Investment Policies

We set forth in our articles of incorporation that we shall invest in investment assets with the aim of securing stable revenues over the medium to long term. The Asset Manager appointed by us establishes asset management guidelines as its internal rules and determines the management policies that apply to our investment, in accordance with our articles of incorporation and the asset management agreement between us and the Asset Manager and in consideration of the basic policies provided in our articles of incorporation. The Asset Manager takes due consideration of various factors including the current status and trends in real estate, capital and financial markets, as well as general economic conditions, market trends of real estate-related products and our financial condition, when establishing the asset management guidelines. Furthermore, in order to ensure that the asset management guidelines remain relevant and in tune with changes in market and operating conditions, the asset management guidelines are amended promptly and actively in consideration of our articles of incorporation and the asset management agreement.

Basic Policies

We seek to achieve our investment objectives within the framework of basic policies provided by our articles of incorporation. Our key basic policies are as follows:

- We invest in real estate and other assets composed of superior office buildings, urban retail properties, etc. found in thriving commercial areas and urban multi-use facilities located in the greater Tokyo area and other cities throughout Japan, as well as the land on which such properties are located. Our current investment strategy focuses primarily on office properties in the greater Tokyo area.
- Of the urban multi-use facilities, we deem those primarily used for superior office buildings (urban commercial facilities) as office buildings and those primarily used for urban retail properties, etc. and located in thriving commercial areas as urban retail properties, etc., and apply the following standards to them respectively.
- We will conduct an investigation and a comprehensive review of all relevant information regarding any prospective acquisition target, such as anticipated future revenues from the property and related risks, potential of the area in which the property is located, building and facilities maintenance and management, deterioration and obsolescence, earthquake resistance, contracts with current tenants, environmental and topographical features, and related rights attached to such property.
- We will maintain the percentage of the value of our designated real estate assets relative to the value of our total designated assets at 75% or more at any time. Designated real estate refers to real estate, real estate leasing rights or surface rights, beneficiary interests in trusts which hold real estate, land leasing rights and surface rights.
- We will maintain the percentage of real property and asset backed securities investing primarily in real estate we own for the purpose of disposition within one year to be 50% or less of our total assets.

Auxiliary Policies

We and the Asset Manager 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. For example, in 2009, we revised our investment policy to shift our focus to office properties in the greater Tokyo area so that properties in the greater Tokyo area would generally constitute between 80% and 90% of the aggregate investment amount of our portfolio, and office properties would generally constitute between 70% and 90% of the aggregate investment amount of our portfolio. These policies are not binding and are intended to guide the implementation of our investment objectives and management of our operations. The Asset Manager 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. Various strategies with respect to the achievement of our investment objectives and certain other policies with respect to the operation of our business are described elsewhere in this Business Report and below.

Types of Investment Assets

We will invest primarily in real estate and other assets as well as real estate other than the real estate and other assets and in asset-backed securities that have such real estate as their primary investments, based on Basic Policies mentioned above.
1) Real estate
This refers to the following:
(i) Real estate
(ii) Real estate leasing rights
(iii) Surface rights
(iv) Beneficiary interests in the following trusts (including comprehensive trusts in which cash associated with real estate is also entrusted)
  • Real estate
  • Surface rights and land leaseholds
(v) Beneficiary certificates in monetary trusts (limited to trusts for which the primary purpose is investment in the assets listed in i) to iii) above)
(vi) Equity investment based on a contract that specifies that one party will provide funding to be invested in "the assets identified in i) to v) above and the other party will invest these funds primarily in said assets, with the profits and losses from these

investments distributed to investors ("Tokumei Kumiai equity" in Japanese, referred to as "TK equity" hereinafter)
(vii) Beneficiary certificates in monetary trusts (limited to trusts for which the primary purpose is investment in the TK equity)

