

November 14, 2007

## **JAPAN REAL ESTATE INVESTMENT CORPORATION**

### **ANNOUNCEMENT OF TWELFTH FISCAL PERIOD RESULTS**

#### **1. Summary of Financial Results**

In the 12th fiscal period (six months ended September 30, 2007), Japan Real Estate Investment Corporation (“JRE”) recorded operating revenues of 17,530 million yen\*, up 3.4% from the previous period. Operating income rose 5.2% to 8,739 million yen. After deducting expenses for interest payments on loans and other costs, ordinary income increased 5.6% to 7,586 million yen and net income climbed 5.6% to 7,585 million yen.

JRE’s policy with regard to profit appropriation is to distribute dividends of approximately 100% of taxable income in order to enjoy the tax benefit available under Article 67-15 of the Special Taxation Measures Law of Japan applicable to Japanese Real Estate Investment Trusts (J-REITs). For the period under review, we declared a cash dividend of 18,500 yen per unit.

Note: \*Includes gain on the sale of a property of 397 million yen

#### **2. Results of Operations**

##### **(1) Property Management and Acquisition/Sales (Strengthening Portfolio Quality)**

During the period under review, despite concerns regarding the impact of the subprime loan crisis in the United States on global financial and capital markets, the Japanese economy continued to show a favorable trend. Factors that contributed to the economy’s soundness included strong capital expenditure attributable to continued improvements in corporate sector performance and increased demand. Furthermore, improvements in the employment environment have sustained the corporate sector’s healthy conditions.

As a result of favorable corporate performance, the market for leased office space is seeing an increase in demand, which is leading to improved vacancy rates throughout the country. Demand is especially robust in central Tokyo, reflected in noticeably falling vacancy rates and climbing rents for new tenants.

Under these circumstances, JRE was able to maintain a high occupancy rate of 98.7% (as of September 30, 2007) by (1) acquiring top-level properties and upgrading building facilities through optimal refurbishment in order to maintain and improve functions; and (2) developing finely tuned building management policies from the perspective of tenants, while undertaking vigorous activities to attract new tenants. In light of the recovery in the market for leased office space in central Tokyo, JRE has also undertaken concrete initiatives aimed at further increasing revenues and raising rent levels.

Regarding the property market, property values remained on an upward trend as a result of expanding demand for office properties amid the continuing economic recovery, as well as increased investments in real estate not only by J-REITs but also by such entities as private funds, pension funds and institutional investors. The official land price announced in September 2007 revealed that robust demand for office space and inflow of investment funds have positively affected land prices nationwide. In more specific terms, the national average price of commercial land climbed for the first time in 16 years. In particular, certain districts under redevelopment in Japan’s three major metropolitan areas showed significant increases in value ranging from the upper 20% range to approximately 40%, compared with the previous year.

In this sort of market environment, JRE undertook the acquisition of a competitive property as well as the following property transfer as part of revisions aimed at further strengthening the quality of its portfolio. As a result, JRE’s properties as of September 30, 2007 consisted of 50 office buildings with a total acquisition amount of 446,940 million yen. Total

leasable space was 406,605 m<sup>2</sup> (approximately 122,998 *tsubo*), with a total of 879 tenants.

Name of Property	Location	Type of Specified Asset	Transfer Price
Kobe Itomachi Building	Kobe City, Hyogo Prefecture	Trust beneficiary right in trust of real estate	1,770 million yen

## (2) Finance Activities

JRE issued Japan Real Estate Investment Corporation Fifth and Sixth Unsecured Bonds on June 18, 2007, with the amount of each issue totaling 10,000 million yen and 15,000 million yen, respectively. Proceeds from the bond issues were used for the June 21, 2007 redemption of the Japan Real Estate Investment Corporation First Unsecured Bond, with the amount of the issue having totaled 25,000 million yen.

