



Nippon Residential Investment Corp.

Semiannual Report 5th Fiscal Period From December 1, 2005 to May 31, 2006



NIPPON
RESIDENTIAL
INVESTMENT
CORPORATION

To Our Unitholders

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

NRIC received a Work Improvement Order regarding the inadequate holding of board of directors' meetings from the Director-General of the Kanto Local Finance Bureau on July 14, 2006. Before reporting on the performance of NRIC, allow me to express my profound apologies for the great concern and trouble this incident has caused our unitholders and related stakeholders. NRIC solemnly accepts this administrative discipline (Work Improvement Order). In addition to deeply regretting the incident, NRIC is fully committed to the greater reinforcement and steady implementation of our legal compliance system to ensure sound and appropriate business operations.

Concerning our performance for the fifth fiscal period (December 1, 2005 to May 31, 2006), financial statements, asset management report and statements on cash distributions were approved at a meeting of the board of directors held on July 25, 2006. The following is an overview of our management and details of our financial results.

In the fifth fiscal period, NRIC recorded operating revenues of ¥5,816 million, ordinary profit of ¥2,628 million and net income of ¥2,629 million. Based on these results, we have set the cash distributions for the fifth fiscal period as ¥14,074 per investment unit.

Thanks to your support, NRIC not only managed to secure stable earnings, but was also able to be dedicated to conducting judicious investment into highly-competitive rental housing in the rental housing market. Consequently, the asset size of our entire portfolio steadily expanded to 109 properties worth ¥182.6 billion (sum of acquisition prices). We were also able to enhance the quality of our portfolio as well as secure revenue growth and stability.

From a financial perspective, NRIC raised a total of ¥22.6 billion in funds from an additional issuance of new investment units in December 2005 and a total of ¥15.0 billion in funds from an issuance of the fourth unsecured investment corporation bond in February 2006. Conducting these issuances promoted the construction of a sound financial base that is also braced for interest rate rises.

NRIC will continue to provide selectively-identified, superior-quality rental housing and management services in the rental housing market 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 in the future.



A. Yamanouchi

Akira Yamanouchi
Chief Executive Officer

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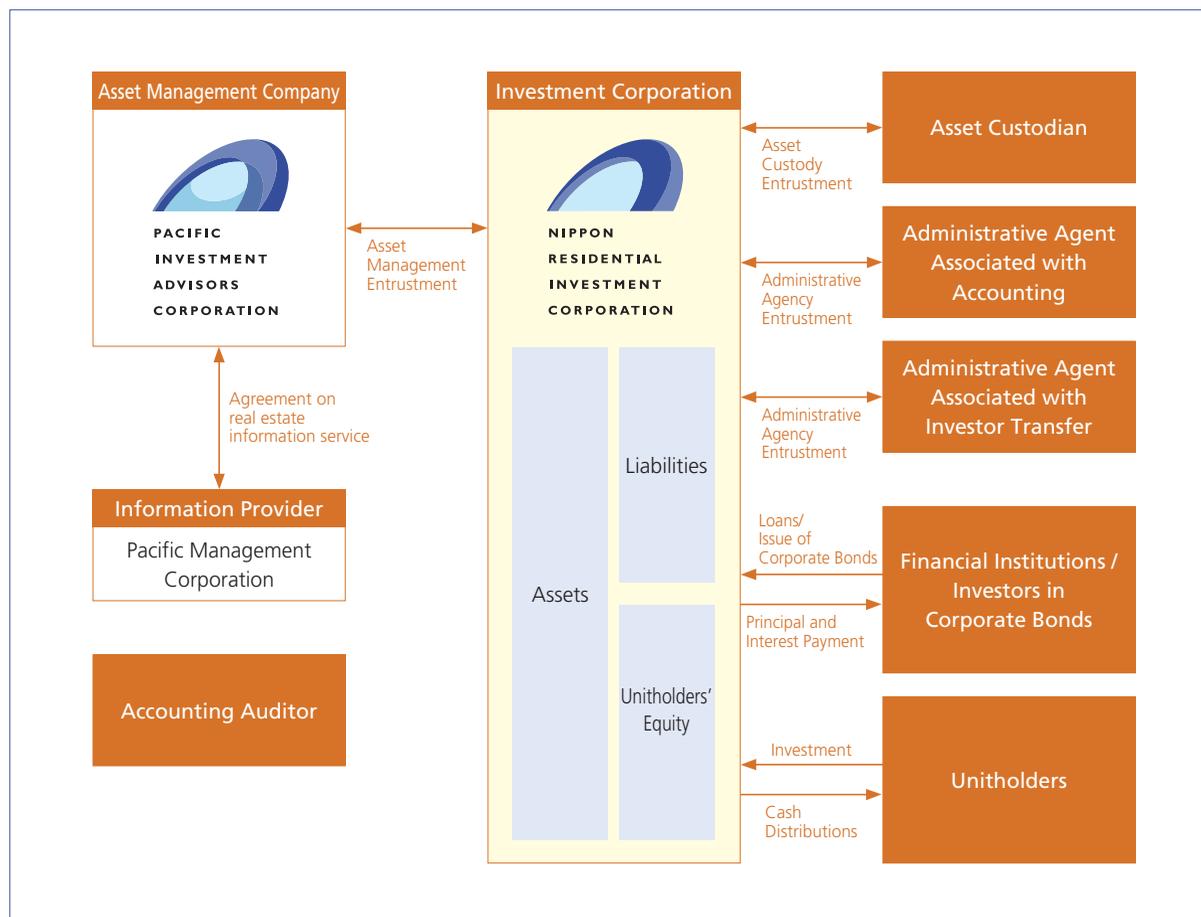


