

# KENEDIX Realty Investment Corporation

## Semiannual Report

Sixth Fiscal Period

From November 1, 2007 to April 30, 2008



# Basic Investment Strategy



## Contents

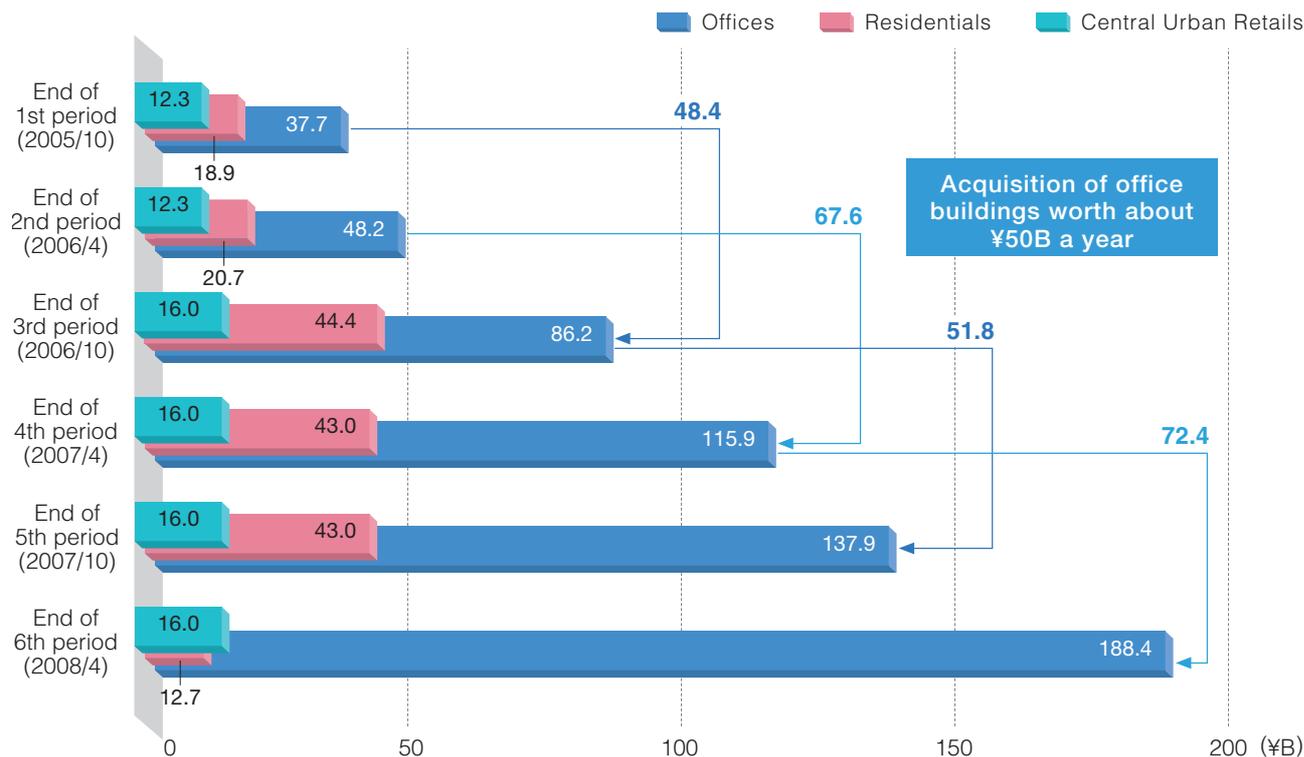
Investment Highlights .....	1	Financial Strategy .....	7
To Our Unitholders /		Q&A.....	9
Interview with the Top Management .....	2	Properties Roster.....	12
Emphasis on Mid-sized Office Buildings in		Financial Summary .....	14
Tokyo Metropolitan Area .....	5	Management Review & Policies .....	15
Leverage of Kenedix Group's Management		Financial Statements .....	21
Expertise to Maximum Extent.....	6	Management Report.....	37

# Investment Highlights

Cash Distribution for the Sixth Fiscal Period (November 1, 2007 to April 30, 2008): ¥16,711 per unit

Note: The sixth fiscal period commenced on November 1, 2007, and ended on April 30, 2008, a period of 182 days.

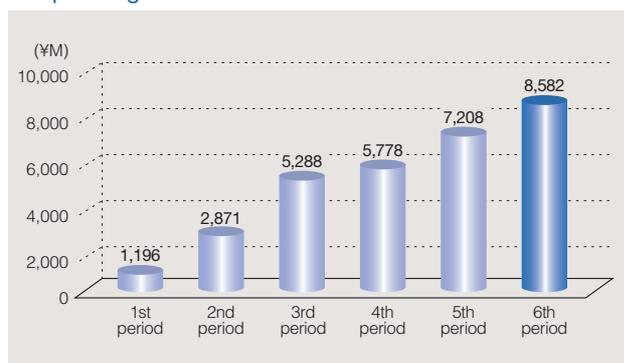
## Increase in asset scale focused on office buildings



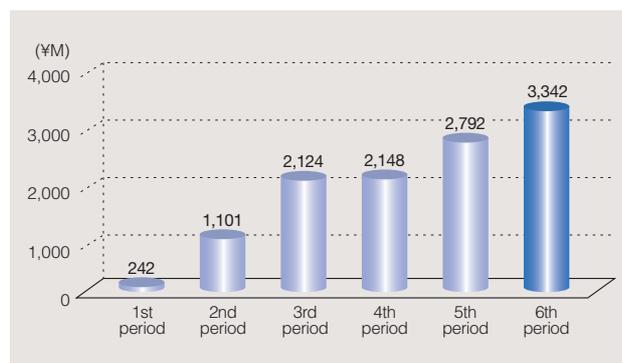
Notes: 1. Amounts are rounded down to the nearest ¥100 million.

2. The figures at the end of the 6th period includes the acquisition price of building to be acquired of Sakae 4-chome Office Building (Tentative Name) (¥4,325M).

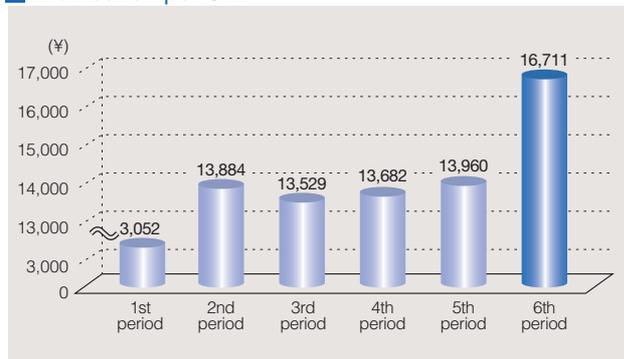
## Operating Revenues



## Net Income



## Distribution per Unit



## Unitholders' Equity per Unit



# To Our Unitholders / Interview with the Top Management

Kenedix Realty Investment Corporation (KRI) is dedicated to expanding the scale of its assets through steady growth under the slogan of “¥400 billion in total asset value and being the leader among REITs focused on mid-sized office buildings.” CEO and President, Taisuke Miyajima spoke about the know-how behind KRI’s solid management capabilities and future investment strategies as he shared the operating results for the sixth fiscal period.

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

## Taisuke Miyajima



## Investment Strategy Focused on the Tokyo Metropolitan Area and Mid-sized Office Buildings

First of all, could you give us an overview of KRI’s operating results for the sixth fiscal period?

We further promoted investments centered on office buildings, which we have been implementing since the third fiscal period, and made quite bold moves in acquiring office buildings and selling residential properties. Specifically, we acquired 14 office buildings worth approximately ¥50 billion, while selling 23 residential properties worth approximately ¥30 billion. Our property management is shifting steadily to one that is focused on mid-sized office buildings.

With these replacements, the proportion of residential properties in our portfolio has been lowered to a level that is just under 6%, and our policy is to sell off all of our residential properties in the future. This stance has been taken to eliminate investment risks in residential properties, for which there is a sense of over-supply in the market. Speaking in terms of investment area, the ratio of our current investments in the Tokyo metropolitan area is approximately 80%. We intend to focus our investments on the Tokyo metropolitan area, and continue to invest in quality properties with good locations in the government-designated cities of Osaka, Nagoya and Fukuoka, which all have good business areas.

Could you tell us about the distribution?

The distribution for the sixth fiscal period was ¥16,711 per unit. This includes gains/losses on sales of residential properties; but if excluded, the distribution is approximately ¥14,100. We conduct management based on distributions per unit that exclude gains/losses on sales. The foundation of our management is the stable growth of distributions. We believe that we can continue to realize stable growth, through a strong office building market, internal growth such as rises in rents along with a strong market, as well as property acquisitions backed by stable financial health.

## Kenedix’s Strengths and Opportunities in a Mid-sized Office Market

Concentrated investment in mid-sized office buildings: Why this investment segment and what are your targets?

Actually, investment in the mid-sized office market segment is what the Kenedix Group has been specializing in for the past 10 years.

The target of our REIT is a total asset value of 400 billion yen, and 100 buildings at an average of 4 billion yen per building. In terms of rent area, one floor of approximately 100 tsubo is Kenedix’s strongest realm. According to a Tokyo metropolitan government survey asking how many employees work in

its office, 93% of the respondents answered that it was 29 persons or less. These are all mid-sized office building clients, not large-sized, and where potential demand lies in which we can utilize our strengths.

In this very market, we have built up sufficient know-how, experience and track records in property sourcing/investment, enhancing value, leasing and selling; and furthermore, we have capable human resources.

In addition, from a global standpoint, strategies that are focused on a specific market match the flow in which investors themselves engage in diversified investments in respective REITs that concentrate investment in specific markets.

### Three Key Points in Distinguishing Value When Acquiring Properties

Could you tell us about the key points you look for in acquiring properties?

There are three. First is prospects for the future. Even if there are some properties that do not generate cash flow, the overall portfolio can absorb this. Moreover, we proactively purchase properties that will have higher value in the future. The second is potential. When we purchase a building with a lot of vacancies, the ability to ascertain the potential and to check the profitability of the property is required.

The third is know-how. This concerns judgment regarding what type of money to use, for what purpose, and at what timing in order to enhance property value. For example, a current rent of ¥15,000 per tsubo could rise to ¥17,000 if we did A, but it could rise to ¥20,000 if we did B: it is about judgment concerning what is the most effective way to realize investment profits.

Since we have focused on mid-sized office buildings, and not on residential properties, commercial facilities or warehouses, we are now able to say that certain properties are a “buy.” We have managed to accumulate this much know-how during the three years after our IPO.

### Merits of Scale Born from Concentrated Strategies

Could you share with us about the management of your properties?

We currently manage 60 office buildings. We would have a hard time for cutting costs if we do renovations on each building individually, but by conducting renovations on multiple buildings simultaneously, the scale of the renovations becomes bigger. Thus, the principle of competition naturally kicks in, enabling us to place orders to excellent contractors of higher quality. As a case in point, in the sixth fiscal period we were able to cut total renovation costs



from approximately ¥440 million to approximately ¥270 million through bulk auction for air conditioning renovations at five buildings. There are also many similar cases.

As a result, we are able to obtain competitiveness that cannot even be compared to a party managing just one building. By having a portfolio that concentrates investment in mid-sized office buildings, we are now able to enjoy the merits of scale that could only be realized in the large-scale office segment in the past.

## Customer Satisfaction means Strengthening Relations with Tenants – Our Customers

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Could you tell us about the customer satisfaction survey that was conducted as a part of your CS strategy?

Among our valuable customers, in addition to our investors, are the tenants that occupy our office buildings. We have conducted CS surveys of tenants twice. Based on the first survey, we strived to strengthen the hardware side of our buildings, such as heightened security and renewal of parts of buildings in terms of the waterworks. In the second survey, we were able to confirm that satisfaction rates were clearly improving.



We believe that this influences rent negotiations, and in fact, about 40% of negotiated tenants agreed to rent raises in the fifth fiscal period and over 50% in the sixth fiscal period. In addition, we do acknowledge that it is important for us to work on not only the facilities (hardware) side but also on the services (software) side of our buildings.

Are we able to respond speedily when the fluorescent lighting is about to burn out? Does the cleaning staff greet tenants properly when entering the building? The accumulation of such efforts will surely appear in survey results. This will be a key point in raising rents while reducing vacancies.

## Maintaining Expertise in Managing Mid-sized Office Buildings

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Please tell us about future endeavors and prospects.

It has only been about three years since the Tokyo office market saw recovery in rent prices in 2005. Historically speaking, current rent levels are not that high, and in addition, vacancies have remained low, and office demand continues to be strong.

Financial institutions indicate proactive lending stances to REITs that invest in quality office buildings with solid location conditions. In other words, we would be able to materialize expansion in investment activities by continuing the strategies I have shared with you.

With a solid financial base, abundant know-how in real estate management and the market on our side, we wish to provide fruitful investment opportunities to as many investors as possible.

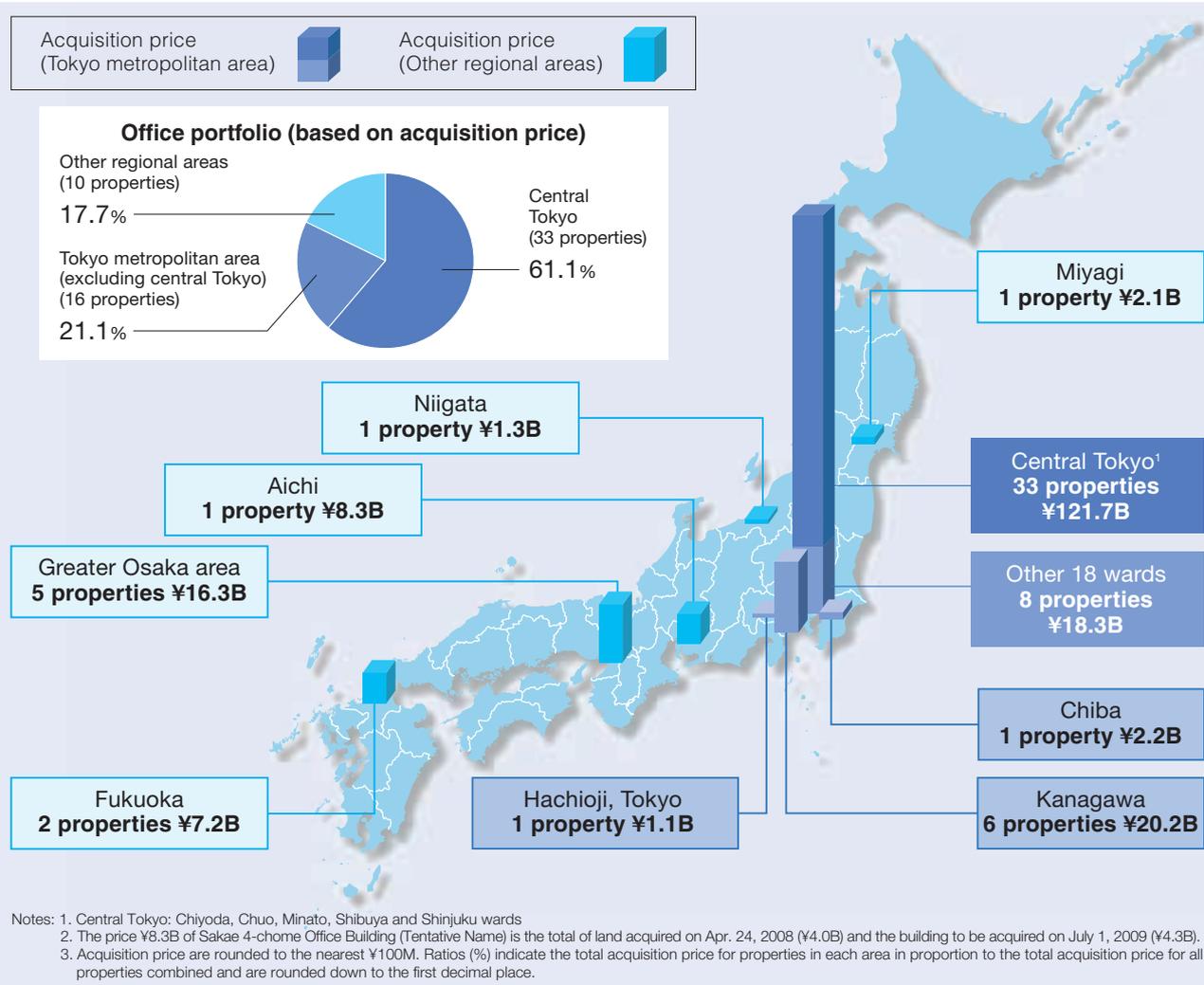


# Emphasis on Mid-sized Office Buildings in Tokyo Metropolitan Area

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. Reflecting the recent office market trend, we will continue to focus investing in mid-sized office buildings in Tokyo metropolitan area.

