KENEDIX Realty Investment Corporation

KENEDIX Realty Investment Corporation

Semiannual Report

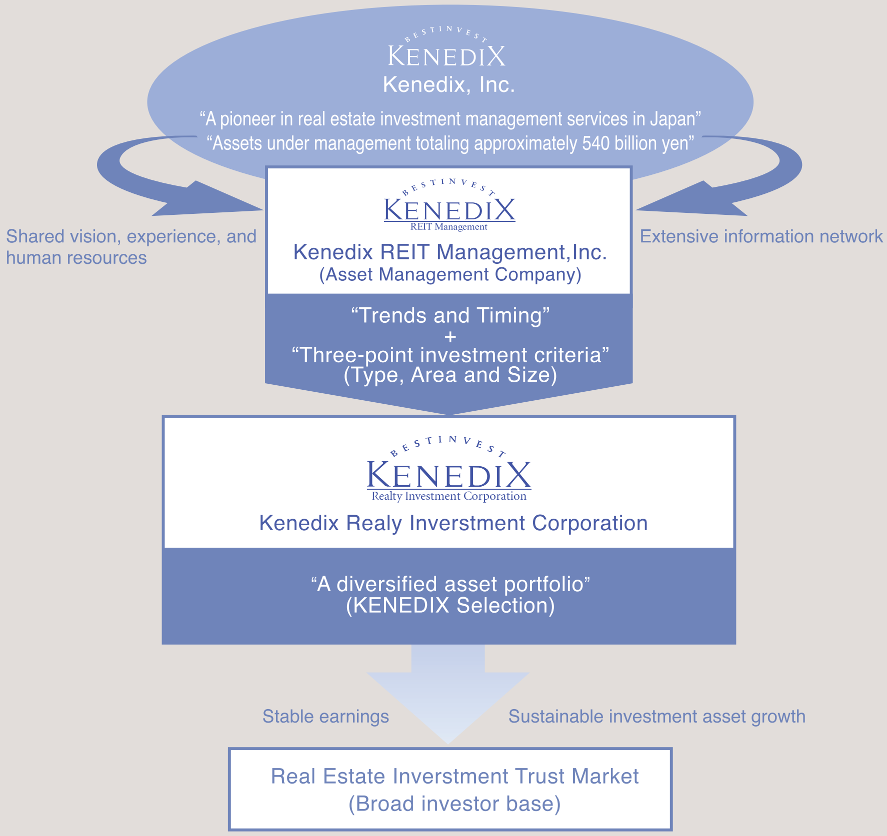
Fourth Fiscal Period

From November 1, 2006 to April 30, 2007

Basic Investment Strategy

In principle, Kenedix Realty Investment Corporation ("Investment Corporation") invests in real estate and specified assets including securities backed by real estate for the purpose of securing stable earnings, sustainable investment asset growth and maximum cash distribution to investors.
To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.
The Investment Corporation strives to develop a diversified investment portfolio named "KENEDIX Selection," adopting a three-point investment criteria based on property type, area and size.
In order to realize its objectives, the Investment Corporation has appointed Kenedix REIT Management, Inc. ("Asset Management Company"), as its asset management company.
The Asset Management Company is supported by the vision, experience, and human resources of Kenedix, Inc. ("Kenedix")

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



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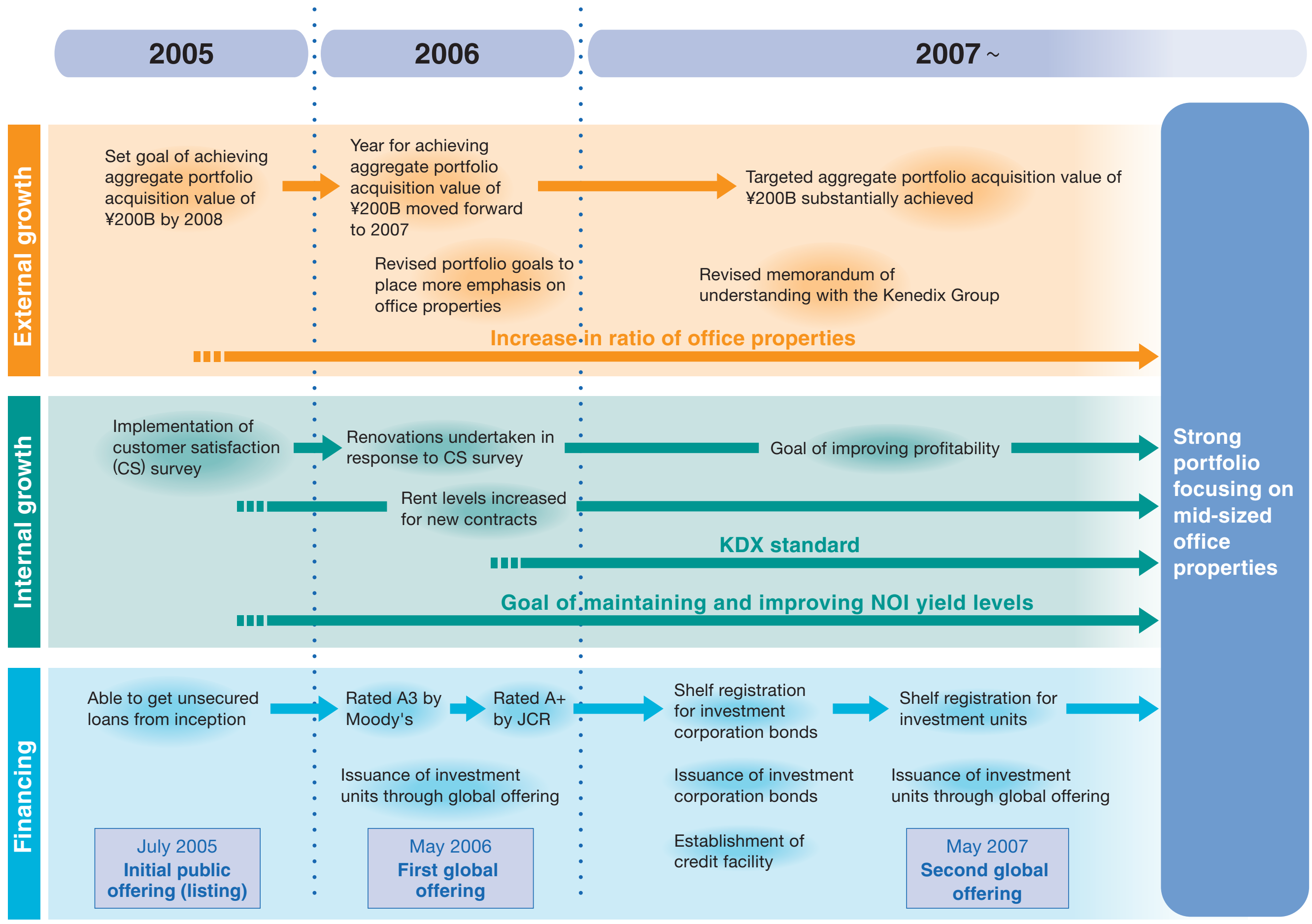
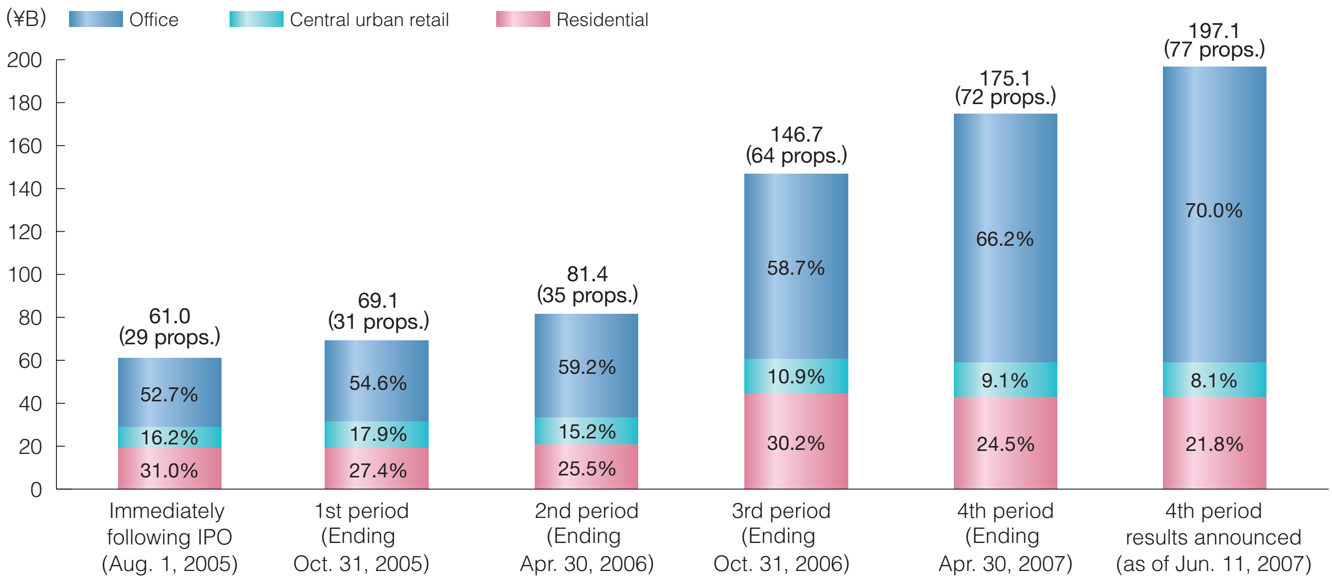
Growth since IPO



JCR = Japan Credit Rating Agency, Ltd.

External Growth Performance (based on acquisition price)



Note: Amounts of less than ¥100 million omitted for total acquisition price and digits below decimal point omitted for ratios.

To Our Unitholders

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

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

Distribution per Unit ¥13,682

In its fourth fiscal period (November 1, 2006 to April 30, 2007), Kenedix Realty Investment Corporation ("Investment Corporation") recorded operating revenues of ¥5,778 million, operating income of ¥2,686 million and net income of ¥2,148 million. As a result, cash distribution per unit for the fiscal period under review was ¥13,682.

External Growth – Investment focusing on mid-sized office buildings

The Investment Corporation conducted a review of its portfolio development policies in December 2006, in order to shift to investing more in office buildings. The Investment Corporation has been emphasizing investment in mid-sized office buildings located in the Tokyo metropolitan area. Furthermore, to respond to recent conditions in the office leasing market (rent level increases, improvement of occupancy ratios, etc.), the Investment Corporation has decided to invest mainly in office buildings and to make no new investment in residential properties for a certain period.

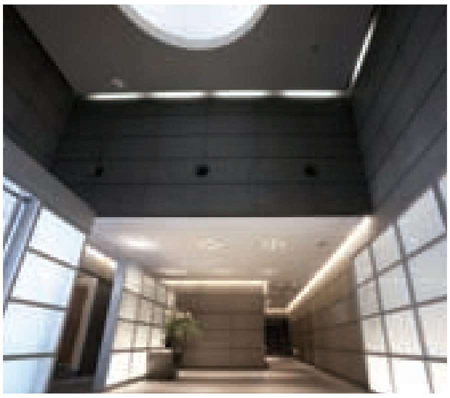
Based on the new portfolio development policy, the Investment Corporation acquired 10 office buildings and sold two residential properties during the fiscal period under review. In addition, the Investment Corporation acquired five additional office buildings on June 1, 2007.

Internal Growth – Emphasis on cash flow

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

Financial Strategy – Realization of flexible debt funding and stable financial management

Since its public listing in 2005, the Investment Corporation has maintained the confidence of financial institutions. Thanks to these established relationships of trust, the Investment Corporation realized successive debt financing at the time of property acquisition during the fiscal period under review. In addition, the Investment Corporation issued ¥12.0 billion of investment corporation bonds and provided diversified financing methods. The Investment Corporation will continue to diversify its financing methods while varying maturities to avoid refinancing risk, lengthen average debt maturities and effectively fix interest rates to avoid the risk of future increase in interest rates.



