

**Japan Real Estate Investment Corporation
Performance Review of the Second Period
(Ended September 30, 2002)**

November 2002

**Japan Real Estate Asset Management Co., Ltd.
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1. Japan Real Estate Investment Corporation Performance Review of the Second Period

One Year History after Listing

~ The sole J-REIT which has completed the whole cycle of REIT



The Top REIT: Creating the J-REIT World

- 1. Listing:** Listed on September 10, 2001 issuing 160,000 units at an IPO price of ¥525,000 per unit, acquiring properties to begin management.
(Awarded the 3rd “Deal of the Year,” prize in Equity Finance by the Nikkei Bonds and Financial Weekly.)
- 2. Purchase of properties:** Asset values nearly doubled for the year from 20 properties valued at ¥92.8 billion, to 29 properties worth ¥174.1 billion (November estimate).
Occupancy held steady at the level of 94% for the year.
- 3. Credit ratings:** The first J-REIT; the world’s highest rating for REIT

{	February 2002	S&P	A+
	March 2002	Moody’s	A2
- 4. Additional issue of units:** An additional 65,000 units were issued in May 2002 at ¥490,980 per unit.
- 5. Bond issue:** Bonds valued at ¥25 billion were issued by professional private placement.
- 6. IR activities:** Presentations held for individual investors and sales departments of securities firms.
- 7. Unit price:** Largely remained above the IPO price during the term.

Financial Summary for the 2nd Term

Assets (Expanded portfolio):

Three newly acquired properties

MD Kanda Building: ¥9.52 billion
 Burex Kyobashi: ¥5.25 billion
 Kandabashi Park Building: ¥4.81 billion

Portfolio

Office property: 27 buildings
 Total purchase amount: ¥164.277 billion
 Total rentable area: 215,928 m²
 Number of tenants: 339

Operation as of September 30, 2002

Occupancy rate: 95.3%

The portfolio has been further stabilized.

(Type*)	(Name of Property)
Anchor	: MD Kanda, Burex Kyobashi, Kandabashi
Rarity	: Burex Kyobashi
Yield	: None

*Anchor: Property with prospect of significant mid- to long-term cash flows and stable revenue

Rarity: Property with favorable features and limited liquidity risk

Yield: High-yield property

Liabilities (Diversified and stable):

Bond issue

Professional private placement, Closing date: June 21
 Total issue amount: ¥25 billion
 Redemption date: June 21, 2007

Total fixed liabilities (excluding deposits from tenants):

¥49 billion

Breakdown: Long-term debt ¥24 billion
 Bond ¥25 billion
 Ratings: A+ (S&P), A2 (Moody's)

We issued the first investment corporation bonds to qualified institutional investors, diversifying our sources of capital. Funds raised were mainly used to retire all short-term debt (¥40 billion).

Unitholders' equity (increased capital in preparation for new property acquisition):

Issue of additional units

(Public offering, Closing date: May 7)

Number of additional units: 65,000
 Aggregate issue price: Approximately ¥30.8 billion
 Total number of units: 225,400
 Total equity contribution: ¥112 billion

We made the first J-REIT public offering of additional units to further strengthen our capital base in preparation for new property acquisition and to reach growth targets for assets under management.

Summary of income:

Gross profit: ¥7,910 million
 Operating profit: ¥3,386 million
 Recurring profit: ¥2,898 million
 Net income: ¥2,897 million

Dividend per unit: ¥12,853.

2nd Fiscal Period Income Statement

(in millions of yen)

Item	1 st Period (203 days)	2 nd Period (183 days)			Change	% Change
		Existing 24 properties	Additional 3 properties	Total		
Operating Revenues	6,492	7,553	357	7,910	1,417	21.8%
Rental revenues	6,427	7,532	357	7,889		
Other rental revenues	65	21	—	21		
Operating Expenses	1,759	2,672	27	2,699	940	53.4%
Property management fees	915	1,105	16	1,121		
Utility charges	493	759	10	769		
Property and other taxes	4	628	—	628		
Insurance expenses	15	20	0	20		
Maintenance expenses	321	152	0	152		
Other operating expenses	10	7	0	7		
NOI	4,732	4,881	330	5,211	479	10.1%
Depreciation	1,100	1,126	68	1,194		
Operating Profits	3,632	3,755	262	4,017	385	10.6%
Administrative expenses	671			630	△ 41	▲ 6.1%
Asset management fees	389			382		
Other administrative expenses	281			247		
Net Operating Profits	2,961			3,386	425	14.4%
Non-Operating Revenues	2			2		
Interest received	2			0		
Other non-operating revenues	0			2		
Non-Operating Expenses	559			491	△ 68	▲ 12.2%
Interest expenses	241			224		
Bond interest expenses	—			91		
Deferred start-up costs	90			—		
Deferred bond-issuance costs	—			70		
New unit-issuance costs	121			70		
Unit-listing expenses	74			—		
Other non-operating expenses	31			33		
Recurring Profits	2,405			2,898	493	20.5%
Gross Income	2,405			2,898	493	20.5%
Taxes	1			1		
Net Income	2,403			2,897	493	20.5%
Retained Earnings	2,403			2,897		
FFO (Net Income + Depreciation)	3,503			4,091	588	16.8%
Dividend per unit	¥14,983			¥12,853		

- Revenues and income increased due to full-term operation of the properties acquired in the 1st fiscal period and the start of operation of the MD Kanda Building, Burex Kyobashi, and Kandabashi Park Building.
- Operating expenses rose by ¥628 million due to recognition to cost of property tax and local tax.
- Dividend for the 2nd fiscal period (¥12,853) was higher than the estimated dividend (¥12,400), mainly reflecting the opening of the Burex Kyobashi and Kandabashi Park Building during this period.

2nd Fiscal Period Balance Sheet

(in millions of yen)

Item	As of March 31, 2002	As of Sept. 30, 2002	Change over Previous Period	Reasons for Change
Current Assets				
Cash and entrusted cash	15,323	19,990	4,667	Decreased by the delay in property acquisition
Other current assets	838	175	△ 663	Decreased by returning consumption tax
Total Current Assets	16,162	20,165	4,003	
Fixed Assets				
Property and equipment (Including entrusted property and equipment)				
Buildings	45,413	51,892	6,479	} Increased due to property acquisition
Structures	262	279	17	
Machinery and equipment	944	1,036	92	
Land	99,614	113,727	14,113	
Accumulated depreciation	△ 1,100	△ 2,294	△ 1,194	
Total Property and Equipment	145,135	164,644	19,509	
Intangible Assets				
Entrusted lease hold rights	444	444	0	
Total Intangible Assets	444	444	0	
Investments and Others				
Long-term prepaid expenses, etc.	67	71	4	
Total Investments and Others	67	71	4	
Total Fixed Assets	145,647	165,160	19,513	
Deferred Assets				
Bond issuance expenses	0	70	70	Expensed by issuance of investment corporation bond
Total Deferred Assets	0	70	70	
Total Assets	161,809	185,397	23,587	

Item	As of March 31, 2002	As of Sept. 30, 2002	Change over Previous Period	Reasons for Change
Liabilities				
Current Liabilities				
Short-term borrowing	40,000	5,000	△ 35,000	} Decreased by issuance of new investment units and investment corporation bonds, and increased by acquisition of Kandabashi Park Building
Rent received in advance	998	1,219	221	
Other current liabilities	730	873	143	
Total Current Liabilities	41,728	7,092	△ 34,636	
Long-term Liabilities				
Long-term borrowings	24,000	24,000	0	} Increased by bond issuance
Investment Corporation Bond		25,000	25,000	
Deposits from tenants	12,418	14,255	1,837	
Total Long-term Liabilities	36,418	63,255	26,837	
Total Liabilities	78,146	70,347	△ 7,799	
Unitholders' Equity				
Unitholders' capital	81,260	112,152	30,892	} Increased by new unit issuance
Retained earnings	2,403	2,897	494	
Total Unitholders' Equity	83,663	115,049	31,386	
Total Liabilities and Unitholders' Equity	161,809	185,397	23,587	

Statement for 2nd Fiscal Period Cash Flows

(in millions of yen)

Item	1 st Period (203 days)	2 nd Period (183 days)
Cash flow from operating activities	4,340	5,255
Net income before tax	2,405	2,898
Depreciation and adjustments	1,935	2,357
Cash flow from investment activities	△ 134,276	△ 18,866
Cash flow from financing activities	145,260	18,276
Short- and long-term loans	64,000	5,000
Repayment of short-term loans		△ 40,000
Proceeds from issuance of investment corporation bonds	-	25,000
Proceeds from issuance of equity units	81,260	30,892
Payment of dividend and others		△ 2,615
Net increase in Cash and Cash Equivalents	15,323	4,666
Balance of Cash and Cash Equivalents at beginning of period	-	15,323
Balance of Cash and Cash Equivalents at end of period	15,323	19,990

Statement for 2nd Fiscal Period Dividend

(in yen)

	1 st Period (203 days)	2 nd Period (183 days)
Net income before distribution	2,403,333,973	2,897,172,211
Total amount of dividends	2,403,273,200	2,897,066,200
Retained earnings	60,773	106,011

*Dividend per share is: 12,853 yen (1st Period: 14,983 yen)

