



Japan Retail Fund Investment Corporation

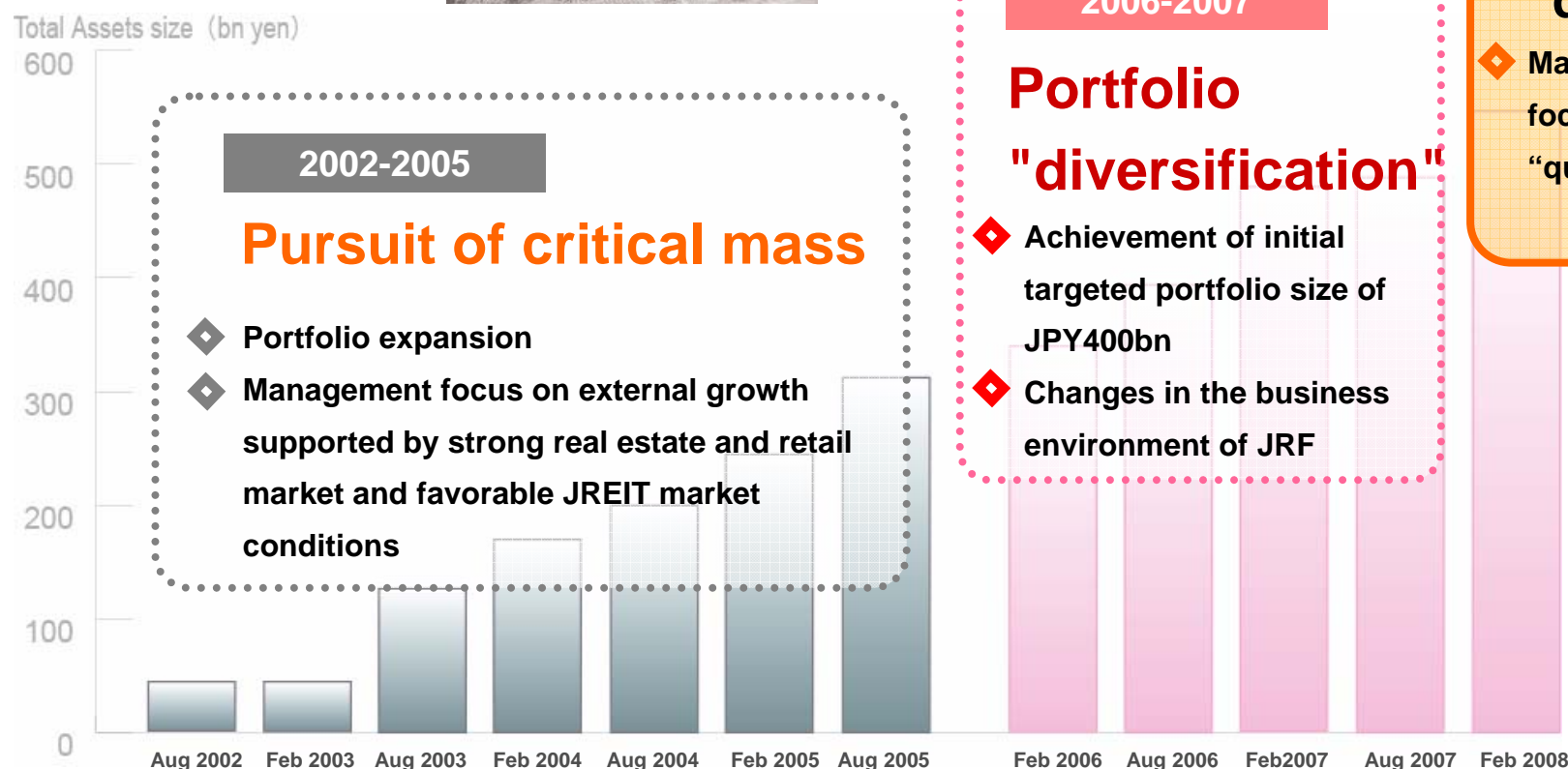
Medium-term Business Policy Briefing Material (Summary)



