

November 16, 2010

JAPAN REAL ESTATE INVESTMENT CORPORATION ANNOUNCEMENT OF EIGHTEENTH FISCAL PERIOD RESULTS

1. Summary of Financial Results

In the 18th fiscal period (April 1, 2010 to September 30, 2010), Japan Real Estate Investment Corporation (“JRE”) recorded operating revenues totaling 22,112 million yen, up 2.1% compared with the previous period. On the earnings front, operating income decreased 5.7% to 9,939 million yen. After deducting expenses for interest payments on loans and other costs, ordinary income fell 8.3% to 8,135 million yen, and net income dropped 8.4% to 8,134 million yen.

Turning to dividends, in accordance with stipulations under Article 67-15 of the Special Taxation Measures Law of Japan, JRE has determined to pay out cash dividends in an amount that does not exceed the amount of retained earnings at period-end, less the same amount of the internal reserve recorded in the 17th fiscal period, which is the maximum integral multiple of 489,200—the number of units outstanding as of September 30, 2010. Accordingly, the amount of cash dividends for the period under review totaled 8,134,417,600 yen, for a per-unit cash dividend of 16,628 yen.

2. Results of Operations

(1) Property Management and Acquisition

During the period under review, the Japanese economy showed signs of recovery primarily due to improvements in corporate earnings owing to increased exports and a rebound in production. However, given the slow pace of recovery, as well as the strength of the yen and ineffectiveness of government policies through to September 30, 2010, the economy weakened further and continued to face severe conditions, including high unemployment throughout the period.

In the market for leased office space, there were signs that the decline in occupancy rates in large and new buildings in central Tokyo has ceased. Nevertheless, overall vacancy rates continued to increase, reflecting such factors as ongoing high vacancy rates in regional business areas and in less-competitive mid- and small-sized buildings. Consequently, overall rent levels continued to fall amid these high vacancy rates.

In the property market, there was a recovery in the willingness of purchasers to invest due to improvement in the fund raising environment and progress made regarding adjustments in property prices. As a result, the transaction volume is on an upward trend.

Amid this environment, JRE endeavored to maintain the upward trajectory in occupancy rates by promoting aggressive leasing activities based on market trends. In addition, JRE worked to further bolster the quality of its portfolio properties by maintaining and improving the competitiveness of the properties it holds. Particular initiatives included an expansion in leasable floor space through the completion of a building extension of the Ryoshin Ginza East Mirror Building, and the upgrading of building and facility specifications through appropriate renovations.

As a result of these activities, JRE’s portfolio as of September 30, 2010 consisted of 55 office buildings with a total acquisition price of 643,891 million yen. Total leasable space stood at 567,612 m² (approximately 171,703 *tsubo*), with a total of 992 tenants.

(2) Finance Activities

In conjunction with the redemption of the Third Investment Corporation Bond worth 10.0 billion yen on April 30, 2010, JRE issued the Seventh Investment Corporation Bond on April 23, 2010 totaling 10.0 billion yen.

■ Overview of the Seventh Investment Corporation Bond

Name of investment corporation bond	Japan Real Estate Investment Corporation Seventh Unsecured Bond (No finance-related special covenants, such as negative pledge)
Total amount issued	10.0 billion yen
Issue date	April 23, 2010
Maturity date	April 23, 2015
Interest rate	1.26% per year

In order to improve the ratio of long-term debt and investment corporation bonds, both of which are accounted for by interest-bearing debt, JRE issued the Eighth Investment Corporation Bond totaling 10.0 billion yen on July 23, 2010.

■ Overview of the Eighth Investment Corporation Bond

Name of investment corporation bond	Japan Real Estate Investment Corporation Eighth Unsecured Bond (No finance-related special covenants, such as negative pledge)
Total amount issued	10.0 billion yen
Issue date	July 23, 2010
Maturity date	July 23, 2015
Interest rate	1.05% per year

In conjunction with securing of cash on hand through the issuing of the Eighth Investment Corporation Bond, JRE repaid short-term loans totaling 10,000 million yen prior to their maturity dates on July 26, 2010.

In addition to the above actions, JRE undertook loans totaling 2,000 million yen on June 1, 2010, 3,000 million yen on June 14, 2010, 3,000 million yen on June 15, 2010 and 3,500 million yen on September 1, 2010 in order to repay existing loans. Furthermore, JRE redeemed long-term loans totaling 50 million yen, establishing a schedule for repayment installments on September 24, 2010.

