



# Nippon Residential Investment Corp.

**Semiannual Report** 7th Fiscal Period From December 1, 2006 to May 31, 2007



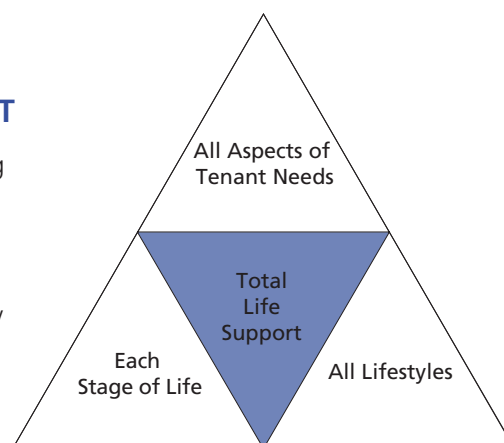
NIPPON  
RESIDENTIAL  
INVESTMENT  
CORPORATION

# Nippon Residential Investment Corp.

## The Comprehensive Residential Property REIT

NRIC is a comprehensive residential property REIT offering “Total Life Support” in superior quality rental housing properties.

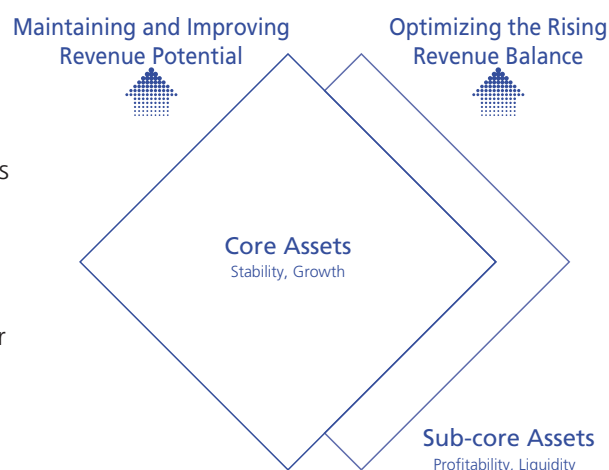
Our properties offer living environments and services covering all aspects of tenant needs and that are uniquely catered to each tenant’s stage of life and lifestyle.



## Asset Classification

The combination of Core Assets and Sub-core Assets optimizes the revenue.

- Core Assets bolster the revenue of our portfolio with their competitiveness.
- Sub-core Assets optimize the earnings balance of our portfolio with their liquidity and profitability.



## Japan’s First Residential J-REIT Listed on TSE

On March 2, 2004, NRIC became Japan’s first residential J-REIT listed on Tokyo Stock Exchange.

### ■ Largest Asset Property Holdings of All J-REITs

With 116 properties and 7,294 rentable units (as of the end of May 2007), our portfolio remains highly diversified.

### ■ Highly Competitive Portfolio Centered on Superior Properties

Our portfolio is focused on the Tokyo Metropolitan area and on properties with superior facilities and specifications.

### ■ A Solid Financial Base Reflected in a High Credit Rating

NRIC is assigned A2 (Stable) from Moody’s Investors Service Inc. and A+ (Stable) from R & I.

### ■ Close Cooperation with Pacific Management Corporation

The sponsor company of our Asset Management Company is a residential property management professional, providing us with the full benefit of its extensive network and know-how.

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# To Our Unitholders

I am delighted to have this opportunity of addressing our unitholders and would like to express my sincere appreciation for your support of Nippon Residential Investment Corporation (NRIC).

Listed in March 2004, NRIC has managed to celebrate its third anniversary since listing thanks to the support of our unitholders. Allow me to again extend our profound gratitude to our unitholders.

Since listing, NRIC has been dedicated to securing stable earnings, as well as engaging in judicious investments into highly-competitive rental housing in the rental housing market. Consequently, the asset size of our entire portfolio expanded to 116 properties worth ¥225.4 billion (sum of acquisition prices) by the end of the seventh fiscal period. This means NRIC boasts the largest portfolio size among J-REITs specializing in residential properties. Our efforts were certainly not limited to increasing size. We were also committed to maintaining and enhancing the quality of our portfolio, and were able to secure revenue growth and stability.

Even from a financial perspective, our efforts of diversifying fund procurement methods and sources bore fruit in the form of Moody's Investors Service Inc. assigning NRIC with an A2 issuer rating (upgraded from A3) in the seventh fiscal period. NRIC will continue to work to construct a sound financial base.

The financial statements, asset management report and statements on cash distributions concerning our performance for the seventh fiscal period (December 1, 2006 to May 31, 2007) were approved at a meeting of NRIC's board of directors held on July 18, 2007. Below is an overview of our management and details of our financial results.

In the seventh fiscal period, NRIC recorded operating revenues of ¥6,911 million, ordinary profit of ¥2,679 million and net income of ¥2,678 million. Based on these results, we have set the cash distributions as ¥14,336 per investment unit.

NRIC raised a total of ¥42.5 billion in funds from an additional issuance of new investment units in June 2007. Applying these funds, we were able to close on the new acquisition of thirteen properties. NRIC will proceed to optimally manage these assets from a long-term perspective.

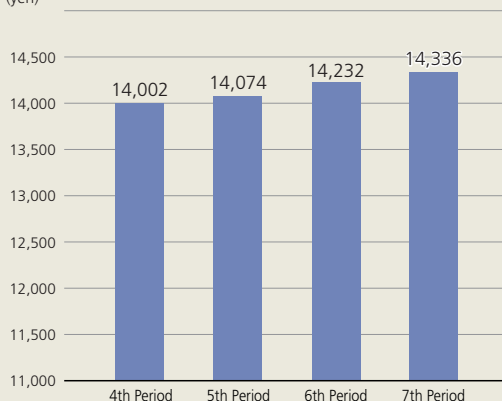
We look forward to your continued support and encouragement.



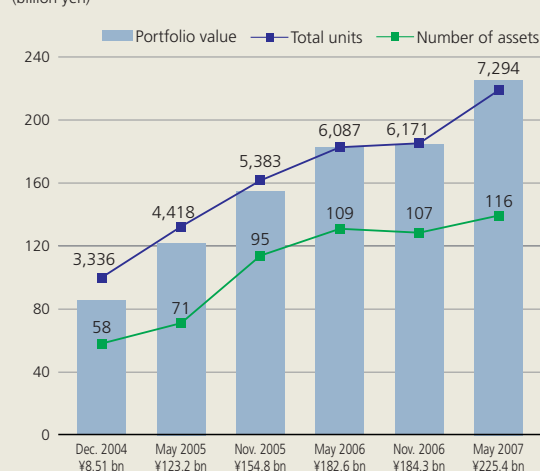
*M. Nishimura*

Masaru Nishimura  
Chief Executive Officer  
Nippon Residential Investment Corporation

**Growth of Distribution per Unit**  
(yen)



**Portfolio Growth**  
(billion yen)



# Report of Activities in the 7th Fiscal Period

## Headed for Solid Growth

Since listing in March 2004, NRIC has focused on building our asset management performance centering on efforts aimed at “stable growth in asset management revenues, and maintaining and enhancing asset value.” The following outlines the concrete measures NRIC implemented during the seventh fiscal period.

### Takeshi Ishida

Director  
Investment Planning Department and Asset Management Department  
Pacific Investment Advisors Corporation



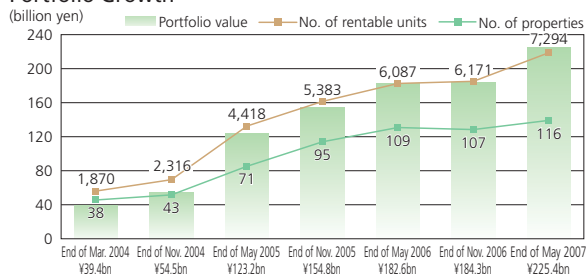
## Steady Portfolio Growth

### Constructing a High-Quality Residential Portfolio through Judicious Investment into Highly-Competitive, Superior Properties

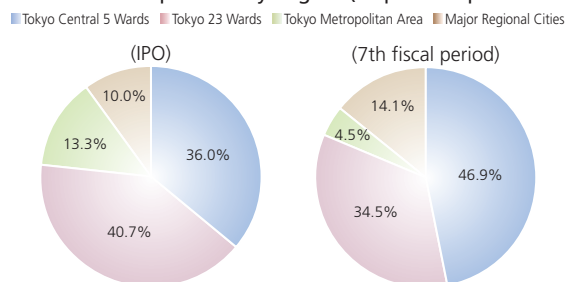
NRIC established aims to ensure steady revenue growth, secure stable revenue inflow through asset diversification, and reduce operating and management costs to a minimum level by making use of economies of scale. To realize these aims, NRIC consistently conducts judicious investment into highly-competitive, superior properties in downtown Tokyo, particularly the area known as the “Tokyo Central 5 Wards.”

Twelve properties were newly acquired and three properties sold during the seventh fiscal period to bring the total number of properties in our portfolio to 116 at the end of the seventh fiscal period. The number of rentable units totaled 7,294 units with portfolio value (sum of acquisition prices) amounting to ¥225.4 billion. This gives NRIC the largest portfolio size and the highest portfolio value as a J-REIT specializing in residential properties.

### Portfolio Growth



### Investment Composition by Region (acquisition price basis)



### Enhancing Revenue Potential through Replacement of Portfolio Assets

Since the fourth fiscal period, our portfolio management has aimed to increasingly boost portfolio revenue and revenue potential by classifying our portfolio assets into “core assets” and “sub-core assets” under a new asset classification based on the characteristics of the assets and purposes of our asset holdings.

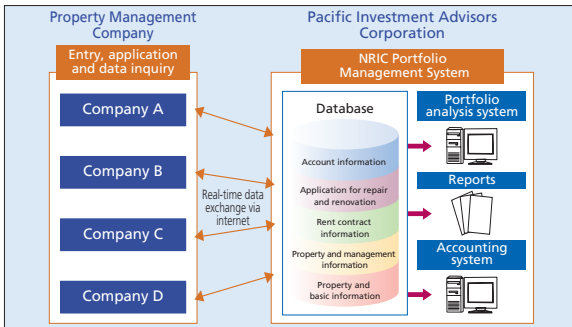
The replacement of properties was carried out by newly acquiring primarily core asset properties and selling sub-core asset properties. Consequently, the proportion of all properties that are core assets increased to 90.7% (based on acquisition price) at the end of the seventh fiscal period. By incorporating properties that exhibit high revenue potential into the portfolio, NRIC has managed to form a basis for future stable management over the medium and long term.

## Seeking Stability and Growth

### Strategic Asset Management Based on Database

NRIC forges database-based strategic asset management by utilizing the asset management company's proprietary, NRIC Portfolio Management System. Utilization of this system enables the status of the portfolio to be grasped in real-time. Furthermore, use of the data accumulated for each area enables the appropriate rent for vacant residential units to be set. Through this system, NRIC is promoting reduction in downtime.