Financial Ratios

Financial Indices	1 st Period (203 Days)	2 nd Period (183 Days)
Return on assets (ROA)	2.0% (3.6% annualized)	1.6% (3.2% annualized)
Return on equity (ROE)	2.9% (5.2% annualized)	2.7% (5.4% annualized)
EOP equity ratio	51.7%	62.1%
EOP interest-bearing debt ratio on total assets (LTV#1)	39.6%	29.1%
EOP interest-bearing debt ratio on total property acquisition value (LTV#2)	44.2%	32.9%
EOP Long-term debt to capitalization ratio	123.8%	94.2%
Debt service coverage ratio (DSCR)	x15.5	x13.9
Net operating Income (NOI)	4,732 million yen	5,211 million yen
Funds from operations (FFO)	3,503 million yen	4,091 million yen
FFO multiple	13.5	14.1
Payout Ratio to CAD	0.79	0.76

*ROA = Recurring profits / Average of total assets during the period (1st period:203 actual working days, 2nd period:183 actual working days)

*ROE = Net income / Average of net worth during the period (1st period:203 actual working days, 2nd period:183 actual working days)

*EOP equity ratio = EOP networth / EOP total assets

*LTV#1 = EOP interest-bearing debt / EOP total assets

*LTV#2 = EOP interest-bearing debt / EOP total property acquisition value

*EOP Long-term debt to capitalization ratio = EOP fixed assets / (EOP Long-term borrowing and others+EOP unitholders' equity)

*DSCR = Net income before interest, taxes, depreciation and amortization / Interest expenses

*NOI = (Operating revenues - Operating expenses) + Depreciation

*FFO = Net income + Depreciation

*FFO multiple = Unit price at the end of the period / FFO per unit (annualized)

*Payout Ratio to CAD = Total amount of dividend / FFO

*CAD (Cash Available Distribution) = FFO - capital expenditure

Summary of Loans

	Name	Borrowing Date	EOB (million yen)	Interest (%)	Repayment Date
Short-term borrowing	The Bank of Tokyo-Mitsubishi, Ltd.	2002/8/15	1,250	0.89417	2003/6/23
	Mizuho Corporate Bank, Ltd.	2002/8/15	1,250		
	The Sumitomo Trust & Banking Co., Ltd.	2002/8/15	1,250		
	The Misubishi Trust & Banking Corporation	2002/8/15	1,250		
	Total		5,000		

Long-term borrowing	The Bank of Tokyo-Mitsubishi, Ltd.	2001/9/25	6,000	1.12	Expected Principal Repayment Date 2006/6/23 Final Principal Repayment Date 2008/6/23
	Mizuho Corporate Bank, Ltd.	2001/9/25	6,000		
	The Sumitomo Trust & Banking Co., Ltd.	2001/9/25	5,200		
	The Misubishi Trust & Banking Corporation	2001/9/25	5,200		
	Sompo Japan Insurance Inc.	2001/9/25	1,600		
	Total		24,000		

	Name	Issuance Date	EOB (million yen)	Interest (%)	Maturity Date
Investment Corporation Bond	1st Investment Corporation Bond	2002/6/21	25,000	1.32	2007/6/21

- Weighted average interest rate is 1.19% based on the amount of loans at the end of the period.
- Average time remaining to repayment (as of 2nd fiscal end) is 0.73 year (approximately 9 months) for short-term borrowing and 3.73 years (approximately 3 years, 9 months) for long-term borrowing.

Property Price Comparison

Area		Name	Appraisal Value at End of Period	Acquisition Price	Year Built	Net Rentable Areas (㎡)	Occupancy Rate
Tokyo Metropolitan Area	23 Wards	Mitsubishi Soken Building	28,100 million	27,267 million	1970	18,006	96.3%
		Kodenmacho Shin-Nihonbashi Building	3,170 million	3,173 million	1991	3,897	100.0%
		Shiba 2-chome Daimon Building	4,890 million	4,859 million	1984	9,622	89.9%
		Cosmo Kanasugibashi Building	2,760 million	2,808 million	1992	4,062	83.2%
		Takanawadai Building	2,970 million	2,738 million	1991	4,091	100.0%
		JTS Building	1,330 million	1,362 million	1991	3,383	100.0%
		Omori-Eki Higashiguchi Building	4,980 million	5,123 million	1989	7,708	95.7%
		Otsuka Higashi-Ikebukuro Building	3,480 million	3,541 million	1987	7,114	98.6%
		Ikebukuro 2-chome Building	1,570 million	1,728 million	1990	2,186	88.9%
		Shibuya Cross Tower	34,500 million	34,600 million	1976	28,547	100.0%
	Excluding 23 Wards	Urawa Dai-Ichi-Seimei Life Dowa Kasai Building	2,690 million	2,574 million	1990	4,510	91.1%
		Kawasaki Isago Building	3,370 million	3,375 million	1990	6,831	93.1%
		Ericsson Shin-Yokohama Building	3,100 million	3,000 million	1992	6,964	100.0%
Other Major Cities	Sendai Honcho Honma Building	2,900 million	2,924 million	1991	5,829	100.0%	
	Niigata Ishizuecho Nishi-Bandaibashi Building	911 million	1,010 million	1984	4,383	82.9%	
	Kanazawa Minamicho Building	1,310 million	1,331 million	1987	3,773	88.4%	
	Kanazawa Park Building	3,090 million	2,880 million	1991	13,030	93.3%	
	Nagoya Hirokoji Building	14,900 million	14,533 million	1987	21,590	99.7%	
	Kyoto Shijo Kawaramachi Building	2,470 million	2,650 million	1982	6,800	70.9%	
	Midosuji Daiwa Building	14,400 million	14,314 million	1991	20,449	100.0%	
	Fukusuke Sakaisujihonmachi Building	2,330 million	2,264 million	1992	5,337	91.6%	
	Kobe Itomachi Building	1,310 million	1,436 million	1989	3,478	73.8%	
	Hinode Tenjin Building	3,640 million	3,657 million	1987	5,944	100.0%	
	Tosei Tenjin Building	1,530 million	1,550 million	1992	4,080	80.4%	
	Properties Acquired in the 2nd Period	MD Kanda Building	9,590 million	9,520 million	1998	6,334	100.0%
		Burex Kyobashi Building	5,040 million	5,250 million	2002	4,279	100.0%
Kandabashi Park Building		4,920 million	4,810 million	1993	3,687	100.0%	
Total			165,251 million	164,277 million		215,928	95.3%
Properties to be Acquired in the 3rd Period	Kokusai Iidabashi Building	5,450million	5,000million	1985	4,791	100.0%	
	da Vinci Harajuku	4,950million	4,885million	1987	3,051	100.0%	

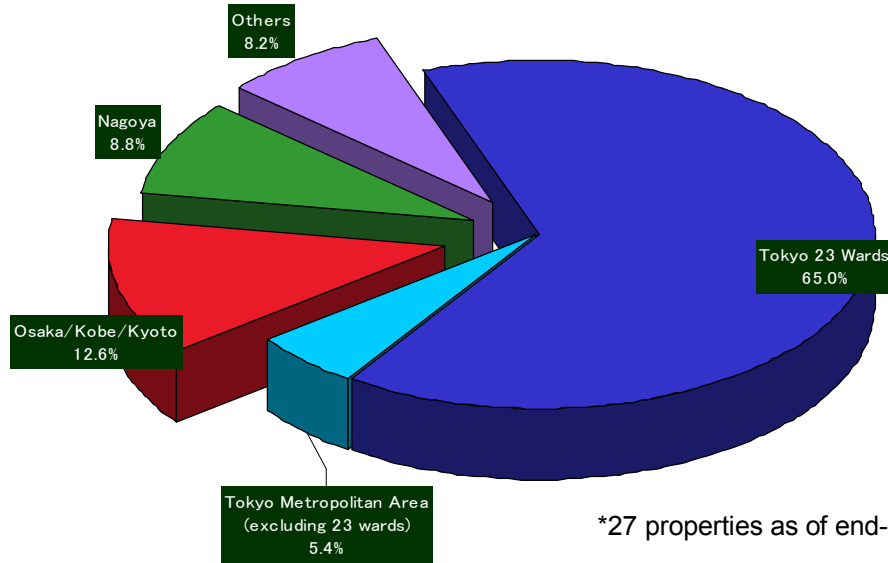
*Appraisal values of properties acquired in the 3rd period are those that applied at the time of acquisition.

Property Acquisition after Listing



* Occupancy rate for October 2002 does not include figures for the Kokusai Iidabashi Building and occupancy rate for November 2002 is estimated.

