

Basic Investment Strategy

In principle, Kenedix Realty Investment Corporation ("the Investment Corporation") invests in real estate and specified assets including securities backed by real estate for the purpose of securing stable earnings, sustainable investment asset growth and maximum cash distribution to investors.

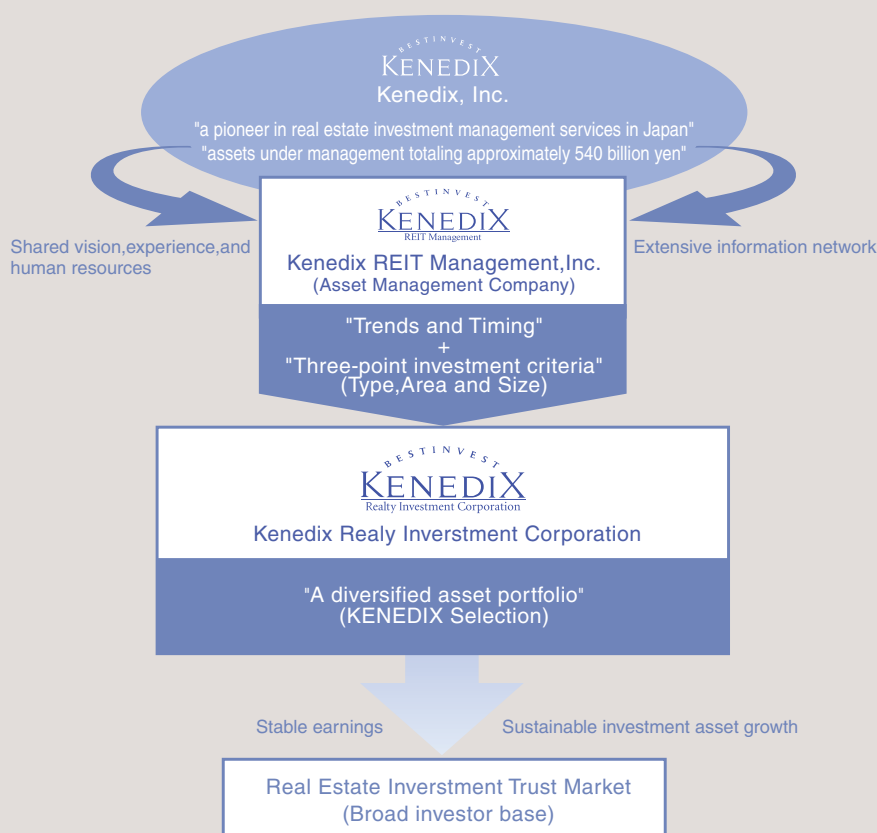
To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.

The Investment Corporation strives to develop a diversified investment portfolio named "KENEDIX Selection," adopting a three-point investment criteria based on property type, area and size.

In order to realize its objectives, the Investment Corporation has appointed Kenedix REIT Management, Inc. ("Asset Management Company"), as its asset management company.

The Asset Management Company is supported by the vision, experience, and human resources of Kenedix, Inc. ("Kenedix")

Note: Kenedix REIT Management, Inc. is a wholly owned subsidiary of Kenedix, Inc.



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To Our Unitholders

Taking this opportunity to present our third semiannual report, I would like to thank all unitholders for their continued support and understanding as we strive to achieve stable earnings and sustainable growth.

In its third fiscal period (May 1, 2006 to October 31, 2006), Kenedix Realty Investment Corporation (“the Investment Corporation”) recorded operating revenues of ¥5,288 million, ordinary income of ¥2,125 million and net income of ¥2,124 million. As a result, cash distribution for the fiscal period under review was ¥13,529 per unit.

Looking at its fourth fiscal period and beyond, the Investment Corporation will continue to pursue stable growth from a medium- and long-term perspective by investing mainly in mid-sized office buildings based on the revised portfolio development policy, which announced on December 11, 2006. We offer our sincere appreciation to all unitholders for continuing to share and support our vision.



Taisuke Miyajima

Executive Director, Kenedix Realty Investment Corporation
CEO and President, Kenedix REIT Management, Inc.

Investment Highlights

Cash Distribution for the Third Fiscal Period (May 1, 2006 to October 31, 2006): ¥13,529 per unit

Note: The third fiscal period commenced on May 1, 2006 and ended on October 31, 2006, a period of 184 days.

Investment Highlights

| | Results for the First Fiscal Period | Results for the Second Fiscal Period | Results for the Third Fiscal Period |
|-----------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| Operating Revenues | ¥1,196 million | ¥2,871 million | ¥5,288 million |
| Operating Income | ¥589 million | ¥1,343 million | ¥2,565 million |
| Ordinary Income | ¥243 million | ¥1,103 million | ¥2,125 million |
| Net Income | ¥242 million | ¥1,101 million | ¥2,124 million |
| Distribution per Unit | ¥3,052 | ¥13,884 | ¥13,529 |

Financial Results

| | First Fiscal Period | Second Fiscal Period | Third Fiscal Period |
|-------------------------------------|---------------------|----------------------|---------------------|
| Total Assets | ¥77,325 million | ¥92,053 million | ¥160,314 million |
| Unitholders' Equity | ¥44,527 million | ¥45,387 million | ¥90,933 million |
| Unitholders' Equity to Total Assets | 57.6% | 49.3% | 56.7% |
| Unitholders' Equity per Unit | ¥561,008 | ¥571,840 | ¥579,192 |

Dialogue: Asset Management Company's Approach



Taisuke Miyajima

CEO and President
Kenedix REIT Management, Inc.



Haruo Funabashi

Auditor (part-time)
Kenedix REIT Management, Inc.

To begin with, please give us your frank opinion and impression of the efforts of the Compliance Committee at Kenedix REIT Management, Inc.

Miyajima: While there have been recent cases where investment corporations charged with misconduct have been ordered to improve business operations, I personally believe we are now at a point where we have to face issues of corporate ethics and governance more seriously. While you have assumed the post of auditor at Kenedix REIT Management and participate as a member of the Compliance Committee, what are your thoughts about the actual management of the company?

Funabashi: Simply put, I think things are going very well right now. I feel that the Compliance Committee and the Board of Directors are more than window dressing; they place problems and issues squarely on the table and discuss them. The words “disclose” and “discuss” demonstrate a “can-do” approach to business ethics, and I give the company credit for taking this to heart and putting it into practice.

Miyajima: Putting information on the table for discussion is definitely something that we try to do on a daily basis. The Compliance Committee has one attorney-at-law, who is an outside member, and auditors from Kenedix, Inc., a sponsor company. In order to hold a proper discussion with people who have no direct contact with our asset management business, we are taking steps to provide information through briefings in order to share as much information as possible on such issues as current market conditions and trends.

Funabashi: Well, that sort of activity is really important. Sharing information is an essential prerequisite for having a lively discussion, not only about market conditions, but also about developments at government authorities such as the Financial Services Agency and Ministry of Land, Infrastructure and Transport. On top of that, I think it would encourage discussion about compliance in specific areas.

What are your thoughts about safeguarding investors' profits?

Miyajima: J-REITs operate as a kind of external management, in that companies establish an asset management company, which then manages the investment corporation. This scheme evolved because it was thought to suit the Japanese market. However, what you need to be most careful about under such a style of J-REIT asset management is the question of how to protect investor's profits. Although the asset management company is commissioned by the investment corporation and must also protect investor's profits, it is also a subsidiary of its companies. What are your thoughts on that point?

Funabashi: J-REITs receive and manage large amounts of funds from an unspecified number of investors. In my opinion, this system must underlie all J-REITs. The most important thing is to consider things from the investor's point of view. From what I think, the asset management company's position should be biased toward the investor. The bias should be weighted toward the investor at a ratio, ideally, of about seven points for the investor and three points for the companies of the asset

management company.

Miyajima: I see..... While continuing to safeguard investor profits, we must grow the Investment Corporation through fair and stable dealings with our companies. I believe that safeguarding investors' profits will increase demand for the Investment Corporation, which will ultimately benefit the support-line companies.

Funabashi: That's right. If we produce results that satisfy the investor, more and more people will invest, and continue investing in J-REITs. That's both a plus for the asset management company and, in the medium and long terms, for the sponsors. I suppose you could say that the J-REIT system is a business model that must consider things from that kind of macro perspective.

What do we need to keep in mind when investing mainly in medium-sized office buildings?

Funabashi: I believe that we need to continually work to provide a better office environment at more reasonable prices. The office and working environment that surrounds many Japanese is not always of high quality. We must provide the best possible property at the most reasonable prices so that our tenants can work in comfort. Achieving that, and getting

our tenants to say that their business performance improved by moving into an office owned by the Investment Corporation is the best possible outcome.

Miyajima: Incidentally, I would like to refer to some data here. According to a survey, approximately 94% of the business offices in Tokyo today are occupied by small- and medium-size enterprises of fewer than 29 employees. The area of each floor of the offices that the Investment Corporation invests in is on average about 100 tsubo – just enough space for a small- or medium-size enterprise of 10 to 30 people. In other words, nearly every company is a potential tenant of the Investment Corporation.

That's exactly why, as you say, tenant satisfaction is truly important. In December 2005, we conducted a customer satisfaction survey by giving questionnaires to the tenants, including their employees, of all of the office buildings that the Investment Corporation invests in. By making repeated improvements based on the survey results, we will make even better office environments.

Funabashi: That's really important. Today, Japan's economic foundation is supported by a countless number of small- and medium-size companies. If we can contribute to increasing the drive and motivation of office workers by providing comfortable office environments, it will have a positive, though indirect, effect on the Japanese economy.

What is your opinion regarding timely information disclosure?

Funabashi: Timely information disclosure is vital for companies, whether they are J-REITs or business corporations that accumulate funds from a large number of unspecified investors. Given that J-REITs invest primarily in real estate, it is somewhat easier to see what is to come in the market. In other words, there are fewer surprises for investors. However, it does not mean that we can be loosened in information disclosure: we have to disclose appropriate information in a highly transparent manner since the rules concerning what and how to disclose information are clearly specified.

Miyajima: A problem would arise when an unusual event occurs that falls outside of the rules.

Funabashi: That's right. However, in today's world, if one cannot decide whether information should be disclosed or not, I think that in any event, the disclosure should be made. Whether the information is positive or negative, letting investors know what the company is doing will help put their minds at rest and enable you to gain their future understanding.

Miyajima: That is certainly true. Making a disclosure about something you have doubts about does need some courage.



However, we always strive to be forthcoming in our disclosures.

Funabashi: Depending on what has been disclosed, investors may temporarily sell off their investment units and the company may receive an avalanche of calls. Nevertheless, this is transitory phenomenon. To build a long-term relationship of trust with investors, you have to have courage and overcome the obstacles.

Finally, could you tell us about the direction that you believe our company should take?

Funabashi: I would like to see us share the professional J-REIT team spirit with each and every one of our employees, and see us strive to become the most knowledgeable source about medium-sized office buildings, while providing facilities that meet all of our customers needs. These are things we should be proud of, as we carry on with our work.

If we become so well-known in the market that people say, "For medium-sized office buildings, let's ask Kenedix first," we'll be able to collect even more information.

Best of all, as a J-REIT asset management company, we are fully staffed with financial and real estate experts. Through the optimal combination of knowledge in these different fields, I would like to see us become an even more expert team in our field.

Miyajima: As the president of the Asset Management Company, I would like to see our employees take on a greater number of challenges each day.

Funabashi: Yes, me too. What energizes people the most is when they fully exert themselves passionately toward the achievement of a goal. Only then do we feel challenged and experience a purpose in life. How to establish compliance and protect officers and employees are important issues, but I

believe the ideal is a state in which we are naturally protected without having to be conscious of the regulations and rules. When someone has a real sense of fulfillment from their job, they can be in compliance without consciously trying to be.

Miyajima: I certainly agree with you.

The creation of such an environment is the job of company management. If each and every employee enjoys their work and makes the business grow, and we continue to expand as a J-REIT throughout the market while gaining the trust of investors, then we will have achieved the ideal that we have set for ourselves.



Haruo Funabashi

Auditor (part-time)
Kenedix REIT Management, Inc.

July 1997

Deputy Commissioner, National Tax Administration

June 1998

Secretary General, Securities and Exchange Surveillance Commission

June 2000

Director General, Minister's Secretariat, National Land Agency

July 2001

Vice-Minister for Land and Hokkaido Development, Ministry of Land, Infrastructure and Transport

February 2003

Chief Executive Officer, Sirius Institute Inc. (current position)

May 2004

Visiting Professor, Graduate School of International Corporate Strategy, Hitotsubashi University (current position)

October 2004

Auditor, Kenedix REIT Management, Inc. (current position)

March 2005

Auditor, Kenedix, Inc. (current position)



A-13 Belles Modes Building



A-17 Ebisu East 438 Building

KENEDIX Selection



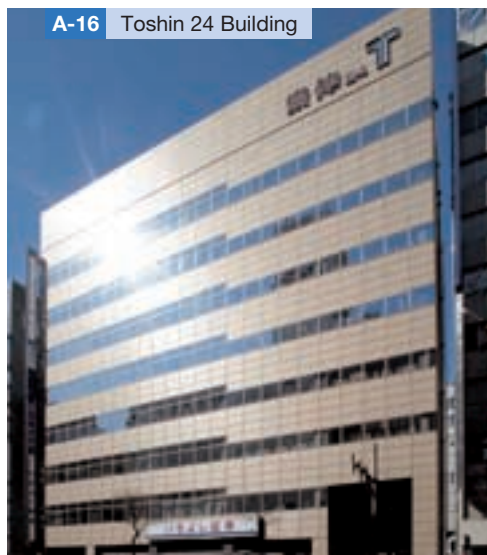
A-18 KDX Omori Building



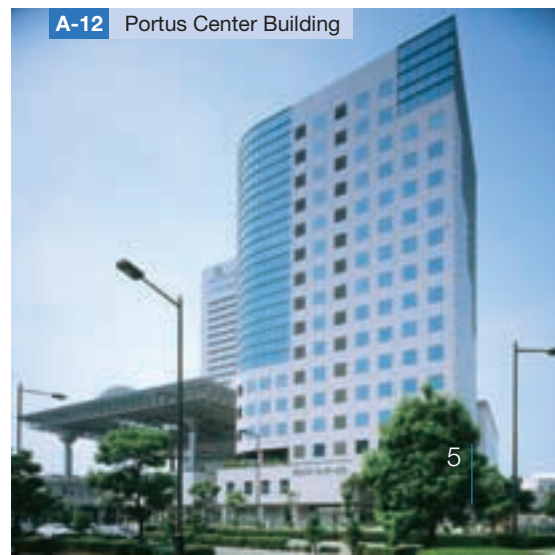
A-21 NTB-M Building



A-2 Sogo Hirakawacho Building



A-16 Toshin 24 Building



A-12 Portus Center Building

Properties Roster

Properties as of the end of the 3rd period (64 properties)

■ Acquired on May 1, 2006
■ Acquired during the 3rd Period

| Type | Area | Acquired Time | Name | Location | Acquisition Price (¥M)(Note1) | Completion Date (Note2) | Occupancy Ratio (%)(Note3) | |
|----------------------------------|-------------------------|-----------------------------|-----------------------------------|------------------------|-------------------------------|-------------------------|----------------------------|-------|
| Office | Tokyo Metropolitan Area | | Belles Modes Building | Chiyoda ward, Tokyo | 5,950 | May 1994 | 97.1 | |
| | | | Nihonbashi 313 Building | Chuo ward, Tokyo | 5,940 | Apr.1974 | 100.0 | |
| | | ■ | Toshin 24 Building | Yokohama, Kanagawa | 5,300 | Sep.1984 | 100.0 | |
| | | | Sogo Hirakawacho Building | Chiyoda ward, Tokyo | 5,180 | Mar.1988 | 100.0 | |
| | | ■ | Ebisu East 438 Building | Shibuya ward, Tokyo | 4,640 | Jan.1992 | 100.0 | |
| | | | Higashi-Kayabacho Yuraku Building | Chuo ward, Tokyo | 4,450 | Jan.1987 | 100.0 | |
| | | | Noir Hatchobori | Chuo ward, Tokyo | 3,680 | Jun.1993 | 100.0 | |
| | | ■ | KDX Omori Building | Ota ward, Tokyo | 3,500 | Oct.1990 | 100.0 | |
| | | ■ | KDX Hamamatsucho Building | Minato ward, Tokyo | 3,460 | Sep.1999 | 100.0 | |
| | | ■ | KDX Higashi-Shinjuku Building | Shinjuku ward, Tokyo | 2,950 | Jan.1990 | 100.0 | |
| | | ■ | Dai-ichi Kayabacho Building | Chuo ward, Tokyo | 2,780 | Oct.1987 | 100.0 | |
| | | ■ | NTB·M Building | Minato ward, Tokyo | 2,690 | Feb.1992 | 100.0 | |
| | | | K&Y Building (Southern Plaza) | Nakano ward, Tokyo | 2,533 | Aug.1992 | 97.0 | |
| | | ■ | KDX Shin-Yokohama Building | Yokohama, Kanagawa | 2,520 | Sep.1990 | 99.6 | |
| | | | Harajuku F.F. Building | Shibuya ward, Tokyo | 2,450 | Nov.1985 | 100.0 | |
| | | ■ | KDX Kajicho Building | Chiyoda ward, Tokyo | 2,350 | Mar.1990 | 100.0 | |
| | | | KDX Hamacho Building | Chuo ward, Tokyo | 2,300 | Sep.1993 | 65.3 | |
| | | | FIK Minami Aoyama | Minato ward, Tokyo | 2,270 | Nov.1988 | 100.0 | |
| | | | KDX Funabashi Building | Funabashi, Chiba | 2,252 | Apr.1989 | 97.9 | |
| | | | Kanda Kihara Building | Chiyoda ward, Tokyo | 1,950 | May 1993 | 100.0 | |
| | | ■ | KDX Yotsuya Building | Shinjuku ward, Tokyo | 1,950 | Oct.1989 | 100.0 | |
| | | | NNK Building | Shinjuku ward, Tokyo | 1,610 | Jun.1992 | 100.0 | |
| | | ■ | Kiba Ocean Building | Koto ward, Tokyo | 1,580 | Oct.1992 | 69.1 | |
| | ■ | KDX Nogizaka Building | Minato ward, Tokyo | 1,065 | May 1991 | 100.0 | | |
| | | Koishikawa Yoshida Building | Bunkyo ward, Tokyo | 704 | Oct.1992 | 100.0 | | |
| | | Other Regional Areas | | Portus Center Building | Sakai, Osaka | 5,570 | Sep.1993 | 100.0 |
| | ■ | | KDX Minami Semba Dai-1 Building | Osaka, Osaka | 1,610 | Mar.1993 | 100.0 | |
| | ■ | | KDX Minami Semba Dai-2 Building | Osaka, Osaka | 1,560 | Sep.1993 | 90.0 | |
| | | | Hakata-Ekimae Dai-2 Building | Fukuoka, Fukuoka | 1,430 | Sep.1984 | 99.2 | |
| Office (29 properties) Sub Total | | | | | 86,224 | Avg.17.0 yrs | 97.7 | |
| Retail | Tokyo Metropolitan Area | | Jinnan-zaka Frame | Shibuya ward, Tokyo | 9,900 | Mar. 2005 | 100.0 | |
| | | | Yoyogi M Building | Shibuya ward, Tokyo | 2,479 | Aug. 1991 | 100.0 | |
| | Other Regional Areas | ■ | ZARA Tenjin Nishi-dori | Fukuoka, Fukuoka | 3,680 | Nov. 2005 | 100.0 | |
| Retail (3 properties) Sub Total | | | | | 16,059 | Avg. 3.5 yrs | 100.0 | |

Notes:

- Figures in the "Acquisition Price" column represent the real estate or trust beneficiary interest sales price (excluding consumption tax, rounded down to the nearest million yen) for each property acquired, identified in relevant Real Estate or Trust Beneficiary Interest Purchase and Sales Agreements.
- The "Completion Date" column refers to the date of construction completed recorded in the land register. Each average age subtotals and total for the investment portfolio is shown as the weighted-averages portfolio age based upon acquisition prices with a base date of October 31, 2006.
- "Occupancy Ratio" is the leased floor area divided by total leasable floor area. The figure is rounded to the first decimal place. Ratios are calculated as of October 31, 2006. Each average ratio subtotals and total for the investment portfolio is shown as the average occupancy ratio.
- The total acquisition price for 65 properties held by the Investment Corporation as of December 11, 2006.
- The weighted-average age of the 65 properties held by the Investment Corporation as of December 11, 2006 with a base date of December 1, 2006.
- The current name of the property is the "FSD Building." Plans are in place to change the name of the property to the "KDX Nishi-Gotanda Building" on April 1, 2007.