## Office portfolio (as of August 1, 2008)

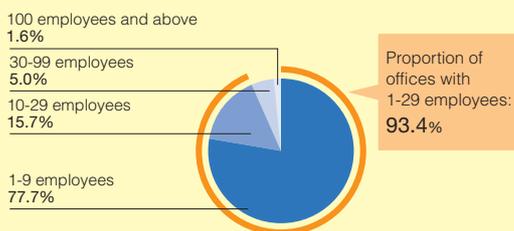
59 properties, total acquisition price of ¥199.0B



## Market environment for office buildings

Potentially strong demand for mid-sized office buildings by tenants

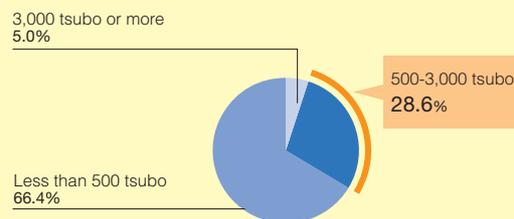
Breakdown of offices based on number of employees per office



Source: KDRM, based on Tokyo office statistics report as of 2006 (MPHPT Statistics Bureau)

Broad based stock of mid-sized office buildings

Distribution of office buildings by tsubo (Central Tokyo)

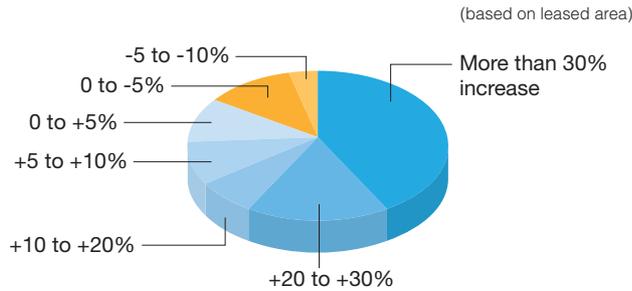


Source: Survey conducted by Ikoma Data Service System based on KRI's requests (survey as of end of Mar. 2007) "Macro market survey of Tokyo's central 5 wards"  
 Note: The above data covers rental office buildings located in Tokyo's central 5 wards that were surveyed by Ikoma Data Service System. Please note that the above data may not include the data of all properties in the said 5 wards.

# Leverage of Kenedix Group's Management Expertise to Maximum Extent

By increasing rents through enhancement of customer satisfaction and reducing renovation costs through utilization of scale merit, we aim to expand earnings by fully utilizing the know-how of the Kenedix Group, which excels in "mid-sized office buildings."

## Breakdown of change rates for rents of new contracts (6th period)

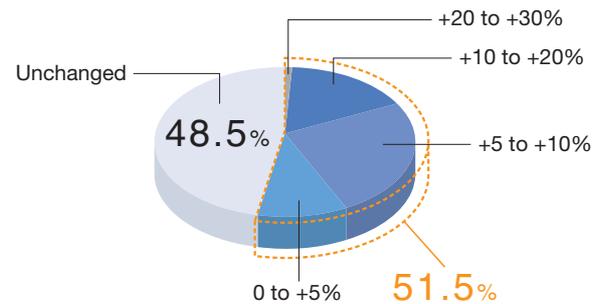


### Average variances by area (simple average for all cases)

Central Tokyo:	35.5% (7 rent increases, no rent decreases)
Other Tokyo metropolitan area:	13.2% (5 rent increases and 1 rent decrease)
Other regional areas:	8.3% (9 rent increases and 4 rent decreases)

Note: The above percentages represent the variances from the average rents for new tenants of the relevant office buildings (offices on 2nd floor or above)

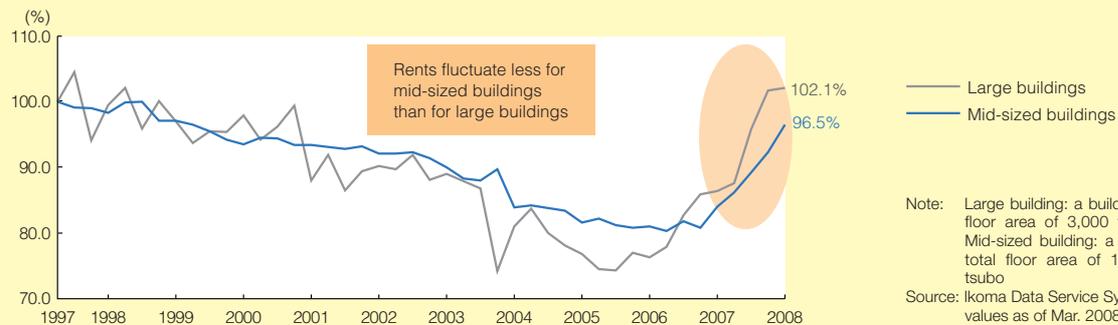
## Breakdown of change rates for rents of renewed contracts (6th period)



## Market environment for office buildings

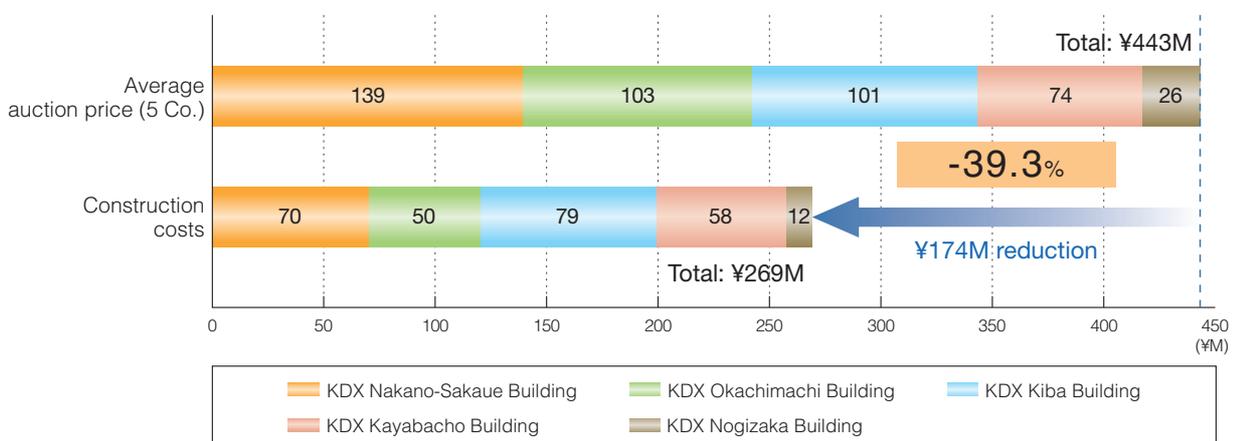
### Changes in rent levels (market data)

Tokyo 23 wards: rent levels for large and mid-sized buildings (Jun. 1997 = 100)



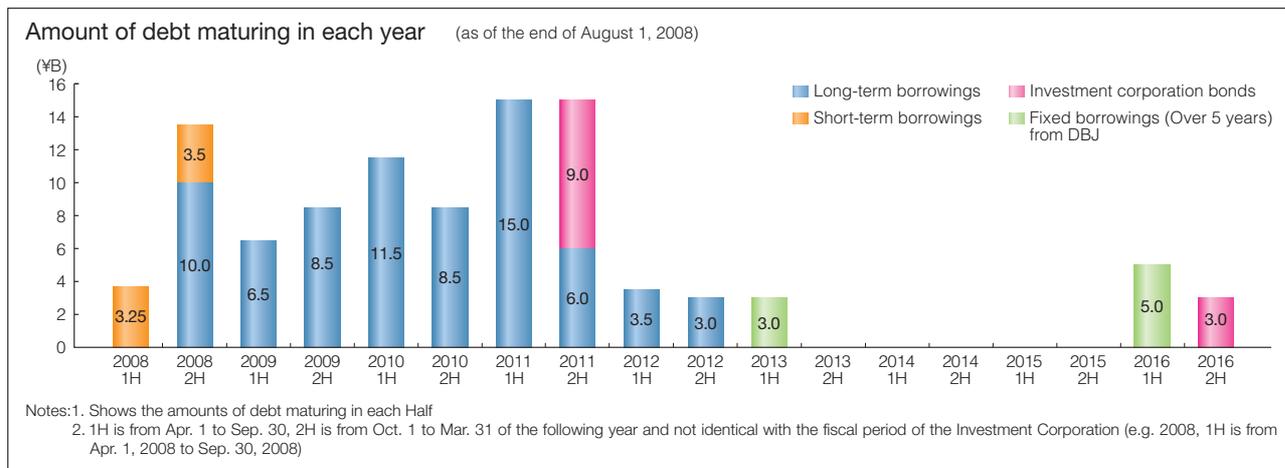
## Cost reduction effect by the scale of portfolio

Reduction of construction costs by tendering the installation of air-conditioning facilities (6th period)

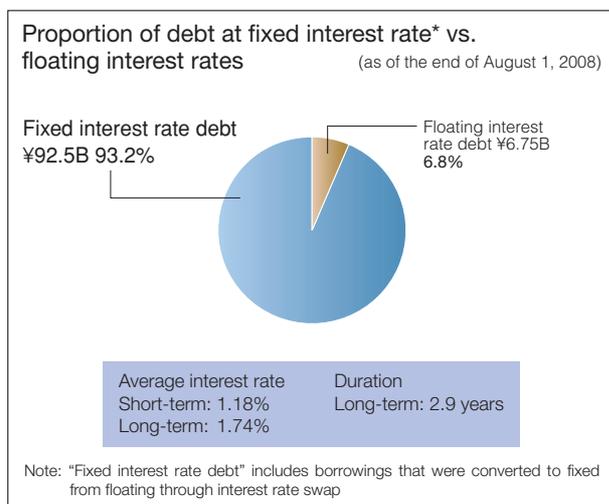


# Financial Strategy

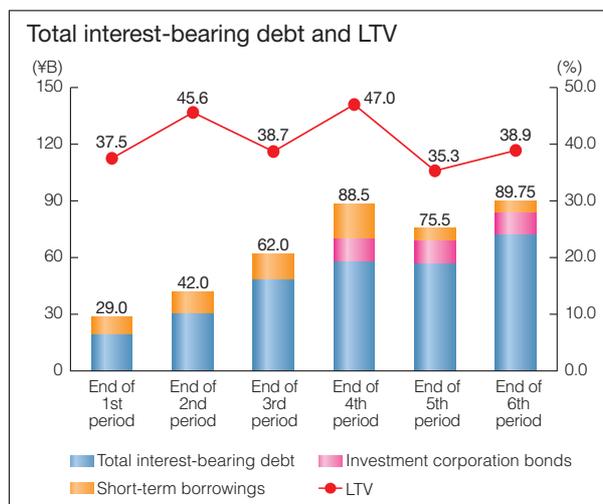
## Diversify debt maturity ▶ Debt-financing with an emphasis on diversifying repayments



## Fixed debt interest rates ▶ Conservative policy centered on debt at a fixed interest rate



## Changes in LTV ▶ Conservative interest-bearing debt ratio (kept within the mid 30% to c. 50% range)



## Diversified financing methods through issuance of investment corporation bonds

(as of August 1, 2008)

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

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



A-40 Toranomom Toyo Building



A-37 KDX Ochanomizu Building

# KENEDIX Selection



A-60 KDX Harumi Building



A-46 Hiei Kudan-Kita Building



A-2 KDX Hirakawacho Building



A-13 KDX Kojimachi Building



A-42 Karasuma Building

## Questions & Answers

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

### About Kenedix REIT Management

#### Q. What are the special features of the Asset Management Company?

**A.** Kenedix REIT Management, Inc. is a wholly owned subsidiary of Kenedix, Inc., a company listed on the First Section of the Tokyo Stock Exchange and a pioneer in the real estate investment management industry. The Asset Management Company receives the full support of its parent company including personnel and information exchange.

Accordingly, the Asset Management Company boasts specialized knowledge of real estate and finance markets. In this manner, Kenedix REIT Management, Inc. leverages the experience and know-how of Kenedix, Inc. and its group companies.

As an independent asset management company, Kenedix REIT Management, Inc. strives to deliver a full range of services based on investors’ perspectives. Consistent with the philosophy of the Kenedix Group, the Asset Management Company is comprised of individuals committed to realizing this investor-oriented objective.

### Growth Potential

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

**A.** The Investment Corporation will aim to build a strong portfolio focusing on mid-sized office buildings and has set ¥400 billion in asset size as a mid- and long-term goal. Our goals, however, do not revolve entirely around increasing asset scale. The Investment Corporation seeks to continue improving the quality of its portfolio in such terms as location, size and type of properties, through various measures, including replacement of assets based on the type and area of the assets.

#### Q. What is the Investment Corporation’s property acquisition strategy?

**A.** The Investment Corporation leverages a multi-pipeline of real estate and market information gathered through the original network of the Asset Management Company and the support-line of the Kenedix Group. The Asset Management Company boasts experienced personnel transferred from the Acquisition Department of Kenedix, Inc. with an extensive network comprising specialists in the finance, construction, property development, investment fund, corporate, real estate intermediary, legal and accounting fields. This network is expected to provide the platform for future external growth.