Mitsubishi Corp UBS Realty



Transition of Business Objectives



2008-2010

Pursuit of even higher portfolio "quality"

- Management shift to focusing on further raising "quality" of portfolio

2006-2007

Portfolio "diversification"

- Achievement of initial targeted portfolio size of JPY400bn
- Changes in the business environment of JRF

2002-2005

Pursuit of critical mass

- Portfolio expansion
- Management focus on external growth supported by strong real estate and retail market and favorable JREIT market conditions



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

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

Measures for further improving portfolio “quality”

◆ 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 (Note2)	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 = $\text{NOI} \div (\text{acquisition price} + \text{acquisition related expenses})$

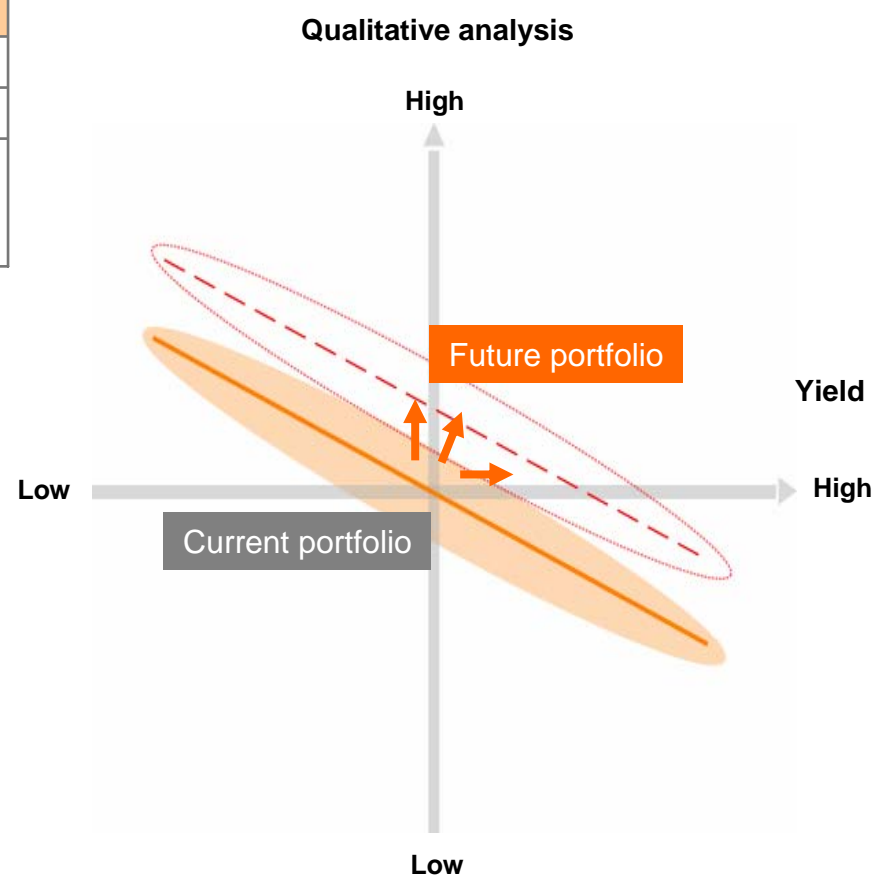
(Note 2) NOI yield after depreciation = $(\text{NOI} - \text{Depreciation}) \div \text{book value}$

(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)
- ◆ Growth potential (0~10 pts)
- ◆ Sales trend (0~40 pts)
- ◆ Rent level (0~40 pts)
- ◆ Cost reduction potential (0~20 pts)
- ◆ Other (-10~15 pts)