■ Acquired on May 1, 2006
 ■ Acquired during the 3rd Period

| Type | Area | Acquired Time | Name | Location | Acquisition Price (¥M) (Note1) | Completion Date (Note2) | Occupancy Ratio (%) (Note3) | |
|---|-------------------------|----------------------|-----------------------------------|----------------------|--------------------------------|---------------------------------|--------------------------------|------|
| Residential | Tokyo Metropolitan Area | ■ | Residence Charmante Tsukishima | Chuo ward, Tokyo | 5,353 | Jan. 2004 | 100.0 | |
| | | ■ | Regalo Ochanomizu I&II | Bunkyo ward, Tokyo | 3,600 | I : Jan. 2006 II : Feb. 2006 | 93.8 | |
| | | | Storia Sirokane | Minato ward, Tokyo | 3,150 | Feb. 2003 | 92.9 | |
| | | | Tre di Casa Minami Aoyama | Minato ward, Tokyo | 2,460 | Feb. 2004 | 100.0 | |
| | | ■ | Regalo Shiba-Kouen | Minato ward, Tokyo | 2,260 | Nov. 2005 | 100.0 | |
| | | | Court Mejiro | Shinjuku ward, Tokyo | 1,250 | Mar. 1997 | 100.0 | |
| | | | Apartments Motoazabu | Minato ward, Tokyo | 1,210 | Jan. 2004 | 94.6 | |
| | | | Apartments Wakamatsu-Kawada | Shinjuku ward, Tokyo | 1,180 | Feb. 2004 | 96.3 | |
| | | ■ | Chigasaki Socie Ni-bankan | Chigasaki, Kanagawa | 1,160 | Jan. 1991 | 91.3 | |
| | | | Court Nihonbashi-Hakozaki | Chuo ward, Tokyo | 1,130 | Feb. 2004 | 97.2 | |
| | | ■ | Court Nishi-Shinjuku | Shinjuku ward, Tokyo | 1,130 | Oct. 2005 | 93.0 | |
| | | | Side Denenchofu | Ota ward, Tokyo | 1,110 | Feb. 1997 | 97.2 | |
| | | ■ | Gradito Kawaguchi | Kawaguchi, Saitama | 1,038 | Feb. 2006 | 100.0 | |
| | | | S-court Yokohama-Kannai II | Yokohama, Kanagawa | 945 | Mar. 2003 | 100.0 | |
| | | ■ | Regalo Komazawa-Kouen | Setagaya ward, Tokyo | 912 | Feb. 2006 | 100.0 | |
| | | | Court Motoasakusa | Taito ward, Tokyo | 880 | Jan. 2005 | 100.0 | |
| | | ■ | Court Shin-Okachimachi | Taito ward, Tokyo | 878 | Oct. 2005 | 100.0 | |
| | | | Bloom Omotesando | Shibuya ward, Tokyo | 875 | Mar. 2003 | 100.0 | |
| | | | Human Heim Okachimachi | Taito ward, Tokyo | 830 | Dec. 2004 | 100.0 | |
| | | ■ | Primo Regalo Kagurazaka | Shinjuku ward, Tokyo | 762 | Jan. 2006 | 96.0 | |
| | | Court Shinbashi | Minato ward, Tokyo | 748 | Dec. 1997 | 100.0 | | |
| | ■ | Primo Regalo Youga | Setagaya ward, Tokyo | 730 | Dec. 2005 | 100.0 | | |
| | | Court Suitengu | Chuo ward, Tokyo | 659 | Jul. 2003 | 90.0 | | |
| | ■ | Court Shimouma | Setagaya ward, Tokyo | 638 | Oct. 2005 | 100.0 | | |
| | | Ashiya Royal Homes | Ashiya, Hyogo | 2,330 | Jun. 1991 | 80.3 | | |
| | | Venus Hibarigaoka | Sapporo, Hokkaido | 1,800 | Mar. 1989 | 84.6 | | |
| | | Other Regional Areas | ■ | Regalo Ibaraki I&II | Ibaraki, Osaka | 1,600 | I : May 1991 II : Mar. 1993 | 67.1 |
| | ■ | | Collection Higashi-Sakura | Nagoya, Aichi | 1,264 | Mar. 2006 | 94.0 | |
| | ■ | | Renaissance 21 Hirao Jousui-machi | Fukuoka, Fukuoka | 900 | Oct. 2005 | 91.9 | |
| | ■ | | Montore Nishikouen Bay Court | Fukuoka, Fukuoka | 826 | Feb. 2006 | 84.1 | |
| | | | Abreast Hara | Nagoya, Aichi | 444 | Feb. 2000 | 100.0 | |
| | | | Abreast Hirabari | Nagoya, Aichi | 407 | Mar. 2000 | 90.8 | |
| Residential (Total 32 properties) Sub Total | | | | | 44,459 | Avg. 4.7 yrs | 91.8 | |
| Total of 64 properties | | | | | 146,742 | Avg. 11.8 yrs | 95.3 | |

Properties Acquired in the 4th Period

● Acquired during the 4th Period

| | | | | | | | |
|------------------------|-------------------------|---|-------------------------------------|-----------------------|-----------------|-----------------------|---|
| | Tokyo Metropolitan Area | ● | KDX Nishi- Gotanda Building (Note6) | Shinagawa ward, Tokyo | 4,200 | Nov. 1992 | - |
| Total of 65 properties | | | | | 150,942 (Note4) | Avg. 12.0 yrs (Note5) | - |

Properties Sold during the 3rd Period

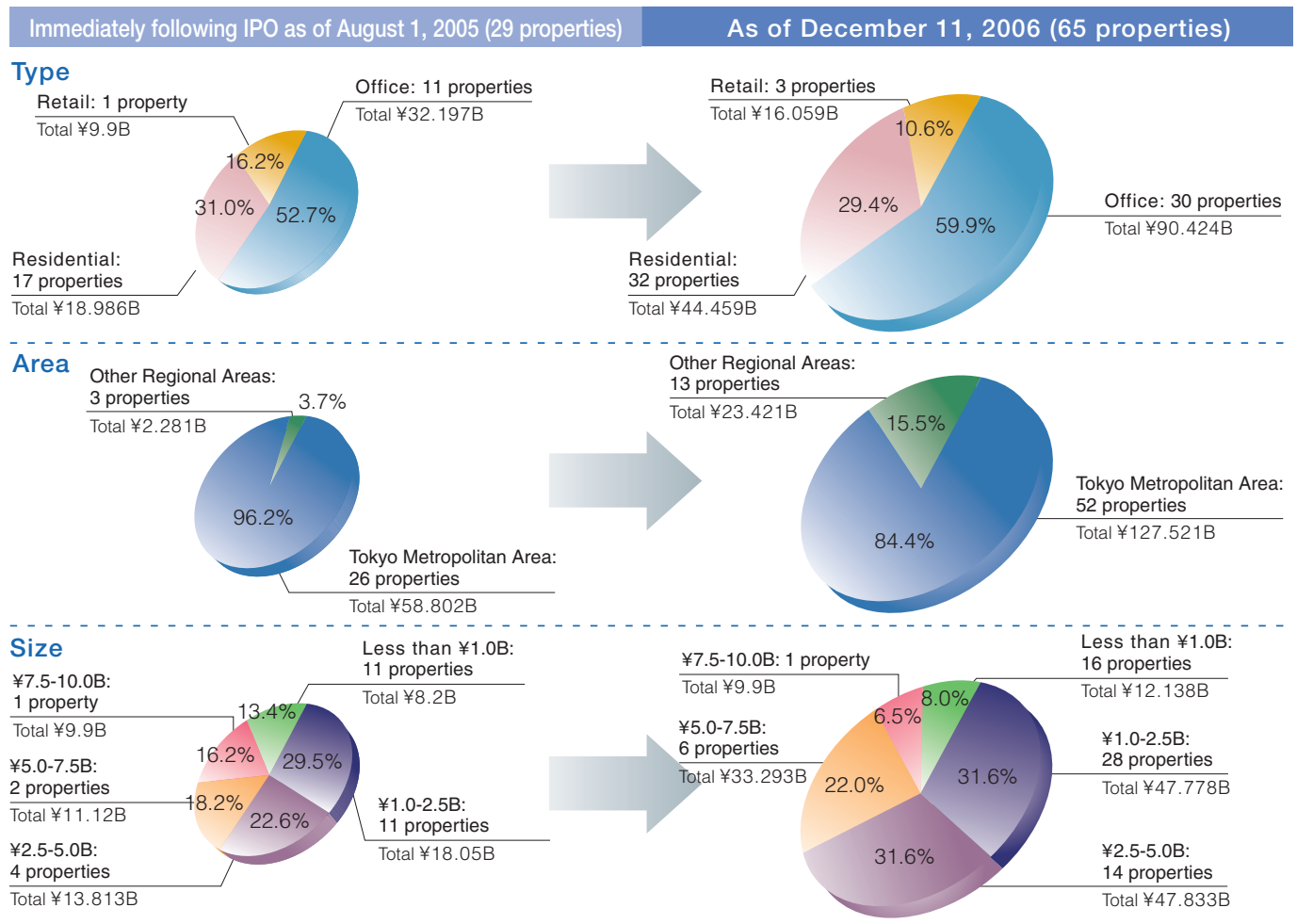
▲ Sold during the 3rd Period

| | | | | | | | |
|--|-------------------------|---|-----------------------|----------------------|-----|-----------|---|
| | Tokyo Metropolitan Area | ▲ | Storia Todoroki | Setagaya ward, Tokyo | 877 | Dec. 2002 | - |
| | | ▲ | Clair Court Rokakouen | Setagaya ward, Tokyo | 831 | Aug. 1998 | - |

Portfolio Highlights

Portfolio Composition

The Investment Corporation strives to develop a diversified investment portfolio adopting a three-point investment criteria based on property type, area and size.

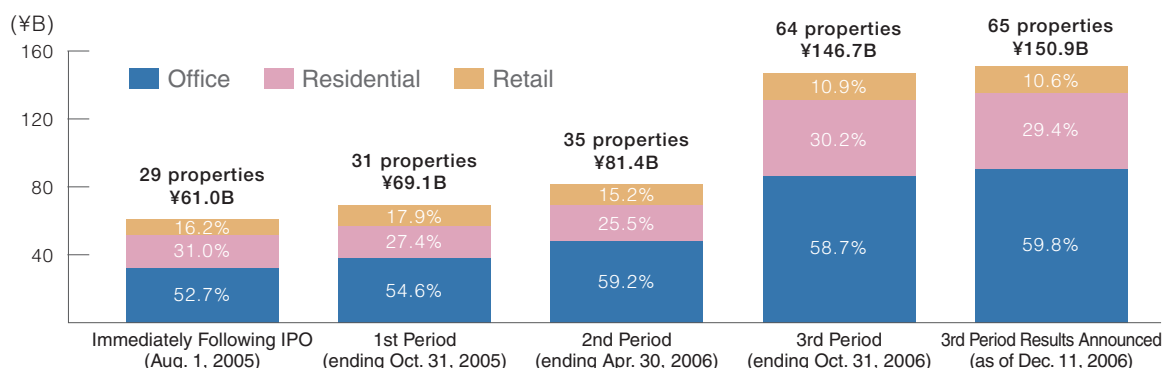


Notes : 1. The Tokyo Metropolitan Area consists of Tokyo, Kanagawa, Saitama and Chiba prefectures.
 2. Percentage figures in the above pie charts represent the proportion of each category as a percentage of the total calculated on a property acquisition-price basis. Percentage figures are rounded down to the first decimal place.
 3. B=billions

| | | | |
|--------------------------------|----------------|--------------------------------|-------------------|
| Total Acquisition Price | 61 billion yen | Total Acquisition Price | 150.9 billion yen |
| Total Number of Properties | 29 properties | Total Number of Properties | 65 properties |
| Weighted-Average Portfolio Age | 11.7 years | Weighted-Average Portfolio Age | 12.0 years |

Note: The weighted-average portfolio age, current as of December 1, 2006, is shown as the weighted-average portfolio age based upon acquisition prices with a base date of December 1, 2006.

External Growth Performance (based on acquisition price)

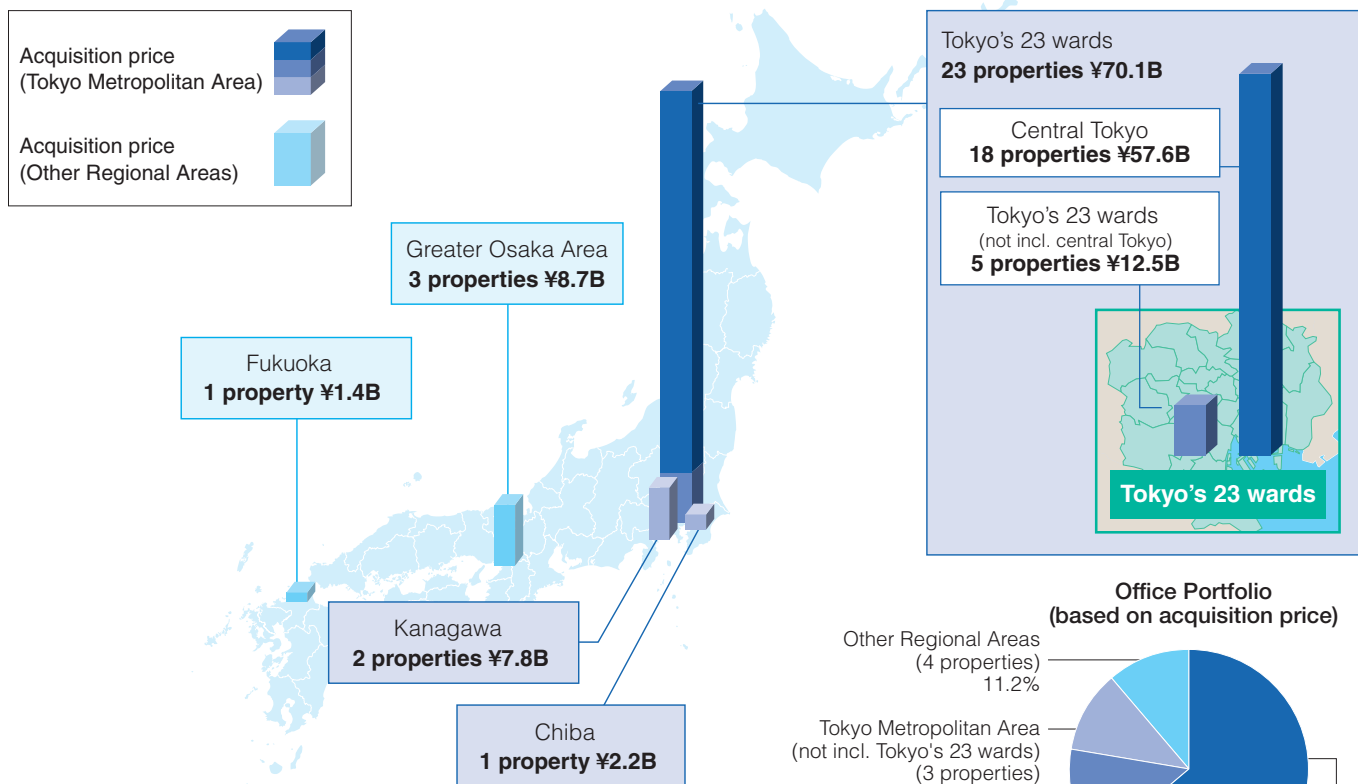


Note: Amounts of less than ¥100 million omitted for total acquisition price and digits below decimal point omitted for ratios.

KENEDIX Selection (As of December 11, 2006)

Office Buildings (30 properties)

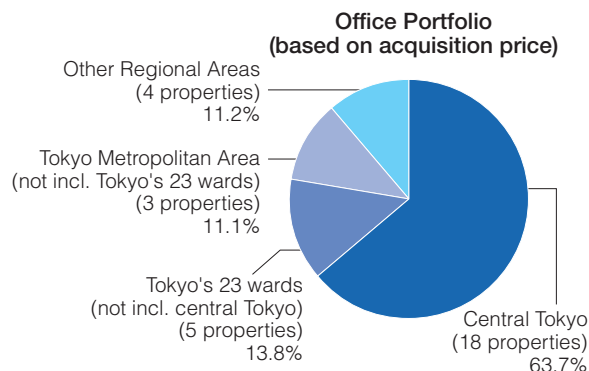
Emphasis on mid-sized office buildings in the Tokyo Metropolitan Area, in particular Central Tokyo.



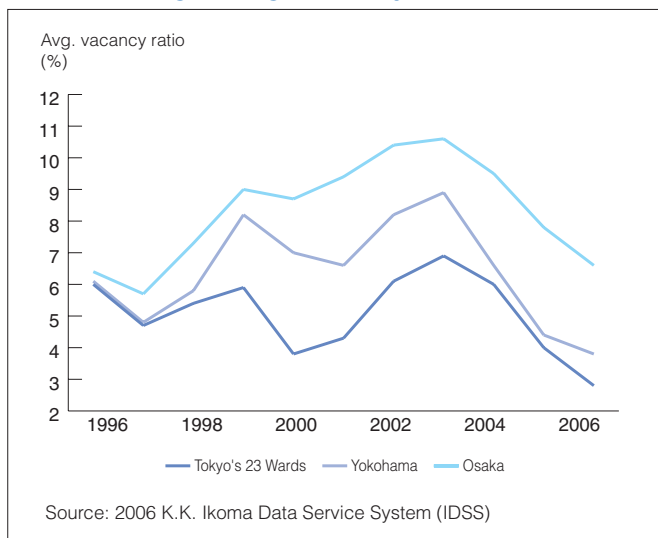
Notes:

1. Central Tokyo consists of the Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards.
2. Acquisition Price are rounded to the nearest ¥100 million.
3. Ratios indicate the total acquisition price for properties in each area in proportion to the total acquisition price for all properties combined.
4. Ratios are rounded down to the first decimal place.