The Investment Corporation also receives information from its support-line with the Kenedix Group relating to brokerage properties, pension funds, private-placement funds, development and real estate proposals. The Investment Corporation has executed a Memorandum of Understanding with Kenedix, Inc. and Kenedix Advisors Co., Ltd. under which it maintains a preferential position regarding investment property acquisition.

Another key role of the support-line is to facilitate property acquisition through the warehousing function.

### Property Management

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

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

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

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

The Investment Corporation has appointed Kenedix REIT Management, Inc. as its sole property management company.

## Investment Properties

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

**A.** Compared with large-sized office buildings, mid-sized office buildings provide greater liquidity. In addition to the larger number of buildings in the market, the acquisition prices and rent level of mid-sized office buildings offer a wider scope of acquisition and leasing opportunities. Under these circumstances, the Investment Corporation recognizes that mid-sized office buildings provide the Investment Corporation with the best avenue to leverage its abilities in identifying properties with competitive advantage and its expertise and know-how in property leasing and management. Furthermore, given tenant characteristics and the large pool of competing properties, the Investment Corporation recognizes that mid-sized office buildings exhibit higher rates of tenant turnover with rent levels more finely attuned to economic trends, particularly in times of recovery.

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

**A.** As an asset manager, the Kenedix Group boasts a wealth of experience and know-how in mid-sized office buildings. Focusing on this segment enables the Investment Corporation to leverage this considerable strength. In addition, the Asset Management Company is accumulating know-how and building its track record in the investment and asset management of mid-sized office buildings through such measures as conducting property management based on CS (tenant) surveys and minimizing costs stemming from portfolio size (reduce construction expenses through bulk contracts, etc.). Furthermore, the Investment Corporation has been raising newly contracted rents and consistently raising rents of existing leases, and believes it will be able to continue boosting the asset value and property competitiveness and increasing the rent level for mid-sized office buildings in a consistent manner.

The Investment Corporation seeks to build its portfolio to ¥400 billion in asset size with mid-sized office buildings at the core. This translates to an image of owning 100 office buildings worth an average of ¥4 billion. The Kenedix Group has its greatest strengths in mid-sized office buildings that have approximately 100 to 150 tsubos of leased floor area per floor.

According to a Tokyo Metropolitan Government survey on how many employees work in a single office, "of the offices in Tokyo, about 94% were offices for 29 employees or less." The majority of these are clients for which mid-sized office buildings would be suitable.

Consequently, the Investment Corporation believes that there is high latent demand for mid-sized office buildings.

The Asset Management Company already has adequate know-how, experience and track record in relation to property sourcing, enhancing value, leasing, selling and other areas of the mid-sized office building market, and is equipped with the human resources for such.

Moreover, Tokyo is Japan's center of business and thus there is an extremely massive market. For these reasons, the Investment Corporation will continue to concentrate investment in mid-sized office buildings in the Tokyo Metropolitan Area.

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

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

In addition, the concentration on office buildings is viewed to enable the Asset Management Company to strengthen its expertise in asset management.

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

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

### Q. What are your expectations of the real estate markets?

**A.** Only three years has passed since the rents of Tokyo's office market began recovering from the latter half of 2005. The rent level is also not all that high relative to the past and the current office demand remains strong. 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. Under these circumstances, the ability to accurately identify real estate trends by property type, area and size will become more important.

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

**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.** The 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 mainly in mid-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. The Investment Corporation completed converting the interest rates to fixed interest rates for 93.5% (¥84.0 billion) of the balance of interest-bearing debt (¥89.75 billion) as of the end of the sixth fiscal period. Furthermore, the Investment Corporation acquired an A3 credit rating from Moody's Investors Services, Inc. and A+ rating from Japan Credit Rating Agency, Ltd. In addition, we have issued 5 year and 10 year investment corporation bonds (fixed interest rate) in March 2007.

# Properties Roster

## Properties as of the end of the 6<sup>th</sup> period (68 properties)

Acquired during the 6<sup>th</sup> Period

Type	Area	Name	Location	Acquisition Price(¥M) (Note1)	Completion Date (Note2)	Occupancy Ratio (%) (Note 3)
Office	Tokyo Metropolitan Area	Toranomon Toyo Building	Minato ward, Tokyo	9,850	Aug. 1962	99.1
		Hiei Kudan-Kita Building	Chiyoda ward, Tokyo	7,600	Mar. 1988	100.0
		KDX Ochanomizu Building	Chiyoda ward, Tokyo	6,400	Aug. 1982	100.0
		KDX Shiba-Daimon Building	Minato ward, Tokyo	6,090	Jul. 1986	100.0
		KDX Kojimachi Building	Chiyoda ward, Tokyo	5,950	May. 1994	98.2
		KDX Nihonbashi 313 Building	Chuo ward, Tokyo	5,940	Apr. 1974	100.0
		Toshin 24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	100.0
		KDX Hirakawacho Building	Chiyoda ward, Tokyo	5,180	Mar. 1988	100.0
		KDX Shin-Yokohama 381 Building	Yokohama, Kanagawa	4,700	Mar. 1988	94.6
		Ebisu East 438 Building	Shibuya ward, Tokyo	4,640	Jan. 1992	100.0
		Higashi-Kayabacho Yuraku Building	Chuo ward, Tokyo	4,450	Jan. 1987	100.0
		KDX Toranomon Building	Minato ward, Tokyo	4,400	Apr. 1988	100.0
		KDX Nishi-Gotanda Building	Shinagawa ward, Tokyo	4,200	Nov. 1992	100.0
		KDX Kawasaki-Ekimae Hon-cho Building	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0
		KDX Hatchobori Building	Chuo ward, Tokyo	3,680	Jun. 1993	100.0
		KDX Omori Building	Ota ward, Tokyo	3,500	Oct. 1990	100.0
		KDX Hamamatsucho Building	Minato ward, Tokyo	3,460	Sep. 1999	100.0
		KDX Roppongi 228 Building	Minato ward, Tokyo	3,300	Apr. 1989	80.4
		KDX Higashi-Shinjuku Building	Shinjuku ward, Tokyo	2,950	Jan. 1990	82.2
		KDX Kayabacho Building	Chuo ward, Tokyo	2,780	Oct. 1987	100.0
		KDX Jimbocho Building	Chiyoda ward, Tokyo	2,760	May 1994	0.0
		Nissou Dai-17 Building	Yokohama, Kanagawa	2,710	Jul. 1991	100.0
		KDX Shinbashi Building	Minato ward, Tokyo	2,690	Feb. 1992	100.0
		KDX Nakano-Sakaue Building	Nakano ward, Tokyo	2,533	Aug. 1992	100.0
		KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	100.0
		Harajuku F.F. Building	Shibuya ward, Tokyo	2,450	Nov. 1985	100.0
		Ikejiri-Oohashi Building	Meguro ward, Tokyo	2,400	Sep. 1988	91.3
		KDX Kajicho Building	Chiyoda ward, Tokyo	2,350	Mar. 1990	100.0
		KDX Hamacho Nakanohashi Building (Note 4)	Chuo ward, Tokyo	2,310	Sep. 1988	100.0
		KDX Hamacho Building	Chuo ward, Tokyo	2,300	Sep. 1993	100.0
		KDX Shinjuku 286 Building	Shinjuku ward, Tokyo	2,300	Aug. 1989	100.0
		FIK Minami Aoyama Building	Minato ward, Tokyo	2,270	Nov. 1988	100.0
		KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	100.0
		Shin-toshin Maruzen Building	Shinjuku ward, Tokyo	2,110	Jul. 1990	100.0
		KDX Okachimachi Building	Taito ward, Tokyo	2,000	Jun. 1988	89.7
		KDX Gobancho Building	Chiyoda ward, Tokyo	1,951	Aug. 2000	100.0
		Kanda Kihara Building	Chiyoda ward, Tokyo	1,950	May. 1993	100.0
		KDX Yotsuya Building	Shinjuku ward, Tokyo	1,950	Oct. 1989	100.0
		KDX Shinjuku-Gyoen Building	Shinjuku ward, Tokyo	1,610	Jun. 1992	100.0
		KDX Kiba Building	Koto ward, Tokyo	1,580	Oct. 1992	88.0
KDX Nishi-Shinjuku Building	Shinjuku ward, Tokyo	1,500	Oct. 1992	100.0		
KDX Monzen-Nakacho Building	Koto ward, Tokyo	1,400	Sep. 1986	100.0		
KDX Kanda Misaki-cho Building	Chiyoda ward, Tokyo	1,380	Oct. 1992	86.9		
KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May. 1995	100.0		
KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	85.6		
KDX Nogizaka Building	Minato ward, Tokyo	1,065	May. 1991	100.0		
KDX Koishikawa Building	Bunkyo, Tokyo	704	Oct. 1992	100.0		

Type	Area	Name	Location	Acquisition Price(¥M) (Note1)	Completion Date (Note2)	Occupancy Ratio (%) (Note 3)
Office	Other Regional Areas	Sakae 4-chome Office Building (Tentative Name) (Note 5)	Nagoya, Aichi	8,325	Jun. 2009	-
		Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	100.0
		Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	98.6
		KDX Hakata Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	95.4
		KDX Hakata Building	Fukuoka, Fukuoka	2,350	Jul. 1982	100.0
		KDX Kitahama Building	Osaka, Osaka	2,220	Jul. 1994	88.1
		KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	93.7
		KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	87.2
		KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	94.1
		Hakata Ekimae Dai-2 Building	Fukuoka, Fukuoka	1,430	Sep. 1984	99.3
		KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	61.0
Office (Total 58 properties) Sub Total				188,405	Avg. 21.0 yrs	95.8
Central Urban Retail	Tokyo Metropolitan Area	Frame Jinnan-zaka	Shibuya ward, Tokyo	9,900	Mar. 2005	97.9
		KDX Yoyogi Building	Shibuya ward, Tokyo	2,479	Aug. 1991	100.0
	Other Regional Areas	ZARA Tenjin Nishi-dori	Fukuoka, Fukuoka	3,680	Nov. 2005	100.0
Central Urban Retail (Total 3 properties) Sub Total				16,059	Avg. 4.9 yrs	98.7
Residential	Tokyo Metropolitan Area	Residence Charmante Tsukishima	Chuo ward, Tokyo	5,353	Jan. 2004	100.0
		Court Mejiro	Shinjuku ward, Tokyo	1,250	Mar. 1997	95.1
		Apartments Motoazabu	Minato ward, Tokyo	1,210	Jan. 2004	90.5
		Apartments Wakamatsu Kawada	Shinjuku ward, Tokyo	1,180	Feb. 2004	92.0
		Gradito Kawaguchi	Kawagushi, Saitama	1,038	Feb. 2006	100.0
		Court Shin-Okachimachi	Taito ward, Tokyo	878	Oct. 2005	95.4
	Other Regional Areas	Venus Hibirigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	93.0
Residential (Total 7 properties) Sub Total				12,709	Avg.6.6 yrs	95.4
Total of 68 properties				217,173	Avg.18.9 yrs	95.9

### Properties acquired during the 7<sup>th</sup> period (2 properties)

Office	Tokyo Metropolitan Area	KDX Harumi Building	Chuo ward, Tokyo	10,250	Feb. 2008	-
		KDX Iwamoto-cho Building	Chiyoda ward, Tokyo	1,864	Mar. 2008	-
Office (Total 2 properties) Sub Total				12,114		

### Properties sold during the 6<sup>th</sup> period (23 residential properties)

Name	Acquisition Price(¥M)	Sales Price (¥M)	Name	Acquisition Price(¥M)	Sales Price (¥M)	Name	Acquisition Price(¥M)	Sales Price (¥M)
Regalo Ochanomizu I-II	3,600	3,670	S-court Yokohama Kannai	945	1,020	Ashiya Royal Homes	2,330	2,420
Storia Sirokane	3,150	3,370	Regalo Komazawa-kouen	912	943	Regalo Ibaraki I-II	1,600	1,620
Tre di Casa Minami Aoyama	2,460	2,680	Court Motoasakusa	880	943	Collection Higashi-Sakura	1,264	1,150
Regalo Shiba-kouen	2,260	2,280	Bloom Omotesando	875	962	Renaissance 21 Hiraou Jousui-machi	900	964
Chigasaki Socie Ni-bankan	1,160	1,140	Human Heim Okachimachi	830	905	Montore Nishikouen Bay Court	826	831
Court Nihonbashi-Hakozaki	1,130	1,220	Primo Regalo Kagurazaka	762	770	Abreast Hara	444	494
Court Nishi-Shinjuku	1,130	1,160	Primo Regalo Youga	730	737	Abreast Hirabari	407	457
Side Denenchofu	1,110	1,110	Cout Shimouma	638	644	Residential (Total 23 properties)	30,343	31,490

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 Agreement.
- The "Completion Date" column refers to the date on which construction was first completed. Each average age subtotal and total for the investment portfolio is shown as the weighted-average portfolio age based upon acquisition prices with a base date of April 30, 2008, and is rounded down to the first decimal place. Sakae 4-chome Office Building (Tentative Name) is not included in the weighted-average portfolio age.
- "Occupancy Ratio" is the leased floor area divided by total leasable floor area for each property as a percentage to the nearest first decimal place. Ratios for the 67 properties (excluding Sakae 4-chome Office Building (Tentative Name)) held as of the end of sixth fiscal period, are calculated as of April 30, 2008.
- The current name of the "KDX Hamacho Nakanohashi Building" is the "Hamacho Nakanohashi Building." Following the acquisition, the Investment Corporation intends to carry out procedures to change the name of the building.
- The total of the land acquired on April 25, 2008 (¥4,000 million) and the building planned to be acquired on July 1, 2009 (¥4,325 million) are shown. In addition, the completion date in the construction contract agreement is shown.