As a result of these financing activities, as of September 30, 2010, JRE's total interest-bearing debt amounted to 262,450 million yen. This amount consisted of long-term loans totaling 178,450 million yen, which includes a current portion totaling 64,100 million yen, in addition to short-term loans totaling 29,000 million yen and investment corporation bonds totaling 55,000 million yen.

As of September 30, 2010, 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 89.0%, and the LTV ratio (ratio of interest-bearing debt to total assets) was 41.3%. As these figures indicate, JRE has been able to maintain a sound and conservative financial standing.

JRE's credit ratings as of September 30, 2010 were as follows.

Rating agency	Credit rating
Standard & Poor's Ratings Services*	Long-term: AA-; Short-term: A-1+; Outlook: Negative
Moody's Investors Service Inc.*	Rating: A1; Outlook: Stable
Rating and Investment Information, Inc.	Rating: AA; Outlook: Stable

*The above rating agencies have changed their names to Standard & Poor's Ratings Japan K.K. and Moody's Japan K.K., respectively.

3. Outlook

(1) Operating Environment

Although economic trends are expected to weaken temporarily, the Japanese economy is anticipated to gradually recover amid an improvement in overseas economies, the impact of various government policies now being implemented and other factors. Nevertheless, there is a risk of various factors placing downward pressure on the domestic economy, including a possible slowdown in overseas economies as well as fluctuations in currency exchange rates and share prices. At the same time, due to the risks posed by persistent deflation and the potential of further deterioration in employment conditions, great care and attention are required when making forecasts.

In the market for leased office space, the increase in the vacancy rate is showing signs of stopping and a reversal in rent levels is expected with regard to some prime properties in central Tokyo. However, reflecting the still weak business sentiment pervading the corporate sector, it is difficult to be optimistic that demand for office space, which is relatively sensitive to economic conditions, will rapidly increase. In addition, there are concerns that the balance of supply and demand will worsen due to an increase in the supply of office buildings from 2011 onward.

In the property market, the volume of real estate transactions is anticipated to gradually expand, buoyed by an improvement in the fund raising environment. As it moves to take full advantage of opportunities for acquiring prime properties amid an uncertain leasing market, JRE believes that the soundness of its financial standing, its ability to collect property information and its superior analytical capabilities will be of critical importance.

a. Property Management

As stated above, the market for leased office space in central Tokyo is expected to experience an improvement in the vacancy rate although the downward pressure on rent levels remains strong. In the Tokyo metropolitan area, excluding central Tokyo, and regional cities, market conditions are expected to remain extremely severe. In line with this expectation, JRE will adhere to the following management policies in order to keep improving profitability.

(i) Strengthen relationships of trust with existing tenants

As of September 30, 2010, JRE had contracts with 11 property management companies. Most of these companies were already managing their respective buildings before JRE acquired them and have 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 and subsequently maintain occupancy rates and restrain 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 apply 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. These companies are 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 the 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%. Concerning 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 19th fiscal period, (October 1, 2010 to March 31, 2011), JRE forecasts operating revenues totaling 21,690 million yen, operating income totaling 9,430 million yen, ordinary income totaling 7,540 million yen and net income totaling 7,540 million yen. JRE plans to declare a cash dividend totaling 15,430 yen per unit.

For the 20th fiscal period (April 1, 2011 to September 30, 2011), JRE forecasts operating revenues totaling 21,530 million yen, operating income totaling 9,530 million yen, ordinary income totaling 7,670 million yen and net income totaling 7,670 million yen. JRE plans to declare a cash dividend totaling 15,690 yen per unit.

The above estimates for the 19th and 20th fiscal periods are based on the following assumptions.

JRE assumes that its property portfolio will consist of the 55 properties that it held as of November 16, 2010. The actual portfolio may differ from this assumption due to additional property acquisitions and sales.

JRE assumes that the number of its units outstanding as of November 16, 2010, 489,200, will remain unchanged over the two fiscal periods.

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

JRE assumes that it will refinance the remainder of short-term loans totaling 23,500 million yen (repayment dates: December 21, 2010, January 17, 2011 and March 24, 2011) and long-term loans totaling 3,000 million yen (repayment dates: December 20, 2010 and March 30, 2011) during the 19th fiscal period ending March 31, 2011. There are no investment corporation bonds set to mature in the 19th fiscal period.

