

Translation Purpose Only

October 25, 2006

To All Concerned Parties

REIT Issuer:

Kenedix Realty Investment Corporation  
1-8-2 Marunouchi, Chiyoda-ku, Tokyo  
Taisuke Miyajima, Executive Director  
(Securities Code: 8972)

Asset Management Company:

Kenedix REIT Management, Inc.  
Taisuke Miyajima, CEO and President

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(Revised) Notice Concerning the Revision of the Semiannual Report  
for the Second Fiscal Period Ended April 30, 2006

Kenedix Realty Investment Corporation (“the Investment Corporation”) revised a part of the Semiannual Report for the second fiscal period ended April 30, 2006.

Revised Part:

p.7 (The underlined portion of the contents: Properties Roster “Additional properties during the 3<sup>rd</sup> period (26 properties) (as of June 12, 2006)”

【Revised】

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Total 26 properties				<u>58,033</u>	-	-
Total 59 properties				137,759 (Note 4)	11.1 yrs (Note 5)	90.8 (Note 6)

【Original】

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Total 26 properties				<u>63,992</u>	-	-
Total 59 properties				137,759 (Note 4)	11.1 yrs (Note 5)	90.8 (Note 6)

# KENEDIX Realty Investment Corporation

## Semiannual Report

Second Fiscal Period  
 From November 1, 2005 to April 30, 2006



# 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.

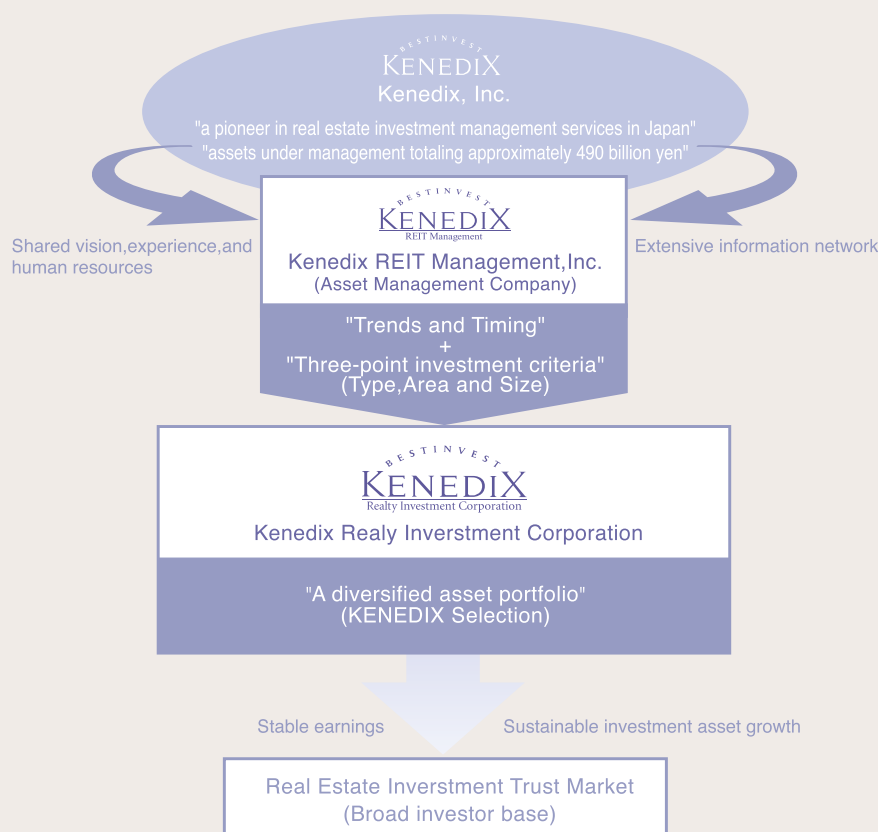
To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.

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. ("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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## To Our Unitholders

Taking this opportunity to present our 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.

In its second fiscal period, (November 1, 2005 to April 30, 2006) Kenedix Realty Investment Corporation recorded operating revenues of ¥2,871 million, ordinary income of ¥1,103 million and net income of ¥1,101 million. As a result, cash distribution for the fiscal period under review was ¥13,884 per unit.

Looking at its third fiscal period and beyond, the Investment Corporation in concert with Kenedix REIT Management, Inc. will continue to pursue stable growth from a medium- and long-term perspective. We offer our sincere appreciation to all unitholders for continuing to share and support our vision.



**Taisuke Miyajima**

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

## Investment Highlights

Cash Distribution for the Second Fiscal Period (November 1, 2005 to April 30, 2006): ¥13,884 per unit

Note: The second fiscal period commenced on November 1, 2005 and ended on April 30, 2006, a period of 181 days.

### Investment Highlights

	Results for the First Fiscal Period	Results for the Second Fiscal Period
Operating Revenues	¥1,196 million	¥2,871 million
Operating Income	¥589 million	¥1,343 million
Ordinary Income	¥243 million	¥1,103 million
Net Income	¥242 million	¥1,101 million
Distribution per Unit	¥3,052	¥13,884

### Financial Results

	First Fiscal Period	Second Fiscal Period
Total Assets	¥77,325 million	¥92,053 million
Unitholders' Equity	¥44,527 million	¥45,387 million
Unitholders' Equity to Total Assets	57.6%	49.3%
Unitholders' Equity per Unit	¥561,008	¥571,840



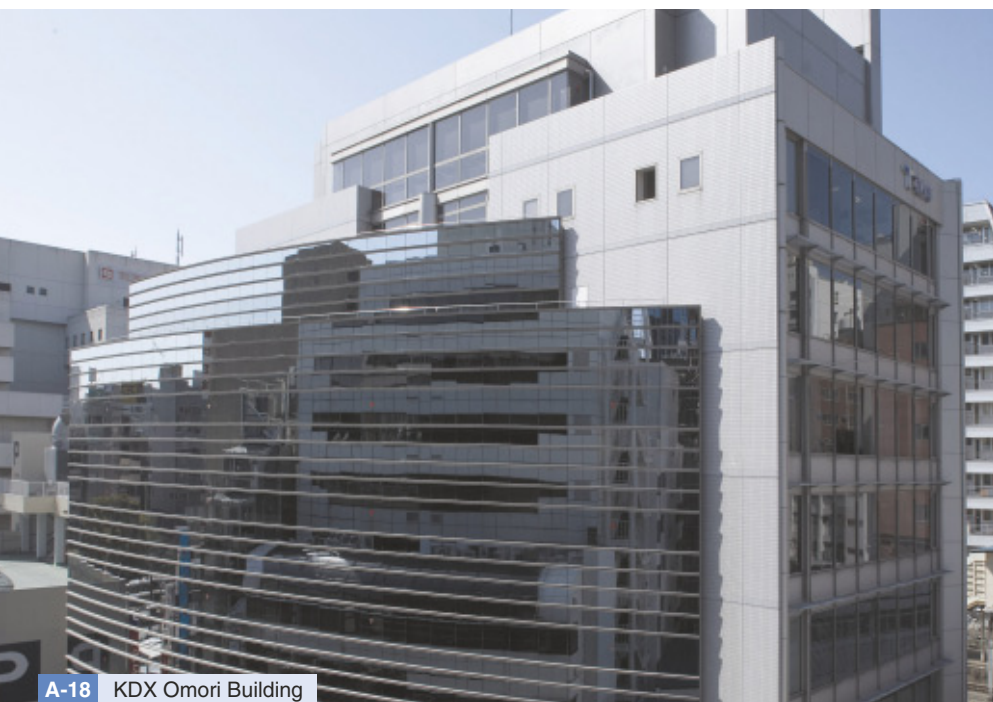


A-13 Bells Modes Building



A-17 Ebisu East 438 Building

# KENEDIX Selection



A-18 KDX Omori Building



A-21 NTB-M Building



B-19 Residence Charmante Tsukishima

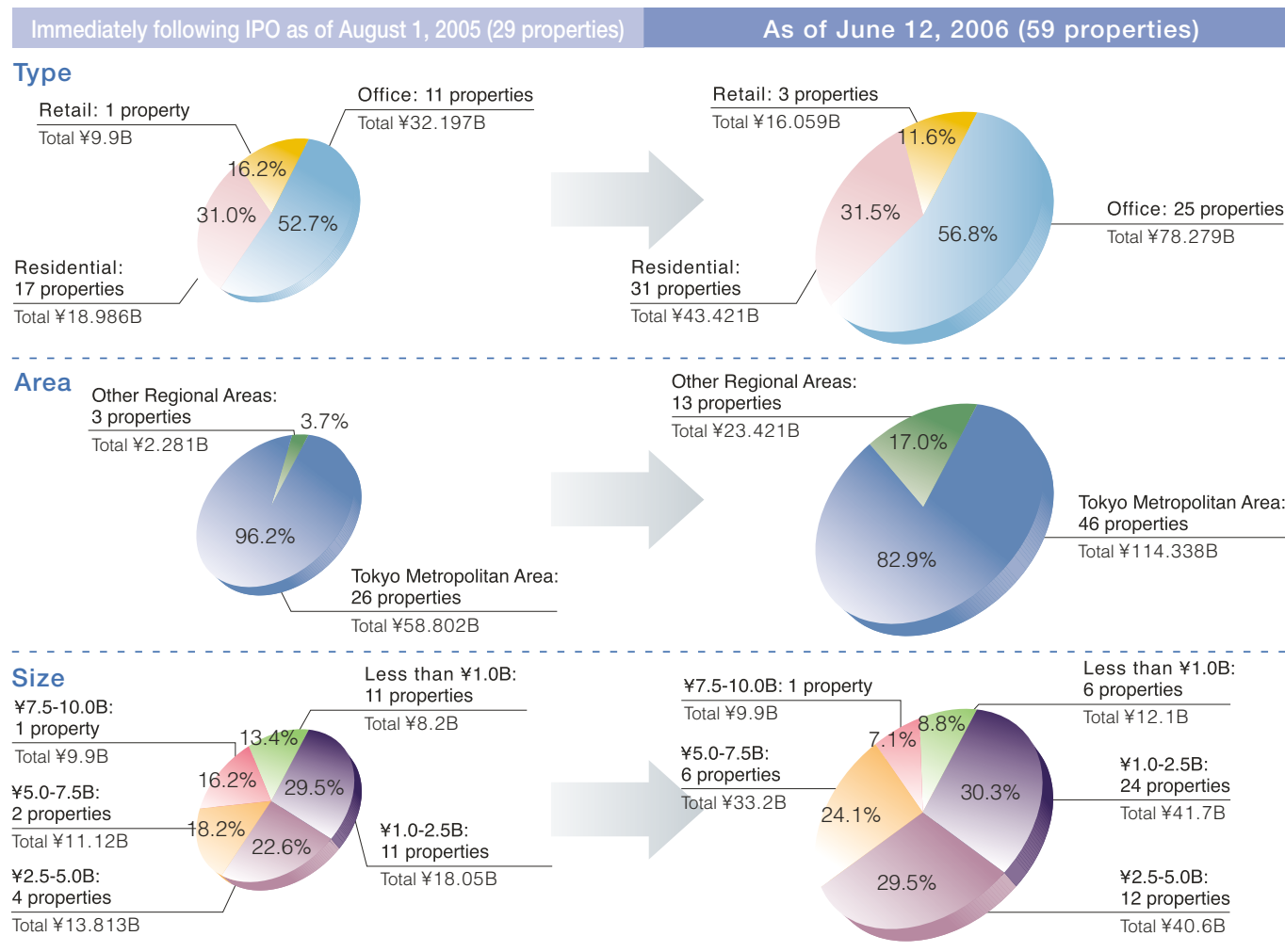


C-1 Jinnan-zaka Frame

# Portfolio Highlights

## Portfolio Composition

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

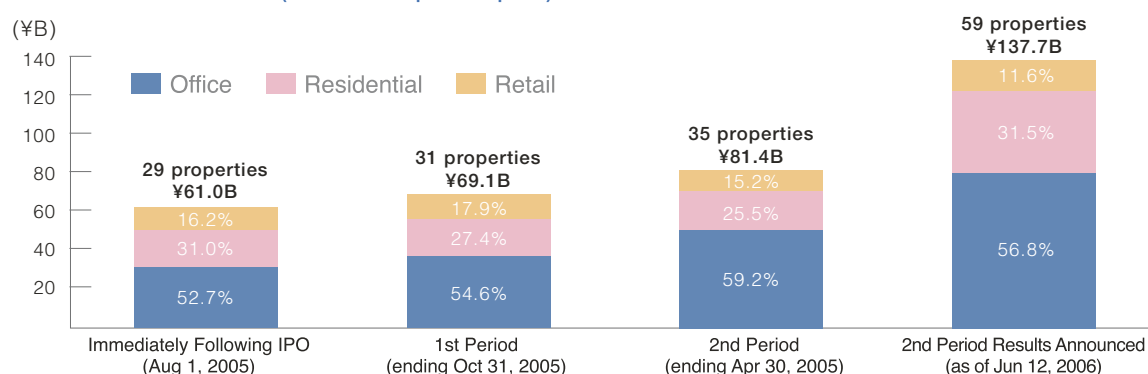


Note : 1. The Tokyo Metropolitan Area consists of Tokyo, Kanagawa, Saitama and Chiba prefectures.  
 2. Percentage figures in the above pie charts represent the proportion of each category as a percentage of the total calculated on a property acquisition-price basis. Percentage figures are rounded off to the first decimal place.  
 3. B=billions

Total Acquisition Price	61 billion yen	Total Acquisition Price	137.7 billion yen
Total Number of Properties	31 properties	Total Number of Properties	59 properties
Weighted-Average Portfolio Age	11.7 years	Weighted-Average Portfolio Age	11.1 years

Note: The average age of building construction, current as of April 30, 2006, is shown as the weighted-average portfolio age based upon acquisition prices.