# Financial Summary

## Trends in Operating Conditions

Period		Second Fiscal Period (As of Apr. 30, 2006)	Third Fiscal Period (As of Oct. 31, 2006)	Fourth Fiscal Period (As of Apr. 30, 2007)	Fifth Fiscal Period (As of Oct. 31, 2007)	Sixth Fiscal Period (As of Apr. 30, 2008)
Operating revenues	¥M	2,871	5,288	5,778	7,208	8,582
(Rental revenues)	¥M	2,871	5,131	5,647	7,208	7,630
Operating expenses	¥M	1,527	2,723	3,091	3,737	4,517
(Property-related expenses)	¥M	1,265	2,397	2,607	3,205	3,447
Operating income	¥M	1,343	2,565	2,686	3,470	4,065
Ordinary income	¥M	1,103	2,125	2,148	2,793	3,343
Net income (a)	¥M	1,101	2,124	2,148	2,792	3,342
Total assets (b)	¥M	92,053	160,314	188,400	213,763	230,520
Interest-bearing debt (c)	¥M	42,000	62,000	88,500	75,500	89,750
Unitholders' equity (d)	¥M	45,387	90,933	90,877	127,761	128,314
Unitholders' capital	¥M	44,285	88,729	88,729	124,973	124,973
Number of investment units issued and outstanding (e)	Per Unit	79,370	157,000	157,000	200,000	200,000
Unitholders' equity per unit (d) / (e)	Yen	571,840	579,192	578,839	638,809	641,570
Total distribution (f)	¥M	1,101	2,124	2,148	2,792	3,342
Distribution per unit (f) / (e)	Yen	13,884	13,529	13,682	13,960	16,711
(Earnings distributed per unit)	Yen	13,884	13,529	13,682	13,960	16,711
(Distribution in excess of earnings per unit)	Yen	-	-	-	-	-
Return on assets (annualized) (Note 1,2)	%	1.3 (2.6)	1.7 (3.3)	1.2 (2.5)	1.4 (2.8)	1.5 (3.0)
Return on unitholders' equity (annualized) (Note 2,3)	%	2.5 (4.9)	3.1 (6.2)	2.4 (4.8)	2.6 (5.1)	2.6 (5.2)
Unitholders' equity ratio at the end of period (d) / (b)	%	49.3	56.7	48.2	59.8	55.7
Interest-bearing debt ratio at the end of period (c) / (b)	%	45.6	38.7	47.0	35.3	38.9
Payout ratio (Note 4)	%	99.9	99.9	100.0	99.9	99.9
[Other reference]						
Number of properties	Properties	35	64	72	77	68
Total leasable floor area	m <sup>2</sup>	104,868.65	192,085.34	223,322.77	248,653.07	248,625.52
Occupancy ratio at the end of period	%	94.9	95.3	95.9	96.9	95.9
Depreciation expenses for the period	¥M	650	1,135	1,243	1,392	1,430
Capital expenditures for the period	¥M	510	655	1,132	1,238	1,152
Leasing NOI (net operating income) (Note 5)	¥M	2,256	3,869	4,283	5,394	5,612
FFO (funds from operation) (Note 6)	¥M	1,752	3,102	3,261	4,184	4,259
FFO per unit (Note 7)	Yen	22,076	19,759	20,772	20,920	21,297

### Notes:

- Return on assets = Ordinary income / (Total assets at the beginning of period + Total assets at the end of period) / 2 x 100
- Annualized values for the second fiscal period are calculated based upon a period of 181 days, 184 days for the third fiscal period, 181 days for the fourth fiscal period, 184 days for the fifth fiscal period and 182 days for the sixth fiscal period.
- 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
- Payout ratio is rounded down to the first decimal place.
- Leasing NOI = Rental revenues - Rental expenses + Depreciation expenses for the period
- FFO = Net income + Depreciation expenses for the period - Profit on sale of trust beneficiary interests in real estate or real estate
- FFO per unit = FFO / number of investment units issued and outstanding (figures below ¥1 rounded down)

# Management Review & Policies

## Operating Conditions for the Sixth Fiscal Period

### (1) The Investment Corporation

The Investment Corporation was established on May 6, 2005 in accordance with the Investment Trust and Investment Corporation Law ("the Investment Trust Law"). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange. (Securities Code: 8972). Subsequently, the Investment Corporation has conducted a global offering in May 2006. In addition, the Investment Corporation has conducted the second global offering in May 2007. Consequently, as of April 30, 2008, the end of the sixth fiscal period, the number of investment units issued and outstanding totaled 200,000 units.

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

### (2) Investment Environment and Management Performance

#### a. Investment environment

During the fiscal period under review, the Japanese economy shifted from a recovery trend to a stagnant state. Corporate earnings, which had been continuing to recover, weakened and capital expenditures, which had been on an upward trend, have generally leveled off.

As for the real estate market, according to the official announcement of land prices as of January 1, 2008, average land prices in Japan for the one year period from January 2007 increased by 3.8% for commercial land and 1.3% for residential land. This marked the second consecutive year-on-year increase. In Tokyo, the average increase was 15.8% for commercial land and 9.1% for residential land, the third consecutive year that prices for both categories increased. In the three major cities, average land price increases expanded, but points emerged where reductions in increases were seen, mainly in the inner-city areas.

#### b. Management performance

In the fiscal period under review, the Investment Corporation sold 23 residential properties (initial total acquisition price of ¥30,343 million) to a wholly owned subsidiary of Kenedix, Inc. and acquired 9 office buildings (total acquisition price of ¥31,980 million) from wholly owned subsidiaries of Kenedix, Inc. on February 1, 2008. In addition, the Investment Corporation acquired 5 office buildings (total acquisition price of ¥14,121 million). As a result, the number of properties owned as of April 30, 2008 stood at 68, with a total acquisition price of ¥212,848 million.

Looking at the portfolio as a whole, 86.4% was comprised of office buildings, 7.5% of central urban retail properties and 5.9% of residential properties on an acquisition price basis. The occupancy ratio as of the end of the sixth fiscal period was 95.9%, reflecting stable investment and asset management.

#### < External Growth Performance after IPO >

		Second Fiscal Period (as of April 30, 2006)		Third Fiscal Period (as of October 31, 2006)		Fourth Fiscal Period (as of April 30, 2007)		Fifth Fiscal Period (as of October 31, 2007)		Sixth Fiscal Period (as of April 30, 2008)	
		Total Acquisition Price (Millions of Yen)	Ratio (%)								
Type of Use	Office Buildings	48,269	59.2	86,224	58.7	115,979	66.2	137,979	70.0	184,080	86.4
	Central Urban Retail Properties	12,379	15.2	16,059	10.9	16,059	9.1	16,059	8.1	16,059	7.5
	Residential Properties	20,786	25.5	44,459	30.2	43,052	24.5	43,052	21.8	12,709	5.9
	Total	81,434	100.0	146,742	100.0	175,090	100.0	197,090	100.0	212,848	100.0
Area	Tokyo Metropolitan Area	71,783	88.1	123,321	84.0	150,364	85.8	162,514	82.4	174,923	82.1
	Other Regional Areas	9,651	11.8	23,421	15.9	24,726	14.1	34,576	17.5	37,925	17.8
	Total	81,434	100.0	146,742	100.0	175,090	100.0	197,090	100.0	212,848	100.0

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

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

### *Operation and Management of Existing Properties*

Kenedix REIT Management, Inc. is appointed as a property management company for entire portfolio of the Investment Corporation. The Investment Corporation has changed its property management company for the properties held as of February 1, 2008 to Kenedix REIT Management, Inc. from Kenedix Advisors Co., Ltd. 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, 2008, the investment portfolio maintains a high occupancy ratio. The Investment Corporation is satisfied with the quality of property management.

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

### **Change of Property Management Structure**

#### (1) Reasons of the Changes

The Investment Corporation had been entrusting Kenedix Advisors Co., Ltd., a subsidiary of the Asset Management Company's sponsor company, Kenedix, Inc. as its sole property management company for the entire portfolio. However, in view of the following matters, the structure was shifted to which Kenedix REIT Management, Inc. will independently conduct the property management duties.

- A structure which Kenedix REIT Management, Inc. independently conducts property management in a consistent manner by conducting prompt and unified management of multiple investment properties and advancing activities in close relation to properties and tenants is viewed to be a more ideal structure.

- Kenedix Advisors Co., Ltd. revised its business details internally in effect of enactment of the Financial Instruments and Exchange Law.

Furthermore, in correlation with the above change, the master lease undertaken by Kenedix Advisors Co., Ltd. (pass-through type of lease for all of its properties) was shifted to a structure under which the Investment Corporation will independently undertake the master lease.

With these changes, the Asset Management Company has changed its organization. Details are provided in "(2) Change of the Organization". Fees related to the property management are at the same level as the fees set in the property management agreement executed with Kenedix Advisors Co., Ltd.

#### (2) Change of the Organization

The Asset Management Company's organization has changed as follows to enable the Asset Management Company to conduct the property management business (operational management business) on its own for properties owned by the Investment Corporation.

- The "Property Management Division" was established as a dedicated department to conduct the operation and management for properties owned by the Investment Corporation. In addition, the "Property Management Group" and the "Engineering Group" was established under the "Property Management Division."

- The "Real Estate Investment Group" under the "Investment Management Division" has changed its name to the "Asset Investment Group." This was done from the perspective of creating uniformity among group names under each division.

A majority of the members of the dedicated division at Kenedix Advisors Co., Ltd. (REIT Management Division) that has been handling the operation and management of properties in the Investment Corporation's portfolio were assigned to the Property Management Division.

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

The Investment Corporation undertook borrowings of ¥15.0 billion to support the acquisition of additional assets and refinanced ¥1.5 billion during the sixth fiscal period to total of ¥16.5 billion in borrowings (¥15.0 billion in long-term borrowings and ¥1.5 billion in short-term borrowings (Note 1)).

As a result, the balance of interest-bearing debt stood at ¥89.75 billion as of April 30, 2008, comprising ¥77.75 billion in borrowings (¥72.0 billion in long-term borrowings and ¥5.75 billion in short-term borrowings) and ¥12.0 billion in investment corporation bonds.

As of April 30, 2008, the Investment Corporation had ¥72.0 billion in long-term borrowings, of which ¥45.3 billion had floating interest rates effectively fixed by utilizing interest-swap agreements. In addition, the long-term debt ratio (Note 2) was 93.5% and the long-term fixed interest debt ratio (Note 3) was 93.5%.

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

Notes:

1. Short-term borrowings refers to borrowings with a period of less than or equal to one year from the drawdown date to the repayment date. Long-term borrowings refers to borrowings with a period of more than one year from the drawdown date to the repayment date.
2. Long-term debt ratio = (Balance of long-term borrowings + Balance of investment corporation bonds) ÷ (Total borrowings + Balance of investment corporation bonds) Long-term debt ratio is rounded down to the nearest first decimal place.
3. Long-term fixed interest debt ratio = (Balance of long-term fixed interest rate borrowings + Balance of investment corporation bonds) ÷ (Total borrowings + Balance of investment corporation bonds) Long-term fixed interest debt ratio is rounded down to the nearest first decimal place. The balance of long-term fixed interest rate borrowings includes borrowings with floating interest rates effectively fixed by utilizing interest-rate swap agreements.

The Investment Corporation acquired a credit rating of A+ (Outlook: Stable) from Japan Credit Rating Agency, Ltd. in December 2006. This was the second credit rating acquired following the A3 (Outlook: Stable) from Moody's Investors Services, Inc. in February 2006. Details of the credit ratings as of April 30, 2008 are as follows.

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

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

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

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

The Investment Corporation established a credit commitment line with Citibank Japan, Ltd. in January 2008, allowing it to borrow up to ¥2.5 billion on an unsecured basis. In addition, the Investment Corporation once again established a credit commitment line with The Bank of Tokyo-Mitsubishi UFJ, Ltd. in March 2008, allowing it to borrow up to ¥2.5 billion on an unsecured basis.

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

As a result of the aforementioned management performance, the Investment Corporation reported operating revenues of ¥8,582 million, operating income of ¥4,065 million, ordinary income of ¥3,343 million and net income of ¥3,342 million for its sixth fiscal period.

In accordance with Article 67.15 of the Special Taxation Measures Law, the Investment Corporation distributes the total amount of its unappropriated retained earnings for each period. Cash distribution for the sixth fiscal period was ¥16,711 per unit.

## Future Management Policies

### (1) Investment Environment

Looking ahead, the Japanese economy is forecast to continue its mild path to recovery, with exports remaining on an upward trend. On the other hand, corporate earnings are weakening for the time being, and capital investment has generally leveled off. Improvements in employment conditions have also come to a standstill and personal consumption has generally leveled off.

As for the real estate market, posted land prices for March 2008 confirmed continued land price appreciation in the three major cities of Tokyo, Osaka and Nagoya. However, it is necessary to keep close tabs on the impact of economic/interest rate trends, supply-demand balance trends, domestic and overseas investors' trends, etc. for future outlook in land price trends.

### (2) Management Policies

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

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

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

The Investment Corporation has appointed Kenedix REIT Management, Inc. as its Property Management Company for its entire portfolio.

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

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

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

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

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

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

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

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

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

Examples of KDX standards include the followings:

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

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

### ***Leasing management based on CS Strategy***

The Investment Corporation aims to provide flexible and focused leasing activities that take into account economic and market trends, and that are based on utilizing the results of tenant surveys and implanting renovation work for lease-up in view of potential tenants to enhance tenant satisfaction.

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

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

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

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

The Investment Corporation will continue to concentrate on mid-sized office buildings with an emphasis on the Tokyo metropolitan area while also investing in central urban retail property located in highly flourishing districts as an alternative to investment in office buildings. In addition, the Investment Corporation will make no new investment in residential properties.

We will take consideration the market environment and asset size in making decisions regarding the disposal of residential properties. Furthermore, the Investment Corporation will consider replacement of assets to increase the weight of investment in the Tokyo metropolitan area and to increase the asset size of the portfolio. To facilitate the implementation of the aforementioned investment policy, the Investment Corporation will leverage the "Multi-Pipeline" provided by the support of the Kenedix Group, in addition to the original network of the Asset Management Company.

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

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

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

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

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

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

In April 2007, the Investment Corporation revised the Memorandum of Understanding between it, Kenedix, Inc., Kenedix Advisors Co., Ltd. and the Asset Management Company, which was originally conducted at the time of the Investment Corporation's IPO. The Investment Corporation revised the Memorandum because it had been expanding the number of acquired properties and strengthening its property acquisition capacity even more was deemed necessary as J-REITs were increasing in importance for the Kenedix Group.

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

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

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

### *Make Diversified Acquisitions*

As of April 30, 2008, the Investment Corporation owned 68 properties for a total acquisition price of approximately ¥212.8 billion with a 95.9% occupancy ratio. Supported by this asset base along with the management know-how of mid-sized office building accumulated by the Asset Management Company, the Investment Corporation plans to continue acquiring properties based on its diversified property acquisition strategy. The Investment Corporation has also expanded the asset size of the portfolio based on a diverse range of property acquisition strategies. Exemplary cases include how lease-up and asset value are enhanced in a short period of time for properties that were acquired with a low occupancy ratio by launching leasing activities only after appropriate renovation work is conducted following acquisition (KDX Nishi-Gotanda Building and KDX Toranomon Building) and how properties are acquired at the stage when construction of the building is yet to be completed in order to secure superior properties early (Sakae 4-chome Office Building (Tentative Name)).

Furthermore, while implementing various property acquisition strategies such as those described above, the Investment Corporation believes that increasingly proactive investment property acquisitions are possible by centering the portfolio on mid-sized office buildings that have a relatively advantageous return than large-sized office buildings in consideration of the weighted average cost of capital based on the level of return on distributions calculated from investment unit price and distributions per unit, as well as the debt procurement costs and interest-bearing debt ratio.

### *Change in Management Guidelines concerning Development Properties*

The Asset Management Company has resolved to change the management guidelines contained in its company regulations in March 2008.

