

May 17, 2012

JAPAN REAL ESTATE INVESTMENT CORPORATION ANNOUNCEMENT OF TWENTYFIRST FISCAL PERIOD RESULTS

1. Summary of Financial Results

In the 21st fiscal period (six months ended March 31, 2012), Japan Real Estate Investment Corporation (“JRE”) recorded operating revenues totaling 24,059 million yen, up 5.4% compared with the previous period. On the earnings front, operating income increased 3.9% to 10,786 million yen. After deducting expenses for interest payments on loans and other costs, ordinary income rose 3.0% to 8,863 million yen and net income improved 8.1% to 8,934 million yen.

Turning to dividends, JRE maintains the total amounts of reserve for reduction entry and income taxes deferred related to reserve for reduction entry accumulated in the previous fiscal period, both of which were recorded in accordance with stipulations under Article 67-15 of the Special Taxation Measures Law of Japan, as well as based on the “Special Provisions for Taxation in the case of Advance Acquisition of land, etc. in 2009 and 2010” under Article 66-2 of said law (which is intended to ensure that a stable cash dividend level is maintained), and allocates the adjusted amount of deferred tax liability to reserve for reduction entry, reflecting changes in corporate tax rates. Therefore, JRE has determined to pay out cash dividends of 8,888,957,600 yen from retained earnings for the period under review, which must be divisible by 549,040—the number of units outstanding as of March 31, 2012. Accordingly, the per-unit cash dividend totaled 16,190 yen.

2. Results of Operations

(1) Property Management and Acquisition

During the period under review, conditions in the Japanese economy remained severe due to a delay in full-fledged economic recovery. Despite a faster-than-anticipated restoration of the supply capacity disrupted by the Great East Japan Earthquake, such economic difficulties were mainly attributable to lackluster demand for disaster-related reconstruction despite positive expectations due to stalled government measures; flood damage in Thailand; and the extremely strong yen, reflecting sovereign risk in Europe.

In the market for leased office space, occupancy rates for office buildings in Tokyo stopped falling for the most part. However, rent levels remained on a downward trend due to ongoing high vacancy rates amid an excessive supply of new buildings. In regional business areas, although there were signs that occupancy rates in certain urban areas were gradually beginning to improve, the overall trend of high vacancy rates coupled with low rent levels prevailed amid stagnant demand for office space.

In the property market, difficulties remained in establishing common ground regarding prices with buyers acting more conservatively, in line with actual market conditions for leased office space, and sellers pinning expectations on a rebound in economic and property market conditions. In addition, the transaction volume failed to rally due to an accommodative fund raising environment that encouraged potential sellers to hold on to their properties.

Amid such harsh circumstances, JRE strived to improve occupancy rates by aggressively promoting leasing activities that take into account market trends. As a result of these activities, JRE’s occupancy rate edged up from 94.6% as of September 30, 2011 to 94.7% as of March 31, 2012. In addition, as part of its external growth strategy, JRE worked to strengthen its portfolio through the

acquisition of the Akasaka Park Building, a highly competitive, large-sized office building located in central Tokyo.

As a result of the above, JRE's portfolio as of March 31, 2012, consisted of 57 office buildings with a total acquisition price of 718,663 million yen. Total leasable space stood at 629,761 m², with a total of 1,058 tenants.

(2) Finance Activities

To fund the repayment of existing loans (including those to be repaid prior to maturity), JRE procured loans totaling 7,500 million yen on November 1, 2011; 2,000 million yen on December 15, 2011; and 7,000 million yen on March 26, 2012.

Moreover, JRE procured 37,000 million yen in short-term loans and 17,000 million yen in long-term loans on November 15, 2011 to fund the acquisition of the Akasaka Park Building.

At the same time, JRE decided to issue 54,400 new investment units through public offering and 5,440 new investment units through third-party allocation during the period under review. Through these new unit issuances, JRE procured 35,471 million yen on February 28, 2012 and 3,547 million on March 27, 2012, respectively.

JRE made repayments of short-term loans prior to their maturity in the amounts of 35,400 million yen and 3,600 million yen on February 29, 2012 and March 29, 2012, respectively, with funds procured through the issuance of the above investment units.

