

# KENEDIX Realty Investment Corporation

## Semiannual Report

Fifth Fiscal Period

From May 1, 2007 to October 31, 2007



# Basic Investment Strategy

In principle, Kenedix Realty Investment Corporation (“the Investment Corporation”) invests in real estate and specified assets including securities backed by real estate for the purpose of securing stable earnings, sustainable investment asset growth and maximum cash distribution to investors.

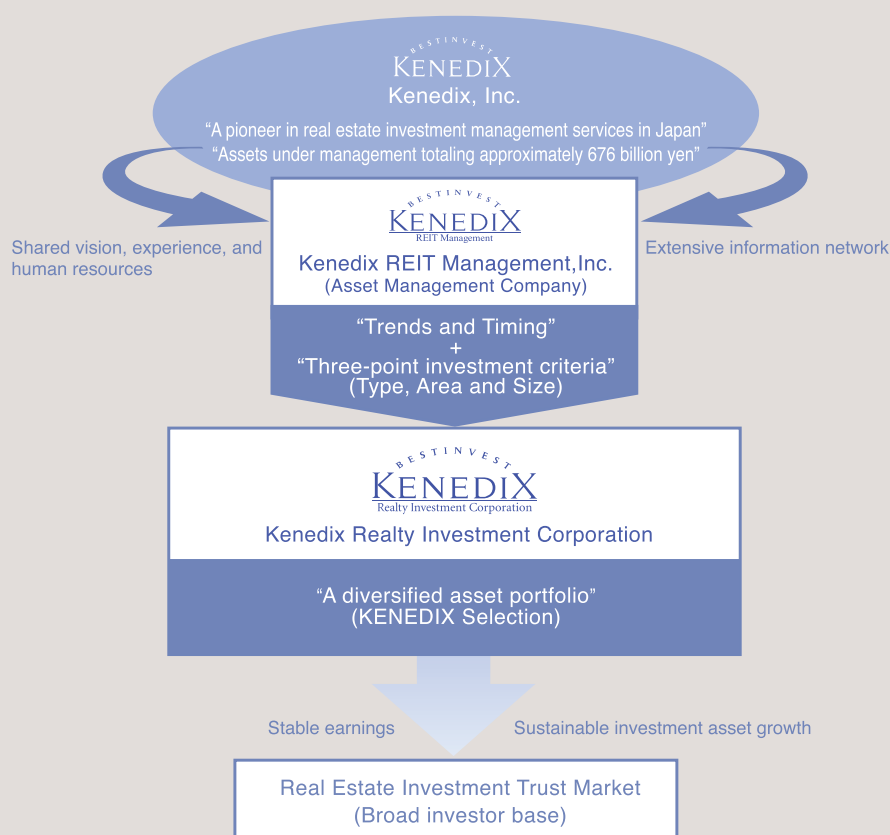
To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.

The Investment Corporation strives to develop a diversified investment portfolio named “KENEDIX Selection,” adopting a three-point investment criteria based on property type, area and size.

In order to realize its objectives, the Investment Corporation has appointed Kenedix REIT Management, Inc. (“the Asset Management Company”), as its asset management company.

The Asset Management Company is supported by the vision, experience, and human resources of Kenedix, Inc. (“Kenedix”)

Note: Kenedix REIT Management, Inc. is a wholly owned subsidiary of Kenedix, Inc.



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## Investment Highlights

Cash Distribution for the Fifth Fiscal Period (May 1, 2007 to October 31, 2007): ¥13,960 per unit

Note: The fifth fiscal period commenced on May 1, 2007, and ended on October 31, 2007, a period of 184 days.

### Investment Highlights

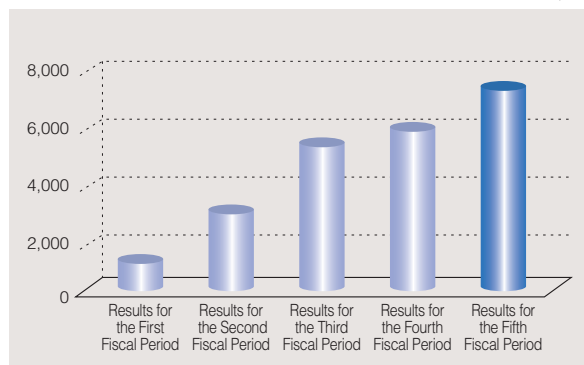
	Results for the First Fiscal Period	Results for the Second Fiscal Period	Results for the Third Fiscal Period	Results for the Fourth Fiscal Period	Results for the Fifth Fiscal Period
Operating Revenues	¥1,196 million	¥2,871 million	¥5,288 million	¥5,778 million	¥7,208 million
Operating Income	¥589 million	¥1,343 million	¥2,565 million	¥2,686 million	¥3,470 million
Ordinary Income	¥243 million	¥1,103 million	¥2,125 million	¥2,148 million	¥2,793 million
Net Income	¥242 million	¥1,101 million	¥2,124 million	¥2,148 million	¥2,792 million
Distribution per Unit	¥3,052	¥13,884	¥13,529	¥13,682	¥13,960

### Financial Results

	Results for the First Fiscal Period	Results for the Second Fiscal Period	Results for the Third Fiscal Period	Results for the Fourth Fiscal Period	Results for the Fifth Fiscal Period
Total Assets	¥77,325 million	¥92,053 million	¥160,314 million	¥188,400 million	¥213,763 million
Unitholders' Equity	¥44,527 million	¥45,387 million	¥90,933 million	¥90,877 million	¥127,761 million
Unitholders' Equity to Total Assets	57.6%	49.3%	56.7%	48.2%	59.8%
Unitholders' Equity per Unit	¥561,008	¥571,840	¥579,192	¥578,839	¥638,809

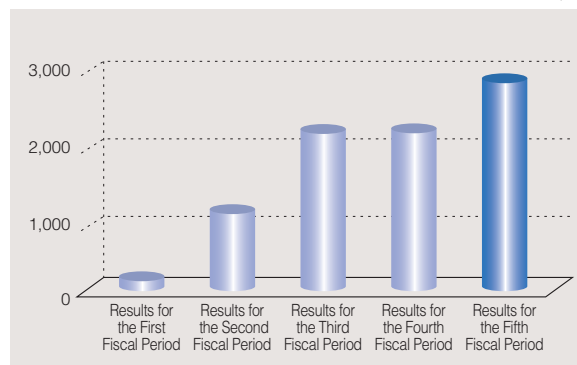
### Operating Revenues

(¥M)



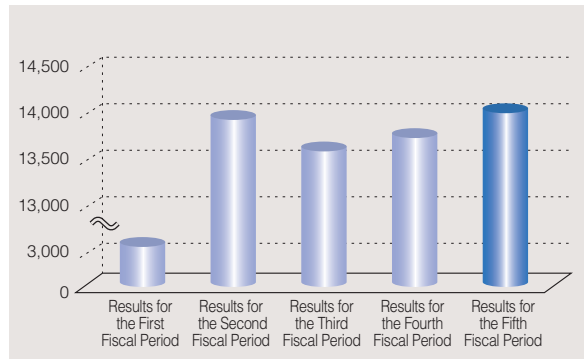
### Net Income

(¥M)



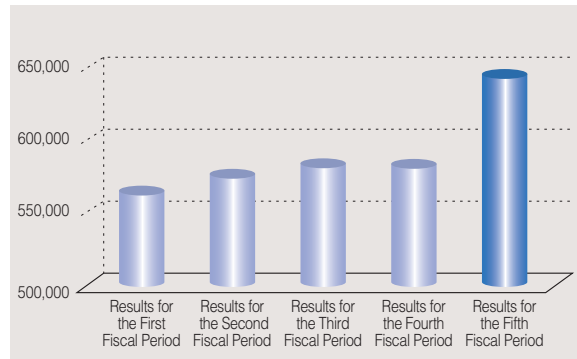
### Distribution per Unit

(¥)



### Unitholders' Equity per Unit

(¥)



# To Our Unitholders

Executive Director, Kenedix Realty Investment Corporation  
CEO and President, Kenedix REIT Management, Inc.

**Taisuke Miyajima**



Taking this opportunity to present our fifth semiannual report, I would like to thank all unitholders for their continued support and understanding as we strive to achieve stable earnings and sustainable growth. The operating results for the fifth fiscal period are as follows.

## ■ Distribution per Unit ¥13,960

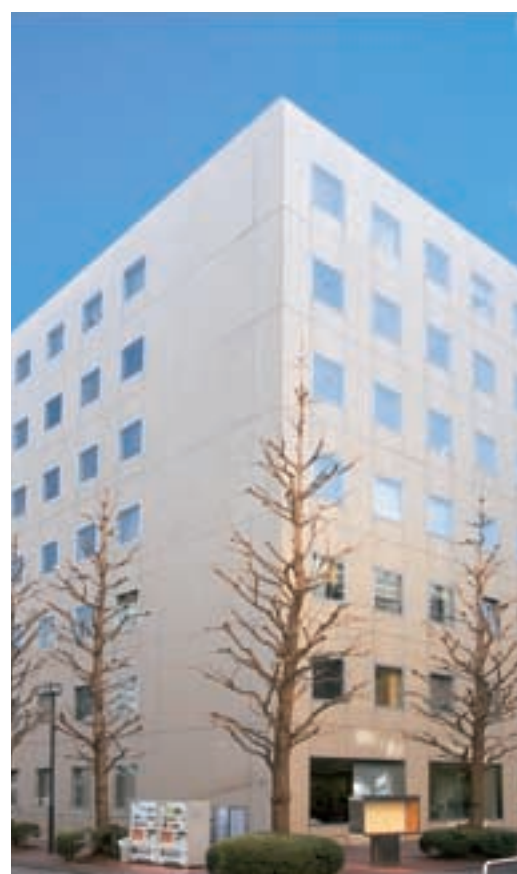
In its fifth fiscal period (May 1, 2007 to October 31, 2007), Kenedix Realty Investment Corporation (“the Investment Corporation”) recorded operating revenues of ¥7,208 million, operating income of ¥3,470 million, ordinary income of ¥2,793 million and net income of ¥2,792 million. As a result, cash distribution for the fiscal period under review was ¥13,960 per unit.

## ■ Acquisition of New Properties

**Investment focusing on mid-sized office buildings and raising the office ratio through cross-deal**  
The Investment Corporation conducted a review of its portfolio development policy in December 2006 in order to shift to investing more in office buildings. The Investment Corporation decided to invest mainly in office buildings and to make no new investment in residential properties for a certain period.

### ■ Review of the Portfolio Development Policy

Type of Use	After the Change	Before the Change
Office Buildings	50% – 100%	More than 50%
Central Urban Retail Properties	0% – 20%	Less than 30%
Residential Properties	0% – 30%	More than 20%
Other	0% for now	Less than 30%

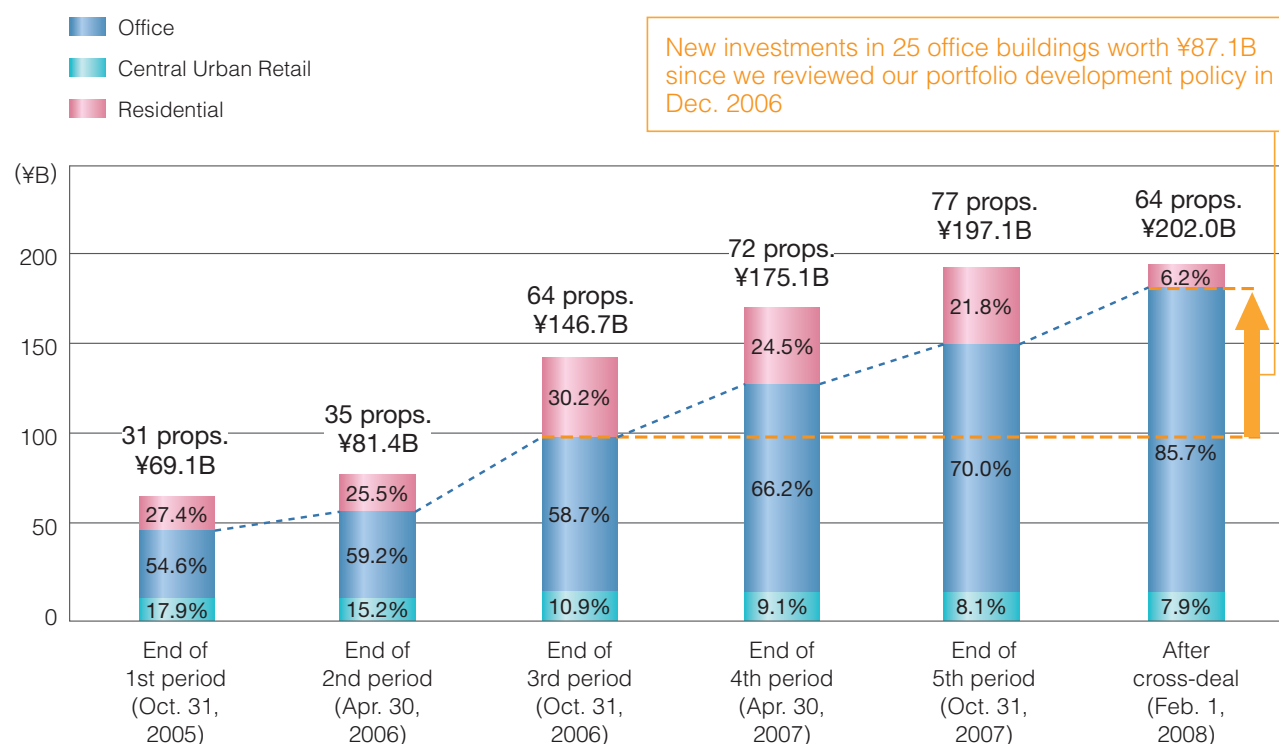


Based on the new portfolio development policy, the Investment Corporation concentrated on office building acquisition during the fourth and fifth fiscal periods, in which we acquired 15 office buildings and sold 2 residential properties. As a result, the office ratio of the whole portfolio increased to 70% as of the end of fifth fiscal period. In addition, the Investment Corporation sold 23 residential properties and have acquired 9 new office buildings in February 2008 which contributed to the further increase of the office ratio of the whole portfolio.

## ■ Increase in Asset Size and Office Ratio

The Investment Corporation carried out its policy of investing mainly in office buildings and has favorably increased portfolio's asset size.

The Investment Corporation will continue to raise the office ratio, which will include the cross-deal of residential properties and office buildings.



Notes: 1. Amounts refer to the initial acquisition price and are rounded to ¥100 million.  
2. Ratios are rounded down to the first decimal place.

Announced the policy to increase the office ratio and make no new investments in residential properties

Announcement of our policy to change asset composition through replacement based on type of properties

Announced the sale of 23 residentials and acquisition of 9 offices (cross-deal)

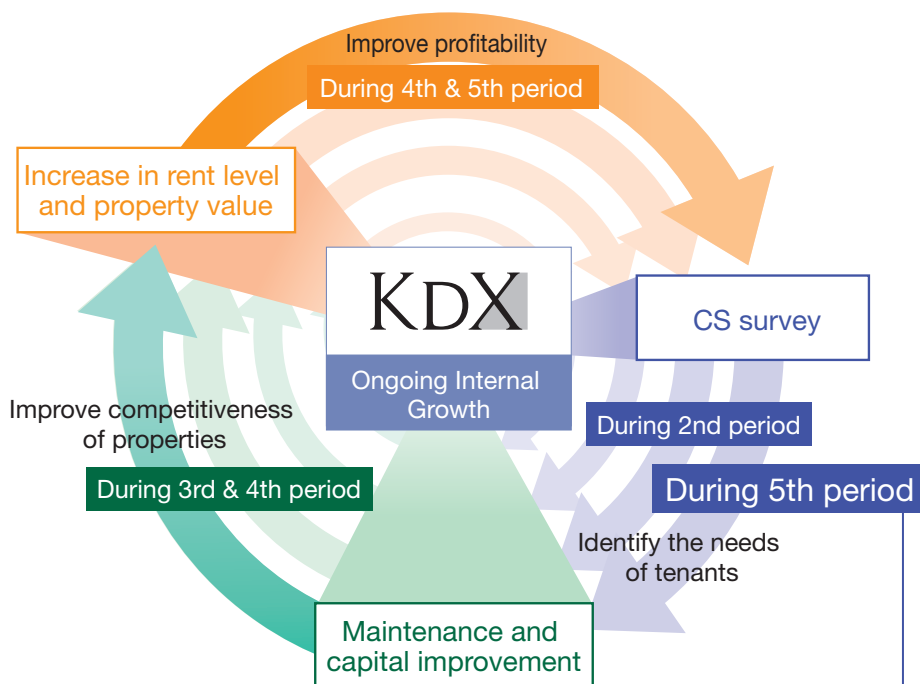
Realization of an office-focused portfolio through cross-deal

## ■ Management of Existing Property

### Emphasis on cash flow management and conduct CS survey

The Investment Corporation has increased its office portfolio NOI yield levels by increasing the newly contracted rent levels, increasing rent realized at contract renewal and reviewing the operating costs. Taking into consideration economic and real estate market trends, the Investment Corporation will continue to adopt a tenant-oriented approach to its leasing activities with emphasis on timely and flexible responses, and optimal tenant satisfaction. Accordingly, the Investment Corporation will aim to increase cash flow by offering office environments with high tenant appeal.

During the fifth fiscal period, the Investment Corporation conducted the second CS survey for our office buildings in our portfolio.



#### Details of the 2nd CS survey

##### Target respondent for the survey

The administration officers of each tenant and tenant employees of the 43 office buildings and one central urban retail property

##### Survey population

Administration officers	446
Tenant employees	2,348

##### Response rate

Administration officers	88%
Tenant employees	81%

#### ● Examples of questions in the questionnaire

Q: Please indicate your level of satisfaction with the facade and entrance part of the building

	Satisfied	Satisfied to a certain degree	Can't tell	Dissatisfied to a certain degree	Dissatisfied
A. Is it easy to open/close entrance door?	1	2	3	4	5
B. Time required for opening/closing the entrance door	1	2	3	4	5
C. Interior work (floor, walls, ceiling) of entrance hall	1	2	3	4	5
D. Ventilation of entrance hall	1	2	3	4	5

Q: Please indicate your level of satisfaction regarding inquiries from you to the property management company of our buildings

	Satisfied	Satisfied to a certain degree	Can't tell	Dissatisfied to a certain degree	Dissatisfied
A. Is it easy to find out contact person/contact said person?	1	2	3	4	5
B. Attitude of staff, politeness of their language	1	2	3	4	5
C. Did they respond quickly?	1	2	3	4	5
D. How was their ability to cope with accidents and defects?	1	2	3	4	5



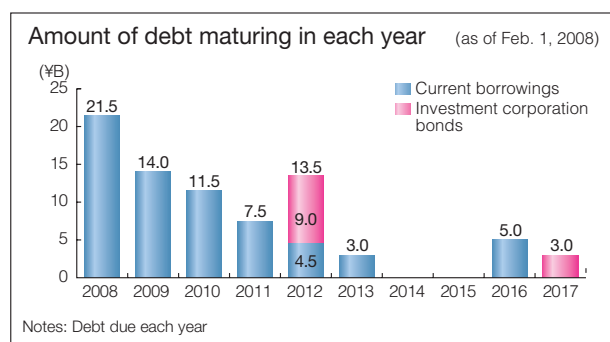
## Financial Strategy

### Realization of flexible debt funding and stable financial management

Since its public listing in 2005, the Investment Corporation has maintained the confidence of financial institutions. Thanks to these established relationships of trust, the Investment Corporation refinanced the same amount for the same period and thereby managed to improve (lower) procurement costs (spread over basic interest rate, etc.) for all borrowings that have matured during the fiscal period under review. The Investment Corporation will continue to diversify its financing methods while varying maturities to avoid refinancing risk, lengthen average debt maturities and effectively fix interest rates to mitigate interest rate risk.