## External Growth Performance (based on acquisition price)



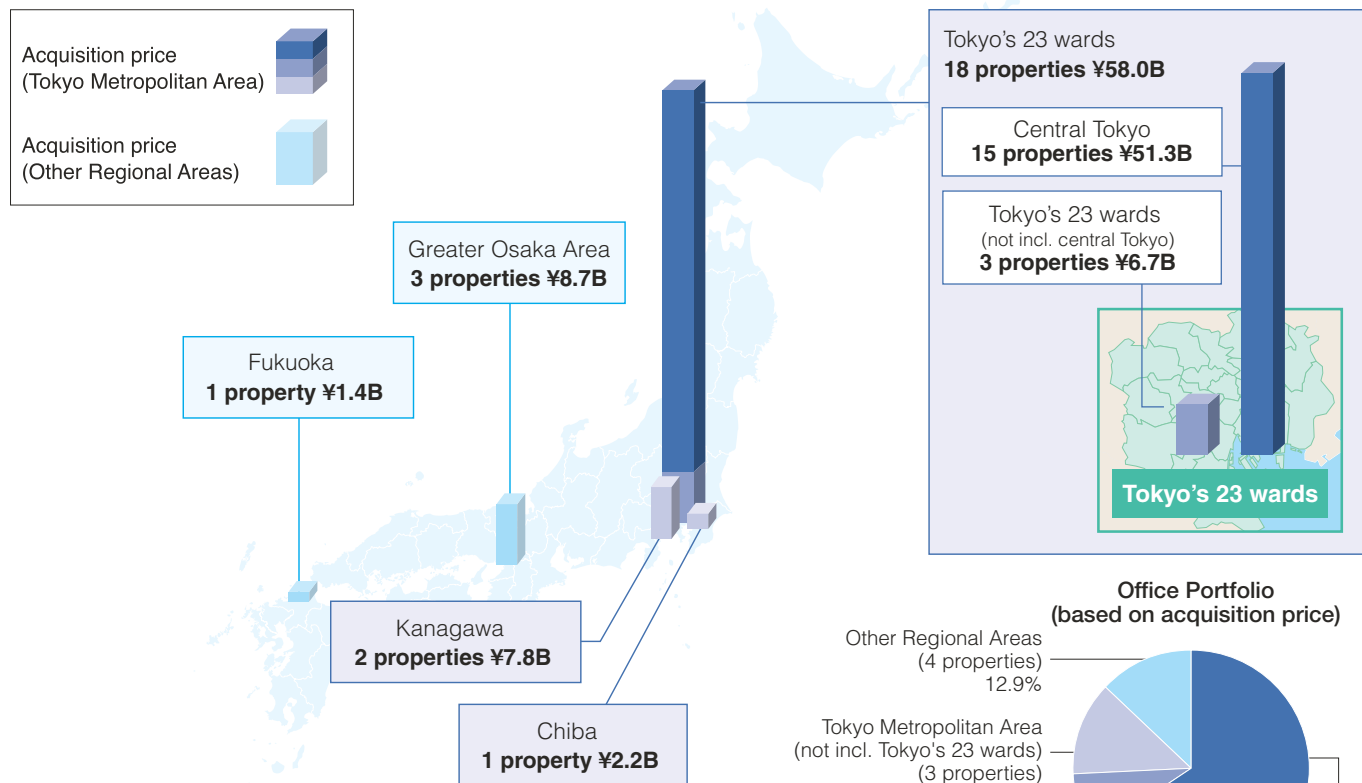
Note: Amounts of less than ¥100 million omitted for money amounts, and digits below decimal point omitted for ratios



# KENEDIX Selection (As of June 12, 2006)

## Office Buildings (25 properties)

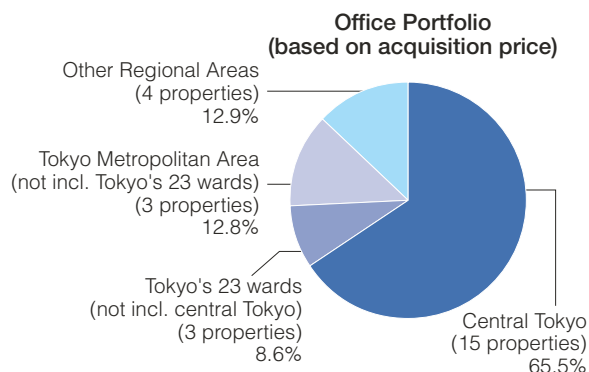
Emphasis on mid-sized office buildings in the Tokyo Metropolitan Area, in particular Central Tokyo.



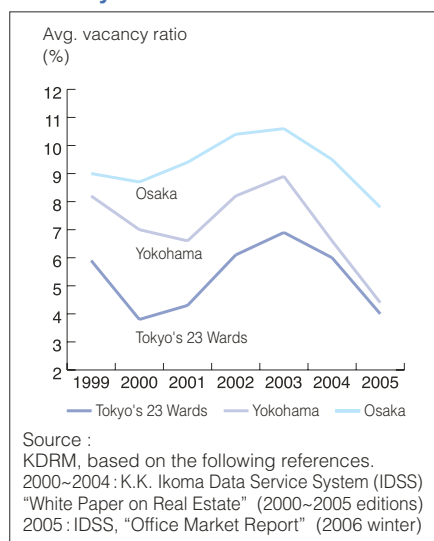
Notes:

1. Central Tokyo consists of the Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.
2. Greater Osaka Area consists of Osaka and Hyogo prefectures.
3. Money amounts are rounded to the nearest ¥100 million.
4. Ratios indicate the total acquisition price for properties in each area in proportion to the total acquisition costs for all properties combined.
5. Ratios are rounded to the first decimal place.

\*The data above is based upon a portfolio of 25 office buildings held by Kenedix Realty Investment Corporation, including 15 properties held at the end of the second fiscal period and 10 properties already acquired during the third fiscal period as of June 12, 2006.

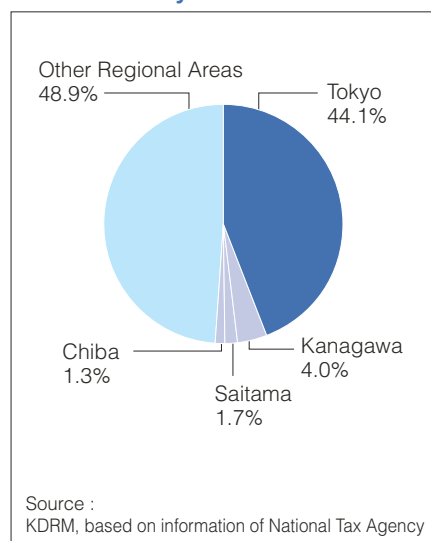


## Office Building Average Vacancy Ratio

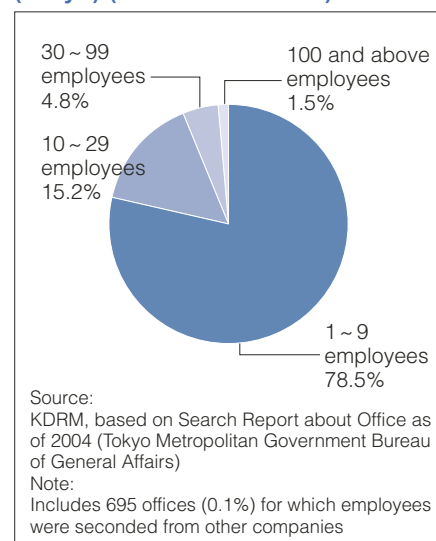


Note: References to "KDRM" are to Kenedix REIT Management, Inc.

## Corporate Income Distribution by Prefectures

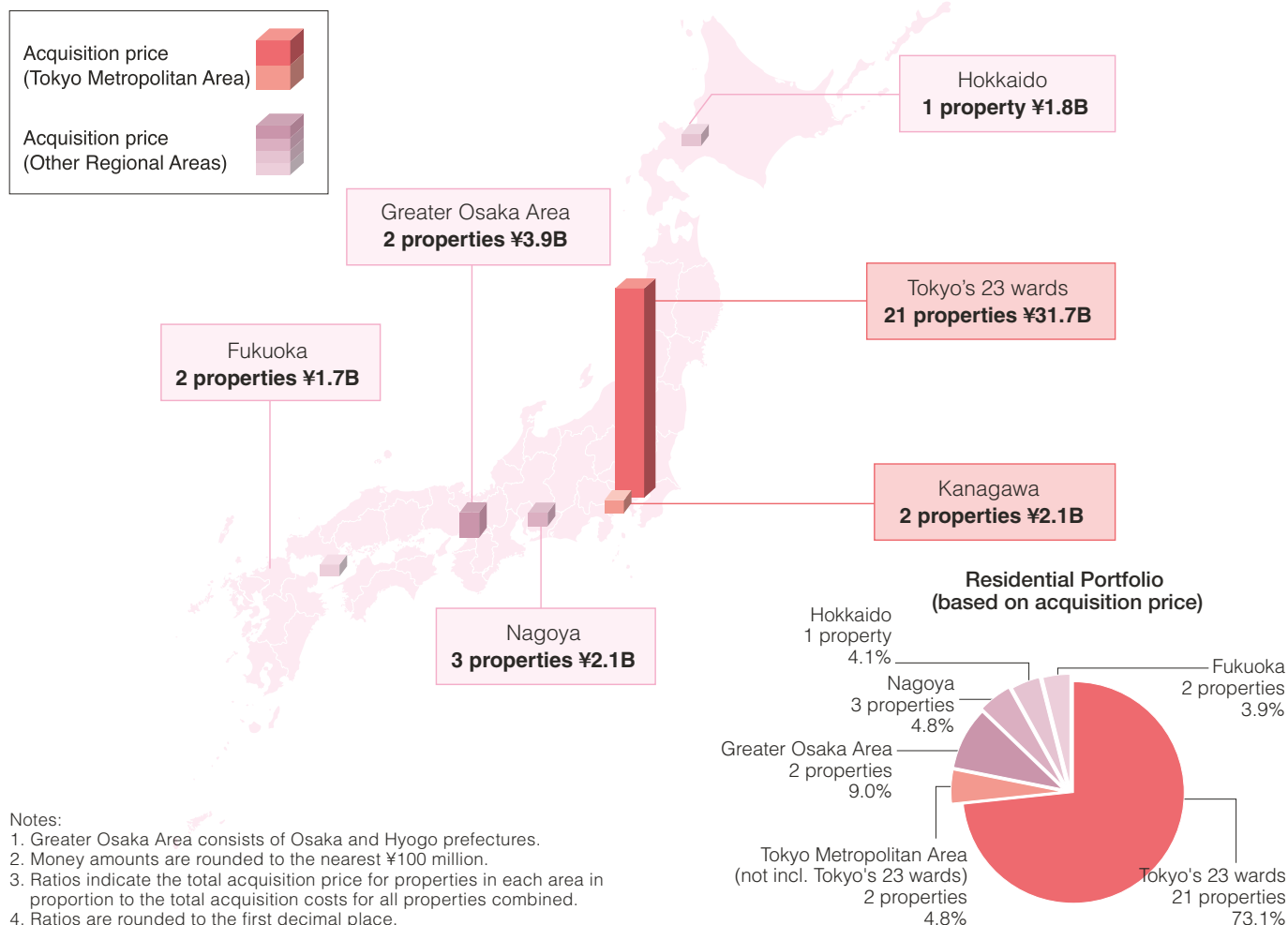


## Number of Employees per Office (Tokyo) (% of total offices)



## Residential Properties (31 properties)

Emphasis on residential properties in densely populated areas with a high number of households.



