



# **Japan Retail Fund Investment Corporation**

## **Medium-term Business Policy**

 **Mitsubishi Corp UBS Realty**





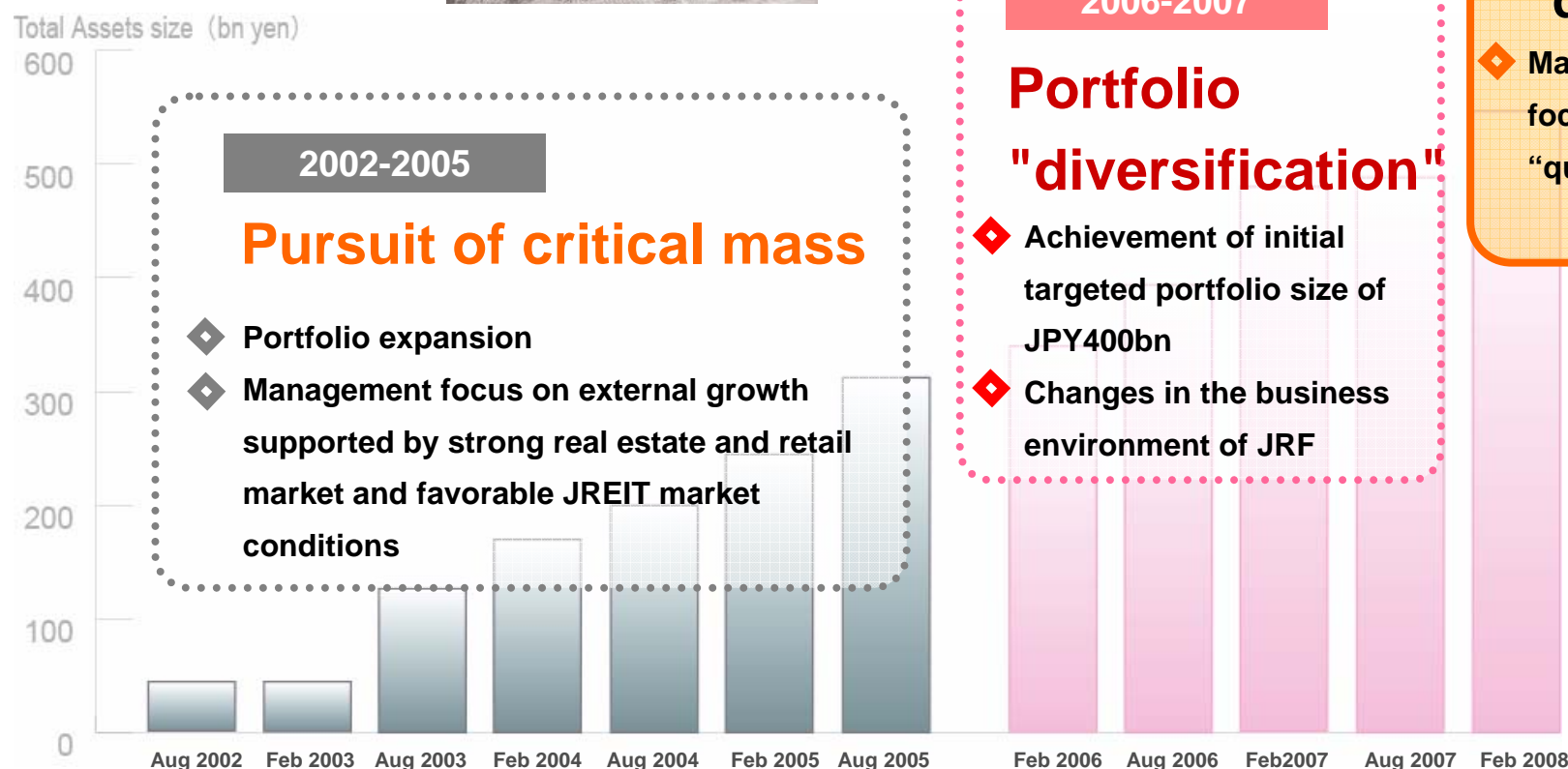
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## **Basic Principles of the Medium-term Business Policy**



Japan Retail Fund Investment Corporation ◀▶ Mitsubishi Corporation UBS Realty

# Transition of Business Objectives



**Announcement of  
Medium-term  
Business Policy**

## Basic Principles

### ◆ Re-emphasis of our long-term vision (JRF's basic concept)

We are a "Core fund" that invests in quality retail properties with a long-term perspective, focused on "low risk" and stable dividends

In addition to stable rental revenue, we are focused on long-term value growth through active management

### ◆ Medium-term Business Policy

#### Basic scenario

Focus on "**maintaining stable dividends**" and "**increasing NAV per unit**" not through external but through internal growth and replacement of properties to improve portfolio quality

- ◆ Increase FFO per unit by 5% in three years
- ◆ Maintain annual dividend of JPY30,000+
  - Increase rental revenue through replacement of selected properties based on our portfolio analysis
  - Maintain stable dividends through extraordinarily stable fixed rents ("Rents Set in Stone") and increase rental revenue through renovation, floor expansion and redevelopment



#### Upside scenario

If real estate and capital market conditions improve, JRF will selectively acquire properties that would increase dividends and/or NAV per unit through the net acquisition of JPY150bn of additional properties over the next three years



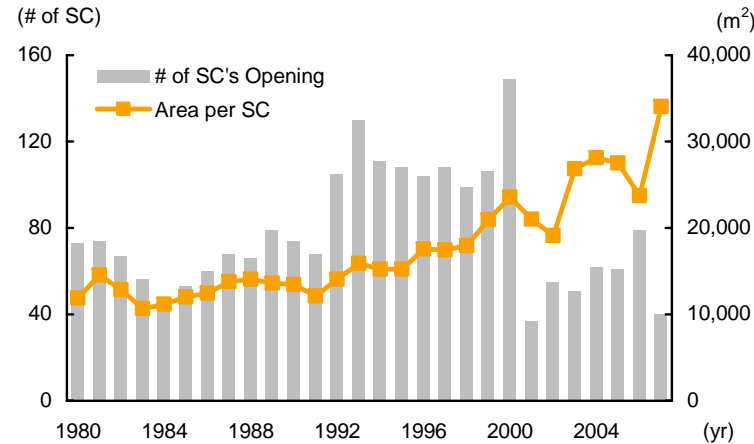
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## Analysis of the Business Environment