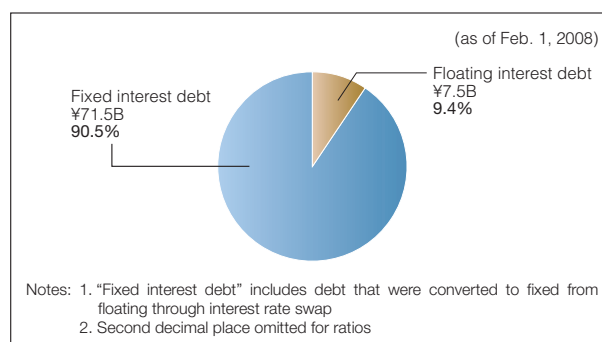
#### Debt maturity

Diversified maturities to avoid refinancing risk



#### Fixed debt interest rates

Effectively fixed interest rates to mitigate interest rate risk



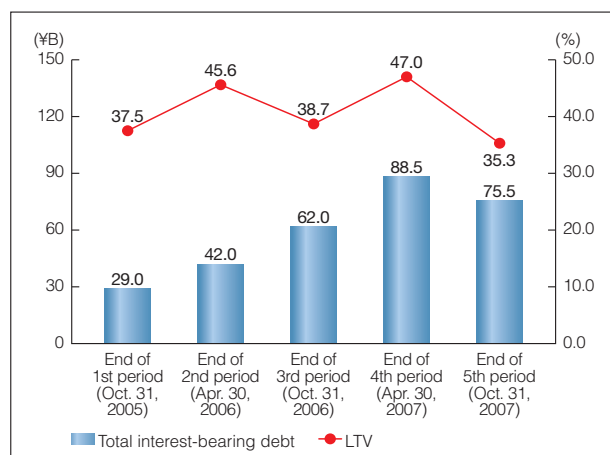
### Diversified financing methods include issuance of investment corporation bonds

Credit Rating			(as of Feb. 1, 2008)	
Credit Rating Agency	Details of the Ratings		Acquired Date	
Moody's Investors Service (Moody's)	Rating	: A3 (Stable)	Feb. 28, 2006	
Japan Credit Rating Agency, Ltd. (JCR)	Senior Debts	: A+ (Stable)	Dec. 11, 2006	

Investment Corporation Bonds				
	Total Amount of Bonds	Interest Rate	Term	Issuance Date
First Series Unsecured Investment Corporation Bonds	¥9B	1.74% / year	5 years	Mar. 15, 2007
Second Series Unsecured Investment Corporation Bonds	¥3B	2.37% / year	10 years	Mar. 15, 2007

#### Changes in LTV



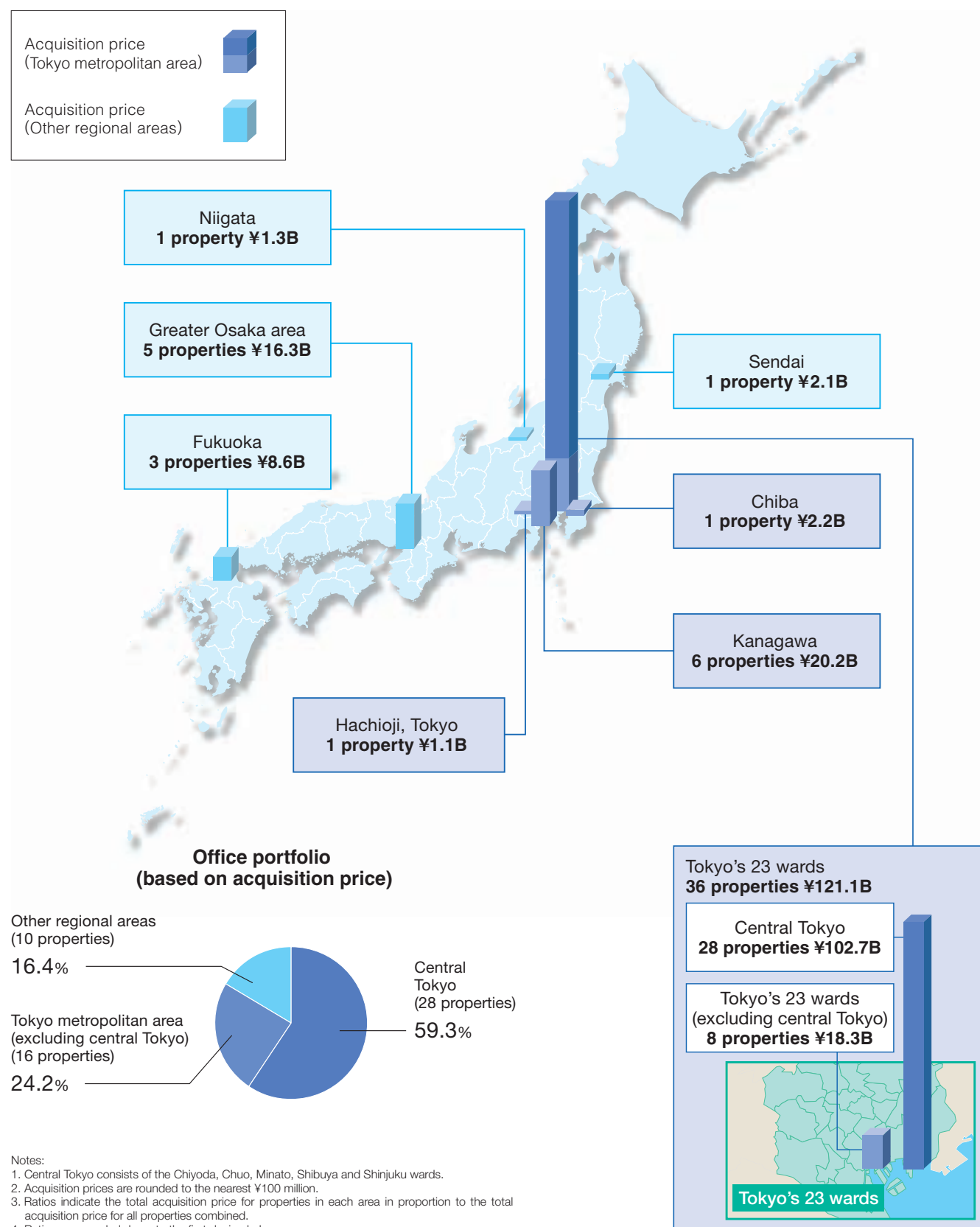
#### Credit facility agreement

(as of Feb. 1, 2008)

Lender	Amount
Bank of Tokyo Mitsubishi UFJ, Ltd.	¥2.5B
Citibank Japan, Ltd.	¥2.5B

## KENEDIX Selection (As of February 1, 2008)

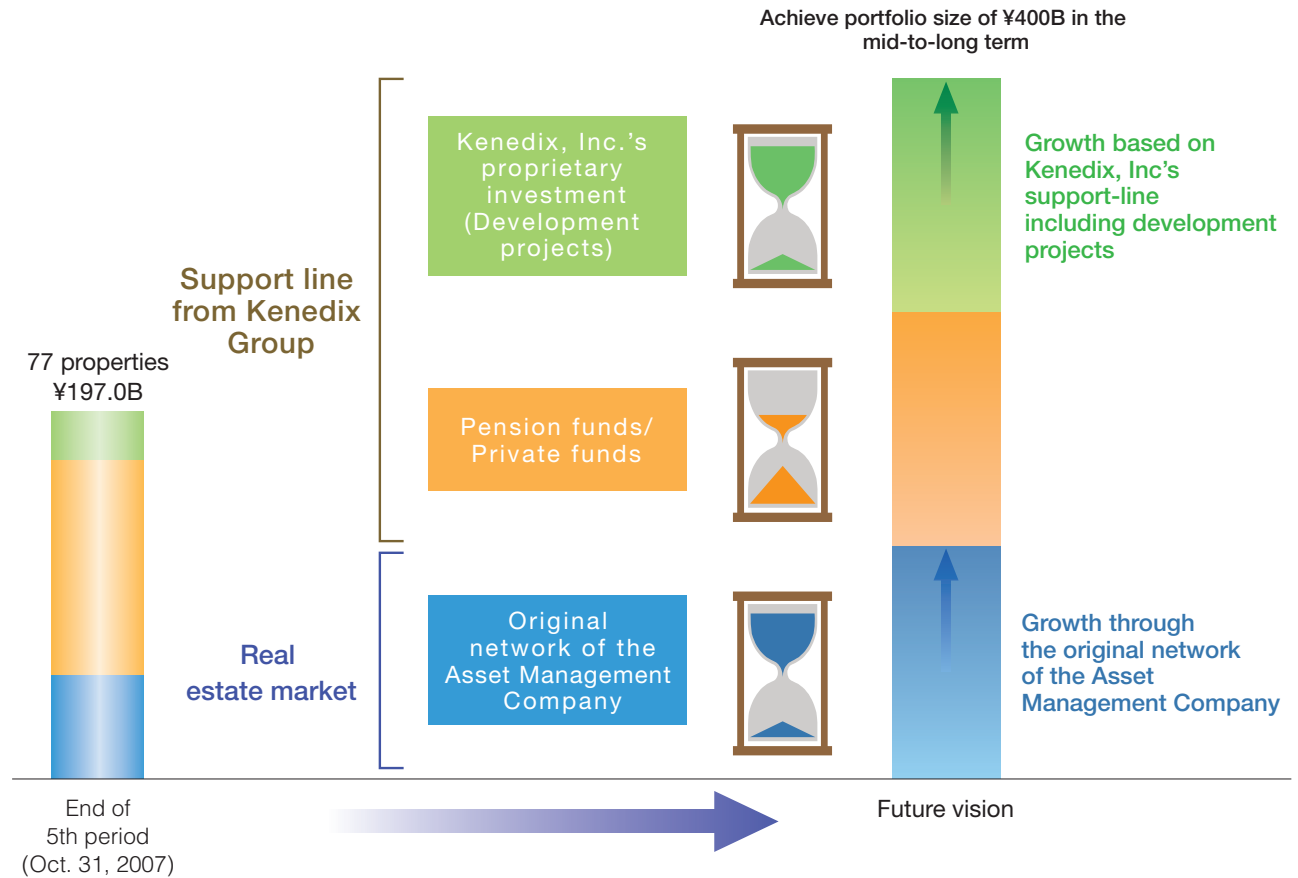
Emphasis on mid-sized office buildings in the Tokyo metropolitan area, in particular central Tokyo.



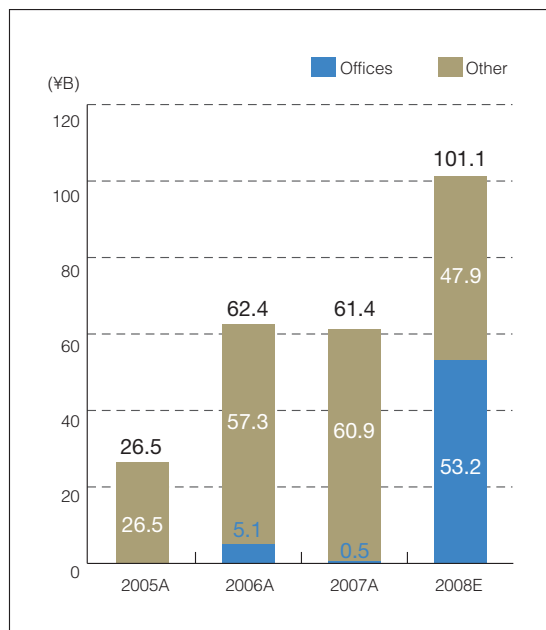


## Asset Size Growth and Future Growth (Acquisition by Pipeline)

The Investment Corporation will continue to grow through the original network of the Asset Management Company and Kenedix's support-line including development projects.



### Kenedix, Inc. track record for development projects and pipeline



Source: Kenedix, Inc. (Nov. 2007)

### Examples of Kenedix, Inc. office development projects

#### KDX Harumi Project



Location	Harumi 3-chome, Chuo-ku, Tokyo
Planned completion	Feb. 2008
Size	1B/11F GFA: 3,907 tsubo
Key advantages	<ul style="list-style-type: none"> <li>• Only 2km to Ginza and excellent access in all directions with Oedo Line</li> <li>• 260 tsubo leasable area per floor; shaped astylar space</li> </ul>

#### Office development project in Koto-ku

Location	Koto-ku, Tokyo
Planned completion	May 2008

#### Office development project in Chuo-ku Osaka

Location	Chuo-ku, Osaka Prefecture
Planned completion	Jun. 2009

Note: We have no current plans to acquire any of these properties but may consider acquiring one or more of them in the future as appropriate.

## KDX Toranomon Building – Renovation for the Entire Building

Leverage of Kenedix Group's management expertise to maximum extent

Development of a strong asset base (portfolio) and leverage expertise in management of mid-sized office buildings.

### A-39 KDX Toranomon Building

- Location: Toranomon, Minato-ku, Tokyo
- Leasable area: 1,966.56m<sup>2</sup>
- Year built: April 1988
- Acquisition date: April 2007
- Acquisition price: ¥4,400M



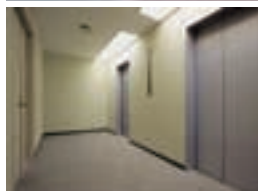
	At acquisition in April 2007	As of October 2007
Appraisal value	¥4.02B (after renovation ¥4.19B)	¥4.77B
Occupancy	0% (vacant building)	100% (full occupancy)
Rent level (per month/per tsubo)	¥32,000 (estimated post renovation value)	¥34,500 (average contracted rent)
Use of 1st Floor	Game hall (former pachinko arcade)	Office (branch office of a financial institution)
Use of B1 Floor	Game hall (former pachinko arcade)	Restaurant

### Examples of the renovation work

Before



Entrance

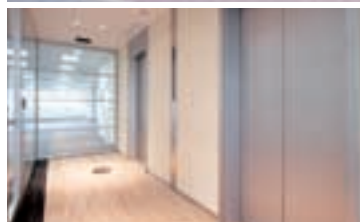


Elevator Hall

After



Entrance



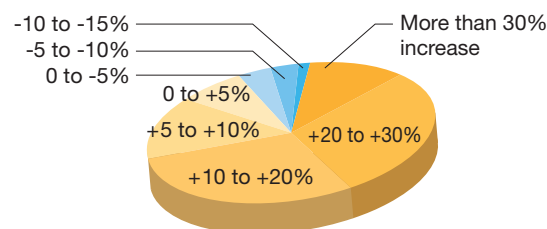
Elevator Hall

## Increasing the Rent Level of Office Buildings and Decreasing the Building Management Costs

### Results of increase of rent level of office buildings

Taking advantage of the high turnover ratio for the mid-sized office buildings, the Investment Corporation has realized to increase rents drastically.

#### Breakdown of rate of rent increase on new contracts (5th period)



Note: The above breakdown is based on leased area as of end of 5th period.

#### Acquisition of new contracts by region (5th period)

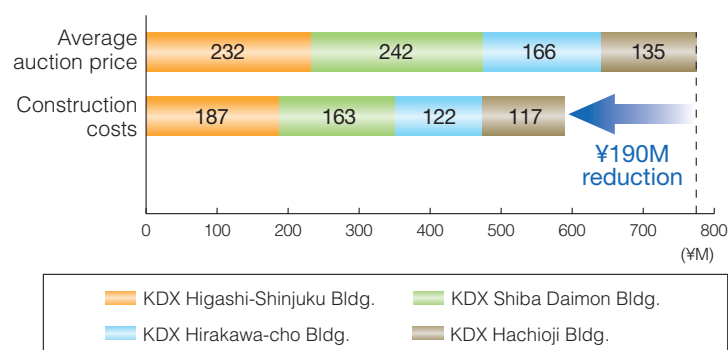
	Average change rate* (# of contracts)	Average rent increase rate (# of contracts)	Average rent reduction rate (# of contracts)
Central Tokyo (5 wards)	22% (10)	22% (10)	- (0)
Other Tokyo metropolitan area	8% (9)	10% (8)	-0% (1)
Other regional areas	6% (11)	18% (6)	-8% (5)
Total	12% (30)	17% (24)	-7% (6)

\*Indicates the simple average of the fluctuations in the rent for new contracts.  
The weighted average of the fluctuations based on leased floor area is 16% for the total portfolio (Central Tokyo: 23%; Other Tokyo metropolitan area: 11%; Other regional areas: 7%).

### Decreasing of building management costs

(Lowered construction costs by contracting for air-conditioning construction on 4 properties in bulk)

Expanded portfolio allows for bundled handling of similar construction projects which will lower the construction costs.