JRE assumes that it will refinance the remainder of short-term loans totaling 5,500 million yen (repayment dates: June 1, 2011 and September 1, 2011) and long-term loans totaling 61,000 million yen (repayment dates: April 4, 2011, June 1, 2011, June 23, 2011 and August 31, 2011) during the 20th fiscal period ending September 30, 2011. There are no investment corporation bonds set to mature in the 20th fiscal period.

Revenues from portfolio properties held by JRE are calculated by taking into consideration new contract conclusions and existing contract cancellations fixed as of November 16, 2010 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 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 presumes that major unforeseen changes in areas that include general market trends and real estate market conditions will not occur.

Income Statement for the 18th Period



(In millions of yen; Dividend per unit in yen)

	Term 17th Period (Mar 31, 2010)		→ change →		18th Period (Sep 30, 2010)		← change ←		18th Period (Sep 30, 2010)	
	Actual/Forecast	Actual	(amount)	(%)	Actual	(amount)	(%)	Initial Forecast (*1)		
Operating Revenues		21,665	446	2.1%	22,112	12	0.1%	22,100		
Property-related Revenues		20,758	1,353	6.5%	22,112	12	0.1%	22,100		
Rental Revenues		20,635			21,946					
Non-rental Revenues		123			166					
Gain on Transfer of Properties		885	-885	-100.0%	-	-		-		
Compensation for the Property Transfer		21	-21	-100.0%	-	-		-		
Operating Expenses		11,127	1,046	9.4%	12,173	-66	-0.5%	12,240		
Property-related Expenses (*2)		6,344	676	10.7%	7,020	-139	-1.9%	7,160		
Property Management Expenses		2,364	186	7.9%	2,551					
Property Management Costs		2,300			2,467					
Brokerage Fees, etc.		64			83					
Utilities Expenses		1,358	378	27.9%	1,736					
Property and Other Taxes		1,770	73	4.1%	1,844					
Casualty Insurance		45	4	9.4%	49					
Repairing Expenses		756	34	4.5%	790					
Other Expenses		49	0	-1.7%	48					
NOI (*3)		14,414	677	4.7%	15,091	161	1.1%	14,930		
Depreciation		3,945	273	6.9%	4,218	-1	0.0%	4,220		
Property-related Profits and Losses (*3)		10,468	404	3.9%	10,873	173	1.6%	10,700		
Gross Operating Income		11,375	-502	-4.4%	10,873	173	1.6%	10,700		
Administrative Expenses		837	96	11.5%	933	83	9.9%	850		
Asset Management Fees		529	13	2.5%	542	12	2.3%	530		
Other Administrative Expenses		307			391					
Operating Income		10,538	-599	-5.7%	9,939	89	0.9%	9,850		
Non-operating Revenues		19			46					
Interest Income		19			11					
Other Non-operating Revenues		0			35					
Non-operating Expenses		1,681			1,850					
Interest Expense		1,196	177	14.8%	1,373	-27	-1.5%	1,840		
Interest Expense on Investment Corporation Bonds		403	34	8.6%	438					
Amortization of Investment Corporation Bond Issuance Cos		10			17					
Other Non-operating Expenses		70			19					
Ordinary Income		8,876	-740	-8.3%	8,135	135	1.7%	8,000		
Income before Income Taxes		8,876			8,135					
Income Taxes		0			1					
Net Income		8,875	-741	-8.4%	8,134	134	1.7%	8,000		
Retained Earnings at Period-end		8,875			8,183					
FFO (*4)		11,914	438	3.7%	12,353					
Dividend per Unit		18,043	-1,415	-7.8%	16,628	268	1.6%	16,360		

*1 The initial forecast means the 18th Period performance forecast announced on May 17, 2010.

*2 Excluding Depreciation

*3 Excluding Gain on transfer of properties and Compensation for the property transfer

*4 Net income+ Depreciation – Gain on transfer of properties – Compensation for the property transfer

Balance Sheet for the 18th Period



(In millions of yen)

