



# Nippon Residential Investment Corp.

**Semiannual Report** 8th Fiscal Period From June 1, 2007 to November 30, 2007



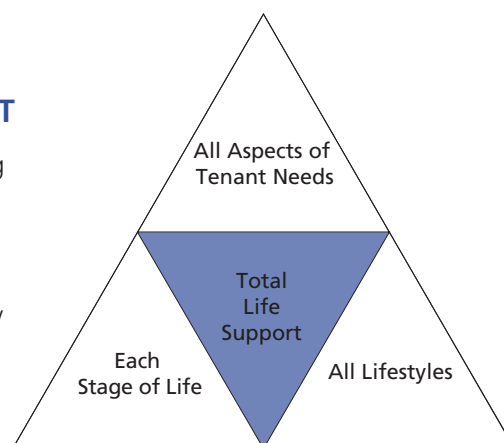
NIPPON  
RESIDENTIAL  
INVESTMENT  
CORPORATION

# 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.

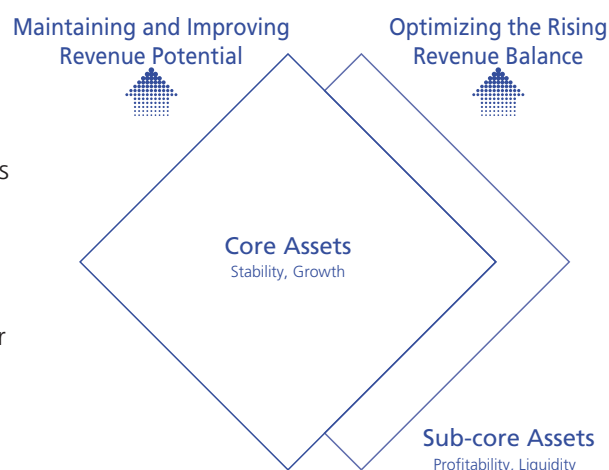
Our properties offer living environments and services covering all aspects of tenant needs and that are uniquely catered to each tenant’s stage of life and lifestyle.



## 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 the Tokyo Stock Exchange.

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

With 139 properties and 9,160 rentable units (as of the end of November 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.

## Contents

To Our Unitholders.....	1	Properties Roster.....	13
Report of Activities in the 8th Fiscal Period.....	2	Financial Section.....	17
Real Estate Portfolio.....	6	Corporate Data.....	35

# To Our Unitholders

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

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 139 properties worth ¥280.2 billion (sum of acquisition prices) by the end of the eighth fiscal period. This means NRIC boasts the largest portfolio 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.

From a financial perspective, NRIC raised a total of ¥42.8 billion in funds from an additional issuance of new investment units in June 2007 and raised a total of ¥21.0 billion in funds from an issuance of investment corporation bonds. NRIC will continue to work to diversify fund procurement methods and sources.

The financial statements (balance sheets, statements of operations, statements of changes in unitholders' equity, and notes to financial statements), asset management report and statements on cash distributions, as well as accompanying schedules, concerning our performance for the eighth fiscal period (June 1, 2007 to November 30, 2007) were approved at a meeting of NRIC's board of directors held on January 21, 2008. Below is an overview of our management and details of our financial results.

In the eighth fiscal period, NRIC recorded operating revenues of ¥7,940 million, ordinary profit of ¥3,158 million and net income of ¥3,150 million. Based on these results, we have set the cash distributions as ¥12,748 per investment unit.

Moreover, in December 2007, NRIC managed to acquire our largest investment property in terms of acquisition price (acquisition price of approximately ¥15.2 billion) – the Pacific Royal Court Minato Mirai Ocean Tower.

NRIC will continue to provide superior rental housing and management services, and conduct management with the aim of securing steady growth of our assets under management and stable revenues in the medium to long term.

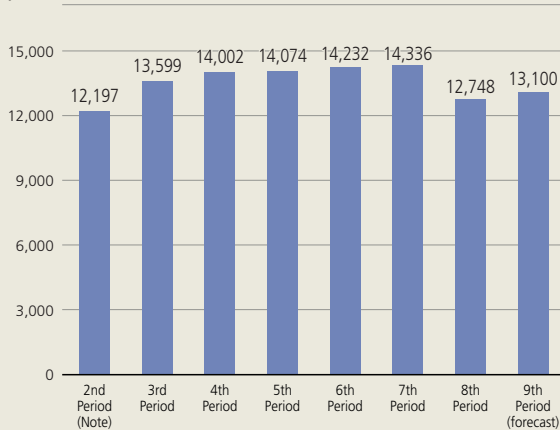
We look forward to your continued support and encouragement.



*M. Nishimura*

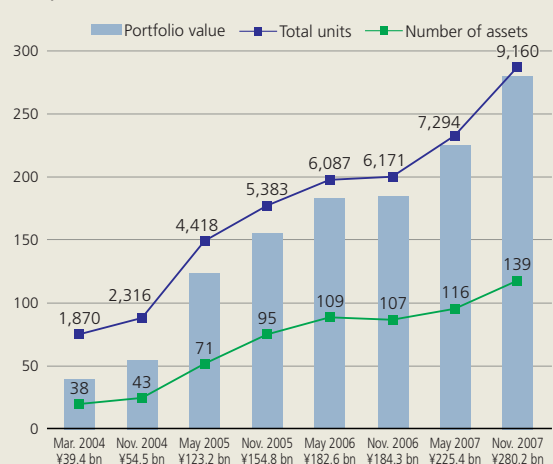
Masaru Nishimura  
Chief Executive Officer  
Nippon Residential Investment Corporation

**Distribution per Unit**  
(yen)



Note: To facilitate comparison, the number of operating days has been reduced from 274 days to 183 days.

**Portfolio Growth**  
(billion yen)



# Report of Activities in the 8th Fiscal Period

## Dawn of a New Era

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 eighth fiscal period.

### Takeshi Ishida

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



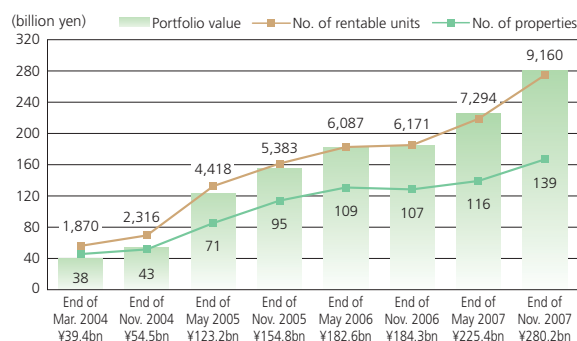
## External Growth – Portfolio and Quality Enhancement

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

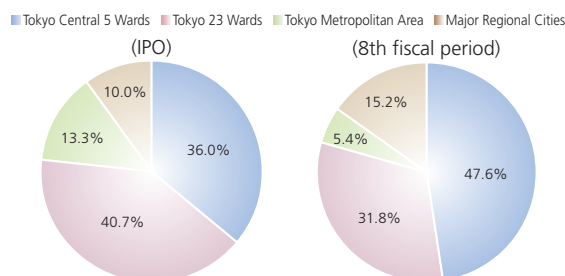
NRIC established aims to ensure steady revenue growth, secure stable revenue inflow through asset diversification, and reduce operating and management costs to a minimum level by making use of economies of scale. To realize these aims, NRIC consistently conducts judicious investment into highly-competitive,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

Backed in part by the increase in capital through a public offering at the beginning of the fiscal period, NRIC newly acquired 26 properties during the eighth fiscal period. In addition, NRIC has been replacing assets as a measure to enhance the quality of the portfolio by selling assets since the third fiscal period. Based on this measure, NRIC sold three properties during the eighth fiscal period. These initiatives resulted in a portfolio of 139 properties amounting to ¥280.2 billion (sum of acquisition prices) at the end of the eighth fiscal period. Consequently, NRIC has managed to build a portfolio with the largest size and highest value as a J-REIT specializing in residential properties, and to form a basis for future stable management over the medium and long term.