Name of the Investment Corporation Bond	Japan Real Estate Investment Corporation Fifth Unsecured Bond (No finance-related special covenants, such as negative pledge)
Total Amount of the Bond Issue	10,000 million yen
Date of the Bond Issue	June 18, 2007
Term	5 years
Interest Rate	1.67% (annual)
Subscription Method	Public offering
Secured Mortgage or Guarantee	There is no secured mortgage or guarantee on the bond.

Name of the Investment Corporation Bond	Japan Real Estate Investment Corporation Sixth Unsecured Bond (No finance-related special covenants, such as negative pledge)
Total Amount of the Bond Issue	15,000 million yen
Date of the Bond Issue	June 18, 2007
Term	7 years
Interest Rate	1.91% (annual)
Subscription Method	Public offering
Secured Mortgage or Guarantee	There is no secured mortgage or guarantee on the bond.

JRE has also taken out a long-term loan of 6,500 million yen to finance the acquisition of the 8•3 Square Kita Building. As a result of these above, along with refinancing of existing long-term loans, JRE had total interest-bearing debt of 144,500 million yen on September 30, 2007, consisting of 89,500 million yen in long-term loans and outstanding investment corporation bonds with a par value of 55,000 million yen, including a 10,000 million yen current portion of investment corporation bonds. (JRE had no short-term loans as of the end of the period under review.)

As a result of the aforementioned finance activities, JRE's long-term, fixed-interest debt ratio (ratio of long-term, fixed-interest debt including current portion of long-term loans and investment corporation bonds to total interest-bearing debt) stood at 100% as of September 30, 2007.

The LTV ratio (the ratio of interest-bearing debt to total assets) stood at 32.1% as of September 30, 2007, compared with 31.5% at the end of the previous fiscal period. Relative to its targeted LTV ratio of the 30% level, JRE has been able to maintain a sound and disciplined financial standing.

JRE's credit ratings as of September 30, 2007 are as follows.

Rating Agency	Credit Rating
Standard & Poor's Ratings Services	Long-term: A+; Short-term: A-1; Outlook: Positive
Moody's Investors Services, Inc.	Issuer rating: A1; Outlook: Positive
Rating and Investment Information, Inc.	Issuer rating: AA; Outlook: Stable

### **3. Outlook**

#### **(1) Operating Environment**

Although it will be necessary to pay close attention to the impact of the U.S. economy on the Japanese market, as well as the impact of rising interest rates and increasing crude oil and raw material prices on corporate earnings performance and consumer confidence and spending, the stable, favorable turnabout in the Japanese economy centered on the corporate sector is expected to continue for the foreseeable future.

In the market for leased office space, both vacancy rates and rent levels are demonstrating favorable trends, supported by the active demand for office space spurred by the robust corporate performance.

On the other hand, when selecting buildings, tenants in this market are making increasingly stringent demands ranging from location, building quality, and features to building management and value-added services. We anticipate that it will become even more important for suppliers to provide services that correctly and promptly reflect the needs of tenants and to deliver added value that differentiates their buildings from the competition.

In the real estate market, JRE expects active real estate investment to be continued by J-REITs, in addition to such entities as private funds, pension funds and institutional investors. Accordingly, we expect that competition to acquire prime properties will become more intense.

#### **a. Property Management**

In accordance with the aforementioned, while business conditions in the market for leased office space are trending toward full recovery, JRE adheres to the following management policies in order to maintain and improve earnings.

##### **(i) Strengthen relationship of trust with existing tenants and raise rent levels**

As of September 30, 2007, JRE had contracts with 12 property management companies. Most of these companies were already managing their respective buildings before JRE acquired them, and so have built relationships of trust with their tenants. JRE will work to further strengthen these relationships by anticipating tenants' needs and providing tailored services in order to increase tenant satisfaction, and subsequently uncover additional demand for office space and raise rent levels. In addition, we are endeavoring to raise rent levels for those tenants whose rents are significantly below market value.

##### **(ii) Fill vacancies promptly**

In cooperation with the property management companies mentioned above, JRE actively seeks the most appropriate tenants for each property, based on location and features, in order to fill current and anticipated vacancies as rapidly as possible. We are also working to uncover additional demand for office floor space among our existing tenants.