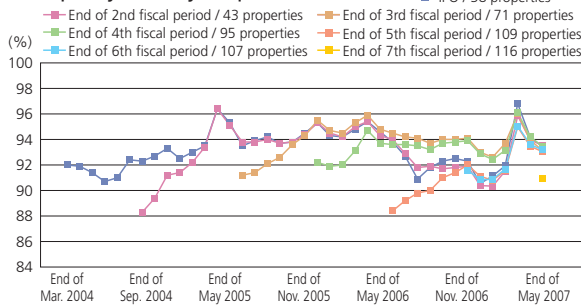
### Conceptual Diagram of the NRIC Portfolio Management System



### Steady Increase in Occupancy Rate

NRIC managed to sustain an occupancy rate of 91.0% (based on floor space; hereafter the same) for the 116 properties owned at the end of the seventh fiscal period. Concerning the 104 properties owned from the beginning of the seventh fiscal period through to the end of the seventh fiscal period, our steady leasing activities during the fiscal period resulted in the occupancy rate reaching 93.2% at the end of the fiscal period.

### Occupancy Rate by Acquisition Term



### Early Lease-Up for Properties Under Construction or Development

With Pacific Tower Meguro-Fudomae (C-25), Pacific Residence Ebisu-Minami (C-35) and Pacific Residence Nihonbashi-Bakurocho (F-18) that were acquired during the seventh fiscal period, sublease agreements were concluded in the form of rent guarantees with sublease companies. NRIC is convinced that making use of such sublease agreements enables a stable inflow of rent revenues to be achieved from the time of acquisition also in the case of properties under construction or development. In addition, NRIC intends to strive for stable portfolio revenue by capitalizing on such sublease agreements among other approaches, centering on large properties, in subsequent fiscal periods.

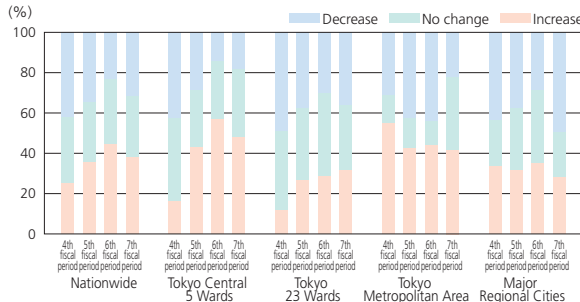
### C-25 Pacific Tower Meguro-Fudomae



### Improving Rental Revenue and Boosting Value

NRIC pursues rent increases primarily for properties that exhibit superior competitiveness in the rental housing market and properties for which we have heightened added-value for tenants through new capital investment, provision of services, etc. Of the 806 new contracts entered into during the seventh fiscal period (contracts with previous contracts, but excluding contracts for stores, offices, etc.), we raised rent by an average of 5% for 306 contracts, or 38% of the contracts, and thereby managed to improve rent (comparison between previous contracted rent and new contracted rent; overall rate of increase is 0%). NRIC plans to continue seeking the realization of revenue potential by building on this momentum of rent increases.

#### Rent Trends



Conversion work was performed on K2 (S-43). Revenue potential was enhanced through effective utilization of dead space by converting the use of part of the office, which has long been vacant, to apartment use and reconstructing the spatial composition.

#### Example of Conversion with K2 (S-43)

[Before conversion]



[After conversion]



### Maintaining High Property Management Levels

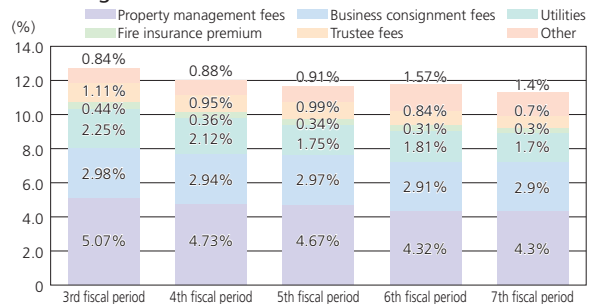
NRIC regularly evaluates the performance and credibility of property management (PM) companies to which rental management and property management for portfolio assets are entrusted. Additionally, NRIC changes PM companies depending on those evaluation results. During the seventh fiscal period as well, the PM company was changed for one property. By changing PM companies, NRIC sustains management of portfolio assets constantly at high levels.

### Cost Reduction Effects of Economies of Scale

As mentioned at the beginning, NRIC owns the most number of properties among all J-REITs. Accordingly, we are able to achieve cost reduction deriving from economies of scale by consolidating management.

As indicated in the following graph, the percentage of fixed costs in the income from rent and common fees is decreasing. By owning many properties in a certain region, we can contract the management of those properties in bulk.

#### Percentage of Each Fixed Cost in Rent and Common Fees



## Flexible Financial Strategy

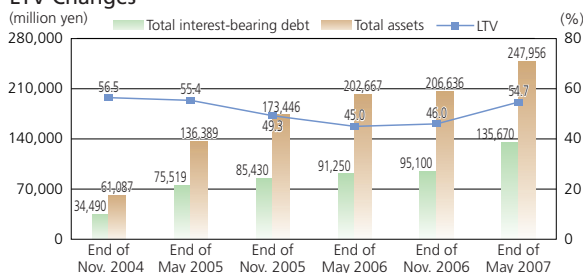
### Balanced Fund Procurement

In procuring funds, we have aimed to preserve financial stability while enhancing flexibility and liquidity.

### Maintaining a Healthy Debt Ratio

NRIC primarily conducts fund procurement through loans focused on liquidity to acquire properties during the fiscal period. As a result of property acquisitions during the fiscal period, the LTV (Loan to Value = Interest-bearing debt ÷ Total assets) at the end of the seventh fiscal period was at a relatively high level of 54.7%.

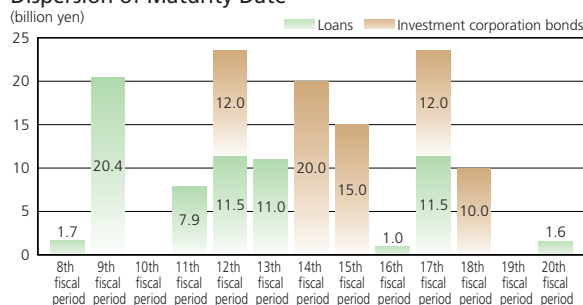
#### LTV Changes



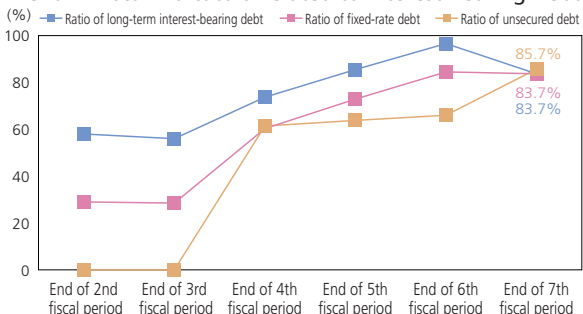
### Coping with Rising Interest Rates

In anticipation of rising interest rates, we promoted long term interest-bearing debt accounts and loans that have fixed interest rates. We achieved substantial improvements as a result, with the ratio of interest-bearing debt that is long term being 83.7% and the ratio of loans with fixed interest rates rising to 83.7% at the end of the seventh fiscal period.

#### Dispersion of Maturity Date



#### Trend in Fiscal Indicators Related to Interest-Bearing Debt



### Minimizing the Risks of Fund Procurement

As one of the diversified fund procurement methods, NRIC issued investment corporation bonds in the seventh fiscal period, raising ¥12 billion. Moreover, NRIC is also striving to diversify fund procurement sources. Proceeding to undertake the abovementioned initiatives resulted in NRIC obtaining an A2 rating from Moody's Investors Service, Inc. during the seventh fiscal period on May 21, 2007.

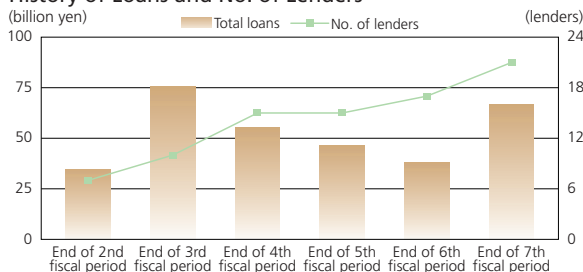
#### Summary of Investment Corporation Bonds

Public/Private Offering	Issuance Date	Redemption Maturity (Period)	Total Issuance Amount	Interest Rate	Rating
Public	July 20, 2005	July 20, 2010 (5 yrs)	¥10bn	0.74%	A2 (Note 1)
Public	Sept. 26, 2005	Sept. 24, 2010 (5 yrs)	¥10bn	0.84%	A2 (Note 1)
Public	Sept. 26, 2005	Sept. 24, 2012 (7 yrs)	¥10bn	1.28%	A2 (Note 1)
Public	Feb. 20, 2006	Feb. 18, 2011 (5 yrs)	¥15bn	1.50%	A2 (Note 1) A+ (Note 2)
Public	Oct. 25, 2006	Oct. 23, 2009 (3 yrs)	¥12bn	1.54%	A2 (Note 1) A+ (Note 2)
Public	Feb. 9, 2007	Feb. 9, 2012 (5 yrs)	¥12bn	1.84%	A2 (Note 1) A+ (Note 2)
<b>Total</b>	—	—	<b>¥69bn</b>	—	—

(Note 1) Acquired from Moody's Investors Service, Inc.

(Note 2) Acquired from Rating and Investment Information, Inc.