2) Asset-backed securities that have real estate as their primary investments
This refers to investment in securities with over half of their investment backed by real estate, detailed as follows:
(i) Preferred securities as defined under the Act on Asset Liquidation (Law No. 105 of 1998, including all subsequent amendments; referred to as the "Asset Liquidation Act" hereinafter)
(ii) Beneficiary certificates in investment trusts as defined under the ITA
(iii) Investment securities as defined under the ITA
(iv) Beneficiary certificates in special-purpose trusts as defined under the Asset Liquidation Act (excludes beneficiary certificates in trusts listed in (iv), (v) and (vii) for 1) above)

3) We may invest in the following designated assets in order to efficiently utilize surplus funds remaining after the investments listed in 1) and 2) above or when necessary:
(i) Marketable securities (as far as stock certificates are concerned, however, this is limited to those recognized to be necessary or useful in terms of the basic policies for asset management)
(ii) Monetary claims (as defined in the Enforcement Order of the ITA and include bank deposits, large-scale time deposits and transferable deposits (excluding marketable securities) and call loans)
(iii) Rights resulting from financial derivatives transactions (as defined in the Enforcement Order of the ITA)
(iv) Renewable energy generation facilities (as defined in the Enforcement Order of the ITA)
(v) Rights to operate public facilities, etc. (as defined in the Enforcement Order of the ITA)
(vi) Beneficiary interests in monetary trusts for the purpose of investments in those described in i) to v) above

4) In addition to the specified assets identified in 1) through 3) above, we may invest in the following assets when considered appropriate or of benefit to us in accordance with our basic investment management policy:
(i) Trademarks, exclusive licenses and ordinary use rights based on the Trademark Act (Law No. 127 of 1959, including all subsequent amendments)
(ii) Rights to use the source of hot springs as set forth in the Hot Spring Act (Law No. 125 of 1948, including all subsequent amendments) and facilities related to such hot springs
(iii) Carbon dioxide equivalent quota or similar under the Act on Promotion of Global Warming Countermeasures (Law No. 117 of 1998, including all subsequent amendments) or emission rights (including emission rights regarding greenhouse gas)

5) Other than the assets under management, we may invest in assets that are considered appropriate for us to own in line with our organizational operation, such as trademark right relating to our name.

6) The rights to be indicated on securities as set forth in Article 2-2 of the FIEA shall, even when securities indicating these rights have not been issued, be deemed as securities indicating these rights, and be applicable to 1) through 5) above.

Portfolio Composition Policies

Our portfolio composition policies with respect to our investment activities include:

Property Type

The allocation ratio between office properties and urban retail properties, etc. will be approximately 70% to 90% office properties and 10% to 30% urban retail properties, etc. of the portfolio, based on investment amount. We will consider economic conditions and real estate market trends from time to time to revise or determine the appropriate ratio of property type.

Geographic Location

For the allocation ratio between the greater Tokyo area and other areas in Japan, the greater Tokyo area will be approximately 80% to 90% and other areas in Japan will be approximately 10% to 20% of the portfolio, based on investment amount. We will consider the economic condition of each region as well as market trends from time to time to revise or determine the appropriate ratio of geographic location.

Tenants

We have set the percentage ratio of rent revenue generated from any individual tenant (or in the case of a tenant occupying several properties, the aggregate rent revenue) to be, as a general rule, less than 10% of the total rent revenue. In a case where the contract with a tenant is a pass-through type master lease, the individual tenant defined above shall mean the end tenant (sub-lessee), but risk management of the master lease tenant shall also be given attention. The percentage ratio may exceed the maximum upon consideration of the possibility of change in tenants or the credit worthiness of the tenant as a whole.

Asset-Backed Securities

The total acquisition value of asset-backed securities is, in principle, limited to less than 10% of our net assets. To make any such investment, we must have the opportunity to acquire the real estate underlying the asset-backed securities at the end of the investment period.

Portfolio Management Standards

Period of Ownership

We will, in principle, hold assets for the medium- and long-term (one to five years and over five years, respectively) and will not acquire assets for the purpose of short-term trading (less than one year).