Targeted portfolio distribution based on future internal growth

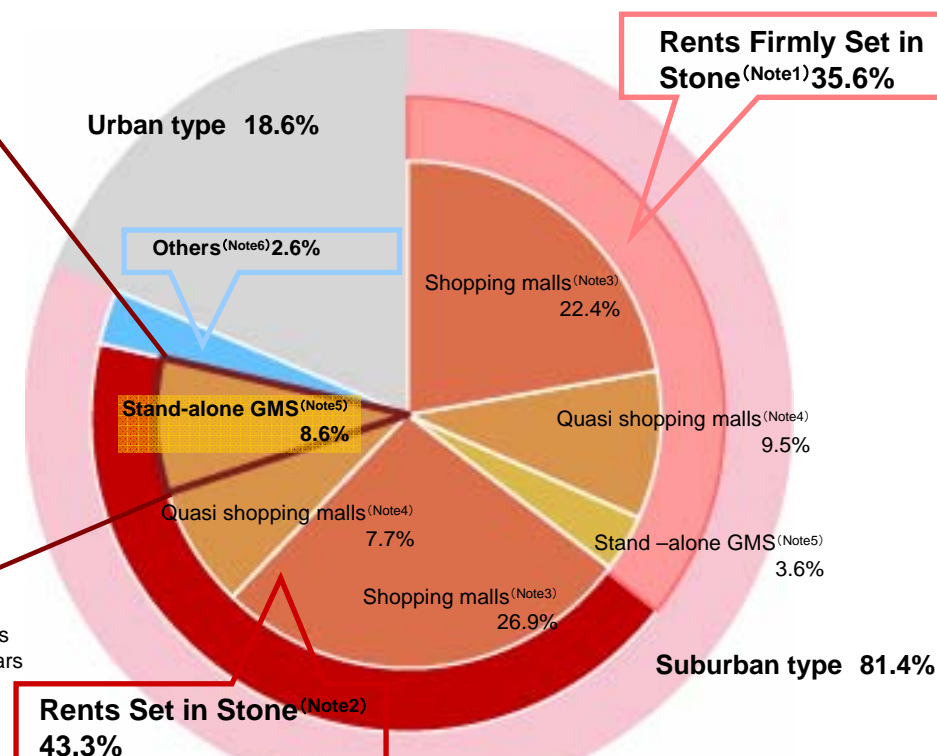


Internal growth strategy - Maintain stable rental revenue

(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"> • No rent revision until Aug 2010 • Agreed with the tenant to cooperate on value-add project (expansion, renovation, etc.) to maximize competitive strength
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
Total	8.6%	