\*The data above is based upon a portfolio of 31 residential properties held by Kenedix Realty Investment Corporation, including 16 properties held as of the end of the second fiscal period (excluding two properties sold on May 10, 2006) and 15 properties already acquired during the third fiscal period as of June 12, 2006.

## Japan Population Growth Rate

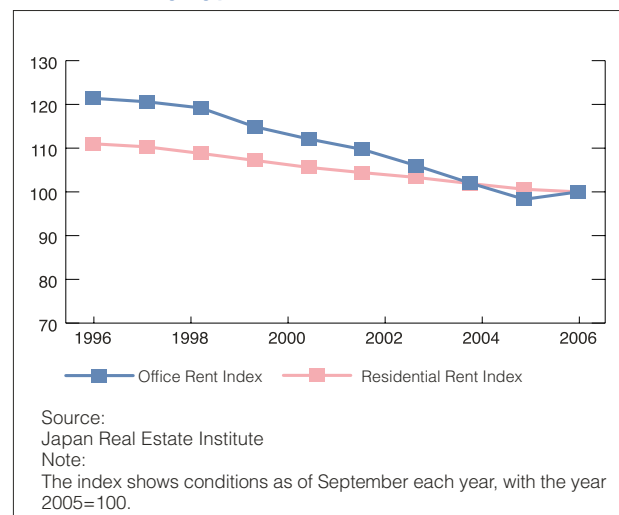
Rank	City	Population as of 2005	Growth rate (2000-2005)
1	Tokyo's 23 wards	8,483,050	4.3%
2	Yokohama	3,579,133	4.4%
3	Osaka	2,628,776	1.2%
4	Nagoya	2,215,031	2.0%
5	Sapporo	1,880,875	3.2%
6	Kobe	1,525,389	2.1%
7	Kyoto	1,474,764	0.0%
8	Fukuoka	1,400,621	4.4%
9	Kawasaki	1,327,009	6.2%
10	Saitama	1,176,269	3.8%
11	Hiroshima	1,154,595	1.8%
12	Sendai	1,024,947	1.7%
Total		127,756,815	0.7%

Source:  
MIC Statistics Bureau, Population Census 2005

Notes:

- Based on the population as of October 1, 2005
- Cities where the Investment Corporation owns properties are highlighted
- References to "MIC" are to Ministry of Internal Affairs and Communications.

## Rent Index by Type





## Properties Roster

### Properties as of the end of the 2nd period (35 properties)

Type	Area	Name	Location	Acquisition Price (¥M) (Note1)	Completion Date (Note2)	Occupancy Ratio (%) (Note3)	
Office	Tokyo Metropolitan Area	Belles Modes Building	Chiyoda ward, Tokyo	5,950	May 1994	80.5	
		Nihonbashi 313 Building	Chuo ward, Tokyo	5,940	Apr. 1974	100.0	
		Sogo Hirakawacho Building	Chiyoda ward, Tokyo	5,180	Mar. 1988	100.0	
		Higashi-Kayabacho Yuraku Building	Chuo ward, Tokyo	4,450	Jan. 1987	100.0	
		Noir Hatchobori	Chuo ward, Tokyo	3,680	Jun. 1993	100.0	
		K&Y Building (Southern Plaza)	Nakano ward, Tokyo	2,533	Aug. 1992	98.8	
		Harajuku F.F. Building	Shibuya ward, Tokyo	2,450	Nov. 1985	100.0	
		KDX Hamacho Building	Chuo ward, Tokyo	2,300	Sep. 1993	87.3	
		FIK Minami Aoyama	Minato ward, Tokyo	2,270	Nov. 1988	100.0	
		KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	91.9	
		Kanda Kihara Building	Chiyoda ward, Tokyo	1,950	May 1993	100.0	
		NNK Building	Shinjuku ward, Tokyo	1,610	Jun. 1992	100.0	
		Koishikawa Yoshida Building	Bunkyo ward, Tokyo	704	Oct. 1992	100.0	
	Other Regional Areas	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	100.0	
	Hakata-Ekimae Dai-2 Building	Fukuoka, Fukuoka	1,430	Sep. 1984	96.7		
Office (15 properties) Sub Total				48,269	17.4 yrs	97.3	
Residential	Tokyo Metropolitan Area	Storia Sirokane	Minato ward, Tokyo	3,150	Feb. 2003	92.5	
		Tre di Casa Minami Aoyama	Minato ward, Tokyo	2,460	Feb. 2004	100.0	
		Court Mejiro	Shinjuku ward, Tokyo	1,250	Mar. 1997	85.1	
		Apartments Motoazabu	Minato ward, Tokyo	1,210	Jan. 2004	97.1	
		Apartments Wakamatsu-Kawada	Shinjuku ward, Tokyo	1,180	Feb. 2004	97.8	
		Court Nihonbashi-Hakozaki	Chuo ward, Tokyo	1,130	Feb. 2004	94.3	
		Side Denenchofu	Ota ward, Tokyo	1,110	Feb. 1997	94.4	
		S-court Yokohama-Kannai	Yokohama, Kanagawa	945	Mar. 2003	100.0	
		Court Motoasakusa	Taito ward, Tokyo	880	Jan. 2005	82.3	
		Sold on May 10, 2006	Storia Todoroki	Setagaya ward, Tokyo	877	Dec. 2002	100.0
		Bloom Omotesando	Shibuya ward, Tokyo	875	Mar. 2003	85.2	
		Sold on May 10, 2006	Clair Court Rokakouen	Setagaya ward, Tokyo	831	Aug. 1998	100.0
		Human Heim Okachimachi	Taito ward, Tokyo	830	Dec. 2004	100.0	
		Court Shinbashi	Minato ward, Tokyo	748	Dec. 1997	95.2	
		Court Suitengu	Chuo ward, Tokyo	659	Jul. 2003	94.9	
	Other Regional Areas	Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	82.7	
	Abreast Hara	Nagoya, Aichi	444	Feb. 2000	100.0		
	Abreast Hirabari	Nagoya, Aichi	407	Mar. 2000	97.5		
Residential (18 properties) Sub Total				20,786	5.2 yrs	91.1	
Retail	Tokyo Metropolitan Area	Jinnan-zaka Frame	Shibuya ward, Tokyo	9,900	Mar. 2005	100.0	
		Yoyogi M Building	Shibuya ward, Tokyo	2,479	Aug. 1991	87.1	
	Retail (2 properties) Sub Total				12,379	3.9 yrs	97.4
Total 35 properties				81,434	12.3 yrs	94.9	

## Additional properties during the 3rd period (26properties) (as of June 12, 2006)

Type	Area	Name	Location	Acquisition Price (¥M) (Note1)	Completion Date (Note2)	Occupancy Ratio (%) (Note3)
Office	Tokyo Metropolitan Area	Toshin-24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	100.0
		Ebisu East 438 Building	Shibuya ward, Tokyo	4,640	Jan. 1992	100.0
		KDX Omori Building	Ohta ward, Tokyo	3,500	Oct. 1990	100.0
		KDX Hamamatsucho Building	Minato ward, Tokyo	3,460	Sep. 1999	100.0
		Dai-ichi Kayabacho Building	Chuo ward, Tokyo	2,780	Oct. 1987	100.0
		NTB・M Building	Minato ward, Tokyo	2,690	Feb. 1992	100.0
		KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	100.0
		KDX Yotsuya Building	Shinjuku ward, Tokyo	1,950	Oct. 1989	100.0
	Other Regional Areas	KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	100.0
		KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	86.0
Office (10 properties) Sub Total				30,010	-	-
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	1 : Jan. 2006 2 : Feb. 2006	58.2
		Regalo Shiba-Kouen	Minato ward, Tokyo	2,260	Nov. 2005	74.4
		Chigasaki Socie Ni-bankan	Chigasaki, Kanagawa	1,160	Jan. 1991	91.3
		Court Nishi-Shinjuku	Shinjuku ward, Tokyo	1,130	Oct. 2005	96.3
		Regalo Komazawa-Kouen	Setagaya ward, Tokyo	912	Feb. 2006	95.6
		Court Shin-Okachimachi	Taito ward, Tokyo	878	Oct. 2005	97.0
		Primo Regalo Kagurazaka	Shinjuku ward, Tokyo	762	Jan. 2006	93.2
		Primo Regalo Youga	Setagaya ward, Tokyo	730	Dec. 2005	100.0
		Court Shimouma	Setagaya ward, Tokyo	638	Oct. 2005	100.0
	Other Regional Areas	Ashiya Royal Homes	Ashiya, Hyogo	2,330	Jun. 1991	78.5
		Regalo Ibaraki I&II	Ibaraki, Osaka	1,600	1 : May 1991 2 : Mar. 1993	31.1
		Collection Higashi-Sakura	Nagoya, Aichi	1,264	Mar. 2006	22.4
		Renaissance 21 Hirao Jousui-machi	Fukuoka, Fukuoka	900	Oct. 2005	58.0
		Montore Nishikouen Bay Court	Fukuoka, Fukuoka	826	Feb. 2006	61.0
Residential (15 properties) Sub Total				24,343	-	-
Retail	Other Regional Areas	ZARA Tenjin Nishi-dori	Fukuoka, Fukuoka	3,680	Nov. 2005	100.0
	Retail (1 property) Sub Total			3,680	-	-
Total 26 properties				63,992	-	-
Total 59 properties				137,759 (Note4)	11.1 yrs (Note5)	90.8 (Note6)

**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 subtotals and total for the investment portfolio is shown as the weighted-average portfolio age based upon acquisition prices with a base date of April 30, 2006.
- "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 are calculated as of April 30, 2006 for the second fiscal period and as of May 31, 2006 for 26 properties acquired during the third fiscal period. Subtotals and total for the investment portfolio are weighted-averages.
- The total acquisition price for 59 properties held by the Investment Corporation as of June 12, 2006.
- The weighted-average age of the 59 properties held by the Investment Corporation as of June 12, 2006 with a base date of April 30, 2006.
- The weighted-average occupancy ratio is calculated as of May 31, 2006 based on the 59 properties held by the Investment Corporation as of June 12, 2006.

## Board of Directors

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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 and as a director for the Victim Support Center of Tokyo since 2000.

### **Shiro Toba**

Shiro Toba has been a supervisory director since May 2005. He joined Chuo Aoyama Pricewaterhouse Coopers (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.



## Questions & Answers

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

**Q. What strategies have been advanced to differentiate the Investment Corporation from its competitors?**

A. The Investment Corporation is a diversified real estate investment trust that primarily invests in office buildings, residential properties, retail properties and other real estate assets. In specific terms, the Investment Corporation is engaged in selective investment in medium-sized office buildings located in the Tokyo Metropolitan Area, as well as residential properties located in densely populated areas with a high number of households. The Investment Corporation has appointed Kenedix REIT Management, Inc. as its asset management company. The Asset Management Company boasts specialized knowledge of real estate and financial markets and is largely comprised of employees transferred from Kenedix, Inc. Leveraging the know-how and expertise of the Kenedix Group, the Investment Corporation is well placed to pursue dynamic growth.

## Growth Potential

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

A. As of April 30, 2006, the end of the Investment Corporation's second fiscal period, the Investment Corporation owned a portfolio of 35 properties with total acquisition costs of approximately ¥81.4 billion. As of June 12, 2006, the date the Investment Corporation's second fiscal period results were announced, this balance had increased to 59 properties with total acquisition costs of approximately ¥137.7 billion. In July 2005, on the occasion of the Investment Corporation's public listing, we identified an asset scale target exceeding ¥200 billion by December 31, 2008. Based on the steady progress achieved to date, we have decided to bring forward this target and will endeavor to exceed an asset scale of ¥200 billion by December 31, 2007. 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. The Investment Corporation has appointed Kenedix Advisors Co., Ltd. ("Kenedix Advisors") as its sole property management company. This decision was made to ensure a single point of contact for all matters relating to property management, to ensure a unified approach and procedure, and to enhance response times and the quality of service.