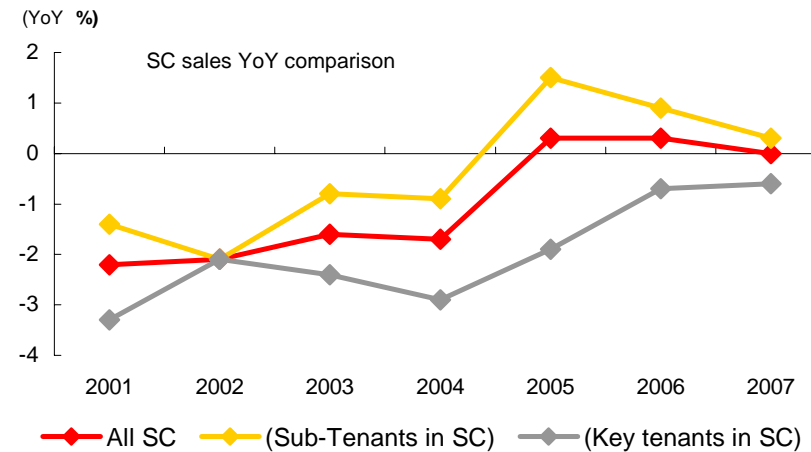


# Analysis of the Business Environment - External Environment (1)

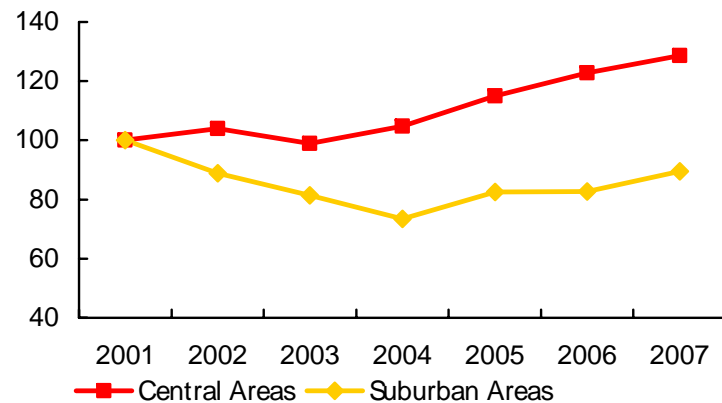
## ◆ Increase in size of Shopping Centers (SC)



## ◆ Improved positioning of SC sub-tenants



## ◆ Increasing rent of city center retail properties

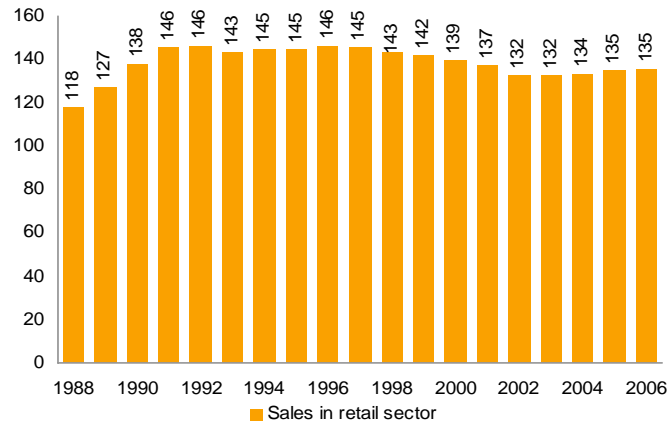


- ▶ Increasing size of newly-opened SCs
- ▶ In spite of declining growth rates, the sales of sub-tenants continue to drive SC sales
- ▶ Trend of increasing rents for city center retail properties

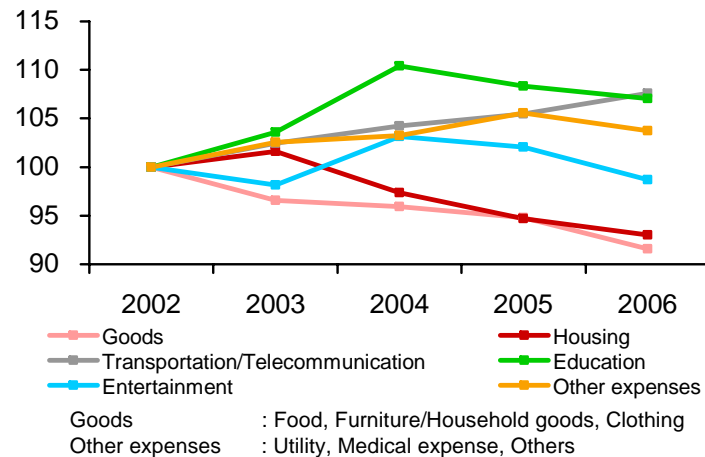
# Analysis of the Business Environment - External Environment (2)

## ◆ Firm retail sector demand

(Trillion Yen)

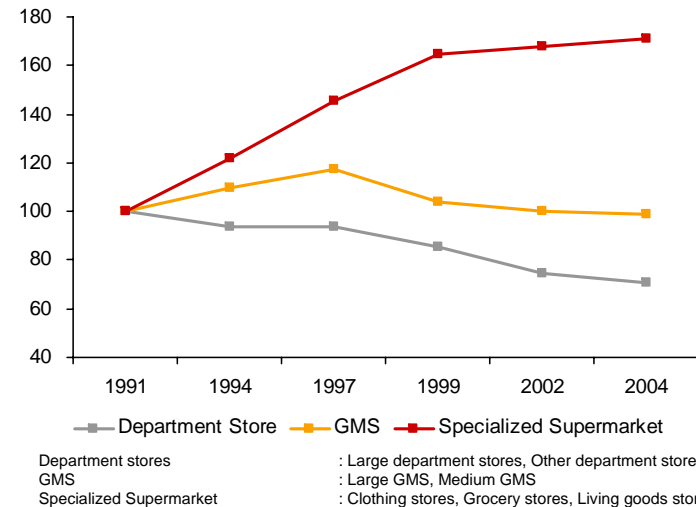


## ◆ Shift to service consumption



Source: Statistics Bureau ※Note: Indexed with 2002 to be 100

## ◆ Growing presence of specialty stores



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

- ▶ Stable gross sales in the retail sector
- ▶ Expansion of specialty store format
- ▶ Expanding service consumption

# Analysis of the Business Environment - External Environment (3)

## External environment

### ► Change in real estate market

- Shift to “Buyer’s market” from “Seller’s market” due to changes in supply-demand balance



