

Kenedix Realty Investment Corporation (KRI)

Summary of 3rd Period Results (ending Oct. 2006)

December 2006

Kenedix REIT Management, Inc.

<http://www.kdx-reit.com/eng/index.html>

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Change in portfolio construction policy to focus on investment in office buildings

Specific investment policies:

- ◆ Investment to focus on office buildings
- ◆ No new investments in residential for time being
- ◆ To invest in urban-type retail properties as an alternative to investing in office buildings

Change in portfolio construction policy

Sector	Usage	After Change	Before Change
Office Buildings	Office buildings for rent	50 ~ 100%	50% or more
Residential	Rental housing	0 ~ 30%	20% or more
Commercial Facilities	Urban-type retail properties	0 ~ 20%	30% or less
Others	Business hotels, Educational facilities,	0% for time being	

Kenedix Realty Investment Corporation's basic strategy (investment policy) :

- ◆ Flexible and dynamic investment with accurate timing, based on grasp of market trends
- ◆ Stress on three-point investment criteria (property type, area, and size)
- ◆ Construct diversified asset portfolio

Overview of current portfolio

(As at 11 December 2006)

Retail properties	3	10.6%
Residential	32	29.5%
Office Buildings	30	59.9%

- ◆ Has grown to become diversified portfolio of assets, with 65 properties worth c. ¥150bn

Portfolio envisaged when asset size target (¥200bn) is achieved

Residential	c. 25%	c. 75%
Urban-type retail properties	c. 8-10%	
New investments in office buildings		
Office buildings	c. 65-67%	

Highlights in the 3rd Period

		Future management policies & targets
External growth	<ul style="list-style-type: none"> ◆ ¥81.4bn (35 properties) at end of the 2nd Period ¥150.9bn (65 properties) at Dec. 11, 2006 ◆ Bulk purchases at time of PO using multi-pipeline approach (26 properties, c. ¥58bn) ◆ Assets acquired during term using asset management company's proprietary network (5 properties, c. ¥9bn) 	<ul style="list-style-type: none"> ◆ Invest mainly in office buildings ◆ Asset size of ¥200bn by end-2007
Internal growth	<ul style="list-style-type: none"> ◆ Increases in new rents (average of 16%) based on high move out rates (6.1% annualised in the 3rd Period, 12.3% annualised in the 4th Period) of medium-size office buildings ◆ Construction work and leasing management based on results of CS survey (for office buildings) 	<ul style="list-style-type: none"> ◆ Focus on portfolio NOI yield ◆ Increases in new and existing rents
Financial performance	<ul style="list-style-type: none"> ◆ Credit ratings: A+ (JCR, Dec 2006), A3 (Moody's, Feb. 2006) ◆ Equity finance raised through global offering (1 May 2006) ◆ Diversified maturity dates (have taken on 7-year and 10-year fixed borrowings)) 	<ul style="list-style-type: none"> ◆ Corporate bond issues ◆ Diversified maturity dates ◆ Extend duration
3rd Period Results	<ul style="list-style-type: none"> ◆ Results for the 3rd Period <ul style="list-style-type: none"> – Distribution per unit: ¥13,529 – FFO per unit: ¥19,759 	<ul style="list-style-type: none"> ◆ Stable growth in distribution per unit