Promote internal growth by taking advantage of the management expertise



Profile of Nippon Residential Investment Corporation

J-REIT Structure



Member of Board of Directors

Title	Name	Other Titles
Chief Executive Officer	Akira Yamanouchi	Representative Director of Pacific Investment Advisors Corporation
Supervisory Director	Yukio Enomoto	Representative Director of GEM Associates Limited Auditor of Starbucks Coffee Japan, Ltd.
Supervisory Director	Kenji Miyako	Director of Miyako Accounting Office and Certified Public Tax Accountant Representative Director of Altus Co., Ltd. Representative Director of KS Partners, Ltd.

Advisor and Agents

Role	Name
Asset Management Company	Pacific Investment Advisors Corporation
Information Provider	Pacific Management Corporation
Asset Custodian	Mitsubishi UFJ Trust Bank
Administrative Agent Associated with Accounting	Mitsubishi UFJ Trust Bank
Administrative Agent Associated with Investor Transfer	Mitsubishi UFJ Trust Bank
Accounting Auditor	KPMG AZSA & Company

Profile of Asset Management Company

Corporate Profile

Name: Pacific Investment Advisors Corporation

Paid-in Capital: ¥320 million (as of May 31, 2006)

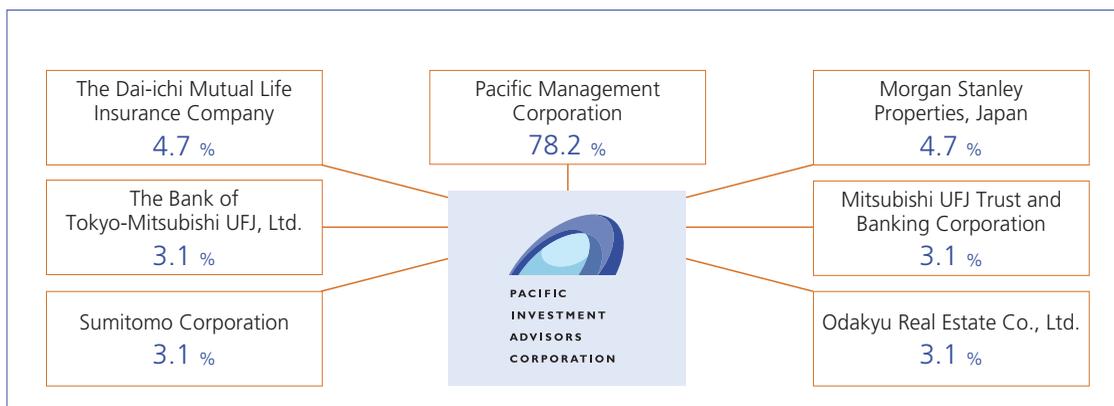
Business Contents:

- I . Investment trust administrator as stipulated in the Investment Trust Law, Article 2, Paragraph 16
- II . Corporate asset manager as stipulated in the Investment Trust Law, Article 2, Paragraph 17
- III . Administrative operator for corporate investment institutions
- IV . Residential building property transaction agent
- V . Consultant for asset buying and selling, management and operation
- VI . Consignment agent for buying and selling, administration and operation of real estate, trust beneficiary interest, securitized real estate products, securities and other financial assets
- VII . Investment advisor for real estate and securitized real estate products, securities and other financial assets
- VIII . Administrator of all other business activities incidental to the foregoing

Organization Chart



Asset Management Company Investors



Note: Percentages indicate percentage of stock holdings versus the total number of shares outstanding.



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 109 properties and 6,087 rentable units (as of the end of May 2006), 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 A3(Stable) from Moody's Investors Services Inc. and A+(Stable) from R & I.

Close Cooperation with Pacific Management Corporation

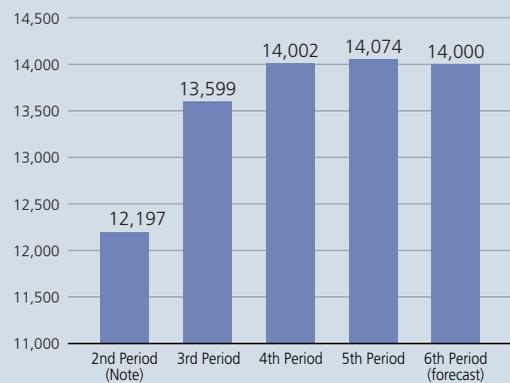
The sponsor company of our Asset Management Company is a residential property management professional, providing us with the full benefit of its extensive network and know-how.



Steady Growth

We have achieved portfolio growth and increased distribution per unit.

Distribution Growth
(yen)



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

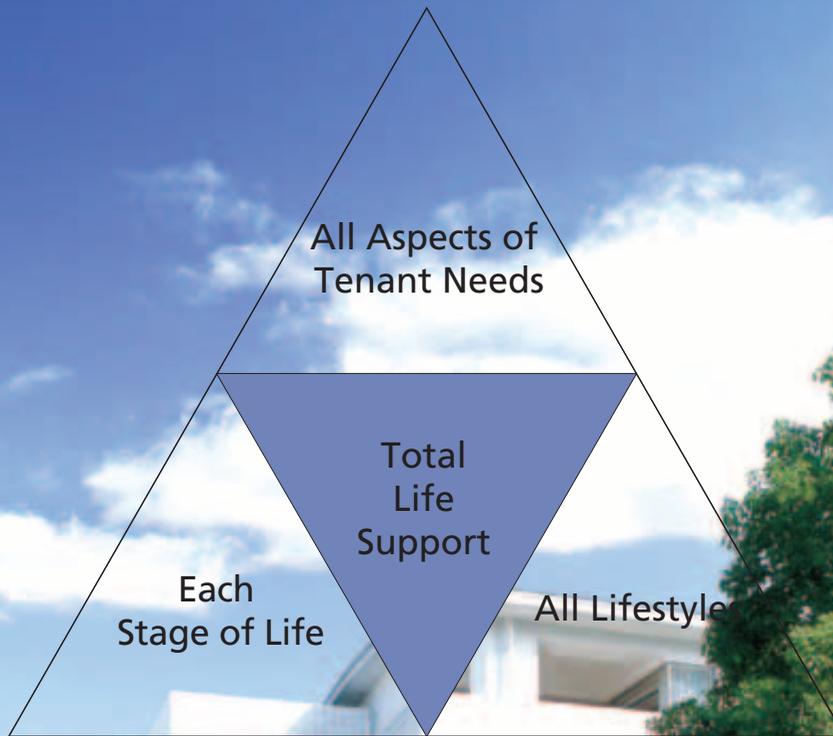
Portfolio Growth
(billion yen)



Total Life Support

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.