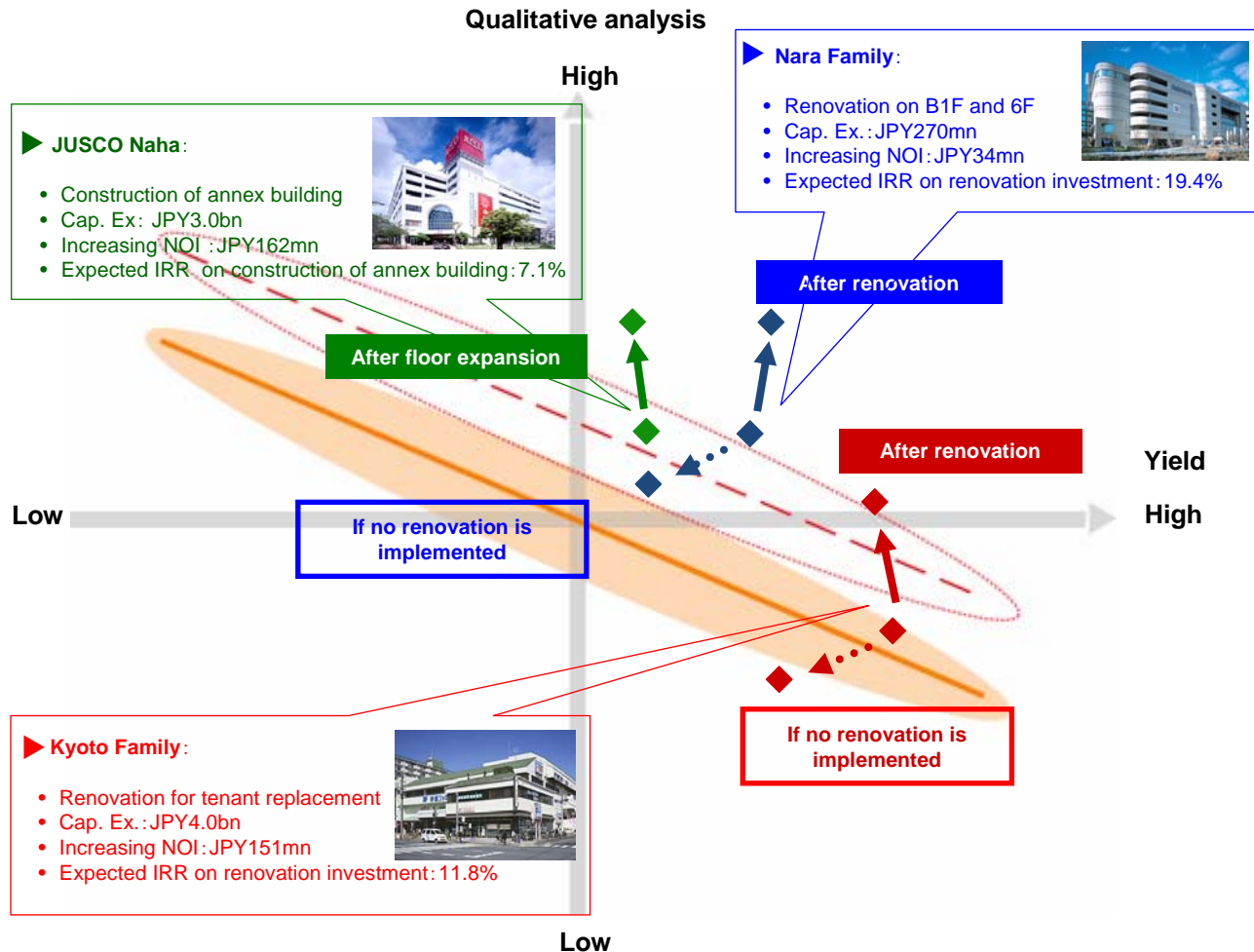
(Note1) Rents Firmly Set in Stone: Rent of suburban retail facilities that are fixed over the next three years
 (Note2) Rents Set in Stone: Rent of suburban retail facilities that are to be revised over the next three years
 (Note3) Shopping Malls: GMS where directly-operated area is less than 50% of 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

(2) Redevelopment activities and future active projects

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



Other active projects

- ▶ **AEONMALL Higashiura:**
Floor Expansion Phase II following the completed Floor Expansion Phase I
- ▶ **AEONMALL Itami Terrace:**
Floor expansion of a car park, given that the floor area ration requirement has been eased by new zoning
- ▶ **Abiko Shopping Plaza:**
Floor expansion of an annex building
- ▶ **Others**
Floor expansion/ rebuilding under review for Hakata Riveraino, Ito-Yokado, Yotsukaido, Ito-Yokado Yabashira, AEON Sapporo, Naebo SC, and Seiyu Hibarigaoka



AEONMALL Itami Terrace



AEONMALL Higashiura



Abiko Shopping Plaza

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

(3) Major plans for rent increases

- ▶ Short-term plans are below and rent increase negotiations will continue for urban retail facilities

Target Properties	Current situation
Kawaramachi OPA	Expected annual increase of JPY 44.5 mn (increase of 6.5% above current rent)
Esquisse Omotesando Annex	Expected annual increase of JPY 10 mn (increase of 20% above current rent)
8953 Daikanyama Building	Expected annual increase of JPY 20-35 mn (increase of 30-50% above current rent)

(4) Major cost reduction plans

- ▶ Total JPY 40 mn (reduction of PM costs, Trust fees, Property taxes, etc.)