As a result of these financing activities, as of March 31, 2012, JRE's total interest-bearing debt amounted to 284,300 million yen. This amount consists of long-term loans totaling 215,800 million yen (including a current portion totaling 50,100 million yen), short-term loans totaling 13,500 million yen, and investment corporation bonds totaling 55,000 million yen (including a current portion totaling 10,000 million yen).

As of March 31, 2012, JRE's long-term, fixed-interest debt ratio (ratio of long-term, fixed-interest debt, including the current portion of long-term loans and investment corporation bonds, to total interest-bearing debt) stood at 95.3%, and the LTV ratio (ratio of interest-bearing debt to total assets) was 40.4%. As these figures indicate, JRE has been able to maintain a sound and conservative financial standing.

JRE's credit ratings as of March 31, 2012 were as follows:

Rating Agency	Credit Rating
Standard & Poor's Ratings Japan K.K.	Long-term: A+; Short-term: A-1; Outlook: Stable
Moody's Japan K.K.	Rating: A1; Outlook: Negative
Rating and Investment Information, Inc.	Rating: AA; Outlook: Stable

3. Outlook

(1) Operating Environment

The Japanese economy is anticipated to gradually recover since numerous negative factors continuing from the previous year—particularly the impact of the Great East Japan Earthquake—have become less prominent. However, recessionary risks remain due to various factors that include ongoing power supply problems, a slowing of overseas economies, an exacerbation of the European financial crisis, the renewed strength of the yen and higher oil prices.

In the market for leased office space, vacancy rates are projected to remain at current levels for the foreseeable future, reflecting low expectations that demand will rapidly increase. However, market rent levels are expected to bottom out in the latter half of 2012 thanks to efforts to promote

adjustments to current rent levels to increase affordability for tenants as well as a decrease in the supply of new buildings.

Regarding property markets, JRE believes that an increase in sales property information will continue to be unlikely for the time being due to a fund-raising environment that remains accommodative. In order to continue steadily acquiring prime properties, JRE considers it important to maintain agile and accurate decision making. Such decision making is facilitated by detailed analysis of leasing markets and the acquisition of sales information through a variety of property information channels.

a. Property Management

As stated above, conditions in the market for leased office space are anticipated to be severe as the fall in market rent levels has not yet completely bottomed out. Therefore, the downward pressure on rent levels is expected to remain strong. In line with these expectations, JRE will adhere to the following management policies in order to keep improving profitability.

- (i) Strengthen relationships of trust with existing tenants
As of March 31, 2012, JRE had contracts with 11 property management companies. Most of these companies were already handling the management of their buildings before JRE acquired them and had thus built relationships of trust with their tenants. JRE will work to further strengthen these relationships by anticipating tenants' needs and providing tailored services to increase tenant satisfaction, thereby maintaining occupancy rates and disincentivizing rent reduction requests.
- (ii) Fill vacancies promptly
In cooperation with the property management companies mentioned above, JRE will actively seek the most appropriate tenants for each property, based on location and features, in order to fill current and anticipated vacancies as rapidly as possible. Furthermore, JRE will work to uncover additional needs for floor space among existing tenants.
- (iii) Stabilize revenues and earnings
With the aim of stabilizing revenues and earnings, JRE will endeavor to secure fixed- and long-term leasing agreements with its large-scale tenants.
- (iv) Reduce management costs
JRE has introduced sound competitive principles for its multiple property management companies to follow and is revamping their management systems and cost structures on an ongoing basis.

b. Property Acquisitions and Sales

JRE has adopted the following policies for acquiring properties.

- (i) To access important information quickly, JRE continues to enhance its property information channels while working to develop new channels.
- (ii) In its acquisition activities, JRE continues to meticulously monitor and examine economic, physical and legal factors, including rights-related issues, when selecting properties. In particular, with regard to the structure of buildings, JRE requires buildings to meet or exceed new earthquake-resistance standards and exclusively targets properties capable of maintaining a competitive edge in terms of the facilities they offer over the medium to long term.
- (iii) In accordance with its acquisition policies, JRE shall maintain its portfolio so that 70% or more of the portfolio properties are located within the Tokyo metropolitan area, with the remaining 30% or fewer located in other major cities.