Our properties support every stage of life

Type	Large						
	Family					Senior	
	Compact			Compact			
	Single						
Stage of Life	Early Single	Mid Single	Double Income	Family	Empty Nesters	Senior	
Age Group	Early 20s	Late 20s	Late 20s-30s	30s-50s	Around 60	Mid 60s	
Events	Student life and being employed	Career switches and job relocation	Marriage and start of family life	Childbirth, education, and working for children	Retirement and independence of children	Pension and post-retirement life time	



Solid Foundation for Growth

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

Takeshi Ishida

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



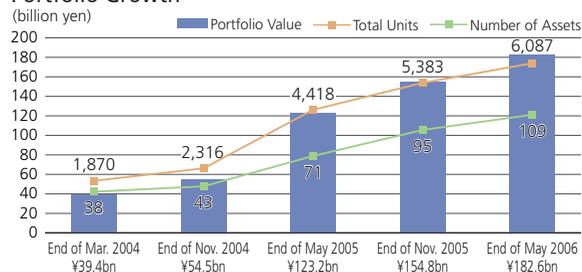
Steady Portfolio Growth

Realizing Steady Growth through Judicious Investment into High-Competitive, Superior Properties

NRIC aimed 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 conducts judicious investment into highly-competitive, superior properties in downtown Tokyo and core regional cities.

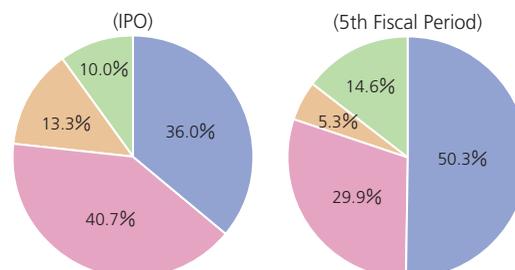
Based on this strategy, NRIC newly acquired eighteen properties and sold four properties during the fifth fiscal period, raising the total number of properties in our portfolio to 109 properties and the total number of rentable units to 6,087 units with a portfolio value (sum of acquisition prices) of ¥182,693 million at the end of the fifth fiscal period. This makes NRIC the largest listed J-REIT specializing in residential properties with the highest portfolio value.

Portfolio Growth



Composition by Investment Region (acquisition price basis)

■ Tokyo central 5 wards ■ Tokyo 23 wards ■ Tokyo metropolitan area ■ Major regional cities



The management of this portfolio resulted in NRIC securing ¥4,126 million in rental NOI (before subtracting interest, depreciation and amortization, income taxes and other public charges) in the fifth fiscal period.

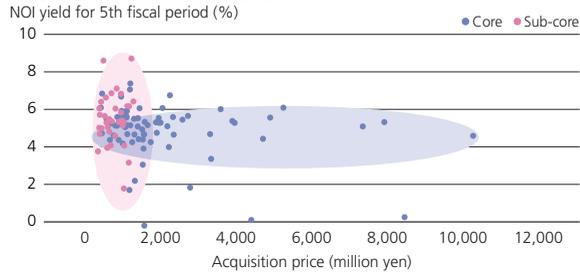
Enhancing Portfolio Quality through Replacement of Portfolio Assets

In the fourth fiscal period, our portfolio management aimed to increasingly boost the portfolio revenue and 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.