Item	17th Period (Mar 31, 2010)	18th Period (Sep 30, 2010)	Change	Reason for change
Assets				
I Current Assets				
Cash and Bank Deposits	18,753	19,312	558	
Other Current Assets	1,153	280	-873	Decreased due to refundable consumption taxes, etc.
Total Current Assets	19,907	19,592	-314	
II Fixed Assets				
Property and Equipment				
Buildings (including those held in trust)	220,655	222,610	1,955	} Increased due to capital expenditure and the property acquisition (building extension work)
Structures (including those held in trust)	2,458	2,478	19	
Machinery and Equipment (including that held in trust)	3,132	3,135	3	
Land (including that held in trust)	423,030	423,146	116	
Accumulated Depreciation	-38,693	-42,912	-4,218	Increased as a result of the full-period operation of the properties acquired during the 17th Period
Total Property and Equipment	610,583	608,458	-2,124	
Intangible Assets				
Leasehold rights, etc. (including those held in trust)	6,134	6,134	0	
Total Intangible Assets	6,134	6,134	0	
Investments and Other Assets				
Investment Securities	577	577	-	
Long-term Prepaid Expenses, etc.	53	48	-4	
Total Investments and Other Assets	630	625	-4	
Total Fixed Assets	617,348	615,219	-2,129	
III Deferred Assets				
Deferred Investment Corporation Bond Issuance Costs	70	162	91	
Total Deferred Assets	70	162	91	
Total Assets	637,326	634,974	-2,352	

(In millions of yen)

Item	17th Period (Mar 31, 2010)	18th Period (Sep 30, 2010)	Change	Reason for change
Liabilities				
I Current Liabilities				
Short-term Loans	39,000	29,000	-10,000	Decreased due to loan repayment by net proceeds from issuance of investment corporation bonds, etc.
Current Portion of Long-term Loans	9,100	64,100	55,000	Increased due to decrease of remaining period of loans, decreased due to refinancing to long-term loans, etc.
Current Portion of Investment Corporation Bonds	10,000	-	-10,000	Decreased due to redemption at maturity
Rent Received in Advance	2,393	2,324	-69	
Other Current Liabilities	2,685	2,768	82	
Total Current Liabilities	63,179	98,192	35,013	
II Long-term Liabilities				
Investment Corporation Bonds	35,000	55,000	20,000	Increased due to issuance of the 7th and 8th investment corporation bonds
Long-term Loans	169,400	114,350	-55,050	Decreased due to the transfer to the current portion of long-term loans, increased long-term loans by refinancing, etc.
Deposits Received from Tenants	36,517	34,894	-1,623	Decreased due to the return of deposits received from tenants following lease cancellation or price reduction, etc.
Total Long-term Liabilities	240,917	204,244	-36,673	
Total Liabilities	304,097	302,437	-1,660	
Net Assets				
Unitholders' Capital	324,353	324,353	-	
Retained Earnings	8,875	8,183	-692	
Total Net Assets	333,228	332,536	-692	
Total Liabilities and Net Assets	637,326	634,974	-2,352	

Property Data



(In millions of yen)