- Increasing disposal of properties resulting from the financial market turmoil caused by the subprime loan issue
- Foreign sovereign funds are entering the Japanese real estate market
- No significant changes to rent levels in principle but office rent levels to remain high

## Retail (property) trends

### ► Suburban type

- Increasing competitive advantage of existing winners SCs

### ► Urban type

- Specialty stores are not insisting on being department store tenants but consider new openings based on the balance between “location”, “traffic”, and “rent”



- Flurry of closures of underperforming SCs
- Trend of shift from stand-alone GMS to shopping mall style is increasingly apparent
- New opening of large SCs in becoming increasingly difficult due to the Three Laws on City Planning
- Specialty stores are opening new stores in urban type SCs and in shopping malls as well

## Retail sector trends

### ► Consolidation in the Department store sector and growth of speciality stores

- Increasing competitive advantage of shopping malls in prime city center locations

### ► GMS

- Strength in daily necessities (food, household goods) but consumers’ interest for apparel and home appliances has shifted to specialty stores

### ► Service consumption growth



- Increasing desire of speciality stores to open new “high street stores” in Ginza or Omotesando
- Shift from department stores to specialty stores
- Competitive advantage of shopping malls with many service providers as tenants



# Analysis of the Business Environment - Internal Environment

## Strengths

- ▶ Dominant size with total assets of JPY500bn +
- ▶ Strong support from sponsor
- ▶ Unrealized capital gains of urban type properties in Omotesando area
- ▶ Management structure that focuses on retail properties
- ▶ Stable funding capabilities
- ▶ Good relationships with winning retailers
- ▶ Stable mall operation capabilities

## Weaknesses

- ▶ Limited ability to increase rent through tenant remixing as majority of contracts are under long-term master lease contracts with fixed rents
- ▶ Significant impact on dividend from temporary accounting loss when undertaking redevelopment

## Opportunities

- ▶ Strong customer growth for SCs in urban and neighboring areas
- ▶ Expected change in regulation to allow investment in overseas properties
- ▶ Opportunity to acquire properties from private funds with funding problems
- ▶ Opportunity to acquire quality properties at appropriate prices
- ▶ New entry in the market of a retail-focused REIT that is managed by a sponsor with a strong track record

## Threats

- ▶ Negative impact of declining REIT market
- ▶ Competition with new funds (Asian and Sovereign Wealth Funds)

## Summary of Analysis of the Business Environment

### External business environment

- Changes in demand-supply balance causing shift to “buyer’s market”
- Polarization of SCs into winners and losers (competitive advantage of shopping malls)
- Increased competitive advantage and profitability of prime city center locations such as Ginza and Omotesando

### Internal business environment

- Asset size of more than JPY500bn and substantial unrealized gains
- Stable funding capability
- Management structure focused on retail and with stable mall operation capabilities

**Increasing competitive edge of existing portfolio is critical to maintain and increase rent revenue over the long term**

**While adapting to market changes, leverage our asset size to replace certain properties and acquire new ones in order to improve the quality of our portfolio**



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## Future growth strategy



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# Measures for further improving portfolio “quality”(1)

## ◆ Analysis of current portfolio

### ● Analysis of current portfolio based on the following criteria

Investment criteria	Current average
①NOI yield (Note1)	5.2%
②NOI yield after depreciation (Note 2)	3.6%
③Qualitative analysis based on JRF standards (Note3)	Suburban type 130 pts, Urban type 170 pts, JRF total 139 pts (out of 245 pts)

(Note 1) NOI yield =  $\text{NOI} \div (\text{acquisition price} + \text{acquisition related expenses})$

(Note 2) NOI after depreciation =  $(\text{NOI} - \text{Depreciation}) \div \text{book value}$

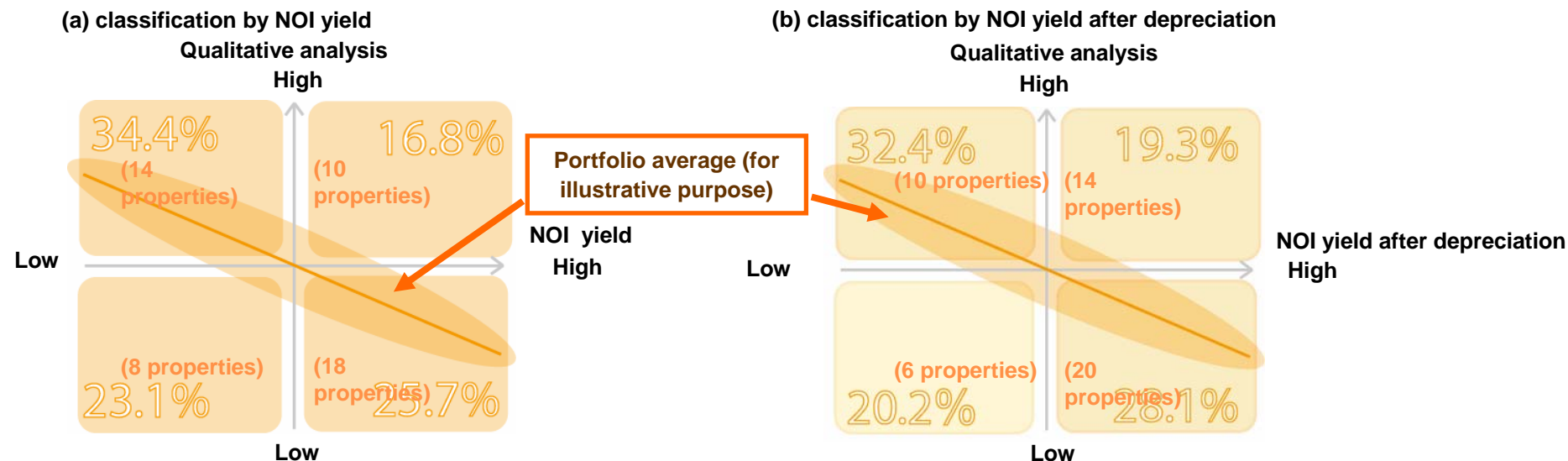
#### (Note 3) Qualitative analysis based on JRF standards