Geographical Diversification and Earthquake Risk Diversification

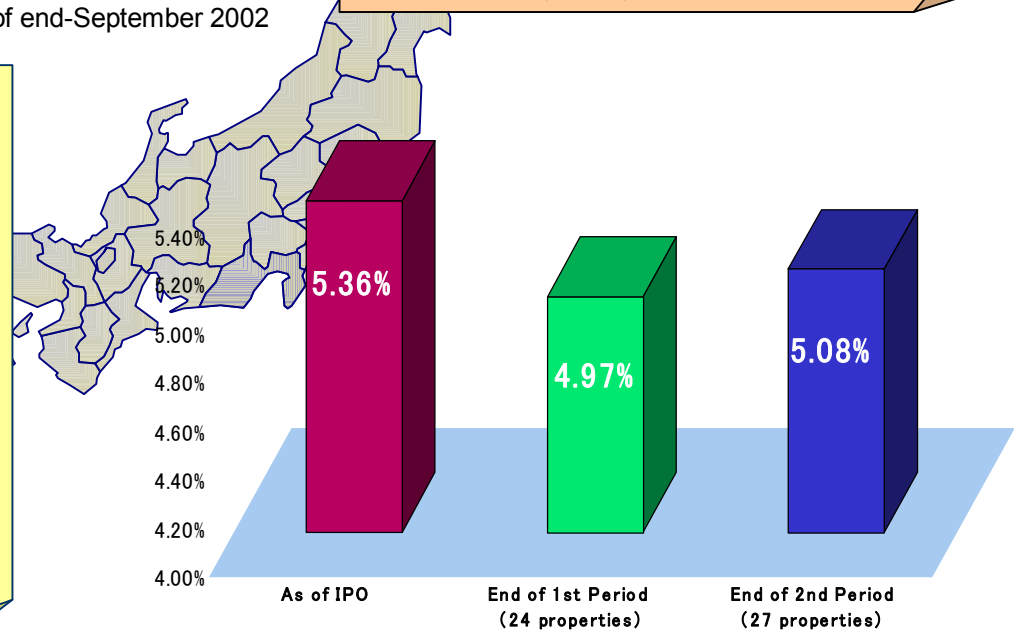


*27 properties as of end-September 2002

Notwithstanding that all properties acquired in the 2nd period are located in metropolitan Tokyo, the PML value has risen by only 0.11%.

Well balanced portfolio: Highly liquid properties with stable rent income in Tokyo Metropolitan area account for approximately 70% of the total. Properties with attractive yields in other major cities account for 30%. Because all the properties acquired in the 2nd period are located in the Metropolitan Tokyo area, the share of Tokyo properties has risen from 66.5% to 70.4%.

*As to 29 buildings, including two buildings to be acquired in the 3rd period, the percentage located in the Tokyo Metropolitan area is 72.1%.



* Ratios are based on purchase prices.

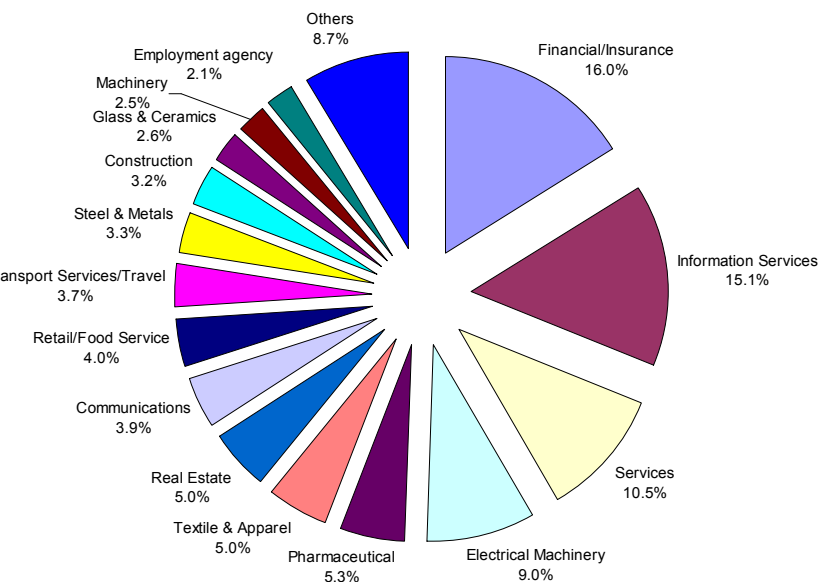
* The Tokyo metropolitan area encompasses Tokyo and the three neighboring prefectures of Saitama, Chiba and Kanagawa.

Analysis of Tenants (1):

Diversification and Major Tenants

Business Diversification

(types of business as share of total rented area)



Top 5 Tenants

Top 5 Tenants	Property	Rented Area	% of Total Rented Area
1 Mitsubishi Research Institute	Mitsubishi Soken Building	14,529m ²	7.06%
2 Dai-ichi Mutual Life	Midosuji Daiwa Building Other 8 buildings	13,292m ²	6.46%
3 Ericsson Japan	Ericsson Shin-Yokohama Building	5,794m ²	2.82%
4 TOTO	Nagoya Hirokoji Building Midosuji Daiwa Building	4,840m ²	2.35%
5 Janssen Pharmaceutical	Takanawadai Building Tosei Tenjin Building	4,318m ²	2.10%

The number of tenants rose sharply from 198 at IPO to 339 (End 1st Period: 328). Rented-area ratios show diversification in tenants' lines of business.

Analysis of Tenants (2): Improved Stability

Examples ① ~Changes in total rented area

1 st Period Ranking	2 nd Period Ranking	Name	1 st Period Total NRA (㎡)	2 nd Period Total NRA (㎡)	Change (㎡)
1	1	Mitsubishi Research Institute	14,530	14,530	0
2	2	Dai-ichi Life	13,591	13,292	△ 299
3	3	Ericsson Japan	5,794	5,794	0
4	4	TOTO	4,840	4,840	0
5	5	Janssen Pharmaceutical	4,318	4,318	0
-	6	A (a tenant of a property acquired in the 2 nd period)		4,280	-
6	7	B	4,137	4,137	0
-	8	C (a tenant of a property acquired in the 2 nd period)		3,919	-
7	9	D	3,593	3,593	0
8	10	E	3,575	3,575	0
9	11	F	3,384	3,384	0
10	12	G	3,103	3,103	0

The “Year 2003 Problem” has not resulted in termination of leasing contracts with major tenants to date.

Example ③ ~Changes in leasing contracts to longer-term instruments *

*Includes a non-cancellation clause

Contracts to longer-term instruments *

•Tokyo metropolitan area (% of revenue from fixed rent contracts):

24.4% (end of 1st period)
→28.1% (end of 2nd period)

•3 wards area of Tokyo (% of revenue from fixed rent contracts):

52.3% (end of 1st period)
→53.3% (end of 2nd period)

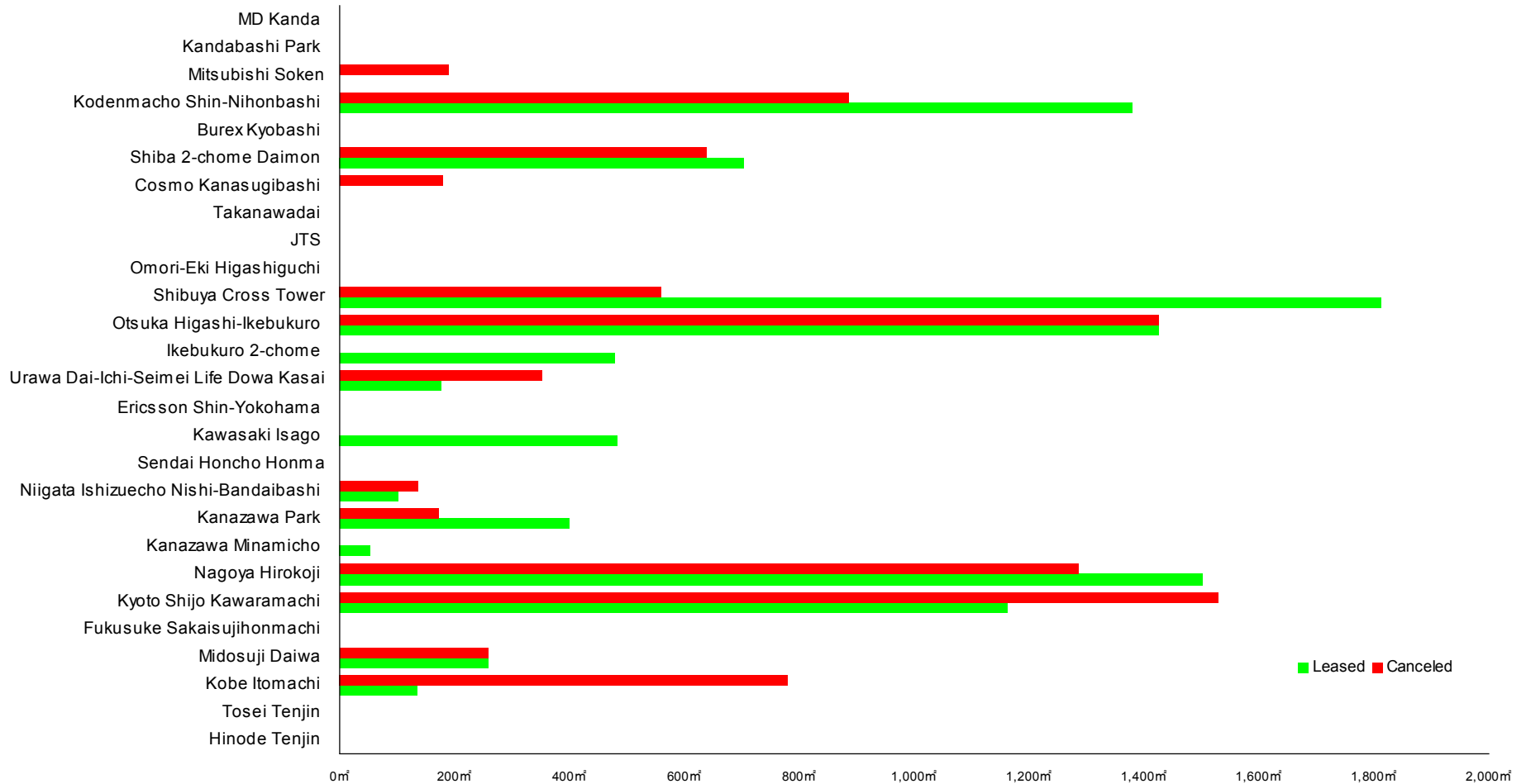
Rental revenue has further stabilized

Example ② ~Change in occupancy rates and rented area

•Occupancy rate of 24 properties held at the end of the 1st period (excluding new properties) rose from 94.0% to 95.0% by the end of the 2nd period.