Under these policies, JRE will continue to acquire highly competitive properties. At the same time, in order to further enhance the quality of its portfolio, JRE will remain open to the replacement of portfolio properties with due consideration given to timing.

c. Financial Strategy

In principle, JRE shall maintain an LTV ratio that does not exceed 65%. To ensure an even lower interest-bearing debt ratio, JRE adopts the conservative target level of 30% to 40%. As for the financing of property acquisitions, JRE shall use, in a flexible manner, a variety of funding schemes—including the issue of investment corporation bonds—while maintaining a sound and conservative financial standing and closely monitoring trends in financial markets. When obtaining a loan, JRE shall strictly adhere to its financial policies. More specifically, with the aim of minimizing funding costs, JRE shall negotiate with several qualified institutional investors (limited to those defined under the Special Taxation Measures Law of Japan) before executing a loan agreement.

(2) Performance Forecasts

For the 22nd fiscal period (April 1, 2012, to September 30, 2012), JRE forecasts operating revenues totaling 24,050 million yen, operating income totaling 10,220 million yen, ordinary income totaling 8,350 million yen, and net income totaling 8,430 million yen. JRE plans to declare a cash dividend totaling 15,700 yen per unit.

For the 23rd fiscal period (October 1, 2012, to March 31, 2013), JRE forecasts operating revenues totaling 24,370 million yen, operating income totaling 10,240 million yen, ordinary income totaling 8,330 million yen, and net income totaling 8,310 million yen. JRE plans to declare a cash dividend totaling 15,140 yen per unit.

The above estimates for the 22nd and 23rd fiscal periods are based on the following assumptions.

JRE assumes that its property portfolio will consist of the 58 properties that it held as of April 1, 2012, plus TIXTOWER UENO, which is scheduled to be purchased on June 15, 2012. The actual portfolio may differ from this assumption due to additional property acquisitions and sales.

JRE assumes that the number of units outstanding as of May 17, 2012, 549,040, will remain unchanged over the two fiscal periods.

JRE assumes as an operational guideline, an LTV ratio in the 30% to 40% range.

In the 22nd fiscal period, JRE presumes that it will undertake new long-term loans totaling 22,000 million yen for the acquisition of the TIXTOWER UENO (scheduled for June 15, 2012). As of May 17, 2012, JRE also presumes that it will refinance the remainder of short-term loans totaling 5,500 million yen (repayment dates: June 1, 2012, August 1, 2012 and September 3, 2012) and long-term loans totaling 1,000 million yen (repayment date: August 31, 2012). In addition, JRE assumes that it will redeem investment corporation bonds totaling 10,000 million yen (maturity date: June 18, 2012) through funds procured from the issuing of investment corporation bonds or the undertaking of loans.

In the 23rd fiscal period, JRE presumes that, as of May 17, 2012, it will refinance the remainder of short-term loans totaling 8,000 million yen (repayment dates: November 1, 2012 and March 26, 2013) and long-term loans totaling 49,000 million yen (repayment dates: October 29, 2012, December 20, 2012, December 21, 2012, January 15, 2013 and March 25, 2013). There are no

investment corporation bonds set to mature in the 23rd fiscal period.

Revenues from portfolio properties held by JRE (including TIXTOWER UENO) are calculated by taking into consideration new contract conclusions and existing contract cancellations fixed as of May 17, 2012, and by factoring in potential variables, such as a risk of decrease in revenues due to returned space and reduced rent levels, taking into account recent market conditions for leased office space.

JRE assumes that dividend amounts in the 22nd fiscal period will be calculated by allocating 280 million yen from internal reserves.* In addition, the deferred tax liability will decrease in tandem with the amount allocated from reserve for reduction entry; the applicable amount of decrease will be a contributing factor to a rise in net income (income taxes deferred).

* The total of 909 million yen consists of the amount apportioned to internal reserves from the gain on sale of land as a result of the sale of the Takanawadai Building as of April 1, 2011 under the application of the Special Provisions for Taxation in the case of Advanced Acquisition of Land, etc. in 2009 and 2010 (total of 878 million yen which consists of reserve for reduction entry and associated income taxes deferred) and retained earnings of 30 million yen.

JRE presumes that revisions that could impact the above-mentioned forecasts will not be made in such areas as laws, tax systems, accounting standards, and listing rules as well as regulations of the Investment Trusts Association, Japan.