(5) Strengthening of asset management structure

- ▶ Reorganization of decision making process to focus on portfolio management
⇒ 『Investment Management Review Committee』 『Portfolio Review Committee』 『Compliance Administration Committee』
- ▶ Organization of a “Development Team” and strengthening of our leasing and operating capabilities

(6) Creation of JRF management standards and consideration of CSR ^(Note1)

- ▶ Policy for “Handling of confidential personal information” “Food safety” “Facility maintenance and management” and environmental activities

(Note1) CSR: Corporate Social Responsibility



Kawaramachi OPA



8953 Daikanyama Building



Esquisse Omotesando annex

Improvement of portfolio “quality” through replacement of properties

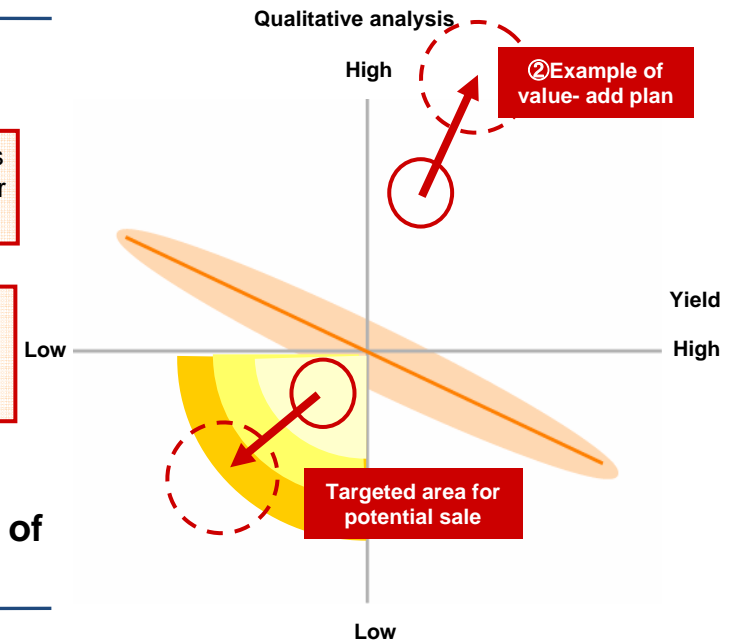
◆ Potential sale of properties in current portfolio

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

◆ Investment strategy (acquisition in case of replacement of properties and the upside scenario)

Concept of properties to be sold



➡ Target property type

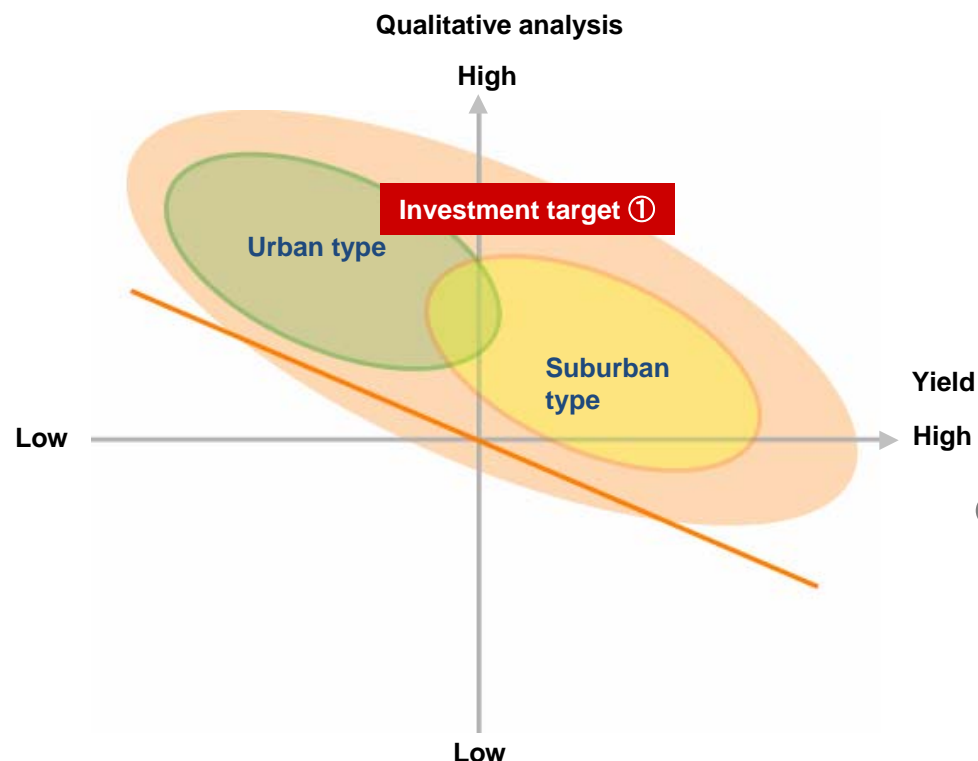
- ◆ Suburban type: Number 1 shopping mall in the region
- ◆ Urban type: Urban retail facilities that meet the needs of specialty stores for high street buildings. JRF may initiate development projects on our own.