### Portfolio Growth



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



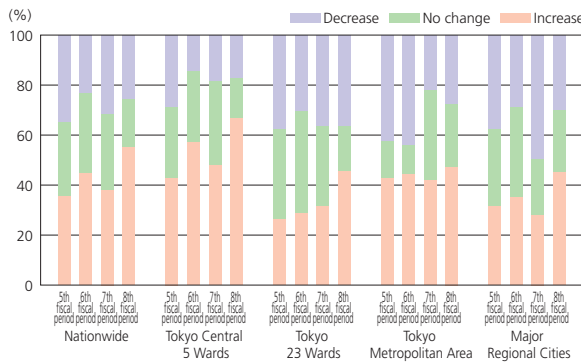


## Internal Growth – Utilizing the Portfolio Network

### Utilizing the Leasing Network

When conducting leasing activities in the downtown Tokyo area where NRIC’s portfolio assets are concentrated, NRIC has been promoting increases in the rent unit price and reductions in downtime through the establishment of fourteen zones by further dividing the downtown Tokyo area into smaller areas and through the development of leasing strategies based on setting the most appropriate rent for each zone. As a result, of the 364 new contracts entered into during the eighth fiscal period in the fourteen zones (contracts with previous contracts, but excluding contracts for stores, offices, etc. and properties purchased during the eighth fiscal period), we raised rent by an average of 7% on 219 contracts, or about 60% of the contracts, and thereby managed to improve rent (in terms of the entire portfolio, achieved improvements in rent of an average of 6.9% on 322 contracts of the 587 new contracts entered).

### Rent Trends

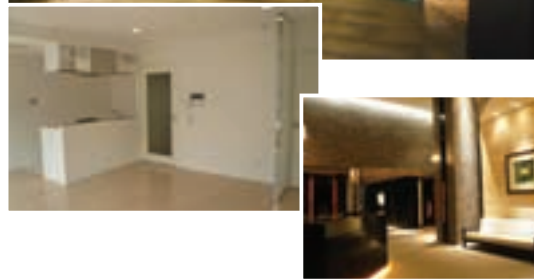
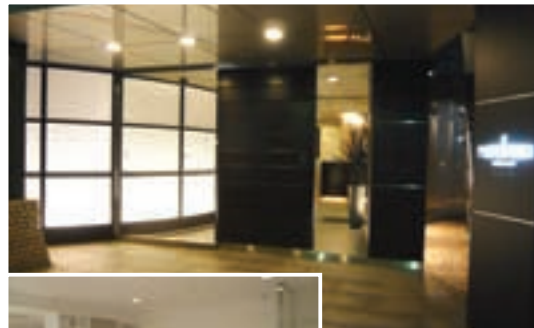


### Utilizing the Property Management Network

For the administration and management of portfolio assets, NRIC selects the best company to which property management services are to be entrusted (hereafter, the property management company) by taking into account their experience and performance, as well as how high their ability is to solicit new tenants and how specialized they are in the concerned area and the rest of the real estate market.

Based on thorough talks with property management companies, as described above, NRIC boosted the value of Pacific Tower Azabu-juban by changing the design to one that fosters a sense of superior quality as a tower condominium and enhanced the concierge function.

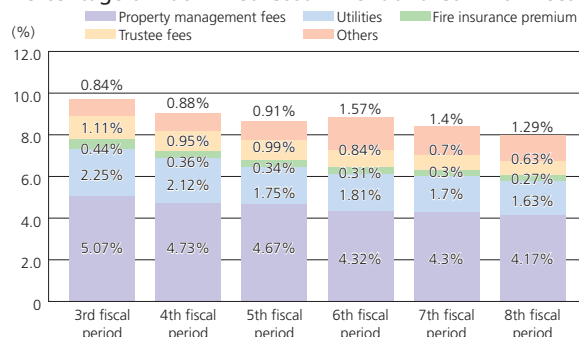
C-36 Pacific Tower Azabu-juban



Moreover, in collaboration with the property management company, NRIC has also been focused on cost reductions derived from consolidating management services in pursuit of economies of scale of the portfolio.

As the changes shown in the graph below illustrate, the percentage of fixed costs in the income from rent and common fees has been gradually declining across the fiscal periods.

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



### Database Portfolio Management

NRIC adopts NRIC Portfolio Management System (figure at the bottom of page 5) in an aim to realize efficient and effective management of portfolio assets. Comprised of a group of databases on accounts, repairs and renovations, rent contracts, basic property information and property management information, the system enables strategic control of leasing activities and service levels in property management, and leads to operational efficiency and cost reduction.

### Flexible Financial Strategy

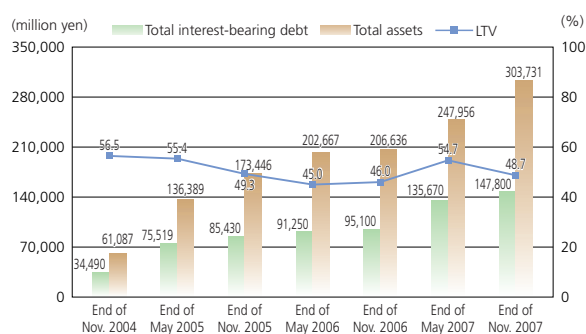
#### Well-balanced Fund Procurement

In procuring funds, we have been taking measures focused on achieving a balance between “maintaining a healthy debt ratio,” “minimizing fund procurement costs” and “preserving financial stability.”

#### Maintaining a Healthy Debt Ratio

While raising a total of ¥42.8 billion in funds from an issuance of new investment units in June 2007 on the one hand, NRIC has been conducting fund procurement through loans focused on liquidity to acquire properties during the fiscal period on the other hand. As a result of successfully controlling the debt ratio at an appropriate level, NRIC managed to keep the LTV (Loan to Value = Interest-bearing debt ÷ Total assets) at a conservative level of 48.7% at the end of the eighth fiscal period.

#### LTV Changes

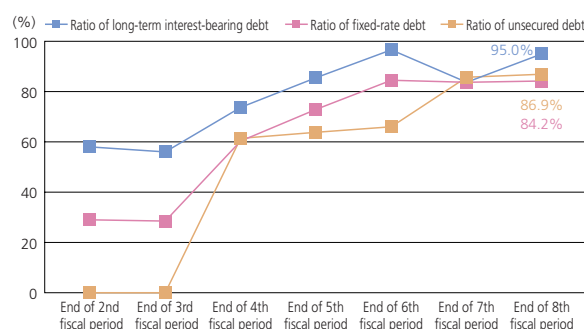


### Financial Stability

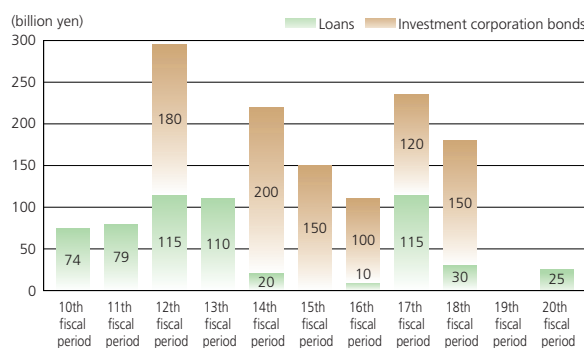
In anticipation of rising interest rates, NRIC has been dedicated to building a stable financial foundation by promoting long-term interest-bearing debt accounts and loans that have fixed interest rates. As a result, the ratio of interest-bearing debt that is long term jumped to 95.0% and the ratio of loans with fixed interest rates rose to 84.2% at the end of the eighth fiscal period. (Furthermore, NRIC has already executed an interest rate swap transaction to commence in March 2008. The ratio of loans with fixed interest rates will, in effect, be 95.0% when said transaction is included.)

Moreover, NRIC has also improved financial flexibility by increasing the amount of the commitment line agreement from ¥11.0 billion to ¥18.0 billion.

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



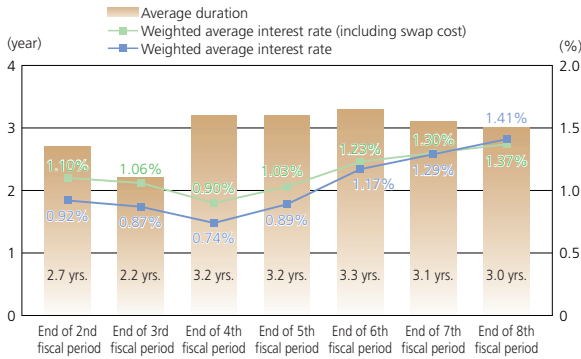
#### Dispersion of Maturity Date



### Minimizing Fund Procurement Costs

NRIC has been striving to hedge the risk of rising interest rates by proactively making use of derivatives. Such efforts have enabled NRIC to minimize loan interest rates while averting the impact of market interest rates.

