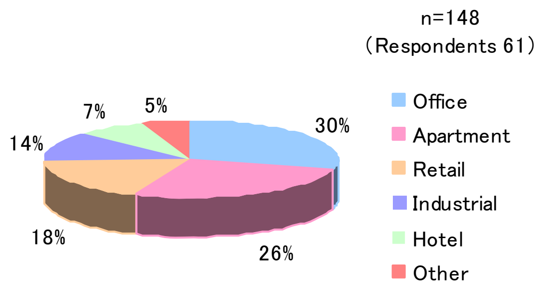

（Fig.15：Desirable investment style）



### 5) Qualified Property Type

With regard to property types that are considered to be qualified for investment, “Office” was chosen by 30%, the largest share, followed by “Apartment” chosen by 26%. These two property types, of which more market data are available for investment analysis than others, accounted for more than 50%. Yet, other property types accounted for more than 40%, suggesting that there are many funds considering investment in a variety of types in order to diversify risks.

( Fig.16 : **Qualified property type** )



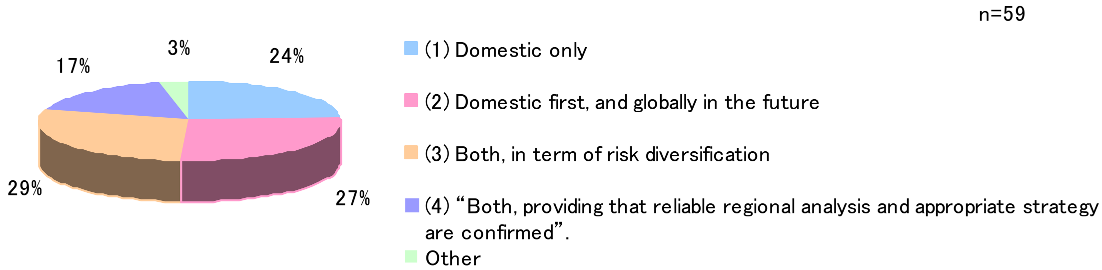

### 6) Target Investment Area

We asked respondents to choose from the followings as to whether to limit their investments domestically or expand them globally;

(1) “Domestic only”,
(2) “Domestic first, and globally in the future”,
(3) “Both, in term of risk diversification”,
(4) “Both, providing that reliable regional analysis and appropriate strategy are confirmed”.

The answer (1) was chosen by 24% of respondents, while an aggregate of (2), (3), and (4) counted 73% of respondents. Together with the finding that 30% of the respondents that have real estate investment balance were investing in overseas REITs (see Fig. 3), this result indicates that many funds contemplate global investments in view of risk diversification.

( Fig.17 : **Target investment area** )

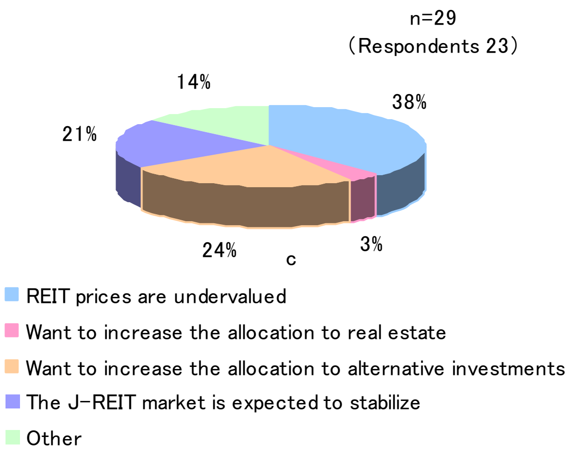



## 3. Investment in J-REITs

### 1) Reason for Investing in REITs

We asked reason for starting or increasing investments in J-REITs or overseas REITs to the respondents who answered that they wanted to do so. The largest share of 38% of the respondents chose “REIT prices are undervalued”, indicating that many respondents were considering share prices of REITs undervalued, even though the prices had been recovering since the financial crisis. Although 24% (the second largest) of them chose “Want to increase the allocation to alternative investments”, only 3% chose “Want

( Fig.18 : **Reason for investing in REITs** )

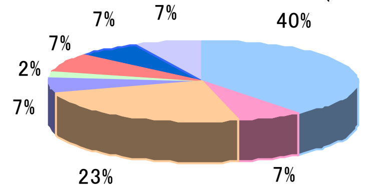


to increase the allocation to real estate". We consider this result indicates that many respondents categorize REITs into the alternative investment rather than an independent category of real estate, and desire to increase the allocation to the alternative investment. Besides, 21% of respondents chose "The J-REIT market is expected to stabilize".

**2) Reason for "Not" Investing in REITs**

We also asked reason for not investing in REITs to the respondents who did not choose them for starting or increasing investment. The largest share of 40% of the respondents chose "Price volatility is large", and the second largest 23% chose "Prices are still expected to fall", indicating that many funds avoided investment in REITs because of the high volatility in the REIT market and that some were concerned about further price falls. It is considered that the deterioration in vacancy rates and rents in the leasing market also had adverse effects.