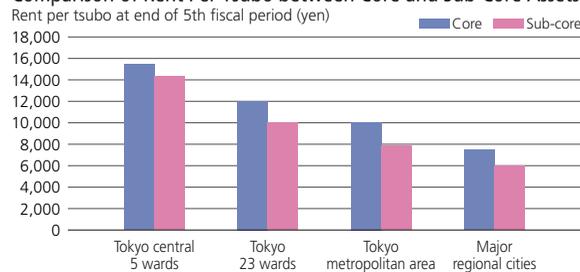
In the fifth fiscal period, we newly acquired twelve core asset properties and six sub-core asset properties. In addition, we sold four sub-core asset properties: the Veil Kikuicho (S-6), Bonne Uji I & II (S-12), Crane Mansion Tsurumi (F-6) and Nishi-Ogikubo Urbane Homes (L-6). Consequently, the proportion of all

properties that are core assets was heightened to 85.9% (based on acquisition price).

Characteristics of Core and Sub-Core Assets



Comparison of Rent Per Tsubo between Core and Sub-Core Assets

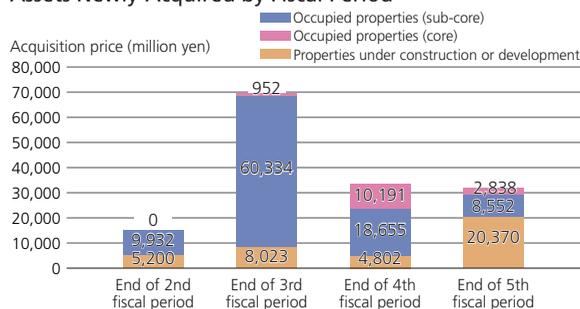


Acquisition of Properties Under Construction or Development

Securing highly-competitive core assets is essential to ensuring steady, medium- and long-term revenue from asset management. Thus, in order to expand methods for acquiring these core assets, NRIC has been promoting investment into properties under construction or development by collaborating with companies that invest into the asset management company and residential developers.

During the fifth fiscal period, NRIC acquired seven properties with a combined rentable floor space of 29,452.83m² (equivalent to 38.9% and 69.0% of the eighteen properties acquired during the fiscal period with a combined rentable floor space of 42,696.02m², respectively), including the Pacific Tower Roppongi (L-8), which will feature NRIC's first parallel establishment of serviced apartments, and the Pacific Residence Sannomiyahigashi, which is a large property with 161 rentable units.

Assets Newly-Acquired by Fiscal Period



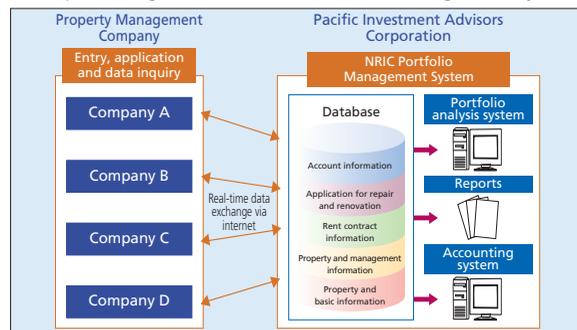
Internal Growth: Seeking Stability and Growth

Strategic Asset Management Based on Database

The steady occupancy under the NRIC Portfolio Management System enables the timely and efficient processing of information and data, and thereby enables us to advance database-based strategic asset management. Through utilizing the system, we were able to achieve early leasing at the appropriate rent for vacant residential units. During the fifth fiscal period, we managed to efficiently process information on new contracts for 1,134 units (up 49% from the previous fiscal period) and information on discontinued contracts for 638 units (up 42% from the previous fiscal period).

Further, this system also shortened the time required for accounting procedures by up to two business days.

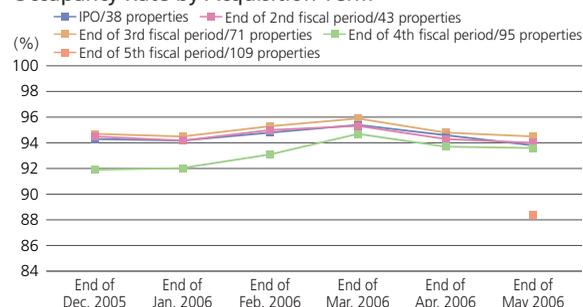
Conceptual Diagram of the NRIC Portfolio Management System