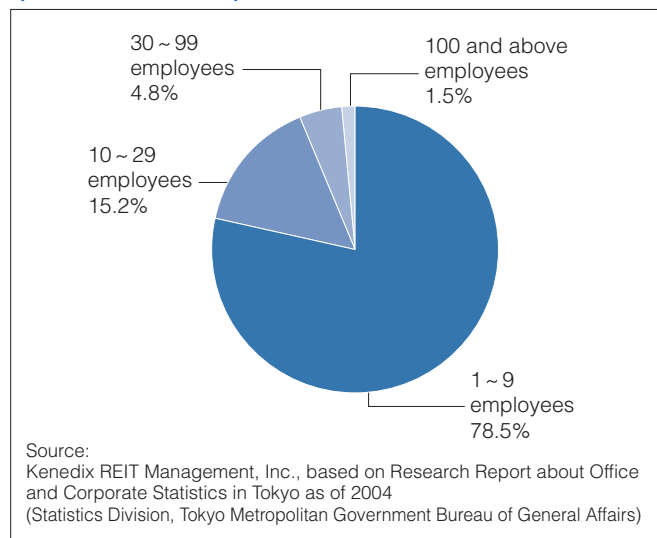
*The data above is based upon a portfolio of 30 office buildings held by Kenedix Realty Investment Corporation (including 29 properties held at the end of the third fiscal period and 1 property already acquired during the fourth fiscal period) as of December 11, 2006. In addition, as of the same date, the Investment Corporation holds 32 residential properties and 3 retail properties.



Office Building Average Vacancy Ratio



Number of Employees per Office (Tokyo) (% of total offices)



Questions & Answers

“Questions & Answers” are based on an interview with Taisuke Miyajima, CEO and President of Kenedix REIT Management, Inc. (“Asset Management Company”), the asset management company for Kenedix Realty Investment Corporation (“the Investment Corporation”).

Changes to the Portfolio Development Policies

Q. Please elaborate on the changes to the portfolio development policy announced in December 2006.

A. The Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation strives to develop a diversified investment portfolio for its basic policy. Based upon this basic policy, the Investment Corporation has conducted a review of its portfolio development policies in order to shift to investments in office buildings. Details are as follows.

(After the changes)

| Type of Use | Investment Ratio Target |
|--------------------------------------|-------------------------|
| Office Buildings | 50% - 100% |
| Residential Properties | 0% - 30% |
| Central Urban-Type Retail Properties | 0% - 20% |
| Other | 0% for now |

(Before the changes)

| Type of Use | Investment Ratio Target |
|------------------------|-------------------------|
| Office Buildings | More than 50% |
| Residential Properties | More than 20% |
| Retail Properties | Less than 30% |
| Other | |

Q. What are the reasons for changing the portfolio development policy at this time?

A. The Investment Corporation adheres to a basic policy that adopts a dynamic and flexible investment stance. Working from this policy, as of December 11, 2006, the Investment Corporation owned a portfolio of 65 properties with a total acquisition price of approximately ¥150 billion, demonstrating its success in diversifying properties.

The Investment Corporation has previously emphasized investment in mid-sized office buildings located in the Tokyo Metropolitan Area. However, to respond to recent conditions in the office leasing market (increased rent levels, improvement of occupancy ratios, etc.), the Investment Corporation has decided to invest mainly in office buildings and to make no new investment in residential properties for a certain period.

Q. Are there any changes for the target asset scale that you have set for the future, and are you going to achieve this target only by investing in office buildings?

A. The Investment Corporation’s goal of an asset scale target exceeding ¥200 billion by December 31, 2007, remains unchanged. We will invest mainly in office buildings, but also in central urban-type retail properties located in highly flourishing districts as an alternative to investment in office buildings.

Q. Reflecting upon your decision not to conduct any new investment in residential properties, do you think that residential properties are losing their attractiveness as investment targets?

A. The Investment Corporation recognizes a certain advantage of a portfolio comprising of some residential properties, as they contribute to realizing stable cash flows. However, the Investment Corporation has concluded that concentrating new investment mainly in office buildings will have a more positive impact on the improvement of cash flows.

Q. Are you planning to invest mainly in mid-sized office buildings heretofore?

A. The Investment Corporation has previously emphasized investment in mid-sized office buildings located in the Tokyo Metropolitan Area. The Investment Corporation will continue to invest mainly in mid-sized office buildings, while keeping in mind an approach of diversifying properties. For the investment area, the Investment Corporation will continue to invest mainly in the Tokyo Metropolitan Area and a certain ratio of office buildings in major cities of Other Regional Areas.

Q. Are there any policy changes for the category of “retail properties?”

A. There are no policy changes for the category of “retail properties.” The Investment Corporation has previously invested in central urban-type retail properties located in highly flourishing districts as an alternative to investment in office buildings. To make this situation evident, the Investment Corporation has decided to refer to these past investments as “central urban-type retail properties,” rather than simply as “retail properties.”

Growth Potential

Q. What target for asset scale have you set for the future?

A. As of December 12, 2006, the date the Investment Corporation’s third fiscal period results were announced, the Investment Corporation owned a portfolio of 65 properties with total acquisition price of approximately ¥150 billion. Based on the steady progress achieved to date, we will endeavor to exceed an asset scale of ¥200 billion by December 31, 2007. Our goals, however, do not revolve entirely around increasing asset scale. In concert with efforts to increase the size of the Investment Corporation’s portfolio, we will make every effort to steadily enhance earnings per share (EPS).

Q. What steps does the Investment Corporation take with regard to property management?

A. Rental revenues provide a major source of income for the Investment Corporation. Accordingly, every effort is made to maintain and enhance rent level and occupancy ratios, which are the key components in the Investment Corporation’s leasing activities. While taking into consideration economic and real estate market trends, the Investment Corporation adopts a tenant-oriented approach to its leasing activities with the aim of ensuring a timely and flexible response as well as optimal tenant satisfaction. Based on the aforementioned, the Asset Management Company undertakes property management activities as follows.

- Implement customer satisfaction surveys in an effort to identify tenant needs. Implement appropriate remedial and improvement measures.
- Enhance tenant satisfaction and property competitive advantage through renovation of co-owned areas as well as upgrades and renewal for the facility.
- Promote new tenant leasing activities together with existing tenant renewal negotiations based on movements in real estate leasing markets and tenant needs in an effort to capitalize on “trends” and “timing.”
- Strengthen leasing activities through efforts to improve ties with leasing intermediary companies.
- Review property management contents and standards.

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. (“Kenedix Advisors”) as its sole property management company.

Investment Properties

Q. Please elaborate on the unique characteristics of medium-sized office buildings.

A. Compared with large-sized office buildings, medium-sized office buildings provide greater liquidity. In addition to the larger number of buildings on the market, the acquisition prices and rent level of medium-sized office buildings offer a wider scope of acquisition and leasing opportunities. Under these circumstances, the Investment Corporation recognizes that medium-sized office buildings provide the Investment Corporation with the best avenue to leverage its abilities in identifying properties with competitive advantage and its expertise and know-how in property leasing and management. Furthermore, given tenant characteristics and the large pool of competing properties, the Investment Corporation recognizes that medium-sized office buildings exhibit higher rates of tenant turnover with rent levels more finely attuned to economic trends, particularly in times of recovery.

Q. Why does the Investment Corporation invest mainly in medium-sized office buildings?

A. As a fund manager, the Kenedix Group boasts a wealth of experience and know-how in medium-sized office buildings. Focusing on this segment enables the Investment Corporation to leverage this considerable strength. We also hold high expectation for continued increase in rent level in line with favorable economic trends.

Q. What are your thoughts on the leasing market for residential properties?

A. In line with changes in population trends, fluctuations in the number of households by area are experiencing increased polarization. In this context, we are seeing steady leasing demand for residential properties primarily in the Tokyo Metropolitan Area. In addition, the population and the number of households in certain major cities of Other Regional Areas are also increasing. Accordingly, we expect leasing demand for residential properties in Sapporo, Nagoya and Fukuoka to expand. The Investment Corporation intends to invest in residential properties with a keen eye to the aforementioned trends.

Q. What are your expectations for the real estate and J-REIT markets?

A. We believe that real estate markets will remain active in the Tokyo Metropolitan Area. Accordingly, the ability to acquire prime properties at reasonable prices will become increasingly difficult. The Investment Corporation also recognizes that real estate markets are subject to a variety of trends based on property type, area and size. While activity in one area may be robust, other areas may experience stagnant conditions. With this in mind, the possibility that real estate prices will appreciate nationwide is considered slim. Under these circumstances, the ability to accurately identify real estate trends by property type, area and size will become more important. Currently, Japanese Real Estate Investment Trust ("J-REIT") market is comprised of over 30 publicly listed trusts with market capitalization exceeding ¥3 trillion. Looking ahead, it would not be a surprise if there were between 50 and 70 listed J-REITs with market capitalization around ¥10 trillion in the next few years. In the domestic market, yields on REITs exceed 10-year government bonds by nearly 2.0%. At this level, J-REITs remain highly competitive when compared with REITs in markets overseas.

Financial Strategy

Q. What benchmark have you established for interest-bearing debt ratio, and what are the Investment Corporation's debt policies?

A. The Investment Corporation is conscious of maintaining a prudent financial strategy together with an appropriate interest-bearing debt ratio (a balance between total assets and interest-bearing debt). Currently, the target ratio is set between 35 to around 50%. From its incorporation, the Investment Corporation has undertaken debt on an unsecured and unguaranteed basis. This reflects the high credit standing of the Investment Corporation and an acknowledgement by financial institutions of the quality of investment properties, investment policies and the Asset Management Company's personnel and management.

Q. How do you see interest rate trends in the future? What measures do you have in place to avoid the risk of future increase in interest rates?

A. The interest rates are expected to show a moderate rise. We believe the key factor in determining future market conditions will be the speed of interest rate increase. If the pace at which interest rates rise serves to promote economic growth, the impact on real estate markets is naturally favorable. For example, in an environment where economic growth outpaces the increase of interest rates, rent levels can also be expected to rise. With this in mind, the Investment Corporation invests primarily in medium-sized office buildings, characterized by relatively high rates of tenant turnover. Under these circumstances, we are able to maintain rent levels in line with market trends. In an effort to avoid the risk of future increase in interest rates, the Investment Corporation adopts a prudent fixed interest rate policy. In principle, we enter into interest-rate swap agreements to fix cost levels on floating rate long-term debt. Furthermore, the Investment Corporation acquired an A3 credit rating from Moody's Investors Services, Inc. in February 2006 and A+ rating from Japan Credit Rating Agency, Ltd. in December 2006. Looking ahead, we will also consider the issue of fixed rate investment corporation bonds as a measure to avoid the risk of future increase in interest rates.

Financial Summary

Trends in Operating Conditions

| Period | | First Fiscal Period (As of Oct. 31, 2005) | Second Fiscal Period (As of Apr. 30, 2006) | Third Fiscal Period (As of Oct. 31, 2006) |
|--|-----------------|--|---|--|
| Operating revenues | Millions of Yen | 1,196 | 2,871 | 5,288 |
| (Rental revenues) | Millions of Yen | 1,196 | 2,871 | 5,131 |
| Operating expenses | Millions of Yen | 606 | 1,527 | 2,723 |
| (Property-related expenses) | Millions of Yen | 518 | 1,265 | 2,397 |
| Operating income | Millions of Yen | 589 | 1,343 | 2,565 |
| Ordinary income | Millions of Yen | 243 | 1,103 | 2,125 |
| Net income (a) | Millions of Yen | 242 | 1,101 | 2,124 |
| Total assets (b) | Millions of Yen | 77,325 | 92,053 | 160,314 |
| Interest-bearing debt (c) | Millions of Yen | 29,000 | 42,000 | 62,000 |
| Unitholders' equity (d) | Millions of Yen | 44,527 | 45,387 | 90,933 |
| Unitholders' capital | Millions of Yen | 44,285 | 44,285 | 88,729 |
| Number of investment units issued and outstanding (e) | Per Unit | 79,370 | 79,370 | 157,000 |
| Unitholders' equity per unit (d) / (e) | Yen | 561,008 | 571,840 | 579,192 |
| Total distribution (f) | Millions of Yen | 242 | 1,101 | 2,124 |
| Distribution per unit (f) / (e) | Yen | 3,052 | 13,884 | 13,529 |
| (Earnings distributed per unit) | Yen | 3,052 | 13,884 | 13,529 |
| (Distribution in excess of earnings per unit) | Yen | - | - | - |
| Return on assets (annualized) (Note 1, 2) | % | 0.3 (1.3) | 1.3 (2.6) | 1.7 (3.3) |
| Return on unitholders' equity (annualized) (Note 2, 3) | % | 0.6 (2.2) | 2.5 (4.9) | 3.1 (6.2) |
| Unitholders' equity ratio at the end of period (d) / (b) | % | 57.6 | 49.3 | 56.7 |
| Interest-bearing debt ratio at the end of period (c) / (b) | % | 37.5 | 45.6 | 38.7 |
| Payout ratio (Note 4) | % | 99.9 | 99.9 | 99.9 |
| [Other reference] | | | | |
| Number of properties | Properties | 31 | 35 | 64 |
| Total leasable floor area | m ² | 81,298.67 | 104,868.65 | 192,085.34 |
| Occupancy ratio at the end of period | % | 96.6 | 94.9 | 95.3 |
| Depreciation expenses for the period | Millions of Yen | 268 | 650 | 1,135 |
| Capital expenditures for the period | Millions of Yen | 47 | 510 | 655 |
| Leasing NOI (net operating income) (Note 5) | Millions of Yen | 945 | 2,256 | 3,869 |
| FFO (funds from operation) (Note 6) | Millions of Yen | 510 | 1,752 | 3,102 |
| FFO per unit (Note 7) | Yen | 6,430 | 22,076 | 19,759 |

Notes:

- Return on assets = Ordinary income / (Total assets at the beginning of period + Total assets at the end of period) / 2 x 100
Total assets at the beginning of first fiscal period reflect the value on August 1, 2005, which was the first actual date of operations of the first fiscal period.
- Annualized values for the second fiscal period are calculated based upon a period of 181 days, and 184 days for the third fiscal period. Annualized values for the first fiscal period are calculated based upon a period of 92 days, the actual number of business days in the first fiscal period (from August 1, 2005 to October 31, 2005).
- Return on unitholders' equity = Net income / (Total unitholders' equity at the beginning of period + Total unitholders' equity at the end of period) / 2 x 100
Total unitholders' equity at the beginning of period reflects the value on August 1, 2005, which was the first actual date of operations of the first fiscal period.
- Payout ratio is rounded down to the first decimal place.
- Leasing NOI = Rental revenues - Rental expenses + Depreciation expenses for the period
- FFO = Net income + Depreciation expenses for the period - Profit on sale of trust beneficiary interests in real estate or real estate
- FFO per unit = FFO / number of investment units issued and outstanding (figures below ¥1 rounded down)

Management Review & Policies

Operating Conditions for the Second Fiscal Period

(1) The Investment Corporation

The Investment Corporation was established on May 6, 2005 in accordance with the Investment Trust and Investment Corporation Law ("the Investment Trust Law"). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange. (Securities Code: 8972). As of October 31, 2006, the end of the third fiscal period, the number of investment units issued and outstanding totaled 157,000 units.

The Investment Corporation appointed Kenedix REIT Management, Inc. as its asset management company. In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation endeavors to develop a diversified investment portfolio named "KENEDIX Selection," adopting a three-point investment criteria based on property type, area and size.

(2) Investment Environment and Management Performance

a. Investment environment

During the fiscal period under review, the Japanese economy made an improvement in corporate earnings and capital expenditures along with robust employment conditions. Although growth in personal consumption was stagnant, the economic recovery continued.

As for real estate, according to a land price survey (Kijun Chika) conducted by prefecture and local governments on July 1, 2006, commercial and residential land prices in the three major metropolitan areas rose for the first time in 16 years. Tokyo's 23 wards, Osaka, Kyoto and Nagoya are showing an increasing trend for higher land prices and an even higher margin of increase. Average commercial land prices are on a strong upward trend in Tokyo and increasing in each prefecture, including Chiba, Kanagawa, Aichi, Kyoto, and Osaka. Thus, land prices in the central inner cities of Japan's three major metropolitan areas and in outlying regions are showing a clear price recovery, as revealed in the land prices (Chika Kouji) officially announced in 2006.

b. Management performance

In the beginning of the fiscal period under review, the Investment Corporation acquired 26 properties with a total acquisition price of ¥58,033 million. From the viewpoint of review of its portfolio, the Investment Corporation sold 2 residential properties (total acquisition price of ¥1,708 million) on May 10, 2006. Using the original network of the Asset Management Company, the Investment Corporation acquired 4 office buildings and 1 residential property in the Tokyo Metropolitan Area during the third fiscal period with a total acquisition price of ¥8,983 million. As a result, the number of properties owned as of October 31, 2006 stood at 64, with a total acquisition price of ¥146,742 million. Looking at the portfolio as a whole, 58.7% was comprised of office buildings, 30.2% of residential properties and 10.9% retail properties on an acquisition price basis. In addition, the occupancy ratio as of the end of the third fiscal period was 95.3%, reflecting stable investment and asset management.

< External Growth Performance after IPO >

| | | Immediately following IPO (as of August 1, 2005) | | First Fiscal Period (as of October 31, 2005) | | Second Fiscal Period (as of April 30, 2006) | | Second Fiscal Period (as of April 30, 2006) | |
|-------------|-------------------------|---|--------------|---|--------------|---|--------------|---|--------------|
| | | Total Acquisition Price (Millions of Yen) | Ratio (%) | Total Acquisition Price (Millions of Yen) | Ratio (%) | Total Acquisition Price (Millions of Yen) | Ratio (%) | Total Acquisition Price (Millions of Yen) | Ratio (%) |
| Type of Use | Office Buildings | 32,197 | 52.7 | 37,767 | 54.6 | 48,269 | 59.2 | 86,224 | 58.7 |
| | Residential Properties | 18,986 | 31.0 | 18,986 | 27.4 | 20,786 | 25.5 | 44,459 | 30.2 |
| | Retail Properties | 9,900 | 16.2 | 12,379 | 17.9 | 12,379 | 15.2 | 16,059 | 10.9 |
| | Total | 61,083 | 100.0 | 69,132 | 100.0 | 81,434 | 100.0 | 146,742 | 100.0 |
| Area | Tokyo Metropolitan Area | 58,802 | 96.2 | 61,281 | 88.6 | 71,783 | 88.1 | 123,321 | 84.0 |
| | Other Regional Areas | 2,281 | 3.7 | 7,851 | 11.3 | 9,651 | 11.8 | 23,421 | 15.9 |
| | Total | 61,083 | 100.0 | 69,132 | 100.0 | 81,434 | 100.0 | 146,742 | 100.0 |

Notes: Total acquisition price is the total of acquisition price for each property classified by type and area.