Furthermore, scale merits apply in connection with building management, property insurance and other management activities, which collectively contribute to a lighter administrative burden and reduced costs.

In specific terms, the Asset Management Company has undertaken a variety of activities including repairs, maintenance and renovation of existing properties with the aim of increasing rent level and occupancy ratio.

Examples of activities:

- Improve common use areas including toilets and entrances, increase property competitiveness through renewal and upgrade
- Ascertain tenants needs through tenant satisfaction surveys
- Enhance tenant communication (decorate entrance halls and common use areas to reflect seasonal events such as Christmas and New Years, present greeting cards and flowers to new tenants)
- Strengthen leasing activities through close ties with leasing intermediary companies.



## Investment Properties

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

- A. Compared with large-sized office buildings, medium-sized office buildings provide greater liquidity. In addition to the larger number of buildings on the market, the acquisition prices and rent level of medium-sized office buildings offer a wider scope of acquisition and leasing opportunities. Under these circumstances, the Investment Corporation recognizes that medium-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 medium-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 medium-sized office buildings?**

- A. As a fund manager, the Kenedix Group boasts a wealth of experience and know-how in medium-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.

### **Q. Why does the Investment Corporation invest in residential properties?**

- A. Maintaining a certain percentage of the investment portfolio in residential properties provides a number of advantages. First, in an effort to ensure prudent investment, the Investment Corporation adheres to investment criteria based on type, area and size. In investing in residential properties, the Investment Corporation strives to diversify risk. In addition, residential properties offer relatively stable rent levels. This in turn delivers steady earnings and cash flows. When investing in residential properties, the Investment Corporation places emphasis on acquiring competitive properties located in densely populated areas with a high number of households.

### **Q. What are your thoughts on the leasing market for residential properties?**

- A. In line with changes in population trends, fluctuations in the number of households by area are experiencing increased polarization. In this context, we are seeing steady leasing demand for residential properties primarily in the Tokyo Metropolitan Area. In addition, the population and the number of households in certain major cities of Other Regional Areas are also increasing. Accordingly, we expect leasing demand for residential properties in Sapporo, Nagoya and Fukuoka to expand. The Investment Corporation intends to invest in residential properties with a keen eye to the aforementioned trends.

### **Q. What are your expectations for the real estate and J-REIT markets?**

- A. We believe that real estate markets will remain active in the Tokyo Metropolitan Area. Accordingly, the ability to acquire prime properties at reasonable prices will become increasingly difficult. The Investment Corporation also recognizes that real estate markets are subject to a variety of trends based on property type, area and size. While activity in one area may be robust, other areas may experience stagnant conditions. With this in mind, the possibility that real estate prices will appreciate nationwide is considered slim. Under these circumstances, the ability to accurately identify real estate trends by property type, area and size will become more important. Currently, Japanese Real Estate Investment Trust ("J-REIT") market is comprised of over 30 publicly listed trusts with market capitalization exceeding ¥3 trillion. Looking ahead, it would not be a surprise if there were between 50 and 70 listed J-REITs with market capitalization around ¥10 trillion in the next few years. In the domestic market, yields on REITs exceed 10-year government bonds by nearly 2.0%. At this level, J-REITs remain highly competitive when compared with REITs in markets overseas.

## 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%. From its incorporation, the Investment Corporation has undertaken debt on an unsecured and unguaranteed basis. This reflects the high credit standing of the Investment Corporation and an acknowledgement by financial institutions of the quality of investment properties, investment policies and the Asset Management Company's personnel and management.

**Q. How do you see interest rate trends in the future? What measures do you have in place to avoid the risk of future increase in interest rates?**

A. Following the decision by the Bank of Japan to lift quantitative monetary easing policies, interest rates are expected to show a moderate rise. We believe the key factor in determining future market conditions will be the speed of interest rate increase. If the pace at which interest rates rise serves to promote economic growth, the impact on real estate markets is naturally favorable. For example, in an environment where economic growth outpaces the increase of interest rates, rent levels can also be expected to rise. With this in mind, the Investment Corporation invests primarily in medium-sized office buildings, characterized by relatively high rates of tenant turnover. Under these circumstances, we are able to maintain rent levels in line with market trends. In an effort to avoid the risk of future increase in interest rates, the Investment Corporation adopts a prudent fixed interest rate policy. In principle, we enter into interest-rate swap agreements to fix cost levels on floating rate long-term debt. Furthermore, the Investment Corporation acquired an A3 credit rating from Moody's Investors Services, Inc. in February 2006. Looking ahead, we will also consider the issue of fixed rate investment corporate bonds as a measure to avoid the risk of future increase in interest rates.

# Financial Summary

## Trends in Operating Conditions

Period		First Fiscal Period (As of October 31, 2006)	Second Fiscal Period (As of April 30, 2006)
Operating revenues	Millions of Yen	1,196	2,871
(Rental revenues)	Millions of Yen	1,196	2,871
Operating expenses	Millions of Yen	606	1,527
(Property-related expenses)	Millions of Yen	518	1,265
Operating income	Millions of Yen	589	1,343
Ordinary income	Millions of Yen	243	1,103
Net income (a)	Millions of Yen	242	1,101
Total assets (b)	Millions of Yen	77,325	92,053
Interest-bearing debt (c)	Millions of Yen	29,000	42,000
Unitholders' equity (d)	Millions of Yen	44,527	45,387
Unitholders' capital	Millions of Yen	44,285	44,285
Number of investment units issued and outstanding (e)	Per Unit	79,370	79,370
Unitholders' equity per unit (d) / (e)	Yen	561,008	571,840
Total distribution (f)	Millions of Yen	242	1,101
Distribution per unit (f) / (e)	Yen	3,052	13,884
(Earnings distributed per unit)	Yen	3,052	13,884
(Distribution in excess of earnings per unit)	Yen	—	—
Return on assets (annualized) (Note 1, 2)	%	0.3 (1.3)	1.3 (2.6)
Return on unitholders' equity (annualized) (Note 2, 3)	%	0.6 (2.2)	2.5 (4.9)
Unitholders' equity ratio at the end of period (d) / (b)	%	57.6	49.3
Interest-bearing debt ratio at the end of period (c) / (b)	%	37.5	45.6
Payout ratio (Note 4)	%	99.9	99.9
[Other reference]			
Number of properties	Properties	31	35
Total leasable floor area	m <sup>2</sup>	81,298.67	104,868.65
Occupancy ratio at the end of period	%	96.6	94.9
Depreciation expenses for the period	Millions of Yen	268	650
Capital expenditures for the period	Millions of Yen	47	510
Leasing NOI (net operating income) (Note 5)	Millions of Yen	945	2,256
FFO (funds from operation) (Note 6)	Millions of Yen	510	1,752
FFO per unit (Note 7)	Yen	6,430	22,076

### 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 reflects the value on August 1, 2005, which was the first actual date of operations of the first fiscal period.
- Annualized values are calculated based upon a period of 181 days. 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 off to the first decimal place.
- Leasing NOI = Rental and other operating revenues from rental and other operating expenses + Depreciation expenses for the period
- FFO = Net income + Depreciation expenses for the period
- FFO per unit = FFO / number of investment units issued and outstanding (figures below ¥1 rounded off)

# Management Review & Policies

## Operating Conditions for the Second 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). Thereafter, the Investment Corporation first reported its operating results for period ending on October 31, 2005. As of April 30, 2006, the end of the second fiscal period, the number of investment units issued and outstanding totaled 79,370 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 second fiscal period, the Japanese economy made a steady shift from moderate to full-fledged recovery. Conditions were buoyed by an increase in capital expenditure on the back of an improvement in corporate earnings, and robust employment conditions contributing to an upswing in personal consumption.

On March 9, 2006, the Bank of Japan lifted its quantitative monetary easing policy, which was first implemented in March 2001. At the same time, the Central Bank announced that it would shift its focus from the bank's current account balance to unsecured call interest rates. In announcing the policy shift, the Bank of Japan pledged to anchor the unsecured call rate near zero for a prudent period. Thereafter adjustments would be made on a gradual basis in accordance with changes in the economy and consumer prices.

Turning to real estate markets in Japan, official announcements as of January 1, 2006, indicated land prices in the major metropolitan areas of Tokyo, Osaka, Kyoto and Nagoya had either held their value or made a steady increase. In other regional areas, the decline in residential and retail property prices narrowed. Furthermore, signs of a slight increase have emerged in certain major cities in regional areas.

#### b. Management performance

As of October 31, 2005, the Investment Corporation owned a portfolio of 31 properties with a total acquisition costs of ¥69,132 million. Using the original network of the Asset Management Company, the Investment Corporation acquired 3 office buildings in the Tokyo Metropolitan Area and 1 residential property in the Other Regional Areas during the second fiscal period with a total acquisition costs of ¥12,302 million. As a result, the number of properties owned as of April 30, 2006 stood at 35, with a total acquisition costs of ¥81,434 million. Looking at the portfolio as a whole, 59.2% was comprised of office buildings, 25.5% of residential properties and 15.2% retail properties on an acquisition price basis. In addition, the occupancy ratio as of the end of the second fiscal period was 94.9%, reflecting stable investment and asset management.

#### < External Growth Performance after IPO >

		Immediately following IPO (as of August 1, 2005)		First Fiscal Period (as of October 31, 2005)		Second Fiscal Period (as of April 30, 2006)	
		Total Acquisition Costs (Millions of Yen)	Ratio (%)	Total Acquisition Costs (Millions of Yen)	Ratio (%)	Total Acquisition Costs (Millions of Yen)	Ratio (%)
Type of Use	Office Buildings	32,197	52.7	37,767	54.6	48,269	59.2
	Residential Properties	18,986	31.0	18,986	27.4	20,786	25.5
	Retail Properties	9,900	16.2	12,379	17.9	12,379	15.2
	Total	61,083	100.0	69,132	100.0	81,434	100.0
Area	Tokyo Metropolitan Area	58,802	96.2	61,281	88.6	71,783	88.1
	Other Regional Areas	2,281	3.7	7,851	11.3	9,651	11.8
	Total	61,083	100.0	69,132	100.0	81,434	100.0

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

Total acquisition costs 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 second 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 April 30, 2006, 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 April 30, 2006 (excluding Jinnan-zaka Frame 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. For example, steps are being taken to negotiate with insurance brokers to improve fire insurance cover terms and conditions while reducing premiums paid. Labor saving measures in connection with operating schemes and initiatives to standardize contracts have also contributed to minimizing real estate trust commissions. Furthermore, the Investment Corporation is implementing a gradual review of building management responsibilities and costs.

## CS Strategy-Based Leasing Management

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. As a part of these efforts, the Asset Management Company implemented a survey in collaboration with J.D. Power Asia Pacific Inc., an internationally recognized company that engages in customer satisfaction evaluation, covering the Investment Corporation's office building portfolio as of December 2005. As a part of this survey the administration officers of each tenant and tenant employees were asked to respond to 40 questions covering each building and its facilities as well as the nature and quality of operating and management services.

### <Questions Covered by the Survey>

1. Building location and environment, external façade, entrance (design, access, lighting, other), lease space areas (air conditioning system, lighting, ventilation, OA compliant, other), common use areas (elevators, toilets, kitchen facilities, smoking area, parking, other), management company service, status and standard of cleaning, security, fire prevention.
2. Remarks

On a scale of five, respondents were asked to rank each of the aforementioned questions. 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 renovation for each property taking into consideration associated costs and benefits. 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.

## (3) Funds Procurement and Acquiring Credit Ratings Accreditation

As of October 31, 2005, the balance of debt financing stood at ¥29.0 billion and comprised ¥19.0 billion of long-term debt and ¥10.0 billion of short-term debt. To support the acquisition of additional assets, the Investment Corporation undertook debt financing of ¥13.0 billion during the second fiscal period comprising ¥11.5 billion of long-term debt and ¥1.5 billion of short-term debt. As a result, the balance of debt financing as of April 30, 2006 stood at ¥42.0 billion comprising ¥30.5 billion of long-term debt and ¥11.5 billion of short-term debt. Of this amount, ¥28.3 billion of long-term debt as of April 30, 2006 was procured on a floating rate basis. In order to minimize the risk of future increase in interest rate, the Investment Corporation has entered into interest-rate swap agreements, effectively fixing applicable interest rates.

Since its public listing through to the end of the second 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 period by placing added emphasis on long-term debt.

Note: Short-term debt is repayable within 1 year. Long-term debt is repayable over terms exceeding 1 year.