JRE assumes that there will be no unprecedented significant changes in general market trends or real estate market conditions.

In addition to the abovementioned income taxes—deferred, JRE calculates the amount of its corporate tax, taking into consideration asset retirement obligations as well as the depreciation of leasehold for a building with term leasehold interest.

Income Statement for the 21st Period

(In millions of yen; Dividend per unit in yen)								
Term	20th Period (Sep 30, 2011)	→ change →		21st Period (Mar 31, 2012)	← change ←		21st Period (Mar 31, 2012)	
	Actual/Forecast	Actual	(amount) (%)	Actual	(amount) (%)		Previous Forecast (*1)	
Operating Revenues		22,829	1,229 5.4%	24,059	19 0.1%		24,040	
Property-related Revenues		22,283	1,776 8.0%	24,059	19 0.1%		24,040	
Rental Revenues		22,187		23,775				
Non-rental Revenues		95		284				
Gain on Sale of Properties (*2)		546	-546 -100.0%	-	-		-	
Operating Expenses		12,449	823 6.6%	13,273	-		-	
Property-related Expenses (*3)		7,162	535 7.5%	7,697	-		-	
Property Management Expenses		2,573	291 11.3%	2,864				
Property Management Costs		2,533		2,784				
Brokerage Fees, etc.		39		80				
Utilities Expenses		1,686	116 6.9%	1,802				
Property and Other Taxes		2,081	-7 -0.3%	2,074				
Casualty Insurance		47	3 7.0%	51				
Repairing Expenses		585	115 19.8%	700				
Other Expenses		187	15 8.3%	203				
NOI (*4)		15,121	1,240 8.2%	16,361	-		-	
Depreciation		4,433	257 5.8%	4,690	-		-	
Property-related Profits and Losses (*4)		10,687	983 9.2%	11,671	-		-	
Gross Operating Income		11,234	436 3.9%	11,671	-		-	
Administrative Expenses		854	30 3.6%	884	-		-	
Asset Management Fees		546	32 6.0%	579	-		-	
Other Administrative Expenses		307		305				
Operating Income		10,380	405 3.9%	10,786	46 0.4%		10,740	
Non-operating Revenues		30		5				
Interest Income		6		5				
Other Non-operating Revenues		24		0				
Non-operating Expenses		1,807		1,928				
Interest Expense		1,295	48 3.7%	1,343	-		-	
Interest Expense on Investment Corporation Bonds		471	-1 -0.4%	469				
Amortization of Investment Corporation Bond Issuance Costs		21		21				
Other Non-operating Expenses		18		93				
Ordinary Income		8,603	259 3.0%	8,863	93 1.1%		8,770	
Income before Income Taxes		8,614		8,904				
Income Taxes		346		-30				
Net Income		8,268	666 8.1%	8,934	104 1.2%		8,830	
Retained Earnings at Period-end		8,317		8,964				
FFO (*5)		12,154	1,470 12.1%	13,625				
Dividend per Unit		15,850	340 2.1%	16,190	190 1.2%		16,000	

*1 The previous forecast means adjusted performance forecast of the 21st Period's operating condition announced on February 13, 2012.

*2 Gain on sale of properties + Gain on exchange of properties

*3 Excluding Depreciation

*4 Excluding Gain on sale of properties

*5 Net income + Depreciation - Gain on sale of properties

Balance Sheet for the 21st Period

(In millions of yen)

Item	20th Period (Sep 30, 2011)	21st Period (Mar 31, 2012)	Change	Reason for change
Assets				
I Current Assets				
Cash and Bank Deposits	19,366	18,661	-704	Increased due to refundable consumption taxes, etc.
Other Current Assets	256	699	442	
Total Current Assets	19,623	19,360	-262	
II Fixed Assets				
Property and Equipment				Increased due to capital expenditure and the acquisition of property
Buildings (including those held in trust)	235,336	251,144	15,808	
Structures (including those held in trust)	2,590	2,957	366	
Machinery and Equipment (including that held in trust)	3,213	3,277	64	
Land (including that held in trust)	424,833	472,709	47,876	
Accumulated Depreciation	-50,887	-55,559	-4,671	
Total Property and Equipment	615,085	674,530	59,444	
Intangible Assets				
Leasehold rights, etc. (including those held in trust)	7,456	7,440	-15	
Total Intangible Assets	7,456	7,440	-15	
Investments and Other Assets				
Investment Securities	577	577	-	
Long-term Prepaid Expenses, etc.	1,088	1,079	-8	
Total Investments and Other Assets	1,665	1,656	-8	
Total Fixed Assets	624,207	683,627	59,419	
III Deferred Assets				
Deferred Investment Corporation Bond Issuance Costs	118	96	-21	
Total Deferred Assets	118	96	-21	
Total Assets	643,949	703,085	59,135	