•While termination of contracts resulted in a decrease of 8,400 square-meters in the 2nd period, new contracts of 10,000 square-meters more than offset the decrease.

Analysis of Tenants (3): Tenant Moves in the 2nd Fiscal Period

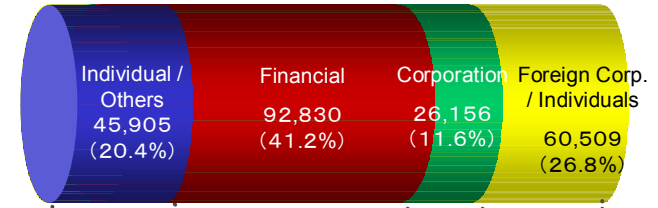
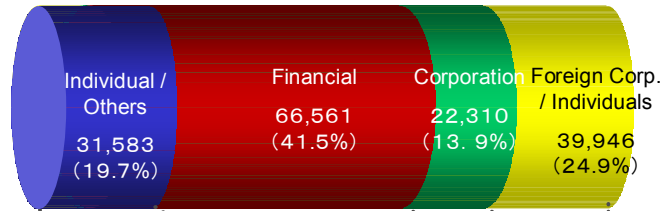


Analysis of Investors (1): JRE's Unitholder Composition

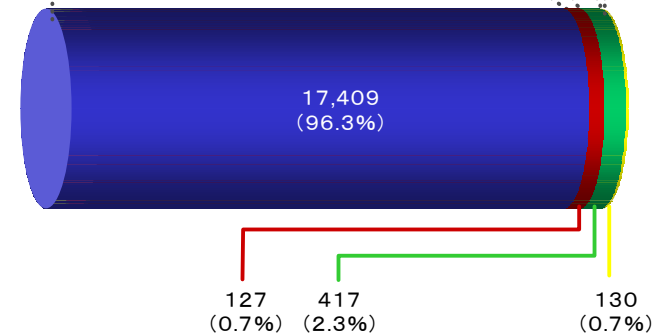
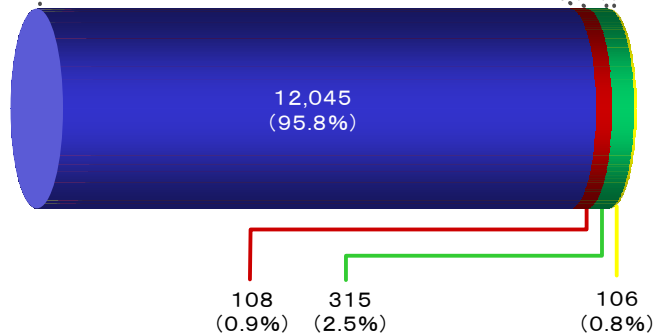
1st Fiscal End

2nd Fiscal End

Number of Units



Number of Unitholders



Analysis of Investors (2): Major Unitholders

Company	Units	% of Total Shares Outstanding
The Chase Manhattan Bank, N.A. London	14,965	6.64%
Mitsubishi Estate Co., Ltd.	10,160	4.51%
The Tokio Marine and Fire Insurance Co., Ltd.	8,120	3.60%
The Yamanashi Chuo Bank, Ltd.	7,300	3.24%
The Chugoku Bank, Ltd.	5,540	2.46%
The Nomura Trust & Banking Co., Ltd. (Toshin Acc.)	5,226	2.32%
The Hachijuni Bank, Ltd.	5,023	2.23%
The Dai-ichi Mutual Life Insurance Company	4,920	2.18%
The Master Trust Bank of Japan, Ltd. (Shintaku Acc.)	4,761	2.11%
Banca Nazionale del Lavoro	4,490	1.99%

2. Acquired Properties in the 2nd Term and Properties to be Acquired in the 3rd Term

MD Kanda Building (Acquired in the 2nd period)

【Property Summary】

- Address: 9-1, Mitoshiro-cho, Kanda, Chiyoda-ku, Tokyo
- Area: <Land> 1,085.83 m²
<Building> 8,185.11 m²
- Structure: Steel Framed Reinforced Concrete Structure / 10 Stories
- Built in: February 1998 (Age: 4 years)
- Type of Ownership: Fee Simple
- Net Rentable Area: 6,334 m²
- Occupancy Ratio: 100%

【Transaction Summary】

- Seller: Mitsui & Co.
- Acquisition Price: 9,520 million yen
- Appraised Value: 9,530 million yen (As of March 31, 2002)
- Acquisition Date: May 31, 2002



Excellent location: 1- to 9- minute walk from major JR stations Kanda and Ochanomizu; subway stations, Ogawa-cho, Awaji-cho, Shin-Ochanomizu, Kanda, and Otemachi.

Burex Kyobashi Building (Acquired in the 2nd period)

【Property Summary】

- υ Address: 2-7-14, Kyobashi, Chuo-ku, Tokyo
- υ Area: <Land>756.03 m²
<Building>5,649.21 m²
- υ Structure: Steel Framed Reinforced Concrete Structure / 8 Stories with basement
- υ Built in: February 2002 (Age: 1 year)
- υ Type of Ownership: Fee Simple
- υ Net Rentable Area: 4,279 m²
- υ Occupancy Ratio: 100%

【Transaction Summary】

- υ Seller: Space Design, Inc.
- υ Acquisition Price: 5,250 million yen
- υ Appraised Value: 5,040 million yen (As of June 1, 2002)
- υ Acquisition Date: July 22, 2002



Excellent location: 2- to 8-minute walk from major JR station Tokyo; subway stations Kyobashi and Takara-cho.

Kandabashi Park Building (Acquired in the 2nd period)

【Property Summary】

- Address: 1-19-1, Nishiki-cho, Kanda Chiyoda-ku, Tokyo
- Area: <Land> 1,218.56 m²
<Building> 9,370.25 m²
- Structure: Steel Framed Reinforced Concrete Structure / 10 Stories with basement
- Built in: July 1993 (Age: 9 years)
- Type of Ownership: Co-ownership
- Net Rentable Area: 3,687 m²
- Occupancy Ratio: 100%

【Transaction Summary】

- Seller: Mitsubishi Estate, Jyoni Shoji
- Acquisition Price: 4,810 million yen
- Appraised Value: 4,920 million yen
(As of July 1, 2002)
- Acquisition Date: August 15, 2002



Excellent location: 5-minute walk from major subway stations Otemachi and Ogawachō.

Kokusai Iidabashi Building (To be acquired in the 3rd period)

【Property Summary】

- Address: 3-6-5, Iidabashi, Chiyoda-ku, Tokyo
- Area: <Land> 1,052.80 m²
<Building> 6,722.02 m²
- Structure: Steel Framed Reinforced Concrete Structure / 8 Stories with basement
- Built in: September 1985 (Age: 17 years)
- Type of Ownership: Land: Fee Simple / Leasehold, Building: Fee Simple
- Net Rentable Area: 4,791 m²
- Occupancy Ratio: 100%

【Transaction Summary】

- Seller: Kokusai Motorcars Co.
- Acquisition Price: 5,000 million yen
- Appraised Value: 5,450 million yen (As of September 1, 2002)
- Acquisition Date: October 31, 2002



Excellent location: 1-minute walk from major JR and subway station Iidabashi.

【Property Summary】

- Address: 3-25-15, Jingu-mae, Shibuya-ku, Tokyo
- Area: <Land> 839.66 m²
<Building> 4,359.20 m²
- Structure: Steel Framed Reinforced Concrete Structure / 7 Stories with 2-story basement
- Built in: December 1987 (Age: 15 years)
- Type of Ownership: Fee Simple
- Net Rentable Area: 3,051 m²
- Occupancy Ratio: 100%

【Transaction Summary】

- Seller: Leonard
- Acquisition Price: 4,885 million yen
- Appraised Value: 4,950 million yen (As of July 1, 2002)
- Acquisition Date: November 22, 2002



Excellent location: 6- to 7-minute walk from major JR station Harajuku, and subway station Meiji Jingu-mae.

3. Management Policy for the Future

Current Japanese Real Estate Market and Business Environment

- ⌚ The office building leasing market likely to suffer a decrease in demand in the Tokyo Metropolitan area as a result of Japanese companies' efforts to reduce rented spaces and integrate their offices in the face of uncertain economic prospects. In other major cities, demand is weak due to the continuing concentration of business in Tokyo.
- ⌚ The market is expected to be sluggish due to the “Year 2003 Problem” - a massive increase in the supply of new large-scale buildings in the Tokyo metropolitan area.
- ⌚ At the same time, a growing split in the market between high- and low-occupancy properties is seen due to the weak office building leasing market, with high-quality properties enjoying a distinct advantage.
- ⌚ Thus, we expect the trend toward asset reduction among Japanese companies to continue in anticipation of the introduction of impairment accounting. As a result, an increase in the number of office buildings for sale will be seen.