#### Trend of Duration and Interest Rate



### Outlook for the Ninth Fiscal Period

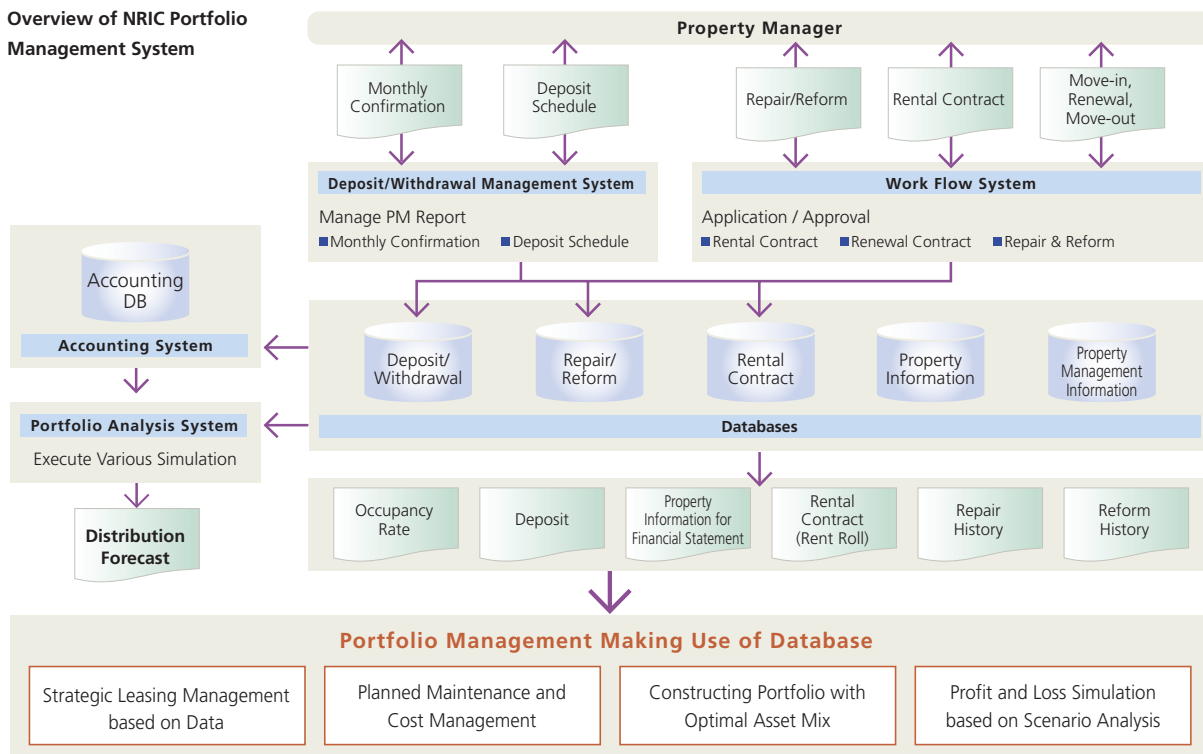
In the ninth fiscal period, NRIC will be committed to strengthening its ability to generate steady revenue through such means as increasingly reducing management costs by leveraging economies of scale as a REIT specializing in residential properties, and thereby fulfill the expectations of investors.

Starting from the ninth fiscal period, NRIC will join forces with the sponsor company Pacific Management Corporation to penetrate the core brand, "Pacific Residence." Specifically, the establishment of a rental condominium brand that is widely recognizable by consumers will be pursued through TV commercials, launching a website for the brand, introducing a membership program for people moving into the condominiums and carrying out other marketing activities.

Moreover, Pacific Royal Court Minato Mirai Ocean Tower, which NRIC acquired in the ninth fiscal period (December 2007), is viewed to be a business that exhibits great significance also from a social perspective in that it serves as a means for investors to support urban development via the public organ of a REIT.

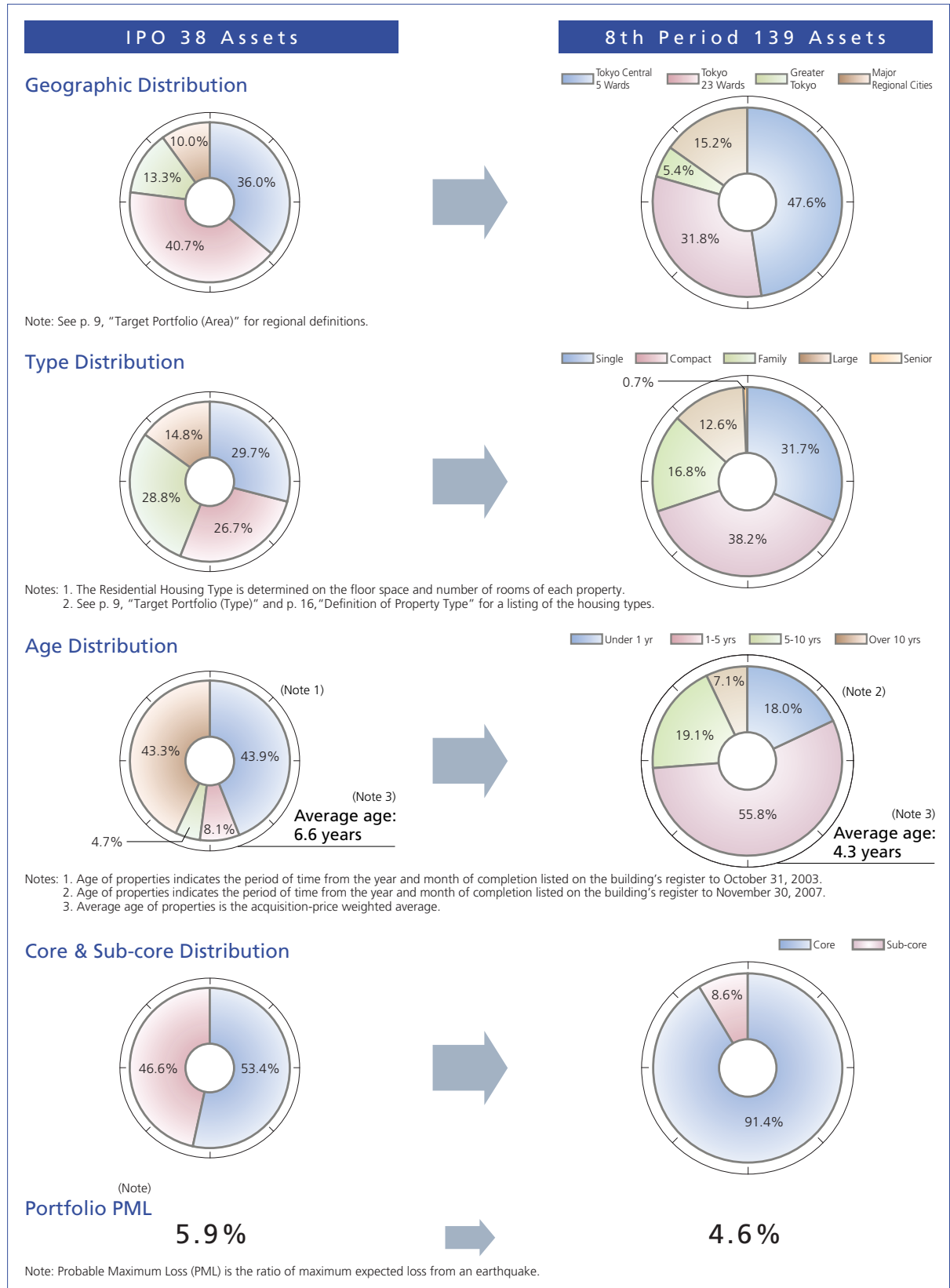
NRIC will be unchanging in its dedication to provide a living environment and enhance services that accommodate to a diverse range of tenant needs, and increasingly expand revenue-generating opportunities. NRIC looks forward to the continued support and encouragement of unitholders.