Total acquisition price is rounded down to the nearest million yen. Percentages are rounded down to the nearest first decimal place.

Operation and Management of Existing Properties

The Investment Corporation has appointed Kenedix Advisors Co., Ltd. as its sole property management company for the entire portfolio as of the end of the third fiscal period. In establishing a single point of contact for all matters relating to property management activities, the Investment Corporation strives to secure consistent policies, specifications and procedures along with ensuring swift and quality service. As of October 31, 2006, the investment portfolio maintains a high occupancy ratio. The Investment Corporation is satisfied with the quality of property management.

In addition to property management services, the Investment Corporation has executed master lease agreements with Kenedix Advisors covering all of its properties held as of October 31, 2006 (excluding Residence Charmante Tsukishima, Jinnan-zaka Frame, ZARA Tenjin Nishi-dori and tenants without approval for subleasing). In appointing a member of the Kenedix Group as lessee, the Investment Corporation is able to provide better tenant-oriented leasing management through Kenedix Advisors. At the same time, this scheme allows the Investment Corporation to more effectively utilize tenant security and guarantee deposits.

The Investment Corporation leverages scale merits and the communication and negotiation skills of the Kenedix Group in an effort to reduce operating costs, and have succeeded reductions in building maintenance costs.

CS Strategy-Based Leasing Management

The Investment Corporation recognizes each tenant as a key customer and strives to enhance customer satisfaction and raise the competitiveness of its properties as the means to maintain and increase earnings. As a part of these efforts, the Asset Management Company implemented a survey in collaboration with J.D. Power Asia Pacific Inc., an internationally recognized company that engages in customer satisfaction evaluation, covering the Investment Corporation's office building portfolio. As a part of this survey the administration officers of each tenant and tenant employees were asked to respond to many questions including building location and environment, external façade, entrance, air conditioning system of lease space areas, lighting ventilation, OA compliant, elevators, toilets, kitchen facilities, smoking area, parking, management company service, status and standard of cleaning, security, fire prevention and remarks of each building and its facilities as well as the nature and quality of operating and management services.

On a scale of five, respondents were asked to rank each of the aforementioned questions. The survey provided invaluable information pertaining to the strengths and weaknesses of each building. Under the remarks section, a number of respondents provided insightful observations. Based on survey results, the Investment Corporation will work to clarify and improve outstanding issues.

Through this vital feedback channel, the Investment Corporation will also implement appropriate maintenance and renovation for each property taking into consideration associated costs and benefits. Through these means, the Investment Corporation is working efficiently to generate improvements in rent levels and asset values, increase earnings and promote sustained internal growth.

(3) Capital Acquisition

To support the acquisition of additional assets, the Investment Corporation undertook debt financing of ¥20 billion during the third fiscal period comprising ¥18 billion of long-term debt and ¥2 billion of short-term debt. As a result, the balance of debt financing as of October 31, 2006 stood at ¥62 billion comprising ¥48.5 billion of long-term debt and ¥13.5 billion of short-term debt. Of this amount, ¥37.3 billion of long-term debt as of October 31, 2006 was procured on a floating rate basis. In order to minimize the risk of future increase in interest rate, the Investment Corporation has entered into interest-rate swap agreements, effectively fixing applicable interest rates.

Since its public listing through to the end of the third fiscal period, the Investment Corporation has undertaken flexible debt funding on both an unsecured and unguaranteed basis. This is the result of the high standing in which the Investment Corporation, its investment policies, asset quality as well as the personnel and expertise of the Asset Management Company are held among financial institutions. In addition, the Investment Corporation strives to diversify repayment dates for its debt financing in an effort to reduce refinancing risk. The Investment Corporation also strives to extend average repayment period by placing added emphasis on long-term debt.

Note: Short-term debt is repayable within 1 year. Long-term debt is repayable over terms exceeding 1 year.

(4) Operating Results and Cash Distribution

As a result of the aforementioned management performance, the Investment Corporation reported operating revenues of ¥5,288 million for its third fiscal period. Operating income was ¥2,565 million, ordinary income ¥2,125 million and net income ¥2,124 million.

In accordance with Article 67.15 of the Special Taxation Measures Law, the Investment Corporation distributes the total amount of its unappropriated retained earnings for each period. Cash distribution for the third fiscal period was ¥13,529 per unit.

Future Management Policies and Pending Issues

(1) Investment Environment

Looking ahead, the Japanese economy is forecasted to continue its path toward full-fledged recovery on the back of domestic private-sector demand. Favorable conditions are attributed to a robust corporate sector and the positive flow-on effects to the household sector. Buoyed by improvements in employment conditions resulting in an upswing in household disposable incomes, personal consumption is expected to increase. Signs are strong for capital expenditure growth, bolstered by an improvement in corporate earnings. Driven by the aforementioned gains in employment conditions and household disposable incomes, the construction of residential properties is also expected to bottom out with signs of upward movement.

Against this economic backdrop, positive signs are emerging in the domestic real estate market. Posted land prices for March 2006, and a land survey conducted by prefecture and local governments for September 2006, confirmed land price appreciation in the three major cities of Tokyo, Osaka and Nagoya. At the same time, land prices for specific major cities in regional areas are also increasing. On a nationwide basis, land prices are exhibiting increased polarization. Appreciation is restricted to major economic and financial centers of the Tokyo Metropolitan Area (in particular the Central Tokyo), and specific regional areas that exhibit strong potential for population growth (for example, Sapporo in Hokkaido and Fukuoka in Kyushu).

From the perspective of real estate purchase and sales, the acquisition of prime properties is expected to become increasingly competitive. This is attributed to the continued flow of domestic and overseas real estate funds in search of higher returns. With little change anticipated in the foreseeable future, activities in the real estate market are expected to remain robust with positive conditions prevailing throughout.

(2) Management Policies and Pending Issues

a. Existing property management strategy

Rental revenues provide a major source of income for the Investment Corporation. Accordingly, every effort is made to maintain and enhance rent level and occupancy ratios, which are the key components in the Investment Corporation's leasing activities. While taking into consideration economic and real estate market trends, the Investment Corporation adopts a tenant-oriented approach to its leasing activities with the aim of ensuring a timely and flexible response as well as optimal tenant satisfaction.

Based on the aforementioned, the Asset Management Company undertakes property management activities as follows.

- Implement customer satisfaction surveys in an effort to identify tenant needs. Implement appropriate remedial and improvement measures.
- Enhance tenant satisfaction and property competitive advantage through renovation of co-owned areas as well as upgrades and renewal for the facility.
- Promote new tenant leasing activities together with existing tenant renewal negotiations based on movements in real estate leasing markets and tenant needs in an effort to capitalize on "trends" and "timing".
- Strengthen leasing activities through efforts to improve ties with leasing intermediary companies.
- Review property management contents and standards.

b. New property investment strategy

The Investment Corporation will continue to invest in medium-sized office buildings located in the Tokyo Metropolitan Area as the cornerstone of its investment policy. At the same time, the Investment Corporation will emphasize residential properties in densely populated areas with a high number of households and retail properties in central urban commercial districts. To facilitate the implementation of the aforementioned investment policy, in addition to the original network of the Asset Management Company, the Investment Corporation will leverage the support-line provided by the Kenedix Group. The Kenedix Group comprises Kenedix, Kenedix Advisors and other affiliated companies.

Through this support-line, the Asset Management Company is positioned to secure real estate information related to properties, for which the Kenedix Group acts as intermediary (excluding the original network of the Asset Management Company), as well as pension funds, private placement funds and development properties. Based on this information and depending on its source, the Investment Corporation is able to consider acquisition either on a priority basis or at the same time as all other third parties. Against the backdrop of a competitive market, the role of this support-line is increasingly significant in the Asset Management Company's acquisition of quality properties.

Another key role of the support-line is to facilitate property acquisition through the warehousing function. Under the warehousing function, members of the Kenedix Group may acquire or temporarily hold an investment property sourced from the original network of the Asset Management Company on those occasions when the Investment Corporation is not itself in the immediate position to acquire the property, or for timing reasons the property fails to completely comply with the Investment Corporation's investment criteria. In the case of the warehousing function, the Investment Corporation maintains "first priority" arrangements to acquire the property once initial obstacles have been cleared.

Note: Pension Funds refer to the real estate investment funds for pension plans and other plans and managed by Kenedix Advisors.

(3) Financial Strategy

The Investment Corporation will continue to pursue debt financing on an unsecured and unguaranteed basis and as well as make arrangements to ensure fixed interest rate debt in line with interest rate trends and other considerations.

In addition, the Investment Corporation will seek to diversify its debt repayment period to reduce refinancing risk, maintain long-term debt ratios at or above prudent levels and issue investment corporate bonds with the aim of extending the average repayment period of its liabilities.

The Investment Corporation will maintain the ratio of interest-bearing debt to total assets at a prudent level and implement leveraged management in an effort to ensure stable financial management.

(4) Information Disclosure

Consistent with its basic information disclosure policy, the Investment Corporation proactively engages in IR activities with the aim of promptly providing a wide range of relevant information to investors. In specific terms, the Investment Corporation provides information through the Timely Disclosure Network System (TDnet), which is a system operated by the Tokyo Stock Exchange, as well as press releases and its Web site (URL: <http://www.kdx-reit.com/eng/>).

(5) Acquiring Credit Rating

As a part of efforts to diversify procurement methods, including the issue of investment corporation bonds, and to extend the average repayment period for its overall debt financing, the Investment Corporation acquired a credit rating of A+ (Outlook : Stable) from Japan Credit Rating Agency, Ltd. on December 11, 2006. The Investment Corporation's investment policies, quality of individual assets, real estate portfolio, the unsecured and unguaranteed nature of debt financing, quality of the Asset Management Company's personnel and the support of the Kenedix Group were appraised by the credit rating agency. This is the second credit rating acquired following the A3 (Outlook: Stable) from Moody's Investors Services, Inc. on February 28, 2006.

<Credit Rating>

| Credit Rating Agency | Details of the Rating |
|----------------------------------|-----------------------|
| Japan Credit Rating Agency, Ltd. | Senior Debts : A+ |
| | Outlook: Stable |

(6) Change of Portfolio Development Policy

The Asset Management Company resolved to change management guidelines contained in its company regulations on December 11, 2006.

a. Overview

The Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation strives to develop a diversified investment portfolio adopting a three-point investment criteria based on property type, area and size for its basic policy. Based upon this basic policy, the Investment Corporation has conducted a review of its portfolio development policies in order to shift to investments in office buildings, and has made changes to the management guidelines of the Asset Management Company.

b. The Major Changes in the Management Guidelines

Portfolio Development Policy

| After the Change in Management Guidelines | Before the Change in Management Guidelines |
|--|--|
| Taking into consideration the liquidity and scale of the real estate market, the degree of real estate market information, prudent diversification based on the type of use for each property, diversification of the tenant base, and the management results of the Kenedix Group, <u>the Investment Corporation shall invest mainly in office buildings, and also shall be able to invest in central urban-type retail properties, residential properties, and other properties.</u> | Taking into consideration the liquidity and scale of the real estate market, the degree of real estate market information, prudent diversification based on the type of use for each property, diversification of the tenant base, and the management results of the Kenedix Group, the Investment Corporation shall invest primarily in office buildings, residential properties, retail properties and other properties. |
| <u>"Central Urban-Type Retail Properties"</u> refers to <u>retail properties</u> located in highly flourishing districts <u>with high potential for attracting alternative tenants.</u> | <u>"Retail Properties"</u> refers to <u>mainly central urban-type retail properties</u> located in highly flourishing districts |

c. Details of the Changes

The Investment Corporation adheres to a basic policy that adopts a dynamic and flexible investment stance, which accurately reflects its environment and market trends, endeavors to ensure a timely response to each and every opportunity, and strives to develop a diversified

investment portfolio with a three-point investment criteria based on property type, area and size. Working from this policy, as of December 11, 2006, the Investment Corporation owned a portfolio of 65 properties with a total acquisition price of approximately ¥150 billion, demonstrating its success in diversifying properties.

The Investment Corporation has previously emphasized investment in mid-sized office buildings located in the Tokyo Metropolitan Area. However, to respond to recent conditions in the office leasing market (increased rent levels, improvement of occupancy ratios, etc.), the Investment Corporation has decided to invest mainly in office buildings and to make no new investment in residential properties for a certain period. The Investment Corporation previously invested in central urban-type retail properties located in highly flourishing districts as an alternative to investment in office buildings. To make this situation evident, the Investment Corporation has decided to refer to these past investments as "Central Urban-Type Retail Properties," rather than simply as "Retail Properties."

d. Investment Portfolio Target

After the Change in Management Guidelines

| Investment Portfolio Target | | | Investment Ratio Target |
|-----------------------------|---|--|--|
| A Type of Use | Office Buildings | Office buildings for leasing purposes as their principal use | <u>50-100%</u> |
| | Residential Properties | Residential properties for leasing purposes as their principal use | <u>0-30%</u> |
| | <u>Central Urban-Type Retail Properties</u> | Retail properties located in highly flourishing districts | <u>0-20%</u> |
| | Other | Amusement parks, business hotels, parking, educational, medical and health care-related facilities, low-lying leasehold land and other | <u>0% for now</u> |
| B Area | Tokyo Metropolitan Area | Major cities in Tokyo, Kanagawa, Saitama and Chiba prefectures | More than 70% |
| | Other Regional Areas | Primarily government-designated cities in Other Regional Areas | Less than 30% |
| C Size | Minimum Investment | Office Buildings, <u>Central Urban-Type Retail Properties</u> , Other | More than 1.0 billion yen per investment |
| | | Residential Properties | More than 0.5 billion yen per investment |
| | Maximum Investment | Investment in a single property shall not exceed 30% of the total investment portfolio after acquisition | |

Before the Change of Management Guidelines

| Investment Portfolio Target | | | Investment Ratio Target |
|-----------------------------|-------------------------|--|--|
| A Type of Use | Office Buildings | Office buildings for leasing purposes as their principal use | <u>More than 50%</u> |
| | Residential Properties | Residential properties for leasing purposes as their principal use | <u>More than 20%</u> |
| | Retail Properties | <u>Mainly central urban-type retail properties</u> located in highly flourishing districts | <u>Less than 30%</u> |
| | Other | Amusement parks, business hotels, parking, educational, medical and health care-related facilities, low-lying leasehold land and other | |
| B Area | Tokyo Metropolitan Area | Major cities in Tokyo, Kanagawa, Saitama and Chiba prefectures | More than 70% |
| | Other Regional Areas | Primarily government-designated cities in Other Regional Areas | Less than 30% |
| C Size | Minimum Investment | Office Buildings, <u>Retail Properties</u> , Other | More than 1.0 billion yen per investment |
| | | Residential Properties | More than 0.5 billion yen per investment |
| | Maximum Investment | Investment in a single property shall not exceed 30% of the total investment portfolio after acquisition | |

Investment Ratio= The subtotal of investment in each asset classification / Total acquisition price of the investment portfolio

Acquisition Price=The price only refers to the purchase price of real estate or trust beneficiary interest, and excludes the taxes and acquisition expenses.

Financial Statements

(Third Fiscal Period: From May 1, 2006 to October 31, 2006)

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Kenedix Realty Investment Corporation

Report of Independent Auditors

To the Board of Directors and Unitholders of
Kenedix Realty Investment Corporation

We have audited the accompanying balance sheets of Kenedix Realty Investment Corporation as of October 31, 2006 and April 30, 2006, and the related statements of income and retained earnings, changes in unitholders' equity, and cash flows for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation at October 31, 2006 and April 30, 2006, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.



December 7, 2006

Kenedix Realty Investment Corporation

BALANCE SHEETS

As of October 31, 2006 and April 30, 2006

In thousands of yen

| | As of October 31, 2006 | As of April 30, 2006 |
|---|------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and bank deposits | ¥ 9,488,708 | ¥ 7,843,092 |
| Rental receivables | 83,375 | 47,704 |
| Consumption tax refundable | 599,486 | 138,323 |
| Other current assets | 72,300 | 90,170 |
| Total current assets | 10,243,869 | 8,119,289 |
| Property and equipment, at cost: | | |
| Land | 91,714,229 | 52,329,667 |
| Buildings and structures | 58,684,305 | 30,980,765 |
| Machinery and equipment | 741,661 | 442,540 |
| Tools, furniture and fixtures | 612,929 | 600,118 |
| Less-accumulated depreciation | (2,033,503) | (918,354) |
| Net property and equipment | 149,719,621 | 83,434,736 |
| Other assets: | | |
| Organization costs | 35,628 | 40,717 |
| Unit Issuance costs | 88,923 | - |
| Others | 226,301 | 458,296 |
| Total assets | ¥ 160,314,342 | ¥ 92,053,038 |
| Liabilities and Unitholders' Equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Trade and other payables | ¥ 406,892 | ¥ 188,956 |
| Short-term debt | 15,000,000 | 11,500,000 |
| Deposits received | 1,748 | 4,463 |
| Rents received in advance | 767,536 | 529,895 |
| Other current liabilities | 28,287 | 16,574 |
| Total current liabilities | 16,204,463 | 12,239,888 |
| Long-term debt | 47,000,000 | 30,500,000 |
| Leasehold and security deposits received | 6,124,894 | 3,528,348 |
| Others | 51,688 | 397,786 |
| Total liabilities | 69,381,045 | 46,666,022 |
| Unitholders' equity | | |
| Unitholders' capital | 88,729,652 | 44,285,003 |
| Units Authorized: 2,000,000 units | | |
| Units Issued and outstanding: 157,000 and 79,370 units | | |
| as of October 31, 2006 and April 30, 2006, respectively | | |
| Retained earnings | 2,124,112 | 1,102,013 |
| Unrealized gain from deferred hedge transactions | 79,533 | - |
| Total unitholders' equity | 90,933,297 | 45,387,016 |
| Total liabilities and unitholders' equity | ¥ 160,314,342 | ¥ 92,053,038 |

Kenedix Realty Investment Corporation
STATEMENTS OF INCOME AND RETAINED EARNINGS

For the period from November 1, 2005 to April 30, 2006 and the period from May 1, 2006 to October 31, 2006

In thousands of yen

| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |
|--|---|--|
| Operating Revenues: | | |
| Rental revenues | ¥ 5,131,499 | ¥ 2,871,789 |
| Profit on sale of trust beneficiary interests in real estate | 157,334 | |
| Total operating revenues | 5,288,833 | 2,871,789 |
| Operating Expenses: | | |
| Property-related expenses | 2,397,202 | 1,265,552 |
| Asset management fees | 203,842 | 150,114 |
| Administrative service and custodian fees | 46,728 | 37,777 |
| Other operating expenses | 75,869 | 74,363 |
| Total operating expenses | 2,723,641 | 1,527,806 |
| Operating income | 2,565,192 | 1,343,983 |
| Non-Operating Expenses: | | |
| Interest expense | 375,765 | 164,607 |
| Financing related expense | 20,904 | 11,743 |
| Amortization of organization costs | 5,090 | 5,090 |
| Amortization of unit issuance costs | 17,785 | 55,119 |
| Others, net | 20,567 | 4,410 |
| Income before income taxes | 2,125,081 | 1,103,014 |
| Income taxes | 1,009 | 1,015 |
| Net income | 2,124,072 | 1,101,999 |
| Retained earnings at the beginning of period | 40 | 14 |
| Retained earnings at the end of period | ¥ 2,124,112 | ¥ 1,102,013 |

Kenedix Realty Investment Corporation

Statement of Changes in Unitholders' Equity

For the period from May 1, 2006 to October 31, 2006

(Thousands in Yen)

| | Unitholders' Equity | | | |
|--|-------------------------|----------------------|---|--------------|
| | Unitholders' capital | Retained earnings | Unrealized gain from deferred hedge transactions | Total |
| Balance at the beginning of a period | ¥ 44,285,003 | ¥ 1,102,013 | ¥ - | ¥ 45,387,016 |
| Changes during the fiscal period | | | | |
| New unit issuance | 44,444,649 | - | - | 44,444,649 |
| Payment of dividends | - | 1,101,973 | - | 1,101,973 |
| Net income | - | 2,124,072 | - | 2,124,072 |
| Interest-rate swap | - | - | 79,533 | 79,533 |
| Total changes during the fiscal period | 44,444,649 | 1,022,099 | 79,533 | 45,546,281 |
| Balance at the end of period | ¥ 88,729,652 | ¥ 2,124,112 | ¥ 79,533 | ¥ 90,933,297 |

(Note: The statement of changes in unitholders' equity is required to disclose from this fiscal period.)

