

Overview of the Japanese real estate market

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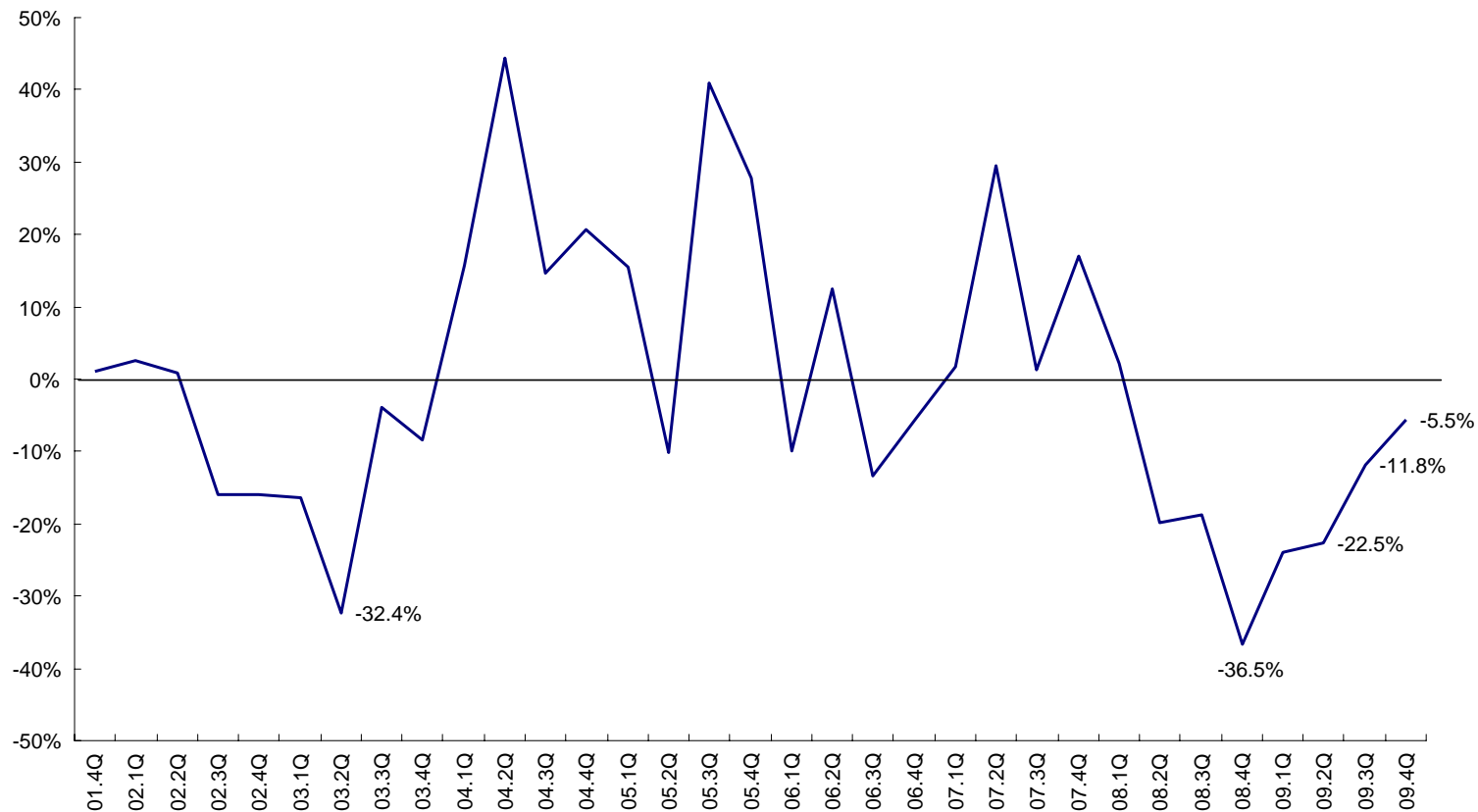
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Although refinancing risk has been easing, new lending to the real estate industry remains low

Historical trend of new lending to the real estate industry (% chg. yoy)

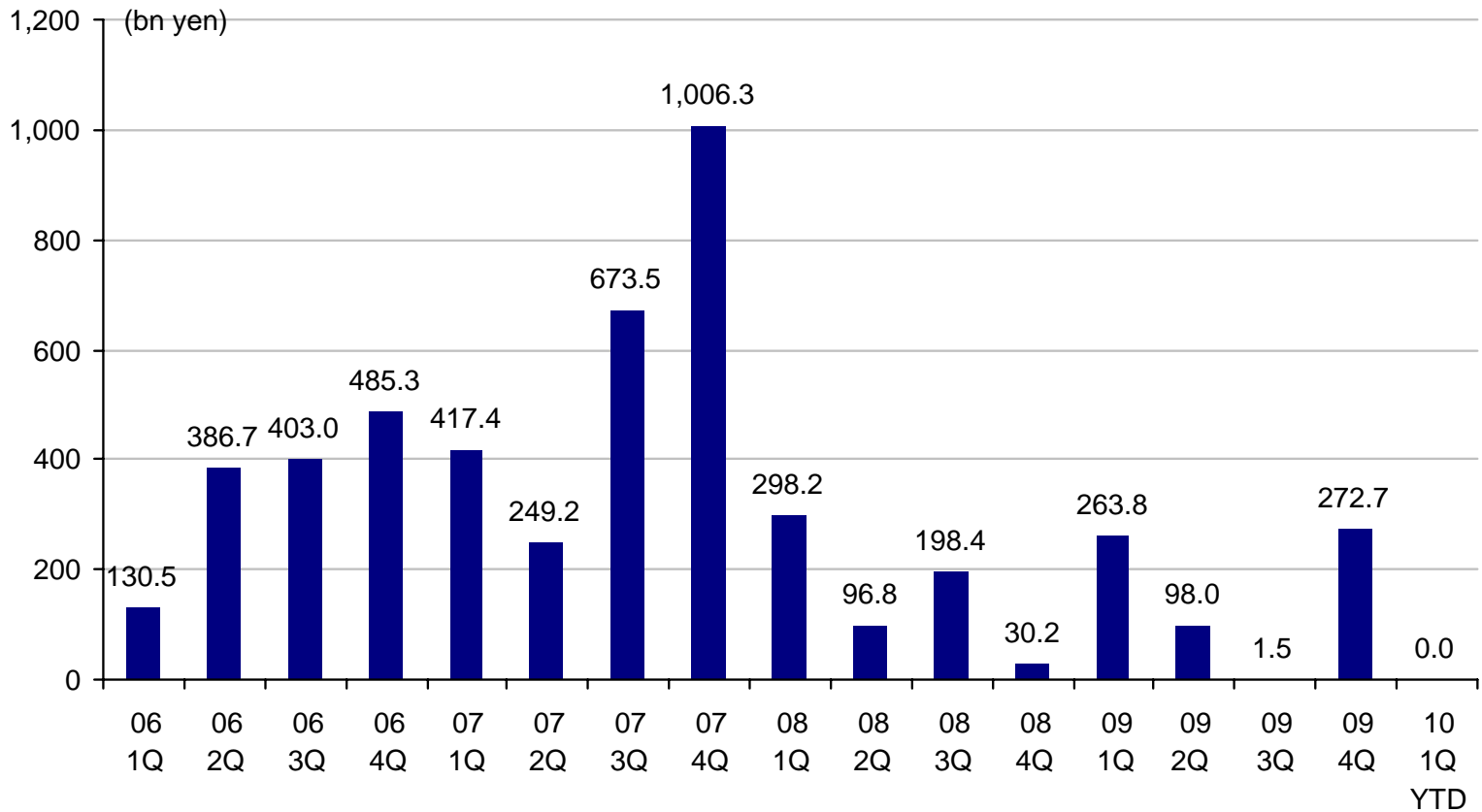


Source: Bank of Japan

Note: BOJ revised the industrial classification for the statistics at 1Q-04(Jan.-Mar.), 3Q-06 (Jul.-Sept.) and 2Q-09 (Apr.-Jun.). Therefore, the yoy figures do not correlate with each of the previous figures

CMBS market continues to be frozen

Historical trend of CMBS issued in Japan

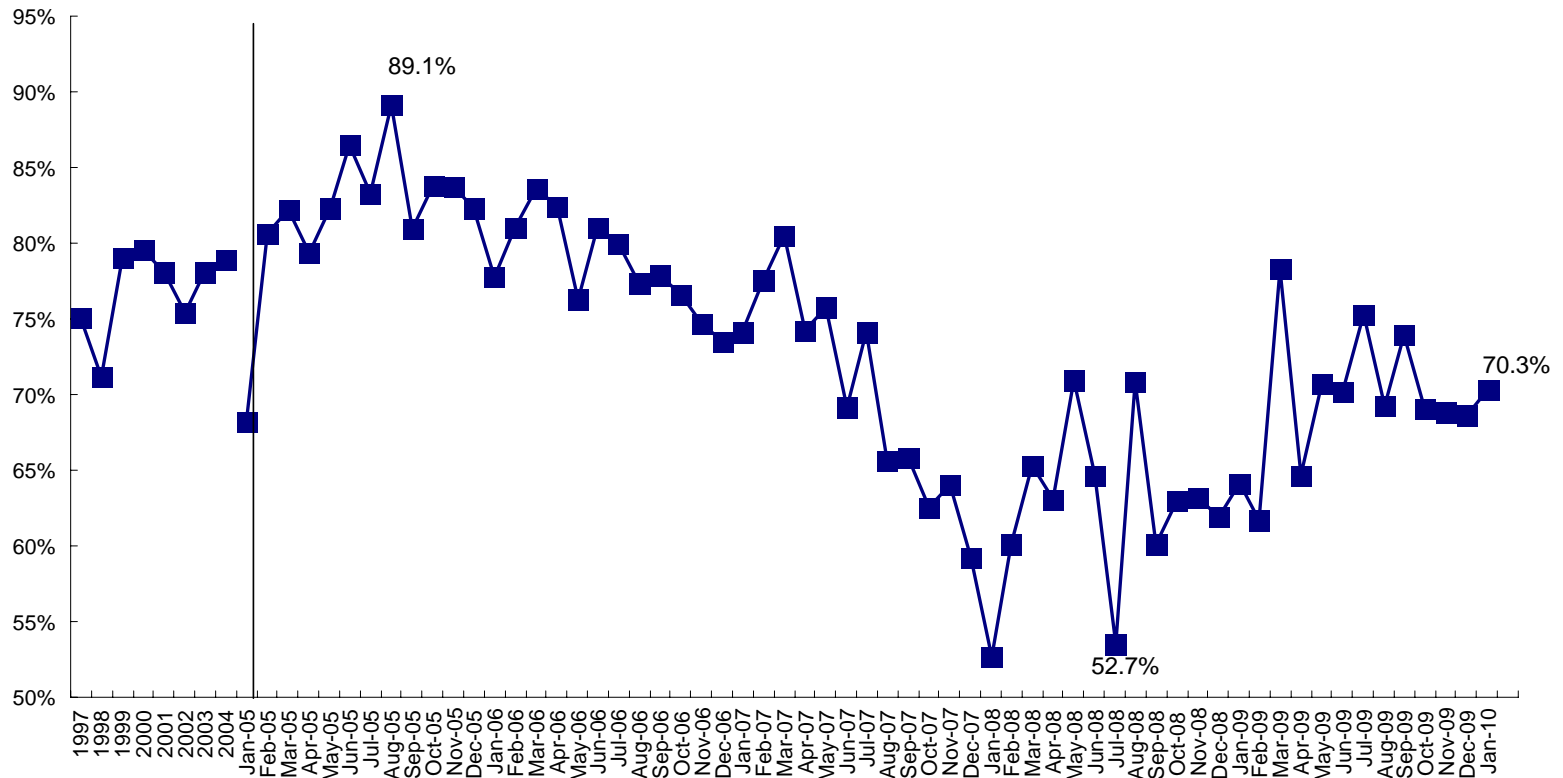


Source: UBS, I-N Information Systems



Meanwhile, the residential market has been showing signs of bottoming.
Contract ratios for new condos have been recovering