##### **(iii) Stabilize revenues**

With the aim of stabilizing revenues, JRE is endeavoring to apply fixed- and long-term leasing agreements with its large-scale tenants.

##### **(iv) Reduce management costs**

JRE has introduced sound competitive principles for its multiple property management companies to follow. These companies are also revamping their management systems and cost structures on an ongoing basis.

#### **b. Property Acquisitions and Sales**

JRE has adopted the following policies for acquiring properties.

- (i) To access important information quickly, JRE is enhancing its property information channels, including strengthening its relationships with building owners with whom it has previously conducted business. We are also working to develop new channels.
- (ii) In its acquisition activities, JRE will continue to meticulously monitor and examine economic, physical, and legal factors, including rights-related issues, while also taking business conditions into account when selecting properties. With regard to the structure of buildings, we require buildings to meet or exceed new earthquake-resistance standards and are targeting properties capable of maintaining a competitive edge in terms of the facilities they offer over the medium to long term.
- (iii) In accordance with its acquisition policies, JRE's general target for regional diversity of properties is for 70% or more of properties to be located within the Tokyo metropolitan area, with the remaining 30% or less located in other regional urban centers.

Under these policies, JRE will continue to acquire highly competitive properties while also considering suitable timing for the sales of properties in order to further strengthen the quality of its portfolio with an optimum property mix.

Concerning the financing of property acquisitions, JRE flexibly selects a variety of financial instruments, including the issue of investment corporation bonds, while monitoring trends in financial markets. When procuring a loan, our policy is to minimize funding costs by negotiating with several qualified institutional investors before settling on a lender.

## **(2) Performance Forecasts**

For the 13th fiscal period (October 1, 2007 to March 31, 2008), JRE forecasts operating revenues of 25,430 million yen, ordinary income of 12,190 million yen and net income of 12,190 million yen. We plan to declare a dividend of 29,730 yen per unit.

Our forecasts for the 14th fiscal period (April 1, 2008 to September 30, 2008) are operating revenues of 18,050 million yen, ordinary income of 7,460 million yen and net income of 7,460 million yen. We plan to declare a dividend of 18,210 yen per unit.

The above estimates for the 13th and 14th periods are based on assumptions of the portfolio consisting of 50 properties as of September 30, 2007, and the acquisition of the Harumi Center Building from Harumi Front Special Purpose Company ("Harumi Front TMK"<sup>\*1</sup>) scheduled on December 18, 2007. Estimates are subject to change in accordance with the acquisition or sale of other properties. The estimates are also based on the 410,000 investment units outstanding as of September 30, 2007, and on the assumptions that (1) JRE's operating revenues for the 13th fiscal period will include 7,800 million yen as dividends for its holding of preferred capital contribution certificates issued by Harumi Front TMK, from which it will acquire the Harumi Center Building, as noted above; (2) JRE's operating expenses will include asset management fees (term and incentive fees) payable to the Asset Management Company for the 13th fiscal period totaling 2,530 million yen with an increased portion in relation to the aforementioned dividends to be received; and (3) the amount of dividends to be paid to JRE will be approved by a general meeting of members of Harumi Front TMK scheduled to be held in March 2008, etc.

After September 30, 2007, JRE plans to acquire the office building described below.

### **Harumi Center Building Outline of the acquisition**

Asset to be acquired:	Real property
Scheduled acquisition date:	December 18, 2007
Acquisition price:	26,800 million yen
Seller:	Harumi Front TMK <sup>*1</sup>

### **Outline of the asset**

Location (Address):	2-5-24 Harumi, Chuo-ku, Tokyo
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Usage:	Office, shop
Land area:	4,664.63 m <sup>2</sup>
Building area:	26,447.27 m <sup>2</sup>
Structure:	Steel-framed structure, flat roof
	Above ground: 10 floors
Completion date:	November 2006
Type of ownership:	(Land) Ownership
	(Building) Ownership
Total number of tenants:	7 <sup>*2</sup>
Total leasable space:	20,812 m <sup>2</sup> *2
Total leased space:	20,425 m <sup>2</sup> *2
Occupancy rate:	98.1% <sup>*2</sup>

Notes:

- \*1 The seller, Harumi Front TMK, is a special purpose company defined under the Act on Securitization of Assets. JRE holds approximately 49.9% of preferred capital contribution certificates issued by this special purpose company.
- \*2 Total number of tenants, total leasable space, total leased space and occupancy rate are projections for the office building as of the scheduled acquisition date (December 18, 2007) and based on data provided by the seller.