Kenedix Realty Investment Corporation

STATEMENTS OF CASH FLOWS

For the period from November 1, 2005 to April 30, 2006 and the period from May 1, 2006 to October 31, 2006

| | In thousands of yen | |
|--|---|--|
| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |
| Cash Flows from Operating Activities: | | |
| Income before income taxes | ¥ 2,125,081 | ¥ 1,103,014 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,169,328 | 661,924 |
| Interest expense | 375,765 | 164,607 |
| Changes in assets and liabilities: | | |
| Rental receivables | (35,671) | 46,728 |
| Consumption tax refundable | (461,163) | 771,868 |
| Trade and other payables | 214,623 | (73,711) |
| Rents received in advance | 237,642 | 149,650 |
| Sale of trust beneficiary interests in real estate | 1,763,670 | - |
| Others, net | (136,387) | (137,274) |
| Subtotal | 5,252,888 | 2,686,806 |
| Cash payments of interest expense | (363,960) | (149,708) |
| Cash payments of income taxes | (1,015) | (855) |
| Net cash provided by operating activities | 4,887,913 | 2,536,243 |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (69,184,115) | (13,173,409) |
| Proceeds from leasehold and security deposits received | 2,852,843 | 772,228 |
| Payments of leasehold and security deposits received | (256,297) | (220,261) |
| Payments of restricted bank deposits | (750,424) | (82,013) |
| Proceeds from restricted bank deposits | 225,670 | 181,004 |
| Others, net | (717) | (7,489) |
| Net cash used in investing activities | (67,113,040) | (12,529,940) |
| Cash Flows from Financing Activities: | | |
| Proceeds from short-term debt | 13,000,000 | 1,500,000 |
| Payment of dividends | (11,000,000) | |
| Proceeds from long-term debt | 18,000,000 | 11,500,000 |
| Proceeds from issuance of units | 44,444,650 | - |
| Payment of dividends | (1,098,661) | (239,970) |
| Net cash provided by financing activities | 63,345,989 | 12,760,030 |
| Net change in cash and cash equivalents | 1,120,862 | 2,766,333 |
| Cash and cash equivalents at the beginning of period | 7,057,143 | 4,290,810 |
| Cash and cash equivalents at the end of period | ¥ 8,178,005 | ¥ 7,057,143 |

Kenedix Realty Investment Corporation

Notes to Financial Statements

For the period from November 1, 2005 to April 30, 2006 and the period from May 1, 2006 to October 31, 2006

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Realty Investment Corporation ("the Investment Corporation") is a real estate investment corporation whose units are listed on the Tokyo Stock Exchange. The Investment Corporation is engaged in ownership and operation of selected office buildings, residential and retail properties in Japan. The Investment Corporation was incorporated as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. Pursuant to this law, the Investment Corporation is externally managed by a licensed asset management company, Kenedix REIT Management, Inc. ("Asset Management Company"), a wholly-owned subsidiary of Kenedix, Inc. ("Kenedix")

On May 6, 2005, the Investment Corporation was originally formed with ¥200 million of initial capital contributions from Kenedix, Asset Management Company and their executives and employees. On July 20, 2005, the Investment Corporation raised ¥41,869 million of equity capital through an initial public offering of 75,000 investment units and was listed on the J-REIT section of the Tokyo Stock Exchange on the following day.

On August 1, 2005, 29 properties with an aggregate purchase price of ¥61,083 million were acquired with additional debt proceeds of ¥23,000 million and substantial operations of the Investment Corporation were commenced from that date.

On August 16, 2005, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,216 million. Subsequent to that, the Investment Corporation acquired 2 additional properties in September, 2005. During the period ended April 30, 2006, the Investment Corporation acquired 4 additional properties by utilizing internal cash and bank borrowing.

On May 1, 2006, the Investment Corporation raised ¥42,172 million of equity capital through a public offering of 73,660 investment units and 26 properties with an aggregate purchase price of ¥58,033 million were acquired with additional debt proceeds of ¥16,000 million.

On May 26, 2006, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,273 million. During the period ended October 31, 2006, the Investment Corporation sold 2 properties and acquired 5 properties.

At October 31, 2006, the Investment Corporation had total unitholders' capital of ¥88,730 million with 157,000 investment units outstanding. The Investment Corporation owned a portfolio of 64 properties with total acquisition costs of ¥146,742 million containing total leasable area of 192,085 m². The occupancy ratio was approximately 95.3%. A portfolio of 64 properties consists of 29 office buildings, 32 residential properties and 3 retail properties. 51 properties are located in the Tokyo Metropolitan Area and 13 properties are located in Other Regional Areas.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law of Japan, the Japanese Corporation Law, the Securities and Exchange Law of Japan and related regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a basically translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by the Investment Corporation and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. In preparing the accompanying financial statements, relevant notes have

been added and certain reclassifications have been made from the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation's first fiscal period began on May 6, 2005 and ended on October 31, 2005. The Investment Corporation's fiscal period is a six-month period which ends at the end of April and October of each year, respectively. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

(b) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |
|-------------------------------------|---|--|
| Buildings and structures | 2-46 years | 2-46 years |
| Machinery and equipment | 3-17 years | 3-17 years |
| Tools, furniture and fixtures | 3-15 years | 3-15 years |

(c) Impairment of Fixed Assets

Beginning the fiscal period ended October 31, 2005, the Investment Corporation adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion on Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council in Japan on August 9, 2002) and "Implementation Guidance for the Accounting Standards for Impairments of Fixed Assets" ("Financial Accounting Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard was applicable for all reporting periods beginning after April 1, 2005. The Investment Corporation has not recognized an impairment loss on any of the properties during the fiscal periods ended October 31, 2006 and April 30, 2006.

(d) Organization Costs

Organization costs are amortized over a period of five years, comprised of ten fiscal periods, with an equal amount amortized in each fiscal period.

(e) Unit Issuance Costs

Unit issuance costs are amortized over a period of three years under the straight-line method. Underwriters' commissions in connection with the issuance of unitholders' equity are offset against proceeds raised since the "Spread Method" was used for the unit issuance. Under the Spread Method, securities underwriters underwrite the units at the issue price and offer them to investors at the offer price, which is different from the issue price. The difference between the offer price and the issue price represents the underwriting commission received by the securities underwriters, eliminating the need for the issuer to pay underwriting commissions. If securities underwriters had underwritten the units at the issue price and offered the units to investors at an offer price equal to the issue price (known as the "Conventional Method"), a commission would have been incurred and it would have been expensed as new unit issuance costs. Therefore, the Spread Method understated unit issuance costs by ¥1,263 million on the balance sheet and decreased amortization of unit issuance costs by ¥253 million and increased income before income taxes on the income statement by the same amount compared to the Conventional Method for the period from May 1, 2006 through October 31, 2006.

(f) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan and through which the Investment Corporation holds all of its real property, all assets and liabilities within trust are recorded in the relevant balance sheet and income statement accounts.

(g) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenue and expense during the fiscal period, respectively.

(h) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥182 million and ¥32 million as of October 31, 2006 and April 30, 2006. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period in which the installments of such taxes are paid to the relevant tax authorities.

(i) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

(j) Derivative Financial Instruments

The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting.

(k) Rounding of Amounts Presented

Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. Changes in Accounting Policy

(a) Beginning the fiscal period ended October 31, 2006, unit issuance costs have been capitalized and amortized over a period of 3 years, although unit issuance costs were previously expensed in the period of payment. Due to a change in Accounting Rules for Investment Corporation effective on May 1, 2006 and “Tentative Solution on Accounting for Deferred Assets” (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006) issued by the Accounting Standards Board of Japan, appropriate deferred charges such as new unit issuance costs are allowed to be capitalized and being amortized over a 3 year period.

As a result of this change in accounting policy, non-operating expenses of the Investment Corporation during the current period decreased by ¥89 million yen and income before income taxes increased by the same amount compared with the amounts which would have been recorded under the previous accounting rule.

(b) Beginning the fiscal period ended October 31, 2006, the Investment Corporation adopted the new accounting standards, “Accounting

Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and its implementation guidance (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005).

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of October 31, 2006 and April 30, 2006:

| | In thousands of yen | |
|--|------------------------|----------------------|
| | As of October 31, 2006 | As of April 30, 2006 |
| Cash and bank deposits | ¥ 9,488,708 | ¥ 7,843,092 |
| Restricted bank deposits held in trust | (1,310,703) | (785,949) |
| Cash and cash equivalents | ¥ 8,178,005 | ¥ 7,057,143 |

Restricted bank deposits held in trust are retained for repayment of tenant leasehold and security deposits.

5. SCHEDULE OF PROPERTY

| | In millions of yen | | | | | |
|-------------------------------|------------------------|--------------------------|------------------|----------------------|--------------------------|-----------------|
| | As of October 31, 2006 | | | As of April 30, 2006 | | |
| | Acquisition costs | Accumulated depreciation | Book value | Acquisition costs | Accumulated depreciation | Book value |
| Land | ¥ 91,714 | ¥ - | ¥ 91,714 | ¥ 52,330 | ¥ - | ¥ 52,330 |
| Buildings and structures | 58,684 | 1,897 | 56,787 | 30,981 | 847 | 30,134 |
| Machinery and equipment | 742 | 73 | 669 | 442 | 32 | 410 |
| Tools, furniture and fixtures | 613 | 63 | 550 | 600 | 39 | 561 |
| Total | ¥ 151,753 | ¥ 2,033 | ¥ 149,720 | ¥ 84,353 | ¥ 918 | ¥ 83,435 |

6. SHORT-TERM AND LONG-TERM DEBTS

The following summarizes short-term and long term debt outstanding as of October 31, 2006 and April 30, 2006:

(As of October 31, 2006)

| Classification | Drawdown Date | Repayment Date | Weighted-average interest rate | Balance (In millions of yen) |
|---|--------------------|--------------------|--------------------------------|---------------------------------|
| Unsecured short-term debt | March 1, 2006 | February 28, 2007 | 0.69% | ¥ 500 |
| | May 1, 2006 | April 30, 2007 | 0.68% | 2,000 |
| | July 31, 2006 | July 31, 2007 | 0.68% | 4,000 |
| | September 20, 2006 | September 20, 2007 | 0.70% | 6,000 |
| | October 31, 2006 | October 31, 2007 | 0.70% | 1,000 |
| Unsecured current portion of long-term debt | November 1, 2005 | October 31, 2007 | 0.77% | 1,500 |
| Subtotal | | | | 15,000 |
| Unsecured long-term debt | August 1, 2005 | July 31, 2008 | 0.87% | 9,500 |
| | August 1, 2005 | July 31, 2010 | 1.29% | 9,500 |
| | November 1, 2005 | October 31, 2008 | 1.09% | 3,500 |
| | December 8, 2005 | December 7, 2008 | 1.10% | 2,000 |
| | March 1, 2006 | February 28, 2009 | 1.45% | 2,000 |
| | March 16, 2006 | March 16, 2009 | 1.48% | 2,500 |
| | May 1, 2006 | April 30, 2009 | 1.63% | 6,500 |
| | May 1, 2006 | April 30, 2011 | 2.20% | 2,500 |
| | May 1, 2006 | April 30, 2016 | 2.73% | 5,000 |
| | July 14, 2006 | July 13, 2011 | 2.15% | 1,000 |
| | September 1, 2006 | August 31, 2013 | 2.12% | 3,000 |
| Subtotal | | | | 47,000 |
| Total | | | | ¥ 62,000 |

7. PER UNIT INFORMATION

The net asset value per unit as of October 31, 2006 and April 30, 2006 was ¥579,192 and ¥571,840. Net income per unit as of October 31, 2006 and April 30, 2006 was ¥13,575 and ¥13,884.

The weighted average number of units outstanding of 156,460 and 79,370 was used for the computation of the amount of net income per unit as of October 31, 2006 and April 30, 2006.

8. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement it currently distribute in excess of 90% of its taxable income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed approximately 100% of its distributable income in the form of cash distributions totaling ¥2,124 million and ¥1,102 million for the periods ended October 31, 2006 and April 30, 2006. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.09% for the periods ended October 31, 2006 and April 30, 2006. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |
|-------------------------------------|---|--|
| Statutory tax rate | 39.39% | 39.39% |
| Deductible cash distributions | (39.37) | (39.35) |
| Other | 0.03 | 0.05 |
| Effective tax rate | 0.05% | 0.09% |

9. UNITHOLDERS' EQUITY

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Law. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Law.

10. RELATED-PARTY TRANSACTIONS

(a) Transactions with Kenedix Advisors Co., Ltd. ("Kenedix Advisors")

Kenedix Advisors, a wholly-owned subsidiary of Kenedix, provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix Advisors property management fees and other fees in accordance with the terms of its Property Management Agreements. Transactions with Kenedix Advisors are as follows:

| | In thousands of yen | |
|--|---|--|
| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |

| | | |
|------------------------------------|-----------|-----------|
| Property management fees | ¥ 183,464 | ¥ 104,453 |
| Management transfer fees | 66,200 | 8,400 |
| Construction management fees | 24,537 | 16,306 |

(b) Transactions with Y.K. KDX1 (“KDX1”)

KDX1 is a wholly owned subsidiary of Kenedix. On November 1, 2005, the Investment Corporation acquired additional property from KDX1 for ¥5,950 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(c) Transactions with Y.K. KDX2 (“KDX2”)

KDX2 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from KDX2 for ¥8,300 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(d) Transactions with Y.K. Lump Sum Investment (“Lump Sum”)

Lump Sum is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from Lump Sum for ¥7,100 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(e) Transactions with Y.K. KW Property10 (“KW Property10”)

KW Property10 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 2 properties from KW Property10 for ¥4,426 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(f) Transactions with Y.K. KW Property5 (“KW Property5”)

KW Property5 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 7 properties from KW Property5 for ¥7,310 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(g) Transactions with Y.K. KDX3 (“KDX3”)

KDX3 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 1 property from KDX3 for ¥3,680 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

11. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the periods from May 1, 2006 to October 31, 2006 and from November 1, 2005 to April 30, 2006 consist of the following:

| | In thousands of yen | |
|---|---|--|
| | From May 1, 2006 to October 31, 2006 | From November 1, 2005 to April 30, 2006 |
| Rental and other operating revenues: | | |
| Rental revenues | ¥ 3,908,749 | ¥ 2,220,814 |
| Common area charges | 640,707 | 353,853 |
| Subtotal | 4,549,456 | 2,574,667 |
| Others: | | |
| Parking space rental revenues | 175,387 | 86,129 |
| Utility charge reimbursement | 314,355 | 152,653 |
| Miscellaneous | 92,301 | 58,340 |
| Subtotal | 582,043 | 297,122 |
| Total rental and other operating revenues | ¥ 5,131,499 | ¥ 2,871,789 |
| Property management fees and facility management fees | | |
| Depreciation | 1,135,559 | 650,193 |
| Utilities | 296,833 | 146,890 |
| Taxes | 179,543 | 9,328 |
| Insurance | 13,979 | 8,621 |
| Repairs and maintenance | 62,666 | 55,117 |
| Trust fees | 43,761 | 21,337 |
| Others | 135,527 | 51,650 |
| Total property-related expenses | ¥ 2,397,202 | ¥ 1,265,552 |

12. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease term of generally two years for office buildings and residential properties and with lease term ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2006 and April 30, 2006 are as follows:

| | In thousands of yen | |
|---------------------------|------------------------|----------------------|
| | As of October 31, 2006 | As of April 30, 2006 |
| Due within one year | ¥ 1,266,416 | ¥ 811,080 |
| Due after one year | 9,709,697 | 3,273,632 |
| Total | ¥ 10,976,113 | ¥ 4,084,712 |

13. DERIVATIVES AND HEDGE ACCOUNTING

The Investment Corporation has entered into interest-rate swap agreements with several Japanese financial institutions to hedge its variable rate long-term debt obligations. The Investment Corporation utilizes interest-rate swap agreements, which are derivative financial instruments, only for the purpose of mitigating future risks of fluctuations of interest rates, but does not enter into such transactions for speculative or trading purposes. The Investment Corporation entered into such derivative transactions to hedge risk in accordance with its Articles of Incorporation and the established risk management policies of the Asset Management Company.