Contract ratios for new condominiums in the Tokyo Metropolitan area

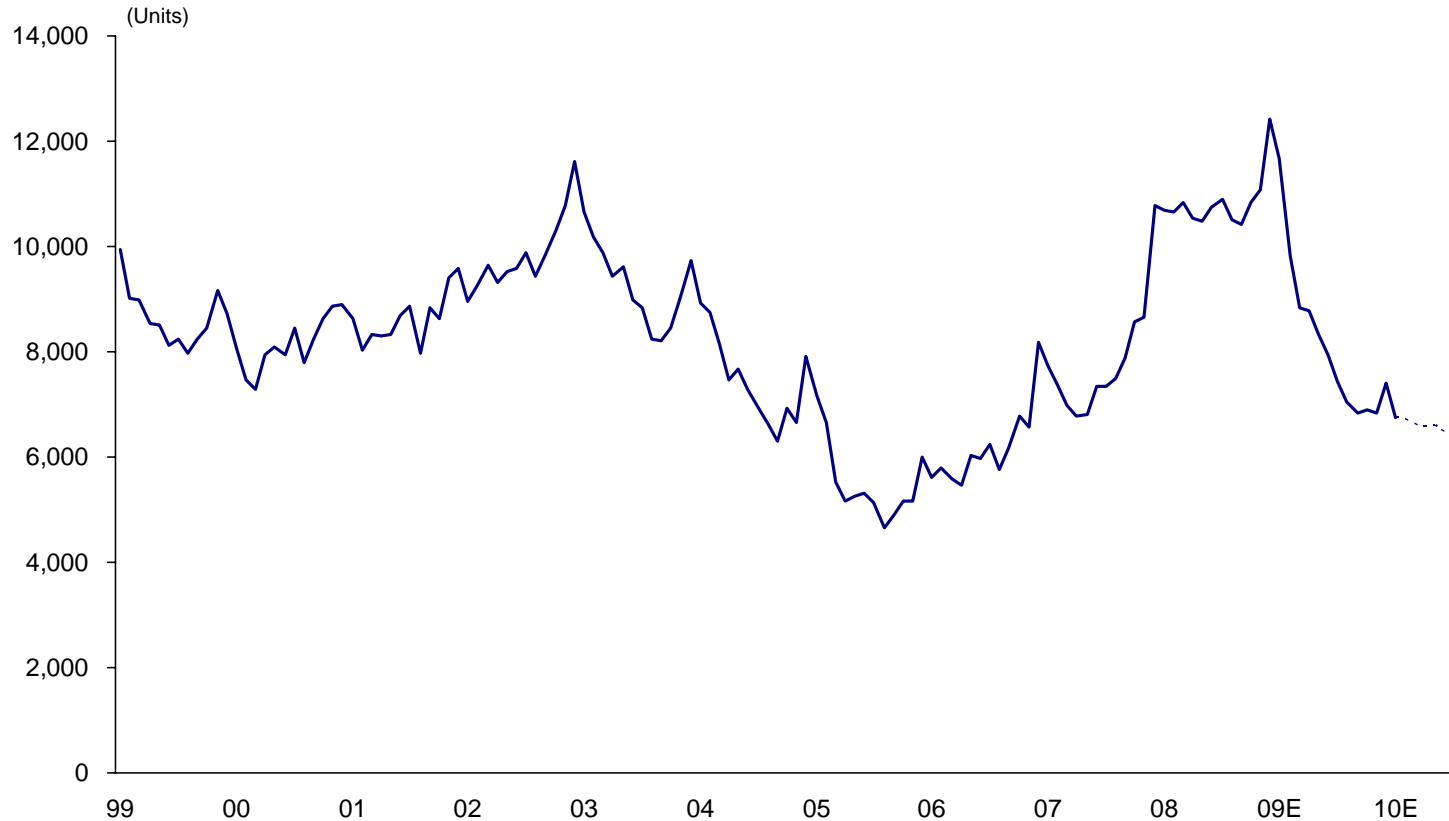


Source: Real Estate Economic Institute

*Contract ratios from 1997 to 2004 are each year's weight average numbers

Because of limited new supply, supply-demand conditions on new condos have tightened and inventories are decreasing

Market inventories for new condominiums in the Tokyo Metropolitan area

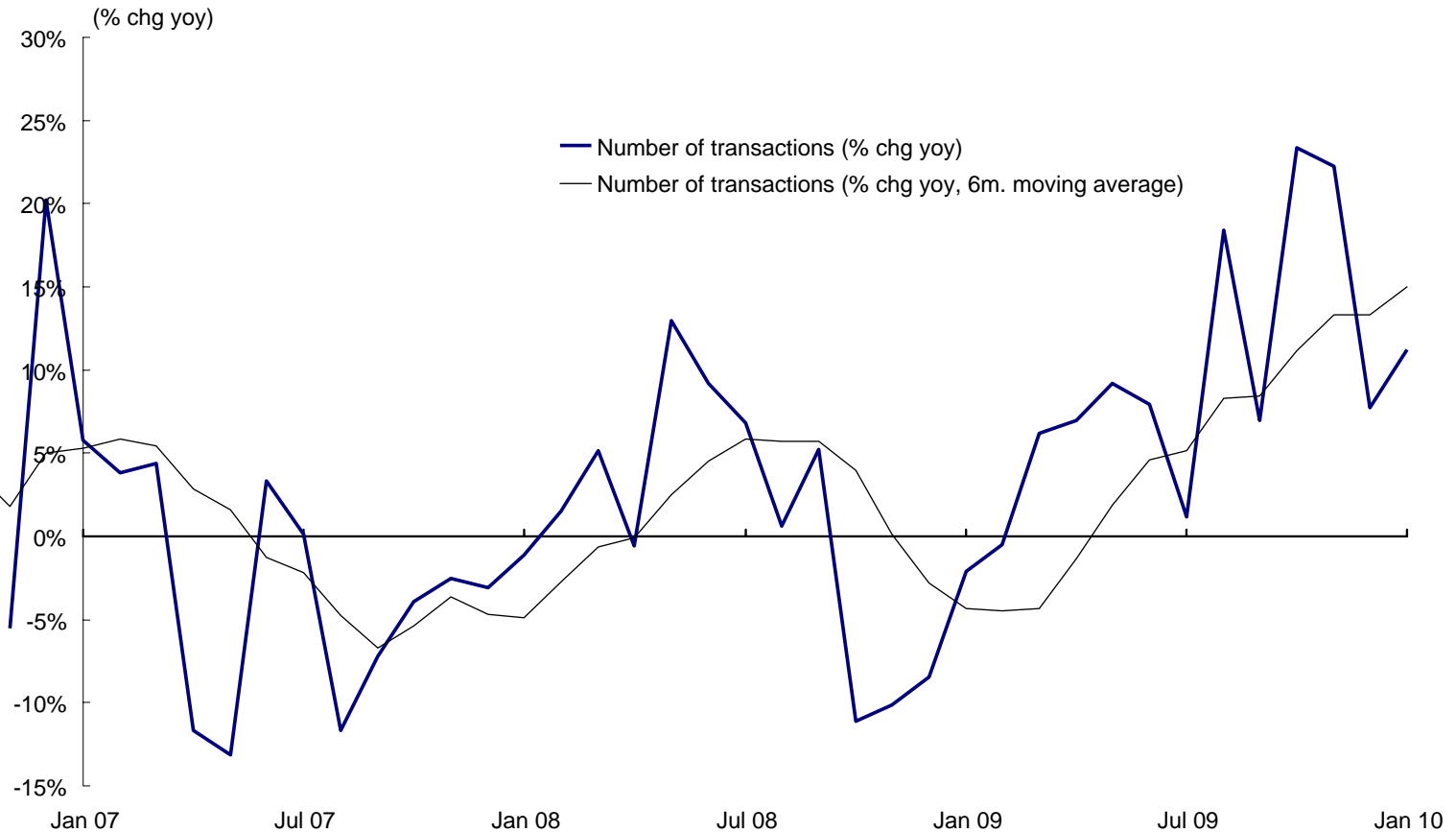


Source: Real Estate Economic Institute, UBS (e)



Condo demand is still strong among 1970s-era baby boomers, but supply of low to mid priced condos is still low. This mismatch is showing up as growing demand for second-hand condos

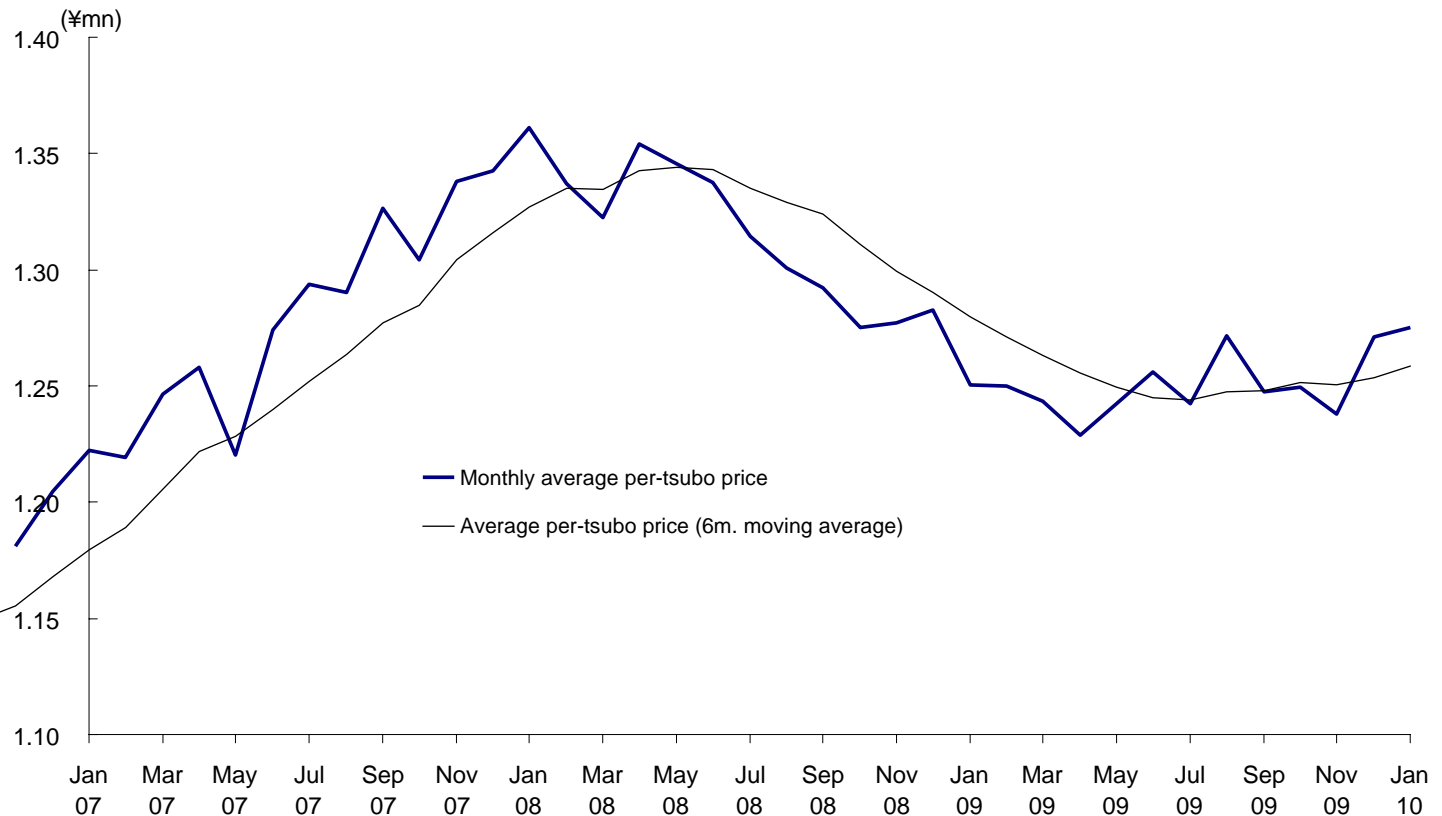
Number of transactions for second-hand condominiums in the Tokyo Metropolitan area