Use

In accordance with the basic policy stipulated in a. above, our investment targets primarily comprise superior office buildings (urban commercial facilities), urban retail properties, etc. found in thriving commercial areas and urban multi-use facilities. We will determine the allocation ratio of these assets in the portfolio based on full considerations of the economic situations, real estate market trends and other factors for respective occasions.

Region

While placing a focus on greater Tokyo, we will work to realize a diversification of the portfolio, not limited to Tokyo but investing in regional cities, primarily in consideration of the earthquake risks and risks associated with individual market conditions and in order to generate more cash flow.

Note: JPR defines "Tokyo" as an investment area that refers to the combination of "Central Tokyo" and "Greater Tokyo" as designated below.

Category		Region
Tokyo	Central Tokyo	Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya Wards
	Greater Tokyo	All other areas of Tokyo, Chiba, Kanagawa and Saitama Prefectures
Other Cities		All other areas

Investment Policies for Development Projects

We will, in principle, acquire only real estate that generates or is expected to generate stable rental revenues or similar revenues at the time of acquisition, and not engage in development investments (projects in which we ourselves develop land and build buildings). However, we may place orders by concluding contract agreements for the construction of a building.

We may also conduct rebuilding projects for properties that we have already acquired, provided that sufficient potential to secure tenants after rebuilding is determined and the projects are confirmed as non-development investments, and conclude sale and purchase agreements for buildings under construction by third parties prior to their completion if sufficient potential to secure tenants after construction is determined and if completion/delivery risk has been minimized.

Equipment and Fixtures Investment Policies

We will invest in equipment and fixtures in accordance with an efficient upkeep plan created for each property and designed to maintain and improve the competitiveness of the property from medium- and long-term perspectives. Such investments will in principle be made within the scope of the depreciation expense of the portfolio as a whole.

Insurance Policies

We will select fair underwriting insurance companies through independent brokers. In principle, the underwriting insurance company for insurance finance shall have a long-term rating of A3 or better from Moody’s Japan K.K. or A- or better from S&P Global Ratings Japan Inc.

We will decide to cover earthquake insurance in light of comparisons between the potential impact of the disaster and property insurance premiums based on the PML for the entire portfolio. We may purchase earthquake insurance individually for properties that have high PML.

Note: "PML" refers to the probable maximum loss in the event of an earthquake. PML may be calculated for individual properties or for the portfolio as a whole. While there is no strict definition of PML (valuation methods will differ depending on the institution conducting the survey), it is generally found by calculating the probable damage from the largest foreseeable earthquake during the expected period of use (50 years is the useful lifetime ordinarily assigned to buildings; the largest foreseeable earthquake is a major earthquake of a size seen once every 475 years, having a 10% probability of occurring during any 50 year span). The figure represents the ratio of projected expenses for restoration of damage to the price of reacquisition.

Sales Policies

We will select real estate, asset-backed securities that have real estate as their primary investments, and other investments in our holdings to be sold based on overall considerations of the current status of the asset to be sold, projections of its future profitability and changes in asset value, and the asset allocation of the portfolio as a whole.

In addition to consideration to the market environment, etc., the following are the main considerations in determining sales:
1) Result of asset appraisal conducted in each fiscal term

Value-up Properties

Value-up properties refer to those properties that exhibit the potential for an increase in profitability and asset value, and have an immediate income stream on acquisition, along with any of the following characteristics:
• An occupancy rate of less than 80% at the time of acquisition
• Significant investment return following effective renovation work
In principle, value-up properties occupy a maximum 15% of the total property portfolio (based on acquisition price). The additional acquisition of value-up properties is also subject to a total portfolio occupancy rate in excess of 90%.

Value-up properties will be reclassified as core properties, as defined below, when the Investment Committee judges that the properties have realized enhanced values. We will consider the sale of value-up properties as one method to realize asset value appreciation.

Core Properties

Core properties refer to office buildings other than value-up properties. Core properties are positioned as those properties that contribute to the profit stability of the overall portfolio.