The following summarizes the notional amounts and the estimated fair value of the interested-related positions outstanding as of October 31, 2006:

| Type | Notional amount | (As of October 31, 2006) |
|--|-----------------|--------------------------|
| | | Fair value |
| Interest-rate swap: Fixed rate payable and floating rate receivable | ¥37,300 million | ¥131 million |

14. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2006 were as follows:

| Type | Office Buildings | | Residential Properties | | Retail Properties | |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
| Location | Tokyo Metropolitan Area | Other Regional Areas | Tokyo Metropolitan Area | Other Regional Areas | Tokyo Metropolitan Area | Other Regional Areas |
| Number of properties | 25 | 4 | 24 | 8 | 2 | 1 |
| Property information (In millions of yen) | | | | | | |
| Acquisition price | ¥ 76,054 | ¥ 10,170 | ¥ 34,888 | ¥ 9,571 | ¥ 12,379 | ¥ 3,680 |
| Percentage of total acquisition costs | 51.8% | 6.9% | 23.8% | 6.5% | 8.4% | 2.5% |
| Net book value | 77,200 | 10,225 | 35,859 | 10,040 | 12,698 | 3,698 |
| Appraisal value at year end | 81,777 | 10,380 | 35,764 | 9,772 | 13,860 | 3,760 |
| Percentage of total appraisal value | 52.7% | 6.7% | 23.0% | 6.3% | 8.9% | 2.4% |
| Financial results for the period ended October 31, 2006 (In thousands of yen) | | | | | | |
| Rental and other operating revenues | ¥ 2,743,043 | ¥ 533,037 | ¥ 1,072,316 | ¥ 312,697 | ¥ 362,406 | ¥ 108,000 |
| Rental revenues | 2,398,817 | 434,607 | 1,004,999 | 272,643 | 330,391 | 108,000 |
| Other revenues | 344,226 | 98,430 | 67,317 | 40,054 | 32,015 | - |
| Property-related expenses | 663,594 | 195,170 | 207,365 | 108,647 | 81,251 | 5,616 |
| Property management fees | 272,674 | 104,711 | 86,485 | 34,810 | 26,361 | 4,294 |
| Taxes | 101,026 | 28,595 | 20,124 | 10,367 | 19,535 | - |
| Utilities | 209,547 | 44,868 | 12,539 | 6,892 | 22,987 | - |
| Repairs and maintenance | 25,913 | 7,804 | 16,125 | 11,292 | 1,533 | - |
| Insurance | 5,686 | 3,346 | 2,755 | 1,623 | 447 | 122 |
| Trust fees and other expenses | 48,748 | 5,846 | 69,337 | 43,663 | 10,388 | 1,200 |
| NOI (Net Operating Income) | 2,079,449 | 337,867 | 864,951 | 204,050 | 281,155 | 102,384 |
| Depreciation expenses | 504,629 | 176,661 | 282,575 | 94,018 | 67,820 | 9,856 |
| Operating income from property leasing activities | 1,574,820 | 161,206 | 582,376 | 110,032 | 213,335 | 92,528 |
| Capital expenditures | 431,691 | 63,878 | 72,176 | 77,990 | 9,803 | - |
| NCF (Net Cash Flow) | 1,647,758 | 273,989 | 792,775 | 126,060 | 271,352 | 102,384 |

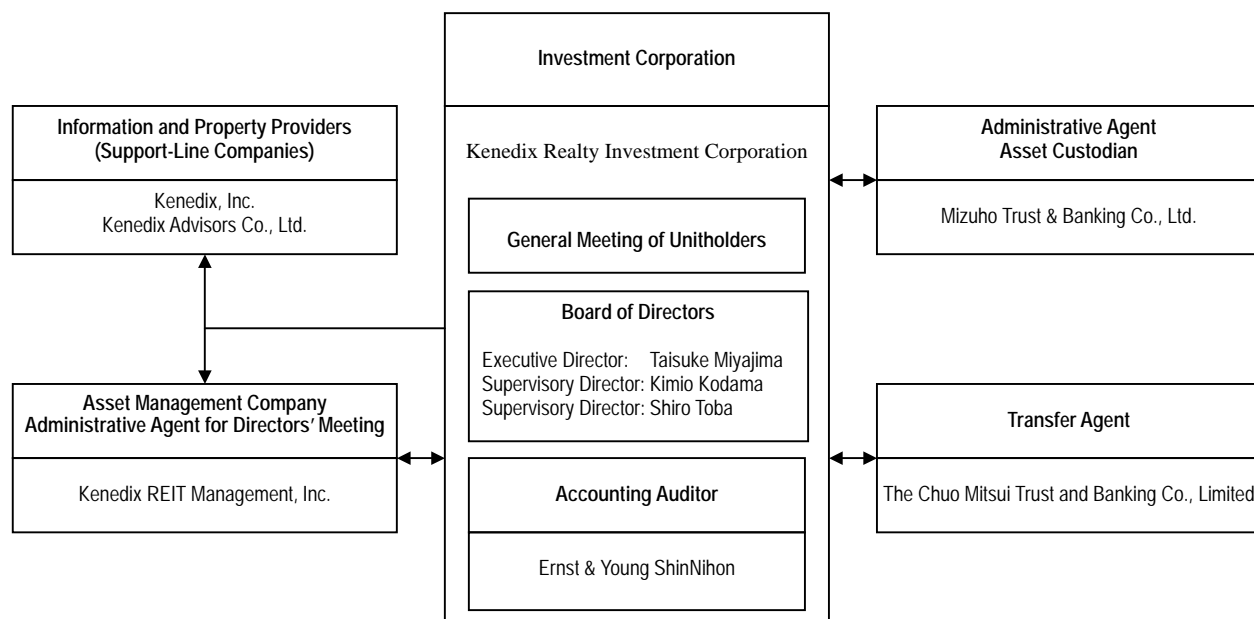
A breakdown of property-type as of October 31, 2006 was as follows:

| Class of assets | Property type | Area | Balance at the end of period (In millions of yen) | Percentage of total assets |
|--------------------------------|------------------------|-------------------------|--|----------------------------|
| Property and equipment | Office Buildings | Tokyo Metropolitan Area | ¥ 77,200 | 48.2 |
| | | Other Regional Areas | 10,225 | 6.4 |
| | Subtotal | | 87,425 | 54.6 |
| | Residential Properties | Tokyo Metropolitan Area | 35,859 | 22.4 |
| | | Other Regional Areas | 10,040 | 6.3 |
| | Subtotal | | 45,899 | 28.7 |
| | Retail Properties | Tokyo Metropolitan Area | 12,698 | 7.9 |
| | | Other Regional Areas | 3,698 | 2.3 |
| | Subtotal | | 16,396 | 10.2 |
| Total | | | 149,720 | 93.4 |
| Bank deposits and other assets | | | 10,594 | 6.6 |
| Total assets | | | 160,314 | 100.0 |
| Total liabilities | | | 69,381 | 43.3 |
| Net assets | | | ¥ 90,933 | 56.7 |

Management Report

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Structure of Investment Corporation



Asset Management Agreement / Operating Agency Agreement
 Administrative Agency Agreement / Asset Custodian Agreement
 Transfer Agency Agreement
 Memorandum of Understanding with Kenedix, Inc. and Kenedix Advisors Co., Ltd.

Board of Directors

The members of our board of directors are as follows:

Taisuke Miyajima

Taisuke Miyajima has been our executive director since May 2005. In 1985, he joined Mitsubishi UFJ Trust and Banking Corporation (formerly The Mitsubishi Trust and Banking Corporation) where he gained about a decade of business experience in a number of positions within the company, including its Capital Markets Department. He joined Kenedix (formerly Kennedy-Wilson Japan Co., Ltd.) in 1998, and was seconded to the Asset Management Company in 2004 where he became chief executive officer and president. Prior to serving as our executive director, he transferred his employment to the Asset Management Company in 2005, continuing to serve in the same position. He has obtained approval from the Commissioner of the Finance Services Agency for holding concurrent positions with us and the Asset Management Company pursuant to Article 13 of the Investment Trust Law, as of April 18, 2005. Taisuke Miyajima holds 20 of our units.

Kimio Kodama

Kimio Kodama has been a supervisory director since May 2005. He was admitted to the Japanese bar in 1963 and is a general practitioner of Japanese law. He established Hanzomon Sogo Law Office (formerly Towa Law Office) in 1966. He has been a director of Kyoritsu Women's Educational Institution since 1997 and served as a director for The Housing Loan Guarantee Corporation since 1998.

Shiro Toba

Shiro Toba has been a supervisory director since May 2005. He joined Misuzu Audit Corporation (formerly Chuo Shinko Audit Corporation) in 1989 and became a Japanese certified public accountant in 1993. Prior to being certified as a tax accountant in 2002, he established Toba Public Accounting Office in 1997. He has been serving as a representative director of Minori Accounting Co., Ltd. since January 2005 and as a director of BTK Solution Co., Ltd. since March 2005.

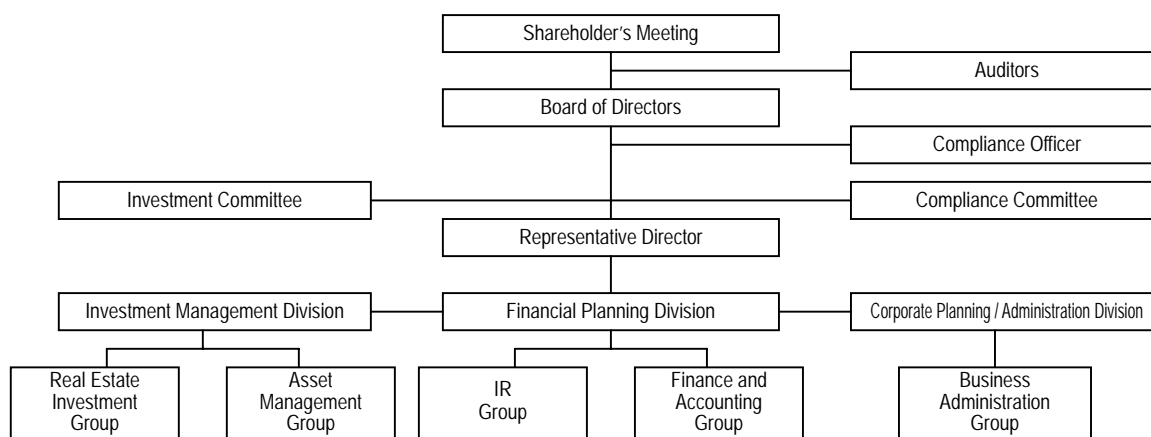
Outline of the Asset Management Company

Name: Kenedix REIT Management, Inc.

Capital: ¥200 million

History: November 28, 2003 KW REIT Management was established
 July 2, 2004 Building Lots and Buildings Transaction Business License, License No. (1) 83303, issued by the Governor of Tokyo
 November 9, 2004 Renamed to Kenedix REIT Management, Inc.
 February 28, 2005 Discretionary Transaction Agent License, License No. 33, issued by the Governor of Tokyo
 April 18, 2005 Investment Corporation/Asset Management License, License No. 44, granted by the Prime Minister of Japan
 April 26, 2005 Obtained approval to be Operating Agent for the Investment Corporation

Organization Chart:



Principal Shareholder:

| Name | Location | Number of Stocks Owned | Ratio (Note) |
|---------------|------------------------------------|------------------------|--------------|
| Kenedix, Inc. | 2-2-9, Shimbashi, Minato-ku, Tokyo | 6,450 units | 100.00% |

(Note) Ratio represents the number of stocks owned in proportion to the total number of outstanding stocks.

The Kenedix Group

The Kenedix Group is made up of leading providers of real estate advisory services, real estate asset and property management services and real estate investment management services in Japan. Since our formation, which was promoted by Kenedix, Inc. ("Kenedix"), we have received significant support from the Kenedix Group in our business and activities, and we expect to continue to rely on the Kenedix Group. We believe that our relationship with the Kenedix Group provides us with competitive advantages.

- **Kenedix, Inc.** Kenedix was originally founded in April 1995 under the name of Kennedy-Wilson Japan and renamed to Kenedix, Inc. in May 2005. Kenedix commenced property fund management in February 1999. Kenedix commenced managing property funds for major Japanese insurance companies in July 2001 and was listed on NASDAQ Japan (now Nippon New Market-Hercules) of the Osaka Securities Exchange Co., Ltd. in February 2002. Kenedix entered the real estate development business in August 2002 and commenced managing property funds for pension funds in November 2003. Kenedix was listed on the Second Section of the Tokyo Stock Exchange in December 2003 and moved to the First Section in December 2004. The core businesses of Kenedix include real estate investment advisory, asset management and note investment management, including on behalf of international investors, pension funds and other institutional investors. Kenedix primarily targets investment in office buildings, in addition to residential, retail and logistics properties, while actively engaging in real estate development for investment. We believe we benefit from the experience and resources of Kenedix and the competitive advantages of our relationship with Kenedix as an independent real estate management company.

- **Kenedix REIT Management, Inc.** Kenedix REIT Management, Inc. ("Asset Management Company") acts as our asset management company, and is broadly responsible for the formulation and execution of our investment strategy and our other activities. The Asset Management Company's employees have diverse experience in the real estate and financial markets in Japan, including experience in real estate appraisal and securities analysis. We seek to take advantage of the knowledge and experience of the Asset Management Company and its employees in the real estate market to help us locate and acquire properties that fit our investment strategy.

- **Kenedix Advisors Co., Inc.** Kenedix Advisors Co., Inc. ("Kenedix Advisors") was incorporated in November 2003 as a real estate fund and property management company, particularly for pension funds. Kenedix Advisors was renamed from KW Pension Fund Advisors Co., Ltd. in May 2005 and is a 100% subsidiary of Kenedix. We have appointed Kenedix Advisors as our property manager for all of our properties. Kenedix Advisors also acts as a leasing management company for most of our properties pursuant to variable pass-through master lease agreements described in this report.

We and the Asset Management Company are parties to a "Memorandum of Understanding" with Kenedix and Kenedix Advisors dated May 31, 2005. The Memorandum of Understanding provides us with certain assurances from Kenedix and Kenedix Advisors with respect to information, negotiation rights and other support for the acquisition of properties.

Memorandum of Understanding with Kenedix and Kenedix Advisors

We entered into a Memorandum of Understanding with Kenedix, Kenedix Advisors and the Asset Management Company on May 31, 2005. The Memorandum of Understanding has a term of three years, which is automatically renewed for successive one-year periods unless any of the parties notifies the other parties of its intent to terminate the Memorandum of Understanding at least 90 days prior to the expiration of the term. We have no current intention, and are not aware of any current intention of the Asset Management Company, Kenedix or Kenedix Advisors, to terminate the Memorandum of Understanding.

Support from Kenedix

Pursuant to the Memorandum of Understanding, Kenedix has agreed to provide support to us in the following areas:

- ***Second Preference to Property Information Acquired by Kenedix.***

When Kenedix receives information regarding any available property, including properties under development, which, in its reasonable opinion, meets the investment criteria of any of the real estate investment funds in which the major investors are pension funds to which Kenedix Advisors serves as asset management company (the "Pension Funds"), Kenedix, unless otherwise prohibited by laws or regulations or contracts to which it is a party, has agreed to preferentially provide information on such property to Kenedix Advisors. Kenedix has agreed to grant the Asset Management Company preference in information regarding any available property which, in its reasonable opinion, meets our investment criteria but (i) does not meet the investment criteria of any Pension Funds, or (ii) in its reasonable judgment, made after providing such information on such property to Kenedix Advisors, is difficult to sell to a Pension Fund. Until Kenedix becomes capable of reasonably determining that it is difficult to sell such property to a Pension Fund or us, Kenedix agrees not to provide such information to third parties or to acquire the property for itself.

• ***Second Preference Negotiating Rights for Kenedix Property.***

In the event that Kenedix disposes of a property that it owns or that is owned by one of its subsidiaries or a fund fully financed by Kenedix or one of its subsidiaries (a "Kenedix Property") and, in its reasonable opinion, meets the investment criteria of a Pension Fund, Kenedix, unless otherwise prohibited by laws or regulations or contracts to which it is a party, has agreed to grant Kenedix Advisors preferential negotiating rights for such property. Kenedix will grant the Asset Management Company preferential negotiating rights for a Kenedix Property which, in its reasonable opinion, meets our investment criteria and (i) does not meet the investment criteria of any Pension Funds, or (ii) no Pension Fund has agreed to purchase during the period for its preferential negotiating rights. In the event that Kenedix and the Asset Management Company do not reach an agreement for purchase and sale of such property during the negotiation period, Kenedix may offer such property to a third party upon giving notice to the Asset Management Company. If the terms proposed by such third party are no more favorable to Kenedix than those proposed by Kenedix Advisors or the Asset Management Company, Kenedix will offer an option to Kenedix Advisors or the Asset Management Company to consider purchasing such property on such terms for a Pension Fund or us, respectively.

• ***Information on Property Owned by Kenedix Private Placement Funds.***

In the event that Kenedix disposes of a property which is owned by a real estate investment fund for which it serves as asset management company (excluding any fund referred to in the immediately preceding paragraph) and, in its reasonable opinion, meets the investment criteria of a Pension Fund or us, Kenedix will, unless otherwise prohibited by laws or regulations or contracts to which it is a party, provide information on such property to Kenedix Advisors and the Asset Management Company no later than such time as Kenedix provides such information to third parties.

• ***Property Acquisition Support.***

The Asset Management Company may request Kenedix to purchase and hold a property owned by a third party, with a view to reselling it to us. In the event that Kenedix has accepted such a request and purchased the property directly or indirectly through its subsidiaries, we are granted a first option to purchase such property for one year following the acquisition, and Kenedix may not offer such property to any party other than the Asset Management Company during such period.

Support from Kenedix Advisors

Pursuant to the Memorandum of Understanding, Kenedix Advisors has agreed to provide support to us in the following areas:

• ***Property Information Acquired by Kenedix Advisors.***

When Kenedix Advisors receives information regarding any available property which, in its reasonable opinion, does not meet the investment criteria of any Pension Funds but meets our investment criteria, Kenedix Advisors, unless otherwise prohibited by laws or regulations or contracts to which it is a party, agrees to preferentially provide information on such property to the Asset Management Company. Until such time that Kenedix Advisors reasonably determines that it is difficult to sell such property to us, Kenedix Advisors agrees not to provide such information to third parties.

• ***Preferential Negotiating Rights for Property Owned by Pension Funds.***

In the event that Kenedix Advisors disposes of a property which is owned by a Pension Fund, Kenedix has agreed, upon the request of Kenedix Advisors, to find, negotiate a sale with, and arrange for the delivery of the property to a buyer. If Kenedix Advisors reasonably determines that such property meets our investment criteria, it has agreed, unless otherwise prohibited by laws or regulations or contracts to which it is a party, to grant the Asset Management Company preferential negotiating rights for such property. In the event that Kenedix Advisors and the Asset Management Company do not reach an agreement for the purchase and sale of the property during the negotiation period, Kenedix Advisors may offer such property to a third party upon giving notice to the Asset Management Company. If the terms proposed by such third party are no more favorable to Kenedix Advisors than those proposed by the Asset Management Company, Kenedix Advisors has agreed to offer an option to the Asset Management Company purchase such property on such terms for us.

Policies with Respect to Certain Activities

Basic Policies

We seek to achieve our investment objective within the framework of the following basic policies, which are reflected in our articles of incorporation as follows:

- We will invest, directly or indirectly, primarily in office buildings, residential and retail properties located in the Tokyo Metropolitan Area including major cities in Tokyo, Kanagawa, Saitama and Chiba prefectures and Other Regional Areas throughout Japan, including government-designated cities (or *seirei shitei toshi*; cities designated by government ordinance and authorized to perform many of the functions normally performed by prefectures), through specified assets.
- We will conduct an investigation and a comprehensive review of all relevant information regarding any prospective acquisition target, such as anticipated future revenues from such property, potential of the area in which such property is located, construction specifications, equipment, estimated earthquake resistance, state of maintenance, environmental and geological features, and related rights attached to such property.
- We will maintain the percentage of the value of our specified real estate assets relative to the value of our specified assets at 75% or more at any time. Specified real estate assets refers to real estate, real estate leasing rights, surface rights, and beneficiary interests in trusts which hold real estate, land leasing rights or surface rights.
- We will maintain the percentage, calculated in accordance with the ordinance of the Ministry of Finance issued under Article 67-15, Paragraph 9 of the Special Taxation Measures Law, of the value of our real estate assets relative to the total value of our assets at 75% or more at any time.