Area	Name	18th Period	17th Period	Amount of Difference	18th Period	18th Period	Acquisition Price	
		Appraisal Value (Sep 30, 10)	Appraisal Value (Mar 31, 10)		Book Value (Sep 30, 10)	Appraisal Value — Book Value		
Tokyo 23 Wards	Chiyoda	Genki Medical Plaza	6,050	6,050	0	5,015	1,034	5,000
		Kitanomaru Square	70,300	71,900	-1,600	78,246	-7,946	81,555
		MD Kanda	9,170	9,320	-150	8,908	261	9,520
		Kandabashi Park	4,790	5,480	-690	4,586	203	4,810
		Nibancho Garden	16,100	16,200	-100	13,750	2,349	14,700
		Mitsubishi UFJ Trust	46,500	46,500	0	29,958	16,541	44,700
		Burex Kojimachi	6,220	6,570	-350	6,471	-251	7,000
		Sanno Grand	28,400	28,400	0	21,483	6,916	20,900
	Chuo	Yurakucho Denki	7,810	7,910	-100	7,770	39	7,200
		Kodenmachi	3,600	3,730	-130	2,780	819	3,173
		Burex Kyobashi	6,170	6,500	-330	4,883	1,286	5,250
		GINZA Sanwa	14,900	15,300	-400	17,007	-2,107	16,830
	Minato	Harumi Center	21,400	21,400	0	25,646	-4,246	26,800
		Aoyama Crystal	7,970	8,340	-370	7,415	554	7,680
		Shiodome	79,600	79,600	0	75,754	3,845	75,850
		Shiba 2Chome Daimon	6,310	6,310	0	4,841	1,468	4,859
	Shinjuku	Cosmo Kanasugibashi	2,930	3,090	-160	2,522	407	2,808
		Shinwa	6,890	7,460	-570	7,652	-762	7,830
		Tokyo Opera City	33,100	33,500	-400	31,180	1,919	31,776
	Shinagawa	Takanawadai	2,050	2,150	-100	2,602	-552	2,738
		Higashi-Gotanda 1Chome	5,650	6,030	-380	5,039	610	5,500
	Ota	Omori-Eki Higashiguchi	5,410	5,410	0	4,597	812	5,123
	Shibuya	Nippon Brunswick	7,520	7,550	-30	6,879	640	6,670
		Yoyogi 1Chome	10,300	10,800	-500	7,889	2,410	8,700
		da Vinci Harajuku	6,090	6,370	-280	4,965	1,124	4,885
		Jingumae MS	10,700	11,900	-1,200	11,112	-412	12,200
		Shibuya Cross Tower	40,800	41,600	-800	38,459	2,340	34,600
	Nakano	Ebisu Neonato	2,880	3,330	-450	3,634	-754	4,100
		Harmony Tower	9,990	10,700	-710	8,071	1,918	8,500
	Toshima	Otsuka Higashi-Ikebukuro	3,820	3,820	0	3,556	263	3,541
		Ikebukuro 2Chome	1,600	1,600	0	1,628	-28	1,728
		Ikebukuro YS	4,430	4,480	-50	4,497	-67	4,500
Other Areas	Hachioji	Hachioji First	4,460	4,730	-270	5,332	-872	5,679
	Saitama	Saitama Urawa	2,080	2,080	0	2,391	-311	2,574
	Yokohama	MM Park	36,000	36,200	-200	36,327	-327	37,400
	Kawasaki	Kawasaki Isago	2,870	2,950	-80	2,860	9	3,375
		Musashi Kosugi STM	3,540	3,590	-50	3,918	-378	4,000
	Sapporo	8-3 Square Kita	6,630	6,630	0	6,941	-311	7,100
	Sendai	Jozenji Park	922	979	-57	995	-73	1,000
		Sendai Honma	2,660	2,920	-260	2,790	-130	3,174
	Kanazawa	Kanazawa Park	5,330	5,410	-80	4,170	1,159	4,580
	Nagoya	Nishiki Park	3,990	4,240	-250	4,794	-804	5,150
		Hirokoji Sakae	1,510	1,510	0	1,706	-196	1,680
		Nagoya Hirokoji	13,400	14,000	-600	14,642	-1,242	14,533
		Nagoya Misono	1,130	1,210	-80	1,501	-371	1,865
	Kyoto	Kyoto Kawaramachi	1,720	1,860	-140	2,749	-1,029	2,650
	Osaka	Shin-Fujita	17,000	18,200	-1,200	23,524	-6,524	24,000
		Sakaisujihonmachi	3,850	4,120	-270	3,772	77	4,164
		Midosuji Daiwa	14,500	15,200	-700	13,481	1,018	14,314
	Okayama	Lit City	4,720	4,810	-90	4,088	631	4,650
	Hiroshima	NHK Hiroshima	2,980	3,020	-40	2,566	413	2,770
	Fukuoka	Tosei Tenjin	1,320	1,320	0	1,347	-27	1,550
		Tenjin Crystal	2,500	2,830	-330	4,475	-1,975	5,000
		Hinode Tenjin	3,720	3,720	0	3,508	211	3,657
	Properties held as of the end of the 17th and 18th Periods during which the shares of ownership remain unchanged	Tokyo 23 Wards	489,450	499,300	-9,850	458,812	30,637	481,027
		Other Areas	136,832	141,529	-4,697	147,887	-11,055	154,865
		Total (54 properties)	626,282	640,829	-14,547	606,700	19,581	635,892

Property acquired during the 18th Period

Tokyo 23 Wards	Chuo	Ryoshin Ginza EM	5,830	—	—	7,893	-2,063	7,999
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55 properties held as of the end of the 18th Period

Tokyo 23 Wards	495,280	—	—	466,705	28,574	489,026
Other Areas	136,832	—	—	147,887	-11,055	154,865
Total (55 properties)	632,112	—	—	614,593	17,518	643,891

* Of the properties held as of the end of the 17th Period, Ryoshin Ginza East Mirror Building, the extension of which was completed and delivered during the 18th Period, is listed in "Property acquired during the 18th Period" (The appraisal value of the building at the end of the 17th Period is not listed).

* The figures for Ryoshin Ginza East Mirror Building listed in "Property acquired during the 18th Period" are those after the completion of the extension.