Investment Highlights

Cash Distribution for the Fourth Fiscal Period (November 1, 2006 to April 30, 2007): ¥13,682 per unit

Note: The fourth fiscal period commenced on November 1, 2006 and ended on April 30, 2007, a period of 181 days.

Investment Highlights

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

Financial Results

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


A-13 KDX Kojimachi Building


A-37 KDX Ochanomizu Building

KENEDIX Selection


A-40 Toranomon Toyo Building


A-21 KDX Shinbashi Building

A-2 KDX Hirakawacho Building

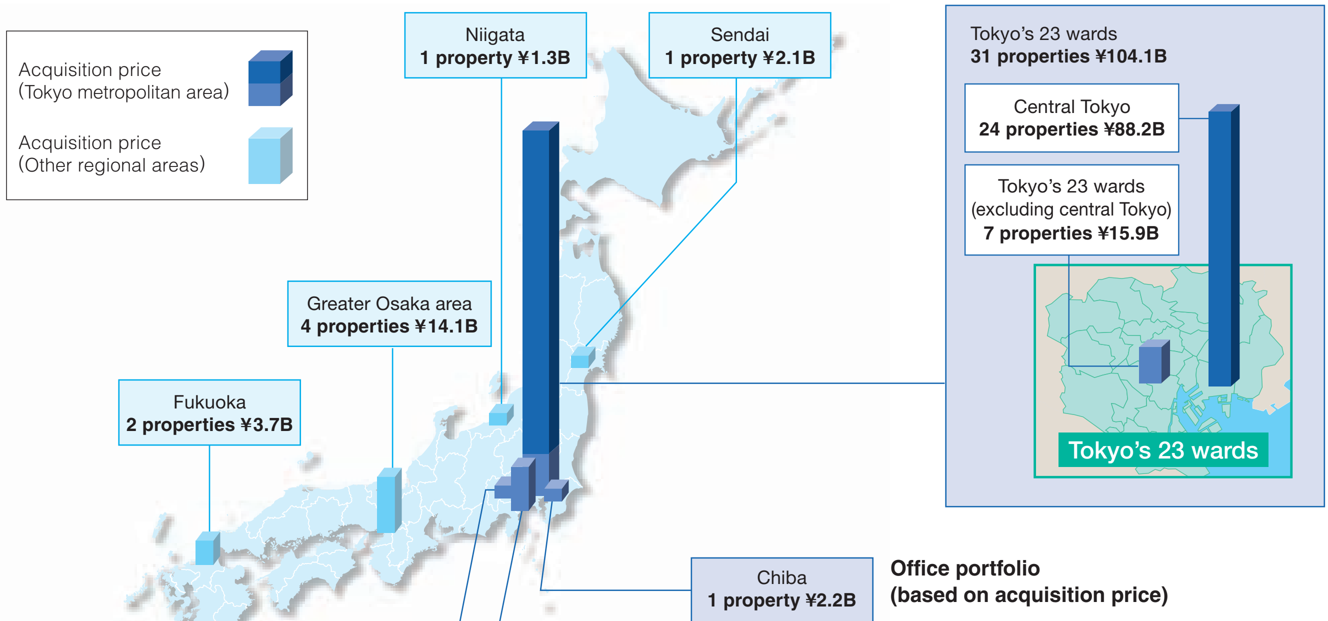

A-32 KDX Shiba-Daimon Building


A-42 KDX Kyoto Karasuma Building


KENEDIX Selection (As of June 11, 2007)

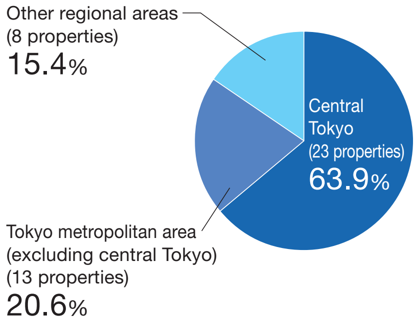
Office portfolio (44 properties)

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

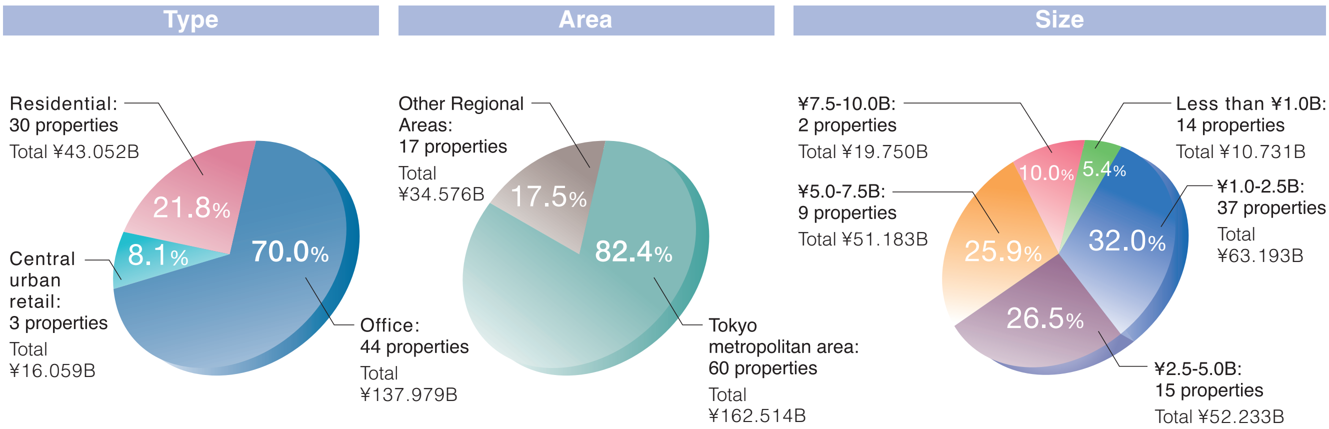


Notes:
1. Central Tokyo consists of the Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.
2. Acquisition price are rounded to the nearest ¥100 million.
3. Ratios indicate the total acquisition price for properties in each area in proportion to the total acquisition price for all properties combined.
4. Ratios are rounded down to the first decimal place.

Office portfolio (based on acquisition price)



Portfolio Composition (As of June 11, 2007) (77 properties)



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

Properties Roster

Properties as of the end of the 4th period (72 properties)

● Acquired during the 4th Period

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Office	Tokyo Metropolitan Area	KDX Ochanomizu Building (Note 5) ●	Chiyoda ward, Tokyo	6,400	Aug. 1982	100.0
		KDX Shiba-Daimon Building (Note 6) ●	Minato ward, Tokyo	6,090	Jul. 1986	93.0
		KDX Kojimachi Building	Chiyoda ward, Tokyo	5,950	May 1994	97.1
		KDX Nihonbashi 313 Building	Chuo ward, Tokyo	5,940	Apr. 1974	98.9
		Toshin 24 Building	Yokohama, Kanagawa	5,300	Sept. 1984	100.0
		KDX Hirakawacho Building	Chiyoda ward, Tokyo	5,180	Mar. 1988	100.0
		Ebisu East 438 Building	Shibuya ward, Tokyo	4,640	Jan. 1992	100.0
		Higashi-Kayabacho Yuraku Building	Chuo ward, Tokyo	4,450	Jan. 1987	89.1
		KDX Toranomon Building ●	Minato ward, Tokyo	4,400	Apr. 1988	0.0
		KDX Nishi-Gotanda Building ●	Shinagawa ward, Tokyo	4,200	Nov. 1992	73.7
		KDX Hatchobori Building	Chuo ward, Tokyo	3,680	Jun. 1993	100.0
		KDX Omori Building	Ohta ward, Tokyo	3,500	Oct. 1990	100.0
		KDX Hamamatsucho Building	Minato ward, Tokyo	3,460	Sept. 1999	100.0
		KDX Higashi-Shinjuku Building	Shinjuku ward, Tokyo	2,950	Jan. 1990	100.0
		KDX Kayabacho Building (Note 7)	Chuo ward, Tokyo	2,780	Oct. 1987	84.9
		KDX Shinbashi Building	Minato ward, Tokyo	2,690	Feb. 1992	100.0
		KDX Nakano-Sakaue Building	Nakano ward, Tokyo	2,533	Aug. 1992	100.0
		KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sept. 1990	100.0
		Harajuku F.F. Building	Shibuya ward, Tokyo	2,450	Nov. 1985	100.0
		KDX Kajicho Building	Chiyoda ward, Tokyo	2,350	Mar. 1990	100.0
		KDX Hamacho Building	Chuo ward, Tokyo	2,300	Sept. 1993	100.0
		FIK Minami Aoyama	Minato ward, Tokyo	2,270	Nov. 1988	100.0
		KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	100.0
		KDX Okachimachi Building ●	Taito ward, Tokyo	2,000	Jun. 1988	100.0
		Kanda Kihara Building	Chiyoda ward, Tokyo	1,950	May 1993	100.0
		KDX Yotsuya Building	Shinjuku ward, Tokyo	1,950	Oct. 1989	100.0
		KDX Shinjuku-Gyoen Building	Shinjuku ward, Tokyo	1,610	Jun. 1992	100.0
		KDX Kiba Building	Koto ward, Tokyo	1,580	Oct. 1992	100.0
		KDX Nishi-Shinjuku Building (Note 8) ●	Shinjuku ward, Tokyo	1,500	Oct. 1992	100.0
		KDX Monzen-Nakacho Building ●	Koto ward, Tokyo	1,400	Sept. 1986	100.0
		KDX Hon-Atsugi Building ●	Atsugi, Kanagawa	1,305	May 1995	100.0
		KDX Hachioji Building ●	Hachioji, Tokyo	1,155	Dec. 1985	96.4
		KDX Nogizaka Building	Minato ward, Tokyo	1,065	May 1991	100.0
		Koishikawa Yoshida Building	Bunkyo ward, Tokyo	704	Oct. 1992	100.0
	Other Regional Areas	Portus Center Building	Sakai, Osaka	5,570	Sept. 1993	97.1
		KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	100.0
		KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sept. 1993	93.6
		Hakata-Ekimae Dai-2 Building	Fukuoka, Fukuoka	1,430	Sept. 1984	95.8
		KDX Niigata Building ●	Niigata, Niigata	1,305	Jul. 1983	83.9
Office (Total 39 properties) Sub Total				115,979	Avg. 18.1 yrs	95.7
Central Urban Retail	Tokyo Metropolitan Area	Frame Jinnan-zaka	Shibuya ward, Tokyo	9,900	Mar. 2005	91.7
		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. 4.0 yrs	94.7

Notes:
1. Figures in the "Acquisition Price" column represent the real estate or trust beneficiary interest sales price (excluding consumption tax, rounded down to the nearest million yen) for each property acquired, identified in relevant Real Estate or Trust Beneficiary Interest Purchase and Sales Agreements.
2. The "Completion Date" column refers to the date on which construction was first completed. Each average age subtotals and total for the investment portfolio is shown as the weighted-averages portfolio age based upon acquisition prices with a base date of April 30, 2007.
3. "Occupancy Ratio" is the leased floor area divided by total leasable floor area for each property as a percentage to the nearest first decimal place. Ratios are calculated as of October 31, 2006. Subtotals and total for the investment portfolio are weighted-averages.
4. The total acquisition price for 77 properties held by the Investment Corporation as of June 11, 2007.
5. As of June 11, 2007, the name of the property is the "Kenkyusha Building." Plans are in place to change the name of the property to the "KDX Ochanomizu Building" on October 1, 2007. The same applies below.
6. As of June 11, 2007, the name of the property is the "Shuwa Dai-san Shiba Park Building." Plans are in place to change the name of the property to the "KDX Shiba-Daimon Building" on September 1, 2007. The same applies below.
7. As of June 11, 2007, the name of the property is the "Dai-ichi Kayabacho Building". The name of the property has been changed to the "KDX Kayabacho Building" on July 1, 2007. The same applies below.
8. As of June 11, 2007, the name of the KDX Shinjuku 286 Building is the "Aqusis Building," "KDX Shinjuku 286 Building" is the "KDX Nishi-Shinjuku Building" is the "N.S. EXCEL Building," "KDX Kyoto Karasuma Building" is the "Karasuma Building," "KDX Hakata Building" is the "Hakata Ekimae Building," and "KDX Sendai Building" is the "Sendai Honcho Park Building." Following the acquisition, the Investment Corporation intends to carry out procedures to change the name of the buildings. The same applies below.