Before the Change in Management Guideline	After the Change in Management Guideline
<p>Article 24 (Development Properties)</p> <p>1. As a rule, investment in properties already producing stable rental revenues or similar revenues, or properties projected to produce such revenue may be considered.</p> <p>2. Notwithstanding the preceding paragraph, regarding properties being developed or constructed by a third party, investment prior to completion of construction may be considered if, based on the lease market, lease reservation agreements, etc., there is sufficient possibility of securing tenants after construction and minimal risk of the completion and transfer.</p> <p>3. The Investment Corporation may not acquire land and invest in projects in which it would develop or build.</p>	<p>Article 24 (Development Properties)</p> <p>1. As a rule, investment in properties already producing stable rental revenues or similar revenues, or properties projected to produce such revenue may be considered.</p> <p>2. Notwithstanding the preceding paragraph, regarding land and buildings that are yet to be constructed or are being constructed, investment prior to completion of construction may be considered (i) If risks associated with building permit and approval and risks associated with completion of construction have been reduced; (ii) If, based on lease market conditions, existence of lease reservation agreements, etc., there is sufficient possibility of securing tenants after construction; and (iii) If the investment will not materially impact the overall portfolio. In the event of such, the Investment Corporation may also be the party placing the order in the agreement on building construction contract work.</p> <p>3. The Investment Corporation may not engage in transactions in which the Investment Corporation itself prepares building lots or carries out the construction for constructing the building.</p>

### **(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

(Sixth Fiscal Period: From November 1, 2007 to April 30, 2008)

- 22 Report of Independent Auditors
- 23 Balance Sheets
- 24 Statements of Income and Retained Earnings
- 25 Statements of Changes of Unitholders' Equity
- 26 Statements of Cash Flows
- 27 Notes to Financial Statements

# Kenedix Realty Investment Corporation

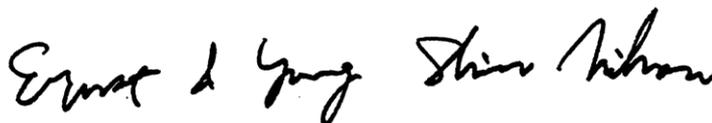
## Report of Independent Auditors

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, 2008 and October 31, 2007, and the related statements of income and retained earnings, changes in unitholders' equity, and cash flows for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation at April 30, 2008 and October 31, 2007, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.



June 10, 2008

## Kenedix Realty Investment Corporation

### BALANCE SHEETS

As of April 30, 2008 and October 31, 2007

	In thousands of yen	
	As of April 30, 2008	As of October 31, 2007
<b>Assets</b>		
Current assets:		
Cash and bank deposits	¥ 13,192,761	¥ 12,323,340
Rental receivables	159,004	141,910
Consumption tax refundable	-	47,552
Other current assets	45,262	58,169
Total current assets	13,397,027	12,570,971
Property and equipment, at cost:		
Land	150,671,196	131,547,185
Buildings and structures	69,663,667	72,108,105
Machinery and equipment	787,653	861,811
Tools, furniture and fixtures	314,867	670,095
Less-accumulated depreciation	(4,953,431)	(4,622,859)
Net property and equipment	216,483,952	200,564,337
Other assets:		
Ground leasehold	285,350	285,350
Organization costs	20,359	25,448
Corporate bond Issuance costs	57,184	62,997
Unit Issuance costs	130,306	171,775
Other assets	146,065	83,112
<b>Total assets</b>	¥ 230,520,243	¥ 213,763,990
<b>Liabilities and Unitholders' Equity</b>		
<b>Liabilities</b>		
Current liabilities:		
Trade and other payables	¥ 793,006	¥ 526,994
Short-term debt	31,750,000	19,500,000
Deposits received	4,504	1,985
Rents received in advance	1,172,675	1,141,333
Other current liabilities	305,962	75,600
Total current liabilities	34,026,147	21,245,912
Corporate bonds	12,000,000	12,000,000
Long-term debt	46,000,000	44,000,000
Leasehold and security deposits received	10,176,842	8,749,709
Other liabilities	3,092	6,434
<b>Total liabilities</b>	102,206,081	86,002,055
<b>Unitholders' equity</b>		
Unitholders' capital	124,973,750	124,973,750
Units Authorized: 2,000,000 units		
Units Issued and outstanding: 200,000 units		
as of April 30, 2008 and October 31, 2007, respectively		
Retained earnings	3,342,285	2,792,084
Unrealized gain from deferred hedge transactions	(1,873)	(3,899)
<b>Total unitholders' equity</b>	128,314,162	127,761,935
<b>Total liabilities and unitholders' equity</b>	¥ 230,520,243	¥ 213,763,990

See notes to financial statements

**Kenedix Realty Investment Corporation**  
**STATEMENTS OF INCOME AND RETAINED EARNINGS**

For the period from May 1, 2007 to October 31, 2007, and the period from November 1, 2007 to April 30, 2008

	In thousands of yen	
	From November 1, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
<b>Operating Revenues:</b>		
Rental revenues	¥ 7,630,465	¥ 7,208,246
Profit on sale of real estate	952,230	-
<b>Total operating revenues</b>	<b>8,582,695</b>	<b>7,208,246</b>
<b>Operating Expenses:</b>		
Property-related expenses	3,447,634	3,205,728
Loss on sale of real estate	439,333	-
Asset management fees	424,142	369,009
Administrative service and custodian fees	75,148	72,565
Other operating expenses	130,783	90,018
<b>Total operating expenses</b>	<b>4,517,040</b>	<b>3,737,320</b>
<b>Operating income</b>	<b>4,065,655</b>	<b>3,470,926</b>
<b>Non-Operating Expenses:</b>		
Interest expense	618,126	595,160
Financing related expense	28,471	24,339
Amortization of organization costs	5,090	5,090
Amortization of unit issuance costs	41,469	41,469
Amortization of corporate bond issuance costs	5,814	5,878
Others, net	22,928	5,925
<b>Income before income taxes</b>	<b>3,343,757</b>	<b>2,793,065</b>
Income taxes	1,556	1,024
<b>Net income</b>	<b>3,342,201</b>	<b>2,792,041</b>
<b>Retained earnings at the beginning of period</b>	<b>84</b>	<b>43</b>
<b>Retained earnings at the end of period</b>	<b>¥ 3,342,285</b>	<b>¥ 2,792,084</b>

See notes to financial statements

## Kenedix Realty Investment Corporation

### Statements of Changes in Unitholders' Equity

For the period from May 1, 2007 to October 31, 2007 and the period from November 1, 2007 to April 30, 2008

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance as of May 1, 2007	¥ 88,729,652	¥ 2,148,118	¥ -	¥ 90,877,770
Changes during the fiscal period				
New unit issuance	36,244,098			36,244,098
Payment of dividends	-	(2,148,074)	-	(2,148,074)
Net income	-	2,792,040	-	2,792,040
Interest-rate swap	-	-	(3,899)	(3,899)
Total changes during the fiscal period	36,244,098	643,966	(3,899)	36,884,165
Balance as of October 31, 2007	¥ 124,973,750	¥ 2,792,084	¥ (3,899)	¥ 127,761,935
Changes during the fiscal period				
New unit issuance	-	-	-	
Payment of dividends	-	(2,792,000)	-	(2,792,000)
Net income	-	3,342,201	-	3,342,201
Interest-rate swap	-	-	2,026	2,026
Total changes during the fiscal period	-	550,201	2,026	552,227
Balance as of April 30, 2008	¥ 124,973,750	¥ 3,342,285	¥ (1,873)	¥ 128,314,162

See notes to financial statements

## Kenedix Realty Investment Corporation

### STATEMENTS OF CASH FLOWS

For the period from May 1, 2007 to October 31, 2007 and the period from November 1, 2007 to April 30, 2008

In thousands of yen

	From November 1, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 3,343,757	¥ 2,793,065
Adjustments to reconcile income before income taxes: to net cash provided by operating activities		
Depreciation and amortization	1,509,898	1,465,288
Interest expense	618,126	595,160
Changes in assets and liabilities:		
Rental receivables	(17,093)	(66,786)
Consumption tax refundable	47,552	254,489
Accrued consumption tax	215,992	-
Trade and other payables	263,920	103,499
Rents received in advance	31,342	224,961
Sale of trust beneficiary interests in real estate	30,755,698	-
Loss on retirement of fixed assets	45,289	-
Others, net	(66,119)	(56,018)
Subtotal	36,748,362	5,313,658
Cash payments of interest expense	(603,866)	(606,962)
Cash payments of income taxes	(659)	(543)
<b>Net cash provided by operating activities</b>	<b>36,143,837</b>	<b>4,706,153</b>
<b>Cash Flow from Investing Activities:</b>		
Purchases of property and equipment	(48,150,727)	(23,439,729)
Proceeds from leasehold and security deposits received	2,132,300	1,779,663
Payments of leasehold and security deposits received	(705,167)	(599,597)
Payments of restricted bank deposits	(1,130,321)	(111,083)
Proceeds from restricted bank deposits	71,434	435,530
Others, net	(10,915)	(762)
<b>Net cash used in investing activities</b>	<b>(47,793,396)</b>	<b>(21,935,978)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	1,500,000	5,250,000
Payment of short-term debt	(2,250,000)	(17,250,000)
Proceeds from long-term debt	15,000,000	2,000,000
Payment of long-term debt	-	(3,000,000)
Proceeds from issuance of units	-	36,101,994
Payment of dividends	(2,789,908)	(2,147,444)
<b>Net cash provided by financing activities</b>	<b>11,460,092</b>	<b>20,954,550</b>
<b>Net change in cash and cash equivalents</b>	<b>(189,467)</b>	<b>3,724,725</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>11,331,325</b>	<b>7,606,600</b>
<b>Cash and cash equivalents at the end of period</b>	<b>¥ 11,141,858</b>	<b>¥ 11,331,325</b>

See notes to financial statements

# Kenedix Realty Investment Corporation

## Notes to Financial Statements

For the period from May 1, 2007 to October 31, 2007, and the period from November 1, 2007 to April 30, 2008

### 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 registered asset management company, Kenedix REIT Management, Inc. ("the 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, the Asset Management Company and their executives and employees. On July 20, 2005, the Investment Corporation raised ¥41,869 million of equity capital through an initial public offering of 75,000 investment units and was listed on the J-REIT section of the Tokyo Stock Exchange on the following day.

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

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

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

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

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

During the period ended April 30, 2008, the Investment Corporation sold 23 residential properties (initial total acquisition price of ¥30,343 million) to a wholly owned subsidiary of Kenedix, Inc. and acquired 9 office buildings (total acquisition price of ¥31,980 million) from a wholly owned subsidiary of Kenedix, Inc. on February 1, 2008. In addition, the Investment Corporation acquired 5 office buildings (total acquisition price of ¥14,121 million).

At April 30, 2008, the Investment Corporation had total unitholders' capital of ¥124,974 million with 200,000 investment units outstanding. The Investment Corporation owned a portfolio of 68 properties with total acquisition price of ¥212,849 million containing total leasable area of 248,625 m<sup>2</sup>. The occupancy ratio was approximately 95.9%. A portfolio of 68 properties consists of 58 office buildings, 7 residential properties and 3 central urban retail properties. 55 properties are located in the Tokyo metropolitan area and 13 properties are located in other regional areas.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law of Japan, the Japanese Corporation Law, the Financial Instruments and Exchange Law 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 as to the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Cash and Cash Equivalents

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

### (b) Property and Equipment

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

	From November 1, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
Buildings and structures .....	2-46 years	2-46 years
Machinery and equipment .....	3-17 years	3-17 years
Tools, furniture and fixtures .....	3-20years	3-15 years

### (c) 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.

### (d) Unit Issuance Costs

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

### (e) Corporate Bond Issuance Costs

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

### (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 purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥174 million and ¥82 million as of April 30, 2008 and October 31, 2007. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period in which the installments of such taxes are paid to the relevant tax authorities.

(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. But, the Investment Corporation adopted special treatment for interest-rate swap agreements if its interest-rate swap agreements met the criteria for hedging accounting under this treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(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, 2008 and October 31, 2007:

	In thousands of yen	
	As of April 30, 2008	As of October 31, 2007
Cash and bank deposits .....	¥ 13,192,761	¥ 12,323,340
Restricted bank deposits held in trust .....	(2,050,903)	(992,015)
Cash and cash equivalents .....	¥ 11,141,858	¥ 11,331,325

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, 2008			As of October 31, 2007		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 150,671	-	¥ 150,671	¥ 131,547	-	¥ 131,547
Buildings and structures	69,664	¥ 4,678	64,986	72,108	¥ 4,335	67,773
Machinery and equipment	788	198	589	862	169	693
Tools, furniture and fixtures	315	77	237	670	119	551
Total	¥ 221,437	¥ 4,953	¥216,484	¥ 205,187	¥ 4,623	¥ 200,564

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

The following summarizes short-term and long-term debt outstanding as of April 30, 2008:

(As of April 30, 2008)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	July 31, 2007	July 31, 2008	1.13%	¥ 2,000
	September 20, 2007	September 20, 2008	1.13%	1,250
	October 31, 2007	October 31, 2008	1.10%	1,000
	January 10, 2008	January 10, 2009	1.15%	1,000
	February 29, 2008	February 28, 2009	1.20%	500
Unsecured current portion of long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	November 1, 2005	October 31, 2008	1.09%	3,500
	December 8, 2005	December 7, 2008	1.10%	2,000
	March 1, 2006	February 28, 2009	1.45%	2,000
	March 16, 2006	March 16, 2009	1.48%	2,500
	May 1, 2006	April 30, 2009	1.63%	6,500
<b>Subtotal</b>				<b>31,750</b>
Unsecured long-term debt	August 1, 2005	July 31, 2010	1.29%	9,500
	May 1, 2006	April 30, 2011	2.20%	2,500
	May 1, 2006	April 30, 2016	2.73%	5,000
	July 14, 2006	July 13, 2011	2.15%	1,000
	September 1, 2006	August 31, 2013	2.12%	3,000
	December 1, 2006	November 30, 2011	1.96%	2,500
	April 2, 2007	April 2, 2010	1.57%	2,000
	April 2, 2007	April 2, 2012	1.88%	2,000
	April 17, 2007	April 16, 2011	1.65%	1,500
	October 31, 2007	October 31, 2009	1.34%	2,000
	January 10, 2008	January 10, 2012	1.50%	2,500
	February 29, 2008	February 28, 2009	1.37%	2,000
	February 29, 2008	August 31, 2011	1.43%	1,500
	March 31, 2008	September 30, 2011	1.61%	3,000
	March 31, 2008	September 30, 2011	1.56%	2,000
	April 25, 2008	October 25, 2009	1.56%	1,000
April 25, 2008	October 25, 2009	1.46%	3,000	
<b>Subtotal</b>				<b>46,000</b>
Corporate bonds	March 15, 2007	March 15, 2012	1.74%	9,000
	March 15, 2007	March 15, 2017	2.37%	3,000
<b>Subtotal</b>				<b>12,000</b>
<b>Total</b>				<b>¥ 89,750</b>

## 6. UNSECURED LINE OF CREDIT

The Investment Corporation established a credit commitment line with two lenders. The total borrowings available under the commitment line agreements are ¥5 billion. Currently, the Investment Corporation has a balance of ¥0.5 billion based on the concentered agreements. The unused borrowings under the commitment line agreement are ¥4.5 billion.