Source: Real Estate Information Network System for East Japan

As the number of second-hand condo transactions has picked up, prices have been showing signs of bottoming out in central Tokyo

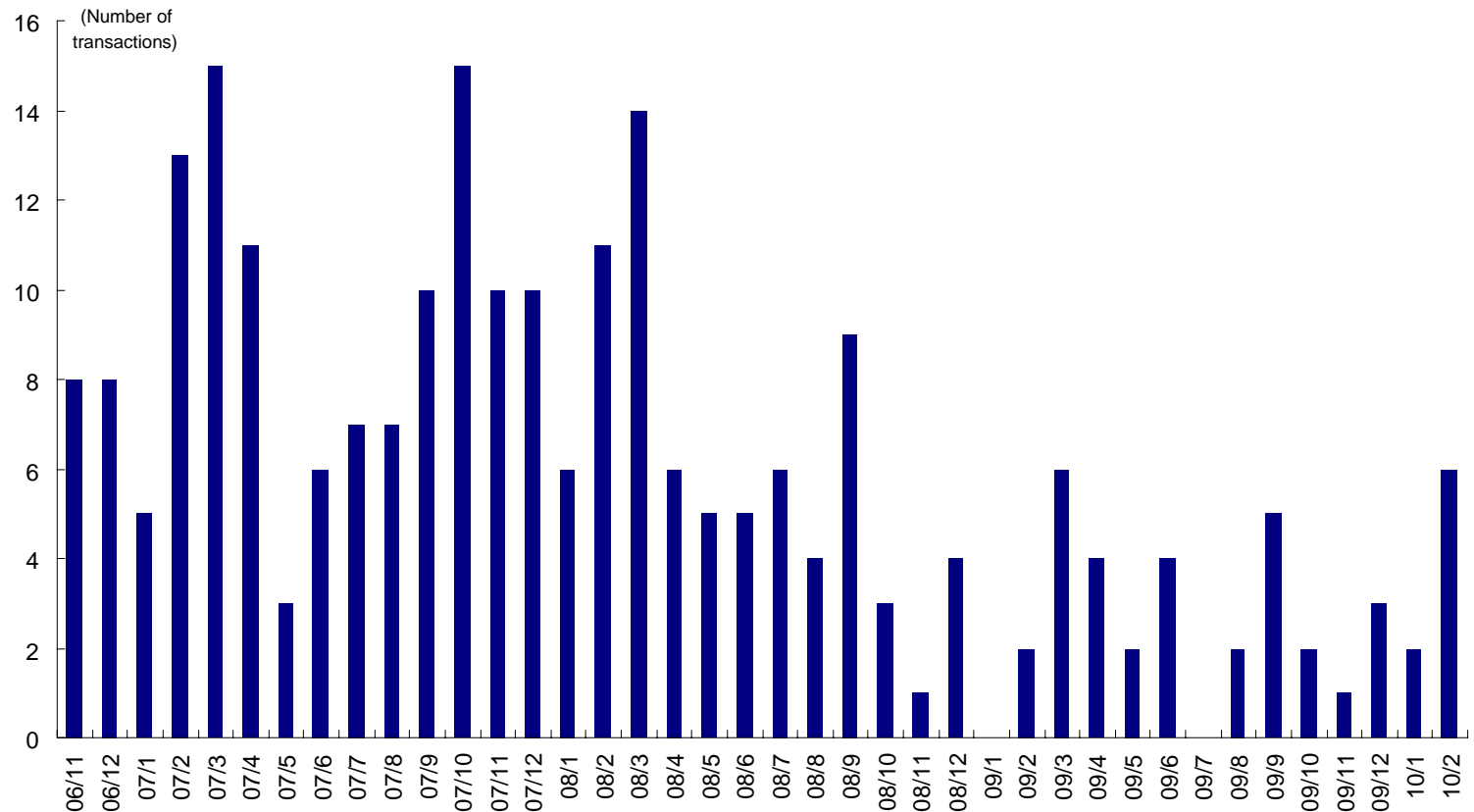
Average per-tsubo price for second-hand condominiums in the Tokyo Metropolitan area



Source: Real Estate Information Network System for East Japan

On the other hand, commercial real estate transactions remain stagnant. Transactions over ¥10bn are still few, although transactions less than ¥2bn can be seen from wealthy individuals or the other investors

Number of transactions over ¥10bn in size



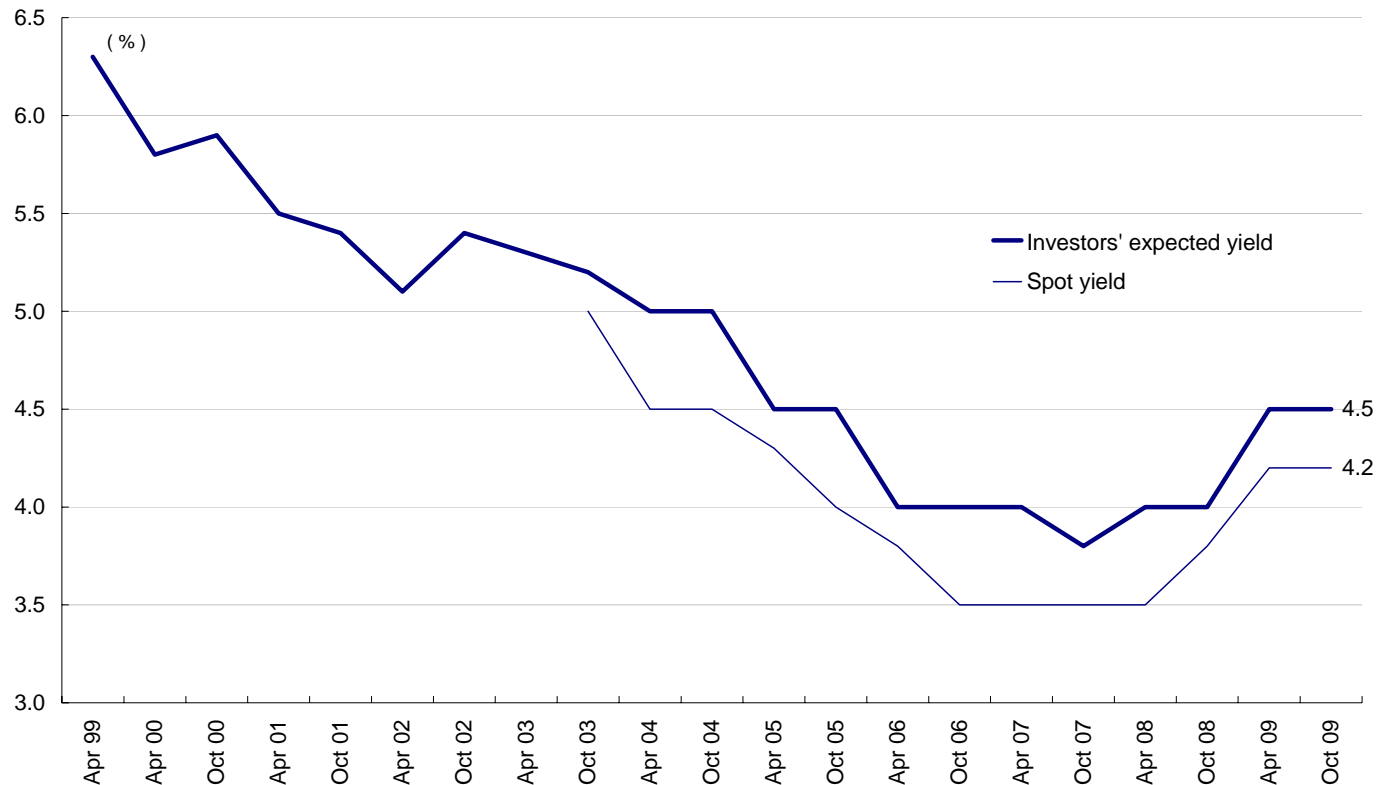
Source: UBS (based on reports by Nikkei Real Estate Market Report)

Note: The dates based on report dates as opposed to the transaction dates



The consensus yield for Tokyo Class-A office buildings has been regarded as being 4-5%, but actual transactions are few

**Investors' expected rate of return on top-class office buildings
in the Marunouchi/Otemachi area**



Source: Japan Real Estate Institute



Based on a survey from 120 respondents including insurance companies (Daido Life, etc.), asset managers (LaSalle Investment Management etc.), developers (Nomura Real Estate etc.), rating agencies and JREIT management companies

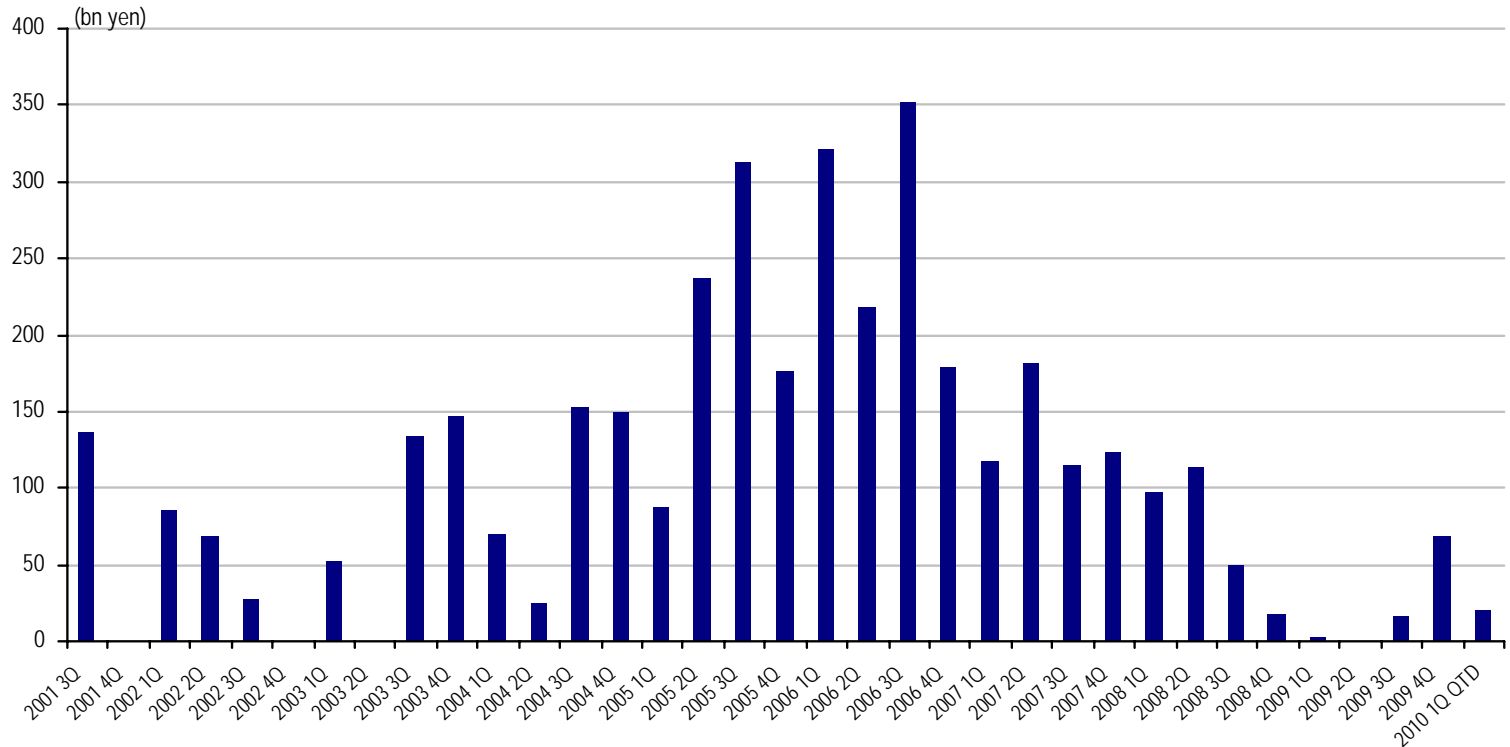
Foreign investors have remained quiet over the past 2 years