Ratings based on JRF qualitative analysis and third party assessment

- ◆ Location of the retail facility (0~60 pts)
- ◆ Building age (0~20 pts)
- ◆ Versatility (0~40 pts)
- ◆ Sales trend (0~10 pts)
- ◆ Revenue development (0~40 pts)
- ◆ Rent level (0~40 pts)
- ◆ Cost reduction potential (0~20 pts)
- ◆ Other (-10~15 pts)

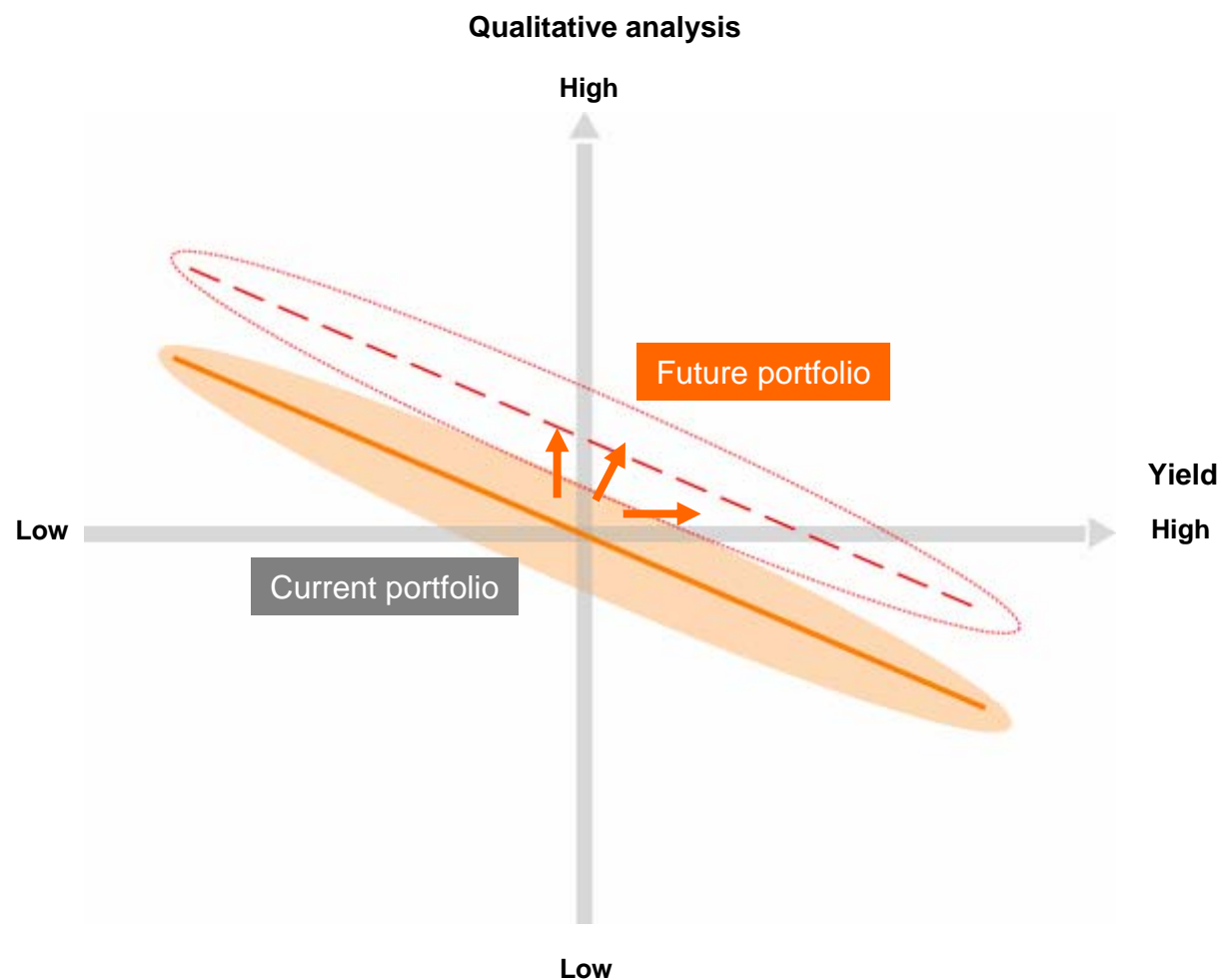
### ● Distribution chart based on current portfolio analysis :

We have created a Matrix for the 50 properties (45 existing properties as of Feb 29, 2008 + 5 properties which we expect to acquire in the near future) by plotting their yields on the x axis and qualitative analysis points on the y axis. The percentages in each quadrant are based on total portfolio acquisition price