#### Overview of NRIC Portfolio Management System



# Real Estate Portfolio

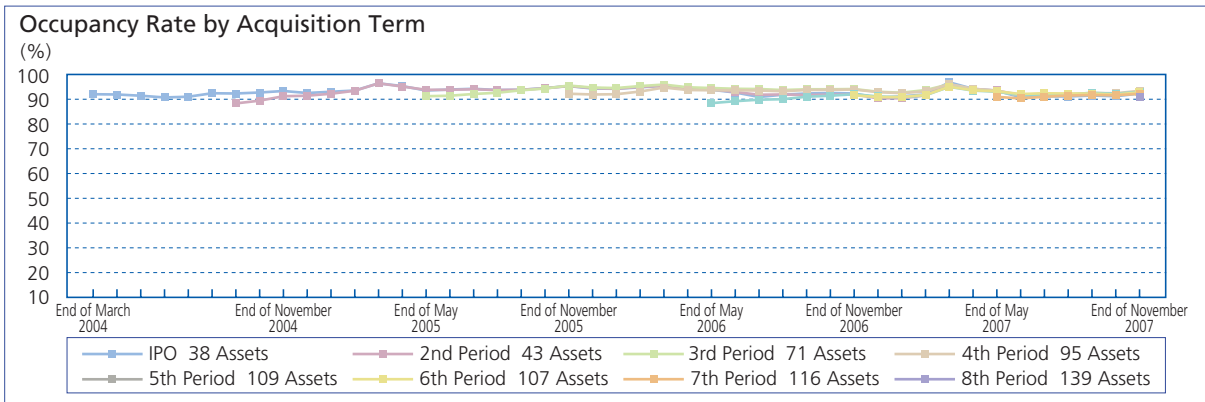
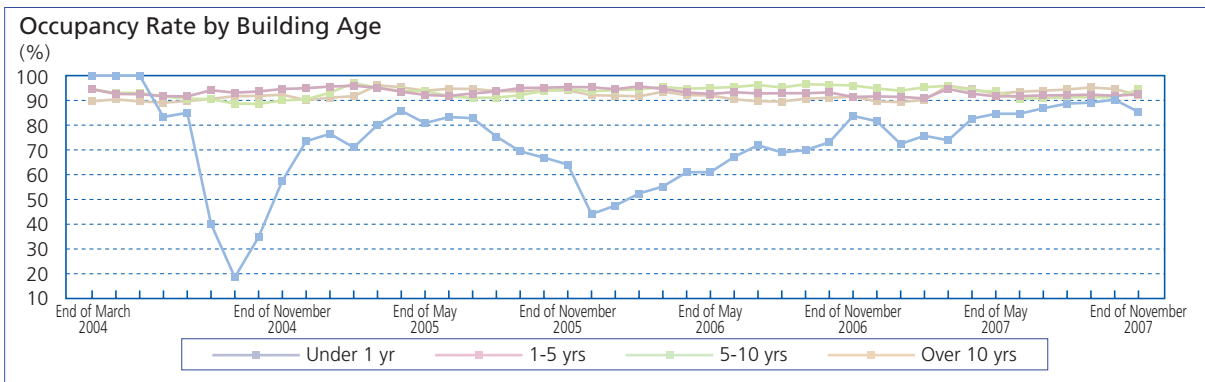
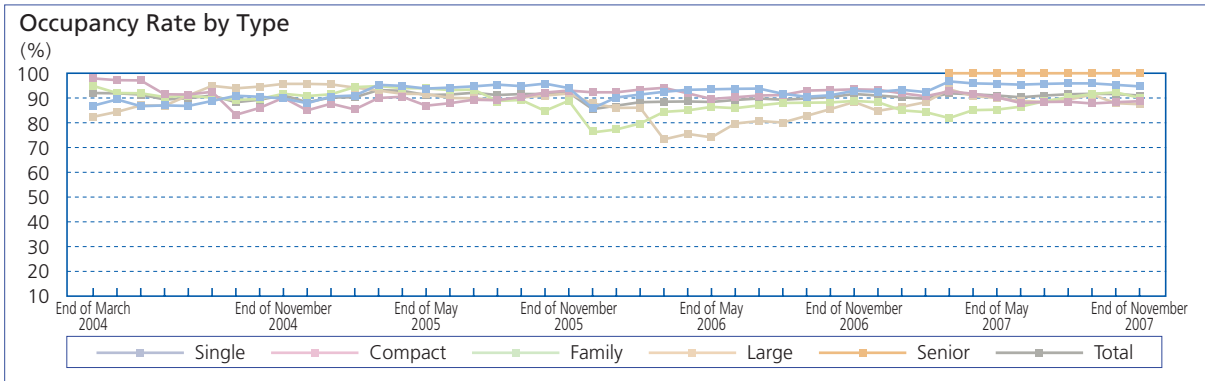
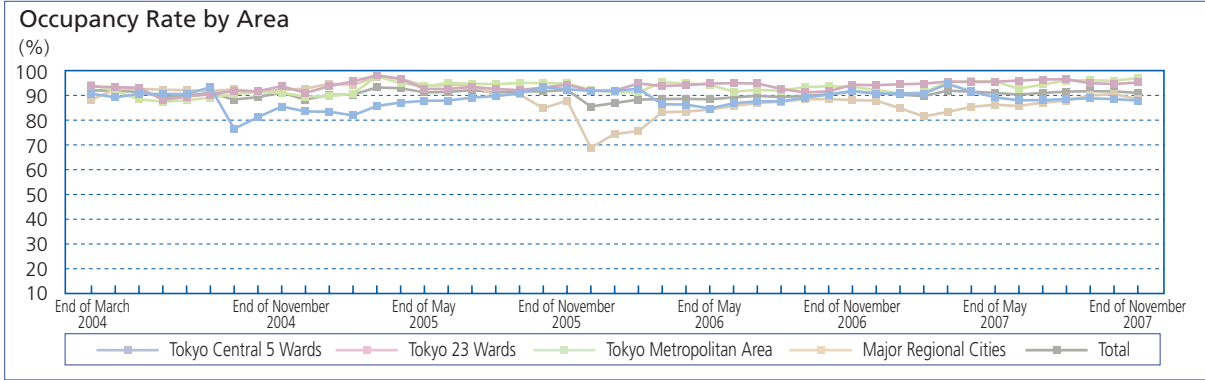
## Diversified High-quality Portfolio