Examples of recent property transactions by foreign capital reported by the media

Date of media report	Asset type (s)	Location	Property name	Price (¥bn)	Investor
Jan 10	Retail	Chiba	Aeon Mall Chiba New Town	34.0	SEB
Jun 09	Office	Tokyo	KDX Toyosu Grandsquare	34.0	Carlyle, Korean National Pension Corporation
Apr 09	Residential	Tokyo	Lietcourt Arx Tower	13.0	St Martins Property (acquired by the Kuwaiti govt in 1974)
Dec 08	Distribution facility	Nationwide	Prologis Japan Properties Fund	n.a.	GIC
Dec 08	Office	Tokyo	Shibuya Duplex	16.0	Union Investment
Oct 08	Office	Tokyo	Glass City Harumi	16.0	Union Investment
Sep 08	Retail	Osaka	La Porte Shinsaibashi	14.4	DEGI (Deutsche Gesellschaft für Immobilienfonds)
Aug 08	Retail	Tokyo	SoLaDo Harajuku	15.0	Union Investment
Aug 08	Office	Tokyo	Italian Cultural Institute	16.3	Red Wood Group
Aug 08	Office	Tokyo	DaVinci Kamiyacho	17.0	Commerz Real (Commerz Bank Group)
Jun 08	Office	Tokyo	Nikko Building	19.0	RREEF (Deutsche Bank Group)
May 08	Office	Osaka	Nittetsu Midotsuji Building	12.0	LaSalle Investment Management
May 08	Office	Tokyo	Shinsei Bank Meguro Branch	19.2	Lone Star Real Estate Fund
Apr 08	Retail	Osaka	Urban Terrace Chayamachi	10.0	Deka Immobilien
Mar 08	Office	Tokyo	Shiomi Koyama Building	20.0	Union Investment
Mar 08	Office	Tokyo	Shinsei Bank Headquarters	118.0	Morgan Stanley Group (92.7bn non-recourse financing provided from Deutsche Bank. Securitized in July 08)
Feb 08	Office	Tokyo	Citi Group Center	48.0	Morgan Stanley Group
Feb 08	Hotel	Tokyo	Westin Hotel Tokyo	77.0	GIC

JREITs resumed equity raising from October last year. If equity financing of JREITs continues, there should be positive impacts not only on the JREIT market but also for the real estate market as well

Equity raised by JREITs



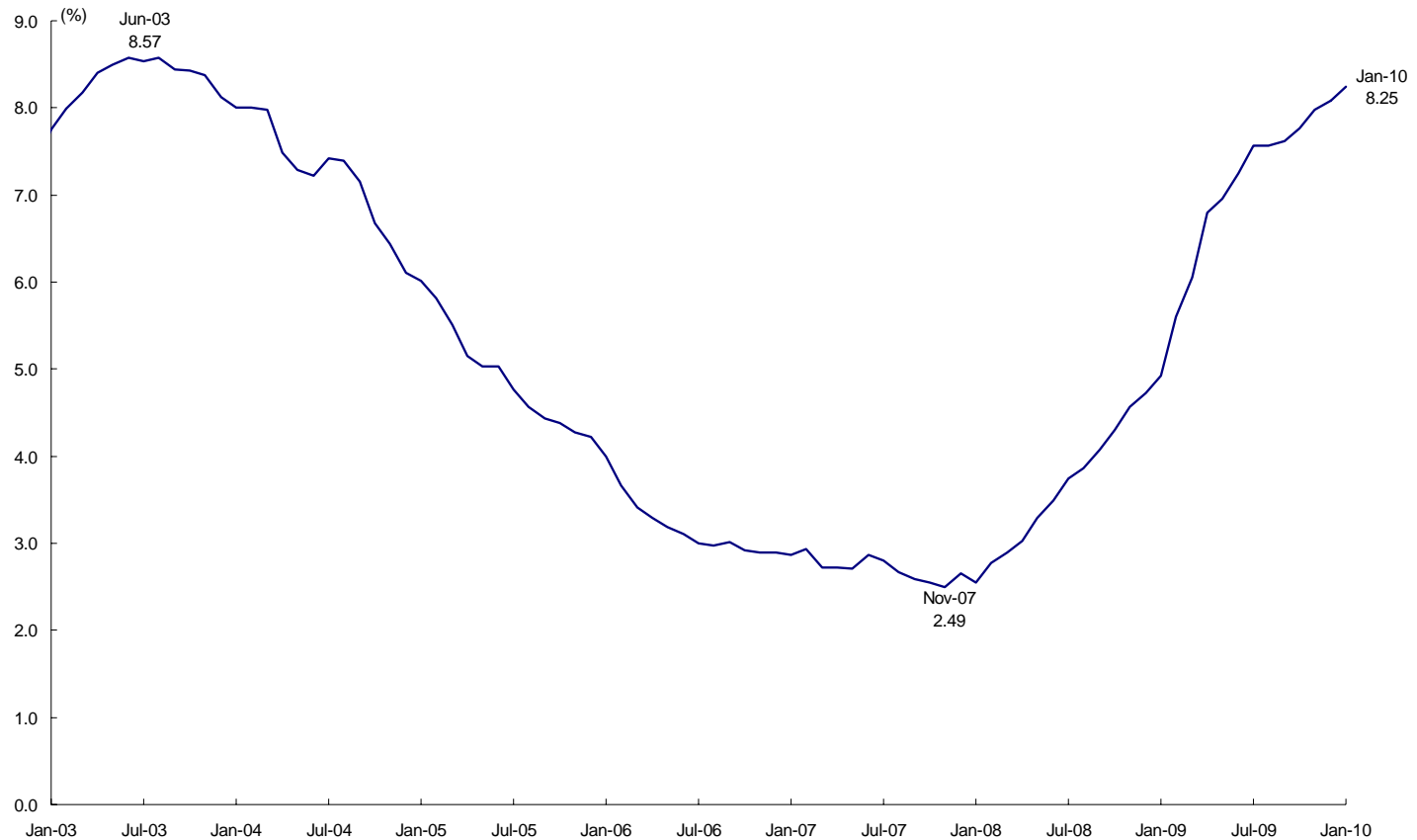
Source: UBS based on company data

Note: The amount is the sum of equity raised during and after IPO



One important factor for real estate sector performance is the trend of the Tokyo office market, as indicated by the vacancy rate. Vacancy rate was 8.25% as of January 2010, approaching the 8.57% peak seen during the past cycle

Office vacancy rates in Tokyo's five main wards (surveyed by Miki Shoji)



Source: Miki Shoji



The determining factor for the trend of Tokyo office space demand is the economic cycle

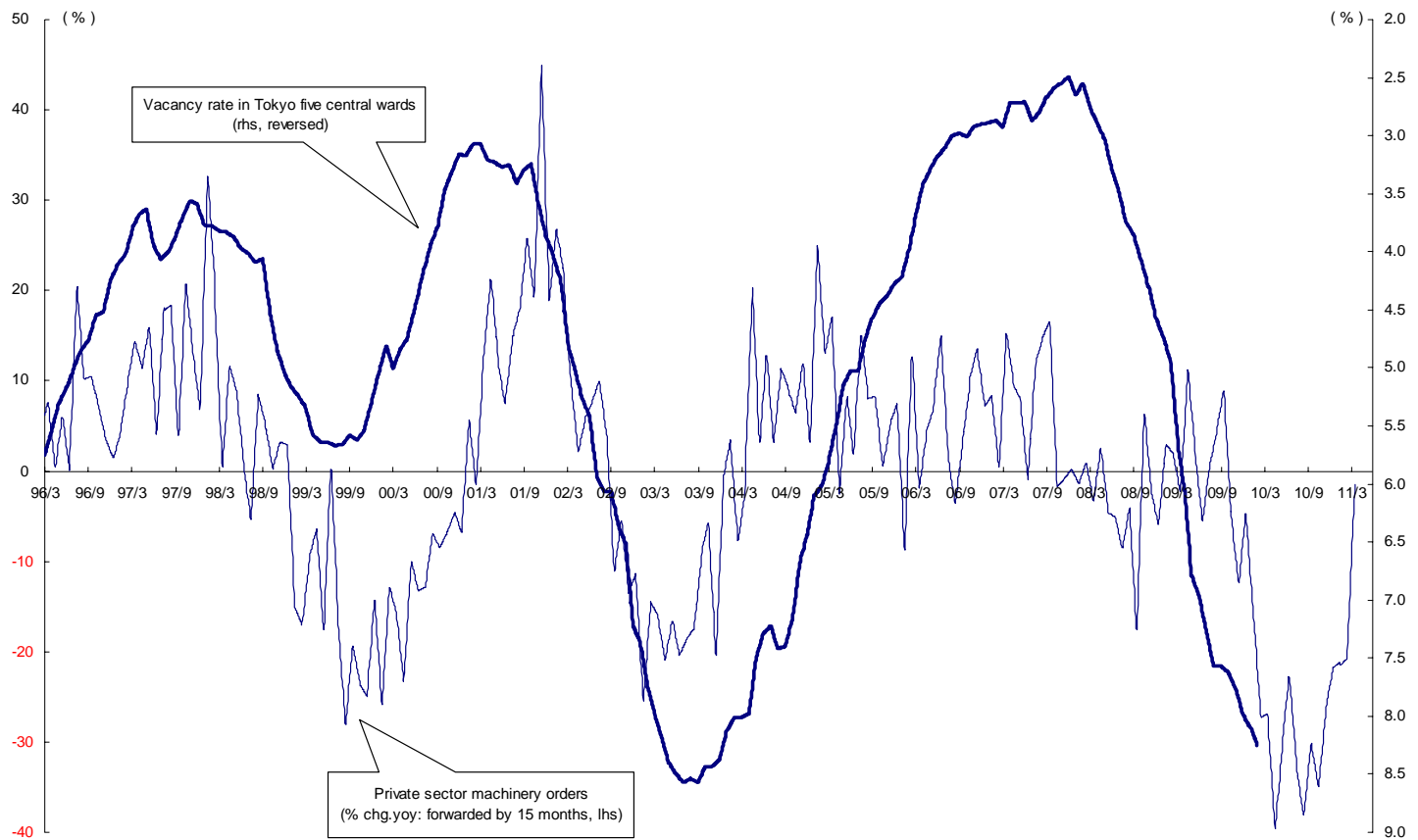
UBS economic forecasts

	CY2008E	CY2009E	CY2010E	CY2011E	Q1/09A	Q2/09E	Q3/09E	Q4/09E	Q1/10E	Q2/10E	Q3/10E	Q4/10E
Nominal GDP	-2.0	-6.0	0.3	1.2	-3.4	-0.1	-0.5	0.2	0.1	0.2	0.2	0.1
Real GDP	-1.2	-5.0	2.0	1.4	-3.2	1.3	0.0	1.1	0.4	0.3	0.3	0.2
Private demand	-1.5	-4.8	0.8	2.3	-2.7	-0.6	-0.6	0.7	0.3	0.3	0.4	0.4
Private consumption	0.6	-1.1	1.7	1.4	-1.3	1.1	0.6	0.7	0.2	0.3	0.3	0.3
Residential investment	-8.0	-13.9	-7.5	5.4	-6.5	-9.4	-7.8	-3.4	0.5	0.5	1.0	1.0
Capex	-4.1	-19.2	1.2	7.5	-8.7	-4.2	-2.5	1.0	1.0	1.0	1.5	1.5
Public demand	-1.2	2.4	-0.4	-3.5	1.2	1.3	-0.2	0.4	0.1	-0.3	-0.9	-1.2
Net exports (contr.)	0.2	-2.0	1.4	0.5	-0.6	1.8	0.3	0.5	0.2	0.2	0.1	0.2
Deflator (y/y, %)	-0.9	-1.0	-1.7	-0.1	0.3	-0.7	-0.7	-3.0	-3.0	-1.8	-1.4	-0.6
CPI	1.4	-1.3	-1.5	-0.2	-0.1	-1.0	-2.3	-2.0	-1.6	-1.9	-1.6	-1.0
10-yr JGB	1.2	1.3	1.5	1.7	1.4	1.4	1.3	1.3	1.3	1.5	1.5	1.5

