

# 8953

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**Japan Retail Fund Investment Corporation**

## **AUGUST 2007 (11th) PERIOD RESULTS**

【Additional Documentation January 23 and February 19, 2008】



**Mitsubishi Corp UBS Realty**

# Redevelopment of properties — GYRE



## Outline

Maintained ownership of land with limited proprietary rights on which Esquisse Omotesando stood, while selling the building and leasehold rights to Takenaka Corporation. Acquisition of the property by JRF post redevelopment in Oct 2007 through exercise of the first refusal right. **Compared to the former retail facility, it is expected that the average rent per tsubo will increase by 34.2 %, and NOI yield by 0.43 %**

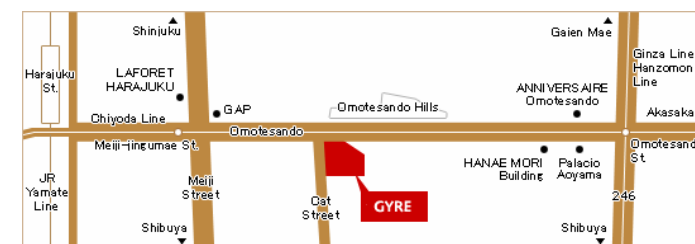


## Timeline of events leading to the redevelopment and acquisition

In Omotesando, an area where many global key brands are represented, the competitive power of former Esquisse Omotesando built in 1982 had deteriorated.

Even with the loss from demolition of the facility (approx.JPY1.2bn), we judged that it was best to maintain ownership of the land with limited proprietary rights, while selling the building to a developer because of the expected land price recovery in Omotesando area

- May 2005 Acquisition of adjacent land of former Esquisse Omotesando for JPY1,600mn
- Feb 2006 Contract agreement for building transfer and land lease for JPY 2,150mn
- Oct 2007 Acquisition of "GYRE" from Takenaka Corp. for JPY8,000mn
- Nov 2007 Grand opening of "GYRE"



Esquisse Omotesando (Before)



GYRE (After)

	Esquisse Omotesando	GYRE
Acquisition date	Mar 2, 2004; May 27, 2005	Oct 19, 2007
Acquisition price	JPY16,100mn (JPY14,500mn + adjacent land JPY1,600mn)	JPY22,712mn (JPY8,000mn + JPY14,712mn)
Site	1,768.78m <sup>2</sup>	1,676.46m <sup>2</sup>
Total rentable area	3,782.55m <sup>2</sup>	5,100.31m <sup>2</sup>
Leased area	3,782.55m <sup>2</sup>	4,934.28m <sup>2</sup>
# of tenants	14	17
Monthly rent (incl. CAM)	JPY 53,679,175 (Dec 2004 Actual)	JPY 93,576,225 (Dec 2007 Actual)
Rent per tsubo	JPY 46,717 per tsubo	JPY 62,692 per tsubo
NOI	JPY529mn (actuals for Sep 2004 – Aug 2005)	JPY925mn (estimates at acquisition)
NOI yield	3.64%	4.07%

# Redevelopment of properties — Wonder City

## Outline

Based on a review of external factors such as the Three City Planning Laws becoming effective that were unforeseeable at the time of acquisition, we decided to sell the property to Mitsubishi Corporation for its redevelopment. Potential acquisition of the property after redevelopment to a large-scale retail facility

## Timeline of events leading to the transfer prior to redevelopment

Mar 2005 JRF acquired the property for JPY15,900mn. Started reviewing of a value-add plan for the whole facility including the former site of approximately 33,000m<sup>2</sup> housing exhibition area

May 24, 2006 City Planning Law revision enacted  
Nov 30, 2007 Large scale commercial development in industrial areas will be limited

Given that the property is located in an industrial area, JRF concluded that a redevelopment by complete rebuild started before enactment of the new law would maximize its value

Aug 31, 2007 Property sold to Mitsubishi Corp. for JPY19,400mn  
Nov 26, 2007 Start of construction work  
April 2009 Expected construction completion of the retail facility developed by Mitsubishi Corp (Gross floor area: 240,180.74m<sup>2</sup> (Estimated) )  
Aiming to be the No1 retail facility in the Chubu area and one of the largest in Japan

## Reason for the transfer to Mitsubishi Corporation

- ▶ Absorbed loss from demolition of the former retail facility and penalties paid to tenants moving out (approximate total of JPY4.6bn)
- ▶ As to redevelopment of growth properties, Mitsubishi Corp. has substantial experience in development of large-scale retail facilities which facilitated obtaining cooperation from the core tenant AEONMALL (former Diamond City)
- ▶ High probability that JRF will be able to reacquire the property post redevelopment



Before



After



The above image was provided by Mitsubishi Corporation.