#### History of Loans and No. of Lenders



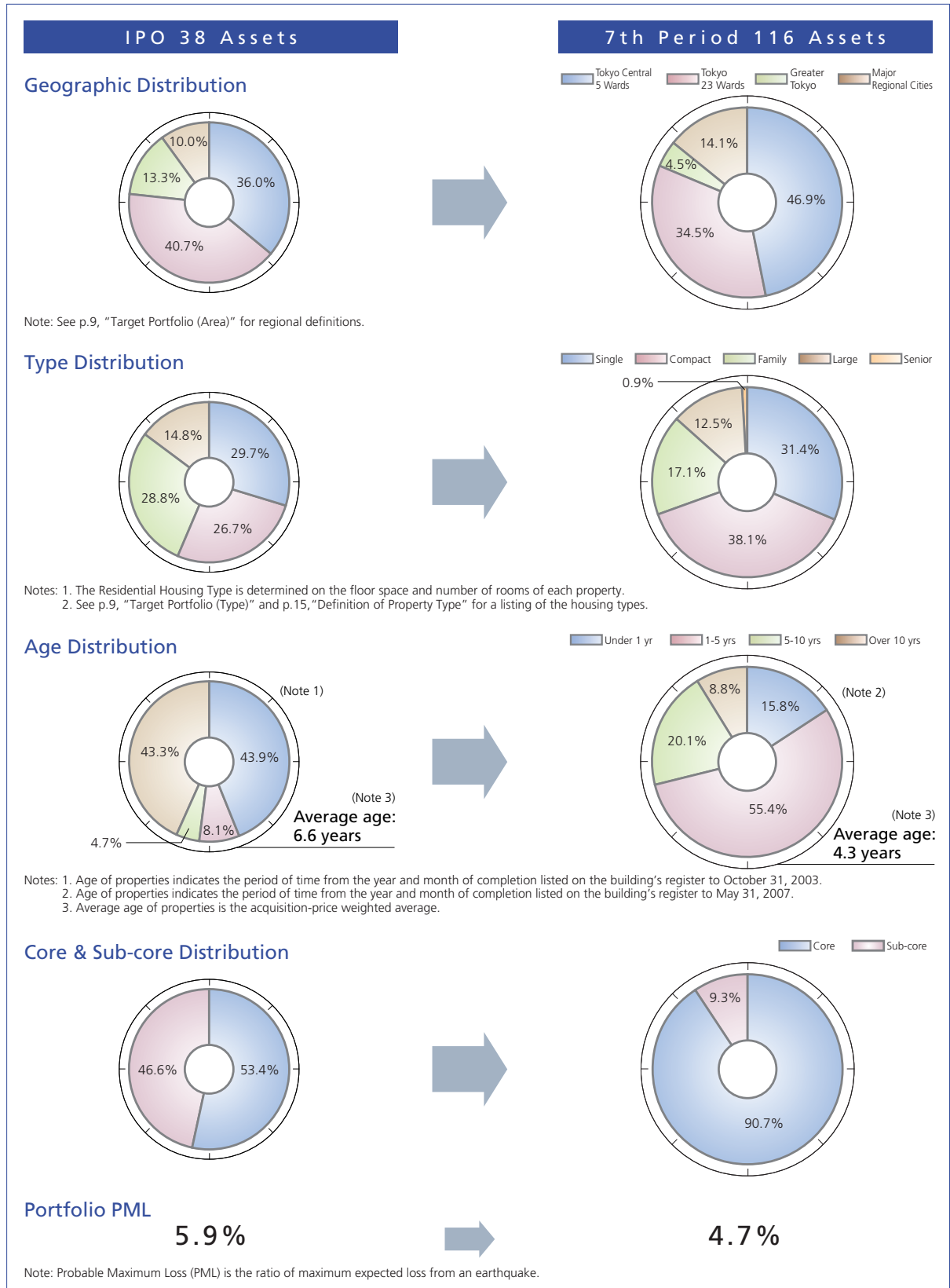
## Outlook for the Eighth Fiscal Period

In the eighth fiscal period, having increased capital through public offering and completed corresponding property acquisitions, NRIC intends to conduct management by effectively utilizing the network of the entire portfolio encompassing these properties as well.

Pacific Investment Advisors Corporation will be unchanging in its dedication to maximizing performance as a professional in asset management and pledges to continue fulfilling the expectations of NRIC's unitholders so that NRIC serves as a social and economic infrastructure that is long trusted by the people.

# Real Estate Portfolio

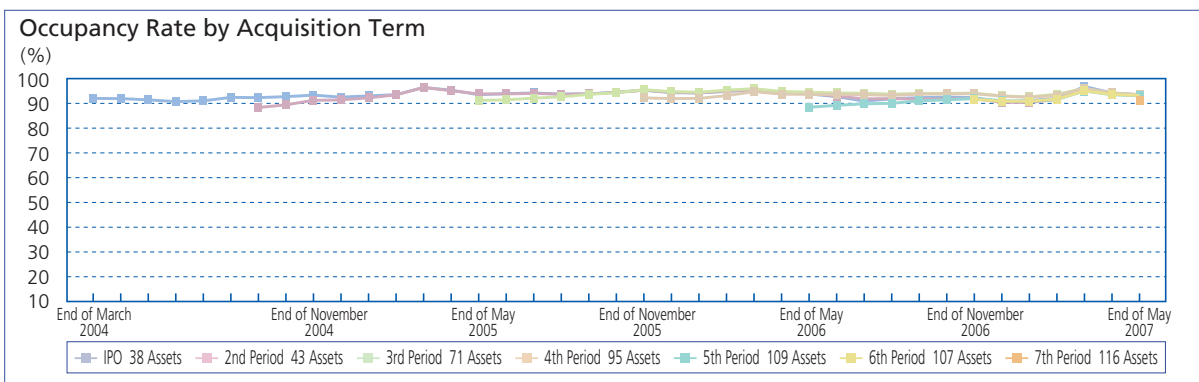
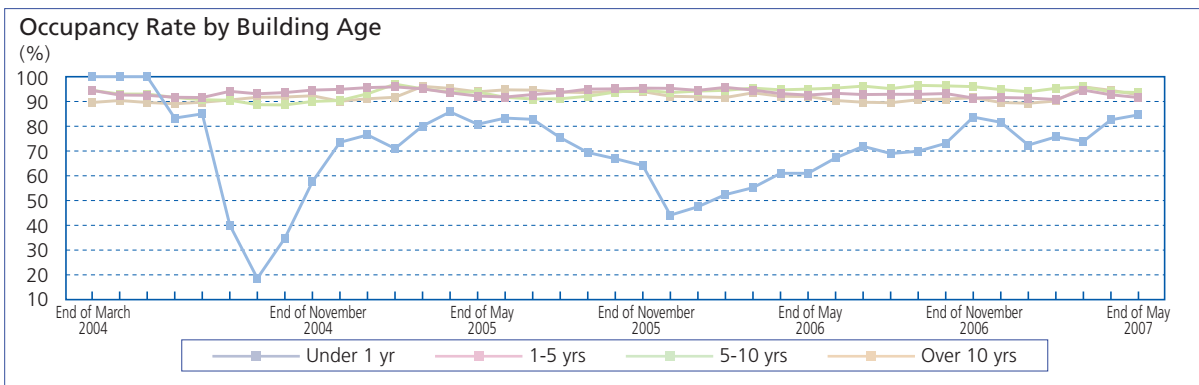
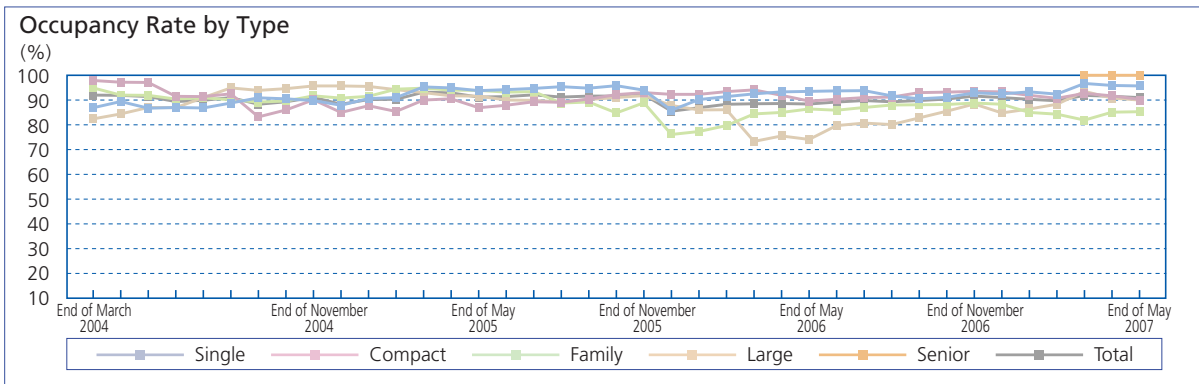
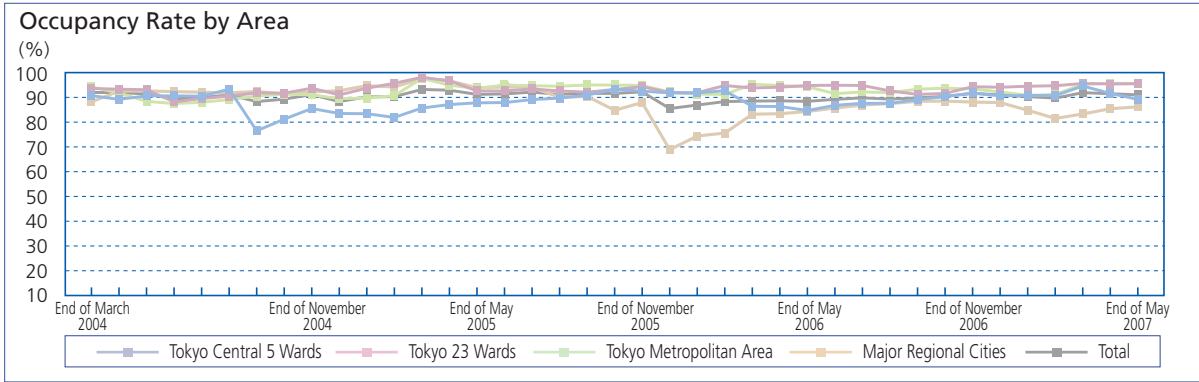
## Diversified High-quality Portfolio



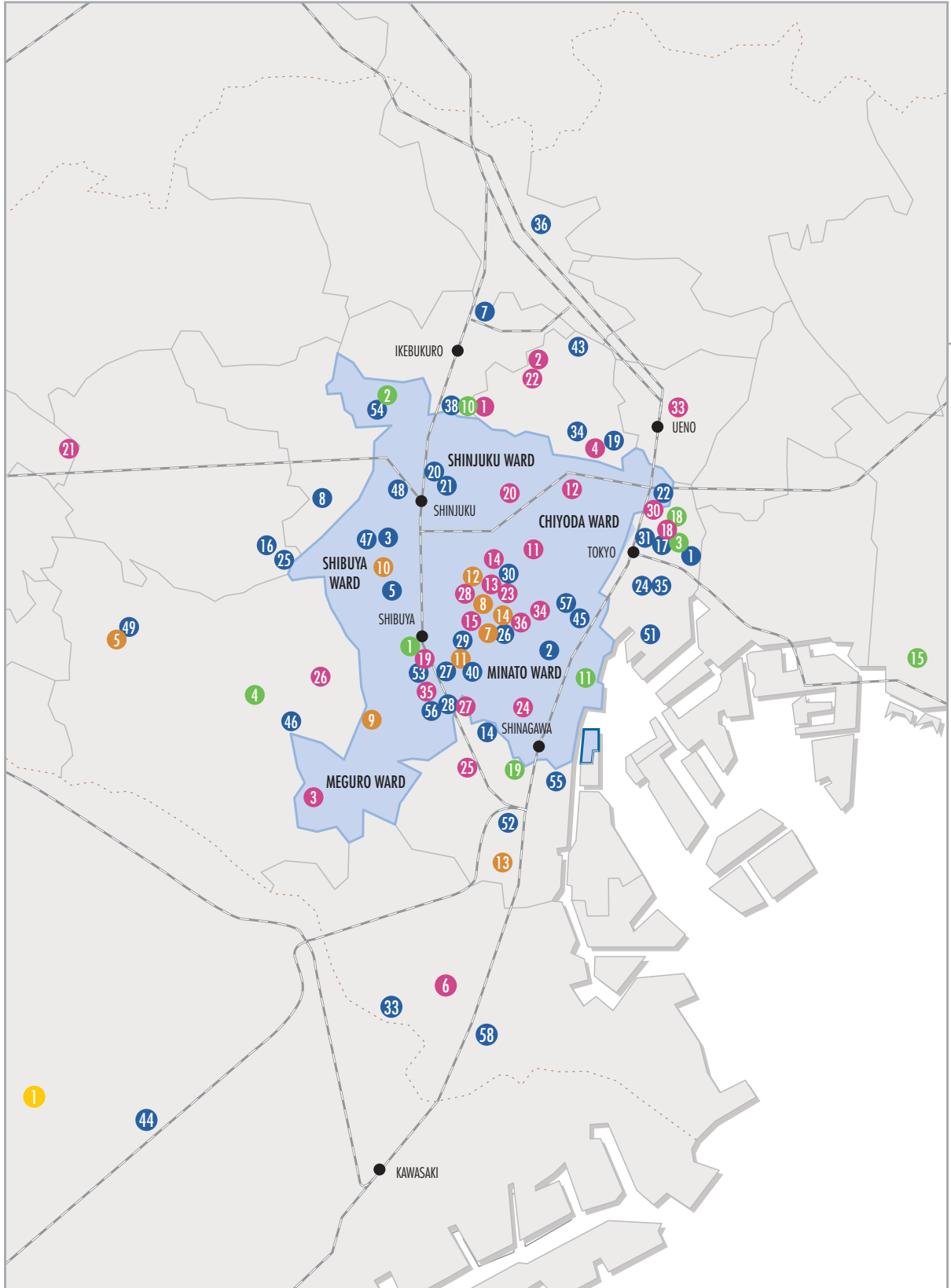
Note: The investment ratios above are the ratios of the total acquisition price of assets acquired in each category to the total acquisition price of all acquired assets.