（Fig.19：Reason for "not" investing in REITs）

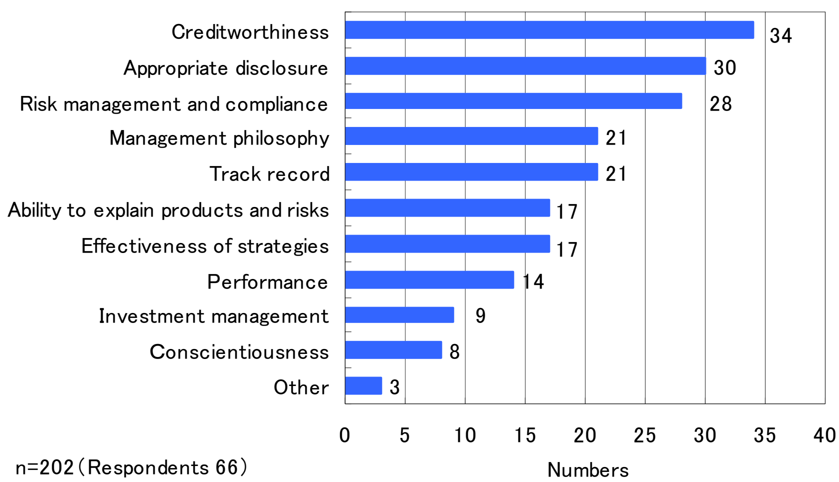



**4. Manager Selection, Requirement to Manager**

**1) Point for Manager Selection**

Answers were diversified with regard to point for manager selection. "Creditworthiness" scored 34 respondents, the largest number. We assume this result reflects a number of recent bankruptcies filed by asset managers due to the financial crisis. "Appropriate disclosure" and "Risk control and compliance" scored 30 and 28, respectively, indicating investors' emphasis on the administration system and disclosure attitude of managers. On the other hand, a smaller number of respondents chose performance related matters, with 14 choosing "Performance," and 9 choosing "Investment management". We consider this reflects the difficulty in quantitatively measuring performance of manager excluding market factors.

（Fig.20：Point for manager selection）



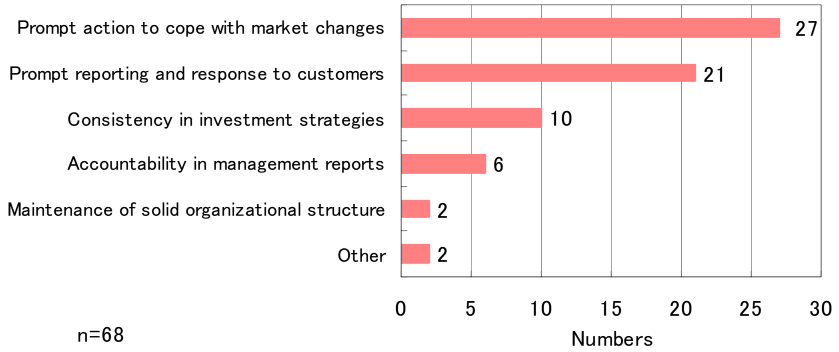

n=202 (Respondents 66)

※Each funds were requested to choose up to 3.

### 2) Requirement to Manager

With regard to requirements from investor to manager during the investment period, “Prompt actions to cope with market changes” scored the largest number of 27 respondents, followed by “Prompt reporting and response to customers” scoring 21 respondents. As we mentioned above in I-6, 39% of respondents that had real estate investment balance required “Timely explanations for changes and outlook for the real estate market” on the management reports (see Fig. 9). We consider that increasing numbers of investors require prompt actions and explanations by managers due to the fluctuation of the real estate market since 2007.

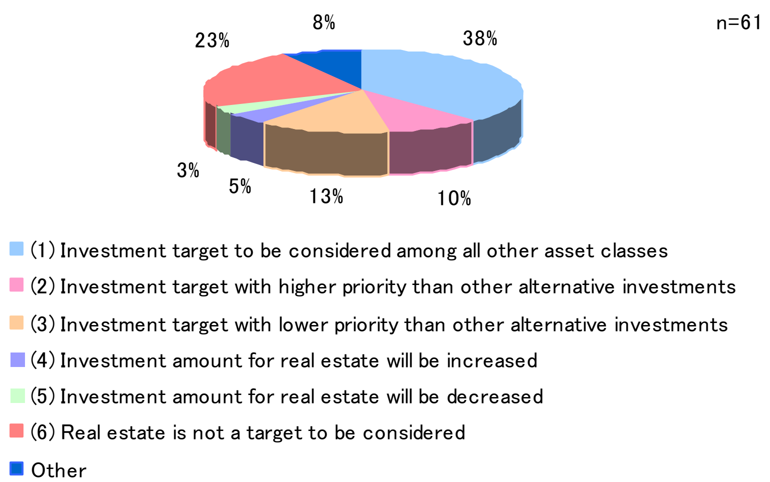
（Fig.21：**Requirement to manager**）




### 5. View for Future Real Estate Investment

The largest share of 38% of respondents answered that the real estate was an “Investment target to be considered among all other asset classes”, while the second largest share of 28% answered “Real estate is not a target to be considered”. With respect to the relative position of real estate investment to other alternative investments, respondents’ views were also divided between 10% for “Investment target with higher priority than other alternative investments” with 10% share and “Investment target with lower priority than other alternative investments” with 13% share. Overall, 53% of the respondents (an aggregate of (1), (2), or (4) of Fig 22) were positive about real estate investments.

（Fig.22：**View for future real estate investment**）



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