(In millions of yen)

Item	20th Period (Sep 30, 2011)	21st Period (Mar 31, 2012)	Change	Reason for change
Liabilities				
I Current Liabilities				
Short-term Loans	16,500	13,500	-3,000	Increased due to the new loan for property acquisition and decreased due to repayment of short-term loans by net proceeds of capital increase
Current Portion of Long-term Loans	8,100	50,100	42,000	Increased due to decrease of remaining periods of loans
Current Portion of Investment Corporation Bonds	10,000	10,000	-	Decreased due to refinancing to long-term loans, etc.
Rent Received in Advance	2,477	3,156	679	Increased due to property acquisition, etc.
Other Current Liabilities	3,019	2,535	-484	
Total Current Liabilities	40,097	79,292	39,195	
II Long-term Liabilities				
Investment Corporation Bonds	45,000	45,000	-	
Long-term Loans	189,750	165,700	-24,050	Increased due to the new loan for property acquisition and decreased due to the transfer to the current portion of long-term loans.
Deposits Received from Tenants	35,788	39,622	3,833	Increased due to property acquisition, etc.
Other Long-term Liabilities	642	600	-42	Decreased due to adjusted balance of deferred tax liabilities related to the revision of corporate tax rates
Total Long-term Liabilities	271,181	250,922	-20,258	
Total Liabilities	311,279	330,215	18,936	
Net Assets				
Unitholders' Capital	324,353	363,371	39,018	Increased due to investment units issuance
Reserve for Reduction Entry	-	533	533	Increased due to reserve for reduction entry
Retained Earnings	8,317	8,964	647	
Total Net Assets	332,670	372,869	40,199	
Total Liabilities and Net Assets	643,949	703,085	59,135	

Property Data

(In millions of yen)