## Changes in Occupancy Rate of Portfolio (as of May 31, 2007)



# P O R T F O L I O M A P



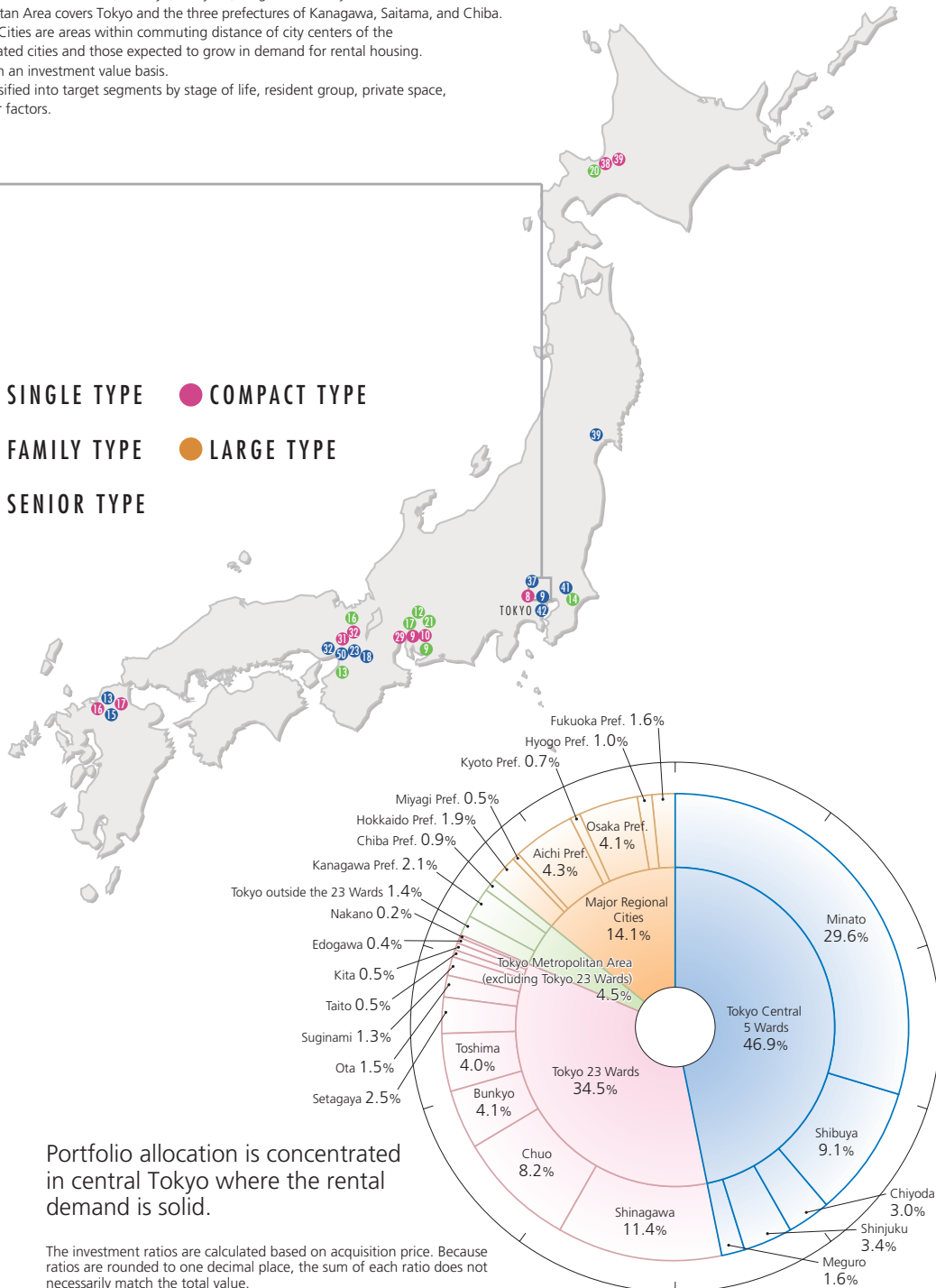
Note: See p. 13, "Properties Roster" for the detail of each property.

## Target Portfolio

Area	Ratio (Note 4)	Type (Note 5)	Ratio (Note 4)
Tokyo Central 5 Wards (Note 1)	30-50%	Single	15-35%
Tokyo 23 Wards (excluding Tokyo Central 5 Wards)	30-50%	Compact	25-45%
Tokyo Metropolitan Area (excluding Tokyo 23 Wards) (Note 2)	0-20%	Family	10-30%
Major Regional Cities (excluding Tokyo Metropolitan Area) (Note 3)	0-20%	Large	5-25%
		Senior	0-10%

Note 1: The Tokyo Central 5 Wards are Minato, Shibuya, Shinjuku, Meguro and Chiyoda wards.  
 Note 2: The Tokyo Metropolitan Area covers Tokyo and the three prefectures of Kanagawa, Saitama, and Chiba.  
 Note 3: The Major Regional Cities are areas within commuting distance of city centers of the Government-designated cities and those expected to grow in demand for rental housing.  
 Note 4: Ratio is calculated on an investment value basis.  
 Note 5: Each property is classified into target segments by stage of life, resident group, private space, floor plan, and other factors.

- SINGLE TYPE      ● COMPACT TYPE
- FAMILY TYPE      ● LARGE TYPE
- SENIOR TYPE



Portfolio allocation is concentrated in central Tokyo where the rental demand is solid.

The investment ratios are calculated based on acquisition price. Because ratios are rounded to one decimal place, the sum of each ratio does not necessarily match the total value.



## Pacific Quality

Among our asset holdings, the brand name "Pacific" has been given to properties considered to have potential to provide a favorable environment for residents over a long-term period. The high quality and value-added services of these properties have generated strong name recognition and dependability in the real estate market, and we plan to continue to establish the "Pacific Quality" brand image.





## Moving to the Next Stage

NRIC consider the lifestyle, life stages and various needs of our clients to offer "Total Life Support," our corporate philosophy. Under "Pacific Quality," we pursue long-term stability and enhancement of property value.



# Our Vision

Nippon Residential Investment Corporation is committed to being an infrastructure of the Japanese economy by providing superior financial products and excellent rental housing.



# Properties Roster

## Roster of Assets owned at the end of 7<sup>th</sup> fiscal period

Property No. (note1)	Asset Type (note2)	Area (note3)	Property Name	Acquisition Price (mn yen)	Building Structure (note4,5)	Number of Floors (note4,5)	Rentable Units (note6)	Date of Completion (note4)
S-1	Core1	Tokyo 23 Wards	Pacific Liew Shinkawa	2,050	RC	7F	83	Feb.2003
S-2	Core1	Tokyo Central 5 Wards	Pacific Liew Shiba Daimon	1,900	RC	B1F/10F	63	Nov. 2002
S-3	Sub-core	Tokyo Central 5 Wards	Glenpark Sangubashi	1,040	RC	7F	27	Mar. 2003
S-5	Sub-core	Tokyo Central 5 Wards	Leopalace Udagawacho Mansion	569	RC	5F	30	Aug. 2001
S-7	Sub-core	Tokyo 23 Wards	Escort Kami-Ikebukuro	644	RC	8F	44	Dec. 2001
S-8	Core1	Tokyo 23 Wards	Pacific Residence Shin-Nakano	448	SRC	11F	24	Jun. 2002
S-9	Sub-core	Tokyo Metropolitan Area	Dormitory Haramachida	490	SRC/S	B1F/12F	73	Jul. 1992
S-13	Sub-core	Major Regional Cities	Yoshizuka AG Building No.6 and No.7	428	RC	5F	86	No.6: Mar.1987 No.7: Jan.1988
S-14	Core1	Tokyo 23 Wards	Pacific Liew Shirokanedai	1,250	RC	B1F/5F	32	May 2004
S-15	Core2	Major Regional Cities	Grand Blue Hakata	1,582	SRC	14F	155	Mar. 2002
S-16	Sub-core	Tokyo 23 Wards	J Stage Honancho	952	RC	B1F/7F	91	Mar. 1992
S-17	Core2	Tokyo 23 Wards	Park Habio Kyobashi	2,725	SRC/S	B1F/13F	63	Aug. 2004
S-18	Core1	Major Regional Cities	Pacific Liew Tenjinbashi	970	SRC	12F	78	Feb. 2000
S-19	Core1	Tokyo 23 Wards	Pacific Residence Yushimasanchome	1,020	SRC	12F	63	Mar. 2004
S-20	Core1	Tokyo Central 5 Wards	Pacific Residence Shinjuku East	1,397	RC	10F	54	Feb. 2004
S-21	Core1	Tokyo Central 5 Wards	Pacific Liew Shinjuku higashi	854	SRC	8F	48	Aug. 2000
S-22	Core1	Tokyo Central 5 Wards	Pacific Residence Kandaiwamotocho	1,657	RC	B1F/15F	65	Feb. 2004
S-23	Core2	Major Regional Cities	Umeda Excelheights	5,250	SRC	B1F/15F	414	Feb. 2002
S-24	Core1	Tokyo 23 Wards	Pacific Residence Tsukiji	1,320	RC	11F	54	Dec. 2005
S-25	Core1	Tokyo 23 Wards	Pacific Residence Sasaduka	1,950	RC	6F	96	Mar. 2000
S-26	Core1	Tokyo Central 5 Wards	Pacific Residence Minamiazabu	1,060	RC	B1F/9F	37	Feb. 2001
S-27	Core1	Tokyo Central 5 Wards	Pacific Residence Ebisuhighashi	660	SRC	10F	26	Jan. 2001
S-28	Core1	Tokyo 23 Wards	Pacific Residence Meguronishi	800	RC	B1F/7F	20	Oct. 1999
S-29	Core1	Tokyo Central 5 Wards	Pacific Residence Hiroo 3chome	850	RC	2~3F	29	Sep. 1999
S-30	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka II	1,567	RC	B1F/5F	37	Jan. 2005
S-31	Core1	Tokyo 23 Wards	Pacific Liew Kyobashi	1,401	SRC/S	B1F/15F	52	Jan. 2005
S-32	Core1	Major Regional Cities	Pacific Residence Sannomiyahigashi	2,247	RC	15F	161	Nov. 2005
S-33	Core1	Tokyo 23 Wards	Pacific Liew Tamagawa	1,514	RC	7F	98	Sep. 2004
S-34	Sub-core	Tokyo 23 Wards	Maison Korakuen	710	SRC	11F	31	Oct. 2004
S-35	Core1	Tokyo 23 Wards	Pacific Liew Ginzaigashi	2,348	SRC	B1F/14F	94	Sep. 2004
S-36	Sub-core	Tokyo 23 Wards	Relation Oji	1,027	RC	11F	61	Feb. 2005
S-37	Sub-core	Tokyo Metropolitan Area	No. 6 Zelvova Mansion	609	RC	9F	33	Feb. 2003
S-38	Core1	Tokyo 23 Wards	Pacific Liew Wasedanishi	1,100	RC	12F	63	Jul. 2005
S-39	Sub-core	Major Regional Cities	KC21 Building	1,167	SRC	11F	79	Mar. 1997
S-40	Core1	Tokyo Central 5 Wards	Pacific Liew Hiroo	1,741	SRC	12F	76	Nov. 2005
S-41	Sub-core	Tokyo Metropolitan Area	Cosmo Nishi-Funabashi II	799	RC/S	B1F/7F	70	Mar. 1992
S-42	Core1	Tokyo Metropolitan Area	Pacific Liew Yokohama Kannai	1,950	SRC	11F	102	Aug. 2004
S-43	Sub-core	Tokyo 23 Wards	K2	393	SRC	B1F/11F	22	Sep. 1992
S-44	Sub-core	Tokyo Metropolitan Area	FLATS Okurayama	895	RC	5F	64	Mar. 1998
S-45	Core2	Tokyo Central 5 Wards	Pianeta Shiodome	2,782	RC	12F	67	Feb. 2005
S-46	Sub-core	Tokyo 23 Wards	ZESTY Komazawadaigaku	393	RC	4F	18	Oct. 2004
S-47	Sub-core	Tokyo Central 5 Wards	ZESTY Yoyogi	377	RC	4F	16	Feb. 2005
S-48	Sub-core	Tokyo Central 5 Wards	ZESTY Nishishinjuku	436	RC	5F	19	Feb. 2005
S-49	Sub-core	Tokyo 23 Wards	ZESTY Kyodo	344	RC	4F	15	Feb. 2005
S-50	Core1	Major Regional Cities	Pacific Liew Utsubokoan	1,200	SRC	15F	94	Jan. 2006
S-51	Core1	Tokyo 23 Wards	Pacific Residence Tsukishima I	1,176	RC	9F	40	Feb. 2006
S-52	Core2	Tokyo 23 Wards	CYNTHIA Oimachi	1,100	RC	13F	48	Dec. 2005
S-53	Core1	Tokyo Central 5 Wards	Pacific Residence Ebisu	3,500	RC	15F	61	Jan. 2006
S-54	Core1	Tokyo Central 5 Wards	Pacific Residence Kamiochiai	1,332	RC	B1F/6F	70	Sep. 2006
S-55	Core1	Tokyo 23 Wards	Pacific Residence Higashi-Shinagawa	2,317	RC	11F	122	Aug. 2006
S-56	Core2	Tokyo Central 5 Wards	LUKE	1,530	RC	B1F/5F	34	Jan. 2006
S-57	Core1	Tokyo Central 5 Wards	Pacific Residence Toranomom	1,484	RC	B1F/14F	63	Sep. 2006
S-58	Core1	Tokyo 23 Wards	Pacific Residence Kamata I	1,579	RC	15F	78	Sep. 2006
C-1	Core1	Tokyo 23 Wards	Pacific Residence Bunkyoootowa	3,590	RC	B1F/10F	104	Aug. 2003