Source: Cabinet Office, BOJ, MoF, UBS estimates (as of 18 February 2010)

Economic indices such as machinery orders are implying the vacancy rate may peak out in the near future, but are also implying that the vacancy rate may stay high throughout this year

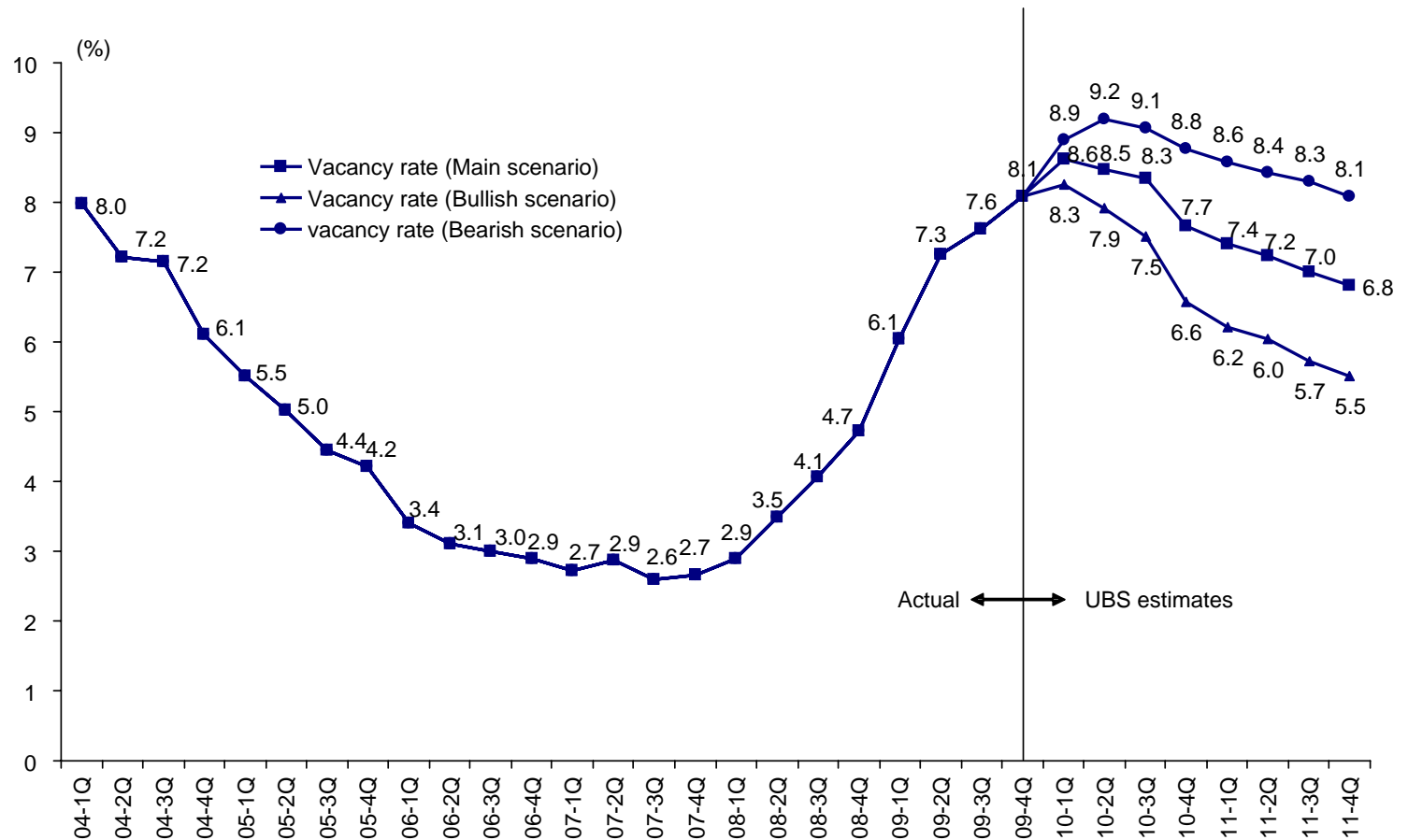
Vacancy rate in Tokyo's 5 main wards vs. private sector machinery orders (15 months forwarded)



Source: Datastream, Miki Shoji

We expect the vacancy rate to stay over 8% until autumn this year, reflecting the weak economic outlook

Quarterly estimates for vacancy rates in Tokyo's 5 main wards

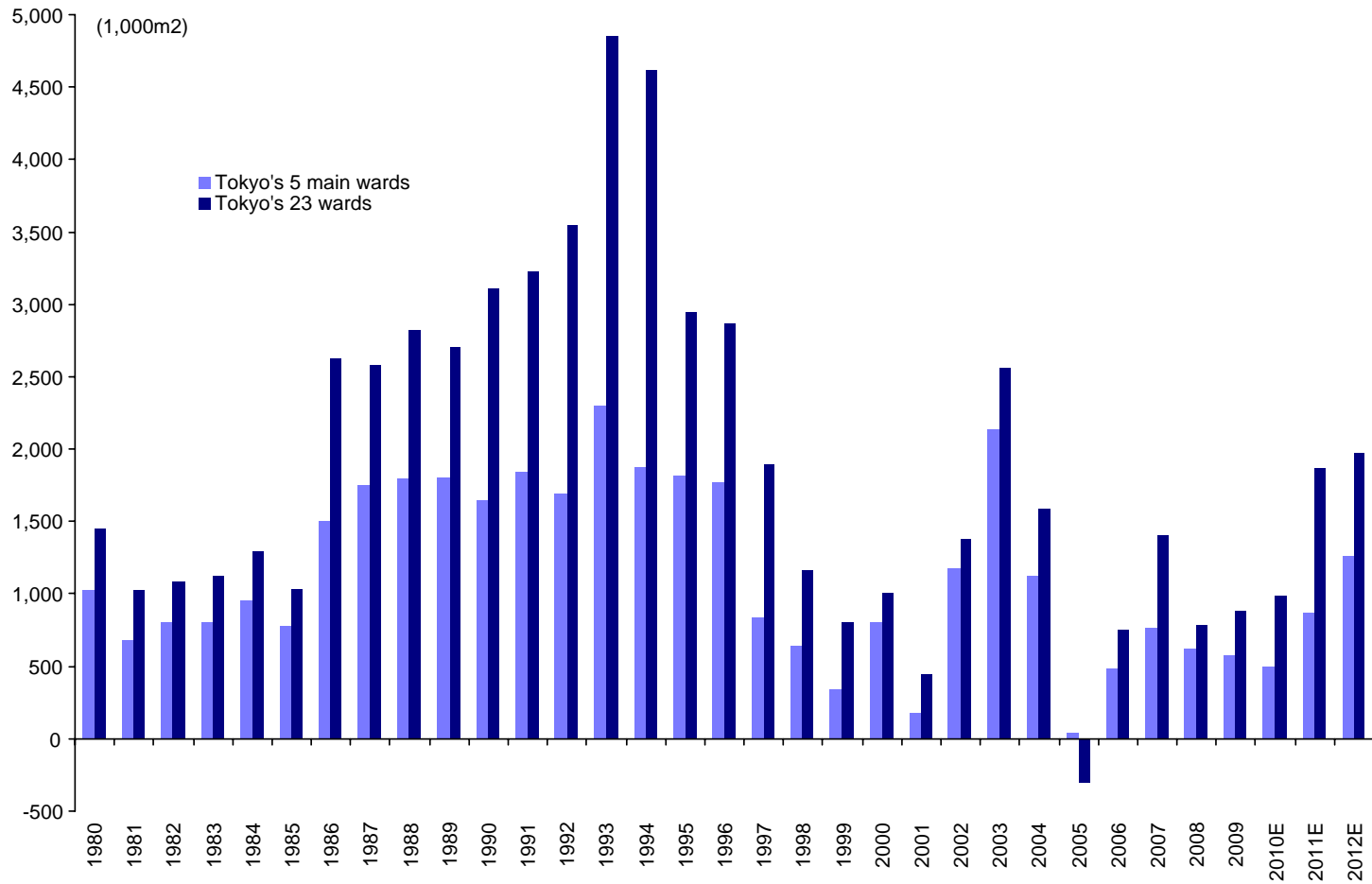


Source: Miki Shoji, UBS estimates



If the economy remains stagnant not only this year but next year as well, the Tokyo office market will come under additional pressure because the supply of new space will increase in 2011 and 2012

Net office space supply in Tokyo's 23 wards and 5 main wards

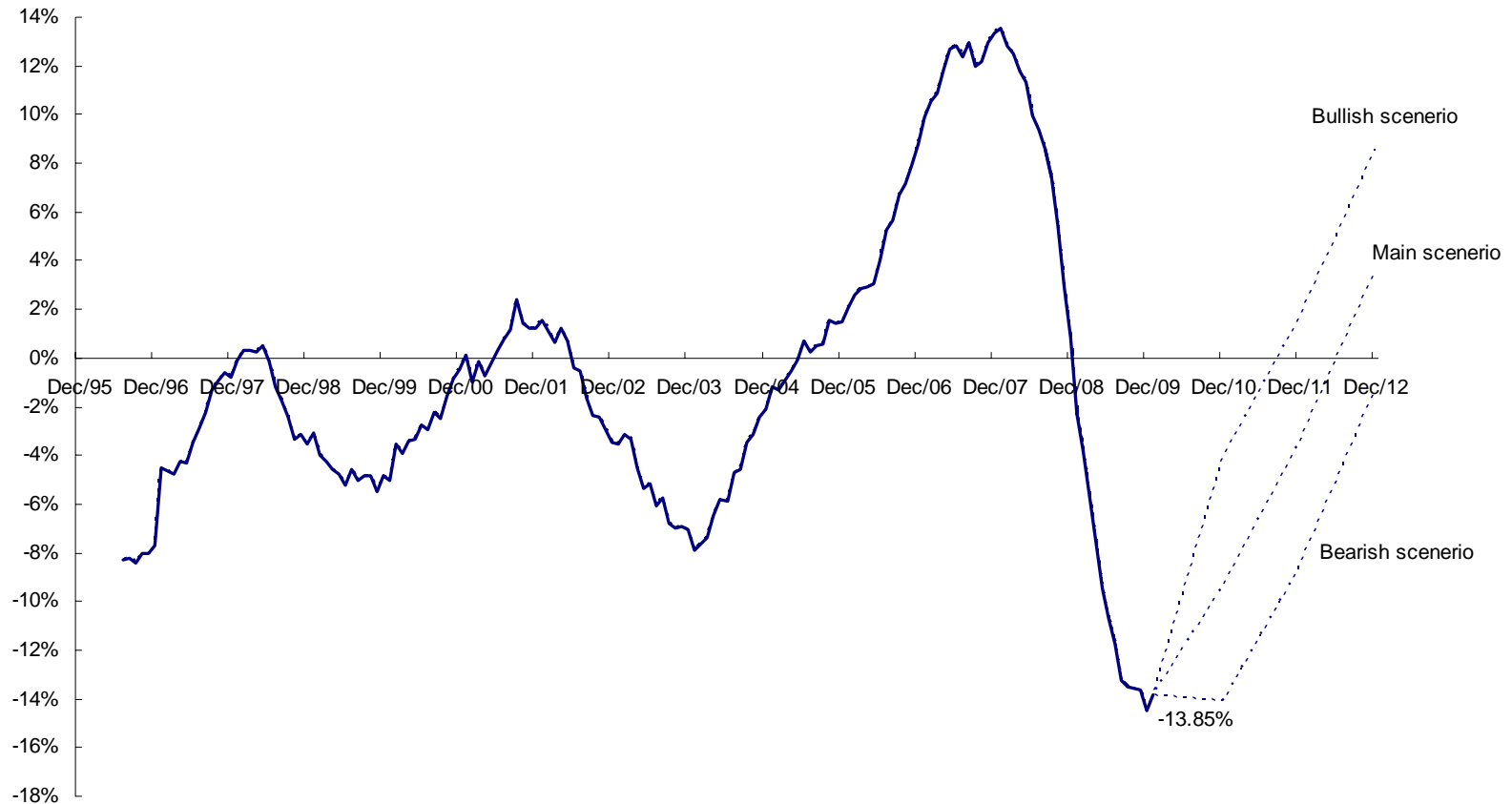


Source: Tokyo Metropolitan Government, UBS estimates



As long as the vacancy rate stays high, we believe rents will continue to weaken throughout this year