# Initiation of joint venture — Toshin Development

## ▶ Toshin Development Co., Ltd

- ▶ Established in 1963 with cooperation from related financial institutions as a subsidiary of **Takashimaya** for **development of the first full-fledged suburban shopping center in Japan**

- Development and management expertise of urban and suburban SCs accumulated over the years
- Well-known department store brand and vast network

### Properties developed/managed by Toshin Development



■ Tamagawa  
Takashimaya SC



■ Kashiwa  
Takashimaya  
Station Mall



■ Singapore  
Takashimaya SC



■ Nagareyama  
Ootaka no Mori SC



■ Wakaba Keyaki Mall

## ▶ Signing of basic agreement

### March 2007 Basic agreement for joint operation and joint investment in retail facilities

Increase the value of jointly owned facilities by combining JRF's management expertise and Toshin Development's strength in mall management

#### Benefits for Toshin Development

- Access to a property investment fund would enable acceleration of Toshin's returned capital and increase Toshin's business options going forward



#### Benefits for JRF

- Add value to properties in the portfolio by sharing Toshin's management expertise on urban retail facilities and their operational capabilities accumulated over the years
- Access to new investment opportunities

### ▶ Joint-management: Phase 1

Transfer 50% in joint-ownership of leasehold rights in Hakata Riverain (Fukuoka City, Fukuoka Pref.)

Establish of cooperative framework to cope with increased competition among retail centers in Tenjin and Hakata Station Area

### ▶ Joint-management: Phase 2

Active information sharing on joint ownership and joint management of properties owned/developed by Toshin Development

# Management policy for GMS



## Classification of GMS based on the floor area of directly operated stores

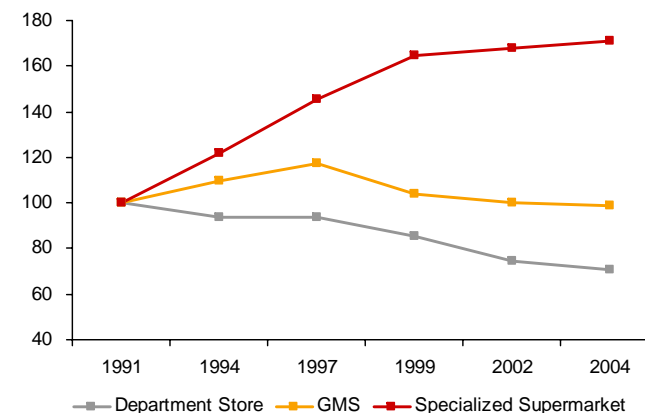
► In suburban GMS, large malls have higher specialty shops ratio which make them more competitive

Mall (anchor ratio of less than 50%)	Quasi Mall (anchor ratio of 50–70%)	Stand-Alone GMS (anchor ratio of more than 70%)
<ul style="list-style-type: none"> <li>• AEONMALL Itami Terrace</li> <li>• AEONMALL Tsurumi Leafa</li> <li>• AEON Kashiihama SC</li> <li>• AEON Sapporo Naebo SC</li> <li>• AEON Yachiyo Midorigaoka SC</li> <li>• AEONMALL Higashiura</li> <li>• Kyoto Family</li> <li>• Nara Family</li> <li>• Itabashi SATY</li> </ul>	<ul style="list-style-type: none"> <li>• Loc City Ogaki</li> <li>• ESPA Kawasaki (Excluding Annex)</li> <li>• Higashi-Totsuka Aurora City</li> </ul>	<ul style="list-style-type: none"> <li>• JUSCO City Nishi Otsu</li> <li>• JUSCO City Takatsuki</li> <li>• JUSCO City Yagoto</li> <li>• AEON Ueda SC</li> <li>• AEON Yamato SC</li> <li>• Sendai Nakayama SC</li> <li>• Omiya SATY</li> <li>• Abiko Shopping Plaza</li> <li>• IY Nishikicho</li> </ul>

(Note) 30 properties.