Property No. (note1)	Asset Type (note2)	Area (note3)	Property Name	Acquisition Price (mn yen)	Building Structure (note4,5)	Number of Floors (note4,5)	Rentable Units (note6)	Date of Completion (note4)
C-2	Core1	Tokyo 23 Wards	Pacific Residence Sengoku	760	SRC	12F	33	Feb. 2003
C-3	Core1	Tokyo Central 5 Wards	Pacific Livew Jiyugaoka	1,080	SRC	B1F/10F	28	Mar. 2002
C-4	Core1	Tokyo 23 Wards	Pacific Residence Yushima	1,110	RC	11F	39	Feb. 2003
C-6	Sub-core	Tokyo 23 Wards	ZESTY Ikegami Building A and Building B	381	RC	4F	19	Jul. 2003
C-8	Core1	Tokyo Metropolitan Area	Pacific Livew Hachioji	700	RC	9F	40	Jan. 1988
C-9	Sub-core	Major Regional Cities	Grand Heights Hibino	1,230	SRC	14F	124	Apr. 1992
C-10	Core1	Major Regional Cities	Pacific Residence Koyocho	454	RC	5F	40	Feb. 2000
C-11	Core1	Tokyo Central 5 Wards	Pacific Livew Nagatacho	1,000	RC	10F	23	Jan. 2003
C-12	Core1	Tokyo Central 5 Wards	Pacific Residence Suidobashi	2,330	SRC	B1F/14F	65	Dec. 2004
C-13	Core1	Tokyo Central 5 Wards	Pacific Tower Nogizaka	3,900	RC	B2F/19F	68	Aug. 2004
C-14	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka I	1,300	RC	5F	37	May 2004
C-15	Core2	Tokyo Central 5 Wards	Apartments Nishi-Azabu	7,920	SRC	B1F/14F	125	Jul. 2004
C-16	Core1	Major Regional Cities	Pacific Residence Tenjinminami	1,200	SRC	15F	56	Jan. 2004
C-17	Core1	Major Regional Cities	Pacific Livew Hakataeki-Minami	420	SRC/RC	11F	39	Jan. 2003
C-18	Core1	Tokyo 23 Wards	Pacific Residence Ningyocho	572	RC	B1F/7F	25	Mar. 2004
C-19	Core1	Tokyo Central 5 Wards	Pacific Residence Daikanyama	2,180	RC	B1F/8F	42	Jul. 2004
C-20	Core1	Tokyo Central 5 Wards	Pacific Residence Ichigaya	2,580	SRC	B1F/14F	85	Aug. 2004
C-21	Core1	Tokyo Metropolitan Area	Pacific Residence Kichijoji	1,445	RC	3F	48	Mar. 1995
C-22	Core1	Tokyo 23 Wards	Pacific Residence Bunkyo-sengoku	1,557	SRC	13F	45	Apr. 2005
C-23	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka Hinokicho	4,710	RC	B1F/8F	87	Sep. 1999
C-24	Core1	Tokyo Central 5 Wards	Pacific Residence Takanawa	1,550	SRC	B2F/8F	31	Jan. 2003
C-25	Core1	Tokyo 23 Wards	Pacific Tower Meguro-Fudomae	14,507	RC	B3F/30F	358	Jan. 2007
C-26	Core2	Tokyo 23 Wards	Storia Sangen-Jaya	3,311	RC	B1F/14F	78	Jan. 2005
C-27	Core1	Tokyo 23 Wards	Pacific Livew Chojamaru	3,338	RC	B2F/3F	71	Mar. 2005
C-28	Sub-core	Tokyo Central 5 Wards	L'air Minami Aoyama	1,030	RC	B1F/4F	13	Mar. 2005
C-29	Core2	Major Regional Cities	Mare	963	SRC	12F	38	Feb. 2005
C-30	Core1	Tokyo Central 5 Wards	Pacific Livew Kandahigashi	1,880	SRC	15F	64	Oct. 2003
C-31	Sub-core	Major Regional Cities	Melody Heim Shin-Osaka	956	SRC	10F	70	Apr. 1994
C-32	Sub-core	Major Regional Cities	Melody Heim Matsubara	643	RC	8F	53	Mar. 1994
C-33	Core1	Tokyo 23 Wards	Pacific Livew Iriya	1,190	SRC	11F	49	Dec. 2004
C-34	Core1	Tokyo Central 5 Wards	Pacific Residence Higashi-Azabu	1,570	RC	12F	31	May 2006
C-35	Core1	Tokyo Central 5 Wards	Pacific Residence Ebisu-Minami	2,436	RC	B1F/8F	39	Mar. 2007
C-36	Core1	Tokyo Central 5 Wards	Pacific Tower Azabu-juban	9,060	RC	B2F/25F	113	Jan. 2003
C-38	Core1	Major Regional Cities	Pacific Residence Odori-Nishi	1,790	RC	B1F/15F	103	Dec. 2006
C-39	Core1	Major Regional Cities	Pacific Residence Kita-sanjo	1,261	RC	B1F/11F	100	Jan. 2007
F-1	Core1	Tokyo Central 5 Wards	Pacific Residence Sakuragaoka	3,960	SRC	B2F/12F	66	Apr. 2003
F-2	Core1	Tokyo Central 5 Wards	Pacific Residence Mejiro Otomeyama	1,100	RC	B1F/3F	19	Dec. 2002
F-3	Core1	Tokyo 23 Wards	Pacific Residence Shinkawa	1,420	SRC	14F	36	Feb. 2003
F-4	Sub-core	Tokyo 23 Wards	Setagaya Sun Heights	982	RC	4F	38	Jul. 1992
F-9	Sub-core	Major Regional Cities	Sky Heights Hirabari	554	RC	B1F/9F	36	Feb. 1995
F-10	Core1	Tokyo 23 Wards	Pacific Residence Mejiro	7,350	SRC	B1F/10F	162	Jan. 1999
F-11	Core1	Tokyo Central 5 Wards	Pacific Residence Shibaura	4,900	SRC	B2F/15F	154	Sep. 1991
F-12	Core1	Major Regional Cities	Pacific Residence Shirakabehigashi	1,070	RC	8F	33	May 2005
F-13	Core1	Major Regional Cities	Pacific Residence Sakaihigashi	890	SRC/RC	15F	50	Aug. 2005
F-14	Sub-core	Tokyo Metropolitan Area	Maison Yachiyodai	1,281	SRC	8F	39	Aug. 1989
F-15	Sub-core	Tokyo 23 Wards	Abreast Kasai	807	RC	7F	29	Jan. 2000
F-16	Core1	Major Regional Cities	Pacific Residence Uzumasa	958	RC	B1F/7F	48	Jan. 2000
F-17	Core1	Major Regional Cities	Pacific Residence Izumi	4,400	SRC	15F	122	Nov. 2005
F-18	Core1	Tokyo 23 Wards	Pacific Residence Nihonbashi-Bakurocho	5,380	RC	17F	132	Feb. 2007
F-19	Core1	Tokyo 23 Wards	Pacific Residence Gotenyama	1,186	RC	B1F/3F	16	Jan. 2007
F-20	Core1	Major Regional Cities	Pacific Residence Maruyama Kita-gojo	1,284	RC	15F	56	Feb. 2007
F-21	Core1	Major Regional Cities	Pacific Residence Tokugawa	975	RC	9F	27	Dec. 2006
L-5	Sub-core	Tokyo 23 Wards	Petit Cour Kinuta	684	RC	B1F/5F	11	Mar. 1990
L-7	Core2	Tokyo Central 5 Wards	Motoazabu Place	10,270	RC	3~5F	41	Feb. 2001
L-8	Core1	Tokyo Central 5 Wards	Pacific Tower Roppongi	8,456	RC	B2F/27F	83	Feb. 2006
L-9	Core1	Tokyo Central 5 Wards	Pacific Residence Kamimeguro	1,000	RC	B1F/5F	16	Jan. 1993