Average asking rent in Tokyo's five main wards (% chg. yoy)

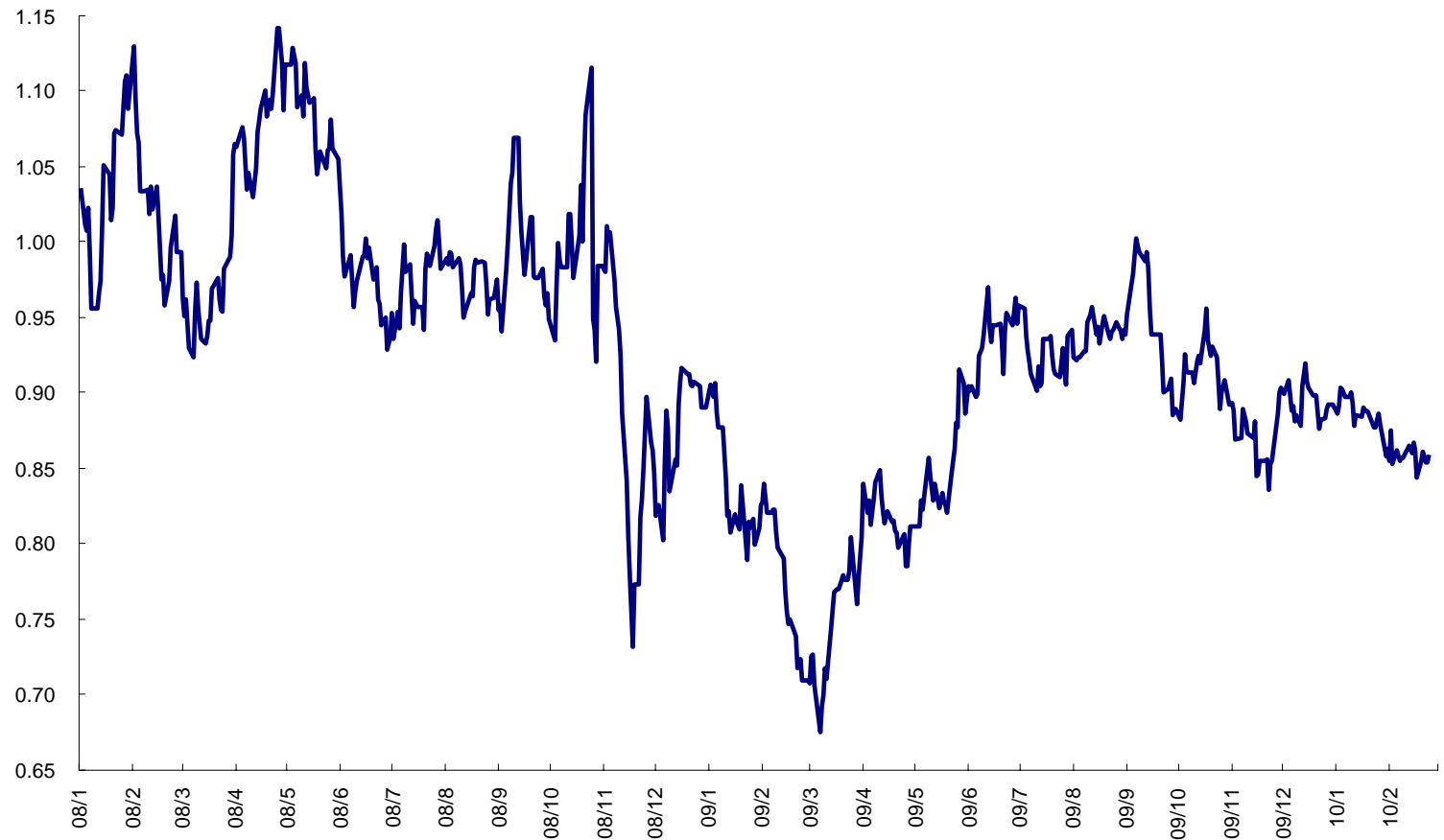


Source: Miki Shoji



Large developers' share prices have been weakening over the past 6 months reflecting weak fundamentals

Relative performance of TSE real estate index (developers) relative to TOPIX



As of 26 Feb., 2010

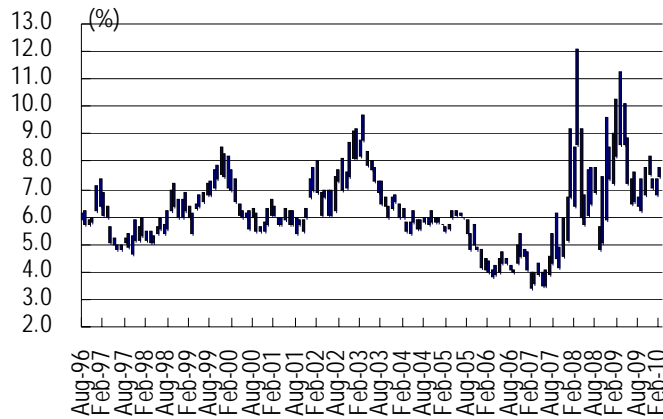
Source: Datastream



However, valuations are not demanding. We expect upside potential for developers if we were to see more signs of improvement in their fundamentals in the future