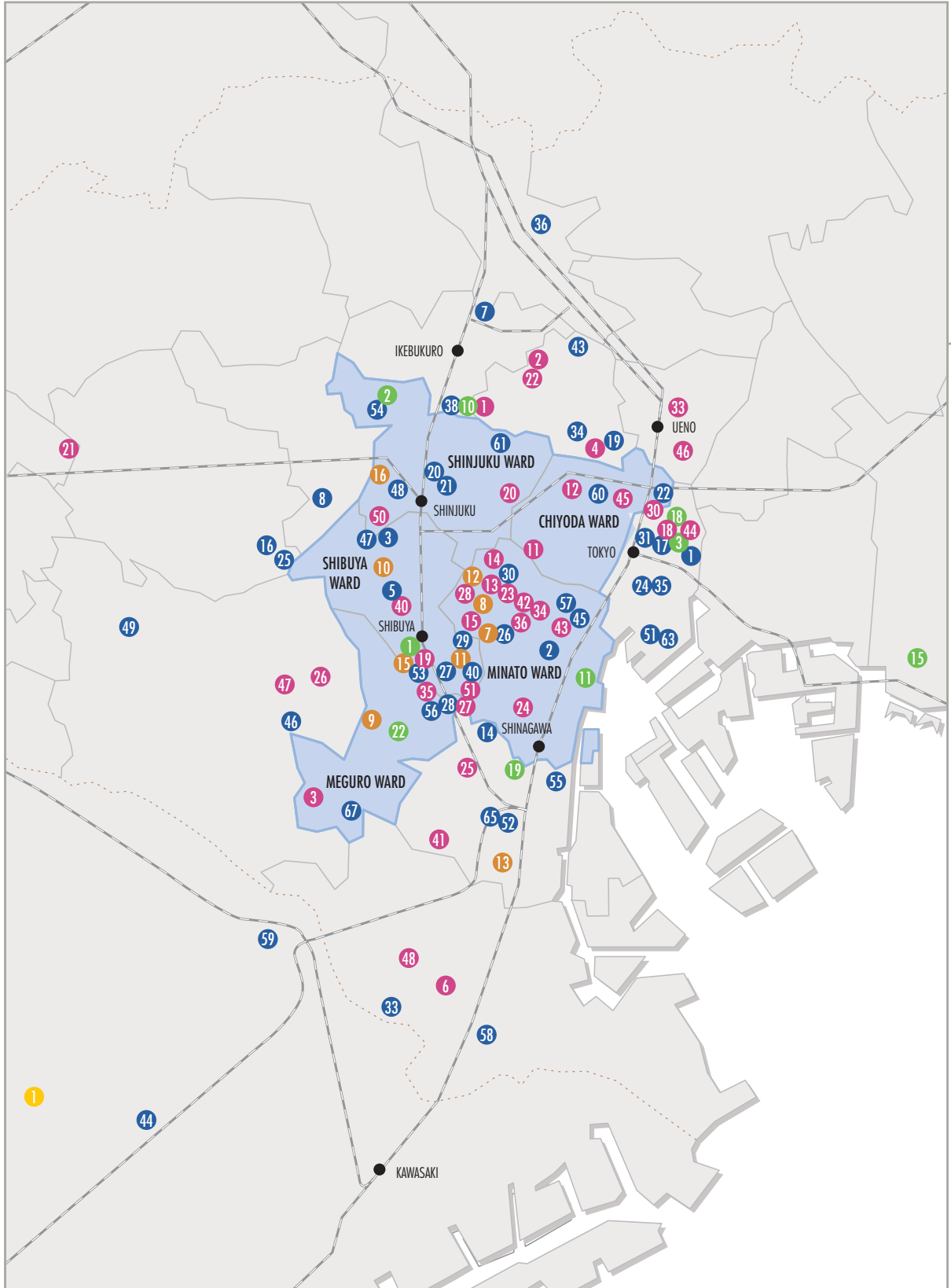
Note: The investment ratios above are the ratios of the total acquisition price of assets acquired in each category to the total acquisition price of all acquired assets.



## Changes in Occupancy Rate of Portfolio (as of November 30, 2007)



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



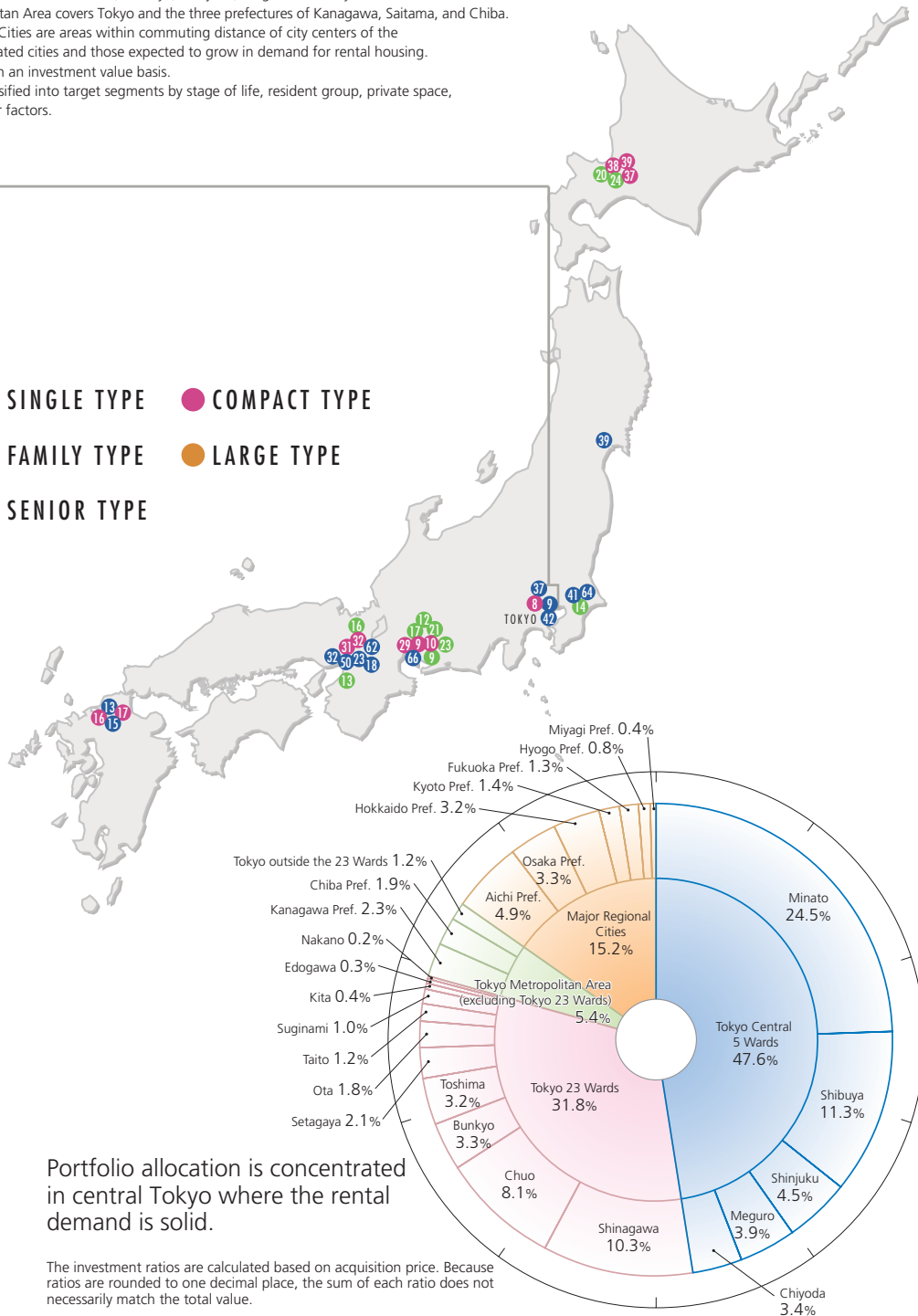
Note: See p. 13, "Properties Roster" for the detail of each property.

## 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 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-1	Core1	Tokyo 23 Wards	Pacific Livew Shinkawa	2,050	RC	7F	83	Feb.2003
S-2	Core1	Tokyo Central 5 Wards	Pacific Livew 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 Livew 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 Livew 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 Livew 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 Livew 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 Livew 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 Livew Ginzahigashi	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 Livew 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 Livew 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 Livew Yokohama Kannai	1,950	SRC	11F	102	Aug. 2004
S-43	Sub-core	Tokyo 23 Wards	K2	393	SRC	B1F/11F	25	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 Livew Utsubokoen	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
S-59	Core1	Tokyo Metropolitan Area	Pacific Residence Musashikosugi	1,767	RC	B1F/5F	68	Feb.2007

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-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 Residence 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
S-64	Core1	Tokyo Metropolitan Area	Pacific Residence Funabashi I and II	3,300	RC	9-10F	172	Mar.2007
S-65	Core1	Tokyo 23 Wards	Pacific Residence Oimachi I	1,267	RC	9F	40	Jul.2007
S-66	Core1	Major Regional Cities	Pacific Residence Takaoka	3,000	RC	B1F/15F	197	Aug.2007
S-67	Core1	Tokyo Central 5 Wards	Pacific Residence Ookayama	1,301	RC	B2F/3F	53	Nov.2007
C-1	Core1	Tokyo 23 Wards	Pacific Residence Bunkyooutowa	3,590	RC	B1F/10F	104	Aug. 2003
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 Koyochi	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 Bunkyoosengoku	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	Core1	Tokyo 23 Wards	Pacific Residence Sangen-Jaya I	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	Apr. 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-37	Core1	Major Regional Cities	Pacific Residence Minami-ichijo	1,910	RC	B1F/15F	179	Dec.2006
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
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
C-46	Core2	Tokyo 23 Wards	COSMOS GRACIA Shin-Okachimachi	2,162	RC	15F	69	Mar.2007
C-47	Core1	Tokyo 23 Wards	Pacific Residence Sangen - jaya II	1,750	RC	8F	34	Mar.2006
C-48	Core1	Tokyo 23 Wards	Pacific Residence Chidoricho	1,500	RC	5F	60	Sep.2006
C-50	Core1	Tokyo Central 5 Wards	Pacific Residence Nishi-Shinjuku	2,020	RC	B1F/4F	74	May.2007
C-51	Core1	Tokyo Central 5 Wards	Pacific Residence Hiroo-Minami	1,180	RC	10F	26	Aug.2007