Property Specifications

The following property specifications are generally used in the choice of a property:

Feature

Geographic Location	(i) Three big urban areas: Central business area of Tokyo metropolis, Yokohama, Kawasaki, Chiba and Saitama; Nagoya; and Osaka, Kyoto and Kobe. (ii) Government-designated cities other than those in the three big urban areas: Central business area of government-designated cities such as Sapporo, Sendai, Hiroshima, Fukuoka and Kita-Kyushu. (iii) Other major cities: Urban areas such as prefectural capitals with a population, in principle, of 300,000 or more. In determining whether to invest in a given retail property, we conduct wide-ranging analyses of the area, including the population size, demographic characteristics, number of households and average household income in order to estimate the potential purchasing power of the local population and the potential for business growth in the area. We also analyze competition as between businesses in the area, opportunities for new businesses and the potential for development in the future. We then decide whether potential tenants and their businesses would be suited to that area. In determining whether to invest in hotels, we conduct surveys and analyses of factors including location characteristics of each individual property as well as the status of competition and development plan in the neighborhood. In addition, hotels which will be the investment target shall be those located in thriving commercial areas and in which demand for business and tourism can be expected.
Size	*Office Properties*: Investment will center on buildings with minimum total floor space of approximately 3,300 m^2 (approximately 1,000 tsubos). However, investment judgement will be made after comprehensively taking into consideration factors such as location characteristics, tenant business type and facility specifications of each individual property, and properties with smaller floor space than the above may be included. *Urban Retail Properties, etc.* *a. Retail Properties* Size dependent on the growth potential of the area in which the property is located, taking into account regional characteristics of the area including the size and potential for growth of the business area. *b. Hotels* We make decisions for each property after comprehensively taking into consideration individual factors

such as location characteristics of each individual property, future prospects of the area and means of transportation of guests based on the standard specification by business type.

Facilities and Equipment

Office Properties: specifications evaluated on a case-by-case basis, in consideration of the characteristics of the local area, potential for post-acquisition property modifications etc., and building characteristics, including the shape and divisibility of floors, ceiling height, floor fittings, electricity supply and air-conditioning systems.

Urban Retail Properties, etc.

a. Retail Properties

Specifications evaluated on a case-by-case basis, in consideration of standard specifications for buildings of the same type, characteristics of the local area, versatility and potential for conversion to other building use, visitors' access and other factors.

b. Hotels

We make decisions for each property by also paying attention to the asset classification and burden classification of repair and renewal expenses between the lessee based on the standard specification by business type.

Earthquake Resistance (Age of the Property)

Newly acquired properties must meet recent earthquake resistance specifications, as specified by the Building Standards Act of Japan, or for which earthquake resistance reinforcement work has been completed (or can be completed after acquisition).

Tenants

Office Properties: in principle, no single tenant can occupy more than 50% of a given property (parent companies and their subsidiaries are considered as a single tenant for this purpose). Where a tenant does occupy more than 50% of a given property, we may purchase the property, taking into account the tenant's creditworthiness, appropriateness and substitutability.

Urban Retail Properties, etc.

a. Retail Properties

In selecting tenants, a number of factors, including creditworthiness, profitability of individual shops and substitutability are comprehensively considered.

b. Hotels

In principle, we comprehensively take into account the lease method, lease conditions, credibility of tenant (operator), capability to operate facilities and replaceability. Moreover, when the tenant and operator are different, we will also take into account the credibility of the said operator, capability to operate facilities and replaceability.

Rights

Co-ownership:

• In principle, seek a co-ownership of more than 50% in order to ensure flexibility in property management (leasing, improvement, etc.) but may acquire properties below this ratio on a case by case basis in consideration of the nature and creditworthiness of other owners and characteristics of the property.

• In order to ensure sufficient flexibility in the disposal of the property, confirm whether there are special contracts or agreements which set out preferential purchasing rights or options among owners or the details of any restrictions on transfer or assignment.

• Make efforts to ensure the stability of revenues by fully confirming the nature and creditworthiness of other owners and, where possible, will provide for appropriate procedures (including, but not limited, to executing an agreement which prohibits division of joint equity and the registration of rights or an agreement with respect to the mutual use of land).