## Measures for further improving portfolio “quality”(2)

### ◆ Targeted portfolio distribution based on future internal growth

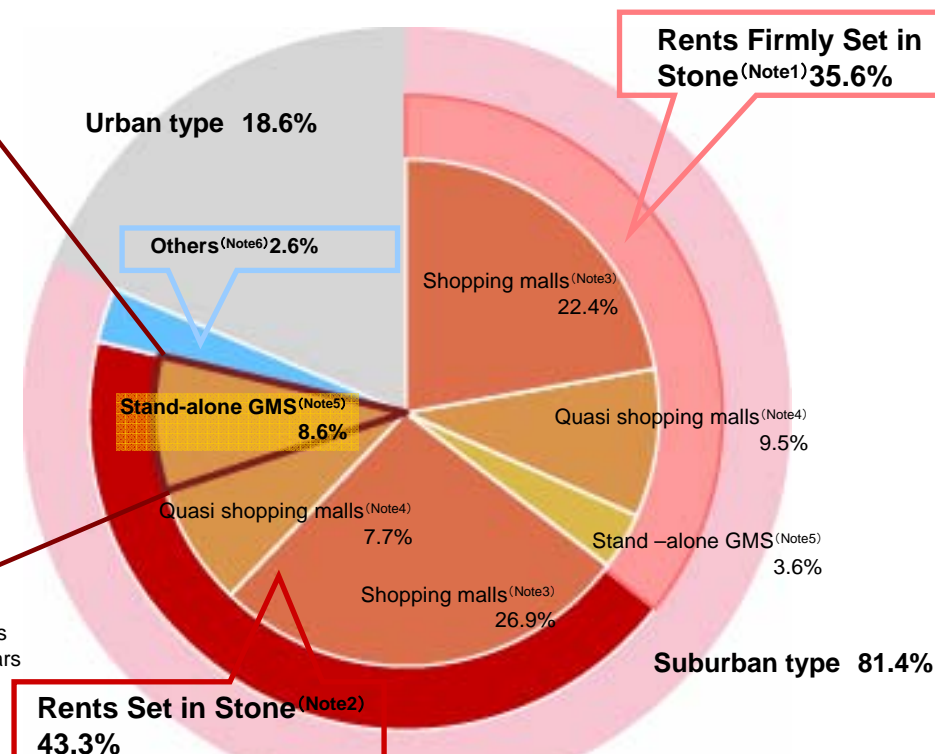


# Internal growth strategy - Maintain stable rental revenue

## (1) Maintain stable rent revenue of suburban retail facilities

- ◆ Rent of suburban retail facilities accounts for 81.4% of total rent revenue
- ◆ Out of the suburban retail facilities, mall-type SCs have higher ratio of specialty stores, and thus have higher competitive advantage.
- ◆ Out of the Rents Set in Stone, Stand-alone GMS account for 8.6%
- ◆ No rent revision planned for majority of above stated GMS. JRF believes that their potential for redevelopment or improvement in sales is quite high

Stand-alone GMS	Ratio	
Ito-Yokado Narumi	1.7%	<ul style="list-style-type: none"> <li>• No rent revision until Aug 2010</li> <li>• Agreed with the tenant to cooperate on value-add project (expansion, renovation, etc.) to maximize competitive strength</li> </ul>
Ito-Yokado Yabashira	0.4%	
Ito-Yokado Kamifukuoka-Higashi	1.3%	
Ito-Yokado Tsunashima	0.9%	
Ito-Yokado Yotsukaido	1.5%	Large scale multifamily project to be built in the neighborhood which will possibly increase sales
Jusco Chigasaki SC	1.4%	Increasing population within 5km trading zone
Seiyu Hibarigaoka	1.4%	Located in front of a station. Highly versatile site for redevelopment or residential
<b>Total</b>	<b>8.6%</b>	



(Note1) Rents Firmly Set in Stone: Rent of suburban retail facilities that are fixed over the next three years  
 (Note2) Rents Set in Stone: Rent of suburban retail facilities that are to be revised over the next three years  
 (Note3) Shopping Malls: GMS where directly-operated area is less than 50% of total area  
 (Note4) Quasi shopping malls: GMS where directly-operated area is 50-70% of total area  
 (Note5) Stand-alone GMS: GMS where directly-operated area is more than 70% of total area of total area  
 (Note6) Other (2.6%) shows Daiei's portion of Higashi-Totsuka Aurora City pending litigation

Chart : Breakdown of rent of total portfolio

# Internal growth strategy - renovation and leasing activities (1)

## ② Redevelopment activities and future active projects

Active projects: defined as projects for renovation, redevelopment, floor expansion, tenant remixing, etc. within 3 years

[Key renovation plans]

### ○ Kyoto Family

【Overview】

This property requires substantial renovation due to its aged facilities as it was completed 26 years ago.

As contracts with specialty store tenants except for Jusco are expiring in Dec 2009, JRF plans to implement seismic strengthening and interior/exterior renovation in addition to renovation of facilities to regenerate the building as a new retail facility

Key construction work:

- ① Facility renovation  
(electricity, air conditioner, plumbing) (c.JPY2.5bn)
- ② Seismic reinforcement (c.JPY500mn)
- ③ Interior/exterior renovation for  
tenant replacement (c.JPY1.0bn)



Kyoto Family

Schedule : Jan. 2010-Aug. 2010

【Analysis for 10 years from Jan. 2010】

	No renovation (①②)	Incl. renovation (①②③)
Cap. Ex.	c.JPY3.0bn	c.JPY4.0bn
Average NOI	JPY432mn	JPY583mn
Average NOI yield	6.1%	6.2%
Expected IRR on renovation investment		11.8%

### ○ JUSCO Naha

【Construction of annex building】

Plans to acquire (or lease) neighboring land to construct an annex building (GFA c.18,000m<sup>2</sup>) to serve the increasing population in the surrounding areas. Floor expansion is being planned mainly for restaurants or service providers to add value to the retail facility including the existing properties.

Schedule: Jul. 2010-

【Analysis for 10 years from July 2010】

	Current	Floor expansion
Cap. Ex.	—	JPY3.0bn
Average NOI	JPY652mn	JPY814mn
Average NOI yield	5.88%	5.79%
Expected IRR on construction of annex building		7.1%



JUSCO Naha



## Internal growth strategy - Active renovation and leasing activities (2)

[Major floor expansion plan]

### ○ Nara Family

#### 【Overview】

Lease contracts with existing specialty store tenants expire in Feb 2009. After review of profitability and tenant mix of each floor, JRF plans to renovate the restaurant zones on B1 and 6F responding to the needs of our customers and key tenants

Scheduled: May 2009-

【Analysis for 10 years from May 2009】

	Current	Floor expansion
Cap. Ex.	—	c.JPY270mn
Average NOI	JPY2,170mn	JPY2,204mn
Average NOI yield	6.9%	7.0%
Expected IRR on renovation investment		19.4%



Nara Family

### ○ Other active projects

#### ▶ AEONMALL Higashiura

##### 【Sales floor expansion】

Following the completed Floor Expansion Phase I, JRF is planning to proceed with the Floor Expansion Phase II to achieve higher sales and rents

#### ▶ AEONMALL Itami Terrace

##### 【Floor expansion of annex building】

Given that the floor area ratio requirement has been eased by new rezoning, JRF is planning to convert part of the parking area to retail space

#### ▶ Abiko Shopping Plaza

##### 【Floor expansion of annex building】

An annex building is to be built on the open carpark to increase the value of the retail facility by adding tenants including service providers

#### ▶ Others

Floor expansion/ rebuilding under review for Hakata, Ito-Yokado Yotsukaido, Ito-Yokado Yabashira, AEON Sapporo Naebo SC and Seiyu Hibarigaoka