- u Property management (Internal growth)
 - l Strengthen relations with existing tenants through quality services
 - l Take timely steps to reduce vacancy rates
 - l Revise lease contracts to fixed rent contracts and extend contract term
 - l Reduce property management fees and utility charges by 5% within three years after acquisition
- u Acquisition of properties (External growth)
 - l Further expand sources of information on properties
 - l Acquire earthquake-resistant buildings meeting new standards or buildings of equal quality according to structural evaluation
 - l Reach total assets of ¥300 billion by the end of March 2006
- u Capital and financial policy
- u Differentiation strategy
 - l We have completed a business cycle of REIT, maintaining core portfolio of excellent quality properties and financial soundness.

- u **Strengthen relations with the existing tenants**

- l In order to further strengthen our relationship of trust with tenants, efforts should focus on retention by providing services to meet client needs and increasing satisfaction.

- u **Take timely steps to reduce vacancy rates**

- l In cooperation with property management companies, vacancy rates should be reduced by encouraging potential tenants to choose our properties. With respect to existing tenants, we should look for ways to meet their needs for increased space.

- u **Revise lease contracts to fixed rent contracts or extend contract term**

- l In order to fix future revenues, revision of lease contracts to fixed rent contracts or extended term contracts should be strongly promoted.

- u **Reduce property management fees and utility charges**

- l Property management system and fees and utility charges should be reviewed by introducing competition among property management companies. Management fees and utility charges should be cut by 5% within three years after acquisition of property.

◆ **In order to enhance tenant strategies including the “Year 2003 Problem,” implement optimal operations according to tenant category**

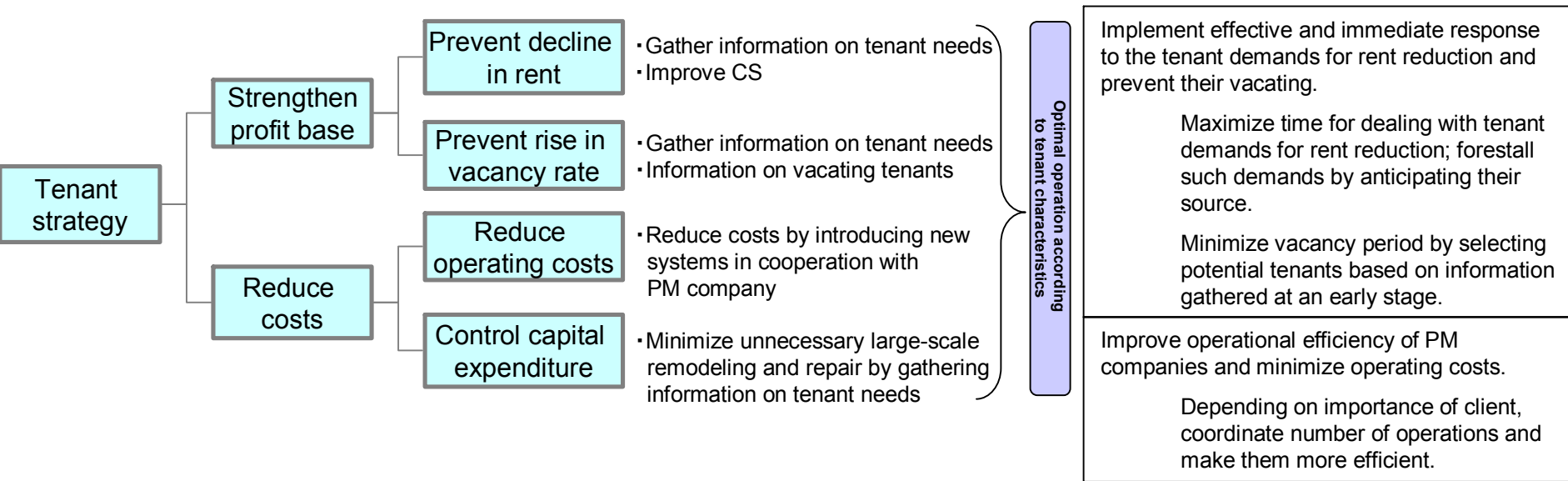
↳ To examine the effectiveness of planned operations, implement trials on some of the existing properties. Confirm the effectiveness and promote review and systematization operations to enable implementation on all properties.

◆ **Tenant categories defined so as to improve efficiency and profitability by optimizing the operations, not to discriminate between clients. Its aims are:**

(1) To enable effective and immediate response to tenants’ demands for rent reduction and prevent their vacating;

(2) To increase efficiency of the property management company and minimize operating costs.

《Implementation of optimal operations according to tenant characteristics》



Maintenance Works: Implementation and Plans (1)

1. J-Rea's renovation works

- λ Prepare mid- to long-term maintenance plans for each building
- λ Conduct renovation work to increase asset profitability
- λ Implement maintenance work to ensure appropriate asset management
- λ Conduct maintenance to stabilize cash flows
- λ Conduct strict review of estimates on work done by third parties to improve management of work procedures

2. Implementation and plans

λ Plans for 2nd Period

a. Renovation to attract tenants

(In thousands of yen)

Property Name	Purpose	Accounting Treatment	Cost of Construction
Kyoto Shijo Kawaramachi	Installation of additional individual air-conditioner	Capitalized cost	95,000
Shiba 2-chome Daimon	Interior finishing of common areas	Capitalized cost	24,000
Nagoya Hirokoji	Interior finishing of rentable areas	Capitalized cost/Expense	16,000
Ikebukuro 2-chome	Interior finishing of common areas	Capitalized cost	14,000

b. Renovation for appropriate asset management

(In thousands of yen)

Property Name	Purpose	Accounting Treatment	Cost of Construction
Shibuya Cross	Doors in common areas	Expense	18,000
Shibuya Cross	Control rooms on first floor	Capitalized cost	13,000
Tosei Tenjin	Replacement of lead-in cables	Capitalized cost	6,000
Takanawa	Overhaul of air-conditioner	Expense	8,000

λ Plans for 3rd and 4th Periods

c. Renovation to attract tenants

(in thousands of yen)

Property Name	Purpose	Accounting Treatment	Cost of Construction
Shibuya Cross	Lobby	Capitalized cost	52,000
Mitsubishi Soken	Hallway and painting	Capitalized cost	9,000
Omori-Eki Higashiguchi	Floor in common areas	Capitalized cost	7,000
Shiba 2-chome Daimon	Restrooms (5th & 7th fl.: 2nd period)	Capitalized cost	9,000

d. Renovation for appropriate asset management

(in thousands of yen)

Property Name	Purpose	Accounting Treatment	Cost of Construction
Shibuya Cross	Water supply system	Capitalized cost	85,000
Shiba 2-chome Daimon	Heat reservoir for air-conditioning	Capitalized cost	99,000
Niigata Ishizuecho Nishi-Bandaibashi	Central control panel	Capitalized cost	26,000
Midosuji Daiwa	Water-saving equipment in restrooms	Capitalized cost	48,000

3. Cost reduction by strict inspection (during 2nd period)

(in millions of yen)

Number of Works	83
Quotation before inspection	578,000
Quotation after inspection	511,000
Reduced	67,000 (△ 11.6%)

4. 5 year-plan of renovation works

(in millions of yen)

	2002	2003	2004	2005	2006	Total
Renovation Works	1,200	1,300	1,500	1,000	1,200	6,200
Annual Depreciation Amount	2,400	2,500	2,200	1,900	1,800	10,900

* 29 properties including da Vinci Harajuku

* Depreciation does not include the additional depreciation due to new renovation works.

Maintenance Works: Implementation and Plans (2)

(Remodeling of the Lobby of Shibuya Cross Tower)

Before remodeling



<Purpose of remodeling>

- Upgrade the entrance on the third floor to give a better impression to tenants and visitors. Also replace the signboard to improve visibility and thus name recognition of the building and retail shops.

<Expected construction period>

- Late November to the end of December 2002

After remodeling (image)

<Main works>

- Modification of the ceiling louver board and replacement of lighting
- Cleaning of walls and change of design to wood-grain pattern
- Cleaning of floors
- Change of signboards in the building and in the deck on the third floor



Cost Reduction Effects

Initial goal (19 properties)

(in millions of yen)

Expenses	Base amount	Target reduction rate	Target result	
	2001(1 year)		Amount	Reduction
Property management fees	1,295	△8.4%	1,186	109
Utility Charges	889		889	0
Total	2,184	△5.0%	2,075	109

Current plan

(in millions of yen)

Expenses	Base amount	Target reduction rate	Target result	
	2001(1 year)		Amount	Reduction
Property management fees	1,295	△12.9%	1,128	167
Utility Charges	889		889	0
Total	2,184	△7.6%	2,017	167

Initial goal (5 properties)

(in millions of yen)

Expenses	Base amount	Target reduction rate	Target result	
	2nd half of 2001 and 1st half of 2002(1 year)		Amount	Reduction
Property management fees	923	△8.8%	842	81
Utility Charges	696		696	0
Total	1,619	△5.0%	1,538	81

Current Plan

(in millions of yen)

Expenses	Base amount	Target reduction rate	Target result	
	2nd half of 2001 and 1st half of 2002(1 year)		Amount	Reduction
Property management fees	923	△12.0%	812	111
Utility Charges	696		696	0
Total	1,619	△6.9%	1,508	111

Estimated management expenses for 2002	¥ 1197 million
Compared with 2001 (amount reduced)	△ ¥98 million
Compared with 2001(reduction rate)	△7.6%
Compared with the base amount (reduction rate)	△4.5%
Achievement ratio to the initial goal of 5% reduction	89.9%
Achievement ratio to the current plan of 7.6% reduction	58.7%

Regarding the 19 properties as of the IPO, a 5% property management fees and utility charges reduction target was set for the first

three years. This target was later revised upward to 7.6%. Total cost reduction of ¥98 million is projected by March 2003, against a planned reduction of ¥167 million over the next three years. If achieved this will translate to a 4.5% reduction out of a total cost reduction target of 7.6%.