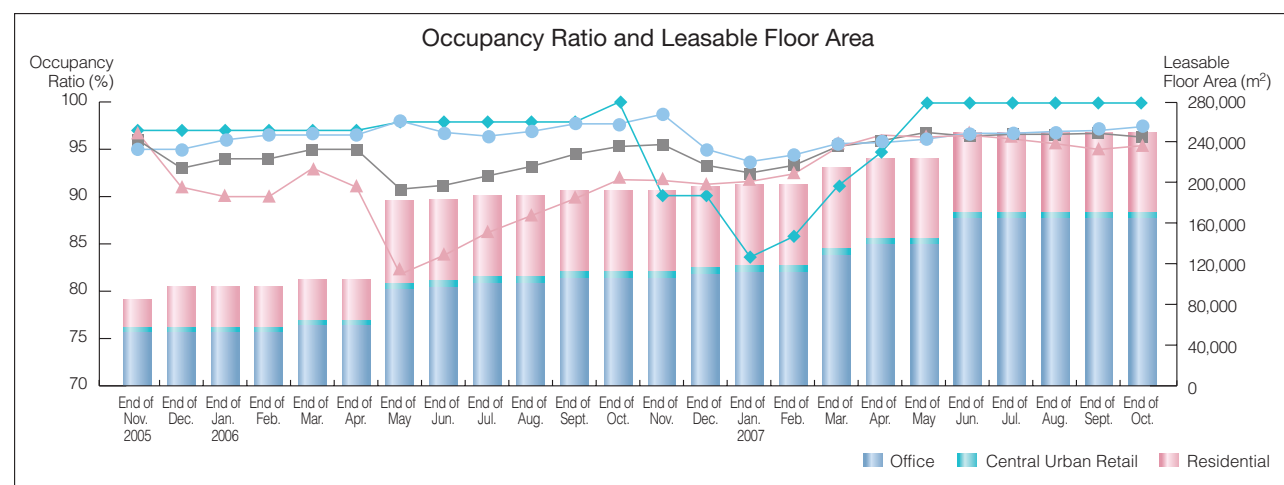
#### Merits for KRI:

- Lower construction costs
- Ability to place orders with major construction companies who have high credibility
- Improved specification of air-conditioning systems

#### Merits for tenants:

- Change centrally-controlled to individually-controlled air conditioning system
- Reliable construction company

### Maintained and improved occupancy ratios after property acquisition through flexible leasing activities



# Properties Roster

## Properties as of the end of the 5th period (77 properties)

● Acquired during the 5th Period

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Office	Tokyo Metropolitan Area	Toranomon Toyo Building ●	Minato ward, Tokyo	9,850	Aug. 1962	97.5
		KDX Ochanomizu Building	Chiyoda ward, Tokyo	6,400	Aug. 1982	100.0
		KDX Shiba-Daimon Building	Minato ward, Tokyo	6,090	Jul. 1986	100.0
		KDX Kojimachi Building	Chiyoda ward, Tokyo	5,950	May 1994	97.1
		KDX Nihonbashi 313 Building	Chuo ward, Tokyo	5,940	Apr. 1974	100.0
		Toshin 24 Building	Yokohama, Kanagawa	5,300	Sept. 1984	100.0
		KDX Hirakawacho Building	Chiyoda ward, Tokyo	5,180	Mar. 1988	100.0
		Ebisu East 438 Building	Shibuya ward, Tokyo	4,640	Jan. 1992	100.0
		Higashi-Kayabacho Yuraku Building	Chuo ward, Tokyo	4,450	Jan. 1987	100.0
		KDX Toranomon Building	Minato ward, Tokyo	4,400	Apr. 1988	100.0
		KDX Nishi-Gotanda Building	Shinagawa ward, Tokyo	4,200	Nov. 1992	100.0
		KDX Hatchobori Building	Chuo ward, Tokyo	3,680	Jun. 1993	100.0
		KDX Omori Building	Ohta ward, Tokyo	3,500	Oct. 1990	100.0
		KDX Hamamatsucho Buildng	Minato ward, Tokyo	3,460	Sept. 1999	100.0
		KDX Higashi-Shinjuku Building	Shinjuku ward, Tokyo	2,950	Jan. 1990	92.6
		KDX Kayabacho Building	Chuo ward, Tokyo	2,780	Oct. 1987	100.0
		KDX Shinbashi Building	Minato ward, Tokyo	2,690	Feb. 1992	100.0
		KDX Nakano-Sakaue Building	Nakano ward, Tokyo	2,533	Aug. 1992	100.0
		KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sept. 1990	99.6
		Harajuku F.F. Building	Shibuya ward, Tokyo	2,450	Nov. 1985	100.0
		KDX Kajicho Building	Chiyoda ward, Tokyo	2,350	Mar. 1990	85.8
		KDX Hamacho Building	Chuo ward, Tokyo	2,300	Sept. 1993	100.0
		KDX Shinjuku 286 Building ●	Shinjuku ward, Tokyo	2,300	Aug. 1989	100.0
		FIK Minami Aoyama	Minato ward, Tokyo	2,270	Nov. 1988	100.0
		KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	100.0
		KDX Okachimachi Building	Taito ward, Tokyo	2,000	Jun. 1988	100.0
		Kanda Kihara Building	Chiyoda ward, Tokyo	1,950	May 1993	100.0
		KDX Yotsuya Building	Shinjuku ward, Tokyo	1,950	Oct. 1989	100.0
		KDX Shinjuku-Gyoen Building	Shinjuku ward, Tokyo	1,610	Jun. 1992	100.0
		KDX Kiba Building	Koto ward, Tokyo	1,580	Oct. 1992	100.0
		KDX Nishi-Shinjuku Building	Shinjuku ward, Tokyo	1,500	Oct. 1992	100.0
		KDX Monzen-Nakacho Building	Koto ward, Tokyo	1,400	Sept. 1986	84.4
		KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	100.0
		KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	85.6
		KDX Nogizaka Building	Minato ward, Tokyo	1,065	May 1991	87.7
		KDX Koishikawa Building	Bunkyo ward, Tokyo	704	Oct. 1992	100.0
	Other Regional Areas	Portus Center Building	Sakai, Osaka	5,570	Sept. 1993	94.6
		Karasuma Building (Note 4) ●	Kyoto, Kyoto	5,400	Oct. 1982	100.0
		KDX Hakata Building ●	Fukuoka, Fukuoka	2,350	Jul. 1982	100.0
		KDX Sendai Building ●	Sendai, Miyagi	2,100	Feb. 1984	97.1
		KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	100.0
		KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sept. 1993	93.6
		Hakata-Ekimae Dai-2 Building	Fukuoka, Fukuoka	1,430	Sept. 1984	94.4
		KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	71.2
Office (Total 44 properties) Sub Total				137,979	Avg. 20.8 yrs	97.5

### Notes:

- Figures in the "Acquisition Price" column represent the real estate or trust beneficiary interest sales price (excluding consumption tax, rounded down to the nearest million yen) for each property acquired, identified in relevant Real Estate or Trust Beneficiary Interest Purchase and Sales Agreements.
- The "Completion Date" column refers to the date on which construction was first completed. Each average age subtotal and total for the investment portfolio is shown as the weighted-average portfolio age based upon acquisition prices with a base date of October 31, 2007.
- "Occupancy Ratio" is the leased floor area divided by total leasable floor area for each property as a percentage to the nearest first decimal place. Ratios for the 77 properties held as of the end of fifth fiscal period, are calculated as of October 31, 2007. In addition, the ratios for the 10 properties acquired during the sixth fiscal period, are calculated as of November 30, 2007. Subtotals and total for the investment portfolio are weighted-averages.
- The Investment Corporation had been planning to change the name of the "Karasuma Building" to "KDX Kyoto Karasuma Building." Due to the high name recognition of the building's current name, the plan to change the name was canceled.
- The current name of the "KDX Kawasaki-Ekimae Hon-cho Building" is the "Dai-46 Kowa Building," "KDX Hamacho Nakanohashi Building" is the "Hamacho Nakanohashi Building," "KDX Kanda Misaki-cho Building" is the "Misaki-cho MMK Building," and "KDX Kitahama Building" is the "Doshou Building." Following the acquisition, the Investment Corporation intends to carry out procedures to change the name of the buildings.

■ Sold during the 6th period

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Central Urban Retail	Tokyo Metropolitan Area	Frame Jinnan-zaka	Shibuya ward, Tokyo	9,900	Mar. 2005	100.0
		KDX Yoyogi Building	Shibuya ward, Tokyo	2,479	Aug. 1991	100.0
	Other Regional Areas	ZARA Tenjin Nishi-dori	Fukuoka, Fukuoka	3,680	Nov. 2005	100.0
	Central Urban Retail (Total 3 properties) Sub Total			16,059	Avg. 4.4 yrs	100.0
Residential	Tokyo Metropolitan Area	Residence Charmante Tsukishima	Chuo ward, Tokyo	5,353	Jan. 2004	100.0
		Regalo Ochanomizu I・II	Bunkyo ward, Tokyo	3,600	I : Jan. 2006 II : Feb. 2006	97.2
		Storia Sirokane	Minato ward, Tokyo	3,150	Feb. 2003	93.5
		Tre di Casa Minami Aoyama	Minato ward, Tokyo	2,460	Feb. 2004	94.8
		Regalo Shiba-Kouen	Minato ward, Tokyo	2,260	Nov. 2005	94.9
		Court Mejiro	Shinjuku ward, Tokyo	1,250	Mar. 1997	100.0
		Apartments Motoazabu	Minato ward, Tokyo	1,210	Jan. 2004	97.4
		Apartments Wakamatsu Kawada	Shinjuku ward, Tokyo	1,180	Feb. 2004	94.6
		Chigasaki Socie Ni-bankan	Chigasaki, Kanagawa	1,160	Jan. 1991	89.6
		Court Nihonbashi-Hakozaki	Chuo ward, Tokyo	1,130	Feb. 2004	96.7
		Court Nishi-Shinjuku	Shinjuku ward, Tokyo	1,130	Oct. 2005	100.0
		Side Denenchofu	Ohta ward, Tokyo	1,110	Feb. 1997	97.2
		Gradito Kawaguchi	Kawagushi, Saitama	1,038	Feb. 2006	100.0
		S-court Yokohama-Kannai II	Yokohama, Kanagawa	945	Mar. 2003	97.4
		Regalo Komazawa-Kouen	Setagaya ward, Tokyo	912	Feb. 2006	97.8
		Court Motoasakusa	Taito ward, Tokyo	880	Jan. 2005	88.3
		Court Shin-Okachimachi	Taito ward, Tokyo	878	Oct. 2005	90.7
		Bloom Omotesando	Shibuya ward, Tokyo	875	Mar. 2003	82.8
		Human Heim Okachimachi	Taito ward, Tokyo	830	Dec. 2004	100.0
		Primo Regalo Kagurazaka	Shinjuku ward, Tokyo	762	Jan. 2006	97.2
		Primo Regalo Youga	Setagaya ward, Tokyo	730	Dec. 2005	100.0
		Court Shimouma	Setagaya ward, Tokyo	638	Oct. 2005	96.9
	Other Regional Areas	Ashiya Royal Homes	Ashiya, Hyogo	2,330	Jun. 1991	100.0
		Venus Hibirigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	94.4
		Regalo Ibaraki I・II	Ibaraki, Osaka	1,600	I : May 1991 II : Mar. 1993	90.1
		Collection Higashi-Sakura	Nagoya, Aichi	1,264	Mar. 2006	85.1
		Renaissance 21 Hirao Jousui-machi	Fukuoka, Fukuoka	900	Oct. 2005	95.8
		Montore Nishikouen Bay Court	Fukuoka, Fukuoka	826	Feb. 2006	97.2
		Abreast Hara	Nagoya, Aichi	444	Feb. 2000	97.8
		Abreast Hirabari	Nagoya, Aichi	407	Mar. 2000	100.0
Residential (Total 30 properties) Sub Total			43,052	Avg. 5.6 yrs	95.5	
Total of 77 properties			197,090	Ava. 16.2 yrs	96.9	

## Properties Acquired in the 6th Period

Office	Tokyo Metropolitan Area	Hiei Kudan-Kita Building	Chiyoda ward, Tokyo	7,600	Mar. 1988	100.0
		KDX Shin-Yokohama 381 Building	Yokohama, Kanagawa	4,700	Mar. 1988	97.5
		KDX Kawasaki-Ekimae Hon-cho Building (Note 5)	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0
		KDX Roppongi 228 Building	Minato ward, Tokyo	3,330	Apr. 1989	91.3
		Nissou Dai-17 Building	Yokohama, Kanagawa	2,710	Jul. 1991	100.0
		Ikejiri-Oohashi Building	Meguro ward, Tokyo	2,400	Sept. 1988	71.8
		KDX Hamacho Nakanohashi Building (Note 5)	Chuo ward, Tokyo	2,310	Sept. 1988	100.0
		KDX Kanda Misaki-cho Building (Note 5)	Chiyoda ward, Tokyo	1,380	Oct. 1992	100.0
	Other Regional Areas	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	94.2
		KDX Kitahama Building (Note 5)	Osaka, Osaka	2,220	Jul. 1994	88.1
Office (Total 10 properties) Sub Total				35,310	—	—





**A-13** KDX Kojimachi Building



**A-37** KDX Ochanomizu Building

# KENEDIX Selection



**A-40** Toranomom Toyo Building



**A-21** KDX Shinbashi Building



**A-2** KDX Hirakawacho Building



**A-46** Hiei Kudan-Kita Building



**A-42** Karasuma Building

## Questions & Answers

**“Questions & Answers” are based on an interview with Taisuke Miyajima, CEO and President of Kenedix REIT Management, Inc. (“the Asset Management Company”), the asset management company for Kenedix Realty Investment Corporation (“the Investment Corporation”).**

### Reciprocal Purchase and Sale of Office Buildings and Residential Properties

**Q. Please elaborate on the purpose of the “reciprocal purchase and sale of office buildings and residential properties” conducted on February 1, 2008.**

**A.** The Investment Corporation revised its portfolio development policy in December 2006 and has since been striving to develop a portfolio focused on mid-sized office buildings. The transaction made on February 1, 2008 concerning reciprocal purchase and sale is consistent with this investment policy. Furthermore, the Investment Corporation is convinced that the reciprocal purchase and sale will reinforce the potential for internal growth backed by the favorable office building leasing market, as it will contribute to a strengthened portfolio that consists mainly of mid-sized office buildings and achieve to raise the investment ratio of office buildings.

In addition, the concentration on office buildings is viewed to enable the Asset Management Company to strengthen its expertise in asset management. These are regarded to be in line with the basic policy of the Investment Corporation that is to strive to maximize cash distribution to investors.

**Q. What are the reasons for embarking the “reciprocal purchase and sale of office buildings and residential properties” at this time? Also, why is Kenedix, Inc. the counterparty to the transaction?**

**A.** The Investment Corporation revised its portfolio development policy in December 2006 and has since been making new investments in only office buildings. In correlation, the Investment Corporation has been seizing various opportunities to brief investors on the new policy. The Investment Corporation believes that these briefings have generated support from investors in relation to the policy to seek a “portfolio focused on mid-sized office buildings.”

Since the change in portfolio development policy, the Investment Corporation has been prioritizing investment in office buildings and has raised the investment ratio of office buildings in the overall portfolio.

Under such circumstances, the Investment Corporation received an offer from the sponsor company Kenedix, Inc. (“Kenedix”) for the Investment Corporation to purchase several office buildings in Kenedix’s portfolio. Negotiations have been underway in relation to the price, conditions and other details concerning the office buildings selected by the Investment Corporation. In the course of the negotiations, Kenedix, which is advancing the forming of residential funds, proposed a reciprocal purchase and sale arrangement to the Investment Corporation for the Investment Corporation to sell some of the residential properties in the Investment Corporation’s portfolio to Kenedix in conjunction with the Investment Corporation’s purchase of the office buildings.

Considerations by the Asset Management Company resulted in the reciprocal purchase and sale arrangement being deemed advantageous to the Investment Corporation in the following aspects and this has led to the decision being made to implement the reciprocal purchase and sale:

- Enables high-quality office buildings to be acquired en bloc through reciprocal purchase and sale with residential properties; and
- Enables the Investment Corporation to achieve to raise the investment ratio of office buildings while maintaining asset size and profitability.

**Q. What are your plans for the remaining residential properties?**

**A.** The policy of the Investment Corporation is to develop a “portfolio focused on mid-sized office buildings.” Based on this policy, the plan is to continue decreasing investment ratio of residential properties, which will involve replacing residential properties in the portfolio, while continuing to make new investments in office buildings. No date has been set, however, on until when exactly the ongoing decrease in the investment ratio of residential properties.



## Changes to the Memorandum of Understanding with Kenedix and Kenedix Advisors

**Q. Please elaborate on the changes to the Memorandum of Understanding announced in April 2007.**

**A.** As the sponsor company, Kenedix has provided property information and support staff to the Investment Corporation and the Asset Management Company. At the same time, the Investment Corporation believes that the role of J-REITs in the Kenedix Group has increased in importance.

Accordingly, the Investment Corporation revised the Memorandum of Understanding with Kenedix and Kenedix Advisors Co., Ltd. ("Kenedix Advisors") in April 2007 for the purpose of adjustment of real estate information flow in the Kenedix Group, and provide the Investment Corporation with increased preferential rights which strengthened its property acquisition capacity even more.

### ■ Details of the Change of Memorandum of Understanding

- When Kenedix receives information regarding any available property that in its reasonable opinion meets our investment criteria, including properties under development, from parties other than the contracting parties, the Asset Management Company has first preferential rights to such information.

(Before Revision: The Investment Corporation had second preferential rights after certain pension funds to such property information acquired by Kenedix.)

- In the event that Kenedix disposes of a property that in its reasonable opinion meets our investment criteria, including properties under development or properties that it owns, the Asset Management Company has first preferential negotiating rights with respect to such properties.

(Before Revision: The Investment Corporation had second preferential negotiating rights with respect to such properties after certain pension funds)

Also as a result of the revisions, the Pipeline relationship between the Kenedix Group and the Investment Corporation was significantly strengthened, allowing the Investment Corporation preferential rights to properties developed by the Kenedix Group. Looking ahead, the Investment Corporation and the sponsor company plans to closely cooperate to achieve further external growth in such investments as Group-wide joint investments and property developments.

## Changes to the Portfolio Development Policies

**Q. Please elaborate on the changes to the portfolio development policy announced in December 2006.**

**A.** The Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation strives to develop a diversified investment portfolio for its basic policy. Based upon this basic policy, the Investment Corporation has conducted a review of its portfolio development policies in order to shift to investments in office buildings. Details are as follows.

(After the changes)

Type of Use	Investment Ratio Target
Office Buildings	50% – 100%
Residential Properties	0% – 30%
Central Urban Retail Properties	0% – 20%
Other	0% for now

Based on the new portfolio development policy, we have acquired 25 office buildings with total acquisition price of approximately ¥87.1 billion since the fourth fiscal period. As of February 1, 2008, the Investment Corporation owns a portfolio of 54 office buildings with a total acquisition price of approximately ¥173.2 billion, and the office ratio of the whole portfolio increased from 58.7% (as of the end of third fiscal period) to 85.5%.

**Q. What are the reasons for changing the portfolio development policy in December 2006?**

**A.** The Investment Corporation adheres to a basic policy that adopts a dynamic and flexible investment stance. Working from this policy, as of February 1, 2008, the Investment Corporation owned a portfolio of 64 properties with a total acquisition price of approximately ¥202 billion, demonstrating its success in diversifying properties.

The Investment Corporation has previously emphasized investment in mid-sized office buildings located in the Tokyo metropolitan area.

However, to respond to recent conditions in the office leasing market (increased rent levels, improvement of occupancy ratios, etc.), the Investment Corporation has decided to invest mainly in office buildings and to make no new investment in residential properties for a certain period.

## **Growth Potential**

**Q. What target for asset scale have you set for the future?**

**A.** The Investment Corporation will aim to build a strong portfolio focusing on mid-sized office buildings by continuing to improve the quality of its portfolio, such as location, size and type of properties, through various measures, including replacement of assets, and also, the Investment Corporation will continue to decrease the residential properties ratio in the portfolio. In addition, the Investment Corporation aims ¥400 billion for the asset size for mid- and long-term goal. Our goals, however, do not revolve entirely around increasing asset scale. In concert with efforts to increase the size of the Investment Corporation's portfolio, we will make every effort to steadily enhance earnings per share (EPS).

**Q. What steps does the Investment Corporation take with regard to property management?**

**A.** Rental revenues provide a major source of income for the Investment Corporation. Accordingly, every effort is made to maintain and enhance rent level and occupancy ratios, which are the key components in the Investment Corporations' leasing activities. While taking into consideration economic and real estate market trends, the Investment Corporation adopts a tenant-oriented approach to its leasing activities with the aim of ensuring a timely and flexible response as well as optimal tenant satisfaction.

Rental revenue aforementioned, the Asset Management Company undertakes property management activities as follows.

- Identify and enhance satisfaction through use of tenant surveys
- Maintain attractive properties based on KDX standards
- Leasing management based on CS Strategy
- Careful control of management and operating costs

The Investment Corporation has appointed Kenedix Advisors Co., Ltd as its sole property management company.

## **Investment Properties**

**Q. Please elaborate on the unique characteristics of mid-sized office buildings.**

**A.** Compared with large-sized office buildings, mid-sized office buildings provide greater liquidity. In addition to the larger number of buildings on the market, the acquisition prices and rent level of mid-sized office buildings offer a wider scope of acquisition and leasing opportunities.

Under these circumstances, the Investment Corporation recognizes that mid-sized office buildings provide the Investment Corporation with the best avenue to leverage its abilities in identifying properties with competitive advantage and its expertise and know-how in property leasing and management. Furthermore, given tenant characteristics and the large pool of competing properties, the Investment Corporation recognizes that mid-sized office buildings exhibit higher rates of tenant turnover with rent levels more finely attuned to economic trends, particularly in times of recovery.