Floor space based on the information disclosed by each retailer at store opening

## Historical Sales Volumes by Type



Department stores

: Large department stores,  
Other department stores

GMS : Large GMS, Medium GMS

Specialized Supermarket : Clothing stores, Grocery stores,  
Living goods stores, Home centers

Source: Ministry of Economy, Trade and Industry – “Commercial Statistics 2004”  
Note: Rebased with 1991 to be 100



## Status of rent revisions in stand-alone GMS

Stand-Alone GMS	
IY Yabashira	In accordance with rent review in this period, the rent is unchanged from Sep 2007 (Regular leasehold agreement expiring in Oct 2008)
IY Tsunashima	In accordance with rent review in this period, there will be no rent revision until Aug 2010 (rent was unchanged)
IY Narumi	In accordance with rent review in this period, there will be no rent revision until Aug 2010
IY Kamifukuoka-Higashi	In accordance with rent review in this period, there will be no rent revision until Aug 2010 (rent was unchanged)
IY Yotsukaido	Rent review due in Mar 2008. Expect rent to be unchanged
JUSCO Naha	No rent review until 2015 in the regular leasehold agreement. Low ratio of rent paying ratio vs revenue
JUSCO Chigasaki SC	Rent review negotiation can take place as needed. However, there will be no rent review after the negotiation which took place last period
Tobata SATY	No rent review until 2025 in the periodic leasehold agreement. Low rent paying ratio vs revenue
Seiyu Hibarigaoka	Recently leasing contract expired (in Mar 2007), but the tenant is still hoping to continue leasing. Situated in front of a station with large market population

## Case study of income properties

### ▶ Rent revenue performance

Properties with revenue-based rent	Rent revenue (Semi-annual)
<b>Itabashi SATY</b>	Aug 2006 Period: JPY651mn → <b>Aug 2007 Period: JPY671mn</b> (incl. JPY592mn fixed rent)
<b>Omiya SATY</b>	<b>Aug 2007 Period: JPY209mn</b> (incl. JPY192mn fixed rent)
<b>AEONMALL Itami Terrace</b>	<b>Aug 2007 Period: JPY578mn</b> (incl. JPY563mn fixed rent)
Property where tenants were replaced	Rent revenue (Semi-annual)
<b>8953 Harajuku FACE Building</b> (Tenants in the basement level were replaced at the end of March 2007)	Aug 2006 Period: 79mn → <b>Aug 2007 Period: 84mn</b>

(Note 1) AEONMALL Tsurumi Leafa is currently excluded from the list, as we will collect revenue-based rent from Aug 2009

As for Omiya SATY and AEONMALL Itami Terrace, only actual figures are stated above as these properties were acquired during the fiscal period ended Aug 2006 and fiscal period ended Feb 2007 respectively

(Note 2) Rent income includes utilities costs received

### ▶ Rent revision/Contract renewal due within 1 year/ or already completed

(applicable to urban properties where the whole building is leased, or properties where majority of tenants are due to renew their contracts)

	Contract renewal/Contract expiration	Rent revenue (fiscal period ended Aug 2007)	Average rent per tsubo of the property (Dec 2007 Actual)
<b>Kawaramachi OPA</b>	Nov 2007	JPY340mn	@ 9,956
<b>8953 Osaka Shinsaibashi Building</b>	Feb 2008	JPY407mn	@16,423
<b>Esquisse Omotesando Annex</b>	Mar 2008	JPY27mn	@27,806
<b>8953 Daikanyama Building</b>	Mar 2008	JPY34mn	@33,504
<b>Cheers Ginza</b>	Feb 2008	JPY87mn	@29,038

# Internal growth performance and plan ①

## ▶ Abiko Shopping Plaza

- ▶ Maintained/ Reinforced the property's competitiveness through large-scale renovation given increased competition from development in the neighborhood of new SCs
- ▶ Renovated floor structure and increased the ratio of tenants paying revenue-based rents
- ▶ Granded opening on Nov 23, 2005(Construction period May 2005—Nov 2005)

	Actual performance before renewal	Actual performance after renewal
Ratio of tenants paying revenue-based rents	28%	56%
Total invested amount	—	JPY858mn
Rent revenue total	JPY1,412mn (Mar 2006—Feb 2007 Actual)	JPY1,449mn (Mar 2006—Feb 2007 Actual)
NOI	JPY718mn (Mar 2006—Feb 2007 Actual)	JPY752mn (Mar 2006—Feb 2007 Actual)
NOI yield (incl. Total investments in renovation works)	7.03%	6.80%



Before

After



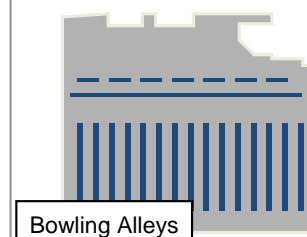
## ▶ Jusco City Takatsuki

- ▶ Following the moving-out of the bowling alley in March 2007, the area was converted into retail sales space including apparel