As a part of efforts to diversify procurement methods, including the issue of corporate bonds, and to extend the average repayment period for its overall debt financing, the Investment Corporation acquired a credit rating of A3 (Outlook: Stable) from Moody's Investors Services, Inc. on February 28, 2006. The ability to acquire a credit rating so quickly after its initial public listing is attributed to the high standing in which the Investment Corporation, its investment policies, quality of individual assets, real estate portfolio, the unsecured and unguaranteed nature of debt financing, quality of the Asset Management Company's personnel and the support of the Kenedix Group are held.

<Credit Rating>

Credit Rating Agency	Rating
Moody's Investors Services, Inc.	Issuer rating: A3
	Outlook: Stable

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

As a result of the aforementioned management performance, the Investment Corporation reported operating revenues of ¥2,871 million for its second fiscal period. Operating income was ¥1,343 million, ordinary income ¥1,103 million and net income ¥1,101 million.

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 second fiscal period was ¥13,884 per unit.

## Future Management Policies and Pending Issues

### (1) Investment Environment

Looking ahead, the Japanese economy is forecasted to continue its path toward full-fledged recovery on the back of domestic private-sector demand. Favorable conditions are attributed to a robust corporate sector and the positive flow-on effects to the household sector. Buoyed by improvements in employment conditions resulting in an upswing in household disposable incomes, personal consumption is expected to increase. Signs are strong for capital expenditure growth, bolstered by an improvement in corporate earnings. Driven by the aforementioned gains in employment conditions and household disposable incomes, the construction of residential properties is also expected to bottom out with signs of upward movement.

Against this economic backdrop, positive signs are emerging in the domestic real estate market. Posted land prices for March 2006 confirmed land and property price appreciation in the three major cities of Tokyo, Osaka and Nagoya. At the same time, land and property prices for specific major cities in regional areas are also increasing. On a nationwide basis, land and property 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, Sapporo in Hokkaido and Fukuoka in Kyushu).

From the perspective of real estate purchase and sales, the acquisition of prime properties is expected to become increasingly competitive. This is attributed to the continued flow of domestic and overseas real estate funds in search of higher returns. With little change anticipated in the foreseeable future, activities in the real estate market are expected to remain robust with positive conditions prevailing throughout.

### (2) Management Policies and Pending Issues

#### a. Existing property management strategy

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 Corporation's 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.

Based on the aforementioned, the Asset Management Company undertakes property management activities as follows.

- Implement customer satisfaction surveys in an effort to identify tenant needs. Implement appropriate remedial and improvement measures.
- Enhance tenant satisfaction and property competitive advantage through renovation of co-owned areas as well as upgrades and renewal for the facility.
- Promote new tenant leasing activities together with existing tenant renewal negotiations based on movements in real estate leasing markets and tenant needs in an effort to capitalize on "trends" and "timing".
- Strengthen leasing activities through efforts to improve ties with leasing intermediary companies.
- Review property management contents and standards.

#### **b. New property investment strategy**

The Investment Corporation will continue to invest in medium-sized office buildings located in the Tokyo Metropolitan Area as the cornerstone of its investment policy. At the same time, the Investment Corporation will emphasize residential properties in densely populated areas with a high number of households and retail properties in central urban commercial districts. To facilitate the implementation of the aforementioned investment policy, in addition to the original network of the Asset Management Company, the Investment Corporation will leverage the support-line provided by the Kenedix Group. The Kenedix Group comprises Kenedix, Kenedix Advisors and other affiliated companies.

Through this support-line, the Asset Management Company is positioned to secure real estate information related to properties, for which the Kenedix Group acts as intermediary (excluding the original network of the Asset Management Company), as well as pension funds, private placement funds and development properties. Based on this information and depending on its source, the Investment Corporation is able to consider acquisition either on a priority basis or at the same time as all other third parties. Against the backdrop of a competitive market, the role of this support-line is increasingly significant in the Asset Management Company's acquisition of quality properties.

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 sourced from the original network of the Asset Management Company on those occasions when the Investment Corporation is not itself in the immediate position to acquire the property, or for timing reasons the property fails to completely comply with the Investment Corporation's investment criteria. In the case of the warehousing function, the Investment Corporation maintains "first priority" arrangements to acquire the property once initial obstacles have been cleared.

### **(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

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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 April 30, 2006 and October 31, 2005, and the related statements of income and retained earnings, and cash flows for the six-month periods ended April 30, 2006 and for the period from May 6, 2005 (inception date) to October 31, 2005, 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 April 30, 2006 and October 31, 2005, and the results of its operations and its cash flows for the six-month periods ended April 30, 2006 and from the inception of the Company to October 31, 2005 in conformity with accounting principles generally accepted in Japan.

As described in Note 14, Subsequent Events, the Company issued new investments units and made bank borrowings.

*Ernest C. Gary Shin Nishimura*

July 20, 2006

## Kenedix Realty Investment Corporation

### BALANCE SHEETS

As of April 30, 2006 and October 31, 2005

In thousands of yen

	As of April 30, 2006	As of October 31, 2005
<b>Assets</b>		
Current assets:		
Cash and bank deposits	¥ 7,843,092	¥ 5,175,750
Rental receivables	47,704	94,432
Consumption tax refundable	138,323	910,191
Other current assets	90,170	34,737
Total current assets	8,119,289	6,215,110
Property and equipment, at cost:		
Land	52,329,667	44,730,358
Buildings and structures	30,980,765	25,483,112
Machinery and equipment	442,540	373,723
Tools, furniture and fixtures	600,118	592,488
Less-accumulated depreciation	(918,354)	(268,161)
Net property and equipment	83,434,736	70,911,520
Other assets:		
Organization costs	40,717	45,807
Others	458,296	153,040
<b>Total assets</b>	¥ 92,053,038	¥ 77,325,477
<b>Liabilities and Unitholders' Equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Trade and other payables	¥ 188,956	¥ 260,400
Short-term debt	11,500,000	10,000,000
Deposits received	4,463	71,142
Rents received in advance	529,895	380,244
Other current liabilities	16,574	1,515
Total current liabilities	12,239,888	10,713,301
Long-term debt	30,500,000	19,000,000
Leasehold and security deposits received	3,528,348	2,976,381
Others	397,786	108,541
<b>Total liabilities</b>	46,666,022	32,798,223
<b>Unitholders' equity</b>		
Unitholders' capital	44,285,003	44,285,003
Units Authorized: 2,000,000 units		
Units Issued and outstanding: 79,370 units		
Retained earnings	1,102,013	242,251
<b>Total unitholders' equity</b>	45,387,016	44,527,254
<b>Total liabilities and unitholders' equity</b>	¥ 92,053,038	¥ 77,325,477

# Kenedix Realty Investment Corporation

## STATEMENTS OF INCOME AND RETAINED EARNINGS

For the period from May 6, 2005 to October 31, 2005 and the period from November 1, 2005 to April 30, 2006

In thousands of yen			
	From November 1, 2005 to April 30, 2006		From May 6, 2005 to October 31, 2005
<b>Operating Revenues:</b>			
Rental revenues	¥	2,871,789	¥ 1,196,027
<b>Total operating revenues</b>		2,871,789	1,196,027
<b>Operating Expenses:</b>			
Property-related expenses		1,265,552	518,875
Asset management fees		150,114	56,239
Administrative service and custodian fees		37,777	12,381
Other operating expenses		74,363	18,671
<b>Total operating expenses</b>		1,527,806	606,166
<b>Operating income</b>		1,343,983	589,861
<b>Non-Operating Expenses:</b>			
Interest expense		164,607	57,741
Financing related expense		11,743	85,496
Amortization of organization costs		5,090	5,090
New unit issuance costs		55,119	66,675
Initial public offering related costs		-	124,978
Others, net		4,410	6,789
<b>Income before income taxes</b>		1,103,014	243,092
Income taxes		1,015	841
<b>Net income</b>		1,101,999	242,251
<b>Retained earnings at the beginning of period</b>		14	-
<b>Retained earnings at the end of period</b>	¥	1,102,013	¥ 242,251

## Kenedix Realty Investment Corporation

### STATEMENTS OF CASH FLOWS

For the period from May 6, 2005 to October 31, 2005 and the period from November 1, 2005 to April 30, 2006

		In thousands of yen	
		From November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥	1,103,014	¥ 243,092
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		661,924	275,432
Interest expense		164,607	57,741
Changes in assets and liabilities:			
Rental receivables		46,728	(94,432)
Consumption tax refundable		771,868	(910,191)
Trade and other payables		(73,711)	260,400
Rents received in advance		149,650	380,244
Others, net		(137,274)	(51,157)
Subtotal		2,686,806	161,129
Cash payments of interest expense		(149,708)	(57,082)
Cash payments of income taxes		(855)	-
<b>Net cash provided by operating activities</b>		<b>2,536,243</b>	<b>104,047</b>
<b>Cash Flows from Investing Activities:</b>			
Purchases of property and equipment		(13,173,409)	(71,179,681)
Proceeds from leasehold and security deposits received		772,228	3,008,243
Payments of leasehold and security deposits received		(220,261)	(31,862)
Payments of restricted bank deposits		(82,013)	(884,940)
Proceeds from restricted bank deposits		181,004	-
Others, net		(7,489)	(10,000)
<b>Net cash used in investing activities</b>		<b>(12,529,940)</b>	<b>(69,098,240)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from short-term debt		1,500,000	10,000,000
Proceeds from long-term debt		11,500,000	19,000,000
Proceeds from issuance of units		-	44,285,003
Payment of dividends		(239,970)	-
<b>Net cash provided by financing activities</b>		<b>12,760,030</b>	<b>73,285,003</b>
<b>Net change in cash and cash equivalents</b>		<b>2,766,333</b>	<b>4,290,810</b>
<b>Cash and cash equivalents at the beginning of period</b>		<b>4,290,810</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period</b>	¥	<b>7,057,143</b>	¥ <b>4,290,810</b>

# Kenedix Realty Investment Corporation

## Notes to Financial Statements

For the period from May 6, 2005 to October 31, 2005 and the period from November 1, 2005 to April 30, 2006

### 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, Inc., 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.

At April 30, 2006, the Investment Corporation had total unitholders' capital of ¥44,285 million with 79,370 investment units outstanding. The Investment Corporation owned a portfolio of 35 properties with total acquisition costs of ¥81,435 million containing total leasable area of 104,869 m<sup>2</sup>. The occupancy ratio was approximately 94.9%. A portfolio of 35 properties consists of 15 office buildings, 18 residential properties and 2 retail properties. 30 properties are located in the Tokyo Metropolitan Area and 5 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 Commercial Code, the Securities and Exchange Law of Japan and related regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from 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 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 Securities 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 first fiscal period began on May 6, 2005 and ended on October 31, 2005. 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 November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
Buildings and structures .....	2-46 years	2-46 years
Machinery and equipment .....	3-17 years	3-15 years
Tools, furniture and fixtures .....	3-15 years	3-15 years

### (c) Impairment of Fixed Assets

Beginning the fiscal period ended October 31, 2005, 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 new accounting standard was applicable for all reporting periods beginning after April 1, 2005. The Investment Corporation has not recognized an impairment loss on any of the properties during the fiscal periods ended October 31, 2005 and April 30, 2006.

### (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 expensed as incurred. Underwriters' commissions in connection with the issuance of unitholders' equity are offset against proceeds raised since the "Spread Method" was used for the unit issuance. Under the Spread Method, securities underwriters underwrite the units at the issue price and offer them to investors at the offer price, which is different from the issue price. The difference between the offer price and the issue price represents the underwriting commission received by the securities underwriters, eliminating the need for the issuer to pay underwriting commissions. If securities underwriters had underwritten the units at the issue price and offered the units to investors at an offer price equal to the issue price (known as the "Conventional Method"), a commission would have been incurred and it would have been expensed as new unit issuance costs. Therefore, the Spread Method decreased new unit issuance costs by ¥1.631 billion and increased income before income taxes by the same amount compared to the Conventional Method for the period from May 6, 2005 through October 31, 2005.

### (f) 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.



### (g) 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.

### (h) 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 purchase 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 ¥32 million and ¥121 million as of April 30, 2006 and October 31, 2005. 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.

### (i) 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.

### (j) Derivative Financial Instruments

The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting.