# Income Statement for the 12th Period



(In millions of yen; Dividend per Unit in yen)

Item	12th Period-end (Sep 30, 2007)	11th Period-end (Mar 31, 2007)	Change	Change (%)
Operating Revenues	17,530	16,960	570	3.4%
Rental revenues	17,079	16,397		
Non-rental revenues	53	103		
Gain on transfer of properties (*1)	397	459		
Property-related Expenses (*2)	5,059	5,200	-140	- 2.7%
Property management expenses	1,875	1,815		
Utilities expenses	1,177	1,133		
Property and other taxes	1,346	1,241		
Casualty insurance	37	38		
Repairing expenses	580	916		
Other rental expenses	42	54		
NOI (*3)	12,073	11,300	772	6.8%
Depreciation	2,835	2,717		
Property-related Profits and Losses (*3)	9,237	8,582	654	7.6%
Gross Operating Income	9,635	9,042	593	6.6%
Administrative Expenses	896	737	158	21.5%
Asset management fees	661	452		
Other administrative expenses	234	284		
Operating Income	8,739	8,304	434	5.2%
Non-operating Revenues	32	37	-4	- 12.8%
Interest income	29	36		
Other non-operating revenues	2	1		
Non-operating Expenses	1,185	1,157	28	2.4%
Interest expense	695	666		
Interest expense on investment corporation bonds	413	376		
Amortization of investment corporation bond issuance costs	16	9		
Other non-operating expenses	60	104		
Ordinary Income	7,586	7,184	401	5.6%
Income before income taxes	7,586	7,184	401	5.6%
Income taxes	1	0		
Net Income	7,585	7,183	401	5.6%
Retained Earnings at End of Period	7,585	7,183		
FFO (*4)	10,022	9,441	580	6.2%
Dividend per Unit	18,500	17,521	979	5.6%

\*1 Gain on sale of properties + Gain on exchange of properties

\*2 Excluding Depreciation

\*3 Excluding Gain on transfer of properties

\*4 Net income + Depreciation - Gain on transfer of properties

# Balance Sheet for the 12th Period



(In millions of yen)

Item	12th Period-end (Sep 30, 2007)	11th Period-end (Mar 31, 2007)	Change	Reason for change
<b>Current Assets</b>				
Cash and entrusted cash	16,419	13,877	2,542	
Other current assets	326	1,764	-1,437	
<b>Total Current Assets</b>	<b>16,746</b>	<b>15,642</b>	<b>1,104</b>	
<b>Fixed Assets</b>				
Property and Equipment				
Buildings (including those held in trust)	149,020	144,441	4,578	Increased due to acquisition of property and capital expenditure, and decreased due to transfer of property
Structures (including those held in trust)	1,695	1,639	55	
Machinery and equipment (including that held in trust)	2,291	2,216	75	
Land (including that held in trust)	296,188	293,773	2,414	
Accumulated depreciation	-20,763	-18,089	-2,674	
<b>Total Property and Equipment</b>	<b>428,431</b>	<b>423,981</b>	<b>4,449</b>	
Intangible Assets				
Leasehold rights, etc. (including those held in trust)	3,032	3,032	0	
<b>Total Intangible Assets</b>	<b>3,032</b>	<b>3,032</b>	<b>0</b>	
<b>Investments and Other Assets</b>				
Investment securities	1,272	1,272	0	
Long-term prepaid expenses, etc.	25	24	1	
<b>Total Investments and Other Assets</b>	<b>1,298</b>	<b>1,297</b>	<b>1</b>	
<b>Total Fixed Assets</b>	<b>432,761</b>	<b>428,310</b>	<b>4,450</b>	
<b>Deferred Assets</b>				
Deferred investment corporation bond issuance costs	134	19	114	5th and 6th investment corporation bonds issue
<b>Total Deferred Assets</b>	<b>134</b>	<b>19</b>	<b>114</b>	
<b>Total Assets</b>	<b>449,643</b>	<b>443,973</b>	<b>5,670</b>	