AEONMALL Higashiura



AEONMALL Itami Terrace

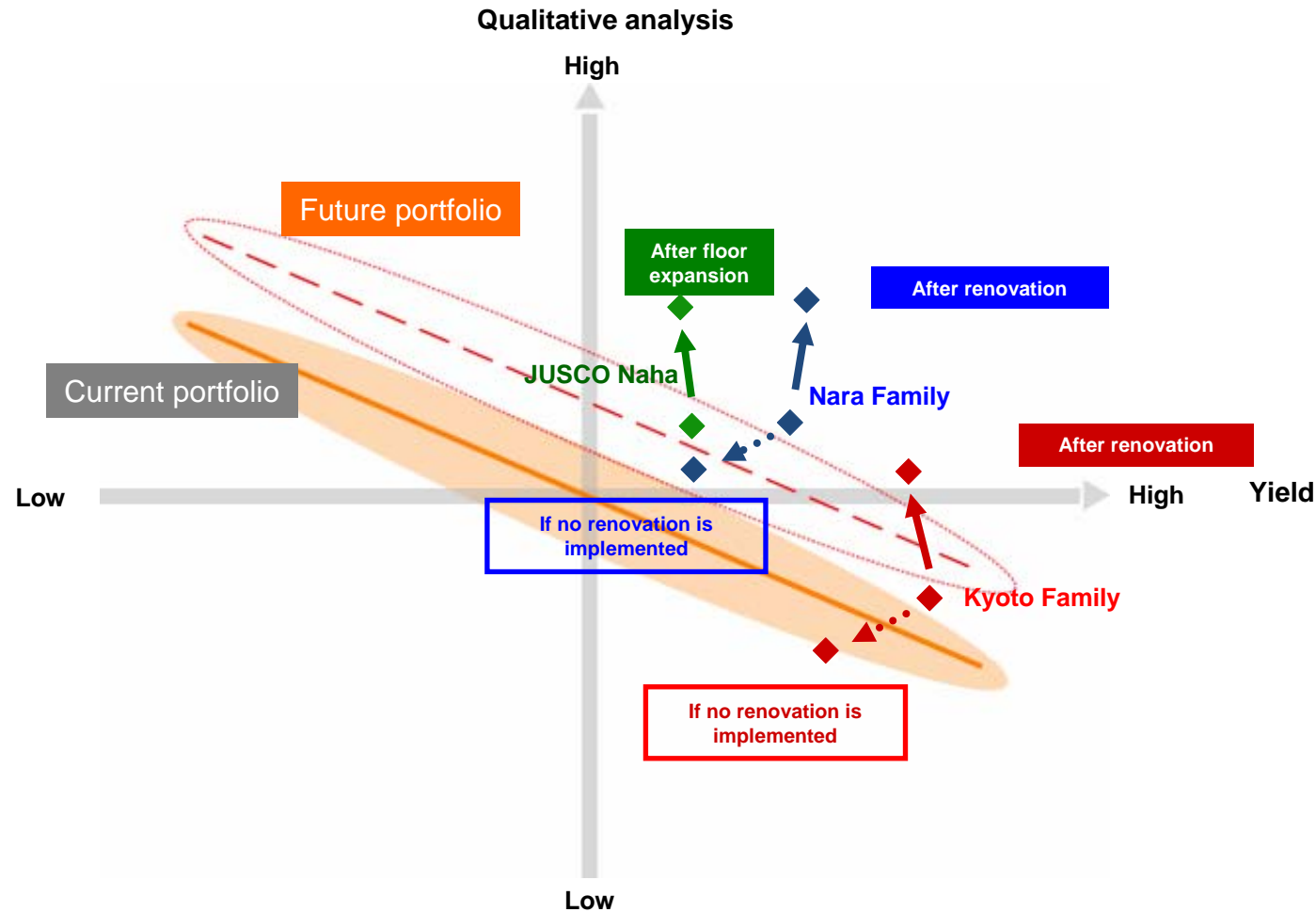


Abiko Shopping Plaza



## Internal growth strategy - active renovation and leasing activities (3)

### ○ New portfolio position after renovation of Kyoto Family, JUSCO Naha & Nara Family



## Internal growth strategy - Major plans for rent increases and cost reduction

### ③ Major plans for rent increases

《In the near term》

Target properties	Current situation
Kawaramachi OPA	Mutual agreement reached to increase rent by 2% from current levels starting from March 2008; also early repayment of some portion of leasehold deposit and increase of rent by additional 4.5% expected from August 2008. All these measures are expected to increase rental revenue by JPY44.5 mn per year.
Esquisse Omotesando Annex	Expected to increase rental revenue by JPY10 mn per year (increase rent by 20% from current level).
8953 Daikanyama Building	Expected to increase rental revenue by JPY20-35 mn per year (increase rent by 30-50% from current level).

《In the medium term》

- Rent increase negotiations will continue for urban retail facilities

### ④ Major cost reduction plans

Cost items	Target
PM costs	Reduce by JPY10mn p.a. by Aug 2009
Trust fees	Reduce by JPY10mn p.a. by Aug 2009
Property & city planning taxes	Reduce by JPY17mn p.a. by Feb 2011



Kawaramachi OPA



8953 Daikanyama Building



Esquisse Omotesando Annex

## Internal growth strategy - Reinforcement of management structure and CSR activities

### ⑤ Strengthening of asset management structure

#### ○ Reorganization of decision making process to focus on portfolio management

Investment Management Review Committee	Acquisition and disposition of individual assets, and key tenant leasing, etc.
Portfolio Review Committee	Investment policy and criteria, asset management policies and criteria, budget, fund raising, etc.
Compliance Administration Committee	Compliance matters, risk management, review, confirm and evaluate the compliance environment, etc.

#### ○ Organization of a “Development Team” and strengthening of our leasing and operating capabilities

Investment Management Department			
Investment Planning Team	Portfolio management (portfolio analysis, med- to long-term investment plan, system management); Accounting (fund management of managed properties, handling earning result announcement), etc.		
Property Management Team	Property management	Budget /performance management of individual properties (tenant management, cost reduction planning, etc.) Consider the change from “Masterlease “ to “Direct lease type”, etc.	
	Engineering	Supervise engineering aspects of managed properties, development and implementation of repair/maintenance plans and support of development team, etc.	
Development Team	Development planning	New development, rebuilding/major renovation of existing buildings, etc.	
	Leasing	Leasing after development, management of information of existing properties, leasing support, etc.	