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Residential	Tokyo Metropolitan Area	Residence Charmante Tsukishima	Chuo ward, Tokyo	5,353	Jan. 2004	100.0
		Regalo Ochanomizu Ⅰ·Ⅱ	Bunkyo ward, Tokyo	3,600	Ⅰ: Jan. 2006 Ⅱ: Feb. 2006	96.0
		Storia Sirokane	Minato ward, Tokyo	3,150	Feb. 2003	88.6
		Tre di Casa Minami Aoyama	Minato ward, Tokyo	2,460	Feb. 2004	92.5
		Regalo Shiba-Kouen	Minato ward, Tokyo	2,260	Nov. 2005	100.0
		Court Mejiro	Shinjuku ward, Tokyo	1,250	Mar. 1997	95.0
		Apartments Motoazabu	Minato ward, Tokyo	1,210	Jan. 2004	91.7
		Apartments Wakamatsu-Kawada	Shinjuku ward, Tokyo	1,180	Feb. 2004	97.8
		Chigasaki Socie Ni-bankan	Chigasaki, Kanagawa	1,160	Jan. 1991	96.1
		Court Nihonbashi-Hakozaki	Chuo ward, Tokyo	1,130	Feb. 2004	98.4
		Court Nishinjuku	Shinjuku ward, Tokyo	1,130	Oct. 2005	90.9
		Side Denenchofu	Ota ward, Tokyo	1,110	Feb. 1997	97.2
		Gradito Kawaguchi	Kawaguchi, Saitama	1,038	Feb. 2006	100.0
		S-court Yokohama-Kannai Ⅱ	Yokohama, Kanagawa	945	Mar. 2003	97.4
		Regalo Komazawa-Kouen	Setagaya ward, Tokyo	912	Feb. 2006	95.6
		Court Motoasakusa	Taito ward, Tokyo	880	Jan. 2005	97.5
		Court Shin Okachimachi	Taito ward, Tokyo	878	Oct. 2005	91.6
		Bloom Omotesando	Shibuya ward, Tokyo	875	Mar. 2003	100.0
		Human Heim Okachimachi	Taito ward, Tokyo	830	Dec. 2004	100.0
		Primo Regalo Kagurazaka	Shinjuku ward, Tokyo	762	Jan. 2006	100.0
		Primo Regalo Youga	Setagaya ward, Tokyo	730	Dec. 2005	100.0
		Court Shimouma	Setagaya ward, Tokyo	638	Oct. 2005	96.7
	Other Regional Areas	Ashiya Royal Homes	Ashiya, Hyogo	2,330	Jun. 1991	89.0
		Venus Hibarigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	98.7
		Regalo Ibaraki Ⅰ·Ⅱ	Ibaraki, Osaka	1,600	Ⅰ: May 1991 Ⅱ: Mar. 1993	95.0
		Collection Higashi-Sakura	Nagoya, Aichi	1,264	Mar. 2006	98.5
		Renaissance 21 Hirao Jousui-machi	Fukuoka, Fukuoka	900	Oct. 2005	91.6
		Montore Nishikouen Bay Court	Fukuoka, Fukuoka	826	Feb. 2006	97.2
		Abreast Hara	Nagoya, Aichi	444	Feb. 2000	97.8
		Abreast Hirabari	Nagoya, Aichi	407	Mar. 2000	100.0
		Residential (Total 30 properties) Sub Total		43,052	Avg. 5.2 yrs	96.5
		Total of 72 properties		175,090	Avg. 13.6 yrs	95.9

Properties Acquired in the 5th Period

Type	Area	Name	Location	Acquisition Price (¥M) (Note 1)	Completion Date (Note 2)	Occupancy Ratio (%) (Note 3)
Office	Tokyo Metropolitan Area	Toranomon Toyo Building	Minato ward, Tokyo	9,850	Aug. 1962	100.0
		KDX Shinjuku 286 Building (Note 8)	Shinjuku ward, Tokyo	2,300	Aug. 1989	100.0
	Other Regional Areas	KDX Kyoto Karasuma Building (Note 8)	Kyoto, Kyoto	5,400	Oct. 1982	97.1
		KDX Hakata Building (Note 8)	Fukuoka, Fukuoka	2,350	Jul. 1982	96.9
		KDX Sendai Building (Note 8)	Sendai, Miyagi	2,100	Feb. 1984	97.7
		Total of 77 properties		197,090 (Note 4)	–	–

Properties Sold during the 4th Period

Type	Area	Name	Location	AcquisitionPrice (¥M) (Note 1)	Sales Price (¥M)	Completion Date (Note 2)
Residential	Tokyo Metropolitan Area	Court Shinbashi	Minato ward, Tokyo	748	895	Dec. 1997
		Court Suitengu	Chuo ward, Tokyo	659	708	Jul. 2003
		Residential (Total 2 properties) Sub Total		1,407	1,603	–

Questions & Answers

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

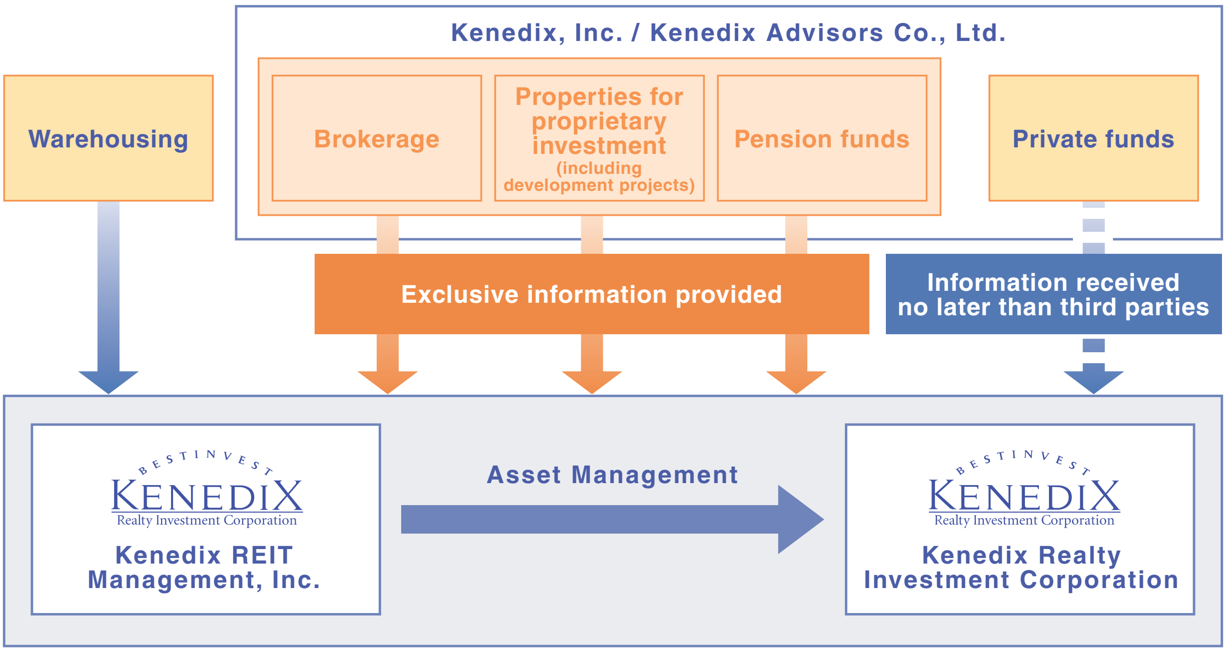
Changes to the Memorandum of Understanding with Kenedix and Kenedix Advisors

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

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

■ **Details of the Change of Memorandum of Understanding**

- When Kenedix, Inc. receives information regarding any available property that in its reasonable opinion meets our investment criteria, including properties under development, from parties other than the contracting parties, the Asset Management Company has first preferential rights to such information.
  (Before Revision: The Investment Corporation had second preferential rights after certain pension funds to such property information acquired by Kenedix, Inc.)
- In the event that Kenedix, Inc. disposes of a property that in its reasonable opinion meets our investment criteria, including properties under development or properties that it owns, the Asset Management Company has first preferential negotiating rights with respect to such properties.
  (Before Revision: The Investment Corporation had second preferential negotiating rights with respect to such properties after certain pension funds)



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

Changes to the Portfolio Development Policies

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

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

(After the changes)

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

Based on the new portfolio development policy, we have acquired 15 office buildings with total acquisition price of approximately ¥51.8 billion since the fourth fiscal period. As of June 11, 2007, the Investment Corporation owns a portfolio of 44 office buildings with a total acquisition price of approximately ¥137.9 billion, and the office ratio of the whole portfolio increased from 58.7% (as of the end of third fiscal period) to 70.0%.

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

A. The Investment Corporation adheres to a basic policy that adopts a dynamic and flexible investment stance. Working from this policy, as of June 11, 2007, the Investment Corporation owned a portfolio of 77 properties with a total acquisition price of approximately ¥197 billion, demonstrating its success in diversifying properties.

The Investment Corporation has been emphasizing investment in mid-sized office buildings located in the Tokyo metropolitan area. Futhermore, to respond to recent conditions in the office leasing market (increased rent levels, improvement of occupancy ratios, etc.), the Investment Corporation has decided to focus more on office buildings and to make no new investment in residential properties for a certain period.

Q. Reflecting upon your decision not to conduct any new investment in residential properties, what are your plans for the current residential properties in the portfolio?

A. The Investment Corporation recognizes a certain advantage of a portfolio comprising of some residential properties, as they contribute to realizing stable cash flows. However, the Investment Corporation will continue to invest mainly in office buildings, and decrease the ratio of residential properties in our portfolio, by considering replacement of assets.

Growth Potential

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

A. As of June 11, 2007, the date the Investment Corporation's fourth fiscal period results were announced, the Investment Corporation owned a portfolio of 77 properties with total acquisition price of approximately ¥197 billion. We are almost there to achieve our asset scale goal of "achieving aggregate portfolio acquisition value of ¥200 billion by the end of year 2007". The Investment Corporation will aim to build a strong portfolio focusing on mid-sized office buildings by continuing to improve the quality of its portfolio, such as location, size and type of properties, through various measures, including replacement of assets. In addition, the Investment Corporation aims ¥400 billion for the asset size for mid- and long-term goal. Our goals, however, do not revolve entirely around increasing asset scale. In concert with efforts to increase the size of the Investment Corporation's portfolio, we will make every effort to steadily enhance earnings per share (EPS).

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

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

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

- Identify and enhance satisfaction through use of tenant surveys
- Maintain attractive properties based on KDX standards

- Leasing management based on CS Strategy
- Careful control of management and operating costs

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

Investment Properties

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

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

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

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

Q. What are your expectations of the real estate and J-REIT markets?

A. We believe that real estate markets will remain active in the Tokyo metropolitan area. Accordingly, the ability to acquire prime properties at reasonable prices will become increasingly difficult. The Investment Corporation also recognizes that real estate markets are subject to a variety of trends based on property type, area and size. While activity in one area may be robust, other areas may experience stagnant conditions. With this in mind, the possibility that real estate prices will appreciate nationwide is considered slim. Under these circumstances, the ability to accurately identify real estate trends by property type, area and size will become more important. Currently, Japanese Real Estate Investment Trust (“J-REIT”) market is comprised of 41 publicly listed trusts with total market capitalization exceeding ¥6 trillion. Looking ahead, it would not be a surprise if there were between 50 and 70 listed J-REITs with market capitalization around ¥10 trillion in the next few years. In the domestic market, yields on REITs exceed 10-year government bonds by nearly 1.0%. At this level, J-REITs remain highly competitive when compared with REITs in markets overseas.