### (k) 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 April 30, 2006 and October 31, 2005:

	In thousands of yen	
	As of April 30, 2006	As of October 31, 2005
Cash and bank deposits .....	¥ 7,843,092	¥ 5,175,750
Restricted bank deposits held in trust .....	(785,949)	(884,940)
Cash and cash equivalents .....	¥ 7,057,143	¥ 4,290,810

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 April 30, 2006			As of October 31, 2005		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 52,330	¥ —	¥ 52,330	¥ 44,730	¥ —	¥ 44,730
Buildings and structures	30,981	847	30,134	25,483	246	25,237
Machinery and equipment	442	32	410	374	10	364
Tools, furniture and fixtures	600	39	561	592	12	580
<b>Total</b>	<b>¥ 84,353</b>	<b>¥ 918</b>	<b>¥ 83,435</b>	<b>¥ 71,179</b>	<b>¥ 268</b>	<b>¥ 70,911</b>

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

The following summarizes short-term and long term debt outstanding as of April 30, 2006 and October 31, 2005:

(As of April 30, 2006)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	August 1, 2005	July 31, 2006	0.40%	¥ 4,000
	September 21, 2005	September 20, 2006	0.35%	6,000
	November 1, 2005	October 31, 2006	0.35%	1,000
	March 1, 2006	February 28, 2007	0.36%	500
<b>Subtotal</b>				<b>11,500</b>
Unsecured long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	August 1, 2005	July 31, 2010	1.29%	9,500
	November 1, 2005	October 31, 2007	0.77%	1,500
	November 1, 2005	October 31, 2008	1.09%	3,500
	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
<b>Subtotal</b>				<b>30,500</b>
<b>Total</b>				<b>¥ 42,000</b>

(As of October 31, 2005)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	August 1, 2005	July 31, 2006	0.39%	¥ 4,000
	September 21, 2005	September 20, 2006	0.32%	6,000
<b>Subtotal</b>				<b>10,000</b>
Unsecured long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	August 1, 2005	July 31, 2010	1.29%	9,500
<b>Subtotal</b>				<b>19,000</b>
<b>Total</b>				<b>¥ 29,000</b>

## 6. PER UNIT INFORMATION

The net asset value per unit as of April 30, 2006 and October 31, 2005 was ¥571,840 and ¥561,008. Net income per unit as of April 30, 2006 and October 31, 2005 was ¥13,884 and ¥5,303.

The weighted average number of units outstanding of 79,370 and 45,683 was used for the computation of the amount of net income per unit as of April 30, 2006 and October 31, 2005.

## 7. 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 ¥1,102 million and ¥242 million for the periods ended April 30, 2006 and October 31, 2005. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.09% and 0.34% for the periods ended April 30, 2006 and October 31, 2005. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
Statutory tax rate .....	39.39%	39.39%
Deductible cash distributions .....	(39.35)	(39.25)
Other .....	0.05	0.20
Effective tax rate .....	0.09%	0.34%

## 8. 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.

## 9. 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 November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
Property management fees .....	¥ 104,453	¥ 43,711
Management transfer fees .....	8,400	62,000
Construction management fees .....	16,306	2,334

(b) Transactions with Y.K. KDX1 ("KDX1")

KDX1 is a wholly owned subsidiary of Kenedix, Inc.. On August 1, 2005 the Investment Corporation acquired 2 properties from KDX1 for ¥4,483 million. On November 1, 2005, the Investment Corporation acquired additional property from KDX1 for ¥5,950 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(c) Transactions with Kenedix, Inc.

Kenedix, Inc. provides the Investment Corporation with real estate brokerage services. For these services, the Investment Corporation pays Kenedix brokerage fees. Transactions with Kenedix are as follows:

	In thousands of yen	
	From November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
Brokerage fees .....	-	¥ 786,890

## 10. 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 6, 2005 to October 31, 2005 and from November 1, 2005 to April 30, 2006 consist of the following:

	In thousands of yen	
	From November 1, 2005 to April 30, 2006	From May 6, 2005 to October 31, 2005
Rental and other operating revenues:		
Rental revenues .....	¥ 2,220,814	¥ 930,805
Common area charges .....	353,853	136,844
Subtotal .....	2,574,667	1,067,649
Others:		
Parking space rental revenues .....	86,129	30,728
Utility charge reimbursement .....	152,653	76,389
Miscellaneous .....	58,340	21,261
Subtotal .....	297,122	128,378
Total rental and other operating revenues .....	¥ 2,871,789	¥ 1,196,027
Property management fees and facility management fees .....	¥ 322,416	¥ 124,553
Depreciation .....	650,193	268,161
Utilities .....	146,890	68,784
Taxes .....	9,328	—
Insurance .....	8,621	2,603
Repairs and maintenance .....	55,117	21,807
Trust fees .....	21,337	9,322
Others .....	51,650	23,645
Total property-related expenses .....	¥ 1,265,552	¥ 518,875

## 11. 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 April 30, 2006 and October 31, 2005 are as follows:

	In thousands of yen	
	As of April 30, 2006	As of October 31, 2005
Due within one year .....	¥ 811,080	¥ 973,916
Due after one year .....	3,273,632	3,864,685
Total .....	¥ 4,084,712	¥ 4,838,601

## 12. 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 agreements, 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 risk in accordance with its Articles of Incorporation and the established risk management policies of the Asset Management Company.

The following summarizes the notional amounts and the estimated fair value of the interested-related positions outstanding as of April 30, 2006:

(As of April 30, 2006)			
Type	Notional amount	Fair value	Unrealized gain
Interest-rate swap: Fixed rate payable and floating rate receivable	¥36,300 million	¥398 million	¥398 million

## 13. PROPERTY INFORMATION

Details of the property portfolio as of April 30, 2006 were as follows:

Type	Office Buildings		Residential Properties		Retail Properties
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Number of properties	13	2	15	3	2
Property information (In millions of yen)					
Acquisition price	¥ 41,269	¥ 7,000	¥ 18,135	¥ 2,651	¥ 12,380
Percentage of total acquisition costs	50.7%	8.6%	22.3%	3.3%	15.2%
Net book value	42,018	7,127	18,708	2,827	12,756
Appraisal value at year end	42,422	7,080	18,438	2,660	13,500
Percentage of total appraisal value	50.4%	8.4%	21.9%	3.2%	16.1%
Financial results for the period ended April 30, 2006 (In thousands of yen)					
Rental and other operating revenues	¥ 1,374,031	¥ 398,814	¥ 613,346	¥ 92,236	¥ 393,362
Rental revenues	1,220,100	335,345	572,382	84,423	362,417
Other revenues	153,931	63,469	40,964	7,813	30,945
Property-related expenses	290,610	129,492	100,532	35,005	59,720
Property management fees	141,856	91,581	47,444	15,381	26,154
Taxes	—	2,498	872	5,958	—
Utilities	89,753	22,017	7,810	2,535	24,775
Repairs and maintenance	30,572	6,447	12,986	3,275	1,837
Insurance	2,905	3,269	1,399	646	402
Trust fees and other expenses	25,524	3,680	30,021	7,210	6,552
NOI (Net Operating Income)	1,083,421	269,322	512,814	57,231	333,642
Depreciation expenses	280,142	124,457	150,163	30,533	64,898
Operating income from property leasing activities	803,279	144,865	362,651	26,698	268,744
Capital expenditures	337,621	43,986	24,837	17,706	86,301
NCF (Net Cash Flow)	745,800	225,336	487,977	39,525	247,341

A breakdown of property-type as of April 30, 2006 was as follows:

Class of assets	Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥ 42,018	45.6
		Other Regional Areas	7,127	7.7
	Subtotal		49,145	53.3
	Residential Properties	Tokyo Metropolitan Area	18,708	20.3
		Other Regional Areas	2,827	3.1
	Subtotal		21,535	23.4
	Retail Properties	Tokyo Metropolitan Area	12,756	13.9
	Subtotal		12,756	13.9
Total			83,436	90.6
Bank deposits and other assets			8,617	9.4
Total assets			92,053	100.0
Total liabilities			46,666	50.7
Net assets			¥ 45,387	49.3



## 14. Subsequent Events

### 1. Issuance of New Investment Units

On April 3, 2006 and April 19, 2006, the Board of Directors of the Investment Corporation resolved to issue new investment units as follows. The payments were completed on May 1, 2006 and May 26, 2006, respectively. As a result of the issuance of additional investment units, the Investment Corporation had total unitholders' capital of ¥88,729,652,470, with 157,000 investment units outstanding as of May 26, 2006.

- |  |                 |
|--|-----------------|
| (1) Issuance of New Investment Units through Public Offering       |                 |
| Total number of newly issued units:                                | 73,660 units    |
| Japanese Primary Offering:   | 50,370 units    |
| International Offering:  | 23,290 units    |
| Offer price per unit:  | ¥593,096        |
| Total amount of offerings:   | ¥43,687,451,360 |
| Issue price per unit:  | ¥572,519        |
| Net proceeds:  | ¥42,171,749,540 |
| Payment date:  | May 1, 2006     |
| Delivery date of investment unit certificates:                     | May 2, 2006     |
| Starting date of the computation for cash distribution:            | May 1, 2006     |
| (2) Issuance of New Investment Units through Third-party Allotment |                 |
| Total number of newly issued units:                                | 3,970 per unit  |
| Issue price per unit:  | ¥572,519        |
| Net proceeds:  | ¥2,272,900,430  |
| Payment date:  | May 26, 2006    |
| Delivery date of investment unit certificates:                     | May 26, 2006    |
| Starting date of the computation for cash distribution:            | May 1, 2006     |

## 2. Debt Financing

On May 1, 2006, the Investment Corporation obtained debt financing as follows:

### (1) Series 7-A

Lenders:	Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Amount Borrowed:	¥2,000 million
Interest Rate:	0.36909% floating rate of interest (Note)
Repayment Due Date:	April 30, 2007
Collateral:	Unsecured, unguaranteed

Note: The interest rate covers the period commencing May 1, 2006 through July 31, 2006. Thereafter, the interest rate shall be calculated based on the three-month yen TIBOR +0.23%.

### (2) Series 7-B

Lenders:	The Chuo Mitsui Trust and Banking Co., Limited Aozora Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Resona Bank, Ltd.
Amount Borrowed:	¥6,500 million
Interest Rate:	0.53909% floating rate of interest (Note)
Repayment Due Date:	April 30, 2009
Collateral:	Unsecured, unguaranteed

Note: The interest rate covers the period commencing May 1, 2006 through July 31, 2006. Thereafter, the interest rate shall be calculated based on the three-month yen TIBOR +0.40%. Interest on variable interest rate loans has been fixed at 1.62875% until April 30, 2009, through interest-rate swap transactions.

### (3) Series 7-C

Lenders:	Aozora Bank, Ltd. Mitsui Sumitomo Insurance Co., Ltd.
Amount Borrowed:	¥2,500 million
Interest Rate:	0.63909% floating rate of interest (Note) 2.19875% fixed rate of interest
Repayment Due Date:	April 30, 2011
Collateral:	Unsecured, unguaranteed

Note: The interest rate covers the period commencing May 1, 2006 through July 31, 2006. Thereafter, the interest rate shall be calculated based on the three-month yen TIBOR +0.50%. Interest on variable interest rate loans has been fixed at 2.19875% until April 30, 2011, through interest-rate swap transactions.

### (4) Series 7-D

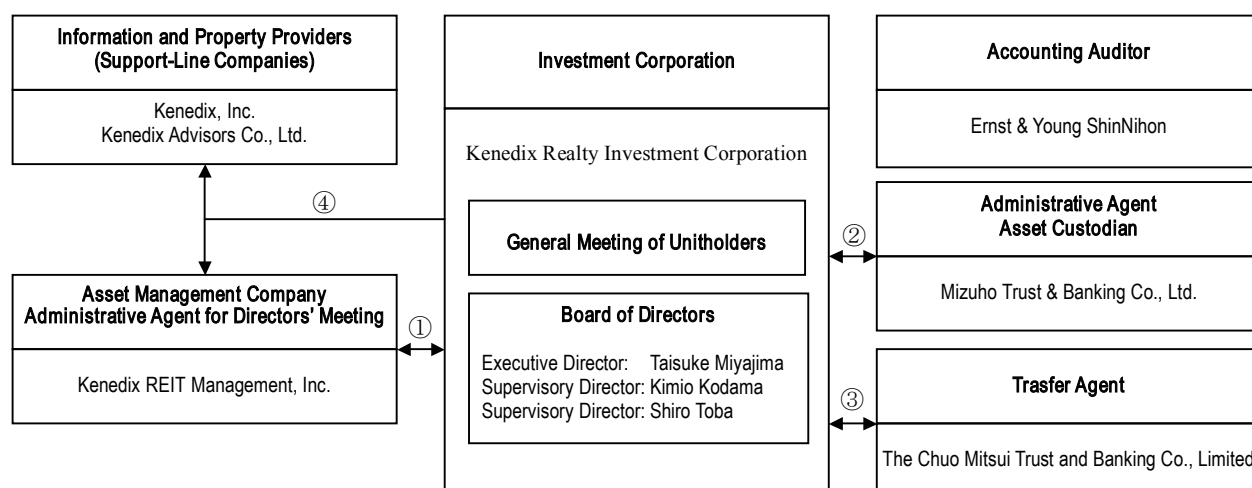
Lender:	Development Bank of Japan
Amount Borrowed:	¥5,000 million
Interest Rate:	2.73125% fixed rate of interest
Repayment Due Date:	April 30, 2016
Collateral:	Unsecured, unguaranteed



# Management Report

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## Structure of Investment Corporation



- ① Asset Management Agreement / Operating Agency Agreement
- ② Administrative Agency Agreement / Asset Custodian Agreement
- ③ Transfer Agency Agreement
- ④ Memorandum of Understanding with Kenedix, Inc. and Kenedix Advisors Co., Ltd.