### ⑥ Creation of JRF management standards and consideration of CSR <sup>Note 1</sup>

Specifically focusing on the following criteria:

- ▶ Policy for “Handling of confidential personal information”
- ▶ Policy for “Food safety”
- ▶ Policy for “Facility maintenance and management”
- ▶ Environmental activities (consider acquisition of CASBEE certification)<sup>Note2</sup>

Note 1: CSR: Corporate Social Responsibility

Note 2: CASBEE: Comprehensive Assessment System for Building Environmental Efficiency

- Developed by the committee that was established within the Institute for Building Environment and Energy Conservation under leadership of MLIT in 2001
- 5 level rating system: “S rank (outstanding)”, “A rank (very good)”, “B+ rank (good)”, “B rank (mildly dissatisfied)”, “C rank (dissatisfied)”



AEONMALL Tsurumi Leafa

- Awarded CASBEE OSAKA OF THE YEAR 2006
- Sustainability ranking : A

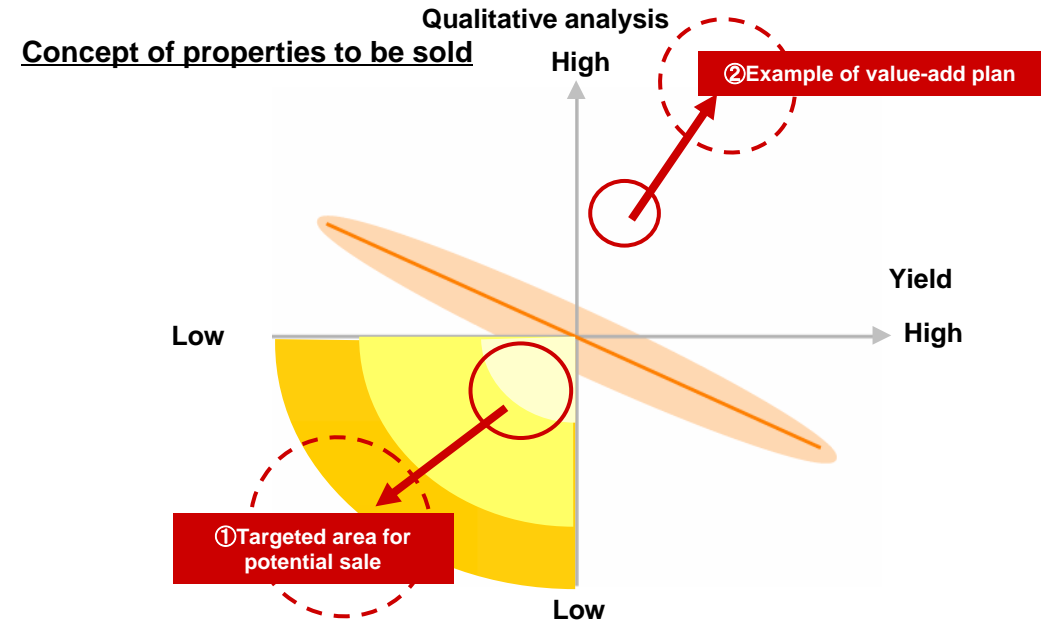
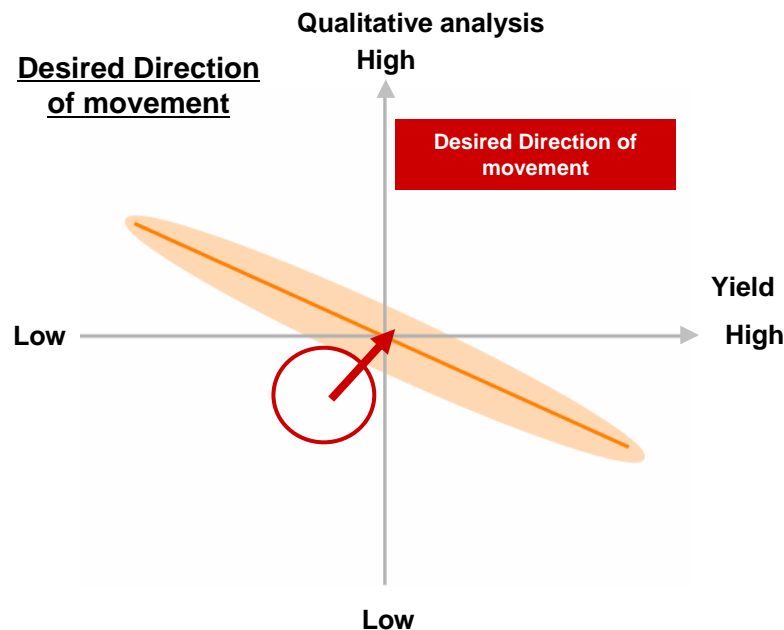


# Improvement of portfolio “quality” through replacement of properties

## ◆ Potential sale of properties in current portfolio

JRF will initiate review of sale of properties in the followings cases

- ① Expected yield and qualitative value are expected to deteriorate due to various factors (external/internal environment) and there is limited improvement opportunity even after reviewing value-add plans from multiple aspects



- ② Initial value-add plans (rent increases, floor expansion plans etc.) were implemented but it was subsequently judged that a realization of profits would maximize return to investors after comprehensive analysis including future market environment

## New investment strategy (1)

JRF will continue to be committed to acquiring prime properties which are expected to increase dividends or NAV per unit and will aim to replace properties in the current portfolio and realize upside scenario (acquisition of properties worth c. JPY150bn over the next three years )

### ➤ Target property type

- ◆ Suburban type: Number 1 shopping mall in the region
- ◆ Urban type: (1) Urban retail facilities that meet the needs of specialty stores for high street buildings  
(2) Nationwide roll-out of major specialty store buildings (GYRE, Cheers)

### ➤ Comprehensive consideration of the following investment criteria for making investment decisions

- (a) Qualitative analysis based on NOI yield and JRF criteria  
※NOI yield: consider average implied cap rate over a certain period (3 months – 6 months)
- (b) Qualitative analysis based on NOI after depreciation and JRF criteria
- (c) Impact on the whole portfolio (region, investment style, property type, tenant diversification, changes in FFO, EPS etc.)