For the remaining five properties, we have slated a 6.9% cost reduction over the next three years.

Acquisition of properties :

- u Obtain timely information and expand sources of information on properties.
- u To acquire properties, careful investigation should be conducted on the economic, physical and legal aspects of those properties. Acquire buildings meeting new earthquake-resistant standards, or buildings of equal or higher quality according to structural evaluation.
- u Share of properties held by location: 60% to 70% within Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama Prefectures), with the remainder spread among other major cities. The share of properties in the Tokyo metropolitan area may rise temporarily, depending on future office demand.
- u Reach total assets of ¥300 billion by the end of March 2006.

Deal Source Summary

2001

Area	First Half							Second Half							Total	%
	Apr	May	Jun	Jul	Aug	Sep	Total	Oct	Nov	Dec	Jan	Feb	Mar	Toal		
Tokyo Metropolitan	13	15	11	26	11	22	98	26	22	22	21	20	15	126	224	78.6%
Other Cities	5	1	5	5	14	1	31	6	3	2	4	9	6	30	61	21.4%
Total	18	16	16	31	25	23	129	32	25	24	25	29	21	156	285	100.0%

2002

Area	First Half							Second Half							Total	%
	Apr	May	Jun	Jul	Aug	Sep	Total	Oct	Nov	Dec	Jan	Feb	Mar	Toal		
Tokyo Metropolitan	11	19	24	18	20	28	120	33							153	76.5%
Other Cities	10	6	7	7	2	13	45	2							47	23.5%
Total	21	25	31	25	22	41	165	35							200	100.0%

Our track record of acquisitions helped us obtain information on 200 properties in the 2nd fiscal period (up 24% over the previous year). Of these we are currently researching 15 properties, valued at ¥63 billion, and are negotiating to acquire six of these, valued at ¥28 billion.

4. Business Forecasts

Forecasted Income Statement

(in millions of yen, excluding dividend per share)

Term Property Taxes Number of Properties Number of Days	1st Fiscal Period Capitalized 24 (203 days)	2 nd Fiscal Period 27 (183 days)	3 rd Fiscal Period (Forecast) (182 days)			4 th Fiscal Period (Forecast) (183 days)
			Existing 27 Properties	Additional 2 Properties	Total	
Operating Revenues	6,492	7,910	8,110	190	8,300	8,300
Operating Expenses	1,760	2,699	2,660	40	2,700	3,000
(Property and Other Taxes)	0	628	630		630	840
NOI	4,732	5,211	5,450	150	5,600	5,300
Depreciation	1,100	1,194	1,170	30	1,200	1,200
Operating Profits	3,632	4,017	4,280	120	4,400	4,100
Administrative Expenses	671	630			700	700
Net Operating Profits	2,961	3,386			3,700	3,400
Non-Operating Profits	△ 557	△ 488			△ 500	△ 400
(Interest Expenses)	△ 241	△ 316			△ 360	△ 400
Recurring Profits	2,405	2,898			3,200	3,000
Net Income	2,403	2,897			3,200	3,000
Dividend	2,403	2,897			3,200	3,000
Number of Units	160,400	225,400	225,400			225,400
Dividend per Unit	¥14,983	¥12,853			¥14,300	¥13,600
Dividend per Unit (semi-anualized)	¥13,506					

3rd Fiscal Period Balance Sheet Forecast

(in millions of yen)

Item	As of Sept. 30, 2002	As of March 31, 2003	Change over Previous Period	Reasons for Change
Current Assets				
Cash and entrusted cash	19,990	17,000	△ 2,990	
Other current assets	175	114	△ 61	
Total Current Assets	20,165	17,114	△ 3,051	
Fixed Assets				
Property and equipment (Including entrusted property and equipment)				
Buildings	51,892	54,007	2,115	Increased due to Kokusai lidabashi and da Vinci Harajuku acquisition
Structures	279	288	9	
Machinery and equipment	1,036	1,055	19	
Land	113,727	121,475	7,748	
Accumulated depreciation	△ 2,294	△ 3,534	△ 1,240	
Total Property and Equipment	164,644	173,291	8,647	
Intangible Assets				
Entrusted lease hold rights	444	722	278	Increased due to Kokusai lidabashi acquisition
Total Intangible Assets	444	722	278	
Investments and Others				
Long-term prepaid expenses, etc.	71	60	△ 11	
Total Investments and Others	71	60	△ 11	
Total Fixed Assets	165,160	174,073	8,913	
Deferred Assets				
Bond issuance costs	70	0	△ 70	Decreased due to deferred bond issuance costs
Total Deferred Assets	70	0	△ 70	
Total Assets	185,397	191,187	5,790	

Item	As of Sept. 30, 2002	As of March 31, 2003	Change over Previous Period	Reasons for Change
Liabilities				
Current Liabilities				
Short-term borrowing	5,000	9,800	4,800	Increased by da Vinci Harajuku acquisition
Rent received in advance	1,219	1,260	41	
Other current liabilities	873	900	27	
Total Current Liabilities	7,092	11,960	4,868	
Long-term Liabilities				
Long-term borrowings	24,000	24,000	0	
Investment Corporation Bond	25,000	25,000	0	
Deposits from tenants	14,255	14,875	620	Increased by Kokusai lidabashi and da Vinci Harajuku acquisition
Total Fixed Liabilities	63,255	63,875	620	
Total Liabilities	70,347	75,835	5,488	
Unitholder Equity				
Unitholder's capital	112,152	112,152	0	
Retained earnings	2,897	3,200	303	
Total Unitholder Equity	115,049	115,352	303	
Total Liabilities and Unitholder equity	185,397	191,187	5,790	

Property Occupancy Rates

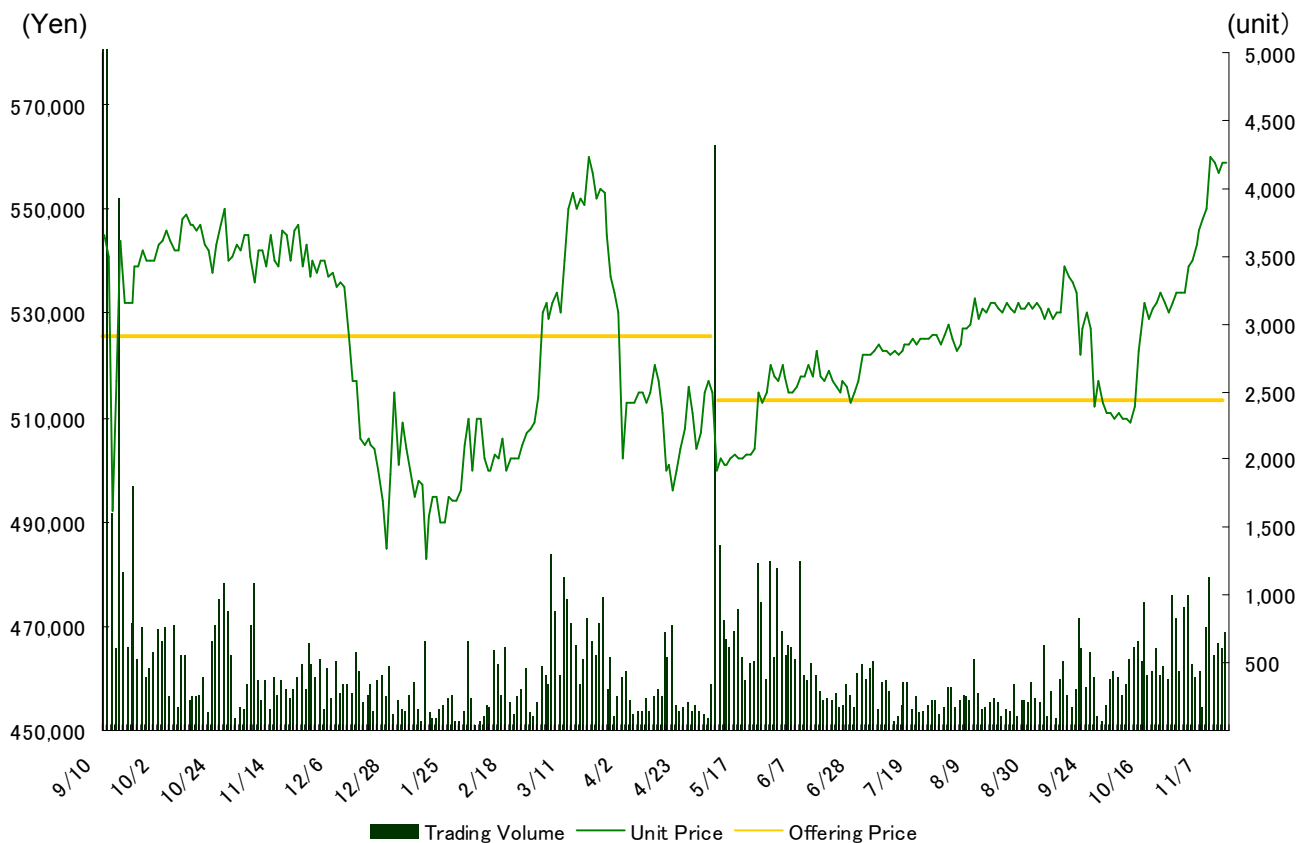
Area		Property Name	1st Fiscal End	2nd Fiscal End	3rd Fiscal End (Forecast)
Tokyo Metropolitan Area	Tokyo 23 Wards	Mitsubishi Soken	97.4%	96.3%	96.3%
		Kodenmacho Shin-Nihonbashi	87.3%	100.0%	100.0%
		Shiba 2-chome Daimon	89.3%	89.9%	83.3%
		Cosmo Kanasugibashi	87.7%	83.2%	95.3%
		Takanawadai	100.0%	100.0%	100.0%
		JTS	100.0%	100.0%	100.0%
		Omori-Eki Higashiguchi	95.7%	95.7%	95.3%
		Otsuka Higashi-Ikebukuro	98.6%	98.6%	94.6%
		Ikebukuro 2-chome	59.2%	88.9%	88.8%
		Shibuya Cross Tower	95.8%	100.0%	98.2%
		MD Kanda Building	–	100.0%	100.0%
		Burex Kyobashi Building	–	100.0%	100.0%
		Kandabashi Park Building	–	100.0%	100.0%
		Kokusai Iidabashi Building	–	–	100.0%
	da Vinci Harajuku	–	–	100.0%	
		Average	94.2%	97.1%	96.4%
Excluding Tokyo 23 Wards	Urawa Dai-Ichi-Seimei Life Dowa Kasai	95.0%	91.1%	91.1%	
	Kawasaki Isago	86.0%	93.1%	100.0%	
	Ericsson Shin-Yokohama	100.0%	100.0%	100.0%	
	Average	93.5%	95.2%	97.8%	
Other Cities	Sendai Honcho Honma	100.0%	100.0%	98.8%	
	Niigata Ishizuecho Nishi-Bandaibashi	83.7%	82.9%	82.9%	
	Kanazawa Minamicho	87.0%	88.4%	88.4%	
	Kanazawa Park	91.5%	93.3%	89.3%	
	Nagoya Hirokoji	98.6%	99.7%	93.7%	
	Kyoto Shijo Kawaramachi	76.3%	70.9%	68.7%	
	Midosuji Daiwa	100.0%	100.0%	91.4%	
	Fukusuke Sakaisujihonmachi	91.6%	91.6%	91.5%	
	Kobe Itomachi	92.3%	73.8%	85.1%	
	Hinode Tenjin	100.0%	100.0%	98.7%	
	Tosei Tenjin	80.4%	80.4%	76.7%	
	Average	93.9%	93.4%	89.5%	
	Average	94.0%	95.3%	93.6%	