Overview in the 3rd Period financial results—Performance highlights

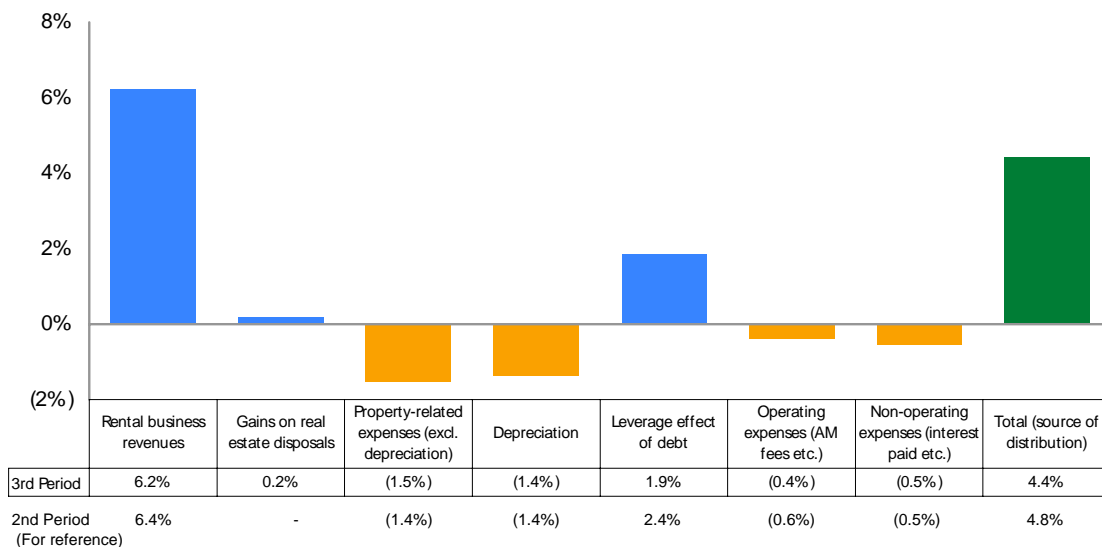
Performance

	2nd period	3rd period
Net Income	¥1,101m	¥2,124m
Total assets	¥92,053m	¥160,314m
Net assets	¥45,387m	¥90,933m
Number of units outstanding	79,370 units	157,000 units
Net assets per unit	¥571,840	¥579,192
Distribution per unit	¥13,884	¥13, 529

Financial Ratios

	2nd period	3rd period	Notes
Interest-bearing Debt Ratio	45.6%	38.7%	Decreased by approx. 6.9%
Equity Ratio	49.3%	56.7%	-
NOI from leasing business	¥2,256m	¥3,869m	Rental business revenue - Property-related expense + Depreciation for the period
FFO	¥1,752m	¥3,102m	Net Income + Depreciation for the period – Profit on sale of properties
FFO pay-out ratio	62.9%	68.5%	Distribution/FFO
FFO per unit	¥22,076	¥19,759	-

◆ Relationship between property revenue, leverage effects, and distribution (illustrated 3rd period results)



1. Annual rate calculations based on 179-day average management period of assets acquired, weighted by acquisition cost
2. Ratios are percentages of total liabilities + market capitalization (excluding Leverage effects and Total)
 - Rental NOI yield (rental business revenue - property-related expense) of c. 5.4% on acquisition price basis
3. Leverage effects calculated based on rental business profit margin ÷ (1-debt ratio)
 - Used monthly average debt ratio for current period of c. 36%
4. (Reference) Earnings yield level based on unit price as of the end of the period
 - Unit price as of the end of 3rd period (Oct. 31. 2006): ¥628,000
 - Actual days under management: 179 days
 - Distribution per unit ¥13,529 approx. 4.4%

4th Period Earnings Forecasts

Operating forecasts for 4th Period (to April 2007)

(¥ million)	2nd period results (to April 2006)	3rd period results (to October 2006)	4th period forecasts (to April 2007)	Notes
Operating revenues	2,871	5,288	5,542	¥157m profit booked on sale of residential properties in the 3rd period
Operating expenses	1,527	2,723	2,973	Management fees up ¥101m because of expansion in asset size in the 3rd period
Property-related expenses (excl. depreciation)	615	1,261	1,309	
Depreciation	650	1,135	1,199	
Operating Income	1,343	2,565	2,568	
Non-operating expenses	246	442	493	Both the 3rd period and the 4th period, ¥18m amortisation of investment unit issue expenses
Interest expense	164	375	431	The 4th period borrowings ¥66.0bn
Ordinary Income	1,103	2,125	2,075	
Net Income	1,101	2,124	2,074	
Number of units outstanding	79,370	157,000	157,000	-
Distribution per unit (Yen)	13,884	13,529	13,200	
NOI	2,256	3,869	4,232	Rental business revenue Property-related expenses + depreciation
FFO	1,752	3,102	3,274	Net Income + depreciation for the period Profit on sale of properties

Rental business revenues forecasts (for reference)

- ◆ Rental business revenues based on ARGUS, a general-use real estate software program
- ◆ For office buildings, reflects vacation notifications (generally 6 months in advance) and leasing situation