**Q. Why does the Investment Corporation invest mainly in mid-sized office buildings?**

**A.** As a fund manager, the Kenedix Group boasts a wealth of experience and know-how in mid-sized office buildings. Focusing on this segment enables the Investment Corporation to leverage this considerable strength. We also hold high expectation for continued increase in rent level in line with favorable economic trends.

## Financial Strategy

**Q.** What benchmark have you established for interest-bearing debt ratio, and what are the Investment Corporation's debt policies?

**A.** The Investment Corporation is conscious of maintaining a prudent financial strategy together with an appropriate interest-bearing debt ratio (a balance between total assets and interest-bearing debt). Currently, the target ratio is set between 35 to around 50%. The Investment Corporation seeks to continue diversifying the debt maturity to decrease the refinance risk. In addition, the Investment Corporation will aim to lengthen the average debt maturity by increasing the portion of its long-term borrowings and issuing the investment corporation bonds.

# Financial Summary

## Trends in Operating Conditions

Period		First Fiscal Period (As of Oct. 31, 2005)	Second Fiscal Period (As of Apr. 30, 2006)	Third Fiscal Period (As of Oct. 31, 2006)	Fourth Fiscal Period (As of Apr. 30, 2007)	Fifth Fiscal Period (As of Oct. 30, 2007)
Operating revenues	¥M	1,196	2,871	5,288	5,778	7,208
(Rental revenues)	¥M	1,196	2,871	5,131	5,647	7,208
Operating expenses	¥M	606	1,527	2,723	3,091	3,737
(Property-related expenses)	¥M	518	1,265	2,397	2,607	3,205
Operating income	¥M	589	1,343	2,565	2,686	3,470
Ordinary income	¥M	243	1,103	2,125	2,148	2,793
Net income (a)	¥M	242	1,101	2,124	2,148	2,792
Total assets (b)	¥M	77,325	92,053	160,314	188,400	213,763
Interest-bearing debt (c)	¥M	29,000	42,000	62,000	88,500	75,500
Unitholders' equity (d)	¥M	44,527	45,387	90,933	90,877	127,761
Unitholders' capital	¥M	44,285	44,285	88,729	88,729	124,973
Number of investment units issued and outstanding (e)	Per Unit	79,370	79,370	157,000	157,000	200,000
Unitholders' equity per unit (d) / (e)	Yen	561,008	571,840	579,192	578,839	638,809
Total distribution (f)	¥M	242	1,101	2,124	2,148	2,792
Distribution per unit (f) / (e)	Yen	3,052	13,884	13,529	13,682	13,960
(Earnings distributed per unit)	Yen	3,052	13,884	13,529	13,682	13,960
(Distribution in excess of earnings per unit)	Yen	-	-	-	-	-
Return on assets (annualized) (Note 1,2)	%	0.3 (1.3)	1.3 (2.6)	1.7 (3.3)	1.2 (2.5)	1.4 (2.8)
Return on unitholders' equity (annualized) (Note 2,3)	%	0.6 (2.2)	2.5 (4.9)	3.1 (6.2)	2.4 (4.8)	2.6 (5.1)
Unitholders' equity ratio at the end of period (d) / (b)	%	57.6	49.3	56.7	48.2	59.8
Interest-bearing debt ratio at the end of period (c) / (b)	%	37.5	45.6	38.7	47.0	35.3
Payout ratio (Note 4)	%	99.9	99.9	99.9	100.0	99.9
[Other reference]						
Number of properties	Properties	31	35	64	72	77
Total leasable floor area	m <sup>2</sup>	81,298.67	104,868.65	192,085.34	223,322.77	248,653.07
Occupancy ratio at the end of period	%	96.6	94.9	95.3	95.9	96.9
Depreciation expenses for the period	¥M	268	650	1,135	1,243	1,392
Capital expenditures for the period	¥M	47	510	655	1,132	1,238
Leasing NOI (net operating income) (Note 5)	¥M	945	2,256	3,869	4,283	5,394
FFO (funds from operation) (Note 6)	¥M	510	1,752	3,102	3,261	4,184
FFO per unit (Note 7)	Yen	6,430	22,076	19,759	20,772	20,920

Notes:

- Return on assets = Ordinary income / (Total assets at the beginning of period + Total assets at the end of period) / 2 x 100  
Total assets at the beginning of first fiscal period reflect the value on August 1, 2005, which was the first actual date of operations of the first fiscal period.
- Annualized values for the second fiscal period are calculated based upon a period of 181 days, 184 days for the third fiscal period, 181 days for the fourth fiscal period and 184 days for the fifth fiscal period. Annualized values for the first fiscal period are calculated based upon a period of 92 days, the actual number of business days in the first fiscal period (from August 1, 2005 to October 31, 2005).
- Return on unitholders' equity = Net income / (Total unitholders' equity at the beginning of period + Total unitholders' equity at the end of period) / 2 x 100  
Total unitholders' equity at the beginning of period reflects the value on August 1, 2005, which was the first actual date of operations of the first fiscal period.
- Payout ratio is rounded down to the first decimal place.
- Leasing NOI = Rental revenues - Rental expenses + Depreciation expenses for the period
- FFO = Net income + Depreciation expenses for the period - Profit on sale of trust beneficiary interests in real estate or real estate
- FFO per unit = FFO / number of investment units issued and outstanding (figures below ¥1 rounded down)

# Management Review & Policies

## Operating Conditions for the Fifth Fiscal Period

### (1) The Investment Corporation

The Investment Corporation was established on May 6, 2005 in accordance with the Investment Trust and Investment Corporation Law ("the Investment Trust Law"). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange. (Securities Code: 8972). Subsequently, the Investment Corporation has conducted a global offering in May 2006. In addition, the Investment Corporation has conducted the second global offering in May 2007. Consequently, as of October 31, 2007, the end of the fifth fiscal period, the number of investment units issued and outstanding totaled 200,000 units.

The Investment Corporation appointed Kenedix REIT Management, Inc. as its asset management company. In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation endeavors to develop a diversified investment portfolio named "*KENEDIX Selection*," adopting a three-point investment criteria based on property type, area and size.

### (2) Investment Environment and Management Performance

#### a. Investment environment

During the fiscal period under review, the Japanese economy made an improvement in corporate earnings and capital expenditures along with robust employment conditions. Although growth in personal consumption was stagnant, the economic recovery continued.

According to the official announcement of land prices as of January 1, 2007, average land prices in Japan for the one-year period from January 2006 increased by 2.3% for commercial properties and 0.1% for residential properties. This was the first increase since 1991, or in 16 years. In Tokyo, the average increase was 13.9% for commercial properties and 8.0% for residential properties, the second consecutive year that prices for both categories increased.

#### b. Management performance

In the fiscal period under review, the Investment Corporation acquired 5 office buildings with a total acquisition price of ¥22,000 million. As a result, the number of properties owned as of October 31, 2007 stood at 77, with a total acquisition price of ¥197,090 million. Looking at the portfolio as a whole, 70.0% was comprised of office buildings, 8.1% central urban retail properties and 21.8% of residential properties on an acquisition price basis. In addition, the occupancy ratio as of the end of the fifth fiscal period was 96.9%, reflecting stable investment and asset management.

#### < External Growth Performance after IPO >

		First Fiscal Period (as of October 31, 2005)		Second Fiscal Period (as of April 30, 2006)		Third Fiscal Period (as of October 31, 2006)		Fourth Fiscal Period (as of April 30, 2007)		Fifth Fiscal Period (as of October 31, 2007)	
		Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)
Type of Use	Office Buildings	37,767	54.6	48,269	59.2	86,224	58.7	115,979	66.2	137,979	70.0
	Central Urban Retail Properties	12,379	17.9	12,379	15.2	16,059	10.9	16,059	9.1	16,059	8.1
	Residential Properties	18,986	27.4	20,786	25.5	44,459	30.2	43,052	24.5	43,052	21.8
	Total	69,132	100.0	81,434	100.0	146,742	100.0	175,090	100.0	197,090	100.0
Area	Tokyo Metropolitan Area	61,281	88.6	71,783	88.1	123,321	84.0	150,364	85.8	162,514	82.4
	Other Regional Areas	7,851	11.3	9,651	11.8	23,421	15.9	24,726	14.1	34,576	17.5
	Total	69,132	100.0	81,434	100.0	146,742	100.0	175,090	100.0	197,090	100.0

Notes: Total acquisition price is the total of acquisition price for each property classified by type and area.

Total acquisition price is rounded down to the nearest million yen. Percentages are rounded down to the nearest first decimal place.

### *Operation and Management of Existing Properties*

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. as its sole property management company for the entire portfolio as of the end of the fifth fiscal period. In establishing a single point of contact for all matters relating to property management activities, the Investment Corporation strives to secure consistent policies, specifications and procedures along with ensuring swift and quality service. As of October 31, 2007, the investment portfolio maintains a high occupancy ratio. The Investment Corporation is satisfied with the quality of property management.

In addition to property management services, the Investment Corporation has executed master lease agreements with Kenedix Advisors covering all of its properties held as of October 31, 2007 (excluding Residence Charmante Tsukishima, Frame Jinnan-zaka, ZARA Tenjin Nishi-dori and tenants without approval for subleasing). In appointing a member of the Kenedix Group as lessee, the Investment Corporation is able to provide better tenant-oriented leasing management through Kenedix Advisors. At the same time, this scheme allows the Investment Corporation to more effectively utilize tenant security and guarantee deposits.

The Investment Corporation leverages scale merits and the communication and negotiation skills of the Kenedix Group in an effort to reduce operating costs, and have succeeded reductions in building maintenance costs.

### **(3) Capital Acquisition**

The Investment Corporation procured net proceeds of ¥36.2 billion through the primary offering and third-party allotment of investment units, and undertook prepayment of ¥13.0 billion in borrowings (¥11.5 billion in short-term borrowings and ¥1.5 billion in long-term borrowings) provided from cash on hand from equity finance. As a result, the Investment Corporation managed to decrease the interest-bearing debt ratio and increase borrowing capacity.

In addition, concerning borrowings maturing during the fifth fiscal period, the Investment Corporation refinanced the same amount for the same period and thereby managed to improve (lower) procurement costs (spread over basic interest rate, etc.) for all borrowings that have matured. As a result, the balance of interest-bearing debt stood at ¥75.5 billion as of October 31, 2007, comprising ¥63.5 billion in borrowings (¥57.0 billion in long-term borrowings and ¥6.5 billion in short-term borrowings) and ¥12.0 billion in investment corporation bonds.

As of October 31, 2007, the Investment Corporation had ¥57.0 billion in long-term borrowings, of which ¥45.3 billion had floating interest rates effectively fixed by utilizing interest-swap agreements. In addition, the long-term debt ratio (Note2) was 91.4% and the long-term fixed interest debt ratio (Note3) was 91.4%.

Since its public listing through to the end of the fifth fiscal period, the Investment Corporation has undertaken flexible debt funding on both an unsecured and unguaranteed basis. This is the result of the high standing in which the Investment Corporation, its investment policies, asset quality as well as the personnel and expertise of the Asset Management Company are held among financial institutions. In addition, the Investment Corporation strives to diversify repayment dates for its debt financing in an effort to reduce refinancing risk. The Investment Corporation also strives to extend average repayment periods by placing added emphasis on long-term debt.

Notes:

1. Short-term borrowings refers to borrowings with a period of less than or equal to one year from the drawdown date to the repayment date.  
Long-term borrowings refers to borrowings with a period of more than one year from the drawdown date to the repayment date.
2. Long-term debt ratio = (Balance of long-term borrowings + Balance of investment corporation bonds) ÷ (Total borrowings + Balance of investment corporation bonds)
3. Long-term fixed interest debt ratio = (Balance of long-term fixed interest rate borrowings + Balance of investment corporation bonds) ÷ (Total borrowings + Balance of investment corporation bonds)

The balance of long-term fixed interest rate borrowings includes borrowings with floating interest rates effectively fixed by utilizing interest-rate swap agreements.

The Investment Corporation acquired a credit rating of A+ (Outlook: Stable) from Japan Credit Rating Agency, Ltd. in December 2006. This was the second credit rating acquired following the A3 (Outlook: Stable) from Moody's Investors Services, Inc. in February 2006. Details of the credit ratings as of October 31, 2007 are as follows.

Credit Rating Agency	Details of the Ratings
Moody's Investors Service	Rating : A3
	Outlook : Stable
Japan Credit Rating Agency, Ltd.	Senior Debts : A+
	Outlook : Stable

The Investment Corporation filed a debt shelf registration statement in February 2007, and filed an equity shelf registration statement to conduct equity financing in April 2007. Details are as follows.

	Investment Corporation Bonds	Investment Unit Certificate
Planned Issue Amount	¥100,000,000,000 (Note)	¥100,000,000,000
Planned Issuance Period	February 15, 2007 to February 14, 2009	May 7, 2007 to May 6, 2009
Use of Funds	Acquisition funds for specified assets, repayment of borrowings, repayment of investment corporation bonds, refund of lease and guarantee deposits, funds to pay for repairs and maintenance, working capital, etc	Acquisition funds for specified assets, repayment of borrowings, repayment of investment corporation bonds, refund of lease and guarantee deposits, funds to pay for repairs and maintenance, working capital, etc

Note: First Series Unsecured Investment Corporation Bonds of ¥9,000,000,000 and Second Series Unsecured Investment Corporation Bonds of ¥3,000,000,000 has been issued in March 2007 based on the debt shelf registration.

The Investment Corporation established a credit commitment line with The Bank of Tokyo-Mitsubishi UFJ, Ltd., allowing it to borrow up to ¥2.5 billion on an unsecured basis.

#### (4) Operating Results and Cash Distribution

As a result of the aforementioned management performance, the Investment Corporation reported operating revenues of ¥7,208 million, operating income of ¥3,470 million, ordinary income of ¥2,793 million and net income of ¥2,792 million for its fifth fiscal period.

In accordance with Article 67.15 of the Special Taxation Measures Law, the Investment Corporation distributes the total amount of its unappropriated retained earnings for each period. Cash distribution for the fifth fiscal period was ¥13,960 per unit.



## Future Management Policies

### (1) Investment Environment

Looking ahead, the Japanese economy is forecasted to continue its path toward recovery. Favorable conditions are attributed to a robust corporate sector. Meanwhile, improvements in employment conditions have come to a standstill and personal consumption has generally leveled off.

Under this economic condition, positive signs are emerging in the domestic real estate market. Posted land prices for March 2007 confirmed land price appreciation in the three major cities of Tokyo, Osaka and Nagoya. At the same time, land prices for specific major cities in regional areas are also increasing. On a nationwide basis, land prices are exhibiting increased polarization. Appreciation is restricted to major economic and financial centers of the Tokyo metropolitan area (in particular the Central Tokyo), and specific regional areas that exhibit strong potential for population growth (for example, Sendai in Tohoku and Fukuoka in Kyushu).

From the perspective of real estate purchase and sales, the acquisition of prime properties is expected to continue to be competitive. This is attributed to the continued flow of domestic and overseas real estate funds in search of prime properties. These activities in the real estate market are expected to remain robust with positive conditions prevailing throughout.

The Investment Corporation will focus investments in mid-sized office buildings in the Tokyo metropolitan area based on its investment policies and the following trends:

- Increasing Occupancy Ratios and Increasing Rents for Office Buildings
- Increasing Role of the Tokyo Metropolitan Area as Business Hub
- Large Tenant Demand for and Increasing Availability of Mid-Sized Office Buildings

Note: The Tokyo metropolitan area consists of Tokyo, Kanagawa, Saitama and Chiba prefectures.

#### Increasing Occupancy Ratios and Increasing Rents for Office Buildings

Office property occupancy ratios and rents have steadily increased in some major cities, such as Tokyo and Osaka. We believe these increased occupancy ratios and rents reflect improved demand, and, if sustained, may allow us to achieve higher rental revenues from our office properties.

#### Increasing Role of the Tokyo Metropolitan Area as Business Hub

The Tokyo metropolitan area serves as Japan's main business hub. We believe this concentration of business activity in the Tokyo metropolitan area is intensifying, along with increasing demand for office space. By focusing our investments on office properties in the Tokyo metropolitan area, we believe we can continue to take advantage of this trend.

#### Large Tenant Demand for and Increasing Availability of Mid-Sized Office Buildings

We believe that there is a substantial market of tenants for mid-sized office buildings in Japan, and that we can take advantage of this demand by providing attractive and competitive office spaces and customer-oriented property management. In addition, we believe that tenants at mid-sized office buildings have a relatively high turnover ratio, which facilitates increases in rent levels in line with market trends. Moreover, we believe the supply of mid-sized office buildings available for purchase in Japan is increasing, as demonstrated for example, by an increase in the proportion of office buildings with a total area of less than 10,000 m<sup>2</sup> among office buildings sold in Japan from 76% in the year ended March 31, 2003 to 81% in the year ended March 31, 2006.

### (2) Management Policies

#### a. Existing property management strategy (Internal Growth Strategies)

Taking into consideration economic and real estate market trends, the Investment Corporation adopts a tenant-oriented approach to its leasing activities with aims of ensuring a timely and flexible responses as well as optimal tenant satisfaction. Accordingly, the Investment Corporation will aim to increase of the cash flow by offering office environment with high tenant satisfaction. Based on the aforementioned, the Asset Management Company undertakes property management activities as follows:

- Identify and enhance satisfaction through use of tenant surveys
- Maintain attractive properties based on KDX standards
- Leasing management based on CS Strategy
- Careful control of management and operating costs

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. as its Property Management Company for its entire portfolio.

### *Identify and enhance tenant satisfaction through use of tenant surveys*

The Investment Corporation recognizes each tenant as a key customer and strives to enhance customer satisfaction and raise the competitiveness of its properties as the means to maintain and increase earnings.

The Investment Corporation conducted a customer satisfaction survey through J.D. Power Asia Pacific, Inc., an internationally recognized company that engages in customer satisfaction evaluation, to better understand the needs of its tenants and take steps to respond to their preferences. As a part of this survey the administration officers of each tenant and tenant employees were asked to respond to many questions concerning buildings and facilities as well as operating and management services. The Investment Corporation conducted the first CS survey, which covered 20 of its properties, during the second fiscal period, and the second CS survey, which covered 44 of its properties, during the fifth fiscal period.

#### *Details of the 2nd CS Survey*

Target respondent for the survey: The administration officers of each tenant and tenant employees of the 43 office buildings and one central urban retail property.

Survey population / Response rate: 446 administration officers / 391 collected (response rate of 88%)  
2,348 tenant employees / 1,894 collected (response rate of 81%)

Examples of questions: Building location and environment, external façade, entrance, air conditioning system for lease space areas, lighting ventilation, OA compliant, elevators, toilets, kitchen facilities, smoking areas, parking, management company service, status and standard of cleaning, security, and fire prevention.

On a scale one to five, respondents were asked to rank each of these areas. The survey provided invaluable information pertaining to the strengths and weaknesses of each building. Under the remarks section, a number of respondents provided insightful observations. Based on survey results, the Investment Corporation will work to clarify and improve outstanding issues. Through this vital feedback channel, the Investment Corporation will also implement appropriate maintenance and renovations for each property taking into consideration associated costs and benefits.

In addition, concerning properties where construction was conducted to address customer satisfaction based on the results of the first survey, the effects of such construction (improvements in the level of satisfaction) were studied. The results confirmed that the effects of maintenance and renovations of the “external façade and entrance” and “toilets” were high. The Investment Corporation will use this as reference for determining the priority of maintenance and renovations in the future.