Other Policies

We and the Asset Management Company have developed additional policies with respect to our activities. These policies, to the extent that they are not addressed in our articles of incorporation, may be amended or revised from time to time without a vote of our unitholders. These policies are not binding and are intended to guide the implementation of our investment objective and management of our operations. The Asset Management Company has broad discretion to develop our business strategies and to manage our operations. At any given time, our business operations or the characteristics of our property portfolio may not be fully consistent with these policies.

Portfolio Management Policies

We have portfolio management policies focusing on developing and maintaining a portfolio that seeks to achieve stable revenues and distributions.

Types of Properties. We divide property acquisition targets into one of three functional types of properties: office buildings, focusing on mid-sized office buildings, residential properties and central urban-type retail properties.

Geographic Diversification. Our geographic investment focus is on properties located in the Tokyo Metropolitan Area, including major cities in Tokyo, Kanagawa, Saitama, and Chiba prefectures, with an emphasis on Central Tokyo consisting of the Chiyoda, Chuo, Minato, Shibuya and Shinjuku wards. A portion of our investment portfolio is also located in Other Regional Areas (primarily government-designated cities or major regional hub cities) with the aim of ensuring portfolio diversification and minimizing risks associated with changes in economic and real estate market conditions, earthquakes, typhoons and other natural disasters, and uneven population distribution among regions.

Size and Value of Property. Our general policy for the value of investment properties is to purchase office buildings and retail properties with a minimum value of ¥1 billion with a total investment value of a single property not to exceed 30% of the total investment portfolio. We seek to purchase residential properties with a minimum value of ¥0.5 billion. The total floor area at an office building or a retail property should be more than 1,000 square meters. Our investment targets in residential properties are single-type, compact-type, family-type and prestige-type residential properties. Single type properties consist of small apartments mainly for one person between 20-30m² and have at least 20 units per building. Compact type properties consist of larger apartments mainly for one or two people over 30m² and have at least 15 units per building. Family type properties consist of apartments mainly for three or more people over 60m² and have at least 15 units per building. Prestige type properties consist of apartments mainly for high income families and executives of over 100m² and have at least 5 units per building.

Tenant Characteristics. We make investment decisions based on a tenant's attributes, credibility, line of business, purpose of use, lease terms and conditions, and possible turnover.

Portfolio Goals. Based on our focus on properties in the Tokyo Metropolitan Area as described above, the Asset Management Company decides on specific portfolio targets with respect to our investments. The policy takes into account general economic conditions, real estate

market conditions, interest rate trends, population shifts, and other factors, with the aim of realizing our basic investment objective. In the event of a significant change in economic, real estate market or other conditions, however, this portfolio management policy is reviewed and amended as and when considered appropriate by the Asset Management Company.

The Asset Management Company has set non-binding portfolio composition boundaries as general aspirations with respect to our investment activities. These may change from time to time. The Asset Management Company has set a broad framework for a portfolio consisting of 50%-100% office buildings, 0-30% residential properties and 0-20% central urban-type retail properties. In terms of location, the policy calls for 70% or more of our properties to be located in the Tokyo Metropolitan Area with the remainder in Other Regional Areas. However, at any given time, our actual property portfolio may not reflect these given goals.

Compliance with Certain Japanese Tax Law Matters

We intend to manage our investments in such a manner as to qualify for lower property registration and acquisition taxes and for deductibility of distributions to our unitholders under Japanese tax laws applicable to J-REITs.

Other Investments

We may, through the Asset Management Company, make investments other than as previously described, although we do not currently intend to do so. We are permitted to make certain investments other than real estate-related investments within the restrictions imposed by the Tokyo Stock Exchange's J-REIT listing rules and the Investment Trusts Association's J-REIT rules and our articles of incorporation. For example, we are permitted to invest in securities issued in connection with real estate securitizations under Japanese law.

Our articles of incorporation prohibit us from investing in foreign real estate, assets or securities backed by foreign real estate and assets denominated in foreign currency.

Our Investment Guidelines set forth that in principle, investment properties are acquired from a medium- and long-term prospective, and assets are not acquired for short-term buying and selling. Short-term herein means a period of less than 1 year, medium-term means a period of more than 1 year to less than 5 years, and long-term means a period of more than 5 years.

Cash Management

Although our articles of incorporation allow us to invest surplus funds in low-risk negotiable securities and monetary claims, we do not intend to make investments in securities and monetary claims for the purpose of cash management. Surplus funds may be used for acquisition of investment properties and capital expenditures, working capital, distribution payment, and payment of obligations including repayment of tenant leasehold and security deposits and borrowings as well as redemption of bonds.

Financial Policy

We borrow only from qualified institutions as defined in the Securities and Exchange Law of Japan (assuming that our tenant leasehold and security deposits are not loans for such purposes). All of our current borrowings are unsecured, provided that we maintain certain financial ratios. We currently do not have any outstanding guarantees. By financing our property acquisitions only after we identify specific properties for potential purchase, we seek to limit the amount of our cash and cash equivalents for which we have no immediate use.

In general, we seek to keep the aggregate amount of our borrowings (excluding tenant leasehold and security deposits) at 60% or less of the value of our total assets. We may, however, exceed that percentage from time to time, for example, as a result of financing acquisitions of additional properties through borrowings instead of equity.

We seek to raise long-term debt capital in longer terms, including debt with maturities over 5 years, in order to extend our average maturities and lower refinancing risk by spreading principal repayments over fiscal periods. In this manner, we seek to create a relatively stable debt financing program.

Depending on market conditions, our financing needs for particular acquisitions or our general liquidity requirements, we may make various types of bank borrowings—fixed or variable interest, short-term or long-term—and also obtain bank lines of credit. We may also issue debt in the capital markets. We may enter into interest hedging transactions, such as interest options and swaps, in order to minimize market and interest rate risks with respect to our borrowings.

We may, by resolution of our board of directors and without unitholder approval, issue additional units in any manner and in such terms and for such consideration as we deem appropriate, subject to the provisions of the Investment Trust Law. Existing unitholders have no preemptive right to purchase units issued in any offering, and any such offering might cause dilution of a unitholder's investment in us.

Our Investment Objective and Strategy

Our investment objective is to secure, in the medium to long term, relatively stable distributions for our unitholders through investment in real estate and interests in real estate. We seek to achieve our investment objective through the following strategies:

Seek Stable Portfolio Growth through Diversified Property Investments

We seek to expand our property portfolio over time by acquiring a diversified range of office buildings, residential and central urban-type retail properties in major metropolitan areas in Japan, with particular emphasis on the Tokyo Metropolitan Area. We believe that improved conditions in real property markets in major urban areas, including stabilizing property values, falling vacancy ratios and greater transaction volume, create a favorable environment for expanding our portfolio. To capitalize on this environment, we are currently focusing our acquisition efforts on mid-sized office buildings in the Tokyo Metropolitan Area, in particular Central Tokyo, and central urban-type retail properties in flourishing commercial districts as an alternative to investment in office buildings. We believe that our diversified strategy gives us the flexibility to take advantage of a range of market opportunities to acquire a diverse portfolio of attractive properties, while lowering our overall portfolio risk and differentiating us from other J-REITs.

Leverage Relationship with the Kenedix Group

We believe that we have a strong relationship with the Kenedix Group, which has broad expertise and experience in real property investment and management in Japan. We intend to continue to draw on the expertise and experience of the Kenedix Group and its employees to help us locate and acquire attractive properties and increase their value through active property management. We refer to our portfolio in our marketing activities as "*KENEDIX Selection*", to emphasize the importance of the Kenedix Group in the selection and management of our properties.

Increase Revenues and the Value of Properties that We Acquire through Active Property Management

A key part of our strategy is to increase unitholder value through focused and proactive management of our properties. We intend for the Asset Management Company and Kenedix Advisors, working with on-site property managers, to develop and implement strategies to increase property revenues and value. Key components of our property management strategies include flexible and focused leasing activities that are geared toward particular tenant needs and market trends, careful control of management and operating costs, and achieving efficiencies by centralizing appropriate aspects of property management.

Distributions

In order to maintain our favorable tax treatment available to J-REITs under the Special Taxation Measures Law of Japan, we must distribute in excess of 90% of our distributable income as defined in the Special Taxation Measures Law, which differs slightly from retained earnings under Japanese GAAP. Our articles of incorporation require that we make cash distributions in at least this amount. Our articles of incorporation permit us to distribute cash to our unitholders in excess of retained earnings up to the maximum amount calculated in accordance with the standards set by the Investment Trusts Association of Japan, which set forth that a closed-end J-REIT, such as us, may distribute up to 60% of its depreciation expense in excess of net income as a return of capital, in the event that its retained earnings are less than 90% of its distributable income as defined in the Special Taxation Measures Law, if it determines that it is appropriate to do so.

However, if such maximum amount is still below 90% of our distributable income as defined in the Special Taxation Measures Law, our articles of incorporation further permit us to make distributions in the amount we determine to satisfy the requirements to maintain our favorable tax treatment under the Special Taxation Measures Law. In any event, our articles of incorporation permit us to make distributions in at least the amounts required in order to maintain our favorable tax treatment under the Special Taxation Measures Law.

However, any distribution in excess of retained earnings is likely to create complex Japanese tax issues, especially for individual Japanese resident unitholders. Accordingly, we do not intend to distribute any such excess amounts in the absence of appropriate changes in Japanese tax law that address these Japanese tax issues.

Distribution Performance

| Fiscal Period | First Fiscal Period | Second Fiscal Period | Third Fiscal Period |
|---|---------------------------------|------------------------------------|---------------------------------|
| Duration of Period | May 6, 2005 to October 31, 2005 | November 1, 2005 to April 30, 2006 | May 1, 2006 to October 31, 2006 |
| Unappropriated Retained Earnings | ¥242,251,377 | ¥1,102,013,492 | ¥2,124,112,014 |
| Retained Earnings for the next fiscal period | ¥14,137 | ¥40,412 | ¥59,014 |
| Cash Distributions (Distribution per unit) | ¥242,237,240 (¥3,052) | ¥1,101,973,080 (¥13,884) | ¥2,124,053,000 (¥13,529) |
| Earnings Distributed (Earnings Distributed per unit) | ¥242,237,240 (¥3,052) | ¥1,101,973,080 (¥13,884) | ¥2,124,053,000 (¥13,529) |
| Payments for capital participations (Payments for capital participations per unit) | - (-) | - (-) | - (-) |

Movements in Investment Units Issued and Outstanding

Movements in unitholders' capital and the number of investment units issued and outstanding until the end of the third fiscal period are summarized in the following table.

| Settlement Date | Particulars | Investment Units Issued and Outstanding (Units) | | Unitholders' Capital (Millions of Yen) | | Remarks |
|-----------------|------------------------|---|---------|--|---------|----------|
| | | Increase (Decrease) | Balance | Increase (Decrease) | Balance | |
| May 6, 2005 | Private placement | 400 | 400 | 200 | 200 | (Note 1) |
| July 20, 2005 | Public offering | 75,000 | 75,400 | 41,868 | 42,068 | (Note 2) |
| August 16, 2005 | Third-party allocation | 3,970 | 79,370 | 2,216 | 44,285 | (Note 3) |
| May 1, 2006 | Public offering | 73,660 | 153,030 | 42,171 | 86,456 | (Note 4) |
| May 26, 2006 | Third-party allocation | 3,970 | 157,000 | 2,272 | 88,729 | (Note 5) |

Notes:

1. The Investment Corporation was established with an offer price of ¥500,000 per unit.
2. The Investment Corporation undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties. The offer price was ¥580,000 per unit with an underwritten price of ¥558,250 per unit.
3. The Investment Corporation undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the acquisition of investment properties. The issue price was ¥558,250 per unit.
4. The Investment Corporation undertook an additional issue of new investment units (public offering) with the aim of procuring funds for the acquisition of investment properties. The offer price was ¥593,096 per unit with an issue price of ¥572,519 per unit.
5. The Investment Corporation undertook an additional issue of new investment units by way of third-party allotment with the aim of procuring funds for the acquisition of investment properties. The issue price was ¥572,519 per unit.

Trends of Investment Unit Certificate Price on the Tokyo Stock Exchange

High and low trading prices for the Investment Corporation's investment units during the first and second fiscal period as traded on the REIT market of the Tokyo Stock Exchange were as follows:

| Period | First Fiscal Period | Second Fiscal Period | Third Fiscal Period |
|----------------------|---------------------|----------------------|---------------------|
| End of Fiscal Period | October 31, 2005 | April 30, 2006 | October 31, 2006 |
| High Price | ¥618,000 | ¥670,000 | ¥636,000 |
| Low Price | ¥573,000 | ¥574,000 | ¥564,000 |

The Main Investors of the Investment Corporation

The main investors of the Investment Corporation as of October 31, 2006 are as follows.

| Name | Address | Number of Investment Units owned | Ratio (%) |
|---|--|----------------------------------|-----------|
| Japan Trustee Services Bank, Ltd. (trust account) | 1-8-11, Harumi, Chuo-ku, Tokyo | 13,672 | 8.71 |
| Nikko Cititrust and Banking Co. (investment trust account) | 2-3-14, Higashi-Shinagawa, Shinagawa-ku, Tokyo | 12,055 | 7.67 |
| Goldman Sachs International | 6-10-1, Roppongi, Minato-ku, Tokyo | 8,945 | 5.69 |
| Trust & Custody Services Bank, Ltd. (securities investment trust account) | 1-8-12, Harumi, Chuo-ku, Tokyo | 8,145 | 5.18 |
| Kenedix, Inc. | 2-2-9, Shimbashi, Minato-ku, Tokyo | 7,850 | 5.00 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2-11-3, Hamamatsucho, Minato-ku, Tokyo | 7,029 | 4.47 |
| State Street Bank and Trust Company | 6-7, Kabutocho, Nihonbashi Chuo-ku, Tokyo | 4,018 | 2.55 |
| Resona Bank, Ltd. | 2-2-1, Bingo-machi, Chuo-ku, Osaka | 3,260 | 2.07 |
| The Jyoy Bank, Ltd. | 2-11-13, Hamamatsucho, Minato-ku, Tokyo | 3,183 | 2.02 |
| Sumitomo Mitsui Banking Corporation | 1-1-2, Yurakucho, Chiyoda-ku, Tokyo | 2,542 | 1.61 |
| | Total | 70,702 | 45.03 |

Note : Figures for ratio of investment units owned have been rounded down to the second decimal place.

Debt Financing

Debt financing on a financial institution basis as of October 31, 2006 are as follows.

| Classification | Lender | Drawdown Date | Balance at the End of Previous Period (Millions of Yen) | Balance at the End of current Period (Millions of Yen) | Interest Rate (Note 1) | Repayment Date | Payment Method | Usage | Remarks |
|-----------------|--|--------------------|---|--|------------------------|--------------------|------------------|----------|-------------------------|
| Short-Term Loan | Aozora Bank, Ltd. | August 1, 2005 | 2,000 | - | 0.434 | July 31, 2006 | Full on maturity | (Note 2) | Unsecured/ Unguaranteed |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | | 1,000 | - | | | | | |
| | Resona Bank, Ltd. | | 500 | - | | | | | |
| | Mitsubishi UFJ Trust and Banking Corporation | | 500 | - | | | | | |
| | The Chuo Mitsui Trust and Banking Co., Ltd. | September 21, 2005 | 3,000 | - | 0.471 | September 20, 2006 | | | |
| | Sumitomo Mitsui Banking Corporation | | 1,000 | - | | | | | |
| | Aozora Bank, Ltd. | | 1,000 | - | | | | | |
| | Resona Bank, Ltd. | | 1,000 | - | | | | | |
| | Mitsubishi UFJ Trust and Banking Corporation | November 1, 2005 | 1,000 | - | 0.538 | October 31, 2006 | | | |
| | Sumitomo Mitsui Banking Corporation | March 1, 2006 | 500 | 500 | 0.541 | February 28, 2007 | | | |
| | Sumitomo Mitsui Banking Corporation | May 1, 2006 | - | 1000 | 0.520 | April 30, 2007 | | | |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | | - | 1000 | | | | | |
| | Aozora Bank, Ltd. | July 31, 2006 | - | 2,000 | 0.670 | July 31, 2007 | | | |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | | - | 1,000 | | | | | |
| | Resona Bank, Ltd. | | - | 500 | | | | | |
| | Mitsubishi UFJ Trust and Banking Corporation | | - | 500 | | | | | |
| | The Chuo Mitsui Trust and Banking Co., Ltd. | September 20, 2006 | - | 3,000 | 0.645 | September 20, 2007 | | | |
| | Aozora Bank, Ltd. | | - | 2,000 | | | | | |
| | Resona Bank, Ltd. | | - | 1,000 | | | | | |
| | Mitsubishi UFJ Trust and Banking Corporation | | - | 1,000 | | | | | |
| | October 31, 2006 | - | 1,000 | 0.701 | October 31, 2007 | | | | |
| | Sub Total | | 11,500 | 13,500 | | | | | |

| Classification | Lender | Drawdown Date | Balance at the End of Previous Period (Millions of Yen) | Balance at the End of current Period (Millions of Yen) | Interest Rate (Note 1) | Repayment Date | Payment Method | Usage | Remarks |
|--|--|------------------|---|--|------------------------|-------------------|------------------|----------|-------------------------|
| Long-Term Loan | Mitsubishi UFJ Trust and Banking Corporation | August 1, 2005 | 2,700 | 2,700 | 0.869 | July 31, 2008 | Full on maturity | (Note 2) | Unsecured/ Unguaranteed |
| | The Norinchukin Bank | | 2,500 | 2,500 | | | | | |
| | The Chiba Bank, Ltd. | | 1,200 | 1,200 | | | | | |
| | The Chuo Mitsui Trust and Banking Co., Ltd. | | 1,000 | 1,000 | | | | | |
| | Sumitomo Mitsui Banking Corporation | | 1,000 | 1,000 | | | | | |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | | 800 | 800 | | | | | |
| | Resona Bank, Ltd. | | 300 | 300 | | | | | |
| | The Chuo Mitsui Trust and Banking Co., Ltd. | November 1, 2005 | 3,750 | 3,750 | 1.288 | July 31, 2010 | | | |
| | Sumitomo Mitsui Banking Corporation | | 3,750 | 3,750 | | | | | |
| | Mitsubishi UFJ Trust and Banking Corporation | | 1,500 | 1,500 | | | | | |
| | Resona Bank, Ltd. | | 500 | 500 | | | | | |
| | Sumitomo Mitsui Banking Corporation | November 1, 2005 | 1,500 | 1,500 | 0.769 | October 31, 2007 | | | |
| | The Norinchukin Bank | | 3,000 | 3,000 | 1.090 | October 31, 2008 | | | |
| | Resona Bank, Ltd. | | 500 | 500 | | | | | |
| | Aozora Bank, Ltd. | December 8, 2005 | 1,500 | 1,500 | 1.098 | December 7, 2008 | | | |
| | Resona Bank, Ltd. | | 500 | 500 | | | | | |
| | The Chiba Bank, Ltd. | March 1, 2006 | 800 | 800 | 1.449 | February 28, 2009 | | | |
| | Aozora Bank, Ltd. | | 500 | 500 | | | | | |
| | Mitsui Sumitomo Insurance Co., Ltd. | | 700 | 700 | | | | | |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | March 16, 2006 | 2,500 | 2,500 | 1.476 | March 16, 2009 | | | |
| | Aozora Bank, Ltd. | May 1, 2006 | - | 2,000 | 1.629 | April 30, 2009 | | | |
| | The Chuo Mitsui Trust and Banking Co., Ltd. | | - | 1,500 | | | | | |
| | The Bank of Tokyo-Mitsubishi UFJ, Ltd. | | - | 1,000 | | | | | |
| Mitsubishi UFJ Trust and Banking Corporation | - | | 1,000 | | | | | | |
| Resona Bank, Ltd. | - | | 1,000 | | | | | | |
| Aozora Bank, Ltd. | - | | 1,500 | | | | | | |
| Mitsui Sumitomo Insurance Co., Ltd. | - | | 1,000 | | | | | | |
| Development Bank of Japan | - | | 5,000 | | | | | | |
| Mitsubishi UFJ Trust and Banking Corporation | July 14, 2006 | - | 1,000 | 2.199 | April 30, 2011 | | | | |
| Development Bank of Japan | September 1, 2006 | - | 3,000 | 2.731 | April 30, 2016 | | | | |
| | | | | 2.149 | July 13, 2011 | | | | |
| | | | | 2.124 | August 31, 2013 | | | | |
| | Sub Total | | 30,500 | 48,500 | | | | | |
| | Total | | 42,000 | 62,000 | | | | | |

Notes :

1. The average interest rate is the weighted-average interest rate for the fiscal period. The Investment Corporation entered into interest-rate swap transactions with the aim of minimizing the risk of future increase in interest rates. The effect of interest-rate swap transactions has been incorporated into calculations for the weighted-average interest rate.
2. Funds procured through debt financing were used to acquire trust beneficiary interests in real estate.