Compartmentalized Ownership:

• In principle, reserve at least 75% of voting rights in meetings of compartmentalized owners in order to ensure flexibility in improvement. This depends, however, on the types and credits of other compartmentalized owners.

• In order to ensure sufficient flexibility in the disposal of the property, confirm whether there are special contracts or agreements which set out preferential purchasing rights or options among owners and the details of any restrictions on transfer or assignment.

• Attempt to ensure the stability of revenues by confirming the operations of the management association (reserves, liability ratios, insurance status, etc.) and take such measures as required (including, but not limited to, increasing our reserves or providing for insurance on the joint areas separately from the management company).

Leased Land:
• In principle, invest in land over which leasehold interests have been created, as specified in the former Leasehold Law and the Land and Building Leasing Law.

• Carefully study the nature of the leaseholder and make its decision after fully investigating the impact, etc. of provisions for rent revisions, charges for renewing the leasing contract, approval of rebuilding proposals and approval of sales proposals and other factors which impact profitability.

Leasehold Properties:
• In principle, invest in leasehold properties as specified in the former Leasehold Law and the Land and Building Leasing Law.

• Carefully study the nature of the proprietary right holder of land and make its decision after fully investigating the impact of provisions for rent revisions, charges for renewing the leasing contract, approval of rebuilding proposals and approval of sales proposals and other factors which impact profitability.

Security Interests and Usufruct:
• Confirm whether or not any mortgage or other security interest has been created on the property to be acquired and if such mortgage has been discharged at the time of the acquisition.

• Confirm whether or not any surface right, servitude or any other usufruct has been created on the property to be acquired and the contents thereof (if any) and make its decision after fully investigating the impact of such surface right, servitude or usufruct on profitability.

Real Estate Acquisition Ownership Type

We acquire real estate under direct ownership or on an entrusted basis, acquiring beneficiary interests to the property. Decision as to which form of ownership we take is determined after considering the requirements of the existing owner, the cost of transferring rights, etc.

Investment Amounts

Minimum Investment Amount

In principle, the minimum investment amount per property (which is the purchase price, exclusive of taxes, acquisition costs and other expenses) will be ¥1 billion or more, except in the following cases:

- where we are acquiring a portion of a property in respect of which the appraised value for the entire building is ¥1 billion or more;
- where as a result of negotiation, the acquisition price of the property is less than ¥1 billion, but the appraised value of the property is ¥1 billion or more; and
- where the property is ancillary to other properties we are acquiring in bulk.

Maximum Investment Amount

The maximum investment amount per property will be, in principle, one-third of the total investment in real estate, asset-backed securities and other investment after the acquisition (measured as the total appraised value as of the end of the previous fiscal period, the total acquisition price of properties and asset-backed securities (excluding acquisition costs) for the current fiscal period and the investment amount (excluding acquisition costs) for the property in question).

Limit on Acquisition Price

The maximum acquisition price is, in general, the appraisal amount, except in the following cases, provided that the acquisition of the property will not reduce the net operating income yield of the entire portfolio for the fiscal period of such acquisition as compared to prior to the acquisition:

- properties from which we anticipate a steady cash flow from a long-term fixed lease agreement and which can generate a steady rate of dividends in the medium to long term; and
- properties which we anticipate will increase the quality of the fund as a whole when considering the general characteristics of the property, such as its size and location and can generate a steady rate of dividends in the medium to long term.

Policy on Forward Commitments

When engaging in forward commitments (a contract to purchase at a future date, with settlement and property delivery to occur on a date one month or later from the contract date, and other similar contracts), careful and sufficient considerations shall be made, including whether the amount of penalty for contract termination required in the event of failure to fulfill forward commitments is financially excessive or not, taking into consideration price volatility risk and other factors. In addition, the property's real estate appraisal value and business revenue and expense projection trends, etc. shall be monitored on a regular basis during the period from conclusion of contract to settlement.