Property No. (note1)	Asset Type (note2)	Area (note3)	Property Name	Acquisition Price (mn yen)	Building Structure (note4,5)	Number of Floors (note4,5)	Rentable Units (note6)	Date of Completion (note4)
L-10	Core1	Tokyo Central 5 Wards	Pacific Residence Yoyogikoen	1,310	RC	B1F/4F	6	Jul. 1998
L-11	Core2	Tokyo Central 5 Wards	Windsor House Hiroo	2,000	RC	B1F/3F	12	Jun. 2003
L-12	Sub-core	Tokyo Central 5 Wards	SOHO Kita Aoyama	1,160	RC	B1F/3F	10	Mar. 2004
L-13	Core1	Tokyo 23 Wards	Pacific Residence Ohi	1,120	RC	B1F/5F	22	Oct. 1989
L-14	Core2	Tokyo Central 5 Wards	Root Azabu Jyuban	2,220	SRC/S	14F	26	Jan. 1999
SE-1	Core2	Tokyo Metropolitan Area	Life & Senior House Kohoku II	1,950	SRC	6F	78	Oct. 2004
Total				225,466	-	-	7,294	-

### Roster of Assets to be acquired during 8<sup>th</sup> fiscal period

Property No. (note1)	Asset Type (note2)	Area (note3)	Property Name	Acquisition Price (mn yen)	Building Structure (note4,5)	Number of Floors (note4,5)	Rentable Units (note6)	Date of Completion (note4)
S-59	Core1	Tokyo Metropolitan Area	Pacific Residence Musashikosugi	1,767	RC	B1F/5F	68	Feb. 2007
S-60	Core1	Tokyo Central 5 Wards	Pacific Residence Kanda-Ogawamachi	1,370	RC	14F	52	Mar. 2006
S-61	Core1	Tokyo Central 5 Wards	Pacific Residence Sodai-dori	1,090	RC	12F	52	Aug. 2006
S-62	Core1	Major Regional Cities	Pacific Livew Kyoto-ekimae	2,200	RC	B1F/10F	116	Feb. 2006
S-63	Core1	Tokyo 23 Wards	Pacific Residence Tsukishima II	2,650	RC	12F	105	Sep. 2006
C-37	Core1	Major Regional Cities	Pacific Residence Minami-ichijo	1,910	RC	B1F/15F	179	Dec. 2006
C-40	Core2	Tokyo Central 5 Wards	Cosmos Gracia Shibuya	1,633	SRC	B1F/11F	40	Jun. 2006
C-41	Core1	Tokyo 23 Wards	Pacific Livew Nakanobu	2,040	RC	14F	65	Nov. 2005
C-42	Core1	Tokyo Central 5 Wards	Pacific Residence Azabudai	2,040	RC	14F	47	Feb. 2006
C-43	Core1	Tokyo Central 5 Wards	Pacific Residence Shibadaimon	1,980	RC	13F	48	Aug. 2006
C-44	Sub-core	Tokyo 23 Wards	Glana Nihonbashi	1,550	RC	10F	45	Aug. 2006
C-45	Sub-core	Tokyo Central 5 Wards	Nostel Court Kanda	1,320	RC	13F	43	Jun. 2006
L-15	Core1	Tokyo Central 5 Wards	Pacific Residence Daikanyama-Sarugakucho/ Daikanyama Parkside Village	8,140	RC	B1F/9F B1F/3F	77	May. 2006 Nov. 1982
Total				29,690	-	-	937	-

Note 1. Acquisition (or planned acquisition) properties are assigned "Property Numbers" derived of five letter categories – S (Single Type), C (Compact Type), F (Family Type), L (Large Type) and SE (Senior Type) – and a number.

Note 2. Asset Categories (Core, Sub-core)

Core assets are properties determined to have a superior quality environment for residents and long-term value potential as based on evaluation of various aspects, including convenience, surrounding environment, management conditions, deterioration level, and the equipment and specifications of the facilities. Sub-core assets are properties with competitiveness equivalent to the core assets but which are determined to have excellent profitability and liquidity and therefore are viewed as capable of providing steady rental revenue into the mid-and-long terms. Core assets are further divided into Core 1 for properties bearing the "Pacific" brand name and Core 2 for all other properties.

Note 3. Tokyo Central 5 wards are defined as Minato Ward, Shibuya Ward, Shinjuku Ward, Meguro Ward and Chiyoda Ward. Tokyo 23 wards are the remaining wards other than Tokyo Central 5 wards. The Tokyo Metropolitan area is the remaining parts in Tokyo (excluding Tokyo 23 wards) and the adjacent prefectures Kanagawa Prefecture, Saitama Prefecture, and Chiba Prefecture. Major Regional Cities are within reasonable commuting distance to the center of the Government-designated cities and where residential rental housing and other property demand are expected to grow.

Note 4. The "Building Structure", "Number of Floors" and "Date of Completion" are based on official registration entries.

Note 5. Abbreviations appearing in the "Building Structure" and "Number of Floors" columns represent the following: RC = reinforced concrete structure, SRC = steel-framed reinforced concrete structure, S = steel structure, and B = underground (basement).

Note 6. "Rentable Units" represents the number of rental units and units that tenants could potentially sublease. The figures are based on data as of the end of May 2007.

Note 7. Figures include F-4 Setagaya Sun Heights, L-5 Petit Cour Kinuta and L-14 Root Azabu Jyuban for which the sales transactions were completed on June 1, 2007 and September 26, 2007.

## Definition of Property Type

Room layout	Exclusive Area (m <sup>2</sup> )							
	Up to 30	Up to 40	Up to 50	Up to 60	Up to 70	Up to 80	Up to 90	Over 90
Studio	S	S	C	C	L	L	L	L
1K	S	S	C	C	L	L	L	L
1DK	S	C	C	C	L	L	L	L
1LDK	-	C	C	C	L	L	L	L
2DK	-	C	C	C	F	F	L	L
2LDK	-	-	C	C	F	F	L	L
3DK	-	-	C	F	F	F	F	L
3LDK	-	-	-	F	F	F	F	L
4LDKor Over	-	-	-	-	F	F	F	L

Note 1. Single Type is designated as "S," Compact Type is "C," Family Type is "F," and Large Type is "L." The spaces marked "-" indicate that, in principle, there is no investment property within that category.

Note 2. The asset management company uses the following criteria to classify room layouts.

- Studio Residential accommodation composed of single room with integrated kitchen.
- 1 K Residential accommodation composed of single room with separate kitchen. Residential accommodation composed of one main living room and one separate independent kitchen.
- 1 (2, 3) DK Residential accommodation composed of one (or two or three) bedroom(s) with separate combined dining room and kitchen with a space of 4.5 jo or more. (One jo is about 1.7 square meters)
- 1 (2, 3, 4) LDK Residential accommodation composed of one (or two, three or four) bedroom(s) with separate combined lounge, dining and kitchen room with a space of 8 jo or more.

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## FINANCIAL REPORT

For the 7th Period from December 1, 2006 to May 31, 2007

### <Results of Operations>

#### Selected Financial Data

	7th. Period	6th. Period	5th. Period	4th. Period	(Yen in millions) 3rd. Period
Operating revenues	¥ 6,911	¥ 6,343	¥ 5,817	¥ 4,628	¥ 3,403
Operating expenses	3,374	3,061	2,763	2,244	1,794
Operating income	3,537	3,282	3,054	2,384	1,609
Income before income tax	2,680	2,661	2,631	2,022	1,386
Net income	2,678	2,659	2,629	2,021	1,385
Total assets	247,956	206,636	202,668	173,446	136,389
Total unitholders' equity	108,382	108,360	108,405	84,958	58,462
Unitholders' capital	105,593	105,593	105,593	82,937	57,077
Number of units issued (units)	186,809	186,809	186,809	144,327	101,845
Total unitholders' equity per unit (Yen)	580,177	580,056	580,300	588,649	574,034
Cash distribution	2,678	2,658	2,629	2,021	1,385
Distribution per unit (Yen)	14,336	14,232	14,074	14,002	13,599
Net operating income from property leasing activities	4,834	4,271	4,126	3,478	2,554
FFO (Funds From Operation) per unit (Yen)	17,873	16,323	16,932	19,145	19,583
Debt service coverage ratio (times)	6	8	10	10	8
Number of days	182	183	182	183	182

#### Funds from Operations

	(Yen in millions)	
	7th. Period	6th. Period
Net income	2,678	2,659
Adjustments:		
Depreciation	1,289	1,107
Amortization	133	133
Net gain on sales of discontinued operations	761	850
<b>FFO</b>	<b>3,339</b>	<b>3,049</b>

FFO (funds from operations) is computed as net income (performed in accordance with generally accepted accounting principles in Japan), excluding gains and losses from sales of real estate property, plus real estate related depreciation and other amortization.

#### Distribution for the Current Period

	(Yen in thousands)	
	7th. Period	6th. Period
Retained earnings	2,678,231	2,658,807
Undistributed earnings	138	141
Cash distribution	2,678,093	2,658,666
(per unit) (Yen)	<b>14,336</b>	<b>14,232</b>

**Number of properties and related units for the periods presented**

		Properties	Number of Units	Purchase Price (Yen in millions)
	<b>At May 31, 2006</b>	<b>109</b>	<b>6,087</b>	<b>182,693</b>
6th. Period Acquisitions		3	263	5,381
6th. Period Dispositions		5	179	3,771
	<b>At Nov. 30, 2006</b>	<b>107</b>	<b>6,171</b>	<b>184,303</b>
7th. Period Acquisitions		12	1,153	44,663
7th. Period Dispositions		3	30	3,500
	<b>At May. 31, 2007</b>	<b>116</b>	<b>7,294</b>	<b>225,466</b>

**Total debt summary and debt maturity schedule**

**Debt Summary**

		7th. Period	6th. Period
		(Yen in millions)	
Secured		19,400	32,300
Unsecured		116,270	62,800
	<b>Total</b>	<b>135,670</b>	<b>95,100</b>
Fixed Rate		113,500	80,400
Floating Rate		22,170	14,700
	<b>Total</b>	<b>135,670</b>	<b>95,100</b>

**Debt Maturity Schedule**

Year	Yen in millions	% of Total
within 1 year	22,170	16.3%
1 to 2 years	7,900	5.8%
2 to 3 years	34,500	25.4%
3 to 4 years	35,000	25.8%
4 to 5 years	24,500	18.1%
after 5 years	11,600	8.6%
	<b>Total</b>	<b>100.0%</b>

Above numbers include the amount of bonds issued.