Financial Strategy

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

A. The Investment Corporation is conscious of maintaining a prudent financial strategy together with an appropriate interest-bearing debt ratio (a balance between total assets and interest-bearing debt). Currently, the target ratio is set between 35 to around 50%. 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 is in line with economic growth, the impact on real estate markets is naturally favorable and 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 borrowings. Furthermore, the Investment Corporation acquired an A3 credit rating from Moody’s Investors Services, Inc. in February 2006 and A+ rating from Japan Credit Rating Agency, Ltd. in December 2006. In addition, we have issued 5 year and 10 year investment corporation bonds in March 2007.

Financial Summary

Trends in Operating Conditions

Period			First Fiscal Period (As of Oct. 31, 2005)	Second Fiscal Period (As of Apr. 30, 2006)	Third Fiscal Period (As of Oct. 31, 2006)	Fourth Fiscal Period (As of Apr. 30, 2007)
Operating revenues		Millions of Yen	1,196	2,871	5,288	5,778
（Rental revenues）		Millions of Yen	1,196	2,871	5,131	5,647
Operating expenses		Millions of Yen	606	1,527	2,723	3,091
(Property-related expenses）		Millions of Yen	518	1,265	2,397	2,607
Operating income		Millions of Yen	589	1,343	2,565	2,686
Ordinary income		Millions of Yen	243	1,103	2,125	2,148
Net income	(a)	Millions of Yen	242	1,101	2,124	2,148
Total assets	(b)	Millions of Yen	77,325	92,053	160,314	188,400
Interest-bearing debt	(c)	Millions of Yen	29,000	42,000	62,000	88,500
Unitholders' equity	(d)	Millions of Yen	44,527	45,387	90,933	90,877
Unitholders' capital		Millions of Yen	44,285	44,285	88,729	88,729
Number of investment units issued and outstanding	(e)	Per Unit	79,370	79,370	157,000	157,000
Unitholders' equity per unit	(d)／(e)	Yen	561,008	571,840	579,192	578,839
Total distribution	(f)	Millions of Yen	242	1,101	2,124	2,148
Distribution per unit	(f)／(e)	Yen	3,052	13,884	13,529	13,682
（Earnings distributed per unit）		Yen	3,052	13,884	13,529	13,682
（Distribution in excess of earnings per unit）		Yen	—	—	—	—
Return on assets（annualized）	(Note 1,2)	%	0.3（1.3）	1.3（2.6）	1.7（3.3）	1.2（2.5）
Return on unitholders' equity (annualized)	(Note 2,3)	%	0.6（2.2）	2.5（4.9）	3.1（6.2）	2.4（4.8）
Unitholders' equity ratio at the end of period	(d)／(b)	%	57.6	49.3	56.7	48.2
Interest-bearing debt ratio at the end of period	(c)／(b)	%	37.5	45.6	38.7	47.0
Payout ratio (Note 4)	(f)／(a)	%	99.9	99.9	99.9	100.0
[Other reference]						
Number of properties		Properties	31	35	64	72
Total leasable floor area		m²	81,298.67	104,868.65	192,085.34	223,322.77
Occupancy ratio at the end of period		%	96.6	94.9	95.3	95.9
Depreciation expenses for the period		Millions of Yen	268	650	1,135	1,243
Capital expenditures for the period		Millions of Yen	47	510	655	1,132
Leasing NOI (net operating income)	(Note 5)	Millions of Yen	945	2,256	3,869	4,283
FFO (funds from operation)	(Note 6)	Millions of Yen	510	1,752	3,102	3,261
FFO per unit	(Note 7)	Yen	6,430	22,076	19,759	20,772

Notes:

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

Management Review & Policies

Operating Conditions for the Fourth 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 2007. As of April 30, 2007, the end of the fourth fiscal period, the number of investment units issued and outstanding totaled 157,000 units.

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

(2) Investment Environment and Management Performance

a. Investment environment

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

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

b. Management performance

In the fiscal period under review, the Investment Corporation acquired 10 office buildings with a total acquisition price of ¥29,755 million. From the viewpoint of reviewing its portfolio on December 11, 2006, the Investment Corporation sold 2 residential properties (total acquisition price of ¥1,407 million) on April 20, 2007. As a result, the number of properties owned as of April 30, 2007 stood at 72, with a total acquisition price of ¥175,090 million. Looking at the portfolio as a whole, 66.2% was comprised of office buildings, 24.5% of residential properties and 9.1% central urban retail properties on an acquisition price basis. In addition, the occupancy ratio as of the end of the fourth fiscal period was 95.9%, reflecting stable investment and asset management.

＜External Growth Performance after IPO＞

		Immediately following IPO (as of August 1, 2005)		First Fiscal Period (as of October 31, 2005)		Second Fiscal Period (as of April 30, 2006)		Third Fiscal Period (as of October 31, 2006)		Fourth Fiscal Period (as of April 30, 2007)	
		Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)	Total Acquisition Price (Millions of Yen)	Ratio (%)
Type of Use	Office Buildings	32,197	52.7	37,767	54.6	48,269	59.2	86,224	58.7	115,979	66.2
	Central Urban Retail Properties	9,900	16.2	12,379	17.9	12,379	15.2	16,059	10.9	16,059	9.1
	Residential Properties	18,986	31.0	18,986	27.4	20,786	25.5	44,459	30.2	43,052	24.5
	Total	61,083	100.0	69,132	100.0	81,434	100.0	146,742	100.0	175,090	100.0
Area	Tokyo Metropolitan Area	58,802	96.2	61,281	88.6	71,783	88.1	123,321	84.0	150,364	85.8
	Other Regional Areas	2,281	3.7	7,851	11.3	9,651	11.8	23,421	15.9	24,726	14.1
	Total	61,083	100.0	69,132	100.0	81,434	100.0	146,742	100.0	175,090	100.0

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

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

Operation and Management of Existing Properties

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. as its sole property management company for the entire portfolio as of the end of the fourth fiscal period. In establishing a single point of contact for all matters relating to property management activities, the Investment Corporation strives to secure consistent policies, specifications and procedures along with ensuring swift and quality service. As of April 30, 2007, the investment portfolio maintains a high occupancy ratio. The Investment Corporation is satisfied with the quality of property management.

In addition to property management services, the Investment Corporation has executed master lease agreements with Kenedix Advisors covering all of its properties held as of April 30, 2007 (excluding Residence Charmante Tsukishima, Frame Jinnan-zaka, ZARA Tenjin Nishi-dori and tenants without approval for subleasing). In appointing a member of the Kenedix Group as lessee, the Investment Corporation is able to provide better tenant-oriented leasing management through Kenedix Advisors. At the same time, this scheme allows the Investment Corporation to more effectively utilize tenant security and guarantee deposits.

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

(3) Capital Acquisition

To support the acquisition of additional assets, the Investment Corporation undertook borrowings of ¥29.0 billion during the fourth fiscal period comprising ¥9.5 billion of long-term borrowings and ¥19.5 billion of short-term borrowings (Note1). In addition, the Investment Corporation undertook prepayment of ¥12.0 billion in short-term borrowings provided from cash on hand from the issuance of the investment corporation bonds. As a result, the balance of interest-bearing debt stood at ¥88.5 billion as of April 30, 2007, comprising ¥76.5 billion in borrowings (¥58.0 billion in long-term borrowings and ¥18.5 billion in short-term borrowings) and ¥12.0 billion in investment corporation bonds. In addition, the long-term debt ratio (Note2) was 79.1% and the long-term fixed interest debt ratio (Note3) was 75.7%.

As of April 30, 2007, the Investment Corporation had ¥46.8 billion in long-term borrowings, of which ¥43.8 billion had fixed interest rates or floating interest rates effectively fixed by utilizing interest-swap agreements.

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

Notes:

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

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

The Investment Corporation acquired a credit rating of A+ (Outlook: Stable) from Japan Credit Rating Agency, Ltd. on December 11, 2006. This was the second credit rating acquired following the A3 (Outlook: Stable) from Moody's Investors Services, Inc. on February 28, 2006. Details of the credit ratings as of April 30, 2007 are as follows.

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

On February 7, 2007, a resolution was made concerning the offering of investment corporation bonds (hereafter the "comprehensive resolution", the same applies below). The Investment Corporation also filed a debt shelf registration statement. Details are as follows.

Total Amount of Ceiling for Gross Amount of Each Investment Corporation Bond Offering / Planned Issue Amount	¥100,000,000,000 respectively
Effective Period of Resolution / Planned Issuance Period	February 15, 2007 to February 14, 2009
Use of Funds	Acquisition funds for specified assets, repayment funds for borrowings, repayment funds for investment corporation bonds, refund funds for lease and guarantee deposits, funds to pay for repairs and maintenance, working capital, etc.

The Investment Corporation issued investment corporation bonds for the purpose of diversifying financing to support portfolio growth, with an emphasis on increasing the proportion of debt with fixed interest rates and longer maturity periods and achieving an appropriate mix of debt and equity financing. Details of the investment corporation bonds are as follows. In addition, the Investment Corporation issued its 10-year investment corporation bond, "Second Series Unsecured Investment Corporation Bond" in the shortest period of time after IPO among J-REITs. Accordingly, the Investment Corporation has succeeded in diversifying maturities and lengthening its average debt maturity.

Name of Investment Corporation Bonds	First Series Unsecured Investment Corporation Bonds (Ranking pari passu among the Specified Investment Corporation Bonds	Second Series Unsecured Investment Corporation Bonds (Ranking pari passu among the Specified Investment Corporation Bonds)
Total Amount of the Bonds	¥9,000,000,000	¥3,000,000,000
Interest Rate	1.74％ per annum	2.37％ per annum
Term	5 years	10 years
Issuance Date	March 15, 2007	March 15, 2007
Redemption Date	March 15, 2012	March 15, 2017

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

On April 26, 2007, the Investment Corporation filed an equity shelf registration statement to conduct equity financing. Details are as follows.

Planned Issue Amount	¥100,000,000,000
Application for the Shelf Registration Date	April 26, 2007
Planned Issuance Period	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

(4) Holding of General Meetings of Unitholders

The Investment Corporation held its Third General Meeting of Unitholders on January 25, 2007. All the agenda items were resolved as initially submitted including a change to certain sections of the Articles of Incorporation, and the appointment of an Executive Director, Substitute Executive Director and two Supervisory Directors.

(5) Operating Results and Cash Distribution

As a result of the aforementioned management performance, the Investment Corporation reported operating revenues of ¥5,778 million, operating income of ¥2,686 million, ordinary income of ¥2,148 million and net income of ¥2,148 million for its fourth 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 fourth fiscal period was ¥13,682 per unit.

Future Management Policies

(1) Investment Environment

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

Under this economic condition, positive signs are emerging in the domestic real estate market. Posted land prices for March 2007, and a land survey conducted by prefecture and local governments for September 2006, confirmed land price appreciation in the three major cities of Tokyo, Osaka and Nagoya. At the same time, land prices for specific major cities in regional areas are also increasing. On a nationwide basis, land prices are exhibiting increased polarization. Appreciation is restricted to major economic and financial centers of the Tokyo metropolitan area (in particular the central Tokyo), and specific regional areas that exhibit strong potential for population growth (for example, Sendai in Tohoku and Fukuoka in Kyushu).

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

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

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

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

Increasing Occupancy Ratios and Increasing Rents for Office Buildings

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

Increasing Role of the Tokyo Metropolitan Area as Business Hub

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

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

We believe that there is a substantial market of tenants for mid-sized office buildings in Japan, and that we can take advantage of this demand by providing attractive and competitive office spaces and customer-oriented property management. In addition, we believe that tenants at mid-sized office buildings have a relatively high turnover ratio, which facilitates increases in rent levels in line with market trends. Moreover, we believe the supply of mid-sized office buildings available for purchase in Japan is increasing, as demonstrated for example, by an increase in the proportion of office buildings with a total area of less than 10,000 ㎡ among office buildings sold in Japan from 76% in the year ended March 31, 2003 to 81% in the year ended March 31, 2006.