Area		Name	21st Period Appraisal Value (Mar 31, 12)	20th Period Appraisal Value (Sep 30, 11)	Amount of Difference	21st Period Book Value (Mar 31, 12)	21st Period Appraisal Value — Book Value	Acquisition Price
Tokyo 23 Wards	Chiyoda	Genki Medical Plaza	6,160	6,100	60	4,958	1,201	5,000
		Kitanomaru Square	68,700	68,700	0	76,921	-8,221	81,555
		MD Kanda	7,810	8,750	-940	8,782	-972	9,520
		Kandabashi Park	4,290	4,560	-270	4,566	-276	4,810
		Nibancho Garden	16,300	16,300	0	13,442	2,857	14,700
		Mitsubishi UFJ Trust	45,800	46,500	-700	29,760	16,039	44,700
		Burex Kojimachi	6,390	6,220	170	6,273	116	7,000
		Sanno Grand	29,600	29,000	600	21,369	8,230	20,900
		Yurakucho Denki	7,430	7,430	0	7,828	-398	7,200
	Chuo	Kodenmachi	2,980	3,110	-130	2,808	171	3,173
		Kyodo (Kayabacho 2Chome)	4,780	4,710	70	4,403	376	4,410
		Burex Kyobashi	6,330	6,170	160	4,775	1,554	5,250
		Ginza Sanwa	14,600	14,600	0	17,044	-2,444	16,830
		Ryoshin Ginza EM	5,040	5,300	-260	7,753	-2,713	7,999
		Harumi Center	20,000	20,300	-300	24,865	-4,865	26,800
	Minato	Aoyama Crystal	7,240	7,460	-220	7,331	-91	7,680
		Shiodome	78,000	78,000	0	74,884	3,115	75,850
		Shiba 2Chome Daimon	5,910	6,060	-150	4,809	1,100	4,859
		Cosmo Kanasugibashi	2,610	2,730	-120	2,565	44	2,808
	Shinjuku	Shinwa	5,740	5,980	-240	7,590	-1,850	7,830
		Tokyo Opera City	30,400	30,900	-500	30,447	-47	31,776
	Shinagawa	Higashi-Gotanda 1Chome	5,600	5,650	-50	4,907	692	5,500
		Osaki Front Tower	15,170	15,180	-10	12,135	3,034	12,300
	Ota	Omori-Eki Higashiguchi	5,330	5,250	80	4,563	766	5,123
	Shibuya	Nippon Brunswick	6,730	7,040	-310	6,867	-137	6,670
		Yoyogi 1Chome	9,870	9,990	-120	7,674	2,195	8,700
		da Vinci Harajuku	6,120	6,090	30	4,930	1,189	4,885
		Jingumae MS	10,200	10,400	-200	10,956	-756	12,200
		Shibuya Cross Tower	42,000	40,800	1,200	38,438	3,561	34,600
		Ebisu Neonato	2,740	2,800	-60	3,559	-819	4,100
	Nakano	Harmony Tower	9,630	9,450	180	7,828	1,801	8,500
	Toshima	Otsuka Higashi-Ikebukuro	3,820	3,820	0	3,551	268	3,541
		Ikebukuro 2Chome	1,610	1,580	30	1,618	-8	1,728
		Ikebukuro YS	4,120	4,230	-110	4,415	-295	4,500
Other Areas	Hachioji	Hachioji First	4,170	4,450	-280	5,179	-1,009	5,679
	Saitama	Saitama Urawa	2,030	2,070	-40	2,521	-491	2,574
	Yokohama	MM Park	35,600	35,900	-300	35,329	270	37,400
	Kawasaki	Kawasaki Isago	2,730	2,720	10	2,856	-126	3,375
		Musashi Kosugi STM	3,560	3,510	50	3,860	-300	4,000
	Sapporo	8・3 Square Kita	6,630	6,630	0	6,709	-79	7,100
	Sendai	Jozenji Park	880	887	-7	970	-90	1,000
		Sendai Honma	2,470	2,480	-10	2,757	-287	3,174
	Kanazawa	Kanazawa Park	5,330	5,330	0	4,089	1,240	4,580
	Nagoya	Nishiki Park	3,620	3,660	-40	4,637	-1,017	5,150
		Hirokoji Sakae	1,310	1,330	-20	1,710	-400	1,680
		Nagoya Hirokoji	12,600	12,600	0	14,959	-2,359	14,533
		Nagoya Misono	1,040	1,080	-40	1,456	-416	1,865
	Kyoto	Kyoto Kawaramachi	1,770	1,720	50	2,678	-908	2,650
	Osaka	Shin-Fujita	16,300	16,400	-100	22,789	-6,489	24,000
		Sakaisujihonmachi	3,580	3,620	-40	3,813	-233	4,164
		Midosuji Daiwa	14,100	14,100	0	13,402	697	14,314
	Okayama	Lit City	4,200	4,220	-20	3,874	325	4,650
	Hiroshima	NHK Hiroshima	2,280	2,980	-700	2,543	-263	2,770
	Fukuoka	Tosei Tenjin	1,290	1,320	-30	1,322	-32	1,550
		Tenjin Crystal	2,470	2,470	0	4,454	-1,984	5,000
		Hinode Tenjin	3,720	3,720	0	3,482	237	3,657
Properties held as of the end of the 20th and 21st Periods during which the shares of ownership remain unchanged		Tokyo 23 Wards	499,050	501,160	-2,110	474,634	24,415	502,998
		Other Areas	131,680	133,197	-1,517	145,399	-13,719	154,865
		Total (56 properties)	630,730	634,357	-3,627	620,033	10,696	657,863
Property acquired during the 21st Period								
Tokyo 23 Wards	Minato	Akasaka Park	62,500	—	—	61,936	563	60,800
57 properties held as of the end of the 21st Period								
Tokyo 23 Wards			561,550	—	—	536,571	24,978	563,798
Other Areas			131,680	—	—	145,399	-13,719	154,865
Total (57 properties)			693,230	—	—	681,970	11,259	718,663