## 7. PER UNIT INFORMATION

The net asset value per unit as of April 30, 2008 and October 31, 2007 was ¥641,571 and ¥638,810. Net income per unit as of April 30, 2008 and October 31, 2007 was ¥16,711 and ¥14,334.

The weighted average number of units outstanding of 200,000 and 194,772 was used for the computation of the amount of net income per unit as of April 30, 2008 and October 31, 2007.

## 8. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement it currently distribute in excess of 90% of its taxable income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed approximately 100% of its distributable income in the form of cash distributions totaling 3,342 million and ¥2,792 million for the periods ended April 30, 2008 and October 31, 2007. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.03% for the periods ended April 30, 2008 and October 31, 2007. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From November 1, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
Statutory tax rate .....	39.39%	39.39%
Deductible cash distributions .....	(39.37)	(39.37)
Other .....	0.03	0.01
Effective tax rate .....	0.05%	0.03%

## 9. UNITHOLDERS' EQUITY

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

## 10. RELATED-PARTY TRANSACTIONS

### (a) Transactions with Kenedix

Kenedix provides the Investment Corporation with intermediate services. For these services, The Investment Corporation will pay ¥120 million of brokerage fee to Kenedix. This includes the book value of the fixed assets.

**(b) 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, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
Property management fees .....	¥ 183,364	¥ 256,842
Management transfer fees (note 1) .....	65,400	10,800
Construction management fees (note 2) .....	3,600	40,197

Notes:

1. Management transfer fees include ¥28,353 thousands that were capitalized as costs of the real estate at the time of acquisition.
2. Construction management fees include ¥37,588 thousands that were capitalized as costs of the real estate.

**(c) Transactions with Y.K. KRF11**

Y.K. KRF11 is a wholly owned subsidiary of Kenedix. On February 1, 2008 the Investment Corporation acquired 6 properties from KRF11 for ¥17,260 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

**(d) Transactions with Y.K. KWO Fourth**

Y.K. KWO4 is a wholly owned subsidiary of Kenedix. On February 1, 2008 the Investment Corporation acquired 1 property from KWO Fourth for ¥7,600 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

**(e) Transactions with Y.K. Cistern Capital**

Y.K. Cistern Capital is a wholly owned subsidiary of Kenedix. On February 1, 2008 the Investment Corporation acquired 1 property from Cistern Capital for ¥4,900 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

**(f) Transactions with Y.K. KRF1**

Y.K. KRF1 is a wholly owned subsidiary of Kenedix. On February 1, 2008 the Investment Corporation acquired 1 property from KRF1 for ¥2,220 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

**(g) Transactions with G.K. KRF20**

G.K. KRF20 is a wholly owned subsidiary of Kenedix. On February 1, 2008 the Investment Corporation sold 23 properties to KRF20 ¥ 31,490 million. The sales price of these properties was determined based on an independently appraised value at the time of acquisition.

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

Rental and other operating revenues and property-related expenses for the periods from November 1, 2007 to April 30, 2008 and from May 1, 2007 to October 31, 2007 consist of the following:

	In thousands of yen	
	From November 1, 2007 to April 30, 2008	From May 1, 2007 to October 31, 2007
Rental and other operating revenues:		
Rental revenues .....	¥5,626,515	¥ 5,336,255
Common area charges .....	1,144,196	998,453
Subtotal .....	6,770,711	6,334,708
Others:		
Parking space rental revenues .....	240,631	222,255
Utility charge reimbursement .....	458,128	476,613
Miscellaneous .....	160,995	174,670
Subtotal .....	859,754	873,538
Total rental and other operating revenues .....	¥7,630,465	¥ 7,208,246
Property management fees and facility management fees		
Property management fees and facility management fees .....	¥750,333	¥ 704,418
Depreciation .....	1,430,126	1,392,013
Utilities .....	450,237	454,313
Taxes .....	395,277	329,928
Insurance .....	16,806	17,219
Repairs and maintenance .....	149,231	119,710
Trust fees .....	57,312	55,386
Others .....	149,083	132,741
Loss on retirement of fixed assets.....	49,229	-
Total property-related expenses .....	¥3,447,634	¥ 3,205,728
Profit on sale of real estate:		
Revenue from sale of investment properties .....	18,788,000	
Cost of investment properties .....	17,705,426	-
Other sales expenses .....	130,344	
Profit on sale of real estate .....	952,230	
Loss on sale of real estate		
Revenue from sale of investment properties .....	12,702,000	
Cost of investment properties .....	13,050,272	-
Other sales expenses .....	91,061	
Loss on sale of real estate .....	439,333	

## 12. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease term of generally two years for office buildings and residential properties and with lease term ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of April 30, 2008 and October 31, 2007 are as follows:

	In thousands of yen	
	As of April 30, 2008	As of October 31, 2007
Due within one year .....	¥ 1,689,845	¥ 1,561,805
Due after one year .....	9,711,097	10,516,248
Total .....	¥ 11,400,942	¥ 12,078,054

## 13. DERIVATIVES AND HEDGE ACCOUNTING

The Investment Corporation has entered into interest-rate swap agreements with several Japanese financial institutions to hedge its variable rate long-term debt obligations. The Investment Corporation utilizes interest-rate swap 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 principal amounts and the estimated unrealized loss from interest rate swap contracts as of April 30, 2008:

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

(As of April 30, 2008)

Type	Notional amount	Unrealized loss
Interest-rate swap: Fixed rate payable and floating rate receivable	¥45,300 million	¥(3 million)

## 14. PROPERTY INFORMATION

Details of the property portfolio as of April 30, 2008 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	
	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Number of properties	47	11	6	1	2	1
Property information (In millions of yen)						
Acquisition price	¥151,635	¥32,445	¥10,909	¥1,800	¥12,380	¥3,680
Percentage of total acquisition costs	71.24%	15.24%	5.13%	0.85%	5.82%	1.73%
Net book value	154,851	32,643	10,939	1,921	12,746	3,669
Appraisal value at year end	172,311	33,450	11,078	1,700	14,470	3,810
Percentage of total appraisal value	72.76%	14.12%	4.68%	0.72%	6.11%	1.61%
Financial results for the period ended April 30, 2008 (In thousands of yen)						
Rental and other operating revenues	4,988,545	1,188,511	354,844	94,118	370,185	108,000
Rental revenues	4,466,949	990,690	317,341	83,083	334,715	108,000
Other revenues	521,596	197,821	37,503	11,035	35,470	-
Property-related expenses	1,226,318	407,959	59,564	40,865	121,055	13,741
Property management fees	456,620	184,386	31,086	9,315	24,881	4,128
Taxes	236,618	73,482	9,070	8,632	19,409	8,160
Utilities	320,633	88,627	3,567	2,206	22,683	-
Repairs and maintenance	74,929	33,504	5,536	10,835	911	-
Insurance	8,795	4,876	913	523	382	103
Trust fees and other expenses	128,723	23,084	9,392	9,354	52,789	1,350
NOI (Net Operating Income)	3,762,227	780,552	295,280	53,253	249,130	94,259
Depreciation expenses	793,033	264,549	94,391	22,973	75,712	9,856
Operating income from property leasing activities	2,969,194	516,003	200,889	30,280	173,418	84,403
Capital expenditures	919,625	222,469	-	803	2,469	-
NCF (Net Cash Flow)	2,842,602	558,083	295,280	52,450	246,661	94,259

A breakdown of property-type as of April 30, 2008 was as follows:

Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Office Buildings	Tokyo Metropolitan Area	¥154,851	67.2
	Other Regional Areas	32,643	14.2
Subtotal		187,494	81.3
Residential Properties	Tokyo Metropolitan Area	10,939	4.8
	Other Regional Areas	1,921	0.8
Subtotal		12,860	5.6
Central Urban Retail Properties	Tokyo Metropolitan Area	12,746	5.5
	Other Regional Areas	3,669	1.6
Subtotal		16,415	7.1
Total		216,769	94.0
Bank deposits and other assets		13,751	6.0
Total assets		230,520	100.0
Total liabilities		102,206	44.3
Net assets		¥128,314	55.7

## 15. SUBSEQUENT EVENTS

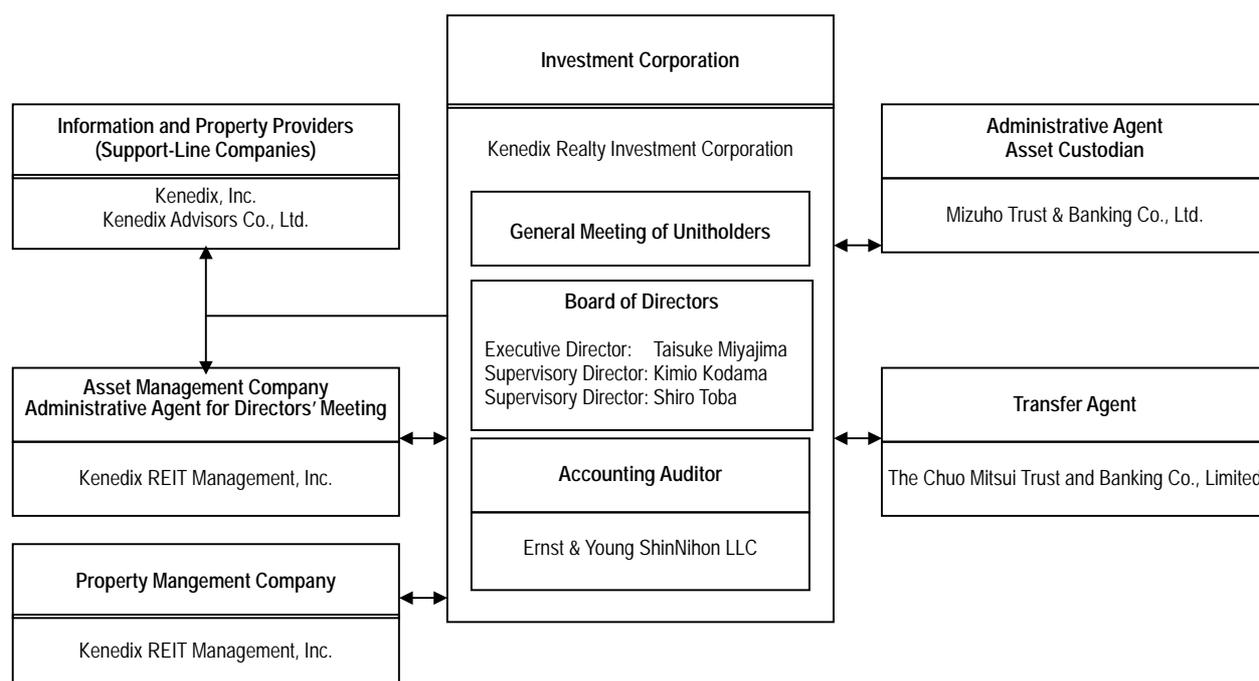
### Acquisition of Property

On May 15, 2008, the Board of Directors of the Asset Management Company resolved to acquire KDX Harumi Building (office building, with total floor area of 12,694.32 m<sup>2</sup>) from Y.K.KW Property 11 on June 30, 2008, for ¥10,250 million (excluding the acquisition costs, property tax, city-planning tax and consumption tax, etc).

# Management Report

- 38 Structure of Investment Corporation
- 38 Board of Directors
- 39 Outline of the Asset Management Company
- 40 The Kenedix Group
- 40 Memorandum of Understanding with Kenedix and Kenedix Advisors
- 42 Policies with Respect to Certain Activities
- 44 Our Investment Objective and Strategy
- 45 Distributions
- 46 Movements in Investment Units Issued and Outstanding
- 46 Trends of Investment Unit Certificate Price on the Tokyo Stock Exchange
- 47 The Main Investors of the Investment Corporation
- 48 Borrowings
- 49 Investment Corporation Bonds
- 50 Portfolios Outline
- 52 Capital Expenditure
- 54 Expenses and Liabilities
- 54 Details of Related-Party Transactions

## Structure of Investment Corporation



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

## Board of Directors

The members of our board of directors are as follows:

### Taisuke Miyajima

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

### Kimio Kodama

Kimio Kodama has been a supervisory director since May 2005. He was admitted to the Japanese bar in 1963 and is a general practitioner of Japanese law. He established Hanzomon Sogo Law Office (formerly Towa Law Office) in 1966. He has been a director of Kyoritsu Women's Educational Institution since 1997 and served as a director for The Housing Loan Guarantee Corporation since 1998. In July 2008, he has been selected as a member of Tokyo Metropolitan Public Safety Commission.

### Shiro Toba

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

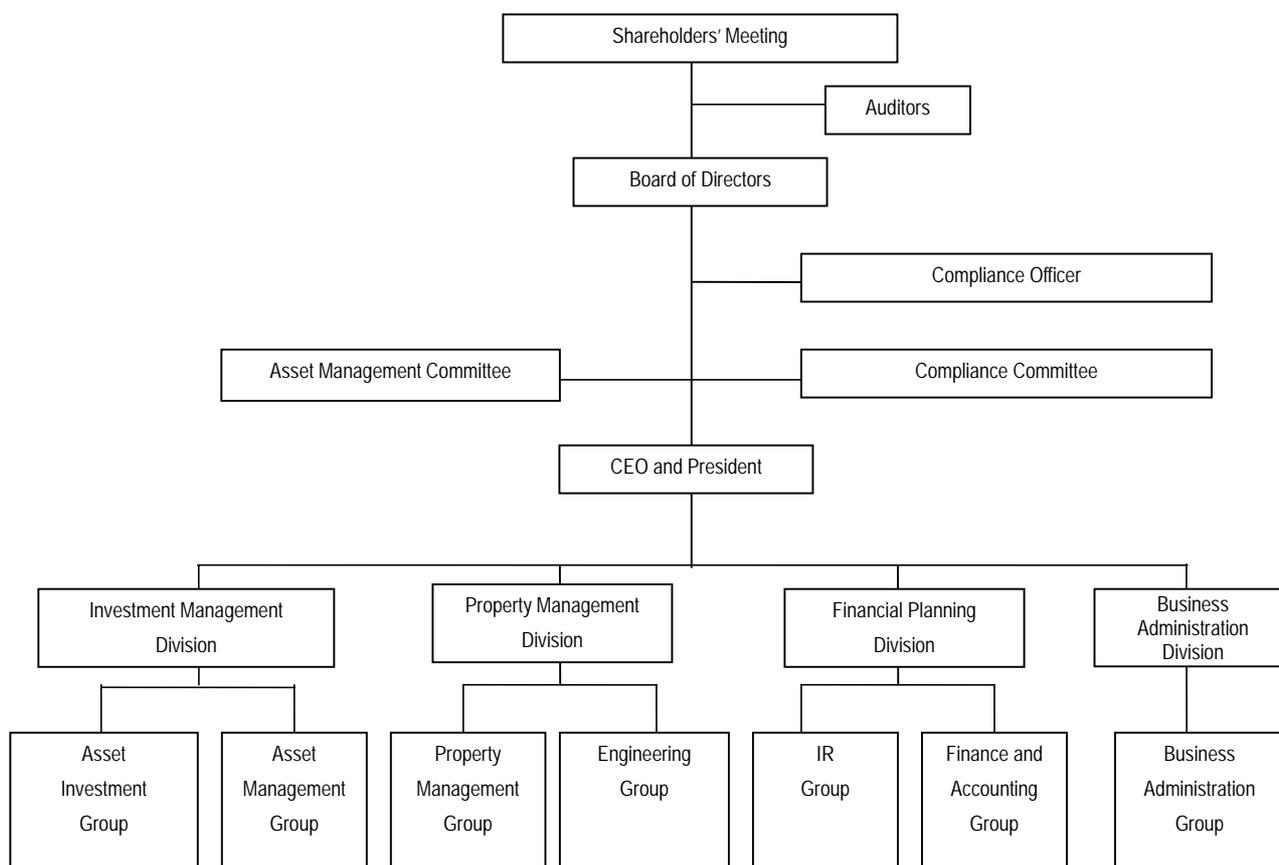
## Outline of the Asset Management Company