(In millions of yen)

Item	12th Period-end (Sep 30, 2007)	11th Period-end (Mar 31, 2007)	Change	Reason for change
<b>Liabilities</b>				
Current Liabilities				
Short-term loan	0	0	0	
Current portion of long-term loans	0	6,000	-6,000	Decreased due to refinancing
Current portion of investment corporation bonds	10,000	25,000	-15,000	Increased due to decrease of remaining periods of bonds and decreased due to redemption
Rent received in advance	2,195	2,102	92	
Other current liabilities	3,107	2,927	180	
<b>Total Current Liabilities</b>	<b>15,302</b>	<b>36,029</b>	<b>-20,727</b>	
Long-term Liabilities				
Investment corporation bonds	45,000	30,000	15,000	Decreased due to decrease of remaining periods of bonds and increased due to new issuance
Long-term loans	89,500	79,000	10,500	Increased due to new borrowings and refinancing
Deposits received from tenants	27,571	27,075	495	Increased due to acquisition of property and decreased due to transfer of property
Other long-term liabilities	0	0	0	
<b>Total Long-term Liabilities</b>	<b>162,071</b>	<b>136,075</b>	<b>25,995</b>	
<b>Total Liabilities</b>	<b>177,374</b>	<b>172,105</b>	<b>5,268</b>	
<b>Net Assets</b>				
Unitholders' Capital	264,683	264,683	0	
Retained Earnings	7,585	7,183	401	
<b>Total Net Assets</b>	<b>272,269</b>	<b>271,867</b>	<b>401</b>	
<b>Total Liabilities and Net Assets</b>	<b>449,643</b>	<b>443,973</b>	<b>5,670</b>	



# Property Data



(In millions of yen)