Through these means, the Investment Corporation is working efficiently to generate improvements in rent levels and asset values, increase earnings and promote sustained internal growth.

### *Maintain attractive properties based on KDX standards*

The Investment Corporation aims to provide attractive mid-sized office buildings in order to enhance portfolio value and rental revenues.

We believe that the quality of mid-sized office buildings in Japan vary considerably depending on the nature of the owner. For example, a building owned by an individual or small company that owns only one or a few buildings may not have the resources to provide high-quality maintenance. Furthermore, when a building is owned by a large company, property management is often dictated by that company's priorities and does not necessarily correspond to tenant needs or satisfaction.

The Investment Corporation aims to differentiate itself by efficiently providing certain uniform standards, termed “KDX” standards, as well as attractive office environments.

Examples of KDX standards include the followings:

- Installation of security cameras for elevators and entrance halls
- Installation of emergency devices for elevators
- Installation of modern restrooms that include western-style toilets with hot-water self-cleaning functions
- Creation and distribution of security and evacuation maps
- Creation and distribution of detailed building rules

In addition, the Investment Corporation enhances its brand awareness by renaming its office buildings so that “KDX” is included in the new name.

### *Leasing management based on CS Strategy*

The Investment Corporation aims to provide flexible and focused leasing activities that take into account economic and market trends, and that utilize the results of tenant surveys to enhance tenant satisfaction.

In addition, the Investment Corporation believes that tenants at mid-sized office buildings generally tend to have high turnover ratios, and the Investment Corporation is focused on obtaining higher rent levels when entering new lease contracts. The Investment Corporation also negotiates with tenants that pay lower rent levels than the market price in order to raise rents under existing leases.

### *Careful control of management and operating costs*

The Investment Corporation utilizes the scale merits of owning many properties and the negotiating strength of the Kenedix Group (the Kenedix Group refers to Kenedix, Inc., Kenedix Advisors and other related companies, the same applies below) to reduce building management costs. Accordingly, the Investment Corporation reduces property management expenses, electricity costs and property taxes. The Investment Corporation will continue to carefully control management and operating costs by periodically reviewing its property management standards to ensure that they remain relevant and appropriate for each property, and by maintaining an appropriate balance between initiatives that aim to sustain or increase revenues with its efforts to control operating costs.

### **b. New Property Investment Strategy (External Growth Strategy)**

The Investment Corporation will continue to concentrate on mid-sized office buildings with an emphasis on the Tokyo metropolitan area while also investing in central urban retail property located in highly flourishing districts as an alternative to investment in office buildings. In addition, the Investment Corporation will make no new investment in residential properties for a certain period and has replaced assets mentioned as follows. To facilitate the implementation of the aforementioned investment policy, the Investment Corporation will leverage the "Multi-Pipeline" provided by the support of the Kenedix Group, in addition to the original network of the Asset Management Company.

Through the Multi-Pipeline, the Asset Management Company is positioned to secure real estate information related to properties for which the Kenedix Group acts as intermediary, properties under development, properties that it owns, and pension funds (Note). Based on this information, the Investment Corporation has first preferential negotiating rights for an acquisition. Against the backdrop of a competitive market, the role of the support-line is increasingly significant for the Asset Management Company's acquisition of quality properties.

Note: Pension Funds refer to real estate investment funds for pension plans that are managed by Kenedix Advisors Co., Ltd.

Another key role of the support-line is to facilitate property acquisition through the warehousing function. Under the warehousing function, members of the Kenedix Group may acquire or temporarily hold an investment property in the event that the Investment Corporation is not itself in an immediate position to acquire the property, or the property fails to fully comply with the Investment Corporation's investment criteria at that specific time.

The Investment Corporation seeks to continue improving the quality of its portfolio in terms of location, size and type of properties, through various measures including replacement of assets. In addition, the Investment Corporation will continue to steadily grow by acquiring properties and aims accelerate this growth by utilizing its leverage relationship with the Kenedix Group and the Asset Management Company's original network for sourcing properties, as well as make diversified acquisitions, as discussed below.

### *Reciprocal purchase and sale of office buildings and residential properties*

On February 1, 2008, the Investment Corporation sold 23 residential properties (total acquisition price of ¥30,343 million) out of the 30 residential properties in its portfolio as of October 31, 2007 (total acquisition price of ¥43,052 million), and newly purchased 9 office buildings (total acquisition price of ¥31,980 million) on the same date.

### *Leverage Relationship with the Kenedix Group*

As the sponsor company, Kenedix, Inc. has provided property information and support staff to the Investment Corporation and the Asset Management Company. At the same time, the Investment Corporation believes that the role of J-REITs in the Kenedix Group has increased in importance.

In April 2007, the Investment Corporation revised the Memorandum of Understanding between it, Kenedix, Inc., Kenedix Advisors Co., Ltd. and the Asset Management Company, which was originally conducted at the time of the Investment Corporation's IPO.

### *Details of the Change of Memorandum of Understanding*

· When Kenedix, Inc. receives information regarding any available property that in its reasonable opinion meets our investment criteria, including properties under development, from parties other than the contracting parties, the Asset Management Company has first preferential rights to such information.

(Before Revision: The Investment Corporation had second preferential rights after certain pension funds to such property information acquired by Kenedix, Inc.)

· In the event that Kenedix, Inc. disposes of a property that in its reasonable opinion meets our investment criteria, including properties under development or properties that it owns, the Asset Management Company has first preferential negotiating rights with respect to such properties.

(Before Revision: The Investment Corporation had second preferential negotiating rights with respect to such properties after certain pension funds)

· As long as the Investment Corporation and the Asset Management Company continue to not invest in new residential properties, the Revised Memorandum of Understanding will not apply with respect to residential properties

Also as a result of the revisions, the Pipeline relationship between the Kenedix Group and the Investment Corporation was significantly strengthened, allowing the Investment Corporation preferential rights to properties developed by the Kenedix Group. Looking ahead, the Investment Corporation and the sponsor company plans to closely cooperate to achieve further external growth in such investments as Group-wide joint investments and property developments.

#### *Make Diversified Acquisitions*

As of October 31, 2007, the Investment Corporation owned 77 properties for a total acquisition price of approximately ¥197.0 billion with a 96.9% occupancy ratio. Supported by this asset base along with the management know-how of mid-sized office building accumulated by the Asset Management Company, the Investment Corporation plans to continue acquiring properties based on its diversified property acquisition strategy. Furthermore, while implementing various property acquisition strategies such as those described above, the Investment Corporation believes that increasingly proactive investment property acquisitions are possible by centering the portfolio on mid-sized office buildings that have a relatively advantageous return than large-sized office buildings in consideration of the weighted average cost of capital based on the level of return on distributions calculated from investment unit price and distributions per unit, as well as the debt procurement costs and interest-bearing debt ratio.

### **(3) Financial Strategy**

The Investment Corporation will continue to pursue debt financing on an unsecured and unguaranteed basis and as well as make arrangements to ensure fixed interest rate debt in line with interest rate trends and other considerations.

In addition, the Investment Corporation will seek to diversify its debt repayment period to reduce refinancing risk, maintain long-term debt ratios at or above prudent levels and issue investment corporate bonds with the aim of extending the average repayment period of its liabilities.

The Investment Corporation will maintain the ratio of interest-bearing debt to total assets at a prudent level and implement leveraged management in an effort to ensure stable financial management.

### **(4) Information Disclosure**

Consistent with its basic information disclosure policy, the Investment Corporation proactively engages in IR activities with the aim of promptly providing a wide range of relevant information to investors. In specific terms, the Investment Corporation provides information through the Timely Disclosure Network System (TDnet), which is a system operated by the Tokyo Stock Exchange, as well as press releases and its Web site (URL: <http://www.kdx-reit.com/eng/> ).

## Financial Statements

(Fifth Fiscal Period: From May 1, 2007 to October 31, 2007)

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# Kenedix Realty Investment Corporation

## Report of Independent Auditors

To the Board of Directors and Unitholders of  
Kenedix Realty Investment Corporation

We have audited the accompanying balance sheets of Kenedix Realty Investment Corporation as of October 31, 2007 and April 30, 2007, and the related statements of income and retained earnings, changes in unitholders' equity, and cash flows for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation at October 31, 2007 and April 30, 2007, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.



December 7, 2007

# Kenedix Realty Investment Corporation

## BALANCE SHEETS

As of October 31, 2007 and April 30, 2007

In thousands of yen

	As of October31, 2007	As of April30, 2007
<b>Assets</b>		
Current assets:		
Cash and bank deposits	¥ 12,323,340	¥ 8,923,063
Rental receivables	141,910	75,125
Consumption tax refundable	47,552	302,041
Other current assets	58,169	32,956
Total current assets	12,570,971	9,333,185
Property and equipment, at cost:		
Land	131,547,185	113,187,263
Buildings and structures	72,108,105	67,134,816
Machinery and equipment	861,811	823,009
Tools, furniture and fixtures	670,095	602,585
Less-accumulated depreciation	(4,622,859)	(3,230,846)
Net property and equipment	200,564,337	178,516,827
Other assets:		
Ground leasehold	285,350	285,145
Organization costs	25,448	30,538
Corporate bond issuance costs	62,997	68,875
Unit Issuance costs	171,775	71,139
Other assets	83,112	94,969
<b>Total assets</b>	<b>¥ 213,763,990</b>	<b>¥ 188,400,678</b>
<b>Liabilities and Unitholders'Equity</b>		
<b>Liabilities</b>		
Current liabilities :		
Trade and other payables	¥ 526,994	¥ 413,751
Short-term debt	19,500,000	20,000,000
Deposits received	1,985	26,743
Rents received in advance	1,141,333	916,372
Other current liabilities	75,600	87,286
Total current liabilities	21,245,912	21,444,152
Corporate bonds	12,000,000	12,000,000
Long-term debt	44,000,000	56,500,000
Leasehold and security deposits received	8,749,709	7,578,756
Other liabilities	6,434	-
<b>Total liabilities</b>	<b>86,002,055</b>	<b>97,522,908</b>
<b>Unitholders'equity</b>		
Unitholders'capital	124,973,750	88,729,652
Units Authorized:2,000,000units		
Units Issued and outstanding:200,000units		
as of October31, 2007 and April 30, 2007, respectively		
Retained earnings	2,792,084	2,148,118
Unrealized gain from deferred hedge transactions	(3,899)	-
<b>Total unitholders'equity</b>	<b>127,761,935</b>	<b>90,877,770</b>
<b>Total liabilities and unitholders'equity</b>	<b>¥ 213,763,990</b>	<b>¥ 188,400,678</b>

See notes to financial statements



# Kenedix Realty Investment Corporation

## STATEMENTS OF INCOME AND RETAINED EARNINGS

For the period from November 1, 2006 to April 30, 2007, and the period from May 1, 2007 to October 31, 2007

In thousands of yen			
		From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
<b>Operating Revenues:</b>			
Rental revenues	¥	7,208,246	¥ 5,647,462
Profit on sale of trust beneficiary interests in real estate		-	130,748
<b>Total operating revenues</b>		7,208,246	5,778,210
<b>Operating Expenses:</b>			
Property-related expenses		3,205,728	2,607,389
Asset management fees		369,009	306,965
Administrative service and custodian fees		72,565	66,601
Other operating expenses		90,018	110,510
<b>Total operating expenses</b>		3,737,320	3,091,465
<b>Operating income</b>		3,470,926	2,686,745
<b>Non-Operating Expenses:</b>			
Interest expense		595,160	479,926
Financing related expense		24,339	20,595
Amortization of organization costs		5,090	5,090
Amortization of unit issuance costs		41,469	17,785
Amortization of corporate bond issuance costs		5,878	1,501
Others, net		5,925	12,969
<b>Income before income taxes</b>		2,793,065	2,148,879
Income taxes		1,024	821
<b>Net income</b>		2,792,041	2,148,058
<b>Retained earnings at the beginning of period</b>		43	60
<b>Retained earnings at the end of period</b>	¥	2,792,084	¥ 2,148,118

See notes to financial statements

# Kenedix Realty Investment Corporation

## Statements of Changes in Unitholders' Equity

For the period from November 1, 2006 to April 30, 2007 and the period from May 1, 2007 to October 31, 2007

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance as of November 1, 2006	¥ 88,729,652	¥ 2,124,112	¥ 79,533	¥ 90,933,297
Changes during the fiscal period				
Payment of dividends	-	(2,124,052)	-	(2,124,052)
Net income	-	2,148,058	-	2,148,058
Interest-rate swap	-	-	(79,533)	(79,533)
Total changes during the fiscal period	-	24,006	(79,533)	(55,527)
Balance as of April 30, 2007	¥ 88,729,652	¥ 2,148,118	¥ -	¥ 90,877,770
Changes during the fiscal period				
New unit issuance	36,244,098	-	-	36,244,098
Payment of dividends	-	(2,148,074)	-	(2,148,074)
Net income	-	2,792,041	-	2,792,040
Interest-rate swap	-	-	(3,899)	(3,899)
Total changes during the fiscal period	36,244,098	643,966	(3,899)	36,884,165
Balance as of October 31, 2007	¥ 124,973,750	¥ 2,792,084	¥ (3,899)	¥ 127,761,934

See notes to financial statements

# Kenedix Realty Investment Corporation

## STATEMENTS OF CASH FLOWS

For the period from November 1, 2006 to April 30, 2007 and the period from May 1, 2007 to October 31, 2007

In thousands of yen

	From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
<b>Cash Flows from Operating Activities</b>		
Income before income taxes	¥ 2,793,065	¥ 2,148,879
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation and amortization	1,465,288	1,288,871
Interest expense	595,160	479,926
Changes in assets and liabilities:		
Rental receivables	(66,786)	8,250
Consumption tax refundable	254,489	297,446
Trade and other payables	103,499	3,328
Rents received in advance	224,961	148,836
 Sale of trust beneficiary interests in real estate	-	1,433,571
Others, net	(56,018)	37,018
Subtotal	5,313,658	5,846,125
Cash payments of interest expense	(606,962)	(420,546)
Cash payments of income taxes	(543)	(924)
<b>Net cash provided by operating activities</b>	4,706,153	5,424,655
 <b>Cash Flow from Investing Activities:</b>		
Purchases of property and equipment	(23,439,729)	(31,759,821)
Proceeds from leasehold and security deposits received	1,779,663	1,909,350
Payments of leasehold and security deposits received	(599,597)	(455,487)
Payments of restricted bank deposits	(111,083)	(361,623)
Proceeds from restricted bank deposits	435,530	355,864
Others, net	(762)	6,555
<b>Net cash used in investing activities</b>	(21,935,978)	(30,305,162)
 <b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	5,250,000	19,500,000
Payment of short-term debt	(17,250,000)	(14,500,000)
Proceeds from long-term debt	2,000,000	9,500,000
 Payment of long-term debt	(3,000,000)	-
 Proceeds from issuance of units	36,101,994	-
 Proceeds from issuance of corporate bonds	-	12,000,000
Payment of corporate bond issuance costs	-	(70,376)
Payment of dividends	(2,147,444)	(2,120,522)
<b>Net cash provided by financing activities</b>	20,954,550	24,309,102
<b>Net change in cash and cash equivalents</b>	3,724,725	(571,405)
<b>Cash and cash equivalents at the beginning of period</b>	7,606,600	8,178,005
<b>Cash and cash equivalents at the end of period</b>	¥ 11,331,325	¥ 7,606,600

See notes to financial statements

# Kenedix Realty Investment Corporation

## Notes to Financial Statements

For the period from November 1, 2006 to April 30, 2007 and the period from May 1, 2007 to October 31, 2007

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Realty Investment Corporation ("the Investment Corporation") is a real estate investment corporation whose units are listed on the Tokyo Stock Exchange. The Investment Corporation is engaged in ownership and operation of selected office buildings, residential and retail properties in Japan. The Investment Corporation was incorporated as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. Pursuant to this law, the Investment Corporation is externally managed by a licensed asset management company, Kenedix REIT Management, Inc. ("Asset Management Company"), a wholly-owned subsidiary of Kenedix, Inc. ("Kenedix")

On May 6, 2005, the Investment Corporation was originally formed with ¥200 million of initial capital contributions from Kenedix, Asset Management Company and their executives and employees. On July 20, 2005, the Investment Corporation raised ¥41,869 million of equity capital through an initial public offering of 75,000 investment units and was listed on the J-REIT section of the Tokyo Stock Exchange on the following day.

On August 1, 2005, 29 properties with an aggregate purchase price of ¥61,083 million were acquired with additional debt proceeds of ¥23,000 million and substantial operations of the Investment Corporation were commenced from that date.

On August 16, 2005, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,216 million. Subsequent to that, the Investment Corporation acquired 2 additional properties in September, 2005. During the period ended April 30, 2006, the Investment Corporation acquired 4 additional properties by utilizing internal cash and bank borrowing.

On May 1, 2006, the Investment Corporation raised ¥42,172 million of equity capital through a public offering of 73,660 investment units and 26 properties with an aggregate purchase price of ¥58,033 million were acquired with additional debt proceeds of ¥16,000 million.

On May 26, 2006, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,273 million. During the period ended October 31, 2006, the Investment Corporation sold 2 properties and acquired 5 properties.

During the period ended April 30, 2007, the Investment Corporation acquired 10 additional properties by utilizing internal cash and bank borrowing, and sold 2 properties.

On March 15, 2007, the Investment Corporation issued the investment corporation bonds. Their total amounts is ¥12,000 million and term are five years and ten years.

At October 31, 2007, the Investment Corporation had total unitholders' capital of ¥124,974 million with 200,000 investment units outstanding. The Investment Corporation owned a portfolio of 77 properties with total acquisition costs of ¥197,090 million containing total leasable area of 248,653 m<sup>2</sup>. The occupancy ratio was approximately 96.9%. A portfolio of 77 properties consists of 44 office buildings, 30 residential properties and 3 central urban retail properties. 60 properties are located in the Tokyo Metropolitan Area and 17 properties are located in Other Regional Areas.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law of Japan, the Japanese Corporation Law, the Financial Instruments and Exchange Law and related regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a basically translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by the Investment Corporation and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made from the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation's fiscal period is a six-month period which ends at the end of April and October of each year, respectively. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

### (b) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

	From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
Buildings and structures .....	2-46 years	2-46 years
Machinery and equipment .....	3-17 years	3-17 years
Tools, furniture and fixtures .....	3-15 years	3-15 years

### (c) Impairment of Fixed Assets

The Investment Corporation adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion on Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council in Japan on August 9, 2002) and "Implementation Guidance for the Accounting Standards for Impairments of Fixed Assets" ("Financial Accounting Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003). The Investment Corporation has not recognized an impairment loss on any of the properties during the fiscal periods ended October 31, 2007 and April 30, 2007.

### (d) Organization Costs

Organization costs are amortized over a period of five years, comprised of ten fiscal periods, with an equal amount amortized in each fiscal period.

### (e) Unit Issuance Costs

Unit issuance costs are amortized over a period of three years under the straight-line method.

### (f) Corporate Bond Issuance Costs

Investment corporation bonds issuance costs are amortized over a loan period under the straight-line method.

### (g) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan and through which the Investment Corporation holds all of its real property, all assets and liabilities within trust are recorded in the relevant balance sheet and income statement accounts.

### (h) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenue and expense during the fiscal period, respectively.

## (i) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥82 million and ¥101 million as of October 31, 2007 and April 30, 2007. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period in which the installments of such taxes are paid to the relevant tax authorities.