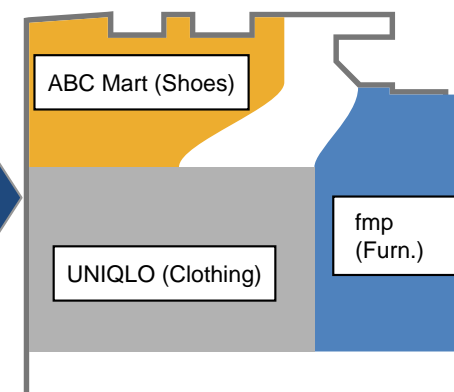
Construction period	Jul 2007—Oct 2007
Completion date	Oct 2007
Total construction costs	JPY88mn
Total invested amount	JPY91mn
NOI increase of the whole property (E)	JPY5mn

Before renovation



Bowling Alleys

Floor structure after renovation



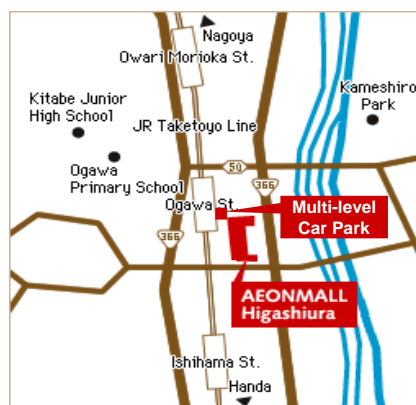


## Internal growth performance and plan ②

### ▶ AEONMALL Higashiura

- ▶▶ Currently, sales of the property are quite strong, but assuming drastic changes to the competitive environment going forward, JRF has decided to expand the floor area substantially. 1st step of such effort is the construction of a multi-level carpark

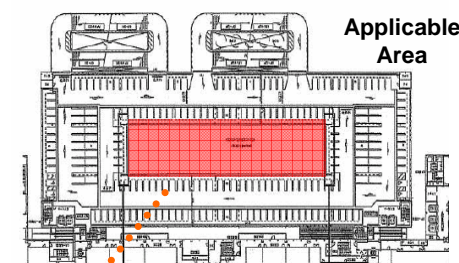
Estimated construction period	Jun 2007—May 2008
Estimated construction completion	Feb 2008, May 2008
Total construction costs	Approximately JPY2,400mn
Total invested amount	Approximately JPY2,500mn
IRR of total investment	Approximately 5.3% (Estimated)
NOI increase of the whole property (E)	JPY135mn
NOI yield of the whole property (E)	6.2%



### ▶ AEONMALL Itami Terrace

- ▶▶ Change in classification of land from industrial to commercial in Apr 2007 resulted in our ability to expand floor area ratio
- ▶ Considering the potential opening of a large competing store in the neighboring trade area in fall 2008, we decided to initiate countermeasures by increasing customer satisfaction of this facility by easing the chronic lack of parking spaces
- ▶ Additional investments allowed us to review the leasing contracts for the whole property and increase the ratio of sales-based rent

Construction period (estimated)	Jan 2008—Oct 2008
Estimated construction completion	Oct 2008
Total construction costs (estimated)	JPY883mn
Total invested amount (estimated)	JPY915mn
IRR of total investment	Approximately 6.3% (Estimated)
NOI increase of the whole property (estimated)	JPY49mn
NOI yield of the whole property (E)	4.53%