2nd period
32 35 properties

3rd period
59 64 properties

4th period
65 properties

Trends in the number of properties

Major changes in Term 5 (to October 2007)

- ◆ Expected Fixed Asset Tax & Urban Planning Tax costs: + ¥123m compared with 4th period

Disclosure policies for profit forecasts

- ◆ Disclose if DPU changes by 5% or more
- ◆ Disclose in principle if Operating revenues or Net income change by 15% or more

Turn-over ratio for office building and newly-contracted rental levels

Past and forecast vacation rates for office building portfolio (annualised)

1st Period	2nd Period	3rd Period	4th Period (Estimate) ¹
12.2%	2.7%	6.1%	12.3%

Note:

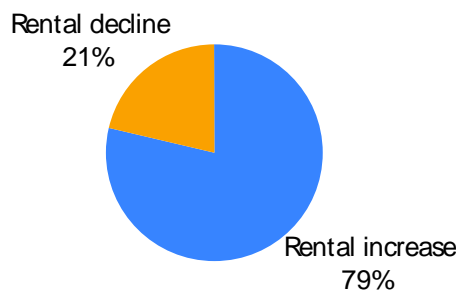
¹ Proportion of floor space to be newly vacated in 4th period based on advance notifications of contract cancellations

Special features of medium-sized office buildings

- ◆ Most tenants are medium and small, and **move-out rates are high**
- ◆ When rents are rising, rental levels can be increased



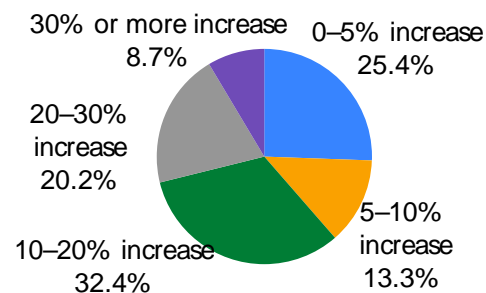
Newly-contracted rental levels (Leased floor space basis)



No. of tenants basis

	Rental increase	Rental decline
Tokyo economic area	9	1
Regional economic areas	4	4
Total	13	5

Distribution of increases in newly-contracted rental levels (Leased floor space basis)



Largest increase: c. 39% (+¥9,000/tsubo)
Average increase (number of cases basis) : c. 16%

1. 3rd Period results (new rental contracts signed in the 3rd Period)
2. Comparison with standard floor (offices above floors 1 and 2, excluding special usage) average rents (The one case of rental decline in the Tokyo economic region was signed at the same level as the previous tenant)
3. Limited to office usage above floor 2

Results of increase in office building NOI levels

Office portfolio internal growth performance

	Activity and results	Supplementary notes
1.Increase in ongoing rental levels	<ul style="list-style-type: none"> Of buildings for which we asked for rental increases, rental increases were successfully negotiated for c. 38% 	<ul style="list-style-type: none"> Of office buildings in the Tokyo metropolitan area, we chose to negotiate rental increases unrelated to contract renewal date at the beginning of 3rd Period (20% of total office tenant rental floor space in the Tokyo metropolitan area)
2.Reduction in BM costs	<ul style="list-style-type: none"> Succeeded in reductions on 15 of 23 properties under review (reductions total around ¥5m per month) Average reduction of c. 20% 	<ul style="list-style-type: none"> Of 25 properties owned at the beginning of the 3rd Period, 23 properties are under review (2 properties already reduced in the 2nd Period)
3.Increase in occupancy rates	<ul style="list-style-type: none"> Office building occupancy rate 97.3% (15 properties) 97.7% (29 properties) 	<ul style="list-style-type: none"> New contracts during the 3rd Period for space vacant at the start of the period or when acquired
4.Other	<p>Reduced electricity charges : 14 properties Reduced Fixed Asset Tax : 2 properties Parking revenue, vending machine installations, antenna installations etc.</p>	<p>Reduction resulting from change of plan (applies from the 4th period) Utilized Fixed Asset Tax reduction consultant</p>

(Reference) Office building acquisition policy at time of the 2nd period results presentation