➡ Comprehensive consideration of the following investment criteria for making investment decisions

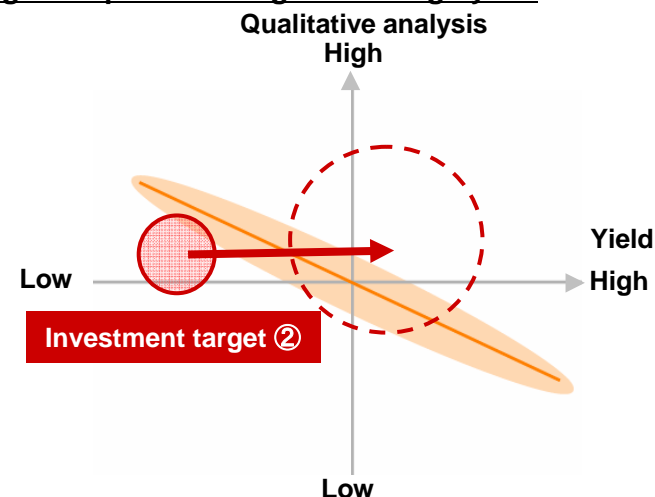
- (a) Qualitative analysis based on NOI yield and JRF criteria *NOI yield: consider average implied cap rate over a certain period (3 months-6 months)
- (b) Qualitative analysis based on NOI after depreciation and JRF criteria
- (c) Impact on the whole portfolio (region, investment style, property type,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

Investment strategy

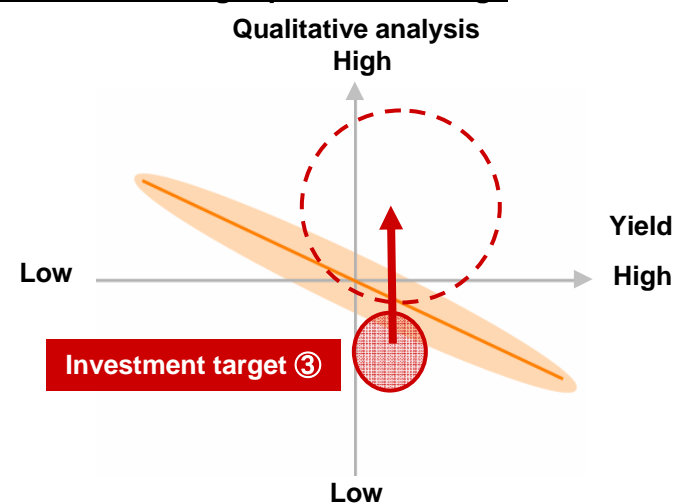
- New investment target ①: Properties with high qualitative analysis ratings and high yield



- 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



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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