(2) Management Policies

a. Existing property management strategy (Internal Growth Strategies)

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

・Identify and enhance satisfaction through use of tenant surveys
・Maintain attractive properties based on KDX standards

・Leasing management based on CS Strategy

・Careful control of management and operating costs

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

Identify and enhance tenant satisfaction through use of tenant surveys

The Investment Corporation recognizes each tenant as a key customer and strives to enhance customer satisfaction and raise the competitiveness of its properties as the means to maintain and increase earnings. During the fiscal period ended April 30, 2006, 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. This survey covered 20 of its properties, 19 of which were office properties and one of which was a central urban retail property. As a part of this survey the administration officers of each tenant and tenant employees were asked to respond to many questions concerning building location and environment, entrance, air conditioning system for lease space areas, elevators, toilets, management company service, security, and fire prevention, as well as the nature and quality of operating and management services. On a scale one to five, respondents were asked to rank each of these areas. The survey provided invaluable information pertaining to the strengths and weaknesses of each building. Under the remarks section, a number of respondents provided insightful observations. Based on survey results, the Investment Corporation work to clarify and improve outstanding issues. Through this vital feedback channel, the Investment Corporation also implemented appropriate maintenance and renovations for each property taking into consideration associated costs and benefits.

Plans are in place to conduct a second customer satisfaction survey during the fiscal period ending October 31, 2007.

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

Maintain attractive properties based on KDX standards

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

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

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

Examples of KDX standards include the followings:

・Installation of security cameras for elevators and entrance halls

・Installation of emergency devices for elevators

・Installation of modern restrooms that include western-style toilets with hot-water self-cleaning functions

・Creation and distribution of security and evacuation maps

・Creation and distribution of detailed building rules

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

Leasing management based on CS Strategy

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

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

Careful control of management and operating costs

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

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. as its sole property management company for the entire portfolio as of the end of the fourth fiscal period. In establishing a single point of contact for all matters relating to property management activities, the Investment Corporation strives to secure consistent policies, specifications and procedures along with ensuring swift and quality service.

The Investment Corporation is presently satisfied with the quality of property management. In addition to property management services, the Investment Corporation has executed master lease agreements with Kenedix Advisors covering almost all of its properties held as of April 30, 2007 (excluding Residence Charmante Tsukishima, Frame Jinnan-zaka, ZARA Tenjin Nishi-dori and tenants without approval for subleasing). In appointing a member of the Kenedix Group as lessee, the Investment Corporation is able to provide better tenant-oriented leasing management through Kenedix Advisors. At the same time, this scheme allows the Investment Corporation to more effectively utilize tenant security and guarantee deposits. The Investment Corporation leverages scale merits and the communication and negotiation skills of the Kenedix Group in an effort to reduce operating costs. In addition, the Investment Corporation has succeeded in reducing in building maintenance 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 properties. In addition, the Investment Corporation will make no new investment in residential properties for a certain period and consider replacement of assets. 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.

Details of the Change of Memorandum of Understanding

・When Kenedix, Inc. receives information regarding any available property that in its reasonable opinion meets our investment criteria, including properties under development, from parties other than the contracting parties, the Asset Management Company has first preferential rights to such information.
(Before Revision: The Investment Corporation had second preferential rightsafter certain pension funds to such property information acquired by Kenedix, Inc.)

・In the event that Kenedix, Inc. disposes of a property that in its reasonable opinion meets our investment criteria, including properties under development or properties that it owns, the Asset Management Company has first preferential negotiating rights with respect to such properties.
(Before Revision: The Investment Corporation had second preferential negotiating rights with respect to such properties after certain pension funds.)

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

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

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, 2007, the Investment Corporation owned 72 properties for a total acquisition price of approximately ¥175.0 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. Against the backdrop of stable trends in its investment units, the Investment Corporation believes that this strategy will enable it to take a more aggressive approach to acquiring properties.

(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

（Fourth Fiscal Period:From November 1, 2006 to April 30,2007）

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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, 2007 and October 31, 2006, 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, 2007 and October 31, 2006, 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.

Ernst & Young ShinNihon

June 8, 2007

Kenedix Realty Investment Corporation

BALANCE SHEETS

As of April 30, 2007 and October 31, 2006

	In thousands of yen	
	As of April 30, 2007	As of October 31, 2006
Assets		
Current assets:		
Cash and bank deposits	¥ 8,923,063	¥ 9,488,708
Rental receivables	75,125	83,375
Consumption tax refundable	302,041	599,486
Other current assets	32,956	72,300
Total current assets	9,333,185	10,243,869
Property and equipment, at cost:		
Land	113,187,263	91,714,229
Buildings and structures	67,134,816	58,684,305
Machinery and equipment	823,009	741,661
Tools, furniture and fixtures	602,585	612,929
Less-accumulated depreciation	(3,230,846)	(2,033,503)
Net property and equipment	178,516,827	149,719,621
Other assets:		
Ground leasehold	285,145	–
Organization costs	30,538	35,628
Corporate bond Issuance costs	68,875	–
Unit Issuance costs	71,139	88,923
Others	94,969	226,301
Total assets	¥ 188,400,678	¥ 160,314,342
Liabilities and Unitholders' Equity		
Liabilities		
Current liabilities:		
Trade and other payables	¥ 413,751	¥ 406,892
Short-term debt	20,000,000	15,000,000
Deposits received	26,743	1,748
Rents received in advance	916,372	767,536
Other current liabilities	87,286	28,287
Total current liabilities	21,444,152	16,204,463
Corporate bonds	12,000,000	–
Long-term debt	56,500,000	47,000,000
Leasehold and security deposits received	7,578,756	6,124,894
Others	–	51,688
Total liabilities	97,522,908	69,381,045
Unitholders' equity		
Unitholders' capital	88,729,652	88,729,652
Units Authorized: 2,000,000 units		
Units Issued and outstanding:157,000 units		
as of April 30, 2007 and October 31, 2006, respectively		
Retained earnings	2,148,118	2,124,112
Unrealized gain from deferred hedge transactions	–	79,533
Total unitholders' equity	90,877,770	90,933,297
Total liabilities and unitholders' equity	¥ 188,400,678	¥ 160,314,342

See notes to financial statements

Kenedix Realty Investment Corporation

STATEMENTS OF INCOME AND RETAINED EARNINGS

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

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Operating Revenues:		
Rental revenues	¥ 5,647,462	¥ 5,131,499
Profit on sale of trust beneficiary interests in real estate	130,748	157,334
Total operating revenues	5,778,210	5,288,833
Operating Expenses:		
Property-related expenses	2,607,389	2,397,202
Asset management fees	306,965	203,842
Administrative service and custodian fees	66,601	46,728
Other operating expenses	110,510	75,869
Total operating expenses	3,091,465	2,723,641
Operating income	2,686,745	2,565,192
Non-Operating Expenses:		
Interest expense	479,926	375,765
Financing related expense	20,595	20,904
Amortization of organization costs	5,090	5,090
Amortization of unit issuance costs	17,785	17,785
Amortization of corporate bond issuance costs	1,501	—
Others, net	12,969	20,567
Income before income taxes	2,148,879	2,125,081
Income taxes	821	1,009
Net income	2,148,058	2,124,072
Retained earnings at the beginning of period	60	40
Retained earnings at the end of period	¥ 2,148,118	¥ 2,124,112

See notes to financial statements

Kenedix Realty Investment Corporation

Statement of Changes in Unitholders' Equity

For the period from November 1, 2006 to April 30, 2007

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance at the beginning of a period	¥ 88,729,652	¥ 2,124,112	¥ 79,533	¥ 90,933,297
Changes during the fiscal period				
Payment of dividends	—	(2,124,052)	—	(2,124,052)
Net income	—	2,148,058	—	2,148,058
Interest-rate swap	—	—	(79,533)	(79,533)
Total changes during the fiscal period	—	24,006	(79,533)	(55,527)
Balance at the end of period	¥ 88,729,652	¥ 2,148,118	¥ —	¥ 90,877,770

For the period from May 1, 2006 to October 31, 2006

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance at the beginning of a period	¥ 44,285,003	¥ 1,102,013	¥ —	¥ 45,387,016
Changes during the fiscal period				
New unit issuance	44,444,649	—	—	44,444,649
Payment of dividends	—	(1,101,973)	—	(1,101,973)
Net income	—	2,124,072	—	2,124,072
Interest-rate swap	—	—	79,533	79,533
Total changes during the fiscal period	44,444,649	1,022,099	79,533	45,546,281
Balance at the end of period	¥ 88,729,652	¥ 2,124,112	¥ 79,533	¥ 90,933,297

See notes to financial statements

Kenedix Realty Investment Corporation

STATEMENTS OF CASH FLOWS

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

	In thousands of yen	
	From October 1,2006 to April 30,2007	From May 1,2006 to October 31,2006
Cash Flows from Operating Activities:		
Income before income taxes	¥ 2,148,879	¥ 2,125,081
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,288,871	1,169,328
Interest expense	479,926	375,765
Changes in assets and liabilities:		
Rental receivables	8,250	(35,671)
Consumption tax refundable	297,446	(461,163)
Trade and other payables	3,328	214,623
Rents received in advance	148,836	237,642
Sale of trust beneficiary interests in real estate	1,433,571	1,763,670
Others, net	37,018	(136,387)
Subtotal	5,846,125	5,252,888
Cash payments of interest expense	(420,546)	(363,960)
Cash payments of income taxes	(924)	(1,015)
Net cash provided by operating activities	5,424,655	4,887,913
Cash Flows from Investing Activities:		
Purchases of property and equipment	(31,759,821)	(69,184,115)
Proceeds from leasehold and security deposits received	1,909,350	2,852,843
Payments of leasehold and security deposits received	(455,487)	(256,297)
Payments of restricted bank deposits	(361,623)	(750,424)
Proceeds from restricted bank deposits	355,864	225,670
Others, net	6,555	(717)
Net cash used in investing activities	(30,305,162)	(67,113,040)
Cash Flows from Financing Activities:		
Proceeds from short-term debt	19,500,000	13,000,000
Payment of short-term debt	(14,500,000)	(11,000,000)
Proceeds from long-term debt	9,500,000	18,000,000
Proceeds from issuance of units	—	44,444,650
Proceeds from issuance of corporate bonds	12,000,000	—
Payment of corporate bond issuance costs	(70,376)	—
Payment of dividends	(2,120,522)	(1,098,661)
Net cash provided by financing activities	24,309,102	63,345,989
Net change in cash and cash equivalents	(571,405)	1,120,862
Cash and cash equivalents at the beginning of period	8,178,005	7,057,143
Cash and cash equivalents at the end of period	¥ 7,606,600	\ 8,178,005

See notes to financial statements

Kenedix Realty Investment Corporation

Notes to Financial Statements

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

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

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

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

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

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

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

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

At April 30, 2007, the Investment Corporation had total unitholders’ capital of ¥88,730 million with 157,000 investment units outstanding. The Investment Corporation owned a portfolio of 72 properties with total acquisition costs of ¥175,090 million containing total leasable area of 223,323 m^2. The occupancy ratio was approximately 95.9%. A portfolio of 72 properties consists of 39 office buildings, 30 residential properties and 3 central urban retail properties. 58 properties are located in the Tokyo Metropolitan Area and 14 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 Securities and Exchange Law of Japan and related regulations, and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain respects 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 Securities and Exchange Law. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made from the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation’s 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, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Buildings and structures	2-46 years	2-46 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-15 years	3-15 years

(c) Impairment of Fixed Assets

The Investment Corporation adopted “Accounting Standard for Impairment of Fixed Assets” (“Opinion on Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council in Japan on August 9, 2002) and “Implementation Guidance for the Accounting Standards for Impairments of Fixed Assets” (“Financial Accounting Guidance No. 6” issued by the Accounting Standards Board of Japan on October 31, 2003). The Investment Corporation has not recognized an impairment loss on any of the properties during the fiscal periods ended April 30, 2007 and October 31, 2006.