## (j) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

## (k) Derivative Financial Instruments

The Investment Corporation utilizes interest rate swap contracts, which are derivative financial instruments only for the purpose of hedging its exposure to adverse fluctuations and changes in interest rates.

Derivative financial instruments are measured at fair value. For derivatives used for hedging purposes, if such derivatives qualify for deferred hedge treatment due to high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions and are reported on the balance sheet as either assets or liabilities.

Although deferred hedge treatment is generally adopted, if the interest rate swap contracts meet the criteria for the special treatment, the Investment Corporation has applied the special treatment to interest rate swap contracts beginning the year ended April 30, 2007 based on the revised investment Trust Law. Under the special treatment, interest rate swaps are not remeasured at fair value. Instead, the net amount paid or received under the interest rate swap contracts is recognized and include in interest expense or income.

## (l) Rounding of Amounts Presented

Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

# 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of October 31, 2007 and April 30, 2007:

	In thousands of yen	
	As of October 31, 2007	As of April 30, 2007
Cash and bank deposits .....	¥ 12,323,340	¥ 8,923,063
Restricted bank deposits held in trust .....	(992,015)	(1,316,463)
Cash and cash equivalents .....	¥ 11,331,325	¥ 7,606,600

Restricted bank deposits held in trust are retained for repayment of tenant leasehold and security deposits.

#### 4. SCHEDULE OF PROPERTY

	In millions of yen					
	As of October 31, 2007			As of April 30, 2007		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 131,547	-	¥ 131,547	¥ 113,187	¥ -	¥ 113,187
Buildings and structures	72,108	4,335	67,773	67,135	3,026	64,109
Machinery and equipment	862	169	693	823	119	704
Tools, furniture and fixtures	670	119	551	603	86	517
Total	205,187	4,623	¥ 200,564	¥ 181,748	¥ 3,231	¥ 178,517

#### 5. SHORT-TERM AND LONG-TERM DEBTS

The following summarizes short-term and long-term debt outstanding as of October 31, 2007 :

(As of October 31, 2007)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	March 1, 2007	February 29, 2008	1.02%	¥ 1,250
	July 31, 2007	July 31, 2008	1.05%	2,000
	July 31, 2007	July 31, 2008	1.02%	1,000
	September 20, 2007	September 20, 2008	1.04%	1,250
	October 31, 2007	October 31, 2008	1.10%	1,000
Unsecured current portion of long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	November 1, 2005	October 31, 2008	1.09%	3,500
Subtotal				19,500
Unsecured long-term debt	August 1, 2005	July 31, 2010	1.29%	9,500
	December 8, 2005	December 7, 2008	1.10%	2,000
	March 1, 2006	February 28, 2009	1.45%	2,000
	March 16, 2006	March 16, 2009	1.48%	2,500
	May 1, 2006	April 30, 2009	1.63%	6,500
	May 1, 2006	April 30, 2011	2.20%	2,500
	May 1, 2006	April 30, 2016	2.73%	5,000
	July 14, 2006	July 13, 2011	2.15%	1,000
	September 1, 2006	August 31, 2013	2.12%	3,000
	December 1, 2006	November 30, 2011	1.96%	2,500
	April 2, 2007	April 2, 2010	1.57%	2,000
	April 2, 2007	April 2, 2012	1.88%	2,000
	April 17, 2007	April 16, 2011	1.26%	1,500
	October 31, 2007	October 31, 2009	1.34%	2,000
Subtotal				44,000
Corporate bonds	March 15, 2007	March 15, 2012	1.74%	9,000
	March 15, 2007	March 15, 2017	2.37%	3,000
Subtotal				12,000
Total				¥ 75,500



## 6. UNSECURED LINE OF CREDIT

The Investment Corporation established a credit facility with a financial institution in March 2007 which provides access to an aggregate ¥ 2.5 billion on an unsecured basis.

## 7. PER UNIT INFORMATION

The net asset value per unit as of October 31, 2007 and April 30, 2007 was ¥638,810 and ¥578,839. Net income per unit as of October 31, 2007 and April 30, 2007 was ¥14,334 and ¥13,681.

The weighted average number of units outstanding of 194,772 and 157,000 was used for the computation of the amount of net income per unit as of October 31, 2007 and April 30, 2007.

## 8. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement it currently distribute in excess of 90% of its taxable income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed approximately 100% of its distributable income in the form of cash distributions totaling 2,792 million and ¥2,148 million for the periods ended October 31, 2007 and April 30, 2007. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.03% and 0.04% for the periods ended October 31, 2007 and April 30, 2007. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
Statutory tax rate .....	39.39%	39.39%
Deductible cash distributions .....	(39.37)	(39.38)
Other .....	0.01	0.03
Effective tax rate .....	0.03%	0.04%

## 9. UNITHOLDERS' EQUITY

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Law. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Law.

## 10. RELATED-PARTY TRANSACTIONS

### (a) Transactions with Kenedix Advisors Co., Ltd. ("Kenedix Advisors")

Kenedix Advisors, a wholly-owned subsidiary of Kenedix, provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix Advisors property management fees and other fees in accordance with the terms of its Property Management Agreements. Transactions with Kenedix Advisors are as follows:

	In thousands of yen	
	From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
Property management fees .....	¥ 256,842	¥ 202,279
Management transfer fees .....	10,800	21,200
Construction management fees .....	40,197	37,432

### (b) Transactions with Y.K.KWO Fourth ("KWO Fourth")

KWO4 is a wholly owned subsidiary of Kenedix. On June 1, 2007 the Investment Corporation acquired 5 properties from KWO Fourth for ¥22,000 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

## 11. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the periods from May 1, 2007 to October 31, 2007 and from November 1, 2006 to April 30, 2007 consist of the following:

	In thousands of yen	
	From May 1, 2007 to October 31, 2007	From November 1, 2006 to April 30, 2007
Rental and other operating revenues:		
Rental revenues .....	¥ 5,336,255	¥ 4,234,864
Common area charges .....	998,453	730,439
Subtotal .....	6,334,708	4,965,303
Others:		
Parking space rental revenues .....	222,255	182,047
Utility charge reimbursement .....	476,613	274,748
Miscellaneous .....	174,670	225,364
Subtotal .....	873,538	682,159
Total rental and other operating revenues .....	¥ 7,208,246	¥ 5,647,462
Property management fees and facility management fees .....	¥ 704,418	¥ 571,266
Depreciation .....	1,392,013	1,243,900
Utilities .....	454,313	275,900
Taxes .....	329,928	206,872
Insurance .....	17,219	14,701
Repairs and maintenance .....	119,710	89,964
Trust fees .....	55,386	46,396
Others .....	132,741	158,390
Total property-related expenses .....	¥ 3,205,728	¥ 2,607,389

## 12. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease term of generally two years for office buildings and residential properties and with lease term ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2007 and April 30, 2007 are as follows:

	In thousands of yen	
	As of October 31, 2007	As of April 30, 2007
Due within one year .....	¥ 1,561,805	¥ 1,266,446
Due after one year .....	10,516,248	9,741,832
Total .....	¥ 12,078,054	¥ 11,008,278

## 13. DERIVATIVES AND HEDGE ACCOUNTING

The Investment Corporation has entered into interest rate swap agreements with several Japanese financial institutions to hedge its variable rate long-term debt obligations. The Investment Corporation utilizes interest rate swap contracts, which are derivative financial instruments, only for the purpose of mitigating future risks of fluctuations of interest rates, but does not enter into such transactions for speculative or trading purposes. The Investment Corporation entered into such derivative transactions to hedge interest rate risk in accordance with its Articles of Incorporation and the established risk management policies of the Asset Management Company.

The following summarizes the notional principal amounts and the estimated unrealized loss from interest rate swap contracts as of October 31, 2007.

The estimated unrealized loss does not include the interest rate swap contracts that met the criteria for the special treatment.

(As of October 31, 2007)

Type	Notional amount	Unrealized loss
Interest-rate swap: Fixed rate payable and floating rate receivable	¥45,300 million	¥ (6 million)

## 14. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2007 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail	
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Number of properties	36	8	22	8	2	1
Property information (In millions of yen)						
Acquisition price	¥ 116,654	¥ 21,325	¥ 33,481	¥ 9,571	¥ 12,380	¥ 3,680
Percentage of total acquisition costs	59.2%	10.8%	17.0%	4.9%	6.3%	1.9%
Net book value	119,088	21,323	33,899	9,998	12,863	3,679
Appraisal value at year end	133,938	22,110	34,702	9,646	14,440	3,810
Percentage of total appraisal value	61.3	10.1	15.9	4.4	6.6	1.7
Financial results for the period ended October (In thousands of yen)						
Rental and other operating revenues	4,238,851	980,450	1,084,938	383,989	411,922	108,000
Rental revenues	3,750,764	798,944	996,510	354,084	326,652	108,000
Other revenues	488,087	181,506	88,428	29,905	85,270	-
Property-related expenses	1,072,853	312,517	216,214	107,144	95,192	8,381
Property management fees	393,484	159,271	84,154	35,426	27,737	4,347
Taxes	210,242	38,421	32,721	24,844	19,666	2,725
Utilities	304,875	85,630	27,155	6,880	29,773	-
Repairs and maintenance	64,186	11,272	25,378	17,615	1,170	-
Insurance	7,971	4,450	2,756	1,504	429	109
Trust fees and other expenses	92,095	13,473	44,050	20,875	16,417	1,200
NOI (Net Operating Income)	3,165,998	667,933	868,724	276,845	316,730	99,619
Depreciation expenses	708,771	227,845	272,131	99,899	73,512	9,856
Operating income from property leasing	2,457,227	440,088	596,593	176,946	243,218	89,763
Capital expenditures	972,457	143,567	12,726	89,729	18,594	-
NCF (Net Cash Flow)	2,193,541	524,366	855,998	187,116	298,136	99,619

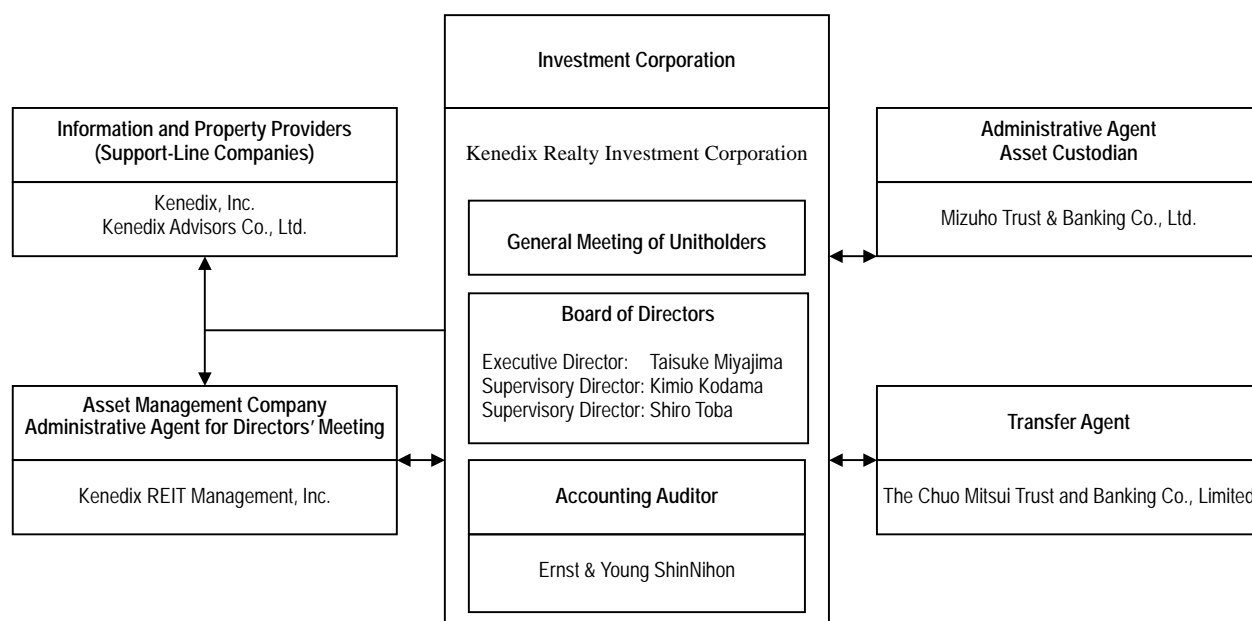
A breakdown of property-type as of October 31, 2007 was as follows:

Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Office Buildings	Tokyo Metropolitan Area	¥ 119,088	55.7
	Other Regional Areas	21,323	10.0
Subtotal		140,411	65.7
Residential Properties	Tokyo Metropolitan Area	33,899	15.8
	Other Regional Areas	9,998	4.7
Subtotal		43,897	20.5
Central Urban Retail Properties	Tokyo Metropolitan Area	12,863	6.0
	Other Regional Areas	3,679	1.7
Subtotal		16,542	7.7
Total		200,850	93.4
Bank deposits and other assets		12,914	6.0
Total assets		213,764	100.0
Total liabilities		86,002	40.2
Net assets		¥ 127,762	59.8

# Management Report

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## Structure of Investment Corporation



Asset Management Agreement / Operating Agency Agreement  
 Administrative Agency Agreement / Asset Custodian Agreement  
 Transfer Agency Agreement  
 Memorandum of Understanding with Kenedix, Inc. and Kenedix Advisors Co., Ltd.

## Board of Directors

The members of our board of directors are as follows:

### Taisuke Miyajima

Taisuke Miyajima has been our executive director since May 2005. In 1985, he joined Mitsubishi UFJ Trust and Banking Corporation (formerly The Mitsubishi Trust and Banking Corporation) where he gained about a decade of business experience in a number of positions within the company, including its Capital Markets Department. He joined Kenedix (formerly Kennedy-Wilson Japan Co., Ltd.) in 1998, and was seconded to the Asset Management Company in 2004 where he became chief executive officer and president. Prior to serving as our executive director, he transferred his employment to the Asset Management Company in 2005, continuing to serve in the same position. He has obtained approval from the Commissioner of the Finance Services Agency for holding concurrent positions with us and the Asset Management Company pursuant to Article 13 of the Investment Trust Law, as of April 18, 2005. Taisuke Miyajima holds 20 of our units.

### Kimio Kodama

Kimio Kodama has been a supervisory director since May 2005. He was admitted to the Japanese bar in 1963 and is a general practitioner of Japanese law. He established Hanzomon Sogo Law Office (formerly Towa Law Office) in 1966. He has been a director of Kyoritsu Women's Educational Institution since 1997 and served as a director for The Housing Loan Guarantee Corporation since 1998.

### Shiro Toba

Shiro Toba has been a supervisory director since May 2005. He joined Misuzu Audit Corporation (formerly Chuo Shinko Audit Corporation) in 1989 and became a Japanese certified public accountant in 1993. Prior to being certified as a tax accountant in 2002, he established Toba Public Accounting Office in 1997. He has been serving as a representative director of Minori Accounting Co., Ltd. since January 2005 and as a director of BTK Solution Co., Ltd. since March 2005.

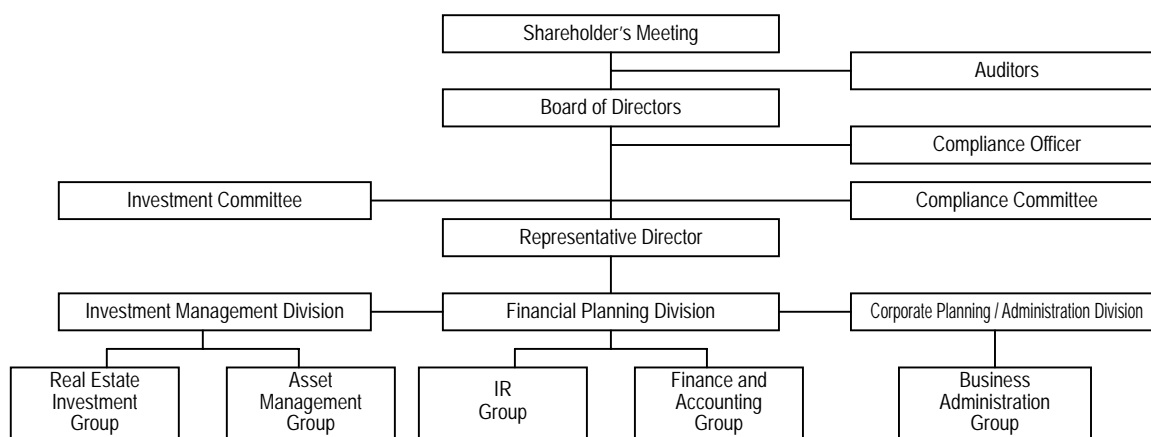
## Outline of the Asset Management Company

**Name:** Kenedix REIT Management, Inc.

**Capital:** ¥200 million

**History:** November 28, 2003 KW REIT Management was established  
 July 2, 2004 Building Lots and Buildings Transaction Business License, License No. (1) 83303, issued by the Governor of Tokyo  
 November 9, 2004 Renamed to Kenedix REIT Management, Inc.  
 February 28, 2005 Discretionary Transaction Agent License, License No. 33, issued by the Governor of Tokyo  
 April 18, 2005 Investment Corporation/Asset Management License, License No. 44, granted by the Prime Minister of Japan  
 April 26, 2005 Obtained approval to be Operating Agent for the Investment Corporation  
 September 30, 2007 Registered as Financial Products Transaction Operator (Investment Management Operator), Financial Instruments  
 Registration No. 323, issued by the Director-General of the Kanto Local Finance Bureau

**Organization Chart** (As of the end of fifth fiscal period):



**Principal Shareholder:**

Name	Location	Number of Stocks Owned	Ratio (Note)
Kenedix, Inc.	2-2-9, Shimbashi, Minato-ku, Tokyo	6,450 units	100.00%

(Note) Ratio represents the number of stocks owned in proportion to the total number of outstanding stocks.

## The Kenedix Group

The Kenedix Group is made up of Kenedix, Inc. ("Kenedix"), as well as its subsidiaries and affiliates, including leading providers of real estate advisory services, real estate asset and property management services and real estate investment management services in Japan. Kenedix owned 3.92% of our units as of October 31, 2007. Since our formation, which was promoted by Kenedix, we have received significant support from the Kenedix Group in our business and activities, particularly from Kenedix, Kenedix REIT Management Co., Ltd. ("Asset Management Company") and Kenedix Advisors Co., Ltd. ("Kenedix Advisors"). We expect to continue to rely on these companies and believe that our relationship with them provides us with competitive advantages.

- **Kenedix, Inc.** Kenedix was originally founded in April 1995 under the name of Kennedy-Wilson Japan and renamed to Kenedix, Inc. in May 2005. Kenedix commenced property fund management in February 1999. Kenedix commenced managing property funds for major Japanese insurance companies in July 2001 and is listed on the First Section of the Tokyo Stock Exchange. The core businesses of Kenedix include real estate advisory, asset management and collateralized debt investment management services, including on behalf of international investors, pension funds and other institutional investors. Kenedix targets investment in office buildings, in addition to residential, retail, logistics and other facilities, while actively engaging in real estate development for investment. Kenedix has also diversified its investment into areas such as hotels, nursing homes and other properties for which income depends heavily on active property management, and responded to global movements of funds by making more investments overseas. We believe we benefit from the experience and resources of Kenedix and the competitive advantages of our relationship with Kenedix as an independent real estate management company.