Cross-Section Diagram



# Status of Debt Finance



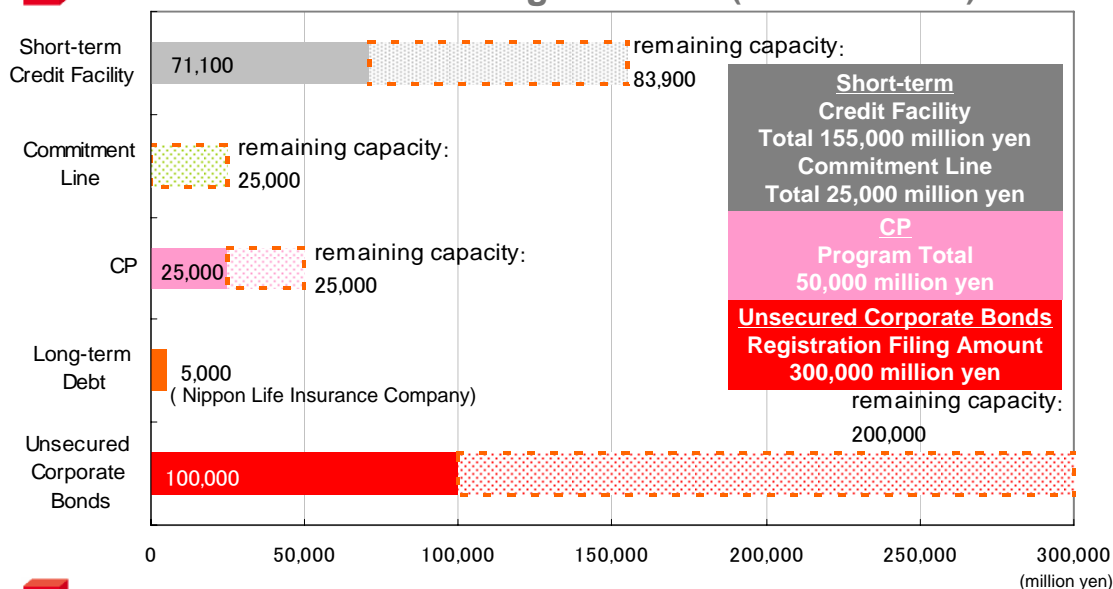
## Outline

- Increased existing Credit Facility by JPY 25,000 mn in Sep. 2007 to the current amount of JPY155,000 mn.
- Established Commercial Paper (CP) program of up to JPY50,000 mn, and issued JPY25,000 mn for the acquisition of Urawa Parco in Dec. 2007.
- Arranged a Commitment Line<sup>(Note)</sup> of JPY25,000 mn in Feb. 2008.
- Currently reviewing the merits and optimum timing for refinancing Short-term debt with Long-term debt

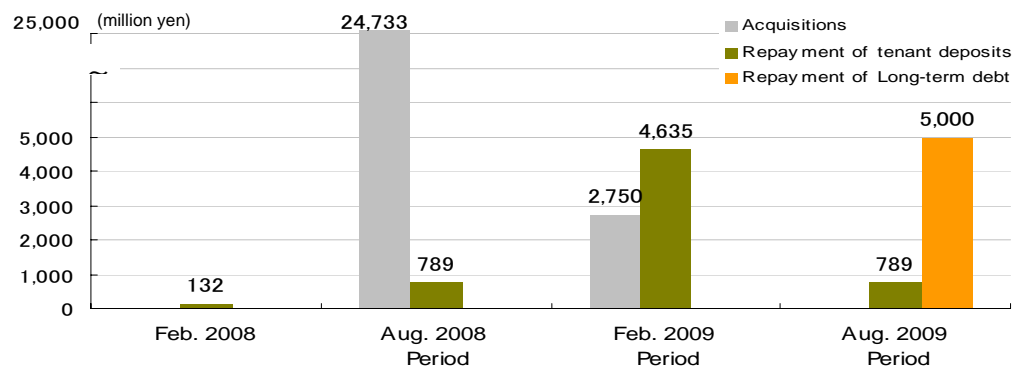
(Note) In addition to repaying the outstanding amount of CP issued, the commitment line can also be used in certain situations when market conditions prevent the further issuance of CP (property acquisitions, etc.)



## Details of interest-bearing liabilities (as of Jan. 2008)



## Near-term funding requirements (from February 2008)



## Details of Short-term Credit Facility

(million yen)

Lender	Borrowing Capacity	Current Amount Borrowed	Remaining Capacity
Bank of Tokyo-Mitsubishi UFJ, Ltd.*	33,000	12,280.6	20,719.4
Mitsubishi UFJ Trust and Banking Corporation*	28,500	10,928.7	17,571.3
The Chuo Mitsui Trust and Banking Company, Limited*	28,500	10,928.7	17,571.3
The Sumitomo Trust and Banking Co., Ltd.*	22,500	8,534.5	13,965.5
Aozora Bank, Ltd.*	12,500	5,727.5	6,772.5
Sumitomo Mitsui Banking Corporation	10,000	10,000	0
Mizuho Corporate Bank, Ltd.	10,000	7,500	2,500
The Bank of Fukuoka, Ltd.	5,000	3,000	2,000
The Chugoku Bank, Ltd.	5,000	2,200	2,800
<b>Total</b>	<b>155,000</b>	<b>71,100</b>	<b>83,900</b>
Commitment Line	Committed Amount	Current Amount Borrowed	Remaining Capacity
Bank of Tokyo-Mitsubishi UFJ, Ltd.	25,000	0	25,000

\* Syndicated facility arranged by Bank of Tokyo-Mitsubishi UFJ, Ltd.



## Planned Acquisitions

	Expected acquisition date	Expected acquisition price
Jingu Mae 4-chome East Project (Tentative Name)	Mar. 2008	2,233 million yen
Jingu Mae 4-chome West Project (Tentative Name)	Apr. 2008	3,400 million yen
Ario Otori (Tentative Name)	May 2008	19,100 million yen
Cheers Sapporo (Tentative Name)	Dec. 2008	2,750 million yen
<b>Total</b>	<b>—</b>	<b>27,483 million yen</b>