(d) Organization Costs

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

(e) Unit Issuance Costs

Unit issuance costs are amortized over a period of three years under the straight-line method. Underwriters’ commissions in connection with the issuance of unitholders’ equity are offset against proceeds raised since the “Spread Method” was used for the unit issuance. Under the Spread Method, securities underwriters underwrite the units at the issue price and offer them to investors at the offer price, which is different from the issue price. The difference between the offer price and the issue price represents the underwriting commission received by the securities underwriters, eliminating the need for the issuer to pay underwriting commissions. If securities underwriters had underwritten the units at the issue price and offered the units to investors at an offer price equal to the issue price (known as the “Conventional Method”), a commission would have been incurred and it would have been expensed as new unit issuance costs. Therefore, the Spread Method understated unit issuance costs by ¥1,263 million on the balance sheet and decreased amortization of unit issuance costs by ¥253 million and increased income before income taxes on the income statement by the same amount compared to the Conventional Method for the period from May 1, 2006 through October 31, 2006.

(f) Corporate Bond Issuance Costs

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

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

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

(h) Revenue Recognition

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

(i) Taxes on Property and Equipment

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

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥101 million and ¥182 million as of April 30, 2007 and October 31, 2006. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period in which the installments of such taxes are paid to the relevant tax authorities.

(j) Income Taxes

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

(k) Derivative Financial Instruments

The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation adopted special treatment for interest-swap agreements because 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 excuted.

(l) Rounding of Amounts Presented

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

3. CHANGES IN ACCOUNTING POLICY

(a) Beginning the fiscal period ended October 31, 2006, unit issuance costs have been capitalized and amortized over a period of 3 years, although unit issuance costs were previously expensed in the period of payment. Due to a change in Accounting Rules for Investment Corporation effective on May 1, 2006 and "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006) issued by the Accounting Standards Board of Japan, appropriate deferred charges such as new unit issuance costs are allowed to be capitalized and being amortized over a 3 year period.

As a result of this change in accounting policy, non-operating expenses of the Investment Corporation during the current period decreased by ¥89 million yen and income before income taxes increased by the same amount compared with the amounts which would have been recorded under the previous accounting rule.

(b) Beginning the fiscal period ended October 31, 2006, the Investment Corporation adopted the new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and its implementation guidance (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005).

(c) Beginning the fiscal period ended April 30, 2007, the Investment Corporation changed the hedging accounting treatment from deferred hedge to the special method on interest swap due to a change in amendments to the Investment Trust Law and the modification of the articles of incorporation.

As a result, net asset decreased by ¥59 million compared with the previous accounting method.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of April 30, 2007 and October 31, 2006:

	In thousands of yen	
	As of April 30, 2007	As of October 31, 2006
Cash and bank deposits	¥ 8,923,063	¥ 9,488,708
Restricted bank deposits held in trust	(1,316,463)	(1,310,703)
Cash and cash equivalents	¥ 7,606,600	¥ 8,178,005

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

5. SCHEDULE OF PROPERTY

	In millions of yen					
	As of April 30, 2007			As of October 31, 2006		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 113,187	¥ —	¥ 113,187	¥ 91,714	¥ —	¥ 91,714
Buildings and structures	67,135	3,026	64,109	58,684	1,897	56,787
Machinery and equipment	823	119	704	742	73	669
Tools, furniture and fixtures	603	86	517	613	63	550
Total	¥ 181,748	¥ 3,231	¥ 178,517	¥ 151,753	¥ 2,033	¥ 149,720

6. SHORT-TERM AND LONG-TERM DEBTS

The following summarizes short-term and long term debt outstanding as of April 30, 2007 :

(As of April 30, 2007)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	July 31, 2006	July 31, 2007	0.73%	¥ 4,000
	September 20, 2006	September 20, 2007	0.75%	4,000
	October 31, 2006	October 31, 2007	0.75%	1,000
	December 1, 2006	November 30, 2007	0.82%	500
	January 19, 2007	January 18, 2008	0.84%	1,000
	March 1, 2007	February 29, 2008	0.96%	3,500
	April 2, 2007	October 2, 2007	0.95%	2,000
	April 2, 2007	April 2, 2007	0.97%	1,500
	April 2, 2007	April 2, 2007	1.02%	1,000
Unsecured current potion of long-term debt	November 1, 2005	October 31, 2007	0.77%	1,500
			Subtotal	20,000
Unsecured long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	August 1, 2005	July 31, 2010	1.29%	9,500
	November 1, 2005	October 31, 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
	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	1.04%	3,000
			Subtotal	56,500
			Total	¥ 76,500

7. UNSECURED LINE OF CREDIT

The Investment Corporation established a credit facility with a financial institution in March 2007 which provides access to an aggregate ¥ 2.5 billion on an unsecured basis, the company have drawn ¥ 1.0 billion from this credit facility.

8. PER UNIT INFORMATION

The net asset value per unit as of April 30, 2007 and October 31, 2006 was ¥578,839 and ¥579,192. Net income per unit as of April 30, 2007 and October 31, 2006 was ¥13,681 and ¥13,575.

The weighted average number of units outstanding of 157,000 and 156,460 was used for the computation of the amount of net income per unit as of April 30, 2007 and October 31, 2006.

9. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement it currently distribute in excess of 90% of its taxable income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed approximately 100% of its distributable income in the form of cash distributions totaling ¥2,148 million and ¥2,124 million for the periods ended April 30, 2007 and October 31, 2006. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.04% and 0.05% for the periods ended April 30, 2007 and October 31, 2006. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From November 1, 2006 to April 30,2007	From May 1, 2006 to October 31,2006
Statutory tax rate	39.39%	39.39%
Deductible cash distributions	(39.38)	(39.37)
Other	0.03	0.03
Effective tax rate	0.04%	0.05%

10. 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.

11. RELATED-PARTY TRANSACTIONS

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

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

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Property management fees	¥ 202,279	¥ 183,464
Management transfer fees	21,200	66,200
Construction management fees	37,432	24,537

(b) Transactions with Y.K. KDX2 ("KDX2")

KDX2 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from KDX2 for ¥8,300 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(c) Transactions with Y.K. Lump Sum Investment (“Lump Sum”)

Lump Sum is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from Lump Sum for ¥7,100 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. KW Property10 (“KW Property10”)

KW Property10 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 2 properties from KW Property10 for ¥4,426 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. KW Property5 (“KW Property5”)

KW Property5 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 7 properties from KW Property5 for ¥7,310 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. KDX3 (“KDX3”)

KDX3 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 1 property from KDX3 for ¥3,680 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

12. 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, 2006 to April 30, 2007 and from May 1, 2006 to October 31, 2006 consist of the following:

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Rental and other operating revenues:		
Rental revenues	¥ 4,234,864	¥ 3,908,749
Common area charges	730,439	640,707
Subtotal	4,965,303	4,549,456
Others:		
Parking space rental revenues	182,047	175,387
Utility charge reimbursement	274,748	314,355
Miscellaneous	225,364	92,301
Subtotal	682,159	582,043
Total rental and other operating revenues	¥ 5,647,462	¥ 5,131,499
Property management fees and facility management fees	¥ 571,266	¥ 529,334
Depreciation	1,243,900	1,135,559
Utilities	275,900	296,833
Taxes	206,872	179,543
Insurance	14,701	13,979
Repairs and maintenance	89,964	62,666
Trust fees	46,396	43,761
Others	158,390	135,527
Total property-related expenses	¥ 2,607,389	¥ 2,397,202

13. 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, 2007 and October 31, 2006 are as follows:

	In thousands of yen	
	As of April 30, 2007	As of October 31, 2006
Due within one year	¥ 1,266,446	¥ 1,266,416
Due after one year	9,741,832	9,709,697
Total	¥ 11,008,278	¥ 10,976,113

14. DERIVATIVES AND HEDGE ACCOUNTING

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

The following summarizes the notional amounts of the interested-related positions outstanding as of April 30, 2007:

(As of April 30, 2007)

Type	Notional amount
Interest-rate swap: Fixed rate payable and floating rate receivable	¥43,800 million

15. PROPERTY INFORMATION

Details of the property portfolio as of April 30, 2007 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties	
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas
Number of properties	34	5	22	8	2	1
Property information						
(In millions of yen)						
Acquisition price	¥ 104,504	¥ 11,475	¥ 33,481	¥ 9,571	¥ 12,379	¥ 3,680
Percentage of total acquisition costs	59.7%	6.6%	19.1%	5.5%	7.1%	2.1%
Net book value	106,573	11,457	34,158	10,008	12,918	3,688
Appraisal value at year end	115,507	11,680	34,570	9,898	14,290	3,760
Percentage of total appraisal value	60.9%	6.2%	18.2%	5.2%	7.5%	2.0%
Financial results for the period ended April 30, 2007						
(In thousands of yen)						
Rental and other operating revenues	¥ 3,087,334	¥ 549,071	¥ 1,090,495	¥ 379,854	¥ 386,418	¥ 108,000
Rental revenues	2,742,506	459,137	1,013,089	322,332	275,495	108,000
Other revenues	344,828	89,934	77,406	57,522	110,923	—
Property-related expenses	758,438	207,552	175,945	128,684	72,489	8,275
Property management fees	303,838	106,093	86,413	37,266	29,687	4,239
Taxes	112,653	36,499	17,785	15,905	19,546	2,725
Utilities	198,902	38,528	11,851	7,126	19,006	—
Repairs and maintenance	28,636	18,050	14,583	25,470	256	—
Insurance	6,418	3,313	2,770	1,525	465	111
Trust fees and other expenses	107,991	5,069	42,543	41,392	3,529	1,200
NOI (Net Operating Income)	2,328,896	341,519	914,550	251,170	313,929	99,725
Depreciation expenses	603,001	181,014	271,223	97,438	69,650	9,856
Operating income from property leasing activities	1,725,895	160,505	643,327	153,732	244,279	89,869
Capital expenditures	727,217	34,231	14,184	65,632	289,794	—
NCF (Net Cash Flow)	1,601,679	307,288	900,366	185,538	24,135	99,725

A breakdown of property-type as of April 30, 2007 was as follows:

Class of assets	Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥ 106,288	56.4
		Other Regional Areas	11,456	6.1
	Subtotal		117,744	62.5
	Residential Properties	Tokyo Metropolitan Area	34,158	18.2
		Other Regional Areas	10,008	5.3
	Subtotal		44,166	23.5
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,918	6.8
		Other Regional Areas	3,689	2.0
	Subtotal		16,607	8.8
Total			178,517	94.8
Bank deposits and other assets			9,884	5.2
Total assets			188,401	100.0
Total liabilities			97,523	51.8
Net assets			¥ 90,878	48.2

16. SUBSEQUENT EVENTS

Issuance of New Investment Units

On April 26, 2007 and May 14, 2007, the Board of Directors of the Investment Corporation resolved to issue new investment units as follows. The payments for new investment units through public offering were completed on May 22, 2007. As a result of the issuance of additional investment units, the Investment Corporation had total unitholders' capital of \123,203,689,870 with 197,900 investment units outstanding as of May 22, 2007.

