

Japan Retail Fund: Pioneer and Leader of Retail J-REITs

Japan Retail Fund (TSE Code: 8953; JRF) became the third Japanese Real Estate Investment Trust Fund (J-REIT) to list in Japan on March 12, 2002 and the first to specialize in retail properties. Currently, its portfolio consists of 32 retail properties throughout Japan including the major markets of Tokyo, Nagoya, Osaka, Fukuoka, Sendai and Sapporo.

The asset manager for JRF is Mitsubishi Corp.-UBS Realty Inc., jointly owned by Mitsubishi Corporation (51%) and UBS AG (49%). We recently interviewed Yuichi Hiromoto, Executive Officer of JRF, about the REIT's strategy and operations.



Yuichi Hiromoto has over twenty years of global business experience with Mitsubishi Corporation and served for two years in the firm's J-REIT joint venture initiative prior to joining Mitsubishi Corp.-UBS Realty Inc. in December 2000 as President and CEO. He received a Bachelor of Arts in Law from Tokyo University and an MBA from the Wharton School at the University of Pennsylvania.

by acquiring properties with long-term anchor tenants and fixed rents. JRF is also acquiring "growth-oriented" retail properties, which can offer potential growth in property value and cash flow by linking portions of our rental revenues to the business performance of certain tenants, through the combining of fixed and revenue-based rents.

As of the end of February 2005, our total portfolio value was 244.7 billion yen. This surpassed our goal of 200 billion yen within three years of our listing, and puts us well on our way to our medium-term objective of 400 billion yen.

Q What financing strategies do you observe?

Hiromoto: Our property acquisitions are financed through an appropriate mix of debt and equity financing to achieve optimal outcomes for unit holder returns and balance sheet stability. One example of our trailblazing financing methods is the publicly placed 35 billion yen investment corporation bond we issued in February, a first for a J-REIT and rated A2 by Moody's. We also procured a total of 46.2 billion yen in capital through a new public offering of investment units, our third since our listing.

In 2004, JRF was selected by Thomson Financial as the Issuer of the Year, proof of the high regard for our innovative fund raising activities both in debt and equity financing. We are constantly pursuing means to more dynamically and flexibly finance our business in the market as we maintain our position as a J-REIT and retail property leader.

Q How do you assess JRF's performance to date?

Hiromoto: Our properties boast excellent tenants, long-term lease contracts, and a nearly 100% occupancy rate. We were also able to add four retail properties in the semi-annual period ended in February 2005.

Our proactive management efforts to make the properties more attractive have transformed into operating revenues of 9,513 million yen, ordinary income of 3,385 million yen and net income of 3,384 million yen during the semiannual period ended in February 2005. More importantly, our dividend was 15,419 yen per investment unit, 3.3% higher than our initial forecast of 14,920 yen.

Q What was the key factor in the decision to specialize in retail properties?

Hiromoto: There are a number of market characteristics that provide opportunities for attractive returns from retail properties in Japan. The country's retail sector is undergoing significant restructuring and many prominent shopping centers with strong anchor tenants, specialty superstores and well-located urban "High Street" stores have emerged successively. These properties have lured customers away from more traditional retail venues. By continuing to select properties with attractive locations and quality tenants, our portfolio will benefit from this restructuring. Of course, another strength is provided by the fact that we are not as vulnerable to swings in the overall economy as office J-REITs.

JRF was formed to capitalize on the opportunity to aggregate a large volume of attractive retail properties. Retailers and other property owners in Japan are increasingly seeking to sell their retail properties – driven by the requisites of impairment accounting, attempts to clean up their balance sheets, the need to reduce their exposure to real property ownership risks and renewed focus on core businesses. These trends will allow us to continue acquiring attractive retail properties.

Q Can you be more specific in why such retail properties are more attractive and advantageous?

Hiromoto: Retail tenant leases in Japan, particularly anchor tenant leases, tend to

be long and fixed. These features enable the owner to assimilate a portfolio that generally generates stable rental revenues over the long term.

Moreover, tenants in many retail properties have customarily been required to make large security deposits, which are assumed by the purchasers of the properties. Although the trend among newly developed properties has been to reduce or eliminate these deposits, our strategy involves applying these deposits to financing our acquisitions and meeting our general liquidity needs by lowering our overall capital costs.

Q What other advantages do you have?

Hiromoto: For one, our asset management company, Mitsubishi Corp.-UBS Realty Inc., is a unique cross-border joint venture between the venerable trading company, Mitsubishi Corporation, and UBS, a global financial service sector leader and one of the largest asset managers in the world. The asset manager blends the complementary skills and expertise of these two organizations to provide world-leading real estate asset management. These leading skills are devoted to locating and acquiring attractive properties for JRF and raising the value of the properties, and hence JRF, through strategic management.

Q Can you describe your investment strategy?

Hiromoto: Our investment objective is to secure, in the medium- to long-term, relatively stable distributions for our unit holders and to steadily increase the value of our property portfolio. The capital provided by our investors will continue to be invested in well-recognized properties that are generally an essential part of the daily lives of Japan's citizenry.

Our aim is to build a geographically diversified and balanced portfolio of blue chip retail properties in Japan to minimize region-specific economic and seismic risks. We will continue to secure stable cash flow



Japan Retail Fund Investment Corporation

Contact: **Shunichi Minami**, Senior Executive Officer
Mitsubishi Corp.-UBS Realty Inc. (Phone: +81-3-3511-1692)