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)
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-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
F-22	Core1	Tokyo Central 5 Wards	Pacific Residence Yutenji	5,940	RC	B1F/7F	118	Aug.2006
F-23	Core1	Major Regional Cities	Pacific Residence Higashiyama-Motomachi	991	RC	B1F/4F	23	Sep.2007
F-24	Core1	Major Regional Cities	Pacific Residence Odori-Koen	2,680	RC	B1F/14F	109	Aug.2007
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
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 Ohji	1,120	RC	B1F/5F	22	Oct. 1989
L-15	Core1	Tokyo Central 5 Wards	Pacific Residence Daikanyama-Sarugakuchō/Daikanyama Parkside Village	8,140	RC	B1F/9F B1F/3F	77	May.2006 Nov.1982
L-16	Sub-core	Tokyo Central 5 Wards	Luxeair Kita-Shinjuku	1,900	RC	B1F/5F	26	Feb.1997
SE-1	Core2	Tokyo Metropolitan Area	Life & Senior House Kohoku II	1,950	SRC	6F	78	Oct. 2004
Total				280,262	-	-	9,160	-

### Roster of Assets to be acquired during 9<sup>th</sup> fiscal period and onwards

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-49	Core1	Tokyo Metropolitan Area	Pacific Royal Court Minato Mirai					
			Ocean Tower	15,221	RC/SRC	B1F/29F	416	Nov.2007
			Urban Tower	11,715	RC/SRC (planned)	B1F/29F (planned)	417 (planned)	Jun.2008 (planned)
Total				26,936	-	-	833 (planned)	-

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. Acquisition Prices are rounded down to the nearest million yen. Therefore, the sum of each figure does not necessarily match the total value.

Note 5. The "Building Structure", "Number of Floors" and "Date of Completion" are based on official registration entries.

Note 6. 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 7. "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 November 2007.

Note 8. Figures include S-23 Umeda Excelheights and L-12 SOHO Kita Aoyama for which the sales transactions were completed on January 25, 2008.

### 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
<b>Studio</b>	S	S	C	C	L	L	L	L
<b>1K</b>	S	S	C	C	L	L	L	L
<b>1DK</b>	S	C	C	C	L	L	L	L
<b>1LDK</b>	-	C	C	C	L	L	L	L
<b>2DK</b>	-	C	C	C	F	F	L	L
<b>2LDK</b>	-	-	C	C	F	F	L	L
<b>3DK</b>	-	-	C	F	F	F	F	L
<b>3LDK</b>	-	-	-	F	F	F	F	L
<b>4LDKor Over</b>	-	-	-	-	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.



## Financial Section

<b>Financial Report</b> .....	<b>18</b>
<b>Independent Auditors' Report</b> .....	<b>22</b>
<b>Balance Sheets</b> .....	<b>23</b>
<b>Statements of Operations</b> .....	<b>24</b>
<b>Statements of Changes in Unitholders' Equity</b> .....	<b>25</b>
<b>Statements of Cash Flows</b> .....	<b>26</b>
<b>Notes to Financial Statements</b> .....	<b>27</b>

## FINANCIAL REPORT

For the 8th Period from June 1, 2007 to November 30, 2007

### <Results of Operations>

#### Selected Financial Data

	8th. Period	7th. Period	6th. Period	5th. Period	4th. Period
	(Yen in millions)				
Operating revenues	¥ 7,940	¥ 6,911	¥ 6,343	¥ 5,817	¥ 4,628
Operating expenses	3,743	3,374	3,061	2,763	2,244
Operating income	4,197	3,537	3,282	3,054	2,384
Income before income tax	3,158	2,680	2,661	2,631	2,022
Net income	3,151	2,678	2,659	2,629	2,021
Total assets	303,732	247,956	206,636	202,668	173,446
Total unitholders' equity	151,517	108,382	108,360	108,405	84,958
Unitholders' capital	148,418	105,593	105,593	105,593	82,937
Number of units issued (units)	247,153	186,809	186,809	186,809	144,327
Total unitholders' equity per unit (Yen)	613,047	580,177	580,056	580,300	588,649
Cash distribution	3,151	2,678	2,658	2,629	2,021
Distribution per unit (Yen)	12,748	14,336	14,232	14,074	14,002
Net operating income from property leasing activities	6,177	4,834	4,271	4,126	3,478
FFO (Funds From Operation) per unit (Yen)	17,814	17,873	16,323	16,932	19,145
Debt service coverage ratio (times)	6	6	8	10	10
Number of days	183	182	183	182	183

#### Funds from Operations

	8th. Period	7th. Period
	(Yen in millions)	
Net income	3,151	2,678
Adjustments:		
Depreciation	1,527	1,289
Amortization	135	133
Net gain on sales of discontinued operations	410	761
<b>FFO</b>	<b>4,403</b>	<b>3,339</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

	8th. Period	7th. Period
	(Yen in thousands)	
Retained earnings	3,150,950	2,678,231
Undistributed earnings	244	138
Cash distribution	3,150,706	2,678,093
(per unit) (Yen)	<b>12,748</b>	<b>14,336</b>

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

		<u>Properties</u>	<u>Number of Units</u>	<u>Purchase Price (Yen in millions)</u>
	<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>
8th. Period Acquisitions		26	1,941	58,682
8th. Period Dispositions		3	75	3,886
	<b>At Nov. 30, 2007</b>	<b>139</b>	<b>9,160</b>	<b>280,262</b>

## Total debt summary and debt maturity schedule

### Debt Summary

		<u>8th. Period</u>	<u>7th. Period</u>
Secured		19,400	19,400
Unsecured		128,400	116,270
	<b>Total</b>	<b>147,800</b>	<b>135,670</b>
Fixed Rate		124,400	113,500
Floating Rate		23,400	22,170
	<b>Total</b>	<b>147,800</b>	<b>135,670</b>

### Debt Maturity Schedule

<u>Year</u>	<u>Yen in millions</u>	<u>% of Total</u>
within 1 year	7,400	5.0%
1 to 2 years	37,400	25.3%
2 to 3 years	33,000	22.3%
3 to 4 years	26,000	17.6%
4 to 5 years	41,500	28.1%
after 5 years	2,500	1.7%
	<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 November 30, 2007

		Investments	Investment to total assets
		Yen in millions	%
Trust Assets	Single Type	42,801	14.1
	Compact Type	41,727	13.7
	Family Type	27,607	9.1
	Large Type	22,416	7.4
	Senior Type	-	-
	sub-total	<u>134,551</u>	<u>44.3</u>
Real Property	Single Type	49,712	16.4
	Compact Type	69,577	22.9
	Family Type	20,938	6.9
	Large Type	13,939	4.6
	Senior Type	2,119	0.7
	sub-total	<u>156,285</u>	<u>51.5</u>
Cash and other assets		<u>12,896</u>	<u>4.2</u>
	total assets	<u>303,732</u>	<u>100.0</u>

**Asset-type**

As of November 30, 2007

		Investments	Investment to total assets
		Yen in millions	%
Trust Assets	Core Type	120,738	39.8
	Sub-Core Type	13,813	4.5
	sub-total	<u>134,551</u>	<u>44.3</u>
Real Property	Core Type	145,317	47.9
	Sub-Core Type	10,968	3.6
	sub-total	<u>156,285</u>	<u>51.5</u>
Cash and other assets		<u>12,896</u>	<u>4.2</u>
	total assets	<u>303,732</u>	<u>100.0</u>





## 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 November 30, 2007 and May 31, 2007, and the related statements of operations, changes in unitholders' equity and cash flows for each of the six months ended November 30, 2007 and May 31, 2007 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 November 30, 2007 and May 31, 2007, and the results of its operations and its cash flows for each of the six months ended November 30, 2007 and May 31, 2007, in conformity with accounting principles generally accepted in Japan.