(1) Issuance of New Investment Units through Public Offering

Total number of newly issued units:	40,900units
Japanese Primary Offering:	26,710 units
International Offering:	14,190units
Offer price per unit:	\873,180
Total amount of offerings:	\35,713,062,000
Issue price per unit:	\842,886
Net proceeds:	\34,474,037,400
Payment date:	May 22, 2007
Delivery date of investment unit certificates:	May 23, 2007
Starting date of the computation for cash distribution:	May 1, 2007

(2) Issuance of New Investment Units through Third-party Allotment

Total number of newly issued units:	up to 2,100 units
Offer price per unit:	\842,886
Net proceeds:	\1,770,060,600
Payment date:	June 19, 2007
Delivery date of investment unit certificates:	June 20, 2007
Starting date of the computation for cash distribution:	May 1, 2007

Management Report

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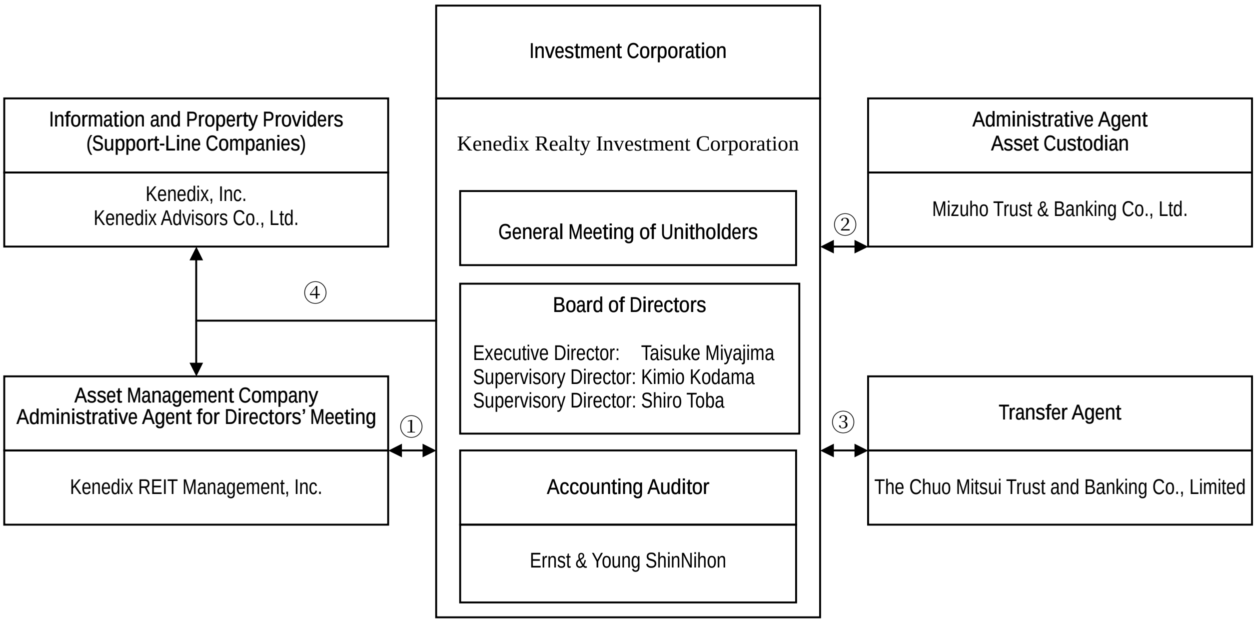
Structure of Investment Corporation



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

Board of Directors

The members of our board of directors are as follows:

Taisuke Miyajima

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

Kimio Kodama

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

Shiro Toba

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

Outline of the Asset Management Company

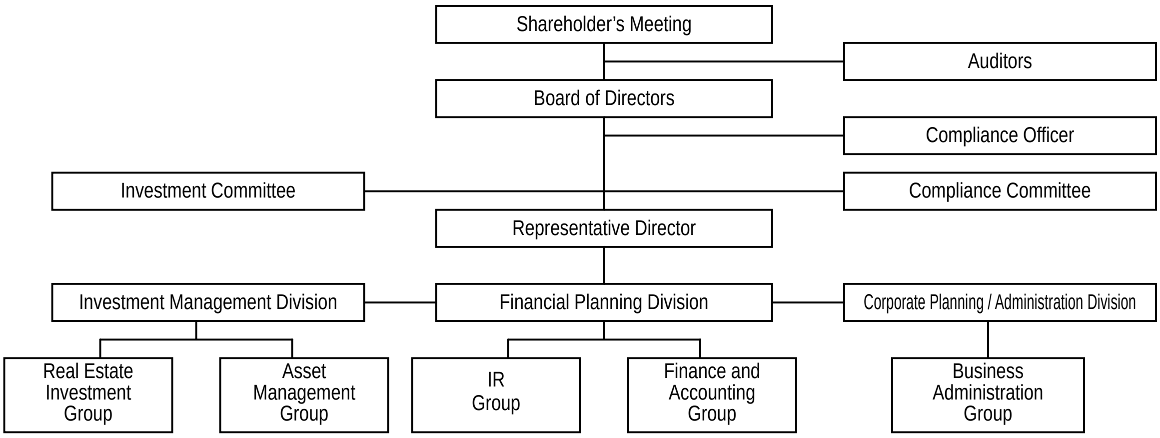
Name: Kenedix REIT Management, Inc.

Capital: ¥200 million

History:

November 28, 2003	KW REIT Management was established
July 2, 2004	Building Lots and Buildings Transaction Business License, License No. (1) 83303, issued by the Governor of Tokyo
November 9, 2004	Renamed to Kenedix REIT Management, Inc.
February 28, 2005	Discretionary Transaction Agent License, License No. 33, issued by the Governor of Tokyo
April 18, 2005	Investment Corporation/Asset Management License, License No. 44, granted by the Prime Minister of Japan
April 26, 2005	Obtained approval to be Operating Agent for the Investment Corporation

Organization Chart:



Principal Shareholder:

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

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

The Kenedix Group

The Kenedix Group is made up of 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 5.00% of our units as of April 30, 2007. Since our formation, which was promoted by Kenedix, we have received significant support from the Kenedix Group in our business and activities, particularly from Kenedix, Kenedix REIT Management Co., Ltd. ("Asset Management Company") and Kenedix Advisors Co., Ltd. ("Kenedix Advisors"). We expect to continue to rely on these companies and believe that our relationship with them provides us with competitive advantages.

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

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

• *Kenedix Advisors Co., Inc.* Kenedix Advisors was incorporated in November 2003 as a real estate fund and property management company, particularly for pension funds. Kenedix Advisors was renamed from KW Pension Fund Advisors Co., Ltd. in May 2005 and is a 100% subsidiary of Kenedix. We have appointed Kenedix Advisors as our property manager for all of our properties. Kenedix Advisors also acts as a leasing management company for most of our properties pursuant to variable pass-through master lease agreements described in this report.

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

Memorandum of Understanding with Kenedix and Kenedix Advisors

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

Support from Kenedix

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

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

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

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

• Information on Property Owned by Kenedix Private Placement Funds.

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

• Property Pre-Acquisition Support.

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

Support from Kenedix Advisors

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

• First-Preference to Properties Owned by Pension Funds.

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

Policies with Respect to Certain Activities

Basic Policies

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

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

Other Policies

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

Portfolio Management Policies

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

Types of Properties. We divide property acquisition targets into one of three functional types of properties: office properties, focusing on mid-sized office properties, central urban retail properties and residential properties. In light of the favorable market conditions and outlook for office buildings, in December 2006, we revised our portfolio goals to concentrate more on office properties.

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^2. 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. We intend to continue increasing our total portfolio size in the future. 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 targetting mid-sized office properties, with an emphasis on the Tokyo metropolitan area, especially central Tokyo. We believe that improved conditions in office property markets in major urban areas, including rising property values, occupancy ratios and rents, as well as greater transaction volume, create a favorable environment for expanding our portfolio. We seek to continue improving the quality of our portfolio, such as the location, size and type of properties, through various measures, including replacement of assets.

Leverage Relationship with the Kenedix Group

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

Utilize the Asset Manager's Original Network for Sourcing Properties

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

Make Diversified Acquisitions

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

Internal Growth Strategies

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

A key part of our strategy is to increase unitholder value through focused and proactive management of our properties. We expect the Asset Management Company and Kenedix Advisors, working with on-site property management companies, to develop and implement strategies to increase property value and revenues. 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, 2007.

Achieve Efficient Property Management Centralized under Kenedix Advisors

We seek to implement efficient property management and leasing by engaging Kenedix Advisors as the property and leasing 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. In addition, by entering into centralized leasing arrangements with Kenedix Advisors, we believe we can take advantage of its network and experience in locating and managing suitable tenants for our properties.

Distributions

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

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

Distribution Performance

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

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.

Trends of Investment Unit Certificate Price on the Tokyo Stock Exchange

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

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

The Main Investors of the Investment Corporation

The main investors of the Investment Corporation as of April 30, 2007 are as follows.

Name	Address	Number of Investment Units owned	Ratio (%)
Japan Trustee Services Bank, Ltd. (trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	14,239	9.06
Nikko Cititrust and Banking Co. (investment trust account)	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	9,909	6.31
State Street Bank and Trust Company	6-7, Kabutocho, Nihonbashi Chuo-ku, Tokyo	9,819	6.25
Trust & Custody Services Bank, Ltd. (securities investment trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	9,385	5.97
Kenedix, Inc.	2-2-9, Shimbashi, Minato-ku, Tokyo	7,850	5.00
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	7,636	4.86
CGML-London Equity	2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo	6,243	3.97
The Bank of New York, Treaty JASDEC Account	2-7-1, Marunouchi, Chiyoda-ku, Tokyo	5,175	3.29
UBS AG London Asia Equities	1-5-1, Otemachi, Chiyoda-ku, Tokyo	3,853	2.45
The Gibraltar Life Insurance (Units held in general and other accounts)	1-8-11, Harumi, Chuo-ku, Tokyo	3,599	2.29
	Total	77,708	49.45

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, 2007 are as follows.

Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks
Short-Term Borrowings	Sumitomo Mitsui Banking Corporation	March 1, 2006	500	-	0.732	February 28, 2007	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation	May 1, 2006	1,000	-	0.725	April 30, 2007			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	-					
	Aozora Bank, Ltd.	July 31, 2006	2,000	2,000	0.725	July 31, 2007			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Resona Bank, Ltd.		500	500					
	Mitsubishi UFJ Trust and Banking Corporation		500	500					
	The Chuo Mitsui Trust and Banking Co., Ltd.	September 20, 2006	3,000	3,000	0.745	September 20, 2007			
	Aozora Bank, Ltd.		2,000	-					
	Resona Bank, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation	October 31, 2006	1,000	1,000	0.745	October 31, 2007			
	Sumitomo Mitsui Banking Corporation	December 1, 2006	-	500	0.816	November 30, 2007			
	Resona Bank, Ltd.	January 19, 2007	-	500	0.837	January 18, 2008			
	The Chiba Bank, Ltd.		-	500					
	The Chuo Mitsui Trust and Banking Co., Ltd.	March 1, 2007	-	250	0.961	February 29, 2008			
	Sumitomo Mitsui Banking Corporation		-	1,750					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		-	500					
	Mitsubishi UFJ Trust and Banking Corporation		-	1,000					
	Aozora Bank, Ltd.	April 2, 2007	-	2,000	0.945	October 2, 2007			
	Mitsubishi UFJ Trust and Banking Corporation			1,500	0.965	April 2, 2008			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		-	1,000	1.015				
	Sub Total		13,500	18,500					

Classification	Lender	Drawdown Date	Balance at the End of Previous Period (Millions of Yen)	Balance at the End of current Period (Millions of Yen)	Interest Rate (Note 1)	Repayment Date	Payment Method	Usage	Remarks
Long-Term Borrowings	Mitsubishi UFJ Trust and Banking Corporation	August 1, 2005	2,700	2,700	0.869	July 31, 2008	Full on maturity	(Note 2)	Unsecured/ Unguaranteed
	The Norinchukin Bank		2,500	2,500					
	The Chiba Bank, Ltd.		1,200	1,200					
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,000	1,000					
	Sumitomo Mitsui Banking Corporation		1,000	1,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		800	800					
	Resona Bank, Ltd.		300	300					
	The Chuo Mitsui Trust and Banking Co., Ltd.		3,750	3,750	1.288	July 31, 2010			
	Sumitomo Mitsui Banking Corporation		3,750	3,750					
	Mitsubishi UFJ Trust and Banking Corporation		1,500	1,500					
	Resona Bank, Ltd.		500	500					
	Sumitomo Mitsui Banking Corporation	November 1, 2005	1,500	1,500	0.769	October 31, 2007			
	The Norinchukin Bank		3,000	3,000	1.090	October 31, 2008			
	Resona Bank, Ltd.		500	500					
	Aozora Bank, Ltd.	December 8, 2005	1,500	1,500	1.098	December 7, 2008			
	Resona Bank, Ltd.		500	500					
	The Chiba Bank, Ltd.	March 1, 2006	800	800	1.449	February 28, 2009			
	Aozora Bank, Ltd.		500	500					
	Mitsui Sumitomo Insurance Co., Ltd.		700	700					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 16, 2006	2,500	2,500	1.476	March 16, 2009			
	Aozora Bank, Ltd.	May 1, 2006	2,000	2,000	1.629	April 30, 2009			
	The Chuo Mitsui Trust and Banking Co., Ltd.		1,500	1,500					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.		1,000	1,000					
	Mitsubishi UFJ Trust and Banking Corporation		1,000	1,000					
	Resona Bank, Ltd.		1,000	1,000					
	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		5,000	5,000	2.731	April 30, 2016			
	Mitsubishi UFJ Trust and Banking Corporation	July 14, 2006	1,000	1,000	2.149	July 13, 2011			
	Development Bank of Japan	September 1, 2006	3,000	3,000	2.124	August 31, 2013			
	The Norinchukin Bank	December 1, 2006	-	2,500	1.964	November 30, 2011			
	Sumitomo Mitsui Banking Corporation	April 2, 2007	-	2,000	1.574	April 2, 2010			
	The Chuo Mitsui Trust and Banking Co., Ltd.		-	2,000	1.875	April 2, 2012			
	The Norinchukin Bank	April 17, 2007	-	3,000	1.043	April 16, 2011			
	Sub Total		48,500	58,000					
	Total		62,000	76,500					

Notes:

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

Investment Corporation Bonds

The status of the investment corporation bonds as of April 30, 2007 are as follows.