Other Information

JRE Unit Price Performance

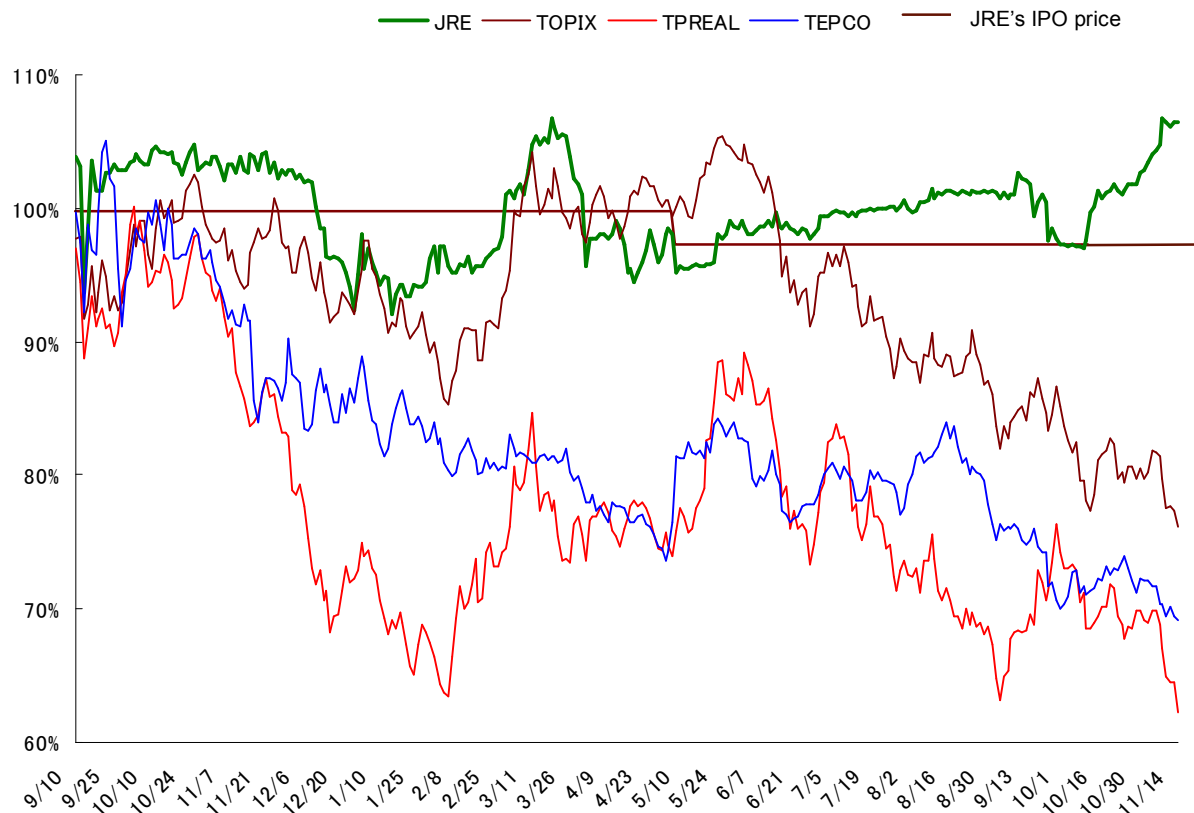
As of November 14, 2002

Unit Price	¥559,000	unchanged from Nov. 13, 2002
Dividend Yield	4.43%	
High	¥563,000	Nov. 8, 2002
Low	¥480,000	Jan. 16, 2002
To IPO price	6.48%	



Unit Price Performances Relative to Indices

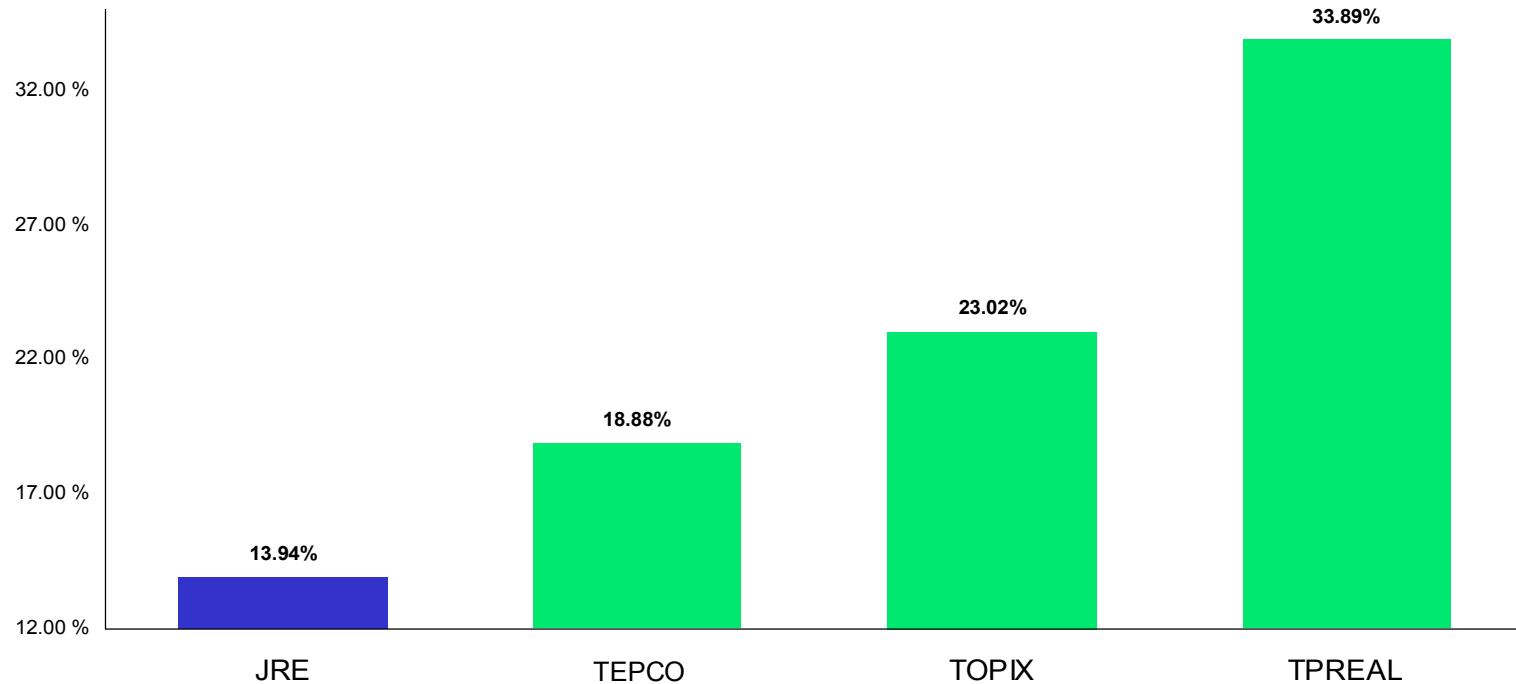
As of November 14, 2002



- * Share performance is measured based on the offering price of 525,000 yen for JRE (100%) and the Sept. 7, 2001 closing price of 1,080.83 yen for TOPIX, 770.21 yen for TPREAL, and 3,140 yen for Tokyo Electric Power Company (100%).
- * TPREAL (the TOPIX Real Estate Index) is a weighted index designed to measure the performance of the real estate sector of the TOPIX Index.
- * Share prices used for making graphs are based on closing prices of each day.
- * Stock price performance above is historical and is not an indication of future performance.