Historical implied cap rate

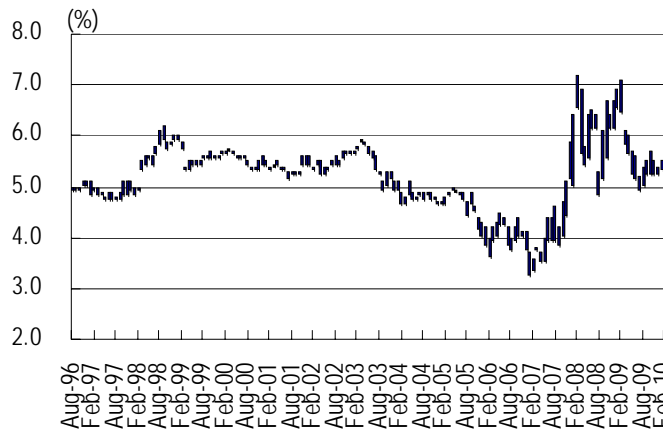
Mitsui Fudosan



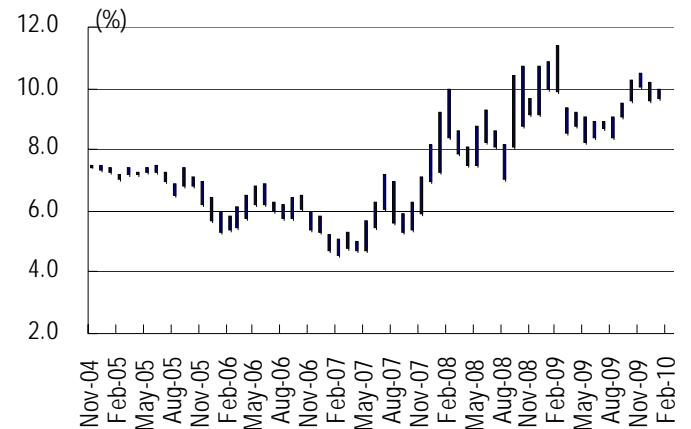
Mitsubishi Estate



Sumitomo Realty & Development



NTT Urban Development

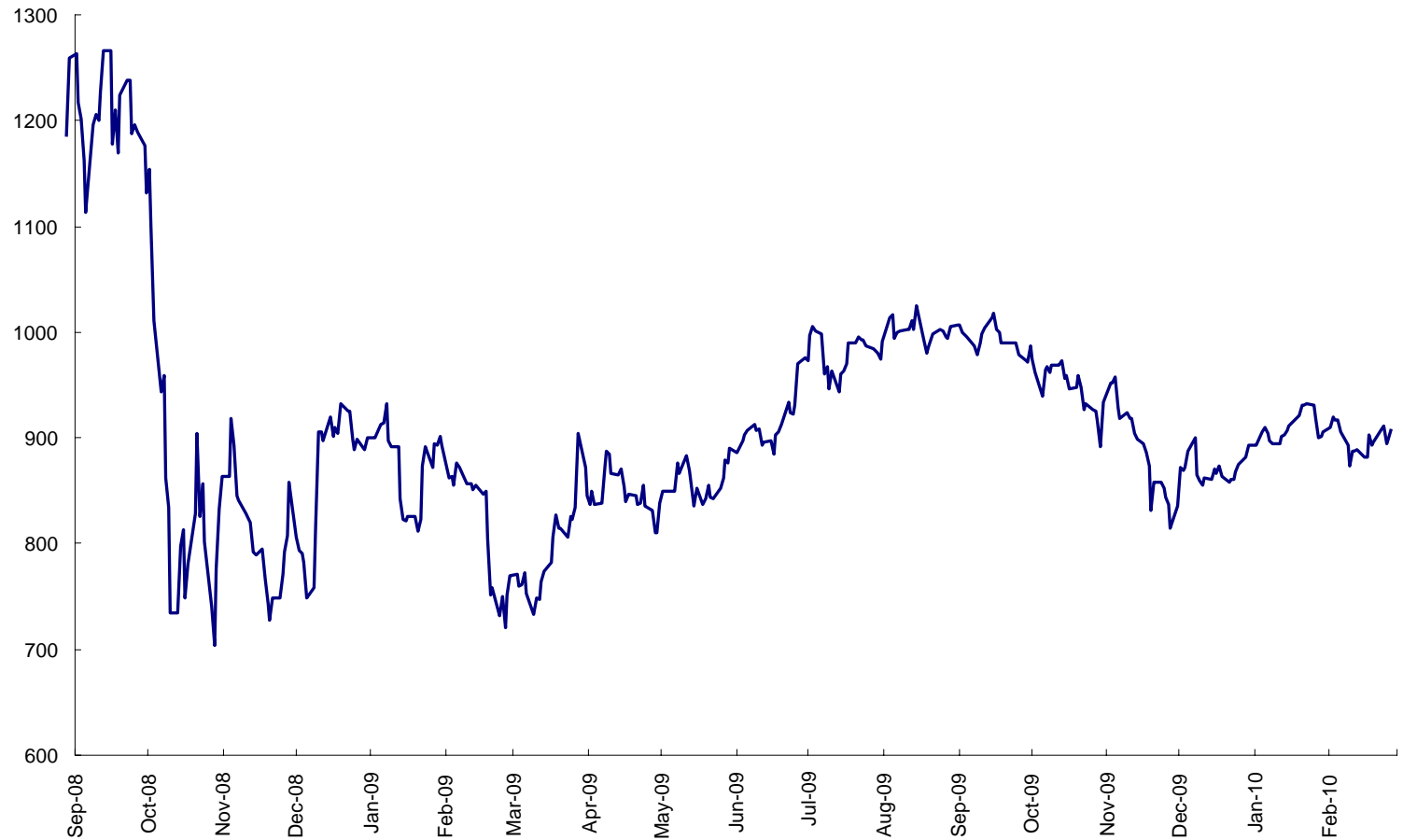


Source: UBS estimates



Meanwhile, JREITs have started to weaken since mid August

Historical performance of TSE REIT index

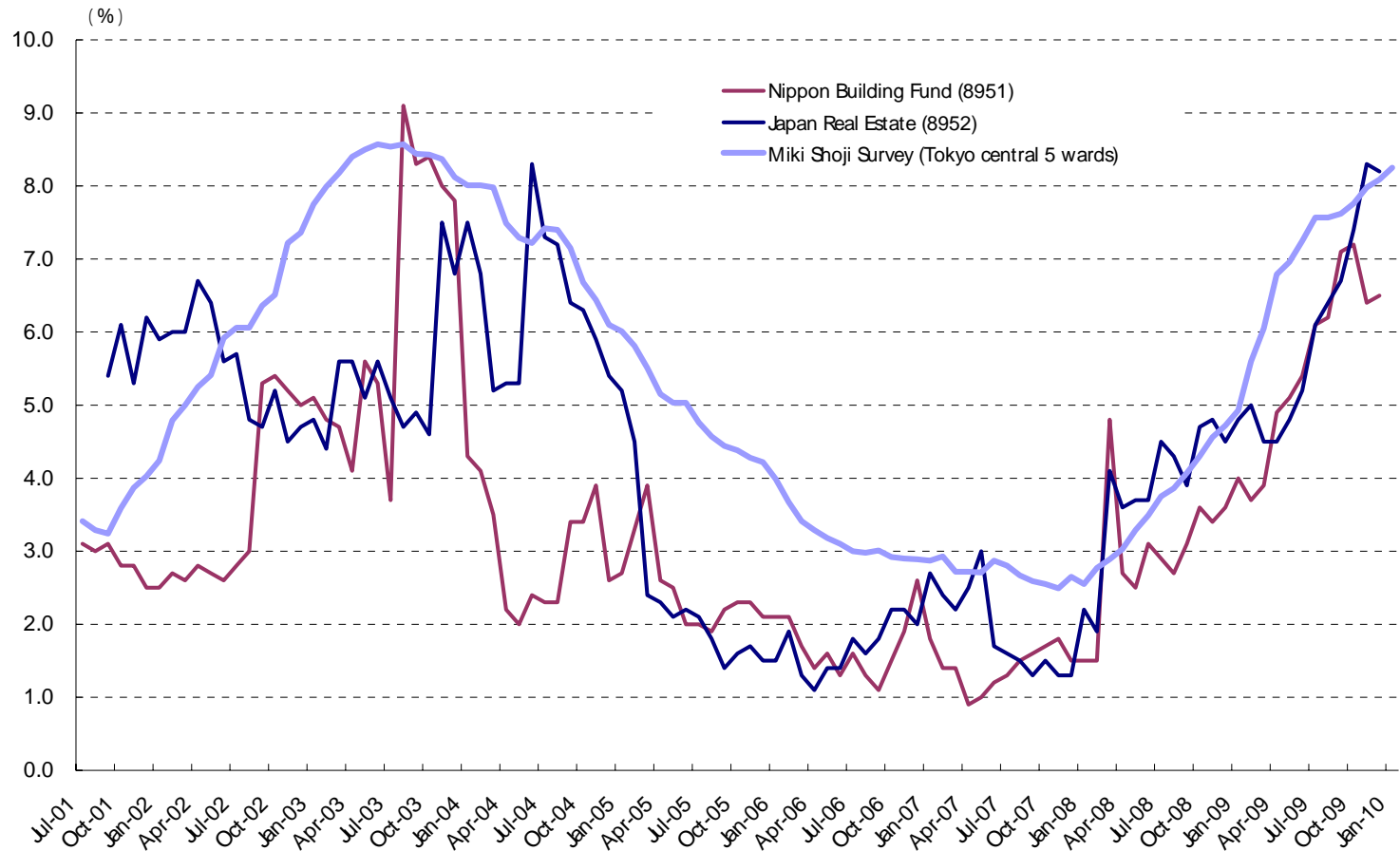


Source: Datastream



We believe concerns about lower cash flow as a result of rises in office vacancy rates has been putting pressure on JREITs

Historical vacancy of NBF and JRE

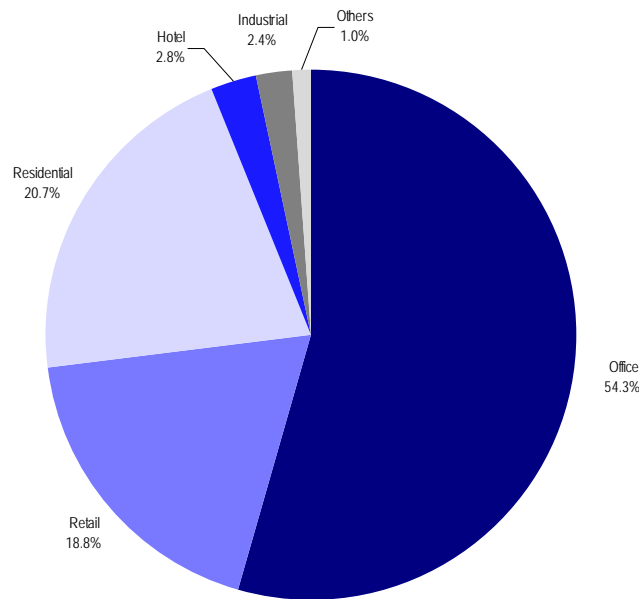


Source: Company data, Miki Shoji

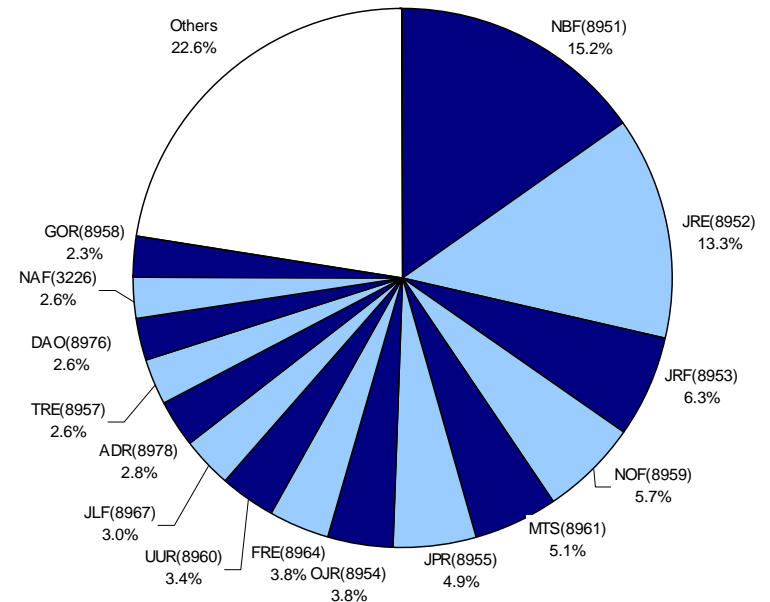


More than half of underlying assets for JREITs are offices. And 3 out of the top 5 JREITs are office REITs.

Breakdown of assets held by JREITs
(Data as of 26 Feb, 2010)



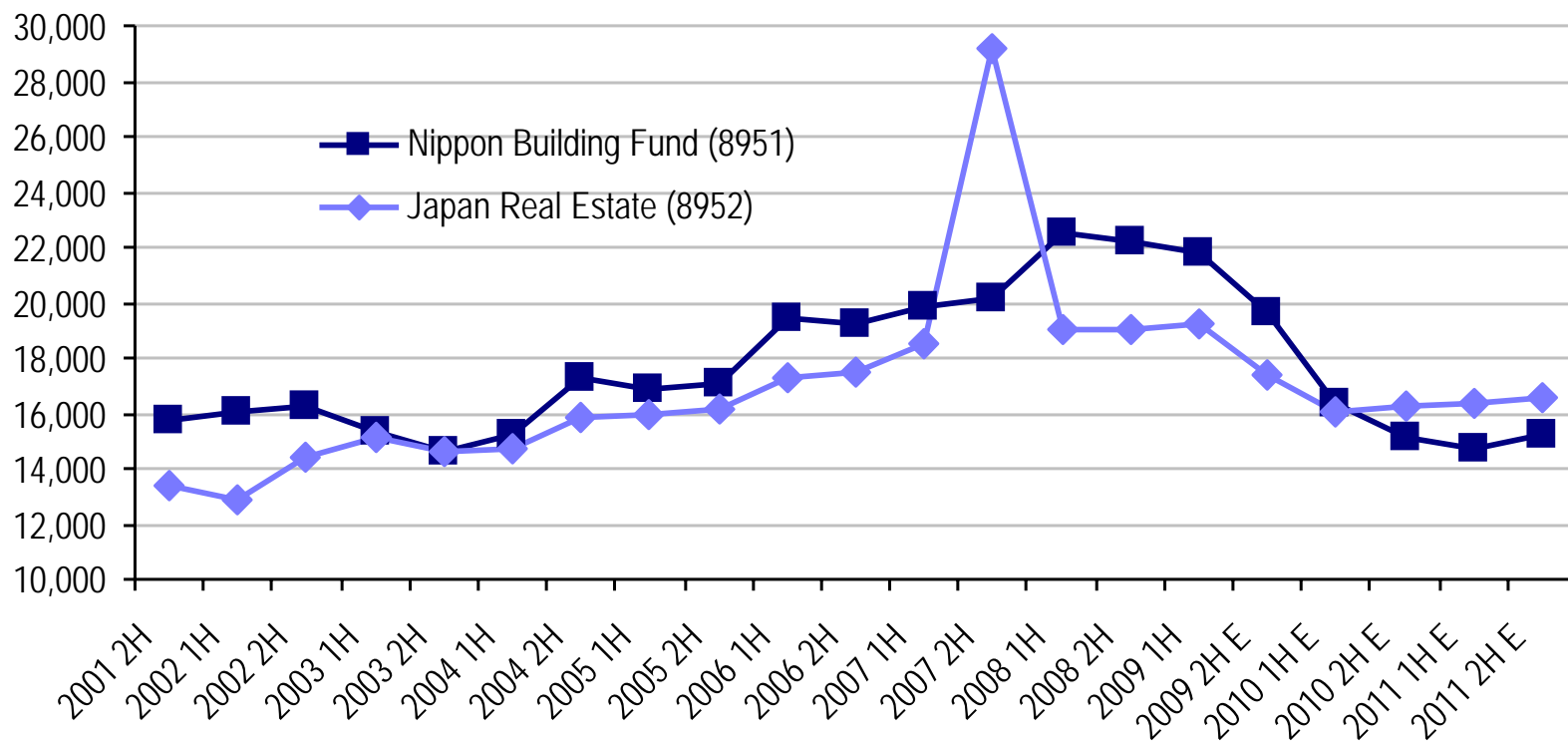
JREIT market cap structure
(Data as of 26 Feb, 2010)



Source: Company data

The market is paying attention to the timing of the bottoming out of dividends. We expect dividends for large office REITs to bottom out by H1 2011