- **Kenedix REIT Management, Inc.** The Asset Management Company is broadly responsible for the formulation and execution of our investment strategy and our other activities. The Asset Management Company's employees have diverse experience in the real estate and financial markets in Japan, including experience in real estate appraisal and securities analysis. We seek to take advantage of the knowledge and experience of the Asset Management Company and its employees in the real estate market to help us locate and acquire properties that fit our investment strategy.

- **Kenedix Advisors Co., Inc.** Kenedix Advisors was incorporated in November 2003 as a real estate fund and property management company, particularly for pension funds. Kenedix Advisors was renamed from KW Pension Fund Advisors Co., Ltd. in May 2005 and is a 100% subsidiary of Kenedix.

We and the Asset Management Company are parties to a memorandum of understanding dated May 31, 2005 with Kenedix and Kenedix Advisors, which was recently revised in April 2007. The memorandum of understanding provides us with certain assurances from Kenedix and Kenedix Advisors with respect to information, negotiation rights and other support for the acquisition of properties.

## Memorandum of Understanding with Kenedix and Kenedix Advisors

We entered into a memorandum of understanding on May 31, 2005 with Kenedix, Kenedix Advisors and the Asset Management Company, which was subsequently revised on April 9, 2007 to provide us with increased preferential rights. We believe that revised memorandum of understanding reflects the strengthened relationship between the Kenedix Group and us. The revised memorandum of understanding has a term of one year, which is automatically renewed for successive one-year periods unless any of the parties notifies the other parties of its intent to terminate the memorandum of understanding at least 30 days prior to the expiration of the term.

### *Support from Kenedix*

Pursuant to the revised memorandum of understanding, Kenedix has agreed to provide support to us in the following areas:

- **First Preference to Property Information Acquired by Kenedix.**

When Kenedix receives information regarding any available property owned by a third party that, in the reasonable opinion of Kenedix, meets our investment criteria, including properties under development, Kenedix, has agreed to preferentially provide information on such property to the Asset Management Company, unless prohibited by laws or regulations or contracts to which it is a party. Until Kenedix becomes capable of reasonably determining that it is difficult to sell such property to us, Kenedix has agreed not to provide such information to any person other than the Asset Management Company or to acquire the property for itself. Prior to the revision on April 9, 2007, the Asset Management Company had a second-preference right to information, with the first-preference right reserved for real estate investment funds in which the major investors are pension funds for which Kenedix Advisors served as asset management company.



• ***First-Preference Negotiating Rights for Properties Owned by Kenedix.***

In the event that Kenedix disposes of a property owned by Kenedix, an entity wholly owned by Kenedix, or a fund fully financed by Kenedix or wholly owned entity, such as silent partnership fund (a "Kenedix Property") that, in the reasonable opinion of Kenedix, meets our investment criteria, Kenedix has agreed to grant the Asset Management Company first-preferential negotiating rights for such property, unless prohibited by law or regulation or contracts to which it is a party. In the event that Kenedix and the Asset Management Company do not reach an agreement for the sale and purchase of such property during the negotiation period, Kenedix may offer such property to any person other than the Asset Management Company after giving notice to the Asset Management Company. Prior to the revision on April 9, 2007, Kenedix granted the Asset Management Company second-preference negotiating rights for a Kenedix Property that no pension fund for which Kenedix Advisors served as asset management company had agreed to purchase during its first-preference negotiation period on that in the reasonable option of Kenedix, met our investment criteria but did not meet the investment criteria of any such pension fund.

• ***Information on Property Owned by Kenedix Private Placement Funds.***

In the event that Kenedix disposes of a property that is owned by a real estate investment fund for which it serves as asset management company (excluding any fund referred to in the immediately preceding paragraph) and, in the reasonable opinion of Kenedix, that meets our investment criteria, Kenedix has agreed to provide information on such property to the Asset Management Company no later than such time as Kenedix provides such information to any person other than the Asset Management Company, unless otherwise prohibited by law or regulation or contracts to which it is a party.

• ***Property Pre-Acquisition Support.***

The Asset Management Company may request Kenedix to purchase and hold a property owned or managed by a third party with a view to reselling it to us. In the event that Kenedix accepts such a request and purchases the property directly or indirectly through a wholly owned entity, we are granted the first option to purchase such property for one year following the acquisition, and Kenedix may not offer such property to any party other than the Asset Management Company during such period.

***Support from Kenedix Advisors***

Pursuant to the revised memorandum of understanding, Kenedix Advisors has agreed to provide support to us in the following area:

• ***First-Preference to Properties Owned by Pension Funds.***

In the event that Kenedix Advisors disposes of a property that is owned by a pension fund, and if Kenedix Advisors reasonably determines that such property meets our investment criteria Kenedix Advisors has agreed to preferentially offer to sell such property to the Asset Management Company, unless otherwise prohibited by law or regulation or contracts to which it is a party. Kenedix Advisors has agreed not to offer to sell such property to other parties than the Asset Management Company during the negotiation period. In the event that Kenedix Advisors and the Asset Management Company do not reach an agreement for the sale and purchase of the property during the negotiation period, Kenedix Advisors may offer such property to a third party after giving notice to the Asset Management Company.

## Policies with Respect to Certain Activities

### Basic Policies

We seek to achieve our investment objective within the framework of the following basic policies, which are reflected in our articles of incorporation as follows:

- We will invest, directly or indirectly, primarily in office, residential and retail properties located in the Tokyo metropolitan area including major cities in Tokyo, Kanagawa, Saitama and Chiba prefectures and other major cities throughout Japan, including government-designated cities (or *seirei shitei toshi*; cities designated by government ordinance and authorized to perform many of the functions normally performed by prefectures), through specified assets.
- We will conduct an investigation and a comprehensive review of all relevant information regarding any prospective acquisition target, such as anticipated future revenues from such property, potential of the area in which such property is located, construction specifications, equipment, estimated earthquake resistance, state of maintenance, environmental and geological features, and related rights attached to such property.
- We will maintain the percentage of the value of our specified real estate assets relative to the value of our specified assets at 75% or more at any time. Specified real estate assets refers to real estate, real estate leasing rights, surface rights, and beneficiary interests in trusts which hold real estate, land leasing rights or surface rights.

### Other Policies

We and the Asset Management Company have developed additional policies with respect to our activities. These policies, to the extent that they are not addressed in our articles of incorporation, may be amended or revised from time to time without a vote of our unitholders. For example, in December 2006 we revised our portfolio goals to concentrate more on office properties, as described below. These policies are not binding and are intended to guide the implementation of our investment objective and management of our operations. The Asset Management Company has broad discretion to develop our business strategies and to manage our operations. At any given time, our business operations or the characteristics of our property portfolio may not be fully consistent with these policies.

#### *Portfolio Management Policies*

We have portfolio management policies focusing on developing and maintaining a portfolio that seeks to achieve stable revenues and distributions.

**Types of Properties.** We divide property acquisition targets into one of three functional types of properties: office properties, focusing on mid-sized office properties, central urban retail properties and residential properties. In light of the favorable market conditions and outlook for office buildings, in December 2006, we revised our portfolio goals to concentrate more on office properties and have decided to make no new investments in residential properties for the foreseeable future.

**Geographic Diversification.** Our geographic investment focus is on properties located in the Tokyo metropolitan area, including major cities in Tokyo, Kanagawa, Saitama, and Chiba prefectures, with an emphasis on central Tokyo consisting of the Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards. A portion of our investment portfolio is also located in other major cities (primarily government-designated cities or major regional hub cities) with the aim of ensuring portfolio diversification and minimizing risks associated with changes in economic and real estate market conditions, earthquakes, typhoons and other natural disasters, and uneven population distribution among regions.

**Size and Value of Property.** Our general policy for the value of investment properties is to purchase office and central urban retail properties with a minimum value of ¥1 billion with a total investment value of a single property not to exceed 30% of the total investment portfolio. In addition, we may purchase residential properties with a minimum value of ¥0.5 billion. The total floor space at an office or a central urban retail building should be more than 1,000 m<sup>2</sup>. Our investment targets in residential properties are single-type, compact-type, family-type and prestige-type residential properties.

**Tenant Characteristics.** We make investment decisions based on a tenant's attributes, credibility, line of business, purpose of use, lease terms and conditions, and possible turnover.

**Other Portfolio Goals.** Based on our focus on properties in the Tokyo metropolitan area as described above, the Asset Management Company decides on specific portfolio goals with respect to our investments. The policy takes into account general economic conditions, real estate market conditions, interest rate trends, population shifts, and other factors, with the aim of realizing our basic investment objective. In the event of a significant change in economic, real estate market or other conditions, however, this portfolio management policy is reviewed and amended as and when considered appropriate by the Asset Management Company.

The Asset Management Company has set non-binding portfolio composition boundaries as general aspirations with respect to our investment activities. These may change from time to time. Pursuant to the revisions in investment guidelines in December 2006, the Asset Management Company has set a broad framework for a portfolio consisting of 50%-100% office properties, less than 20% central urban retail properties and less than 30% residential properties and other properties. In terms of location, the policy calls for 70% or more of our properties to be located in the Tokyo metropolitan area with the remainder in other major cities. However, at any given time, our actual property portfolio may not reflect these given goals.

### ***Compliance with Certain Japanese Tax Law Matters***

We intend to manage our investments in such a manner as to qualify for lower property registration and acquisition taxes and for deductibility of distributions to our unitholders under Japanese tax laws applicable to J-REITs.

### ***Other Investments***

We may, through the Asset Management Company, make investments other than as previously described, although we do not currently intend to do so. We are permitted to make certain investments other than real estate-related investments within the restrictions imposed by the Tokyo Stock Exchange's J-REIT listing rules and the Investment Trusts Association's J-REIT rules and our articles of incorporation. For example, we are permitted to invest in securities issued in connection with real estate securitizations under Japanese law.

Our articles of incorporation prohibit us from investing in foreign real estate, assets or securities backed by foreign real estate and assets denominated in foreign currency.

Our Investment Guidelines set forth that in principle, investment properties are acquired from a medium- and long-term perspective, and assets are not acquired for short-term buying and selling. Short-term herein means a period of less than a year, medium-term means a period of more than a year to less than 5 years, and long-term means a period of more than 5 years.

### ***Cash Management***

Although our articles of incorporation allow us to invest surplus funds in low-risk negotiable securities and monetary claims, we do not intend to make investments in securities and monetary claims for the purpose of cash management. Surplus funds may be used for acquisition of investment properties and capital expenditures, working capital, distribution payment, and payment of obligations including repayment of tenant leasehold and security deposits and borrowings as well as redemption of bonds.

### ***Financial Policy***

We borrow only from qualified institutions as defined in the Securities and Exchange Law of Japan (assuming that our tenant leasehold and security deposits are not loans for such purposes). All of our current borrowings are unsecured, provided that we maintain certain financial ratios. We currently do not have any outstanding guarantees. By financing our property acquisitions only after we identify specific properties for potential purchase, we seek to limit the amount of our cash and cash equivalents for which we have no immediate use.

In general, we seek to keep the aggregate amount of our borrowings (excluding tenant leasehold and security deposits) at 60% or less of the total value of our total assets. We may, however, exceed that percentage from time to time, for example, as a result of financing acquisitions of additional properties through borrowings instead of equity.

We seek to limit our borrowings and issuances of investment corporation bonds to ¥1 trillion in the aggregate.

We have recently been seeking to raise long-term debt capital in longer terms, including debt with maturities over 5 years, in order to extend our average maturity and lower refinancing risk by spreading principal repayments over fiscal periods. In this manner, we seek to create a relatively stable debt financing program.

Depending on market conditions, our financing needs for particular acquisitions or our general liquidity requirements, we may make various types of bank borrowings—fixed or variable interest, short- or long-term—and also obtain bank lines of credit. We may also issue debt in the capital markets. We may enter into interest hedging transactions, such as interest options and swaps, in order to minimize market and interest rate risks with respect to our borrowings.

We may, by resolution of our board of directors and without unitholder approval, issue additional units in any manner and on such terms as we deem appropriate, subject to the provisions of the Investment Trust Law. Existing unitholders have no preemptive right to purchase units issued in any offering, and any such offering would cause dilution of a unitholder's investment in us.

## Our Investment Objective and Strategy

Our investment objective is to secure, in the medium to long term, relatively stable distributions for our unitholders through real estate investment. We seek to achieve our investment objective through the following strategies:

### *External Growth Strategies*

#### *Seek Stable Portfolio Growth through Diversified Property Investments*

We have continued to expand our property portfolio. We started with an initial portfolio that had an aggregate acquisition price of ¥61.1 billion shortly after our initial public offering in July 2005 and set a target of achieving a portfolio with an aggregate acquisition price of ¥200 billion by the end of 2008. In 2006, we moved this target forward to the end of 2007. In June 2007, we achieved a portfolio with an aggregate acquisition price of ¥197.1 billion, thus substantially achieving our target six months early. We intend to continue increasing our total portfolio size and have set a target of achieving a portfolio with an aggregate acquisition price of ¥400 billion in the mid-to-long term. In light of the favorable market conditions and outlook for office buildings, we revised our portfolio goals in December 2006 to concentrate more on office properties and have decided to make no new investments in residential properties for the foreseeable future. In particular, we are targeting mid-sized office properties, with an emphasis on the Tokyo metropolitan area, especially central Tokyo. We believe that improved conditions in office property markets in major urban areas, including rising property values, occupancy ratios and rents, as well as greater transaction volume, create a favorable environment for expanding our portfolio. We seek to continue improving the quality of our portfolio, such as the location, size and type of properties, through various measures, including replacement of assets.

#### *Leverage Relationship with the Kenedix Group*

We believe that we have an increasingly strong relationship with the Kenedix Group, which has broad expertise and experience in real property investment and management in Japan. In April 2007, we revised our memorandum of understanding with Kenedix, Kenedix Advisors and the Asset Management Company, pursuant to which the Asset Management Company has first preference to informational and negotiating rights from Kenedix and Kenedix Advisors about properties meeting our specified investment criteria. In addition, in a February 2007 press release of Kenedix announcing its operating results for its fiscal year ended December 31, 2006, Kenedix noted the contribution of J-REITs and their sustained growth to the Kenedix Group, and noted that the Kenedix Group was taking steps to expand its J-REIT business. We intend to continue to draw on the expertise and experience of the Kenedix Group and its employees to help us locate and acquire attractive properties and increase their value through active property management. We refer to our portfolio in our marketing activities as "*Kenedix Selection*" to emphasize the importance of the Kenedix Group in the selection and management of our properties.

#### *Utilize the Asset Manager's Original Network for Sourcing Properties*

The Asset Management Company's employees have diverse experience in the real estate and financial markets in Japan. A part of our growth strategy involves acquiring information about potential acquisition opportunities through the Asset Management Company's network. We plan to continue to utilize the Asset Management Company's knowledge, experience and network of contacts in the real estate market to help us locate and acquire properties that match our investment strategy.

#### *Make Diversified Acquisitions*

We plan to continue making diversified acquisitions of mid-sized office properties, including properties that we subsequently renovate with a view to enhancing their property values and rental revenues. For example, from time to time we acquire properties with high vacancy rates and make substantial renovations to make them more attractive to potential tenants. We also purchase buildings and convert portions of them from residential or other use to office or retail space. We intend to continue acquiring properties for renovation as part of our diversified acquisition strategy to enhance our portfolio.

### *Internal Growth Strategies*

#### *Increase Cash Flow and the Value of Properties that We Acquire through Active Property Management*

A key part of our strategy is to increase unitholder value through focused and proactive management of our properties. Key components of our property management strategies include conducting tenant surveys and making appropriate improvements, maintaining attractive properties with uniform standards, engaging in flexible and focused leasing activities geared towards tenant needs and market trends, and exercising careful control of management and operating costs. As a result of our property management strategies and favorable conditions in the office property market, rents for units in our office properties tended to increase when we entered into new lease agreements in the fiscal period ended October 31, 2007.

### *Achieve Efficient Property Management*

We seek to implement efficient property management by engaging Kenedix REIT Management, Inc. as the property management company for each of our properties from March 2008. By centralizing property management, we believe we can take advantage of the size of our portfolio to delegate property-related tasks in an efficient and cost-effective manner to on-site property managers and facility managers.

## **Distributions**

In order to maintain our favorable tax treatment, which is available to J-REITs under the Special Taxation Measures Law of Japan, we must distribute in excess of 90% of our distributable income as defined in the Special Taxation Measures Law, which differs slightly from retained earnings under Japanese GAAP. Our articles of incorporation require that we make cash distributions of at least this amount. If our retained earnings are less than 90% of our distributable income, or if we determine it is appropriate to do so, our articles of incorporation permit us to distribute cash to our unitholders in excess of retained earnings up to the maximum amount calculated in accordance with the standards set by the Investment Trusts Association of Japan. These standards set forth that a closed-end J-REIT, such as us, may distribute up to 60% of its depreciation expense in excess of net income as a return of capital. If such maximum amount is still below 90% of our distributable income as defined in the Special Taxation Measures Law, our articles of incorporation further permit us to make distributions in the amount we determine necessary to satisfy the requirements to maintain our favorable tax treatment under the Special Taxation Measures Law.

However, any distribution in excess of retained earnings is likely to create complex Japanese tax issues, especially for individual Japanese resident unitholders. Accordingly, we do not intend to distribute any such excess amounts in the absence of appropriate changes in Japanese tax law that address these Japanese tax issues.

### **Distribution Performance**

Fiscal Period	First Fiscal Period	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period
Duration of Period	May 6, 2005 to October 31, 2005	November 1, 2005 to April 30, 2006	May 1, 2006 to October 31, 2006	November 1, 2006 to April 30, 2007	May 1, 2007 to October 31, 2007
Unappropriated Retained Earnings	¥242,251,377	¥1,102,013,492	¥2,124,112,014	¥2,148,117,194	¥2,792,084,129
Retained Earnings for the next fiscal period	¥14,137	¥40,412	¥59,014	¥43,194	¥84,129
Cash Distributions (Distribution per unit)	¥242,237,240 (¥3,052)	¥1,101,973,080 (¥13,884)	¥2,124,053,000 (¥13,529)	¥2,148,074,000 (¥13,682)	¥2,792,000,000 (¥13,960)
Earnings Distributed (Earnings Distributed per unit)	¥242,237,240 (¥3,052)	¥1,101,973,080 (¥13,884)	¥2,124,053,000 (¥13,529)	¥2,148,074,000 (¥13,682)	¥2,792,000,000 (¥13,960)
Payments for capital participations (Payments for capital participations per unit)	- ( - )	- ( - )	- ( - )	- ( - )	- ( - )

## Movements in Investment Units Issued and Outstanding

Movements in unitholders' capital and the number of investment units issued and outstanding until the end of the fifth fiscal period are summarized in the following table.

Settlement Date	Particulars	Investment Units Issued and Outstanding (Units)		Unitholders' Capital (Millions of Yen)		Remarks
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
May 6, 2005	Private placement	400	400	200	200	(Note 1)
July 20, 2005	Public offering	75,000	75,400	41,868	42,068	(Note 2)
August 16, 2005	Third-party allocation	3,970	79,370	2,216	44,285	(Note 3)
May 1, 2006	Public offering	73,660	153,030	42,171	86,456	(Note 4)
May 26, 2006	Third-party allocation	3,970	157,000	2,272	88,729	(Note 5)
May 22, 2007	Public offering	40,900	197,900	34,474	123,203	(Note 6)
June 19, 2007	Third-party allocation	2,100	200,000	1,770	124,973	(Note 7)

Notes:

1. The Investment Corporation was established with an offer price of ¥500,000 per unit.
2. The Investment Corporation undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties. The offer price was ¥580,000 per unit with an underwritten price of ¥558,250 per unit.
3. The Investment Corporation undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the acquisition of investment properties. The issue price was ¥558,250 per unit.
4. The Investment Corporation undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties. The offer price was ¥593,096 per unit with an issue price of ¥572,519 per unit.
5. The Investment Corporation undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the acquisition of investment properties. The issue price was ¥572,519 per unit.
6. The Investment Corporation undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties and repayment of borrowings. The offer price was ¥873,180 per unit with an issue price of ¥842,886 per unit.
7. The Investment Corporation undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the acquisition of investment properties and repayment of borrowings. The issue price was ¥842,886 per unit.