Investment Corporation Bonds

The Investment Corporation had not issued investment corporation bonds as of October 31, 2006.

Portfolios Outline

Composition of Portfolio Assets

| Type of Specified Asset | Type | Area | Second Fiscal Period (As of April 30, 2006) | | Third Fiscal Period (As of October 31, 2006) | |
|--|---|-------------------------|--|---------------|---|--------------|
| | | | Total Amount Held (Millions of Yen) | Ratio (%) | Total Amount Held (Millions of Yen) | Ratio (%) |
| Real Estate | Office Buildings | Tokyo Metropolitan Area | 2,338 | 2.5 | 3,466 | 2.2 |
| | Retail Properties | Tokyo Metropolitan Area | 55 | 0.1 | 52 | 0.0 |
| Total for Real Estate | | | 2,393 | 2.6 | 3,519 | 2.2 |
| Trust Beneficiary Interest in Real Estate | Office Buildings | Tokyo Metropolitan Area | 39,679 | 43.1 | 73,733 | 46.0 |
| | | Other Regional Areas | 7,126 | 7.7 | 10,225 | 6.4 |
| | Total for Office Buildings | | 46,806 | 50.8 | 83,958 | 52.4 |
| | Residential Properties | Tokyo Metropolitan Area | 18,707 | 20.3 | 35,858 | 22.4 |
| | | Other Regional Areas | 2,826 | 3.1 | 10,039 | 6.3 |
| | Total for Residential Properties | | 21,534 | 23.4 | 45,898 | 28.6 |
| | Retail Properties | Tokyo Metropolitan Area | 12,700 | 13.8 | 12,645 | 7.9 |
| | | Other Regional Areas | - | - | 3,698 | 2.3 |
| Total for Retail Properties | | 12,700 | 13.8 | 16,343 | 10.2 | |
| Total of Trust Beneficiary Interests in Real Estate | | | 81,040 | 88.0 | 146,200 | 91.2 |
| Bank Deposits and Other Assets | | | 8,618 | 9.4 | 10,594 | 6.6 |
| Total Assets | | | 92,053 | 100.0 | 160,314 | 100.0 |

Note: "Total Amount Held" is the amount allocated in the balance sheets at the end of the period (figures are on a net book value basis after deducting depreciation).

Purchase and Sales during the Fiscal Period Under Review

Status of Real Estate and Securities Backed by Real Estate Purchase and Sales

| Type | Area | No. | Property Name | Purchase | | Sales | | | |
|-----------------------------|-------------------------|-----------------------------------|---------------------------------|---------------------|-------------------------------------|---------------|-------------------------------|------------------------------|---------------------------------------|
| | | | | Date of Acquisition | Acquisition Price (Millions of Yen) | Date of Sales | Sales Price (Millions of Yen) | Book Value (Millions of Yen) | Capital Gain (Loss) (Millions of Yen) |
| Office | Tokyo Metropolitan Area | A-16 | Toshin 24 Building | May 1, 2006 | 5,300 | - | - | - | - |
| | | A-17 | Ebisu East 438 Building | May 1, 2006 | 4,640 | - | - | - | - |
| | | A-18 | KDX Omori Building | May 1, 2006 | 3,500 | - | - | - | - |
| | | A-19 | KDX Hamamatsucho Building | May 1, 2006 | 3,460 | - | - | - | - |
| | | A-29 | KDX Higashi-Shinjuku Building | September 1, 2006 | 2,950 | - | - | - | - |
| | | A-20 | Dai-ichi Kayabacho Building | May 1, 2006 | 2,780 | - | - | - | - |
| | | A-21 | NTB・M Building | May 1, 2006 | 2,690 | - | - | - | - |
| | | A-22 | KDX Shin-Yokohama Building | May 1, 2006 | 2,520 | - | - | - | - |
| | | A-27 | KDX Kajicho Building | July 3, 2006 | 2,350 | - | - | - | - |
| | | A-23 | KDX Yotsuya Building | May 1, 2006 | 1,950 | - | - | - | - |
| | | A-26 | Kiba Ocean Building | June 20, 2006 | 1,580 | - | - | - | - |
| | A-28 | KDX Nojizaka Building | July 14, 2006 | 1,065 | - | - | - | - | |
| | Other Regional Areas | A-24 | KDX Minami-Semba Dai-1 Building | May 1, 2006 | 1,610 | - | - | - | - |
| A-25 | | KDX Minami-Semba Dai-2 Building | May 1, 2006 | 1,560 | - | - | - | - | |
| Total of Office | | | | | 37,955 | - | - | - | - |
| Residential | Tokyo Metropolitan Area | B-19 | Residence Charmante Tsukishima | May 1, 2006 | 5,353 | - | - | - | - |
| | | B-20 | Regalo Ochanomizu I&II | May 1, 2006 | 3,600 | - | - | - | - |
| | | B-21 | Regalo Shiba-Kouen | May 1, 2006 | 2,260 | - | - | - | - |
| | | B-22 | Chigasaki Socie Ni-bankan | May 1, 2006 | 1,160 | - | - | - | - |
| | | B-23 | Court Nishi-Shinjuku | May 1, 2006 | 1,130 | - | - | - | - |
| | | B-34 | Gradito Kawaguchi | June 30, 2006 | 1,038 | - | - | - | - |
| | | B-24 | Regalo Komozawa-Kouen | May 1, 2006 | 912 | - | - | - | - |
| | | B-25 | Court Shin-Okachimachi | May 1, 2006 | 878 | - | - | - | - |
| | | B-26 | Primo Regalo Kagurazaka | May 1, 2006 | 762 | - | - | - | - |
| | | B-27 | Primo Regalo Youga | May 1, 2006 | 730 | - | - | - | - |
| | | B-28 | Court Shimouma | May 1, 2006 | 638 | - | - | - | - |
| | | B-10 | Storia Todoroki | - | - | May 10, 2006 | 1,015 | 902 | 72 |
| | B-12 | Clair Court Rokakouen | - | - | May 10, 2006 | 985 | 861 | 84 | |
| | Other Regional Areas | B-29 | Ashiya Royal Homes | May 1, 2006 | 2,330 | - | - | - | - |
| | | B-30 | Regalo Ibaraki I&II | May 1, 2006 | 1,600 | - | - | - | - |
| B-31 | | Collection Higashi-Sakura | May 1, 2006 | 1,264 | - | - | - | - | |
| B-32 | | Renaissance 21 Hirao Jousui-machi | May 1, 2006 | 900 | - | - | - | - | |
| B-33 | | Montore Nishikouen Bay Court | May 1, 2006 | 826 | - | - | - | - | |
| Total of Residential | | | | | 25,381 | - | 2,000 | 1,763 | 157 |
| Retail | Other Regional Areas | C-3 | ZARA Tenjin Nishi-dori | May 1, 2006 | 3,680 | - | - | - | - |
| | | Total of Retail | | | | | 3,680 | - | - |
| Total | | | | | 67,016 | - | 2,000 | 1,763 | 157 |

Note : Acquisition prices are the sales amounts recorded in trust beneficiary interest agreements exclusive of associated costs such as brokerage fees and taxes.

Capital Expenditure

Planned capital expenditures

Major capital expenditure plans for renovation of properties in which the Investment Corporation holds a trust beneficiary interest for the fourth fiscal period (November 1, 2006 to April 30, 2007) are as follows. Planned capital expenditure includes portions classified into expenses for accounting purposes.

| Property Name (Location) | Purpose | Schedule | Planned Amount of Capital Expenditure (Millions of Yen) | | |
|---|---|--------------------------------|--|--|------------------------------------|
| | | | Total | Paid in the Fiscal Period Under Review | Total Amount Previously Paid |
| Nihonbashi 313 Building (Chuo-ku, Tokyo) | Plumbing equipment work, interior facilities work, other | November 2006 to April 2007 | 161 | 12 | 12 |
| Jinnan-zaka Frame (Shibuya-ku, Tokyo) | Fully renewal work, other | As above | 127 | 4 | 4 |
| KDX Funabashi Building (Funabashi-shi, Chiba) | Upgrade of air conditioning system, other | As above | 87 | 1 | 1 |
| Ashiya Royal Homes (Ashiya-shi, Hyogo) | Upgrade of indoor facilities and parking facilities, other | As above | 63 | - | - |
| Higashi-Kayabacho Yuraku Building (Chuo-ku, Tokyo) | Upgrade of individual air conditioning system, other | As above | 47 | - | - |

Capital Expenditures During the Third Fiscal Period

The Investment Corporation undertook the following major capital expenditures as follows. In the third fiscal period, the Investment Corporation completed work across its entire portfolio totaling ¥655 million. This total comprised of ¥718 million in capital expenditures and ¥62 million for repairs, maintenance and renovation expenses.

| Property Name (Location) | Purpose | Schedule | Amount of Capital Expenditures (Millions of Yen) |
|--|---|-----------------------------|---|
| KDX Hamacho Building (Chuo-ku, Tokyo) | Conversion of leasable areas, renewal work for interior facilities of co-owned areas, other | May 2006 to October 2006 | 81 |
| Chigasaki Socie Ni-bankan (Chigasaki-shi, Kanagawa) | Large-scale renovation, other | As above | 57 |
| Venus Hibarigaoka (Sapporo, Hokkaido) | Renewal work for interphone system, building exterior works, other | As above | 52 |
| Others | | | 464 |
| Portfolio Total | | | 655 |

Long-Term Repairs, Maintenance, and Renovation Plans

The Investment Corporation formulates long-term repairs, maintenance, and renovation plans on an individual investment property basis and allocates a portion of its cash flows generated during the period to a reserve for repairs, maintenance, and renovation to meet large-scale renovation over the medium to long terms. The following amount has been transferred to the reserve from period cash flows.

(Millions of Yen)

| Fiscal period | First Fiscal Period | Second Fiscal Period | Third Fiscal Period |
|--|---------------------|----------------------|---------------------|
| Reserve for the end of the previous period | - | 92 | 165 |
| Reserve for the fiscal period under review | 92 | 130 | 148 |
| Reversal of reserve for the fiscal period under review | - | 57 | 26 |
| Reserve bring to the next period | 92 | 165 | 288 |

Expenses and Liabilities

Details for Expenses

(Thousands of Yen)

| Item | Second Fiscal Period | Third Fiscal Period |
|---------------------------------|----------------------|---------------------|
| (a) Asset management fees | 150,114 | 203,842 |
| (b) Custodian fees | 10,233 | 11,705 |
| (c) Administrative service fees | 27,544 | 35,023 |
| (d) Directors' salaries | 5,400 | 5,400 |
| (e) Audit fees | 4,000 | 5,900 |
| (f) Other operating expenses | 64,963 | 64,569 |
| Total | 262,254 | 326,439 |

Note : In addition to the asset management fees indicated in the above table, a total of ¥46,636 thousand for the second fiscal period and ¥193,157 thousand for the third fiscal period, representing property acquisition management fees, was included in the book values of individual real estate assets.

Details of Related-Party Transactions

(1) Details

| | Purchase and Sales Amounts | |
|---------------------------------------|--|------------------------------------|
| | Amount of Purchase (Millions of Yen) | Amount of Sales (Millions of Yen) |
| Total | 67,016 | - |
| | Amount of Purchase from Related -Parties | Amount of Sale to Related -Parties |
| | 30,816(46.0%) | - |
| Details of related-party transactions | | |
| Y.K. KDX 2 | 8,300(12.4%) | - |
| Y.K. Lump Sum Investment | 7,100(10.6%) | - |
| Y.K. KW Property 10 | 4,426(6.6%) | - |
| Y.K. KW Property 5 | 7,310(10.9%) | - |
| Y.K. KDX 3 | 3,680(5.5%) | - |

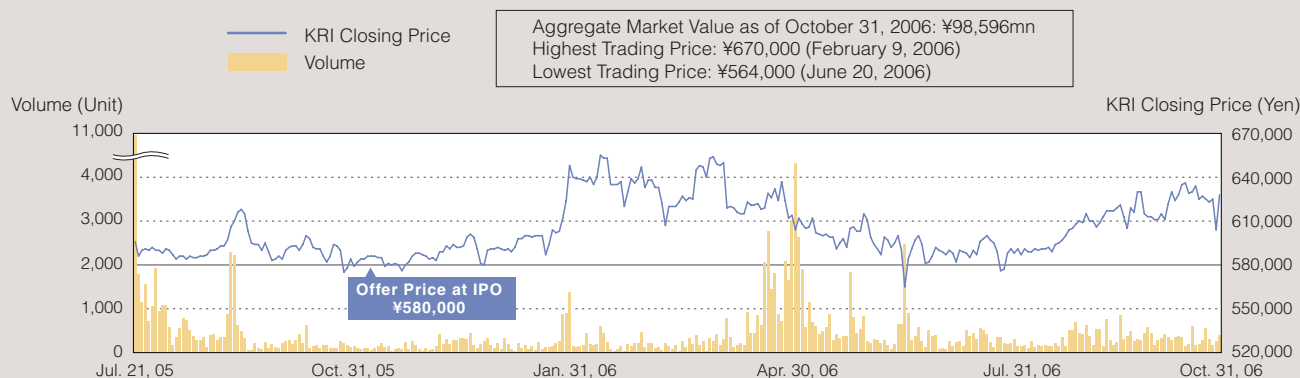
(2) Fees

| Classification | Total Fees (A) (Thousands of Yen) | Details of fees and other payments to related parties | | Ratio (B /A)% |
|-------------------------------|--------------------------------------|---|---|------------------|
| | | Payment Recipient | Amount of Fee (B) (Thousands of Yen) | |
| Leasing management fees | 183,464 | Kenedix Advisors Co., Ltd. | 183,464 | 100.0 |
| Management transfer fees | 66,200 | As above | 66,200 | 100.0 |
| Construction supervision fees | 24,537 | As above | 24,537 | 100.0 |

Note: Related parties in the above table are the related parties for the Asset Management Company, which are defined under Implementation Ordinance No. 20 of the Investment Trust Law. Transaction details and commissions paid to Kenedix Advisors, Y.K. KDX2, Y.K. Lump Sum Investment, Y.K. KW Property10, Y.K. KW Property5, and Y.K. KDX3 during the fiscal period under review are listed in the above table.

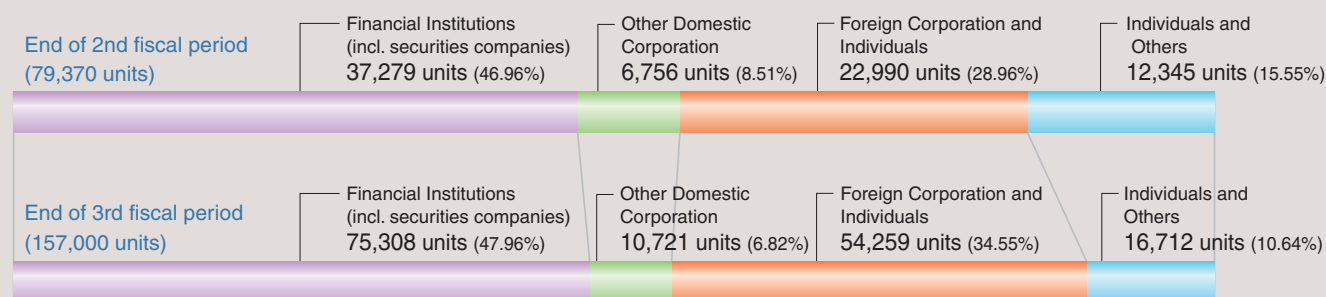
Trends in Investment Unit Prices

The Investment Corporation's investment unit certificates were first listed on the Tokyo Stock Exchange on July 21, 2005. Trends in investment unit price and trading turnover from the date of public listing to the close of its third fiscal period, October 31, 2006, are provided in the following table.



Notes: 1. Investment unit prices are shown based upon closing prices.
 2. References to "KRI" are to Kenedix Realty Investment Corporation.

Details of the Unitholders



Note: Comparative ratios are rounded down to the second decimal place.

Information Provided on the Investment Corporation's Website

The Investment Corporation will make every effort to disclose relevant and accurate information on its Web site in a timely fashion.

URL

<http://www.kdx-reit.com/eng/>

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The financial statements of Kenedix Realty Investment Corporation have been prepared in accordance with generally accepted accounting principles in Japan "Japanese GAAP", which may materially differ in certain respects from generally accepted accounting principles in other jurisdictions.

This semiannual report contains forward-looking statements. These statements appear in a number of places in this semiannual report and include statements regarding the intent, belief, or current and future expectations of Kenedix Realty Investment Corporation or Kenedix REIT Management, Inc. with respect to its business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Accordingly, readers of this document should not interpret the forward-looking statements included herein as predictions or representations of future events or circumstances.

Potential risks and uncertainties also include those identified and discussed in this document. Given these risks and uncertainties, readers of this document are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of the information produced herein. We disclaim any obligation to update or, except in the limited circumstances required by Tokyo Stock Exchange, announce publicly any revisions to any of the forward-looking statements contained in this documents.



Kenedix Realty Investment Corporation Corporate Data (As of March 1, 2007)

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Date of Incorporation

May 6, 2005

Capital

¥88,729,652,470
157,000 units

Stock Listing

REIT market of the Tokyo Stock Exchange

Security Codes

8972

Transfer Agent

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3-33-1 Shiba, Minato-ku, Tokyo 105-8574, Japan

Auditor

Ernst & Young ShinNihon
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