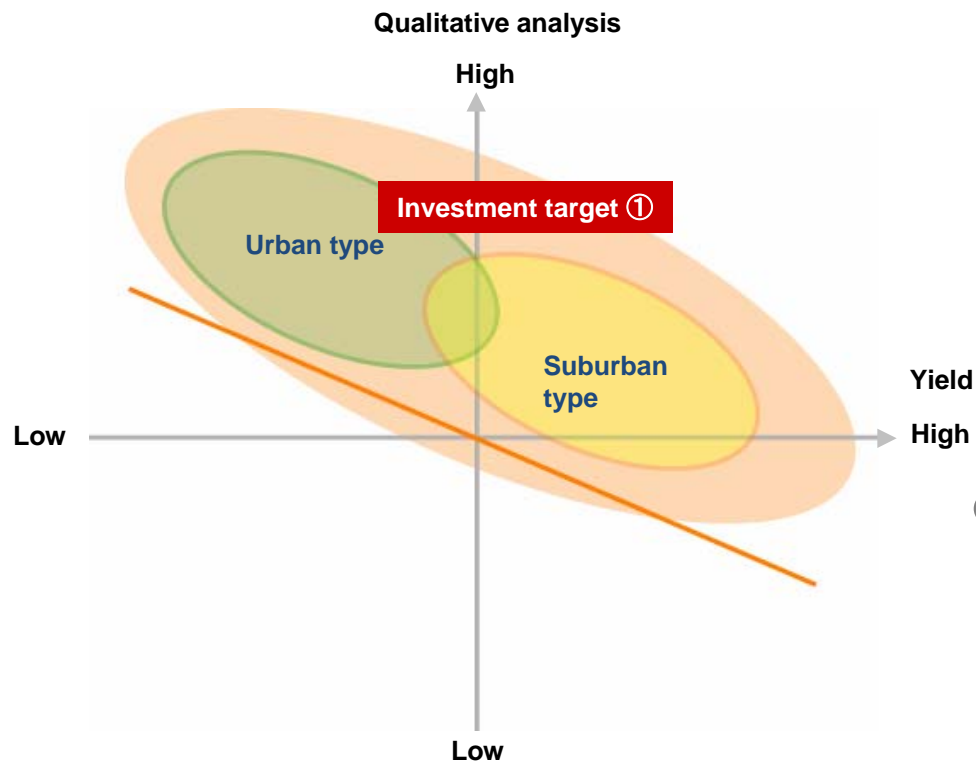
### ➤ Condition for the upside scenario

Under the following conditions, recovery of the business environment enabling sourcing of properties that meet the return requirement of the capital market:

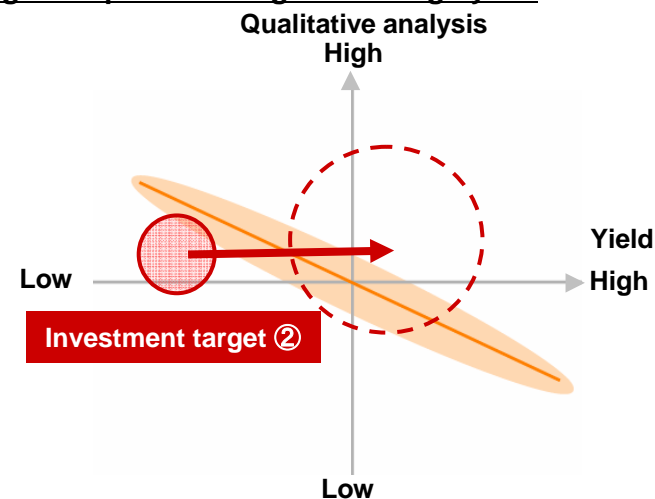
- ① Rising investment unit price from recovery of the capital market  
and/ or
- ② Declining property acquisition prices in the real estate market (rising yield)

## New Investment strategy (2)

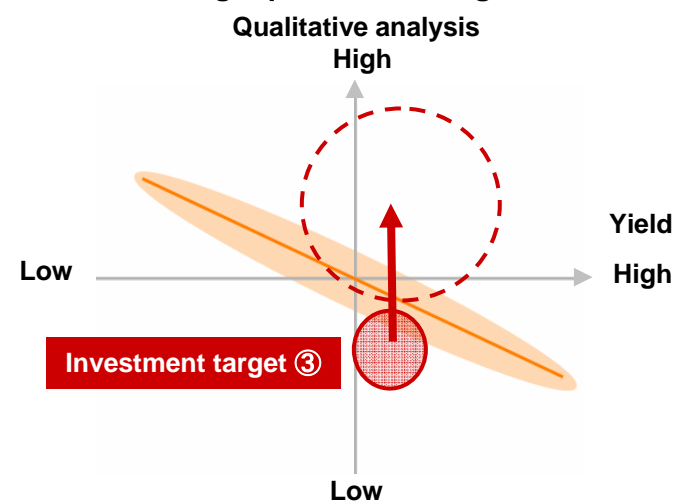
- New investment target ①: Properties with high qualitative analysis ratings and high yield



- New investment target ②: Properties with high qualitative analysis ratings and potential to generate high yield



- New investment target ③: Properties with high yield and with potential to have high qualitative ratings



# Activities focusing on “new development” and “overseas properties”

## ➤ “New property development” as a means to acquire prime properties

### ① Strengthening co-operation with developers

《Track record》 8953 Saitama Urawa Bldg, (Provisional name) Jingumae 4-chome WEST project, 8953 Jingumae 6 Bldg, etc.

### ② Initiation of development projects on our own:

limited to 5% of total assets, c. JPY5.0bn per project, low impact on dividends, and urban locations



8953 Saitama Urawa Bldg.



(Provisional name) Jingumae 4-chome WEST Project



8953 Jingumae 6 Bldg.

## ➤ Investment in overseas properties

JRF recognizes the following “opportunities” and “issues” and will continue to examine them going forward

### <Opportunities>

- Expand external growth opportunities internationally
- Ownership and operation by JRF is expected to increase the value of overseas properties which mainly target Japanese customers (e.g. Hawaii, Guam, etc.) or Japanese tenants

### <Issues>

- JRF is a J-REIT currently focusing on Japanese retail properties. Therefore, some investors may not expect us to invest in overseas properties
- While targeting stable dividends as a core fund, foreign investments could be exposed to FX risk

## Financial strategy

Capitalize on JRF's stable portfolio to respond flexibly to volatility in the real estate and capital markets to control leverage and ensure stable funding sources

### Portfolio profile

- ▶ Stable cashflow based on long-term lease contracts
- ▶ Substantial unrealized capital gains exceeding JPY67bn
- ▶ Competitive debt financing capability for total debt of JPY180bn (total of credit facility and commitment line)
- ▶ Ample retained earnings of JPY9bn p.a. from non-cash depreciation expenses



**In line with the above portfolio profile, JRF will maintain an interest-bearing debt ratio level of 35-45% and LTV level (including rental and guarantee deposits) of 45-55% in the medium-term**

\*Interest-bearing debt ratio = Interest-bearing debt / Total assets

\*LTV = Total liabilities (incl. tenant guarantees and deposits) / Total assets



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