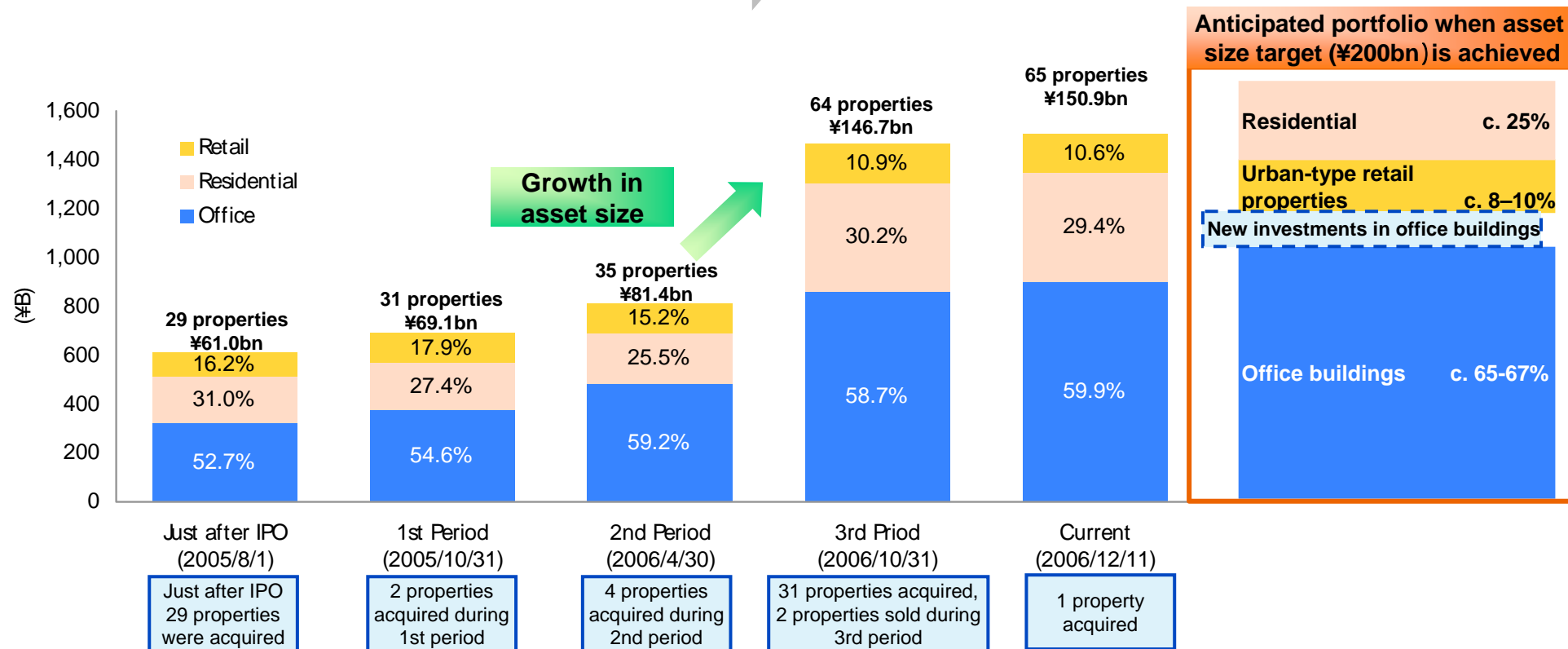
- Focus on **medium-scale office buildings in Tokyo economic area** aiming for rises in CF