## Capitalization

date	remarks	Units outstanding		Paid-in capital	
		Increase	Balance	Increase	Balance
		(number of units)		(Yen in millions)	
Dec 06 2002	Incorporated private offering	200	200	100	100
Mar 02 2004	Initial Public Offering	49,200	49,400	23,616	23,716
Mar 30 2004	Allocation of new units to third party	1,482	50,882	711	24,427
Dec 01 2004	Public Offering	50,000	100,882	32,033	56,460
Dec 17 2004	Allocation of new units to third party	963	101,845	617	57,077
Jun 14 2005	Public Offering	41,000	142,845	24,958	82,035
Jul 08 2005	Allocation of new units to third party	1,482	144,327	902	82,937
Dec 12 2005	Public Offering	41,000	185,327	21,866	104,803
Jan 11 2006	Allocation of new units to third party	1,482	186,809	790	105,593
Jun 21 2007	Public Offering	60,000	246,809	42,581	148,174
Jul 20 2007	Allocation of new units to third party	344	247,153	244	148,418

**Investment Portfolio**

**Living-type**

		As of May 31, 2007	
		Investments	Investment to
		Yen in millions	total assets
			%
Trust Assets	Single Type	34,419	13.8
	Compact Type	35,612	14.4
	Family Type	22,552	9.1
	Large Type	16,989	6.9
	Senior Type	-	-
	sub-total	109,572	44.2
Real Property	Single Type	39,537	15.9
	Compact Type	53,976	21.8
	Family Type	17,192	6.9
	Large Type	12,031	4.9
	Senior Type	2,110	0.9
	sub-total	124,846	50.4
Cash and other assets		13,538	5.4
total assets		247,956	100.0

**Asset-type**

		As of May 31, 2007	
		Investments	Investment to
		Yen in millions	total assets
			%
Trust Assets	Core Type	93,967	37.9
	Sub-Core Type	15,605	6.3
	sub-total	109,572	44.2
Real Property	Core Type	118,787	47.9
	Sub-Core Type	6,059	2.5
	sub-total	124,846	50.4
Cash and other assets		13,538	5.4
total assets		247,956	100.0



Independent Auditors' Report

To the Board of Directors of  
Nippon Residential Investment Corporation

We have audited the accompanying balance sheets of Nippon Residential Investment Corporation as of May 31, 2007 and November 30, 2006, and the related statements of operations, changes in unitholders' equity and cash flows for each of the six months ended May 31, 2007 and November 30, 2006 expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 Nippon Residential Investment Corporation as of May 31, 2007 and November 30, 2006, and the results of its operations and its cash flows for each of the six months ended May 31, 2007 and November 30, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in Note 9 to the financial statements, Nippon Residential Investment Corporation issued new investment units.
- (2) As discussed in Note 9 to the financial statements, Nippon Residential Investment Corporation transferred investment properties.

*KPMG AZSA & Co.*

Tokyo, Japan  
August 17, 2007



NIPPON RESIDENTIAL INVESTMENT CORPORATION  
**BALANCE SHEETS**  
as of May 31, 2007 and November 30, 2006

	<u>As of May 31, 2007</u>	<u>As of Nov. 30, 2006</u>
	(Yen in millions)	
<b>ASSETS</b>		
Investments in real estate (including trust accounts)		
Land	¥ 127,623	¥ 103,927
Depreciable property	110,497	90,004
Construction in progress	25	1,401
Investments in real estate	<u>238,145</u>	<u>195,332</u>
Accumulated depreciation	(4,916)	(3,764)
Investments in real estate, net	233,229	191,568
Other investments		
Leasehold rights	1,214	1,214
Cash and deposits (including trust accounts)	11,725	12,464
Rent receivables	292	287
Allowance for doubtful receivables	(8)	(6)
Receivables, net	<u>284</u>	<u>281</u>
Consumption tax receivables	114	55
Long-term prepaid expense	772	640
Other assets	618	414
<b>TOTAL ASSETS</b>	<b><u>¥ 247,956</u></b>	<b><u>¥ 206,636</u></b>
<b>LIABILITIES and UNITHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	¥ 860	¥ 813
Received in advance	250	17
Short-term loans	22,170	3,200
Income taxes payable	7	2
Long-term loans due within 1 year	-	11,500
Long-term loans	44,500	23,400
Bonds	69,000	57,000
Security deposit	2,617	2,264
Other liabilities	170	80
<b>TOTAL LIABILITIES</b>	<b><u>¥ 139,574</u></b>	<b><u>¥ 98,276</u></b>
<b>UNITHOLDERS' EQUITY:</b>		
Unitholders' capital	¥ 105,593	¥ 105,593
Units authorized ; 2,000,000 units		
Units issued and outstanding ;		
186,809 units as of May 31, 2007		
186,809 units as of Nov. 30, 2006		
Retained earnings	2,678	2,659
Deferred hedge revenue	111	108
<b>TOTAL UNITHOLDERS' EQUITY</b>	<b><u>¥ 108,382</u></b>	<b><u>¥ 108,360</u></b>
<b>TOTAL LIABILITIES and UNITHOLDERS' EQUITY</b>	<b><u>¥ 247,956</u></b>	<b><u>¥ 206,636</u></b>

The accompanying notes to financial statements are an integral part of these statements.

NIPPON RESIDENTIAL INVESTMENT CORPORATION  
**STATEMENTS OF OPERATIONS**

For the six months ended May 31, 2007 and November 30, 2006

	<u>May 31, 2007</u>	<u>Nov 30, 2006</u>
	(Yen in millions)	
<b>OPERATING REVENUES</b>		
Rental income	¥ 6,150	¥ 5,493
Gain on sales of investments in real estate	761	850
Total operating revenues	<u>6,911</u>	<u>6,343</u>
<b>OPERATING EXPENSES</b>		
Property operating expenses		
Asset and property management fee	608	532
Property, repairs and maintenance	197	282
Trustee fee	42	43
Real estate taxes and insurance	234	168
Other operating expenses	235	198
Total property operating expenses	<u>1,316</u>	<u>1,223</u>
Property depreciation	1,289	1,107
General and administrative expenses	769	731
Total operating expenses	<u>3,374</u>	<u>3,061</u>
<b>OPERATING INCOME</b>	<u>3,537</u>	<u>3,282</u>
Interest and other income	122	72
Interest expenses	(787)	(517)
Other financing costs	(99)	(86)
Unit issue expenses	(21)	-
Other depreciation and amortization	(65)	(54)
Other expenses	(7)	(36)
<b>INCOME BEFORE INCOME TAXES</b>	<u>2,680</u>	<u>2,661</u>
<b>INCOME TAXES</b>		
Current	8	3
Deferred	(6)	(1)
<b>NET INCOME</b>	<u>¥ 2,678</u>	<u>¥ 2,659</u>
<b>Earnings per unit:</b>		
Net income (in Yen)	¥ 14,336	¥ 14,232
Weighted average number of units outstanding	186,809	186,809

The accompanying notes to financial statements are an integral part of these statements.

## Statements of Changes in Unitholders' Equity

	Number of units	(Yen in millions)
<b>Balance as of May 31, 2006</b>	186,809	¥108,405
Cash distributions paid		(2,629)
Net income		2,659
Deferred hedge revenue		(75)
<b>Balance as of Nov 30, 2006</b>	186,809	¥108,360
Cash distributions paid		(2,659)
Net income		2,678
Deferred hedge revenue		3
<b>Balance as of May 31, 2007</b>	186,809	¥108,382
Balance as of May 31, 2007		
Unitholders' capital		¥105,593
Retained earnings		¥2,678
Deferred hedge revenue		¥111
Total amounts of Unitholders' equity		<u>¥108,382</u>

The accompanying notes to financial statements are an integral part of these statements.

NIPPON RESIDENTIAL INVESTMENT CORPORATION

**Statements of Cash Flows**

For the six months ended May 31, 2007 and November 30, 2006

	May 31, 2007	(Yen in millions) Nov 30, 2006
<b>Cash Flows from Operating Activities</b>		
Income before income taxes	¥ 2,680	¥ 2,661
Depreciation and amortization	1,289	1,107
Bad debt loss	1	-
Amortization of long-term prepaid expenses	68	79
Amortization of organization expenses	7	7
Amortization of bond issuance costs	58	47
Interest income	(7)	(1)
Interest expense	787	517
Changes in assets and liabilities		
Allowance for doubtful receivables	2	2
Rent receivables	(6)	(31)
Other receivables	5	(3)
Consumption tax receivables	(58)	68
Accounts payable	(95)	143
Other payables	24	(22)
Accrued expenses	54	9
Received in advance	233	7
Sales of real estate (including trust accounts)	3,617	3,863
Long-term prepaid expenses	(202)	(7)
Others	(4)	10
	<b>Sub-total</b>	<b>8,453</b>
Interest received	6	1
Interest paid	(893)	(497)
Proceeds from insurance	1	4
Income taxes paid	(4)	(4)
	<b>Net cash provided by operating activities</b>	<b>7,563</b>
<b>Cash Flows from Investing Activities</b>		
Payments into time deposits	(1,000)	-
Purchase of real estate (including trust assets and leasehold rights)	(46,572)	(6,139)
Proceeds from security deposit(including trust accounts)	353	61
Proceeds from long-term deposits payable	92	-
Repayment of long-term deposits payable	(3)	-
	<b>Net cash used in investing activities</b>	<b>(47,130)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from short-term loans	20,470	3,200
Repayment of short-term loans	(1,500)	(13,250)
Proceeds from long-term loans	22,500	2,600
Repayment of long-term loans	(12,900)	(700)
Proceeds from bonds	11,939	11,945
Distributions to unitholders	(2,660)	(2,627)
Others	(21)	-
	<b>Net cash provided by financing activities</b>	<b>37,828</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(1,739)</b>	<b>3,050</b>
<b>Cash and Cash Equivalents at beginning of Period</b>	<b>12,464</b>	<b>9,414</b>
<b>Cash and Cash Equivalents at end of Period</b>	<b>¥ 10,725</b>	<b>¥ 12,464</b>

The accompanying notes to financial statements are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

Nippon Residential Investment Corporation

For the period from December 1, 2006 to May 31, 2007 and for the period from June 1, 2006 to November 30, 2006

### Note-1 Organization and basis of presentation

#### Organization

Nippon Residential Investment Corporation (hereinafter “NRIC”) was established on December 6, 2002, with ¥100 million of capital contribution by Pacific Investment Advisors Corporation (hereinafter “PIA”) under the Investment Trust Law of Japan.

Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on January 27, 2003. On March 2, 2004, NRIC was listed on the J-REIT section of the Tokyo Stock Exchange, specialized in residential properties in Japan, and started portfolio investment.

As of May 31, 2007, NRIC owned 116 properties (including beneficiary rights) containing 7,294 units.

#### Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Japanese Investment Trust Law and the Japanese Securities and Exchange Law, and in conformity with accounting principles generally accepted in Japan (hereinafter “Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusions) from the audited financial statements of NRIC prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. NRIC has not prepared consolidated financial statements, as it has no subsidiaries.

In preparing the accompanying financial statements, certain reclassifications and modifications have been made in the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

### Note-2 Summary of significant accounting policies

#### a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposit placed with bank and short-term investments, which are highly liquid, readily convertible to cash, and with an insignificant risk of price fluctuation, with original maturity of three months or less.

#### b) Investments in real estate

Investment properties are recorded at cost, which included the allocated purchase price and consumption tax and related costs and expenses for acquisition of the properties and the beneficiary interests of properties in trust.

Depreciation of investment properties, except for land, is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

Buildings and improvements 2–47 years

Structures 7–20 years

Machinery and equipment 15 years

Furniture and fixtures 3–15 years

**c) Organization costs and bonds issuance costs**

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

Bonds issuance costs are amortized over three years comprised of six fiscal periods, with an equal amount amortized in each fiscal period.

**d) New investment unit issue costs**

New investment units issue costs are expensed in the period of payment.

**e) Allowance for doubtful receivables**

To cover possible credit losses, an allowance for doubtful receivables is provided for any amount deemed uncollectible. The allowance is calculated on the basis of historical default rates for normal claims or on the basis of individual assessments on specific claims on debtors threatened with bankruptcy.