Area		Name	12th Period Appraisal Value (Sep 30, 07)	11th Period Appraisal Value (Mar 31, 07)	Amount of Difference	12th Period Book Value (Sep 30, 07)	12th Period Appraisal Value-Book Value	Acquisition Price	
Tokyo 23 Wards	Chiyoda	Genki Medical Plaza	6,300	6,220	80	5,136	1,163	5,000	
		Kitanomaru Square	85,600	83,900	1,700	80,897	4,702	81,555	
		MD Kanda Bldg.	11,400	10,200	1,200	9,153	2,246	9,520	
		Kandabashi Park Bldg.	6,310	5,600	710	4,626	1,683	4,810	
		Nibancho Garden	17,600	16,400	1,200	14,375	3,224	14,700	
		Mitsubishi UFJ Trust and Banking Bldg.	46,500	44,700	1,800	30,642	15,857	44,700	
		Burex Kojimachi Bldg.	7,040	6,930	110	6,869	170	7,000	
		Sanno Grand Bldg.	28,800	26,800	2,000	21,721	7,078	20,900	
	Yurakucho Denki Bldg.	8,240	7,980	260	7,669	570	7,200		
	Chuo	Kodenmacho Shin-Nihonbashi Bldg.	3,890	3,430	460	2,891	998	3,173	
		Burex Kyobashi Bldg.	7,050	6,610	440	5,099	1,950	5,250	
		Ginza Sanwa Bldg.	17,800	17,500	300	17,064	735	16,830	
		Ryoshin Ginza East Mirror Bldg.	4,980	4,790	190	5,399	-419	5,353	
	Minato	Aoyama Crystal Bldg.	9,150	8,900	250	7,568	1,581	7,680	
		Shiba 2Chome Daimon Bldg.	7,510	6,990	520	4,936	2,573	4,859	
		Cosmo Kanasugibashi Bldg.	3,590	3,560	30	2,589	1,000	2,808	
	Shinjuku	Shinwa Bldg.	9,060	8,450	610	7,788	1,271	7,830	
		Tokyo Opera City Bldg.	11,900	11,600	300	8,969	2,930	9,350	
	Shinagawa	Takanawadai Bldg.	2,840	2,780	60	2,570	269	2,738	
		Higashi-Gotanda 1Chome Bldg.	7,050	6,720	330	5,315	1,734	5,500	
	Ota	Omori-Eki Higashiguchi Bldg.	5,720	5,520	200	4,600	1,119	5,123	
	Shibuya	Nippon Brunswick Bldg.	9,030	8,480	550	6,715	2,314	6,670	
		Yoyogi 1Chome Bldg.	13,000	11,800	1,200	8,348	4,651	8,700	
		da Vinci Harajuku	6,420	6,090	330	4,946	1,473	4,885	
		Jingumae Media Square Bldg.	15,600	15,300	300	12,040	3,559	12,200	
		Shibuya Cross Tower	51,100	45,800	5,300	38,414	12,685	34,600	
		Ebisu Neonato	5,620	5,520	100	3,866	1,753	4,100	
	Nakano	Harmony Tower	13,600	12,700	900	8,561	5,038	8,500	
Toshima	Otsuka Higashi-Ikebukuro Bldg.	3,920	3,500	420	3,390	529	3,541		
	Ikebukuro 2Chome Bldg.	1,630	1,560	70	1,635	-5	1,728		
	Ikebukuro YS Bldg.	5,630	5,570	60	4,669	960	4,500		
Other Areas	Hachioji City	Hachioji First Square	3,690	3,390	300	3,188	501	3,300	
	Saitama City	Saitama Urawa Bldg.	2,720	2,550	170	2,423	296	2,574	
	Kawasaki City	Kawasaki Isago Bldg.	3,360	3,360	0	2,938	421	3,375	
	Sendai City	Jozenji Park Bldg.	1,130	1,070	60	1,024	105	1,000	
		Sendai Honcho Honma Bldg.	3,690	3,600	90	2,881	808	3,174	
	Kanazawa City	Kanazawa Park Bldg.	6,590	6,300	290	4,476	2,113	4,580	
	Nagoya City	Nishiki Park Bldg.	5,390	5,210	180	5,179	210	5,150	
		Hirokoji Sakae Bldg.	1,730	1,680	50	1,710	19	1,680	
		Nagoya Hirokoji Bldg.	16,000	15,900	100	14,072	1,927	14,533	
		Nagoya Misono Bldg.	1,940	1,890	50	1,629	310	1,865	
	Kyoto City	Kyoto Shijo Kawaramachi Bldg.	2,350	2,140	210	2,877	-527	2,650	
	Osaka City	Sakaisujihonmachi Bldg.	4,800	4,700	100	3,975	824	4,164	
		Midosuji Daiwa Bldg.	18,900	16,800	2,100	13,616	5,283	14,314	
	Okayama City	Lit City Bldg.	5,550	5,400	150	4,516	1,033	4,650	
	Hiroshima City	NHK Hiroshima Broadcasting Center Bldg.	1,790	1,780	10	1,253	536	1,320	
	Fukuoka City	Tosei Tenjin Bldg.	1,530	1,510	20	1,388	141	1,550	
		Tenjin Crystal Bldg.	4,980	4,970	10	4,877	102	5,000	
		Hinode Tenjin Bldg.	3,870	3,640	230	3,538	331	3,657	
	Total (49 properties)			523,890	497,790	26,100	424,045	99,844	439,840
	Property Acquired after the 11th Period		8・3 Square Kita Bldg.	7,210	-	-	7,417	-207	7,100
Total (50 properties)			531,100	-	-	431,463	99,636	446,940	