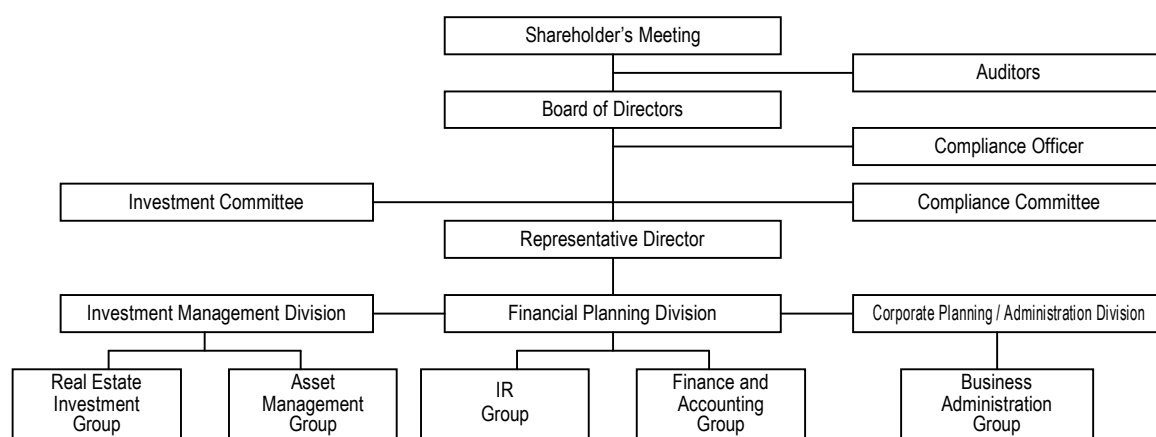
## Outline of the Asset Management Company

**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

### Organization Chart:



### 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 leading providers of real estate advisory services, real estate asset and property management services and real estate investment management services in Japan. Since our formation, which was promoted by Kenedix, Inc. ("Kenedix"), we have received significant support from the Kenedix Group in our business and activities, and we expect to continue to rely on the Kenedix Group. We believe that our relationship with the Kenedix Group 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 was listed on NASDAQ Japan (now Nippon New Market-Hercules) of the Osaka Securities Exchange Co., Ltd. in February 2002. Kenedix entered the real estate development business in August 2002 and commenced managing property funds for pension funds in November 2003. Kenedix was listed on the Second Section of the Tokyo Stock Exchange in December 2003 and moved to the First Section in December 2004. The core businesses of Kenedix include real estate investment advisory, asset management and note investment management, including on behalf of international investors, pension funds and other institutional investors. Kenedix primarily targets investment in office buildings, in addition to residential, retail and logistics properties, while actively engaging in real estate development for investment. 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.** Kenedix REIT Management, Inc. ("Asset Management Company") acts as our asset management company, and 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 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 have appointed Kenedix Advisors as our property manager for all of our properties. Kenedix Advisors also acts as a leasing management company for most of our properties pursuant to variable pass-through master lease agreements described in this report.

We and the Asset Management Company are parties to a "Memorandum of Understanding" with Kenedix and Kenedix Advisors dated May 31, 2005. 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 with Kenedix, Kenedix Advisors and the Asset Management Company on May 31, 2005. The Memorandum of Understanding has a term of three years, 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 90 days prior to the expiration of the term. We have no current intention, and are not aware of any current intention of the Asset Management Company, Kenedix or Kenedix Advisors, to terminate the Memorandum of Understanding.

### Support from Kenedix

Pursuant to the Memorandum of Understanding, Kenedix has agreed to provide support to us in the following areas:

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

When Kenedix receives information regarding any available property, including properties under development, which, in its reasonable opinion, meets the investment criteria of any of the real estate investment funds in which the major investors are pension funds to which Kenedix Advisors serves as asset management company (the "Pension Funds"), Kenedix, unless otherwise prohibited by laws or regulations or contracts to which it is a party, has agreed to preferentially provide information on such property to Kenedix Advisors. Kenedix has agreed to grant the Asset Management Company preference in information regarding any available property which, in its reasonable opinion, meets our investment criteria but (i) does not meet the investment criteria of any Pension Funds, or (ii) in its reasonable judgment, made after providing such information on such property to Kenedix Advisors, is difficult to sell to a Pension Fund. Until Kenedix becomes capable of reasonably determining that it is difficult to sell such property to a Pension Fund or us, Kenedix agrees not to provide such information to third parties or to acquire the property for itself.

- **Second Preference Negotiating Rights for Kenedix Property.**

In the event that Kenedix disposes of a property that it owns or that is owned by one of its subsidiaries or a fund fully financed by Kenedix or one of its subsidiaries (a "Kenedix Property") and, in its reasonable opinion, meets the investment criteria of a Pension Fund, Kenedix, unless otherwise prohibited by laws or regulations or contracts to which it is a party, has agreed to grant Kenedix Advisors preferential negotiating rights for such property. Kenedix will grant the Asset Management Company preferential negotiating rights for a Kenedix Property which, in its reasonable opinion, meets our investment criteria and (i) does not meet the investment criteria of any Pension Funds, or (ii) no Pension Fund has agreed to purchase during the period for its preferential negotiating rights. In the event that Kenedix and the Asset Management Company do not reach an agreement for purchase and sale of such property during the negotiation period, Kenedix may offer such property to a third party upon giving notice to the Asset Management Company. If the terms proposed by such third party are no more favorable to Kenedix than those proposed by Kenedix Advisors or the Asset Management Company, Kenedix will offer an option to Kenedix Advisors or the Asset Management Company to consider purchasing such property on such terms for a Pension Fund or us, respectively.

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

In the event that Kenedix disposes of a property which 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 its reasonable opinion, meets the investment criteria of a Pension Fund or us, Kenedix will, unless otherwise prohibited by laws or regulations or contracts to which it is a party, provide information on such property to Kenedix Advisors and the Asset Management Company no later than such time as Kenedix provides such information to third parties.

- **Property Acquisition Support.**

The Asset Management Company may request Kenedix to purchase and hold a property owned by a third party, with a view to reselling it to us. In the event that Kenedix has accepted such a request and purchased the property directly or indirectly through its subsidiaries, we are granted a 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 Memorandum of Understanding, Kenedix Advisors has agreed to provide support to us in the following areas:

- **Property Information Acquired by Kenedix Advisors.**

When Kenedix Advisors receives information regarding any available property which, in its reasonable opinion, does not meet the investment criteria of any Pension Funds but meets our investment criteria, Kenedix Advisors, unless otherwise prohibited by laws or regulations or contracts to which it is a party, agrees to preferentially provide information on such property to the Asset Management Company. Until such time that Kenedix Advisors reasonably determines that it is difficult to sell such property to us, Kenedix Advisors agrees not to provide such information to third parties.

- **Preferential Negotiating Rights for Property Owned by Pension Funds.**

In the event that Kenedix Advisors disposes of a property which is owned by a Pension Fund, Kenedix has agreed, upon the request of Kenedix Advisors, to find, negotiate a sale with, and arrange for the delivery of the property to a buyer. If Kenedix Advisors reasonably determines that such property meets our investment criteria, it has agreed, unless otherwise prohibited by laws or regulations or contracts to which it is a party, to grant the Asset Management Company preferential negotiating rights for such property. In the event that Kenedix Advisors and the Asset Management Company do not reach an agreement for the purchase and sale of the property during the negotiation period, Kenedix Advisors may offer such property to a third party upon giving notice to the Asset Management Company. If the terms proposed by such third party are no more favorable to Kenedix Advisors than those proposed by the Asset Management Company, Kenedix Advisors has agreed to offer an option to the Asset Management Company purchase such property on such terms for us.



## 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 buildings, residential and retail properties located in the Tokyo Metropolitan Area including major cities in Tokyo, Kanagawa, Saitama and Chiba prefectures and Other Regional Areas 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.
- We will maintain the percentage, calculated in accordance with the ordinance of the Ministry of Finance issued under Article 67-15, Paragraph 9 of the Special Taxation Measures Law, of the value of our real estate assets relative to the total value of our assets at 75% or more at any time.

### 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. 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 buildings, focusing on mid-sized office buildings, residential properties and retail properties, such as urban commercial buildings.

**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 Regional Areas (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 buildings and 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. We seek to purchase residential properties with a minimum value of ¥0.5 billion. The total floor area at an office building or a retail property should be more than 1,000 square meters. Our investment targets in residential properties are single-type, compact-type, family-type and prestige-type residential properties. Single type properties consist of small apartments mainly for one person between 20-30m<sup>2</sup> and have at least 20 units per building. Compact type properties consist of larger apartments mainly for one or two people over 30m<sup>2</sup> and have at least 15 units per building. Family type properties consist of apartments mainly for three or more people over 60m<sup>2</sup> and have at least 15 units per building. Prestige type properties consist of apartments mainly for high income families and executives of over 100m<sup>2</sup> and have at least 5 units per building.

**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.

**Portfolio Goals.** Based on our focus on properties in the Tokyo Metropolitan Area as described above, the Asset Management Company decides on specific portfolio targets 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. The Asset Management Company has set a broad framework for a portfolio consisting of more than 50% office buildings, more than 20% residential properties and less than 30% retail 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 Regional Areas. 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 prospective, and assets are not acquired for short-term buying and selling. Short-term herein means a period of less than 1 year, medium-term means a period of more than 1 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 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 raise long-term debt capital in longer terms in the future, including debt with maturities over 5 years, in order to extend our average maturities 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-term 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 in such terms and for such consideration 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 might 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 investment in real estate and interests in real estate. We seek to achieve our investment objective through the following strategies:

### Seek Stable Portfolio Growth through Diversified Property Investments

We seek to expand our property portfolio over time by acquiring a diversified range of office buildings, residential and retail properties in major metropolitan areas in Japan, with particular emphasis on the Tokyo Metropolitan Area. We believe that improved conditions in real property markets in major urban areas, including stabilizing property values, falling vacancy ratios and greater transaction volume, create a favorable environment for expanding our portfolio. To capitalize on this environment, we are currently focusing our acquisition efforts on mid-sized office buildings in the Tokyo Metropolitan Area, in particular Central Tokyo, residential properties in densely populated areas with a high number of households and, to a lesser extent, retail properties in central urban commercial districts. We believe that our diversified strategy gives us the flexibility to take advantage of a range of market opportunities to acquire a diverse portfolio of attractive properties, while lowering our overall portfolio risk and differentiating us from other J-REITs.

### Leverage Relationship with the Kenedix Group

We believe that we have a strong relationship with the Kenedix Group, which has broad expertise and experience in real property investment and management in Japan. 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.

### Increase Revenues 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. We intend for the Asset Management Company and Kenedix Advisors, working with on-site property managers, to develop and implement strategies to increase property revenues and value. Key components of our property management strategies include flexible and focused leasing activities that are geared toward particular tenant needs and market trends, careful control of management and operating costs, and achieving efficiencies by centralizing appropriate aspects of property management.

## Distributions

In order to maintain our favorable tax treatment 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 in at least this amount. 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, which 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, in the event that its retained earnings are less than 90% of its distributable income as defined in the Special Taxation Measures Law, if it determines that it is appropriate to do so.