JRE Historical Volatility

As of November 14, 2002



* Volatility is a measure of the change in price of a financial instrument over a given period of time. By convention, historical volatility is the standard deviation of day-to-day logarithmic price changes, expressed as an annualized percentage. We calculated each volatility by analyzing a sample of the 200 trading day closing prices.

* Source: Bloomberg

Performances of 24 Properties Compared with the 1st Term

Metropolitan Area
(Tokyo 23 Wards)

Item	Mitsubishi Soken		Kodenmachi Shin-Nihonbashi		Shiba 2-chome Daimon		Cosmo Kanasugibashi	
	1 st Period	2 nd Period	1 st Period	2 nd Period	1 st Period	2 nd Period	1 st Period	2 nd Period
Revenues	993,264	1,001,438	153,960	141,237	321,440	311,776	137,706	131,056
Operating Expenses(Excluding Depreciation)	240,141	301,724	35,893	63,333	91,774	131,788	32,761	48,873
NOI	753,123	699,714	118,068	77,904	229,666	179,988	104,945	82,183
Depreciation	63,214	62,917	27,703	27,442	29,068	28,769	22,437	22,213

(in thousands of yen)

Item	Takanawadai		JTS		Omori-Eki Higashiguchi		Otsuka Higashi-Ikebukuro	
	1 st Period	2 nd Period	1 st Period	2 nd Period	1 st Period	2 nd Period	1 st Period	2 nd Period
Revenues	149,816	153,987	95,290	99,063	284,432	293,957	198,211	188,325
Operating Expenses(Excluding Depreciation)	31,621	57,799	31,118	38,901	86,963	89,491	44,294	67,384
NOI	118,195	96,188	64,172	60,162	197,469	204,466	153,917	120,941
Depreciation	22,865	22,788	14,719	14,647	60,057	59,555	42,082	41,625

Item	Ikebukuro 2-chome		Shibuya Cross Tower	
	1 st Period	2 nd Period	1 st Period	2 nd Period
Revenues	71,436	75,429	1,612,256	1,573,660
Operating Expenses(Excluding Depreciation)	17,617	31,079	475,481	641,110
NOI	53,819	44,350	1,136,775	932,550
Depreciation	13,486	13,613	232,479	242,042

Item	Urawa Dai-Ichi-Seimei Life Dowa Kasai		Kawasaki Isago		Ericsson Shin-Yokohama	
	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period
Revenues	151,133	154,938	181,953	185,368	185,675	190,396
Operating Expenses(Excluding Depreciation)	36,248	45,291	57,981	73,864	41,022	53,282
NOI	114,885	109,647	123,972	111,504	144,652	137,114
Depreciation	22,788	22,790	44,418	44,059	44,341	44,179

Metropolitan Area
(Excluding Tokyo 23 Wards)

Item	Sendai Honcho Honma		Niigata Iahizuecho Nishi-Bandaishi		Kanazawa Minamicho		Kanazawa Park	
	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period
Revenues	171,293	165,474	82,222	83,125	92,931	95,307	310,225	355,457
Operating Expenses(Excluding Depreciation)	38,516	46,483	58,525	38,850	26,810	38,188	72,066	139,760
NOI	132,777	118,991	23,698	44,275	66,121	57,119	238,158	215,697
Depreciation	31,046	30,791	11,501	11,425	13,561	13,427	54,656	53,688

Other Cities

Item	Nagoya Hirokoji		Kyoto Shijo Kawaramachi		Midosuji Daiwa		Fukusuke Sakaisujihonmachi	
	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period
Revenues	792,728	805,697	153,790	122,769	833,583	847,826	159,794	169,134
Operating Expenses(Excluding Depreciation)	247,909	307,803	32,098	56,869	145,003	189,111	39,757	63,232
NOI	544,819	497,894	121,692	65,900	688,580	658,715	120,037	105,902
Depreciation	145,568	145,312	27,953	28,785	110,481	100,246	25,582	25,354

Item	Kobe Itomachi		Hinode Tenjin		Tosei Tenjin	
	1st Period	2nd Period	1st Period	2nd Period	1st Period	2nd Period
Revenues	92,682	79,702	205,016	225,173	94,903	102,062
Operating Expenses(Excluding Depreciation)	25,636	35,408	55,915	67,853	25,774	43,576
NOI	67,046	44,294	149,101	157,320	69,129	58,486
Depreciation	14,571	14,423	34,343	33,993	21,810	21,868

24 Properties Total

Item	1st Period
Revenues	7,525,739
Operating Expenses(Excluding Depreciation)	1,990,923
NOI	5,534,816
Depreciation	1,130,730
Operating Profits	4,404,086

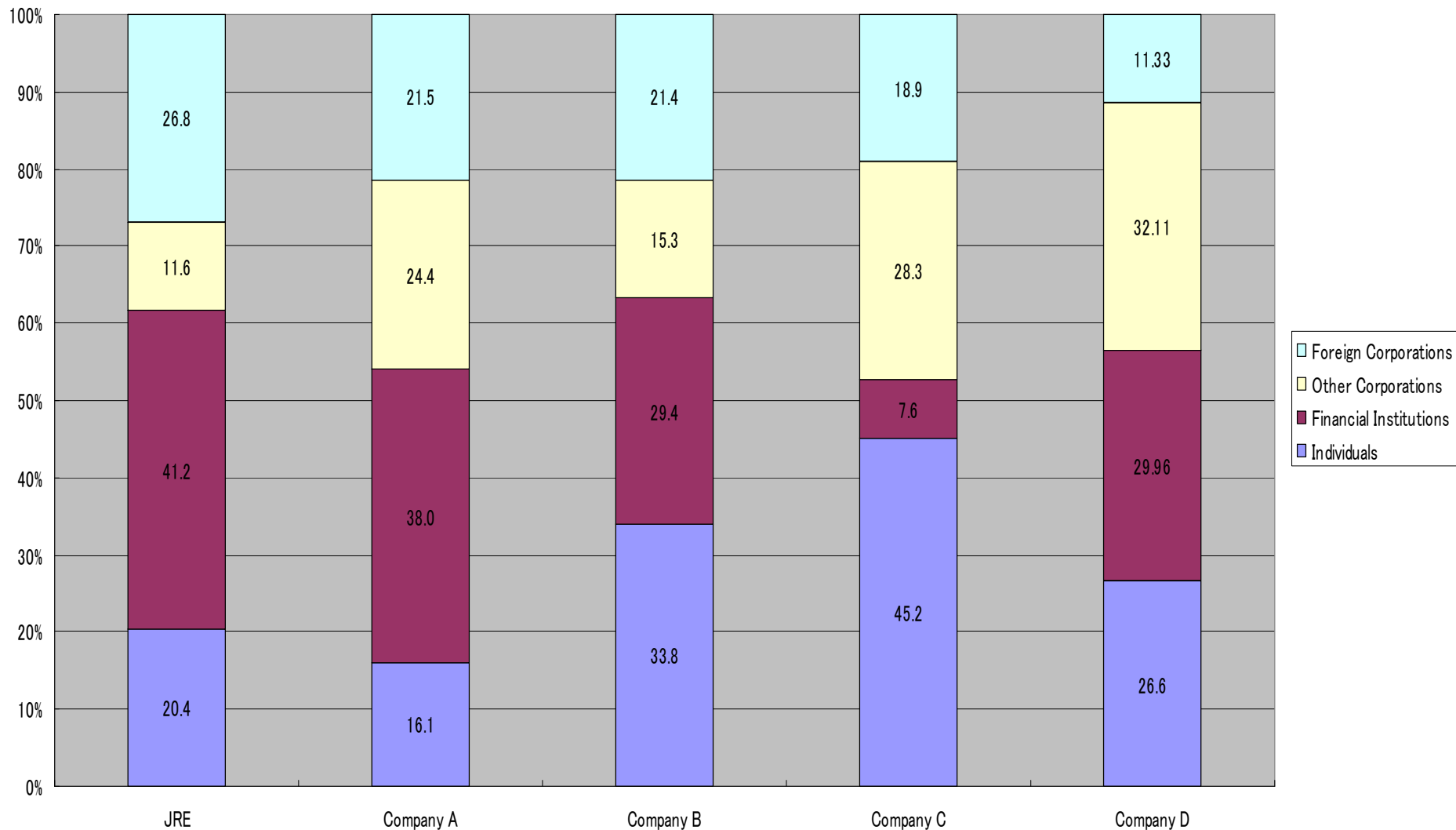
Item	2nd Period
Revenues	7,552,356
Operating Expenses (Excluding Depreciation)	2,671,052
NOI	4,881,304
Depreciation	1,125,951
Operating Profits	3,755,353

For reference: Properties Taxes	639,074
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Assuming:

For the 1st period, 24 properties held at the end of the period (March 31, 2002) are assumed to have begun operation on October 1, 2001.

Comparison of Unitholders Composition



As of the end of the fiscal year

Disclaimer on Forecasts

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