## Trends of Investment Unit Certificate Price on the Tokyo Stock Exchange

High and low trading prices for the Investment Corporation's investment units for each fiscal period as traded on the REIT market of the Tokyo Stock Exchange were as follows:

Period	First Fiscal Period	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period
End of Fiscal Period	October 31, 2005	April 30, 2006	October 31, 2006	April 30, 2007	October 31, 2007
High Price	¥618,000	¥670,000	¥636,000	¥918,000	¥988,000
Low Price	¥573,000	¥574,000	¥564,000	¥607,000	¥659,000

## The Main Investors of the Investment Corporation

The main investors of the Investment Corporation as of October 31, 2007 are as follows.

Name	Address	Number of Investment Units owned	Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	18,022	9.01
Nikko Cititrust and Banking Co. (Investment Trust Account)	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	14,341	7.17
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	14,329	7.16
State Street Bank and Trust Company	6-7, Kabutocho, Nihonbashi Chuo-ku, Tokyo	12,953	6.47
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	11,499	5.74
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2, Otemachi, Chiyoda-ku, Tokyo	9,061	4.53
Kenedix, Inc.	2-2-9, Shimbashi, Minato-ku, Tokyo	7,850	3.92
The Bank of New York, Treaty JASDEC Account	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	5,950	2.97
Goldman Sachs International	6-10-1, Roppongi, Minato-ku, Tokyo	4,556	2.27
JPMC Goldman Sachs Trust JASDEC lending Account	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	4,382	2.19
Total		102,943	51.47

Note: Figures for ratio of investment units owned have been rounded down to the second decimal place.

## Borrowings

Borrowings on a financial institution basis as of October 31, 2007 are as follows.

Borrowings on a financial institution basis as of October 31, 2007 are as follows.									
Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks
Short-Term Borrowings	Aozora Bank, Ltd.	July 31, 2006	2,000	-	0.883	July 31, 2007	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	-					
	Resona Bank, Ltd.		500	-					
	Mitsubishi UFJ Trust and Banking Corporation		500	-					
	The Chuo Mitsui Trust and Banking Co., Ltd.	September 20, 2006	3,000	-	0.910	September 20, 2007			
	Resona Bank, Ltd.		1,000	-					
	Mitsubishi UFJ Trust and Banking Corporation	October 31, 2006	1,000	-	0.959	October 31, 2007			
	Sumitomo Mitsui Banking Corporation	December 1, 2006	500	-	0.970	November 30, 2007			
	Resona Bank, Ltd.	January 19, 2007	500	-	0.910	January 18, 2008			
	The Chiba Bank, Ltd.		500	-					
	The Chuo Mitsui Trust and Banking Co., Ltd.	March 1, 2007	250	-	1.020	February 29, 2008			
	Sumitomo Mitsui Banking Corporation		1,750	750					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		500	500					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	-					
	Aozora Bank, Ltd.	April 2, 2007	2,000	-	0.945	October 2, 2007			
	Mitsubishi UFJ Trust and Banking Corporation		1,500	-	0.965	April 2, 2008			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	-	1.015				
	Aozora Bank, Ltd.	July 31, 2007	-	2,000	1.045	July 31, 2008			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		-	1,000	1.015				
	The Chuo Mitsui Trust and Banking Co., Ltd.	September 20, 2007	-	1,250	1.035	September 20, 2008			
	Mitsubishi UFJ Trust and Banking Corporation	October 31, 2007	-	1,000	1.100	October 31, 2008			
	Sub Total			18,500	6,500				



Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks
Long-Term Borrowings	Mitsubishi UFJ Trust and Banking Corporation	August 1, 2005	2,700	2,700	0.869	July 31, 2008	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Norinchukin Bank		2,500	2,500					
	The Chiba Bank, Ltd.		1,200	1,200					
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,000	1,000					
	Sumitomo Mitsui Banking Corporation		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		800	800					
	Resona Bank, Ltd.		300	300					
	The Chuo Mitsui Trust and Banking Co., Ltd.		3,750	3,750					
	Sumitomo Mitsui Banking Corporation	3,750	3,750						
	Mitsubishi UFJ Trust and Banking Corporation	1,500	1,500						
	Resona Bank, Ltd.	500	500						
	Sumitomo Mitsui Banking Corporation	November 1, 2005	1,500	-	0.769	October 31, 2007			
	The Norinchukin Bank		3,000	3,000	1.090	October 31, 2008			
	Resona Bank, Ltd.		500	500					
	Aozora Bank, Ltd.	December 8, 2005	1,500	1,500	1.098	December 7, 2008			
	Resona Bank, Ltd.		500	500					
	The Chiba Bank, Ltd.	March 1, 2006	800	800	1.449	February 28, 2009			
	Aozora Bank, Ltd.		500	500					
	Mitsui Sumitomo Insurance Co., Ltd.		700	700					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 16, 2006	2,500	2,500	1.476	March 16, 2009			
	Aozora Bank, Ltd.	May 1, 2006	2,000	2,000	1.629	April 30, 2009			
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,500	1,500					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000					
	Resona Bank, Ltd.		1,000	1,000	2.199	April 30, 2011			
	Aozora Bank, Ltd.		1,500	1,500					
	Mitsui Sumitomo Insurance Co., Ltd.		1,000	1,000					
	Development Bank of Japan		5,000	5,000	2.731	April 30, 2016			
	Mitsubishi UFJ Trust and Banking Corporation	July 14, 2006	1,000	1,000	2.149	July 13, 2011			
	Development Bank of Japan	September 1, 2006	3,000	3,000	2.124	August 31, 2013			
	The Norinchukin Bank	December 1, 2006	2,500	2,500	1.964	November 30, 2011			
	Sumitomo Mitsui Banking Corporation	April 2, 2007	2,000	2,000	1.574	April 2, 2010			
The Chuo Mitsui Trust and Banking Co., Ltd.	2,000		2,000	1.875	April 2, 2012				
The Norinchukin Bank	April 17, 2007	3,000	1,500	1.264	April 16, 2011				
Sumitomo Mitsui Banking Corporation	October 31, 2007	-	2,000	1.339	October 31, 2009				
	Sub Total		58,000	57,000					
	Total		76,500	63,500					

Notes:

- The average interest rate is the weighted-average interest rate for the fiscal period. The Investment Corporation entered into interest-rate swap transactions with the aim of minimizing the risk of future increase in interest rates. The effect of interest-rate swap transactions has been incorporated into calculations for the weighted-average interest rate.
- Funds procured through borrowings were used to acquire real estate or trust beneficiary interests in real estate and to repay borrowings.

## Investment Corporation Bonds

The status of the investment corporation bonds as of October 31, 2007 are as follows.

( Millions of Yen)

(Millions of Yen)								
	Issuance Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (%)	Redemption Date	Payment Method	Usage	Remarks
First Series Bonds	March 15, 2007	9,000	9,000	1.74	March 15, 2012	Full on maturity	(Note1)	(Note2)
Second Series Bonds		3,000	3,000	2.37	March 15, 2017			
Total		12,000	12,000					

Notes:

1. Ranking *pari passu* among the Specified Investment Corporation Bonds.
2. Funds procured through issuance of investment corporation bonds were used repay borrowings.

## Portfolios Outline

### Composition of Portfolio Assets

Type of Specified Asset	Type	Area	Fourth Fiscal Period (As of April 30, 2007)		Fifth Fiscal Period (As of October 31, 2007)	
			Total Amount Held (Millions of Yen) (Note 1)	Ratio (%) (Note 2)	Total Amount Held (Millions of Yen) (Note 1)	Ratio (%) (Note 2)
Real Estate	Office Buildings	Tokyo Metropolitan Area	13,047	6.9	13,052	6.1
	Central Urban Retail Properties	Tokyo Metropolitan Area	50	0.0	47	0.0
Total for Real Estate			13,097	6.9	13,100	6.1
Trust Beneficiary Interest in Real Estate	Office Buildings	Tokyo Metropolitan Area	93,525	49.6	106,035	49.6
		Other Regional Areas	11,456	6.1	21,323	10.0
	Total for Office Buildings		104,981	55.7	127,358	59.6
	Residential Properties	Tokyo Metropolitan Area	34,158	18.1	33,898	15.9
		Other Regional Areas	10,008	5.3	9,997	4.7
	Total for Residential Properties		44,166	23.4	43,896	20.5
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,867	6.8	12,815	6.0
		Other Regional Areas	3,688	2.0	3,678	1.7
	Total for Central Urban Retail Properties		16,556	8.8	16,493	7.7
Total of Trust Beneficiary Interests in Real Estate			165,704	88.0	187,749	87.8
Bank Deposits and Other Assets			9,598	5.1	12,914	6.0
Total Assets			188,400	100.0	213,763	100.0

Notes:

1. "Total Amount Held" is the amount allocated in the balance sheets at the end of the period (figures are on a net book value basis after deducting depreciation).
2. "Ratio" is the ratio of the amount allocated in the balance sheets to the total assets rounded to the first decimal place.

### Purchase and Sales during the Fiscal Period Under Review

Status of Real Estate and Securities Backed by Real Estate Purchase and Sales

Type	Area	No.	Property Name	Purchase		Sales			
				Date of Acquisition	Acquisition Price (Millions of Yen)	Date of Sales	Sales Price (Millions of Yen)	Book Value (Millions of Yen)	Capital Gain (Loss) (Millions of Yen)
Office	Tokyo Metropolitan Area	A-40	Toranomon Toyo Building	June 1, 2007	9,850	-	-	-	-
		A-41	KDX Shinjuku 286 Building	June 1, 2007	2,300	-	-	-	-
	Other Regional Areas	A-42	Karasuma Building	June 1, 2007	5,400	-	-	-	-
		A-43	KDX Hakata Building	June 1, 2007	2,350	-	-	-	-
		A-44	KDX Sendai Building	June 1, 2007	2,100	-	-	-	-
	Total				22,000	-	-	-	-

Note: Acquisition prices are the sales amounts recorded in trust beneficiary interest agreements exclusive of associated costs such as brokerage fees and taxes.

## Capital Expenditure

### Planned capital expenditures

Major capital expenditure plans for renovation of properties in which the Investment Corporation holds a trust beneficiary interest for the sixth fiscal period (November 1, 2007 to April 30, 2008) are as follows. Planned capital expenditure includes portions classified into expenses for accounting purposes.

Property Name (Location)	Purpose	Schedule	Planned Amount of Capital Expenditure (Millions of Yen)		
			Total	Paid in the Fiscal Period Under Review	Total Amount Previously Paid
KDX Higashi-Shinjuku Building (Shinjuku-ku, Tokyo)	Upgrade of individual air conditioning system, other	November 2007 to April 2008	181	-	-
KDX Shiba-Daimon Building (Minato-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	164	-	-
KDX Hirakawa-cho Building (Chiyoda-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	110	-	-
KDX Hachioji Building (Hachioji-shi, Tokyo)	Upgrade of individual air conditioning system, other	As above	100	-	-
KDX Okachimachi Building (Taito-ku, Chiba)	Upgrade of individual air conditioning system, other	As above	95	-	-
KDX Sendai Building (Sendai-shi, Miyagi)	Renovation for restrooms, other	As above	70	-	-
KDX Omori Building (Ohta-ku, Chiba)	Renovation for external wall, other	As above	51	-	-

## Capital Expenditures During the Fifth Fiscal Period

The Investment Corporation undertook the following major capital expenditures as follows. In the fifth fiscal period, the Investment Corporation completed work across its entire portfolio totaling ¥1,238 million. This total comprised of ¥1,357 million in capital expenditures and ¥119 million for repairs, maintenance and renovation expenses.

Property Name (Location)	Purpose	Schedule	Amount of Capital Expenditures (Millions of Yen)
KDX Toranomon Building (Minato-ku, Tokyo)	Renovation for the entire building	May 2007 to October 2007	330
KDX Shiba-Daimon Building (Minato-ku, Tokyo)	Renovation for external wall, upgrade of individual air conditioning system, other	As above	82
Ashiya Royal Homes (Ashiya-shi, Hyogo)	Upgrade of indoor facilities, other	As above	82
KDX Niigata Building (Niigata-shi, Niigata)	Renewal work for common use areas, upgrade of air conditioning system, other	As above	69
KDX Hachioji Building (Hachioji-shi, Tokyo)	Upgrade of individual air conditioning system, other	As above	54
KDX Higashi-Shinjuku Building (Shinjuku-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	50
KDX Funabashi Building (Funabashi-shi, Chiba)	Renovation for external wall, other	As above	46
KDX Kajicho Building (Chiyoda-ku, Tokyo)	Renovation for external wall, other	As above	45
KDX Hamacho Building (Chuo-ku, Tokyo)	Renovation for external wall, other	As above	31
KDX Shinjuku 286 Building (Shinjuku-ku, Tokyo)	Upgrade of restrooms, renewal work for security system other	As above	28
KDX Minami Semba Dai-1 Building (Osaka-shi, Osaka)	Renovation for external wall, other	As above	27
KDX Kiba Building (Koto-ku, Tokyo)	Renovation for external wall, other	As above	17
KDX Nogizaka Building (Minato-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	13
KDX Koishikawa Building (Bunkyo-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	7
Others			351
Portfolio Total			1,238

## Long-Term Repairs, Maintenance, and Renovation Plans

The Investment Corporation formulates long-term repairs, maintenance, and renovation plans on an individual investment property basis and allocates a portion of its cash flows generated during the period to a reserve for repairs, maintenance, and renovation to meet large-scale renovation over the medium to long terms. The following amount has been transferred to the reserve from period cash flows.

( Millions of Yen )

Fiscal period	First Fiscal Period	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period
Reserve for the end of the previous period	-	92	165	288	406
Reserve for the fiscal period under review	92	130	148	118	370
Reversal of reserve for the fiscal period under review	-	57	26	0	-
Reserve bring to the next period	92	165	288	406	777

## Expenses and Liabilities

### Details for Expenses

(Thousands of Yen)		
Item	Fourth Fiscal Period	Fifth Fiscal Period
(a) Asset management fees	306,965	369,009
(b) Custodian fees	17,928	20,456
(c) Administrative service fees	48,672	52,108
(d) Directors' compensation	5,400	5,400
(e) Audit fees	7,800	7,800
(f) Other operating expenses	97,309	76,818
Total	484,075	531,592

Note : In addition to the asset management fees indicated in the above table, a total of ¥117,550 thousand for the fourth fiscal period and ¥55,000 thousand for the fifth fiscal period, representing property acquisition management fees, was included in the book values of individual real estate assets.

## Details of Related-Party Transactions

### (1) Details

	Purchase and Sales Amounts	
	Amount of Purchase (Thousands of Yen)	Amount of Sales (Thousands of Yen)
Total	22,000,000	-
	Amount of Purchase from Related -Parties	Amount of Sale to Related -Parties
	22,000,000 (100%)	-
Details of related-party transactions		
Y.K. KWO Fourth	22,000,000 (100%)	-

### (2) Fees

Classification	Total Fees (A) (Thousands of Yen)	Details of fees and other payments to related parties		Ratio (B /A)%
		Payment Recipient	Amount of Fee (B) (Thousands of Yen)	
Leasing management fees	256,842	Kenedix Advisors Co., Ltd.	256,842	100.0
Management transfer fees	10,800	As above	10,800	100.0
Construction supervision fees	40,197	As above	40,197	100.0

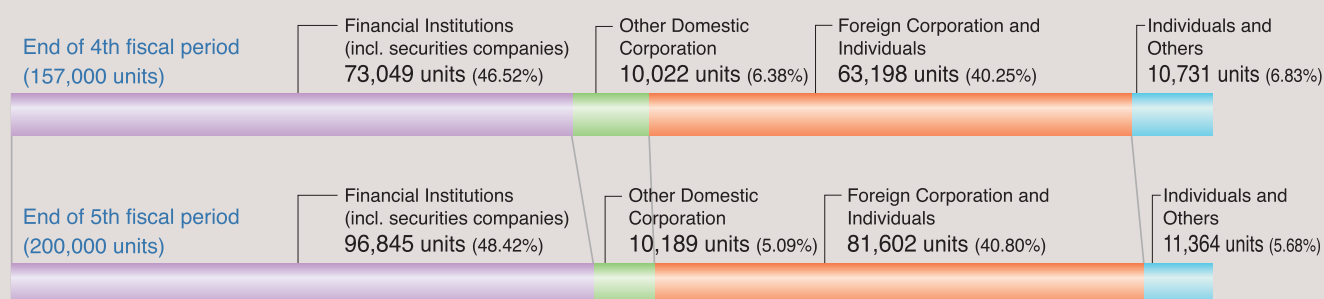
Note: Related parties in the above table are the related parties for the Asset Management Company, which are defined under Implementation Ordinance No. 123 of the Investment Trust Law. Transaction details and commissions paid to Kenedix Advisors and Y.K. KWO Fourth during the fiscal period under review are listed in the above table.

## Trends in Investment Unit Prices

The Investment Corporation's investment unit certificates were first listed on the Tokyo Stock Exchange on July 21, 2005. Trends in investment unit price and trading turnover from the date of public listing to the close of its fifth fiscal period, October 31, 2007, are provided in the following table.



## Details of the Unitholders



Note: Comparative ratios are rounded down to the second decimal place.

## Information Provided on the Investment Corporation's Website

The Investment Corporation will make every effort to disclose relevant and accurate information on its website in a timely fashion.

URL

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

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The financial statements of Kenedix Realty Investment Corporation have been prepared in accordance with generally accepted accounting principles in Japan "Japanese GAAP", which may materially differ in certain respects from generally accepted accounting principles in other jurisdictions.

This semiannual report contains forward-looking statements. These statements appear in a number of places in this semiannual report and include statements regarding the intent, belief, or current and future expectations of Kenedix Realty Investment Corporation or Kenedix REIT Management, Inc. with respect to its business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Accordingly, readers of this document should not interpret the forward-looking statements included herein as predictions or representations of future events or circumstances.

Potential risks and uncertainties also include those identified and discussed in this document. Given these risks and uncertainties, readers of this document are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of information produced herein. We disclaim any obligation to update or, except in the limited circumstances required by Tokyo Stock Exchange, announce publicly any revisions to any of the forward-looking statements contained in this documents.



## Kenedix Realty Investment Corporation Corporate Data (As of February 1, 2008)

### Corporate Office

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2-2-9, Shimbashi, Minato-ku,  
Tokyo 105-0004, Japan  
Tel +81-3-3519-3491  
Fax +81-3-3519-3555

### Date of Incorporation

May 6, 2005

### Capital

¥124,964,750,470  
200,000 units

### Stock Listing

REIT market of the Tokyo Stock Exchange

### Security Code

8972

### Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.  
3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

### Independent Auditor

Ernst & Young ShinNihon  
Kasumigaseki Bldg.  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6028, Japan

### Investor Relations

For further information, please contact our Asset Management  
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