**f) Taxes on real estate**

Property and equipment is subject to various taxes annually, such as property taxes and city planning taxes. An owner of a property is registered in the record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record as of January 1 based on the assessment made by the local government.

Taxes on real estate are imposed on properties on calendar year basis. NRIC pays the seller the corresponding amounts of taxes for the period from the properties transfer date to December 31 of that year as included in the purchase prices of each property, and capitalizes as the cost of the property.

**g) Revenue recognition**

Revenue from leasing of retail space is recognized on an accrual basis over the life of each lease.

**h) Income taxes**

Deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities utilizing the applicable statutory tax rate.

**i) Derivative financial instruments**

NRIC utilizes interest rate swap and cap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. NRIC deferred recognition of gains or losses resulting from changes in fair value of interest rate swap and cap contracts which meet the criteria for deferral hedging accounting.

### Note-3 Secured assets

At May 31, 2007 and November 30, 2006, the following assets were pledged as collateral for the following loans:

	As of May 31, 2007	As of Nov. 30, 2006
(Yen in millions)		
Pledged assets:		
Bank deposits	¥ 1,149	¥ 1,703
Buildings and improvements	19,105	30,410
Structures	149	205
Machinery and equipment	-	1
Furniture and fixtures	3	12
Land	20,998	36,067
<b>Total</b>	<b>¥ 41,404</b>	<b>¥ 68,398</b>
Loans secured by the pledged assets:		
Long-term loans due within 1 year	-	¥ 11,500
Long-term loans	19,400	20,800
<b>Total</b>	<b>¥ 19,400</b>	<b>¥ 32,300</b>

### Note-4 Short-term loans and long-term debt

Short-term loans comprise of the following:

	Yen in millions	
	As of May 31, 2007	As of Nov. 30, 2006
Unsecured loans from banks:		
with interest ranging from 0.90% to 1.26%.....	22,170	-
with interest ranging from 0.86% to 0.89%.....	-	3,200
<b>Total</b>	<b>¥ 22,170</b>	<b>¥ 3,200</b>

Long-term debt comprise of the following:

	Yen in millions	
	As of May 31, 2007	As of Nov. 30, 2006
Secured loans, representing obligations to banks:		
Due 2007 to 2009 with interest ranging from 0.89% to 1.39%.....	19,400	32,300
Unsecured loans, representing obligations to banks:		
Due 2010 to 2011 with interest ranging from 1.05% to 1.84%.....	19,000	-
Unsecured loans, representing obligations to insurance companies:		
Due 2011 to 2013 with interest ranging from 1.94% to 2.19%.....	6,100	2,600
Unsecured 0.74% bonds, due 2010.....	10,000	10,000
Unsecured 0.84% bonds, due 2010.....	10,000	10,000
Unsecured 1.28% bonds, due 2012.....	10,000	10,000
Unsecured 1.50% bonds, due 2011.....	15,000	15,000
Unsecured 1.54% bonds, due 2009.....	12,000	12,000
Unsecured 1.84% bonds, due 2012.....	12,000	-
Sub-total	113,500	91,900
Less—Portion due within one year.....	-	11,500

Total	¥ 113,500	¥ 80,400
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#### Note-5 Per unit information

Net asset value per unit as of May 31, 2007 and November 30, 2006 was ¥580,177 and ¥ 580,056.

#### Note-6 Cash and Cash equivalents

Cash and cash equivalents, as of May 31, 2007 and November 30, 2006 consisted of the follows:

	Yen in millions	
	As of May 31, 2007	As of Nov.30, 2006
Cash and deposits (including trust accounts)	11,725	12,464
Time deposits with due over three months	△ 1,000	-
Cash and cash equivalents(including trust accounts)	¥ 10,725	¥ 12,464

#### Note-7 Income taxes

The effective tax rates on NRIC's income as well as applicable statutory tax rates are reflected as follows:

	Rate	
	7th. Period	6th. Period
Statutory effective tax rate	39.39%	39.39%
Deductible cash distributions paid	(39.36)	(39.36)
Others	0.03	0.05
Effective tax rate	0.06%	0.08%

NRIC has a policy of making distributions in excess of 90% of distributable income for a fiscal period to qualify for conditions set forth in the Special Taxation Measures Law of Japan to achieve a deduction of distributions for income tax purposes. Based on such policy, the Company treated the distribution as a tax allowable distribution as defined in the Special Taxation Measures Law of Japan.

In accordance with the distribution policy prescribed in NRIC's articles of incorporation, NRIC intends to distribute approximately 100% of its distributable income for the period ended May 31, 2007 (equivalent to ¥14,336 per unit) to its unitholders (¥14,232 per unit was distributed for the period ended November 30, 2006). NRIC intends to make regular distributions to unitholders with respect to its semi-annual fiscal periods, ending at the end of May and November of each year.

#### Note-8 Derivatives and hedge accounting

NRIC has entered into interest rate swap and cap contracts with several Japanese financial institutions to hedge its variable rate long-term debt obligations. NRIC utilizes interest rate swap and cap contracts, 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. NRIC entered into such derivative transactions to hedge risk in accordance with its Articles of Incorporation and the established risk management policies of PIA.

The following summarizes the notional amounts and the estimated fair value of the interest-related positions outstanding as of May 31, 2007:

	Yen in millions	
	Notional amount	Fair value
Interest rate swaps:		
Receive/float and pay/fixed	19,400	184



## Note-9 Significant subsequent events

### a) Cash Distribution

As of July 18, 2007, the NRIC Board of Directors resolved to effect payment of a cash distribution of ¥14,336 per unit aggregating ¥ 2,678 million to unitholders of record on May 31, 2007.

### b) Issues of new units

On May 31, 2007, the NRIC Board of Directors approved of issuing new investment units in Japan as follows. The payments were completed on June 21, 2007 and July 20, 2007. As a result, the total number of units increased from 186,809 to 247,153 and unitholders' equity increased from ¥105,593 to ¥148,417 million.

(Issuance of New Units through Public Offering)

i) Offering method	Public Offering
ii) Number of units issued	60,000 units
iii) Issue price per unit(Offering price)	¥ 734,020 per unit
iv) Total offering price	¥ 44,041 million
v) Issue price per unit	¥ 709,677 per unit
vi) Total issue price	¥ 42,580 million
vii) Payment date	June 21, 2007
viii) Delivery date of investment unit	June 22, 2007
ix) Initial date subject to distribution	June 1, 2007

(Issuance of New Units through Third party Allotment)

i) Offering method	Third party allotment
ii) Number of units issued	344 units
iii) Issue price per unit	¥ 709,677 per unit
iv) Total issue price	¥ 244 million
v) Payment date	July 20, 2007
vi) Delivery date of investment unit	July 23, 2007
vii) Initial date subject to distribution	June 1, 2007

#### Use of Procured Proceeds

The proceeds procured through the issuances of new units were applied to repayment of loans, etc. and procurement by NRIC for acquisition of real estate, etc.

### c) Transfer of investment properties

On June 1, 2007 NRIC sold two properties set forth below.

(Setagaya Sun Heights)

Location (Address)	:	5-19-9 Kamiyama, Setagaya-ku, Tokyo
Transfer price (see Note)	:	¥ 1,117 million
Impact of disposition on gain or loss	:	Approximately ¥ 92 million of gain on sale of real estate property will be recorded.
Type of specified asset	:	Trust beneficiary rights of a real estate trust

Contract date : May 10, 2007  
Delivery date : June 1, 2007  
Transferred to : Mitsubishi Estate Co., Ltd.

(Petit Cour Kinuta)

Location (Address) : 4-37-1 Kinuta, Setagaya-ku, Tokyo  
Transfer price (see Note) : ¥ 737 million  
Impact of disposition on gain or loss : Approximately ¥42 million of gain on sale of real estate property will be recorded.  
Type of specified asset : Trust beneficiary rights of a real estate trust  
Contract date : May 10, 2007  
Delivery date : June 1, 2007  
Transferred to : Mitsubishi Estate Co., Ltd.

Note: The noted sales price amounts (the amounts of money received for the sales of real estate trust beneficiary rights property as agreed in the contract documents) represent net prices excluding various expenses (such as sales agent commission, taxes and other public charges).

#### **Note-10 Additional Information**

On May 31, 2007, the NRIC Board of Directors approved of selling the following property:

(Root Azabu Jyuban)

Location (Address) : 1-4-1 Azabu-jyuban, Minato-ku, Tokyo  
Transfer price (see Note) : ¥ 2,570 million  
Impact of disposition on gain or loss : Approximately ¥279 million of gain on sale of real estate property will be recorded.  
Type of specified asset : Trust beneficiary rights of a real estate trust  
Contract date : May 31, 2007  
Scheduled delivery date : A date no earlier than September 3, 2007 separately agreed to in writing by NRIC and the transferee. However, the date shall be no later than November 29, 2007.  
Transferred to : Pacific Growth Realty Y.K.

Note: The noted sales price amounts (the amounts of money received for the sales of real estate trust beneficiary rights property as agreed in the contract documents) represent net prices excluding various expenses (such as sales agent commission, taxes and other public charges).

# Corporate Data

## Corporate Data of NRIC

<b>Name:</b>	Nippon Residential Investment Corporation
<b>Representative:</b>	Masaru Nishimura, Chief Executive Officer
<b>Address:</b>	11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo
<b>Contact:</b>	Pacific Investment Advisors Corporation 11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo Phone: +81-3-5251-8528

## History of NRIC

<b>December 2, 2002</b>	Notification by Pacific Investment Advisors Corporation of formation of NRIC under the Investment Trust Law of Japan, Article 69, Paragraph 1 (Note)
<b>December 6, 2002</b>	Registration and establishment of NRIC under the Investment Trust Law of Japan, Article 166
<b>December 20, 2002</b>	Notification of acceptance of registration of NRIC under the Investment Trust Law of Japan, Article 188
<b>January 27, 2003</b>	Office of the Prime Minister approves registration of NRIC under the Investment Trust Law of Japan, Article 187 (Kanto Regional Finance Bureau, No. 19)
<b>March 2, 2004</b>	NRIC listed on Tokyo Stock Exchange (Securities Code: 8962)
<b>August 31, 2004</b>	General Meeting of Unitholders
<b>December 1, 2004</b>	Public issue of investment units
<b>December 17, 2004</b>	Private placement of investment units
<b>June 14, 2005</b>	Public issue of investment units
<b>July 8, 2005</b>	Private placement of investment units
<b>December 12, 2005</b>	Public issue of investment units
<b>January 11, 2006</b>	Private placement of investment units
<b>August 30, 2006</b>	General Meeting of Unitholders
<b>June 21, 2007</b>	Public issue of investment units
<b>July 20, 2007</b>	Private placement of investment units

Note: The Investment Trust Law of Japan is the abbreviated title of the Law concerning Investment Trusts and Investment Corporations enacted in 1951 (law number 198) and subsequent amendments.

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**NIPPON  
RESIDENTIAL  
INVESTMENT  
CORPORATION**

Sanno Park Tower, 11-1, Nagatacho 2-chome  
Chiyoda-ku, Tokyo, Japan  
Phone: +81-3-5251-8528 Facsimile: +81-3-5251-8539  
<http://www.nric.co.jp>



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