(Millions of Yen)

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

Notes:

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

Portfolios Outline

Composition of Portfolio Assets

Type of Specified Asset	Type	Area	Third Fiscal Period (As of October 31, 2006)		Fourth Fiscal Period (As of April 30, 2007)	
			Total Amount Held (Millions of Yen)	Ratio (%)	Total Amount Held (Millions of Yen)	Ratio (%)
Real Estate	Office Buildings	Tokyo Metropolitan Area	3,466	2.2	13,047	6.9
	Central Urban Retail Properties	Tokyo Metropolitan Area	52	0.0	50	0.0
Total for Real Estate			3,519	2.2	13,097	6.9
Trust Beneficiary Interest in Real Estate	Office Buildings	Tokyo Metropolitan Area	73,733	46.0	93,525	49.6
		Other Regional Areas	10,225	6.4	11,456	6.1
	Total for Office Buildings		83,958	52.4	104,981	55.7
	Residential Properties	Tokyo Metropolitan Area	35,858	22.4	34,158	18.1
		Other Regional Areas	10,039	6.3	10,008	5.3
	Total for Residential Properties		45,898	28.6	44,166	23.4
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,645	7.9	12,867	6.8
		Other Regional Areas	3,698	2.3	3,688	2.0
	Total for Central Urban Retail Properties		16,343	10.2	16,556	8.8
Total of Trust Beneficiary Interests in Real Estate			146,200	91.2	165,704	88.0
Bank Deposits and Other Assets			10,594	6.6	9,598	5.1
Total Assets			160,314	100.0	188,400	100.0

Note: "Total Amount Held" is the amount allocated in the balance sheets at the end of the period (figures are on a net book value basis after deducting depreciation).

Purchase and Sales during the Fiscal Period Under Review

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

Type	Area	No.	Property Name	Purchase		Sales			
				Date of Acquisition	Acquisition Price (Millions of Yen)	Date of Sales	Sales Price (Millions of Yen)	Book Value (Millions of Yen)	Capital Gain (Loss) (Millions of Yen)
Office	Tokyo Metropolitan Area	A-37	KDX Ochanomizu Building	April 2, 2007	6,400	-	-	-	-
		A-32	KDX Shiba-Daimon Building	March 1, 2007	6,090	-	-	-	-
		A-39	KDX Toranomon Building	April 17, 2007	4,400	-	-	-	-
		A-30	KDX Nishi-Gotanda Building	December 1, 2006	4,200	-	-	-	-
		A-33	KDX Okachimachi Building	March 1, 2007	2,000	-	-	-	-
		A-38	KDX Nishi-Shinjuku Building	April 2, 2007	1,500	-	-	-	-
		A-31	KDX Monzen-Nakacho Building	January 19, 2007	1,400	-	-	-	-
		A-34	KDX Hon-Atsugi Building	March 1, 2007	1,305	-	-	-	-
		A-35	KDX Hachioji Building	March 1, 2007	1,155	-	-	-	-
	Other Regional Areas	A-36	KDX Niigata Building	March 1, 2007	1,305	-	-	-	-
	Total of Office				29,755	-	-	-	-
Residential	Tokyo Metropolitan Area	B-14	Court Shinbashi	-	-	April 20, 2007	895	761	112
		B-15	Court Suitengu	-	-	April 20, 2007	708	672	18
	Total of Residential				-	-	1,603	1,433	130
Total					29,755	-	1,603	1,433	130

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

Capital Expenditure

Planned capital expenditures

Major capital expenditure plans for renovation of properties in which the Investment Corporation holds a trust beneficiary interest for the fourth fiscal period (May 1, 2007 to October 31, 2007) are as follows. Planned capital expenditure includes portions classified into expenses for accounting purposes.

Property Name (Location)	Purpose	Schedule	Planned Amount of Capital Expenditure (Millions of Yen)		
			Total	Paid in the Fiscal Period Under Review	Total Amount Previously Paid
KDX Toranomon Building (Minato-ku, Tokyo)	Renovation for the entire building	May 2007 to October 2007	330	—	—
KDX Niigata Building (Niigata-shi, Niigata)	Renewal work for common use areas, upgrade of air conditioning system, other	As above	110	—	—
Ashiya Royal Homes (Ashiya-shi, Hyogo)	Upgrade of indoor facilities, other	As above	95	—	—
KDX Shiba-Daimon Building (Minato-ku, Tokyo)	Renovation for external wall, upgrade of individual air conditioning system, other	As above	72	—	—
KDX Funabashi Building (Funabashi-shi, Chiba)	Renovation for external wall, other	As above	55	—	—

Capital Expenditures During the Fourth Fiscal Period

The Investment Corporation undertook the following major capital expenditures as follows. In the fourth fiscal period, the Investment Corporation completed work across its entire portfolio totaling ¥1,222 million. This total comprised of ¥1,132 million in capital expenditures and ¥89 million for repairs, maintenance and renovation expenses.

Property Name (Location)	Purpose	Schedule	Amount of Capital Expenditures (Millions of Yen)
Frame Jinnan-zaka (Shibuya-ku, Tokyo)	Fully renewal work, other	November 2006 to April 2007	287
KDX Nihonbashi 313 Building (Chuo-ku, Tokyo)	Plumbing equipment work, interior facilities work, other	As above	159
Higashi-Kayabacho Yuraku Building (Chuo-ku, Tokyo)	Upgrade of individual air conditioning system, other	As above	136
KDX Funabashi Building (Funabashi-shi, Chiba)	Upgrade of air conditioning system, other	As above	82
KDX Nishi-Gotanda Building (Shinagawa-ku, Tokyo)	Renovation for entrance, other	As above	48
Ashiya Royal Homes (Ashiya-shi, Hyogo)	Upgrade of indoor facilities and parking facilities, other	As above	41
Harajuku F.F. Building (Shibuya-ku, Tokyo)	Upgrade of air conditioning system, other	As above	28
Hakata-Ekimae Dai-2 Building (Hakata-shi, Fukuoka)	Renovation for external wall, other	As above	18
Others			328
Portfolio Total			1,132

Long-Term Repairs, Maintenance, and Renovation Plans

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

(Millions of Yen)

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

Expenses and Liabilities

Details for Expenses

(Thousands of Yen)

Item	Third Fiscal Period	Fourth Fiscal Period
(a) Asset management fees	203,842	306,965
(b) Custodian fees	11,705	17,928
(c) Administrative service fees	35,023	48,672
(d) Directors' salaries	5,400	5,400
(e) Audit fees	5,900	7,800
(f) Other operating expenses	64,569	97,309
Total	326,439	484,075

Note : In addition to the asset management fees indicated in the above table, a total of ¥193,157 thousand for the third fiscal period and ¥117,550 thousand for the fourth 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

There were no related-party transactions under the Investment Trust Law.

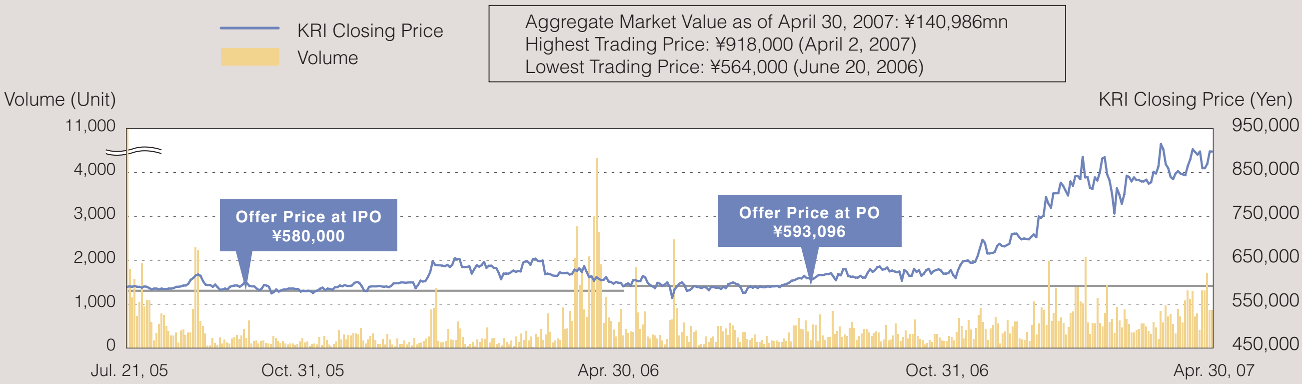
(2) Fees

Classification	Total Fees (A) (Thousands of Yen)	Details of fees and other payments to related parties		Ratio (B /A)%
		Payment Recipient	Amount of Fee (B) (Thousands of Yen)	
Leasing management fees	202,279	Kenedix Advisors Co., Ltd.	202,279	100.0
Management transfer fees	21,200	As above	21,200	100.0
Construction supervision fees	37,431	As above	37,431	100.0

Note: Related parties in the above table are the related parties for the Asset Management Company, which are defined under Implementation Ordinance No. 20 of the Investment Trust Law.. Transaction details and commissions paid to Kenedix Advisors during the fiscal period under review are listed in the above table.

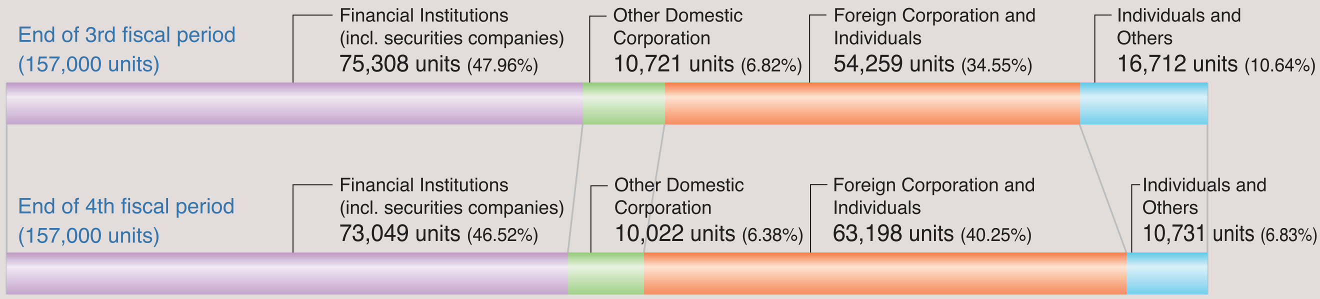
Trends in Investment Unit Prices

The Investment Corporation's investment unit certificates were first listed on the Tokyo Stock Exchange on July 21, 2005. Trends in investment unit price and trading turnover from the date of public listing to the close of its fourth fiscal period, April 27, 2007, are provided in the following table.



Notes: 1. Investment unit prices are shown based upon closing prices.
2. References to "KRI" are to Kenedix Realty Investment Corporation.

Details of the Unitholders



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

Information Provided on the Investment Corporation's Website

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

URL	http://www.kdx-reit.com/eng/

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BESTINVEST
KENEDIX
Realty Investment Corporation

Kenedix Realty Investment Corporation
Corporate Data
(As of August 1, 2007)

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
200,000units

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

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

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

URL: http://www.kdx-reit.com/eng/