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

**Capital:** ¥200 million

**History:** November 28, 2003 KW REIT Management was established  
 July 2, 2004 Building Lots and Buildings Transaction Business License, License No. (1) 83303, issued by the Governor of Tokyo  
 November 9, 2004 Renamed to Kenedix REIT Management, Inc.  
 February 28, 2005 Discretionary Transaction Agent License, License No. 33, issued by the Governor of Tokyo  
 April 18, 2005 Investment Corporation/Asset Management License, License No. 44, granted by the Prime Minister of Japan  
 April 26, 2005 Obtained approval to be Operating Agent for the Investment Corporation  
 September 30, 2007 Registered as Financial Products Transaction Operator (Investment Management Operator), Financial Instruments Registration No. 323, issued by the Director-General of the Kanto Local Finance Bureau  
 March 1, 2008 Established Property Management Division to conduct property management business

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



**Principal Shareholder:**

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

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

## The Kenedix Group

The Kenedix Group is made up of Kenedix, Inc. ("Kenedix"), as well as its subsidiaries and affiliates, including leading providers of real estate advisory services, real estate asset and property management services and real estate investment management services in Japan. Kenedix owned 3.92% of our units as of April 30, 2008. Since our formation, which was promoted by Kenedix, we have received significant support from the Kenedix Group in our business and activities, particularly from Kenedix, Kenedix REIT Management Co., Ltd. ("Asset Management Company") and Kenedix Advisors Co., Ltd. ("Kenedix Advisors"). We expect to continue to rely on these companies and believe that our relationship with them provides us with competitive advantages.

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

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

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

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

## Memorandum of Understanding with Kenedix and Kenedix Advisors

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

### *Support from Kenedix*

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

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

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

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

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

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

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

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

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

***Support from Kenedix Advisors***

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

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

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

## Policies with Respect to Certain Activities

### Basic Policies

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

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

### Other Policies

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

#### *Portfolio Management Policies*

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

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

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

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

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

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

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

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

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

### ***Other Investments***

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

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

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

### ***Cash Management***

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

### ***Financial Policy***

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

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

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

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

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

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

## Our Investment Objective and Strategy

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

### *External Growth Strategies*

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

We have continued to expand our property portfolio. We started with an initial portfolio that had an aggregate acquisition price of ¥61.1 billion shortly after our initial public offering in July 2005 and set a target of achieving a portfolio with an aggregate acquisition price of ¥200 billion by the end of 2008. In 2006, we moved this target forward to the end of 2007. In June 2007, we achieved a portfolio with an aggregate acquisition price of ¥197.1 billion, thus substantially achieving our target six months early. As of June 2008, our portfolio has an aggregate acquisition price of ¥212.8 billion. We intend to continue increasing our total portfolio size and have set a target of achieving a portfolio with an aggregate acquisition price of ¥400 billion in the mid-to-long term. In light of the favorable market conditions and outlook for office buildings, we revised our portfolio goals in December 2006 to concentrate more on office properties and have decided to make no new investments in residential properties for the foreseeable future. In particular, we are targeting mid-sized office properties, with an emphasis on the Tokyo metropolitan area, especially central Tokyo. We believe that improved conditions in office property markets in major urban areas, including rising property values, occupancy ratios and rents, create a favorable environment for expanding our portfolio. We seek to continue improving the quality of our portfolio, such as the location, size and type of properties, through various measures, including replacement of assets.

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

We believe that we have an increasingly strong relationship with the Kenedix Group, which has broad expertise and experience in real property investment and management in Japan. In April 2007, we revised our memorandum of understanding with Kenedix, Kenedix Advisors and the Asset Management Company, pursuant to which the Asset Management Company has first preference to informational and negotiating rights from Kenedix and Kenedix Advisors about properties meeting our specified investment criteria. We intend to continue to draw on the expertise and experience of the Kenedix Group and its employees to help us locate and acquire attractive properties and increase their value through active property management. We refer to our portfolio in our marketing activities as "*Kenedix Selection*" to emphasize the importance of the Kenedix Group in the selection and management of our properties.

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

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

#### *Make Diversified Acquisitions*

We plan to continue making diversified acquisitions of mid-sized office properties, including properties that we subsequently renovate with a view to enhancing their property values and rental revenues. For example, from time to time we acquire properties with high vacancy rates and make substantial renovations to make them more attractive to potential tenants. In March 2008, we have changed our management guidelines concerning development properties to acquire properties at the stage when construction of the building is yet to be completed in order to secure superior properties early.

### *Internal Growth Strategies*

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

A key part of our strategy is to increase unitholder value through focused and proactive management of our properties. Key components of our property management strategies include conducting tenant surveys and making appropriate improvements, maintaining attractive properties with uniform standards, engaging in flexible and focused leasing activities geared towards tenant needs and market trends, and exercising careful control of management and operating costs. As a result of our property management strategies and favorable conditions in the office property market, rents for units in our office properties tended to increase when we entered into new lease agreements in the fiscal period ended April 30, 2008.

### *Achieve Efficient Property Management Centralized under Kenedix REIT Management*

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

## **Distributions**

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

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

### **Distribution Performance**

Fiscal Period	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period	Sixth Fiscal Period
Duration of Period	November 1, 2005 to April 30, 2006	May 1, 2006 to October 31, 2006	November 1, 2006 to April 30, 2007	May 1, 2007 to October 31, 2007	November 1, 2007 to April 30, 2008
Unappropriated Retained Earnings	¥1,102,013,492	¥2,124,112,014	¥2,148,117,194	¥2,792,084,129	¥3,342,285,404
Retained Earnings for the next fiscal period	¥40,412	¥59,014	¥43,194	¥84,129	¥85,404
Cash Distributions (Distribution per unit)	¥1,101,973,080 (¥13,884)	¥2,124,053,000 (¥13,529)	¥2,148,074,000 (¥13,682)	¥2,792,000,000 (¥13,960)	¥3,342,200,000 (¥16,711)
Earnings Distributed (Earnings Distributed per unit)	¥1,101,973,080 (¥13,884)	¥2,124,053,000 (¥13,529)	¥2,148,074,000 (¥13,682)	¥2,792,000,000 (¥13,960)	¥3,342,200,000 (¥16,711)
Payments for capital participations (Payments for capital participations per unit)	- ( - )	- ( - )	- ( - )	- ( - )	- ( - )

## Movements in Investment Units Issued and Outstanding

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

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

Notes:

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

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

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

Period	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period	Sixth Fiscal Period
End of Fiscal Period	April 30,2006	October 31,2006	April 30,2007	October 31,2007	April 30,2008
High Price	¥670,000	¥636,000	¥918,000	¥988,000	¥835,000
Low Price	¥574,000	¥564,000	¥607,000	¥659,000	¥460,000

## The Main Investors of the Investment Corporation

The main investors of the Investment Corporation as of April 30, 2008 are as follows.

Name	Address	Number of Investment Units owned	Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11, Harumi, Chuo-ku, Tokyo	17,069	8.53
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	15,224	7.16
Nikko Cititrust and Banking Co. (Investment Trust Account)	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	14,797	7.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	14,450	7.22
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2, Otemachi, Chiyoda-ku, Tokyo	10,694	5.34
State Street Bank and Trust Company	6-7, Kabutocho, Nihonbashi Chuo-ku, Tokyo	9,094	4.54
Kenedix, Inc.	2-2-9, Shimbashi, Minato-ku, Tokyo	7,850	3.92
Goldman Sachs International	6-10-1, Roppongi, Minato-ku, Tokyo	7,040	3.52
The Bank of New York, Treaty JASDEC Account	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	5,619	2.80
UBS AG London Asia Equities	1-5-1, Otemachi, Chiyoda-ku, Tokyo	3,406	1.70
JPMC Goldman Sachs Trust JASDEC lending Account	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	3,406	1.70
	Total	108,649	54.32

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

## Borrowings

Borrowings on a financial institution basis as of April 30, 2008 are as follows.

Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks
Short-term Borrowings	Sumitomo Mitsui Banking Corporation	March 1, 2007	750	-	1.154	February 29, 2008	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		500	-					
	Aozora Bank, Ltd.	July 31, 2007	2,000	2,000	1.131	July 31, 2008			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	-	1.100				
	The Chuo Mitsui Trust and Banking Co., Ltd.	September 20, 2007	1,250	1,250	1.131	September 20, 2008			
	Mitsubishi UFJ Trust and Banking Corporation	October 31, 2007	1,000	1,000	1.101	October 31, 2008			
	The Chuo Mitsui Trust and Banking Co., Ltd.	January 10, 2008	-	1,000	1.149	January 10, 2009			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	February 29, 2008	-	500	1.202	February 28, 2009			
	<b>Sub Total</b>			<b>6,500</b>	<b>5,750</b>				
Current Portion of Long-term Borrowings	Mitsubishi UFJ Trust and Banking Corporation	August 1, 2005	2,700	2,700	0.869	July 31, 2008	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Norinchukin Bank		2,500	2,500					
	The Chiba Bank, Ltd.		1,200	1,200					
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,000	1,000					
	Sumitomo Mitsui Banking Corporation		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		800	800					
	Resona Bank, Ltd.		300	300					
	The Norinchukin Bank	November 1, 2005	3,000	3,000	1.090	October 31, 2008			
	Resona Bank, Ltd.		500	500					
	Aozora Bank, Ltd. (Note 3)	December 8, 2005	1,500	1,500	1.098	December 7, 2008			
	Resona Bank, Ltd. (Note 3)		500	500					
	The Chiba Bank, Ltd. (Note 3)	March 1, 2006	800	800	1.449	February 28, 2009			
	Aozora Bank, Ltd. (Note 3)		500	500					
	Mitsui Sumitomo Insurance Co., Ltd. (Note 3)		700	700					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 3)	March 16, 2006	2,500	2,500	1.476	March 16, 2009			
	Aozora Bank, Ltd. (Note 3)	May 1, 2006	2,000	2,000	1.629	April 30, 2009			
	The Chuo Mitsui Trust and Banking Co., Ltd. (Note 3)		1,500	1,500					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 3)		1,000	1,000					
Mitsubishi UFJ Trust and Banking Corporation (Note 3)	1,000		1,000						
Resona Bank, Ltd. (Note 3)	1,000		1,000						
<b>Sub Total</b>			<b>26,000</b>	<b>26,000</b>					

Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks	
Long-Term Borrowings	The Chuo Mitsui Trust and Banking Co., Ltd.	August 1, 2005	3,750	3,750	1.288	July 31, 2010	Full on maturity	(Note 2)	Unsecured/ Unguaranteed	
	Sumitomo Mitsui Banking Corporation		3,750	3,750						
	Mitsubishi UFJ Trust and Banking Corporation		1,500	1,500						
	Resona Bank, Ltd.		500	500						
	Aozora Bank, Ltd.		1,500	1,500	2.199	April 30, 2011				
	Mitsui Sumitomo Insurance Co., Ltd.		1,000	1,000						
	Development Bank of Japan	July 14, 2006	5,000	5,000	2.731	April 30, 2016				
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000	2.149	July 13, 2011				
	Development Bank of Japan		September 1, 2006	3,000	3,000	2.124				August 31, 2013
	The Norinchukin Bank		December 1, 2006	2,500	2,500	1.964				November 30, 2011
	Sumitomo Mitsui Banking Corporation		April 2, 2007	2,000	2,000	1.574				April 2, 2010
	The Chuo Mitsui Trust and Banking Co., Ltd.			2,000	2,000	1.875				April 2, 2012
	The Norinchukin Bank		April 17, 2007	1,500	1,500	1.646				April 16, 2011
	Sumitomo Mitsui Banking Corporation		October 31, 2007	2,000	2,000	1.339				October 31, 2009
	Sumitomo Mitsui Banking Corporation		January 10, 2008	-	2,500	1.503				January 10, 2009
	Aozora Bank, Ltd.		February 29, 2008	-	2,000	1.366				February 28, 2011
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-		1,500	1.429	August 31, 2011				
	Sumitomo Mitsui Banking Corporation	March 31, 2008	-	3,000	1.609	September 30, 2011				
	The Chuo Mitsui Trust and Banking Co., Ltd.		-	2,000	1.559					
	Sumitomo Mitsui Banking Corporation	April 25, 2008	-	1,000	1.563	October 25, 2009				
	Aozora Bank, Ltd.		-	1,500	1.463					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		-	1,500						
Sub Total			31,000	46,000						
Total			63,500	77,750						

Notes:

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

## Investment Corporation Bonds

The status of the investment corporation bonds as of April 30, 2008 are as follows.