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

As discussed in Note 10 to the financial statements, Nippon Residential Investment Corporation acquired investment properties, borrowed funds and transferred investment properties.

*KPMG AZSA & Co.*

Tokyo, Japan  
February 18, 2008

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

As of November 30, 2007      As of May 31, 2007  
(Yen in millions)

**ASSETS**

Investments in real estate (including trust accounts)		
Land	¥ 163,603	¥ 127,623
Depreciable property	132,348	110,497
Construction in progress	8	25
Investments in real estate	<u>295,959</u>	<u>238,145</u>
Accumulated depreciation	<u>(6,330)</u>	<u>(4,916)</u>
Investments in real estate, net	289,629	233,229
Other investments		
Leasehold rights	1,215	1,214
Cash and deposits (including trust accounts)	11,209	11,725
Rent receivables	304	292
Allowance for doubtful receivables	(4)	(8)
Receivables, net	<u>300</u>	<u>284</u>
Consumption tax receivables	101	114
Long-term prepaid expense	796	772
Other assets	<u>482</u>	<u>618</u>
<b>TOTAL ASSETS</b>	<b><u>¥ 303,732</u></b>	<b><u>¥ 247,956</u></b>

**LIABILITIES and UNITHOLDERS' EQUITY**

**LIABILITIES:**

Accounts payable and accrued expenses	¥ 1,058	¥ 860
Received in advance	46	250
Short-term loans	7,400	22,170
Income taxes payable	1	7
Long-term loans	50,400	44,500
Bonds	90,000	69,000
Security deposit	3,122	2,617
Other liabilities	188	170
<b>TOTAL LIABILITIES</b>	<b><u>¥ 152,215</u></b>	<b><u>¥ 139,574</u></b>

**UNITHOLDERS' EQUITY:**

Unitholders' capital	¥ 148,418	¥ 105,593
Units authorized ; 2,000,000 units		
Units issued and outstanding ;		
247,153 units as of Nov 30, 2007		
186,809 units as of May 31, 2007		
Retained earnings	3,151	2,678
Deferred hedge gain (loss)	(52)	111
<b>TOTAL UNITHOLDERS' EQUITY</b>	<b><u>¥ 151,517</u></b>	<b><u>¥ 108,382</u></b>
<b>TOTAL LIABILITIES and UNITHOLDERS' EQUITY</b>	<b><u>¥ 303,732</u></b>	<b><u>¥ 247,956</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 November 30, 2007 and May 31, 2007

	<u>November 30, 2007</u>	<u>May 31, 2007</u>
	(Yen in millions)	
<b>OPERATING REVENUES</b>		
Rental income	¥ 7,530	¥ 6,150
Gain on sales of investments in real estate	410	761
Total operating revenues	<u>7,940</u>	<u>6,911</u>
<b>OPERATING EXPENSES</b>		
Property operating expenses		
Asset and property management fee	653	608
Property, repairs and maintenance	257	197
Trustee fee	44	42
Real estate taxes and insurance	202	234
Other operating expenses	197	235
Total property operating expenses	<u>1,353</u>	<u>1,316</u>
Property depreciation	1,527	1,289
General and administrative expenses	863	769
Total operating expenses	<u>3,743</u>	<u>3,374</u>
<b>OPERATING INCOME</b>	<u>4,197</u>	<u>3,537</u>
Interest and other income	109	122
Interest expenses	(930)	(787)
Other financing costs	(101)	(99)
Unit issue expenses	(44)	(21)
Other depreciation and amortization	(66)	(65)
Other expenses	(7)	(7)
<b>INCOME BEFORE INCOME TAXES</b>	<u>3,158</u>	<u>2,680</u>
<b>INCOME TAXES</b>		
Current	1	8
Deferred	6	(6)
<b>NET INCOME</b>	<u>¥ 3,151</u>	<u>¥ 2,678</u>
<b>Earnings per unit:</b>		
Net income (in Yen)	¥ 13,101	¥ 14,336
Weighted average number of units outstanding	240,504	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 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
Public offering (included allocation of new units to third party)		42,825
Cash distributions paid		(2,678)
Net income		3,151
Deferred hedge revenue		(163)
<b>Balance as of Nov 30, 2007</b>	247,153	¥151,517
Balance as of Nov 30, 2007		
Unitholders' capital		¥148,418
Retained earnings		¥3,151
Deferred hedge revenue		(¥52)
Total amounts of Unitholders' equity		¥151,517

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 November 30, 2007 and May 31, 2007

	November 30, 2007	(Yen in millions) May 31, 2007
<b>Cash Flows from Operating Activities</b>		
Income before income taxes	¥ 3,158	¥ 2,680
Depreciation and amortization	1,527	1,289
Bad debt loss	0	1
Amortization of long-term prepaid expenses	69	68
Amortization of organization expenses	6	7
Amortization of bond issuance costs	60	58
Interest income	(19)	(7)
Interest expense	930	787
Changes in assets and liabilities		
Allowance for doubtful receivables	(3)	2
Rent receivables	(12)	(6)
Other receivables	-	5
Consumption tax receivables	12	(58)
Accounts payable	8	(95)
Other payables	(13)	24
Accrued expenses	210	54
Received in advance	(203)	233
Sales of real estate (including trust accounts)	3,959	3,617
Long-term prepaid expenses	(98)	(202)
Others	65	(4)
<b>Sub-total</b>	<b>9,656</b>	<b>8,453</b>
Interest received	19	6
Interest paid	(836)	(893)
Proceeds from insurance	5	1
Income taxes paid	(11)	(4)
<b>Net cash provided by operating activities</b>	<b>8,833</b>	<b>7,563</b>
<b>Cash Flows from Investing Activities</b>		
Payments into time deposits	-	(1,000)
Receives from time deposits	1,000	-
Purchase of real estate (including trust assets and leasehold rights)	(61,967)	(46,572)
Proceeds from security deposit(including trust accounts)	505	353
Proceeds from long-term deposits payable	-	92
Repayment of long-term deposits payable	(6)	(3)
Others	(11)	-
<b>Net cash used in investing activities</b>	<b>(60,479)</b>	<b>(47,130)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from short-term loans	11,810	20,470
Repayment of short-term loans	(26,580)	(1,500)
Proceeds from long-term loans	5,900	22,500
Repayment of long-term loans	-	(12,900)
Proceeds from issuance of units	42,780	-
Proceeds from bonds	20,897	11,939
Distributions to unitholders	(2,677)	(2,660)
Others	-	(21)
<b>Net cash provided by financing activities</b>	<b>52,130</b>	<b>37,828</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>484</b>	<b>(1,739)</b>
<b>Cash and Cash Equivalents at beginning of Period</b>	<b>10,725</b>	<b>12,464</b>
<b>Cash and Cash Equivalents at end of Period</b>	<b>¥ 11,209</b>	<b>¥ 10,725</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 June 1, 2007 to November 30, 2007 and for the period from December 1, 2006 to May 31, 2007

### 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 November 30, 2007, NRIC owned 139 properties (including beneficiary rights) containing 9,160 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 Financial Instruments 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 Financial Instruments 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 to 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

Furniture and fixtures 3–15 years

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

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

Bonds issuance costs are amortized over the period of the bonds under the straight line method.

**d) New investment unit issue costs**

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

The public offering of new investment units on May 31, 2007 was conducted through an underwriting agreement under which underwriting securities companies underwrote all of the new investment units at an agreed issue price and sold them at an offer price, which is different from the issue price (“Spread Method”). NRIC does not pay any underwriting fees to the underwriting securities companies under the Spread Method because the difference between the offer price and issue price represents the underwriting commission received by the underwriting securities companies. In the case of the public offering of new investment units on May 31, 2007, the total amount of the difference between the offer price and the issue price was ¥1,461 million. If the underwriting securities companies had underwritten the new investment units at the issue price and offered the units to investors at an offer price equal to the issue price (known as the “Conventional Method”), a commission would have been expensed as new investment units issuance costs. Therefore, under the Spread Method, the new investment units issuance costs decreased by ¥1,461 million compared with the Conventional Method, and income before income taxes increased by the same amount.