“KENEDIX Selection”—External Growth and Target Asset Size

Initial target ¥200bn by the end of 2008

Current target **¥200bn** by the end of 2007

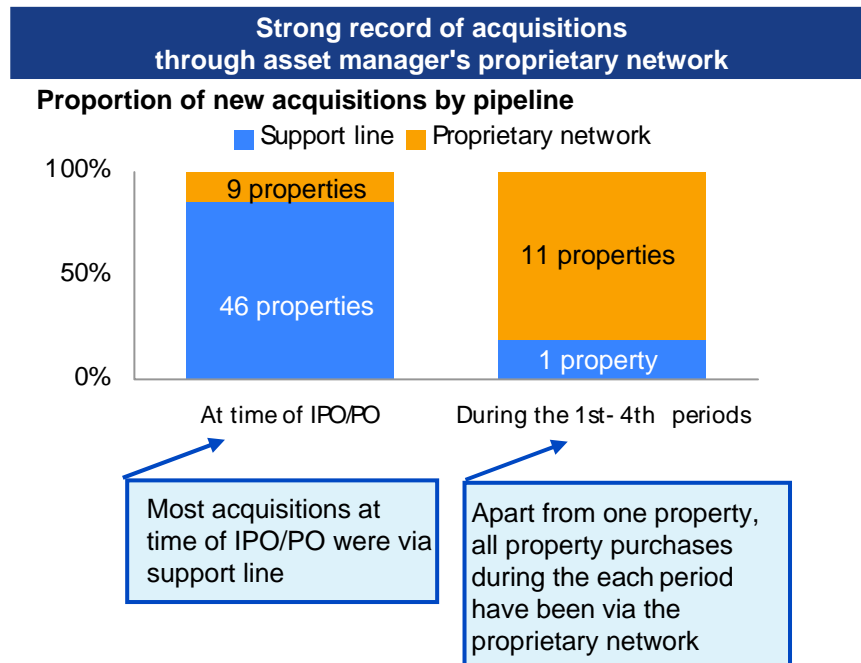
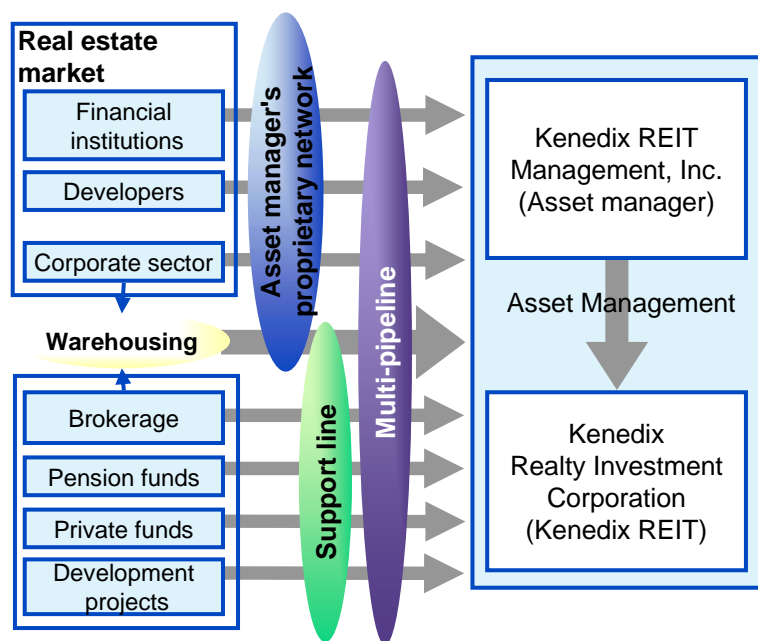


No. of properties infos (compiled by asset management company)

	1st Period (21/7/2005–10/2005)	2nd Period (11/2005–4/2006)	3rd Period (5/2006–10/2006)
Infos from Asset manager's proprietary network	179	409	318
Infos from Kenedix Group	30	76	111
Total	209	485	428

Note: figures shown are rounded down to nearest ¥100m, or 1 decimal place for ratios

External growth strategy—properties acquired using multi-pipeline approach



	1st Period Just after IPO (2005/8/1)	1st Period (excl. Just after IPO) and 2nd Period	PO (2006/5/1)	3rd and 4th Periods (excl. PO)	TOTAL
Proprietary network	Direct acquisition	4 properties (c.8.8bn)	1 properties (c.1.2bn)	6 properties (c.13.2bn)	11 properties (c.23.3bn)
	Warehousing	1 properties (c.6.0bn)	8 properties (c.16.3bn)		9 properties (c.22.3bn)
Support line	29 properties (c.61.0bn) ¹	1 properties (c.5.6bn)	17 properties (c.40.5bn)		47 properties (c.107.1bn) ^{1, 2}
TOTAL	29 properties (c.61.0bn)¹	6 properties (c.20.4bn)	26 properties (c.58.0bn)	6 properties (c.13.2bn)³	67 properties (c.152.7bn)¹

Notes:

1 Includes 2 residential properties (c. ¥1.7bn) sold in May 2006

2 Breakdown of support line : Pension funds 29 properties, private funds 6 properties, Kenedix's own real estate investments 12 properties

3 As of 2006/12/11

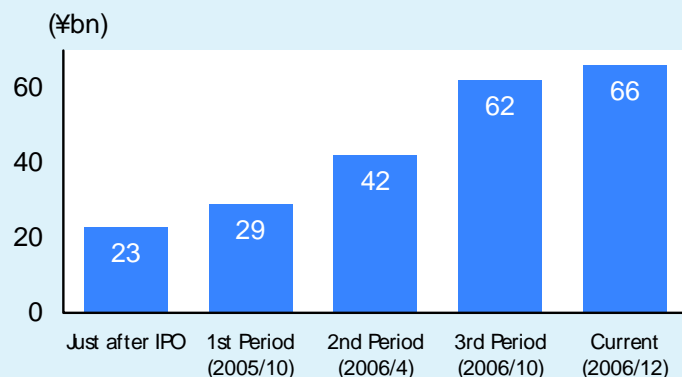
Financial strategies (raising funds through debt)

Credit ratings obtained

Rating agency	Type of rating	Date rating obtained
Japan Credit Rating Agency (JCR)	Long-term preferential debt credit: A+	11 Dec 2006
Moody's Investors Service, Inc.	Issuer credit: A3	28 Feb 2006

Total unsecured borrowings since IPO Flexible fund-raising

Outstanding debt

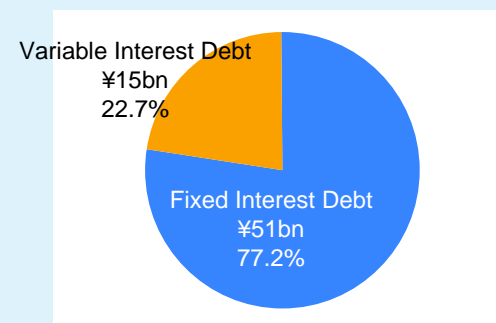


Note: Amount of unsecured loans outstanding

Shifting towards Fixed Interest Debt

Avoiding risk of interest rate rises

Proportions at variable / fixed rates



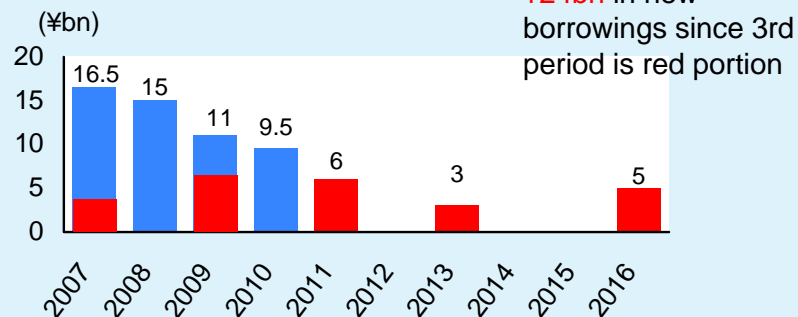
Notes:

- 1 "Fixed Interest Debt" includes loans whose rates have been fixed by use of interest rate swaps
- 2 Proportions are shown rounded down to one decimal place

Diversified maturity dates on borrowings

Reduction in refinancing risks

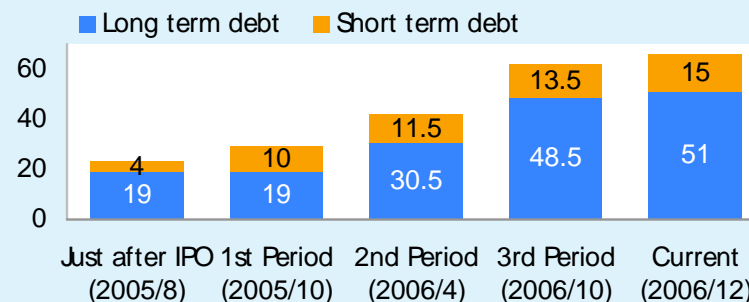
Debt outstanding by maturity date



Note: Amount of debt maturing in each year

Prolonged debt average maturity

Stable debt financing strategy



Note: fixed interest rates for all long-term loans through interest rate swaps