However, 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 to satisfy the requirements to maintain our favorable tax treatment under the Special Taxation Measures Law. In any event, our articles of incorporation permit us to make distributions in at least the amounts required in order 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
Duration of Period	May 6, 2005 to October 31, 2005	November 1, 2005 to April 30, 2006
Unappropriated Retained Earnings	¥242,251,377	¥1,102,013,492
Retained Earnings for the next fiscal period	¥14,137	¥40,412
Cash Distributions (Distribution per unit)	¥242,237,240 (¥3,052)	¥1,101,973,080 (¥13,884)
Earnings Distributed (Earnings Distributed per unit)	¥242,237,240 (¥3,052)	¥1,101,973,080 (¥13,884)
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 during the first and second fiscal periods are summarized in the following table. (Note 4)

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)

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. From the end of the second fiscal period, the Investment Corporation issued additional new investment units (offer price: ¥593,096; issue price: ¥572,519) as a means to fund the acquisition of additional properties (payment date: May 1, 2006). Furthermore, the Investment Corporation issued additional new investment units by way of third-party allocation (issue price: ¥572,519) to assist in the acquisition of new investment properties (payment date: May 26, 2006). As a result, unitholders' capital as of May 26, 2006 stood at ¥88,729 million with 157,000 investment units issued and outstanding.

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

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

Period	First Fiscal Period	Second Fiscal Period
End of Fiscal Period	October 31, 2005	April 30, 2006
High Price	¥618,000	¥670,000
Low Price	¥573,000	¥574,000

## The Main Investors of the Investment Corporation

The main investors of the Investment Corporation as of April 30, 2006 are as follows.

Name	Address	Number of Investment Units owned	Ratio (%)
Goldman Sachs International	6-10-1, Roppongi, Minato-ku, Tokyo	8,559	10.78
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	5,160	6.50
Nikko Cititrust and Banking Co. (investment trust account)	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	4,970	6.26
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	4,580	5.77
Kenedix, Inc.	2-2-9, Shinbashi, Minato-ku, Tokyo	3,970	5.00
Nanto Bank, Ltd.	16, Hashimotocho, Nara-shi, Nara	1,963	2.47
AIU Insurance Company ORD-4 Lending	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	1,575	1.98
Trust & Custody Services Bank, Ltd. (securities investment trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	1,390	1.75
The Hiroshima Bank, Ltd.	1-3-8, Kamiyacho, Naka-ku, Hiroshima	1,273	1.60
State Street Bank and Trust Company	6-7, Kabutocho, Nihonbashi Chuo-ku, Tokyo	1,175	1.48
Total		34,615	43.61

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

## Debt Financing

Debt financing on a financial institution basis as of April 30, 2006 are as follows.

Debt financing on a financial institution basis as of April 30, 2009 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 Loan	Aozora Bank, Ltd.	August 1, 2005	2,000	2,000	0.397	July 31, 2006	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Resona Bank, Ltd.		500	500					
	Mitsubishi UFJ Trust and Banking Corporation		500	500					
	The Chuo Mitsui Trust and Banking Co., Ltd.	September 21, 2005	3,000	3,000	0.347	September 20, 2006			
	Sumitomo Mitsui Banking Corporation		1,000	1,000					
	Aozora Bank, Ltd.		1,000	1,000					
	Resona Bank, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation	November 1, 2005	—	1,000	0.347	October 31, 2006			
	Sumitomo Mitsui Banking Corporation	March 1, 2006	—	500	0.361	February 28, 2007			
Subtotal			10,000	11,500					
Long-Term Loan	Mitsubishi UFJ Trust and Banking Corporation	August 1, 2005	2,700	2,700	0.86875	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					
	Sumitomo Mitsui Banking Corporation		1,000	1,000					
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		800	800					
	Resona Bank, Ltd.		300	300					
	Sumitomo Mitsui Banking Corporation	August 1, 2005	3,750	3,750	1.28750	July 31, 2010			
	The Chuo Mitsui Trust and Banking Co., Ltd.		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	0.76875	October 31, 2007			
	The Norinchukin Bank	November 1, 2005	—	3,000	1.09	October 31, 2008			
	Resona Bank, Ltd.		—	500					
	Aozora Bank, Ltd.	December 8, 2005	—	1,500	1.0975	December 7, 2008			
	Resona Bank, Ltd.		—	500					
	The Chiba Bank, Ltd.	March 1, 2006	—	800	1.44875	February 28, 2009			
	Aozora Bank, Ltd.		—	500					
	Mitsui Sumitomo Insurance Co., Ltd.		—	700					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 16, 2006	—	2,500	1.47625	March 16, 2009			
Subtotal			19,000	30,500					
Total			29,000	42,000					

Notes :

1. 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.
2. Funds procured through debt financing were used to acquire trust beneficiary interests in real estate.

## Investment Corporate Bonds

The Investment Corporation had not issued investment corporate bonds as of April 30, 2006.

## Portfolios Outline

### Composition of Portfolio Assets

Type of Specified Asset	Type	Area	First Fiscal Period (As of October 31, 2005)		Second Fiscal Period (As of April 30, 2006)	
			Total Amount Held (Millions of Yen)	Ratio (%)	Total Amount Held (Millions of Yen)	Ratio (%)
Real Estate	Office Buildings	Tokyo Metropolitan Area	-	-	2,338	2.5
	Retail Properties	Tokyo Metropolitan Area	-	-	55	0.1
Total for Real Estate			-	-	2,393	2.6
Trust Beneficiary Interest in Real Estate	Office Buildings	Tokyo Metropolitan Area	31,237	40.4	39,679	43.1
		Other Regional Areas	7,207	9.3	7,126	7.7
	Total for Office Buildings		38,444	49.7	46,806	50.8
	Residential Properties	Tokyo Metropolitan Area	18,832	24.4	18,707	20.3
		Other Regional Areas	899	1.2	2,826	3.1
	Total for Residential Properties		19,732	25.5	21,534	23.4
	Retail Properties	Tokyo Metropolitan Area	12,734	16.5	12,700	13.8
	Total for Retail Properties		12,734	16.5	12,700	13.8
Total of Trust Beneficiary Interests in Real Estate			70,911	91.7	81,040	88.0
Bank Deposits and Other Assets			6,413	8.3	8,618	9.4
Total Assets			77,325	100.0	92,053	100.0

Note: "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).

### Purchase and Sales during the Second Fiscal Period

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 Buildings	Tokyo Metropolitan Area	A-13	Belles Modes Building	November 1, 2005	5,950	-	-	-	-
		A-14	KDX Funabashi Building	March 1, 2006	2,252	-	-	-	-
		A-15	KDX Hamacho Building	March 16, 2006	2,300	-	-	-	-
	Total of Office Buildings				10,502	-	-	-	-
Residential Properties	Other Regional Areas	B-18	Venus Hibarigaoka	December 8, 2005	1,800	-	-	-	-
	Total of Residential Properties				1,800	-	-	-	-
Total					12,302	-	-	-	-

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 third fiscal period (May 1, 2006 to October 31, 2006) 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 Hamacho Building (Chuo-ku, Tokyo)	Conversion of leasable areas, renewal work for interior facilities of co-owned areas, other	May 2006 to October 2006	79	—	—
Chigasaki Socie Ni-bankan (Chigasaki, Kanagawa)	Large-scale renovation, other	As above	54	—	—
Venus Hibarigaoka (Sapporo, Hokkaido)	Renwal work for interphone system, building exterior works, other	As above	45	—	—
Dai-ichi Kayabacho Building (Chuo-ku, Tokyo)	Upgrade of external façade and air conditioning system, other	As above	44	—	—
KDX Shin-Yokohama Building (Yokohama, Kanagawa)	Reparis and maintenance of exterior façade, other	As above	43	—	—

### Capital Expenditures During the Second Fiscal Period

The Investment Corporation undertook the following major capital expenditures as follows. In the second fiscal period, the Investment Corporation completed work across its entire portfolio totaling ¥565 million. This total comprised of ¥510 million in capital expenditures and ¥55 million for repairs, maintenance and renovation expenses.

Property Name (Location)	Purpose	Schedule	Amount of Capital Expenditures (Millions of Yen)
Nihonbashi 313 Building (Chuo-ku, Tokyo)	Installation of individual air conditioning system, other	November 2005 to April 2006	271
Yoyogi M Building (Shibuya-ku, Tokyo)	Screen installation, renovation of entrance area, other	November 2005 to April 2006	83
Hakata-Ekimae Dai-2 Building (Fukuoka, Fukuoka)	Toilet repairs and improvement work, renovation of entrance area, other	November 2005 to April 2006	36
Others			117
Portfolio Total			510

### 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
Reserve for the end of the previous period	—	92
Reserve for the fiscal period under review	92	130
Reversal of reserve for the fiscal period under review	—	57
Reserve bring to the next period	92	165



## Expenses and Liabilities

### Details for Expenses

(Thousands of Yen)		
Item	First Fiscal Period	Second Fiscal Period
(a) Asset management fees	56,239	150,114
(b) Custodian fees	1,272	10,233
(c) Administrative service fees	11,109	27,544
(d) Directors' salaries	5,352	5,400
(e) Audit fees	—	4,000
(f) Other operating expenses	13,319	64,963
Total	87,291	262,254

Note : In addition to the asset management fees indicated in the above table, a total of ¥179,030 thousand for the first fiscal period and ¥46,636 thousand for the second 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

				(Millions of Yen)
	Purchase and Sale Amounts			
	Amount of Purchase		Amount of Sale	
Total	12,302		—	
	Amount of Purchase from Related-Parties		Amount of Sale to Related-Parties	
	5,950		—	
Details of related-party transactions				
Y.K. KDX1	5,950		—	

### (2) Fees

(Thousands of Yen)		
Total fees		129,159
	Fees Concerning Related-party Transaction	129,159 (100.0%)
Details of fees and other payments to related parties:		
【Kenedix Advisors Co., Ltd.】		
Leasing management fees		104,453 (80.9%)
Management transfer fees		8,400 (6.5%)
Construction supervision fees		16,305 (12.6%)
Subtotal		129,159 (100.0%)
Total		129,159 (100.0%)

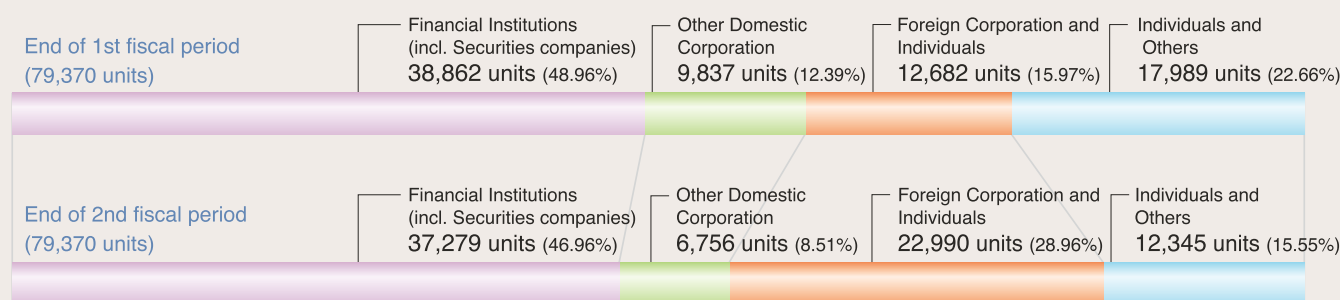
Note: Related parties are defined under Implementation Ordinance No. 20 of the Investment Trust Law and include companies with whom the Investment Corporation has concluded asset management agreements. Related-party transaction details and commissions paid to Kenedix Advisors and Y.K. KDX1 during the second fiscal period 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 second fiscal period, April 30, 2006, are provided in the following table.



## Details of the Unitholders



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

## Information Provided on the Investment Corporation's Web site

The Investment Corporation will make every effort to disclose relevant and accurate information on its Web site 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.

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## Kenedix Realty Investment Corporation Corporate Data

(As of June 12, 2006)

### Corporate Office

Daiichi-Tekko Bldg. 8F  
1-8-2, Marunouchi, Chiyoda-ku,  
Tokyo, 100-0005 Japan  
Tel +81-3- 5288-7629  
Fax +81-3- 3216-7000

### Date of Incorporation

May 6, 2005

### Capital

¥88,729,652,470  
157,000 units

### Stock Listing

REIT market of the Tokyo Stock Exchange

### Security Codes

8972

### Transfer Agent

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

### Auditor

Ernst & Young ShinNihon  
Hibiya Kokusai Bldg.  
2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku,  
Tokyo 100-0011, Japan

### Investor Relations

For further information, please contact our Asset Management  
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