**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 Accounting Changes

Effective June 1, 2007, NRIC changed its amortization period of bonds issuance costs from three years to the period of the bonds.

This change was made in order to achieve a more accurate presentation of the operating result of the company. Also, bond periods became diversified and bond issuance costs is considered as financing costs, as well as bond interests in recent years.

As a result of this change, income before income taxes increased by ¥18 million compared with the previous accounting method.

### Note-4 Secured assets

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

	As of Nov 30, 2007	As of May 31, 2007
	(Yen in millions)	
Pledged assets:		
Bank deposits	¥ 1,194	¥ 1,149
Buildings and improvements	18,853	19,105
Structures	144	149
Furniture and fixtures	3	3
Land	20,998	20,998
Total	<u>¥ 41,192</u>	<u>¥ 41,404</u>
Loans secured by the pledged assets:		
Long-term loans	<u>19,400</u>	<u>19,400</u>
Total	<u>¥ 19,400</u>	<u>¥ 19,400</u>

## Note-5 Short-term loans and long-term debt

Short-term loans comprise of the following:

	Yen in millions	
	As of Nov 30,2007	As of May 31,2007
Unsecured loans from banks:		
with interest ranging from 0.94% to 1.14%.....	7,400	-
with interest ranging from 0.90% to 1.26%.....	-	22,170
<b>Total</b>	<b>¥ 7,400</b>	<b>¥ 22,170</b>

Long-term debt comprise of the following:

	Yen in millions	
	As of Nov 30,2007	As of May 31,2007
Secured loans, representing obligations to banks:		
Due 2009 with interest ranging from 1.16% to 1.22%.....	19,400	19,400
Unsecured loans, representing obligations to banks:		
Due 2010 to 2012 with interest ranging from 1.25% to 1.85%.....	23,000	19,000
Unsecured loans, representing obligations to insurance companies:		
Due 2011 to 2013 with interest ranging from 1.79% to 2.20%.....	8,000	6,100
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	12,000
Unsecured 1.36% bonds, due 2009.....	6,000	-
Unsecured 1.48% bonds, due 2011.....	10,000	-
Unsecured 1.90% bonds, due 2012.....	5,000	-
<b>Total</b>	<b>¥ 140,400</b>	<b>¥ 113,500</b>

The annual maturities of long-term debt as of November 30, 2007 were as follows:

	(Yen in millions)
Due after 1 to 2 years	37,400
Due after 2 to 3 years	33,000
Due after 3 to 4 years	26,000
Due after 4 to 5 years	41,500

## Note-6 Per unit information

Net asset value per unit as of November 30, 2007 and May 31, 2007 was ¥613,047 and ¥ 580,177.

## Note-7 Cash and Cash equivalents

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

	Yen in millions	
	As of Nov 30,2007	As of May 31,2007
Cash and deposits (including trust accounts)	11,209	11,725
Time deposits with due over three months	-	△1,000
Cash and cash equivalents(including trust accounts)	¥ 11,209	¥ 10,725

## Note-8 Income taxes

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

	Rate	
	8th. Period	7th. Period
Statutory effective tax rate	39.39%	39.39%
Deductible cash distributions paid	(39.17)	(39.36)
Others	0.02	0.03
Effective tax rate	0.24%	0.06%

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 November 30, 2007 (equivalent to ¥12,748 per unit) to its unitholders (¥14,336 per unit was distributed for the period ended May 31, 2007). 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-9 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 November 30, 2007:

	Yen in millions	
	Notional amount	Fair value
Interest rate swaps:		
Receive/float and pay/fixed	37,400	△3
Interest rate caps:	17,000	70

## Note-10 Significant subsequent events

### a) Cash Distribution

As of January 21, 2008, the NRIC Board of Directors resolved to effect payment of a cash distribution of ¥12,748 per unit aggregating ¥ 3,151 million to unitholders of record on November 30, 2007.

### b) Acquisition of investment properties

NRIC acquired the following properties, in accordance with NRIC's Articles of Incorporation and Investment policy.

(Pacific Royal Court Minato Mirai Ocean Tower)

Location (Address)	:	5-3-2 Minato Mirai, Nishi-ku, Yokohama-shi, Kanagawa
Acquisition price (see Note)	:	¥ 15,221 million
Type of specified asset	:	Real estate and leasehold rights for the real estate
Contract date	:	September 27, 2007
Delivery date	:	December 26, 2007
Seller	:	DH Development Minato Mirai Y.K.

(Park Tower Shibaura Bayward Urban Wing)

Location (Address)	:	2-6-11 Shibaura, Minato-ku, Tokyo
Acquisition price (see Note)	:	¥ 14,510 million
Type of specified asset	:	Trust beneficiary rights of a real estate trust
Contract date	:	January 16, 2008
Delivery date	:	February 29, 2008
Seller	:	Acacia Properties, Inc.

Note: Excluding acquisition costs, real property tax, city planning tax, consumption tax and local consumption tax.

### c) Borrowing of funds

On purpose to purchase Pacific Royal Court Minato Mirai Ocean Tower, on December 26, 2007 NRIC borrowed funds set forth below.

Lenders	:	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Sumitomo Trust & Banking Co., Ltd. The Chuo Mitsui Trust and Banking Company, Limited Mizuho Corporate Bank, Ltd.
Loan amount	:	¥ 1,980 million
Interest rate	:	1.20923%
Drawdown date	:	December 26, 2007
Principal repayment date	:	December 26, 2008
Collateral	:	Unsecured and non-guaranteed
Lenders	:	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Chuo Mitsui Trust and Banking Company, Limited

	:	The Sumitomo Trust & Banking Co., Ltd.
	:	Mizuho Corporate Bank, Ltd.
	:	Shinkin Central Bank
Loan amount	:	¥ 15,200 million
Interest rate	:	1.14509%
Drawdown date	:	December 26, 2007
Principal repayment date	:	December 26, 2008
Collateral	:	Unsecured and non-guaranteed

#### d) Transfer of investment properties

As of January 16, 2008, the NRIC Board of Directors resolved to transfer two properties set forth below. On January 25, 2008 NRIC sold the properties.

(Umeda Excelheights)

Location (Address)	:	3-1-12 Nakazaki-Nishi, Kita-ku, Osaka-shi, Osaka
Transfer price (see Note)	:	¥ 6,200 million
Impact of disposition on gain or loss	:	Approximately ¥ 485 million of gain on sale of real estate property will be recorded.
Type of specified asset	:	Real estate
Contract date	:	January 16, 2008
Delivery date	:	January 25, 2008
Transferred to	:	MS Japan Strategic Core Acquisition K.K.

(SOHO Kita Aoyama)

Location (Address)	:	2-10-17 Kita-Aoyama, Minato-ku, Tokyo
Transfer price (see Note)	:	¥ 1,500 million
Impact of disposition on gain or loss	:	Approximately ¥235 million of gain on sale of real estate property will be recorded.
Type of specified asset	:	Real estate
Contract date	:	January 16, 2008
Delivery date	:	January 25, 2008
Transferred to	:	MS Japan Strategic Core Acquisition K.K.

Note: Excluding real property tax, city planning tax, consumption tax and local consumption tax.

#### Note-11 Additional Information

The NRIC Board of Directors resolved to purchase the following property, in accordance with NRIC's Articles of Incorporation and Investment policy,

(Pacific Royal Court Minato Mirai Urban Tower)

Location (Address)	:	5-3-1 Minatomirai, Nishi-ku, Yokohama-shi, Kanagawa
Acquisition price (see Note)	:	¥ 11,715 million
Type of specified asset	:	Real estate and leasehold rights for the real estate
Contract date	:	September 27, 2007



Scheduled delivery date : A date agreed to by NRIC and the Seller. However, the date shall be no later than the end of November 2008.

Seller : PD Minato Mirai TMK

Note: Excluding acquisition costs, real property tax, city planning tax, consumption tax and local consumption tax.

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

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