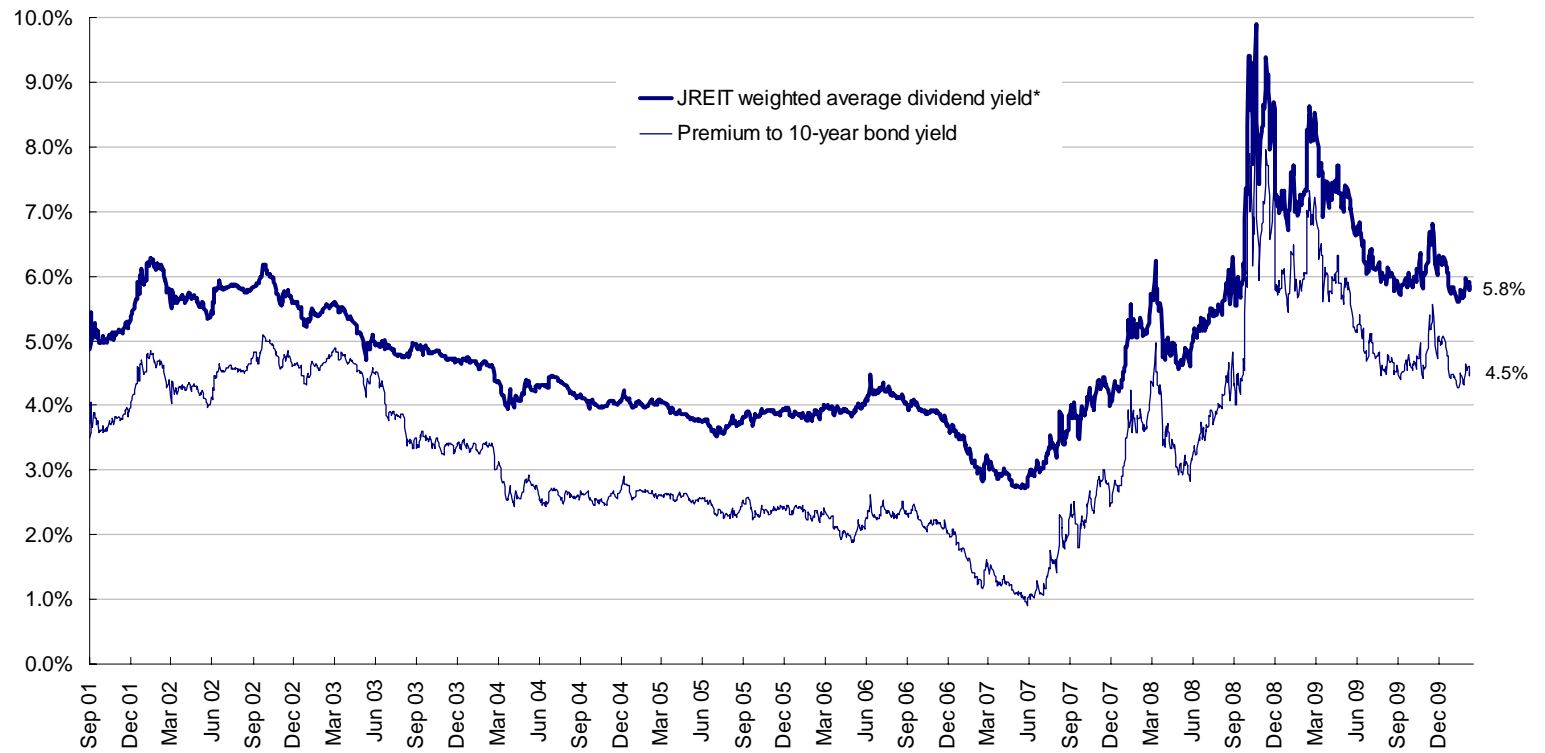
Trend in dividend per share of NBF and JRE



Source: Company data, UBS estimate

Valuations are not demanding. JREIT dividends are yielding 5.8%, with a 4.5% spread over the 10-year JGB yield

JREIT historical dividend yield and spread over risk-free rate



Source: Datastream, Company data

Prices as of 26 Feb-10



JREITs are trading at a 19.5% discount to NAV, which is still in an historical low range

JREIT price premium/discount to NAV



*Note: NAV based on appraisal value of the properties held.
Source: Datastream, UBS, respective asset management companies.

Prices as of 26-Feb-10

The residential sector had a good run throughout last year reflecting an easing of the credit crunch. This year to date, the office sector has been outperforming backed by anticipation of office vacancies peaking during this year

JREIT total return performance relative to UBS JREIT Index by property type

	1 mo	3 mo	6 mo	1.0 y	2.0 y	3.0 y	4.0 y
Office	0.0%	2.3%	0.1%	-12.7%	-1.8%	5.5%	13.6%
Retail	1.1%	4.1%	0.5%	9.7%	20.8%	10.5%	-1.8%
Diversified	-0.1%	-1.6%	-1.8%	6.7%	-1.8%	-4.2%	-3.9%
Residential	-3.6%	-7.2%	0.8%	32.1%	-12.3%	-17.5%	-29.1%
Industrial	-2.3%	-8.2%	7.8%	4.5%	42.3%	35.2%	21.3%
Hotel	4.9%	-1.7%	-2.1%	-3.3%	-32.8%	-42.9%	-

Source: UBS

Prices as of 26 Feb-10

Meanwhile, consolidation has been taking place among JREITs

Recent examples of JREIT merger

Surviving REIT	Merging REIT	Merger date	Merger ratio
Invincible	LCP	1-Feb-10	1:0.8
Advance Residence	Nippon Residential	1-Mar-10	3:2
Japan Retail Fund	Lasalle Japan	1-Mar-10	1:0.295
B Life	New City Residence	1-Apr-10	1:0.23
Japan Rental Housing	Prospect REIT	1-Jul-10	1:0.75

Source: Company data

We expect further development of sector realignment and public equity offerings to lead to upside potential going forward

	TSE Code	Asset Type							Mkt. cap. (¥bn)	Current price (Yen)	Dividend yield Co. (E)	Premium/ discount To NAV (%)	Debt Ratio (%)
			Office	Retail	Hotel	Residential	Industrial	Others					
Nippon Building Fund	8951	Office	100.0%	-	-	-	-	-	426.6	787,000	4.0%	-11.7%	42.9%
Japan Real Estate	8952	Office	100.0%	-	-	-	-	-	375.2	767,000	4.4%	-1.8%	39.3%
Japan Retail Fund	8953	Retail	-	100.0%	-	-	-	-	177.9	105,400	6.6%	-24.7%	58.5%
ORIX JREIT	8954	Diversified	83.4%	1.8%	5.4%	1.5%	7.9%	-	107.4	427,000	5.8%	-28.7%	44.0%
Japan Prime Realty	8955	Diversified	70.7%	29.3%	-	-	-	-	138.4	195,800	6.6%	-17.1%	46.6%
Premier Investment	8956	Diversified	46.4%	-	-	53.6%	-	-	38.6	293,900	8.3%	-47.2%	47.3%
TOKYU REIT	8957	Diversified	52.7%	47.3%	-	-	-	-	73.8	436,000	6.2%	-38.0%	44.7%
Global One Real Estate	8958	Office	100.0%	-	-	-	-	-	63.7	657,000	5.7%	-37.0%	37.2%
Nomura Real Estate Office Fund	8959	Office	100.0%	-	-	-	-	-	159.0	521,000	6.2%	-21.4%	46.2%
United Urban	8960	Diversified	26.0%	38.3%	19.1%	15.7%	0.9%	-	96.2	478,000	6.9%	-19.0%	44.1%
MORI TRUST Sogo REIT	8961	Diversified	65.9%	23.0%	9.5%	1.6%	-	-	142.7	784,000	5.0%	34.5%	43.5%
Invincible	8963	Diversified	19.9%	3.2%	-	70.1%	-	6.8%	10.1	15,800	1.9%	-82.7%	61.4%
Frontier Real Estate	8964	Retail	-	100.0%	-	-	-	-	106.2	664,000	5.6%	0.6%	47.1%
CRESCENDO	8966	Diversified	47.7%	-	-	52.3%	-	-	15.8	119,500	8.3%	-67.1%	34.6%
Japan Logistics Fund	8967	Industrial	-	-	-	-	100.0%	-	85.7	655,000	5.3%	-25.8%	24.8%
Fukuoka REIT	8968	Diversified	35.3%	62.1%	-	2.6%	-	-	52.6	491,000	6.8%	-26.4%	43.8%
Prospect Reit	8969	Diversified	-	-	-	100.0%	-	-	5.5	73,000	7.8%	-78.6%	49.4%
Japan Single-residence REIT	8970	Diversified	-	-	8.2%	91.8%	-	-	5.2	92,900	8.3%	-74.6%	52.0%
Kenedix Realty	8972	Diversified	90.1%	5.4%	-	4.5%	-	-	56.6	242,500	8.5%	-51.5%	39.4%
Joint REIT	8973	Diversified	-	29.1%	-	70.9%	-	-	24.4	233,300	8.6%	-40.1%	47.3%
FC Residential	8975	Diversified	-	-	17.2%	82.8%	-	-	6.0	183,100	5.5%	-53.7%	26.2%
DA Office	8976	Office	100.0%	-	-	-	-	-	73.4	185,500	3.6%	-59.4%	25.3%
Hankyu REIT	8977	Diversified	35.9%	58.6%	5.5%	-	-	-	29.7	347,500	7.5%	-44.2%	46.5%
Advance Residence	8978	Residential	-	-	-	100.0%	-	-	24.5	323,000	5.0%	-18.1%	60.2%
Starts Proceed	8979	Residential	-	-	-	100.0%	-	-	9.0	83,500	9.2%	-44.2%	52.8%
Japan Hotel and Resort	8981	Hotel	-	-	100.0%	-	-	-	13.8	130,200	7.7%	-73.2%	42.0%
TOP REIT	8982	Diversified	75.1%	14.4%	1.5%	9.0%	-	-	62.9	406,000	6.7%	-27.5%	50.8%
Japan Office	8983	Office	100.0%	-	-	-	-	-	17.6	86,200	5.3%	-63.3%	41.5%
BLife Investment	8984	Diversified	-	4.7%	-	95.3%	-	-	21.6	439,500	4.5%	0.5%	52.8%
Nippon Hotel Fund	8985	Hotel	-	-	100.0%	-	-	-	6.2	145,800	9.8%	-63.2%	47.6%
Japan Rental Housing	8986	Residential	-	-	-	100.0%	-	-	30.1	129,100	4.3%	-35.6%	40.7%
Japan Excellent	8987	Office	100.0%	-	-	-	-	-	61.0	394,500	7.4%	-30.2%	49.0%
Nippon Accommodations Fund	3226	Residential	-	-	-	100.0%	-	-	72.0	461,000	5.9%	0.0%	54.4%
MID REIT	3227	Diversified	82.1%	17.9%	-	-	-	-	34.0	185,400	9.6%	-51.7%	40.5%
Nippon Commercial	3229	Diversified	68.7%	31.3%	-	-	-	-	28.9	112,100	12.9%	-68.0%	51.4%
MORI HILLS REIT	3234	Diversified	80.8%	-	-	19.2%	-	-	41.9	262,900	8.2%	-50.2%	52.9%
Nomura Residential Fund	3240	Residential	-	-	-	100.0%	-	-	45.6	363,500	6.5%	-6.7%	53.0%
Industrial and Infrastructure Fund	3249	Industrial	-	-	-	-	34.9%	65.1%	18.2	230,700	9.4%	-46.4%	49.4%



Source: Asset management companies, UBS estimates
Price as of 26-Feb-10

Statement of risk

- ◆ We see downside risk for major real estate companies and JREITs if the economic recovery falters or a financial crisis recurs.
- ◆ There is downside risk to JREIT investment unit prices in the event of protracted economic weakness or credit uncertainty in financial markets. There is also downside risk to JREIT investment unit prices if interest rates climb sharply going forward.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	48%	40%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	13%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	17%
Sell	Sell	less than 1%	67%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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