(Millions of Yen)

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

Notes:

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

## Portfolios Outline

### Composition of Portfolio Assets

Type of Specified Asset	Type	Area	Fifth Fiscal Period (As of October 31, 2007)		Sixth Fiscal Period (As of April 30, 2008)	
			Total Amount Held (Millions of Yen) (Note 1)	Ratio (%) (Note 2)	Total Amount Held (Millions of Yen) (Note 1)	Ratio (%) (Note 2)
Real Estate	Office Buildings	Tokyo Metropolitan Area	13,052	6.1	26,628	11.6
		Other Regional Areas	-	-	9,105	4.0
	Total for Office Buildings		13,052	6.1	35,734	15.5
	Central Urban Retail Properties	Tokyo Metropolitan Area	47	0.0	-	-
<b>Total for Real Estate</b>			<b>13,100</b>	<b>6.1</b>	<b>35,734</b>	<b>15.5</b>
Trust Beneficiary Interest in Real Estate	Office Buildings	Tokyo Metropolitan Area	106,035	49.6	128,221	55.6
		Other Regional Areas	21,323	10.0	23,537	10.2
	Total for Office Buildings		127,358	59.6	151,758	65.8
	Residential Properties	Tokyo Metropolitan Area	33,898	15.9	10,939	4.7
		Other Regional Areas	9,997	4.7	1,921	0.8
	Total for Residential Properties		43,896	20.5	12,860	5.6
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,815	6.0	12,746	5.5
		Other Regional Areas	3,678	1.7	3,668	1.6
Total for Central Urban Retail Properties		16,493	7.7	16,415	7.1	
<b>Total of Trust Beneficiary Interests in Real Estate</b>			<b>187,749</b>	<b>87.8</b>	<b>181,034</b>	<b>78.5</b>
<b>Bank Deposits and Other Assets</b>			<b>12,914</b>	<b>6.0</b>	<b>13,750</b>	<b>6.0</b>
<b>Total Assets</b>			<b>213,763</b>	<b>100.0</b>	<b>230,520</b>	<b>100.0</b>

Notes:

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

## Purchase and Sales during the Fiscal Period Under Review

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

Type	Area	No.	Property Name	Purchase		Sales			
				Date of Acquisition	Acquisition Price (Millions of Yen) (Note 1)	Date of Sales	Sales Price (Millions of Yen)	Book Value (Millions of Yen)	Capital Gain (Loss) (Millions of Yen)
Office	Tokyo Metropolitan Areas	A-45	KDX Roppongi 228 Building	Jan. 10, 2008	3,300	-	-	-	-
		A-46	Hiei Kudan-kita Building	Feb. 1, 2008	7,600	-	-	-	-
		A-47	KDX Shin-Yokohama 381 Building	Feb. 1, 2008	4,700	-	-	-	-
		A-48	KDX Kawasaki-Ekimae Hon-cho Building	Feb. 1, 2008	3,760	-	-	-	-
		A-49	Nissou Dai-17 Building	Feb. 1, 2008	2,710	-	-	-	-
		A-50	Ikejiri-Oohashi Building	Feb. 1, 2008	2,400	-	-	-	-
		A-51	KDX Hamacho Nakanohashi Building	Feb. 1, 2008	2,310	-	-	-	-
		A-52	KDX Kanda Misaki-cho Building	Feb. 1, 2008	1,380	-	-	-	-
		A-55	Shin-toshin Maruzen Building	Feb. 29, 2008	2,110	-	-	-	-
		A-56	KDX Jimbocho Building	Mar. 31, 2008	2,760	-	-	-	-
	A-57	KDX Gobancho Building	Mar. 31, 2008	1,951	-	-	-	-	
	Other Regional Areas	A-53	KDX Hakata-Minami Building	Feb. 1, 2008	4,900	-	-	-	-
		A-54	KDX Kitahama Building	Feb. 1, 2008	2,220	-	-	-	-
A-58		Sakae 4-chome Office Building (Tentative Name) (Note 2)	Apr. 25, 2008	4,000	-	-	-	-	
Residential	Tokyo Metropolitan Areas	B-1	Storia Sirokane	-	-	Feb. 1, 2008	3,370	3,149	200
		B-2	Tre di Casa Minami Aoyama	-	-	Feb. 1, 2008	2,680	2,468	195
		B-6	Court Nihonbashi-Hakozaki	-	-	Feb. 1, 2008	1,220	1,119	91
		B-7	Side Denenchofu	-	-	Feb. 1, 2008	1,110	1,137	36
		B-8	S-court Yokohama-Kannai II	-	-	Feb. 1, 2008	1,020	931	80
		B-9	Court Motoasakusa	-	-	Feb. 1, 2008	943	883	52
		B-11	Bloom Omotesando	-	-	Feb. 1, 2008	962	883	70
		B-13	Human Heim Okachimachi	-	-	Feb. 1, 2008	905	835	61
		B-20	Regalo Ochanomizu I・II	-	-	Feb. 1, 2008	3,670	3,615	33
		B-21	Regalo Shiba-Kouen	-	-	Feb. 1, 2008	2,280	2,271	5
		B-22	Chigasaki Socie Ni-bankan	-	-	Feb. 1, 2008	1,140	1,232	100
		B-23	Court Nishi-Shinjuku	-	-	Feb. 1, 2008	1,160	1,141	10
		B-24	Regalo Komazawa-Kouen	-	-	Feb. 1, 2008	943	919	16
		B-26	Primo Regalo Kagurazaka	-	-	Feb. 1, 2008	770	774	10
		B-27	Primo Regalo Youga	-	-	Feb. 1, 2008	737	739	8
		B-28	Court Shimouma	-	-	Feb. 1, 2008	644	647	9
	Other Regional Areas	B-16	Abreast Hara	-	-	Feb. 1, 2008	494	435	53
		B-17	Abreast Hirabari	-	-	Feb. 1, 2008	457	406	45
		B-29	Ashiya Royal Homes	-	-	Feb. 1, 2008	2,420	2,471	66
		B-30	Regalo Ibaraki I・II	-	-	Feb. 1, 2008	1,620	1,622	14
B-31		Collection Higashi-Sakura	-	-	Feb. 1, 2008	1,150	1,317	176	
B-32		Renaissance 21 Hirao Jousui-machi	-	-	Feb. 1, 2008	964	916	40	
B-33		Montore Nishikouen Bay Court	-	-	Feb. 1, 2008	831	835	11	
<b>Total</b>					<b>46,101</b>	<b>-</b>	<b>31,490</b>	<b>30,755</b>	<b>512</b>

Notes:

- Acquisition prices are the sales amounts recorded in trust beneficiary interest agreements exclusive of associated costs such as brokerage fees and taxes.
- Acquisition price for land is shown for the Sakae 4-chome Office Building (Tentative Name) since the building is still under construction as of August 1, 2008.

## 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 seventh fiscal period (May 1, 2008 to October 31, 2008) are as follows. Planned capital expenditure includes portions classified into expenses for accounting purposes.

Property Name (Location)	Purpose	Schedule	Planned Amount of Capital Expenditure (Millions of Yen)		
			Total	Paid in the Fiscal Period Under Review	Total Amount Previously Paid
Karasuma Building (Kyoto-shi, Kyoto)	Renovation for office portion, other	May 2008 to October 2008	131	-	-
KDX Hamacho Nakanohashi Building (Chuo-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	89	-	-
KDX Jimbocho Building (Chiyoda-ku, Tokyo)	Renovation for the entire building, other	As above	89	-	-
Ikejiri Oohashi Building (Meguro-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	85	-	-
KDX Ochanomizu Building (Chiyoda-ku, Tokyo)	Renovation for restrooms, other	As above	72	-	-
KDX Kiba Building (Koto-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	68	-	-
KDX Sendai Building (Sendai-shi, Miyagi)	Renovation for elevators, other	As above	59	-	-
KDX Kayabacho Building (Chuo-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	52	-	-
KDX Niigata Building (Niigata-shi, Niigata)	Renovation for the basement floor other	As above	51	-	-
KDX Funabashi Building (Funabashi-shi, Chiba)	Upgrade of individual air conditioning system, other	As above	50	-	-

## Capital Expenditures During the Sixth Fiscal Period

The Investment Corporation undertook the following major capital expenditures as follows. In the sixth fiscal period, the Investment Corporation completed work across its entire portfolio totaling ¥1,302 million. This total comprised of ¥1,152 million in capital expenditures and ¥149 million for repairs, maintenance and renovation expenses.

Property Name (Location)	Purpose	Schedule	Amount of Capital Expenditures (Millions of Yen)
KDX Higashi-Shinjuku Building (Shinjuku-ku, Tokyo)	Upgrade of individual air conditioning system, other	November 2007 to April 2008	174
KDX Shiba-Daimon Building (Minato-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	151
KDX Hirakawacho Building (Chiyoda-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	109
KDX Hachioji Building (Hachioji-shi, Tokyo)	Upgrade of individual air conditioning system, other	As above	100
KDX Sendai Building (Sendai-shi, Miyagi)	Value-up renovation for restrooms, other	As above	77
KDX Hakata Building (Fukuoka-shi, Fukuoka)	Value-up renovation for restrooms, other	As above	69
KDX Okachimachi Building (Taito-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	62
KDX Omori Building (Ota-ku, Chiba)	Renovation for external wall, other	As above	53
KDX Nakano-Sakaue Building (Nakano-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	48
KDX Niigata Building (Niigata-shi, Niigata)	Renewal work for central monitoring devices, other	As above	27
KDX Funabashi Building (Funabashi-shi, Chiba)	Value-up renovation for restrooms, other	As above	24
KDX Kiba Building (Koto-ku, Tokyo)	Renovation for external wall, other	As above	16
KDX Nogizaka Building (Minato-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	12
Others			224
Portfolio Total			1,152

Note: The price of capital expenditure is rounded down to the nearest million yen.

## 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	Second Fiscal Period	Third Fiscal Period	Fourth Fiscal Period	Fifth Fiscal Period	Sixth Fiscal Period
Reserve for the end of the previous period	92	165	288	406	777
Reserve for the fiscal period under review	130	148	118	370	14
Reversal of reserve for the fiscal period under review	57	26	0	-	359
Reserve bring to the next period	165	288	406	777	432

## Expenses and Liabilities

### Details for Expenses

(Thousands of Yen)

Item	Fifth Fiscal Period	Sixth Fiscal Period
(a) Asset management fees	369,009	424,141
(b) Custodian fees	20,456	22,463
(c) Administrative service fees	52,108	52,684
(d) Directors' compensation	5,400	5,400
(e) Audit fees	7,800	9,300
(f) Other operating expenses	76,818	116,083
Total	531,592	630,073

Note : In addition to the asset management fees indicated in the above table, a total of ¥55,000 thousand for the fifth fiscal period and ¥150,555 thousand for the sixth fiscal period, representing property acquisition management fees, was included in the book values of individual real estate assets.

## Details of Related-Party Transactions

### (1) Details

	Purchase and Sales Amounts	
	Amount of Purchase (Thousands of Yen)	Amount of Sales (Thousands of Yen)
Total	46,101,000	31,490,000
	Amount of Purchase from Related -Parties	Amount of Sale to Related -Parties
	31,980,000 (69.4%)	31,490,000 (100%)
Details of related-party transactions		
Y.K. KRF 11	17,260,000 (54.0%)	- (- %)
Y.K. KWO Fourth	7,600,000 (23.8%)	- (- %)
Y.K. Cistern Capital	4,900,000 (15.3%)	- (- %)
Y.K. KRF 1	2,220,000 (6.9 %)	- (- %)
G.K. KRF 20	- (- %)	31,490,000 (100%)
Total	31,980,000 (100%)	31,490,000 (100%)

### (2) Fees

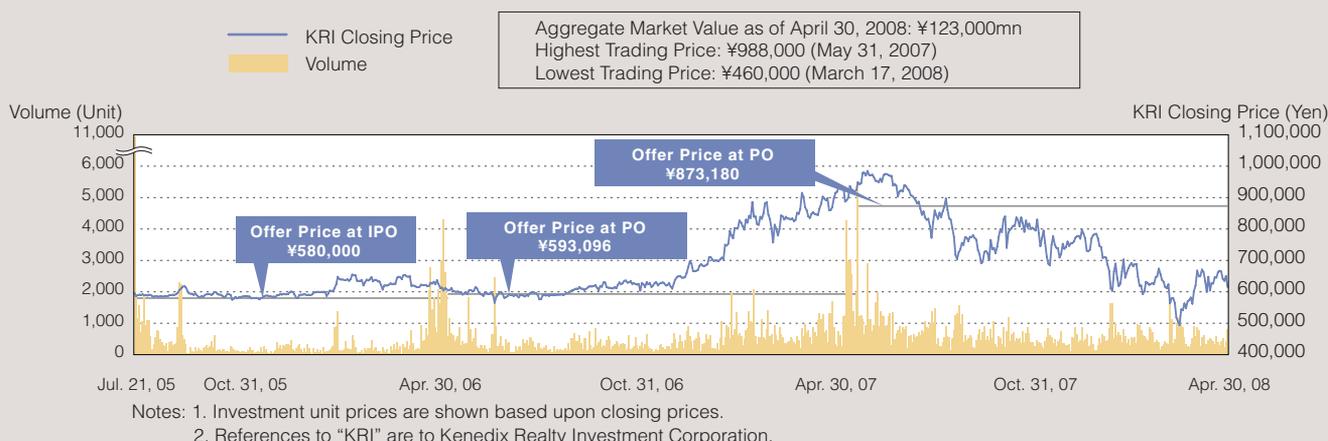
Classification	Total Fees (A) (Thousands of Yen)	Details of fees and other payments to related parties and main shareholders (Note 1)		Ratio (B /A)%
		Payment Recipient	Amount of Fee (B) (Thousands of Yen)	
Brokerage fees (Note 2)	365,450	Kenedix, Inc.	120,000	32.8
Property management fees	269,220	Kenedix Advisors Co., Ltd.	183,364	68.1
Management transfer fees (Note 3)	72,553	As above	65,400	90.1
Construction management fees (Note 4)	40,346	As above	3,600	8.9

Notes:

1. Main shareholders in the above table are the main shareholders for the Asset Management Company, which are defined under Article 29.4-2 of the Financial Instruments and Exchange Law, and related parties are the related parties for the Asset Management Company, which are defined under Implementation Ordinance No. 123 of the Investment Trust Law.
2. Brokerage fees refer to the fees that were capitalized as costs at the time of the acquisition of the real estate.
3. Management transfer fees include ¥28,353 thousands that were capitalized as costs of the real estate at the time of acquisition.
4. Construction management fees include ¥37,588 thousands that were capitalized as costs of the real estate.

## 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 sixth fiscal period, April 30, 2008, are provided in the following chart.



## Details of the Unitholders



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

## Information Provided on the Investment Corporation's Website

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

We have renewed our English website in May 2008.

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



This semiannual report includes translation of certain documents originally filed and made available in Japan in accordance with the Securities and Exchange Law of Japan. This English language semiannual report was prepared solely for the convenience of readers outside Japan and is not intended to constitute a document for an offer to sell, or seeking an offer to buy, any securities of Kenedix Realty Investment Corporation.

English terms for Japanese legal, accounting, tax and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. With respect to any and all terms herein, including without limitation, financial statements, if there exist any discrepancies in the meaning or interpretation thereof between the original Japanese documents and English translation contained herein, the original Japanese documents will always govern the meaning and interpretation.

None of Kenedix Realty Investment Corporation, Kenedix REIT Management, Inc. or any of their respective directors, officers, employees, partners, unitholders, agents, affiliates or their advisors will be responsible or liable for the completeness, appropriateness, or accuracy of English translations or the selection of the portion(s) of any document(s) translated into English.

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

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

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



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

### **Corporate Office**

KDX Shinbashi Building 6F  
2-2-9, Shimbashi, Minato-ku,  
Tokyo 105-0004, Japan  
Tel +81-3-3519-3491  
Fax +81-3-3519-3555

### **Date of Incorporation**

May 6, 2005

### **Capital**

¥124,964,750,470  
200,000 units

### **Stock Listing**

REIT market of the Tokyo Stock Exchange

### **Security Code**

8972

### **Transfer Agent**

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

### **Independent Auditor**

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

### **Investor Relations**

For further information, please contact our Asset Management  
Company:  
Kenedix REIT Management, Inc.  
Financial Planning Division, Director / General Manager  
Masahiko Tajima

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