Sustaining High Occupancy Rates

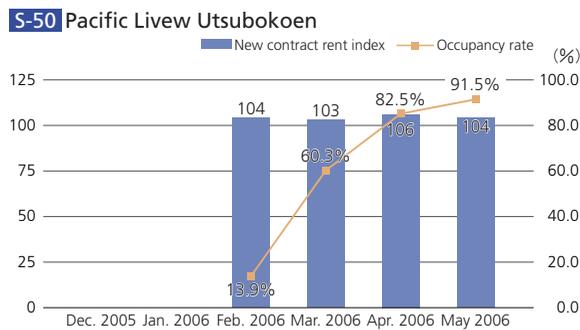
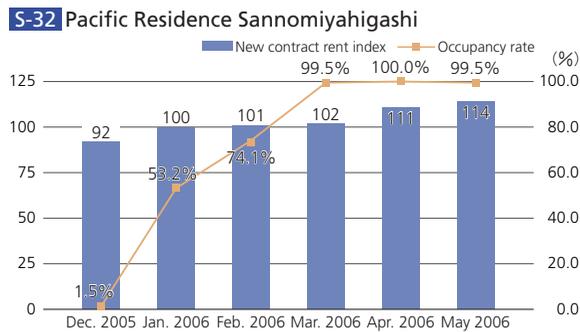
NRIC managed to sustain an occupancy rate of 88.4% (based on total floor space; hereafter the same) for the 109 properties owned at the end of the fifth fiscal period. Even when looking at the occupancy rate during the fiscal period in terms of the portfolio assets we owned at the end of each fiscal period—38 properties at the time of the IPO, 43 properties at the end of the second fiscal period, 71 properties at the end of the third fiscal period and 95 properties at the end of the fourth fiscal period—each fiscal period sustained an occupancy rate of more than 90%.

Occupancy Rate by Acquisition Term



Early Lease-Up for Properties Under Construction or Development

With the large property under development featuring 161 rentable units, the Pacific Residence Sannomiyahigashi (S-32), NRIC conducted early leasing by concluding a contract with the property management (PM) company that approves the solicitation of tenants before acquisition of the property. As a result, we were able to achieve an occupancy rate of 100% in April 2006 in a short four months from acquisition. Using the same method, the occupancy rate at the Pacific Livew Utsubokoen (S-50) reached 91.5% in four months after acquisition.



Improving Rental Income and Boosting Value to Improve NOI

NRIC proactively raises the rent 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 463 new contracts entered into during the fifth fiscal period (excluding the eighteen properties newly acquired during the fiscal period), we improved rent by between 0.33% and 25.6% and by 5.89% on average for 152 contracts or 32.8% of the contracts.

Furthermore, we were able to create a new revenue-generating opportunity with Pacific Residence Takanawa by changing the fitness room that was not being used into a residential space in view of the characteristics of the property. This is anticipated to lead to a 5.5% increase in NOI.

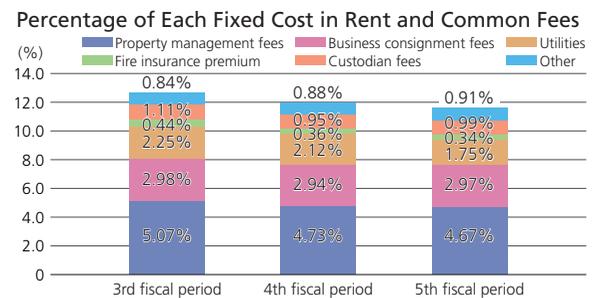
Example of Boosting Value with Pacific Residence Takanawa (C-24)



Cost Reduction Effects of Economies of Scale

NRIC regularly evaluates the performance and credibility of PM companies to which rental management and property management for portfolio assets are entrusted. By considering and promoting the consolidation of various work along with the increase in the number of portfolio assets, we can anticipate cost reduction effects deriving from economies of scale.

As indicated in the following graph, the percentage of fixed costs in the income from rent and common fees is on the decrease. NRIC will continue to work on reducing management costs.



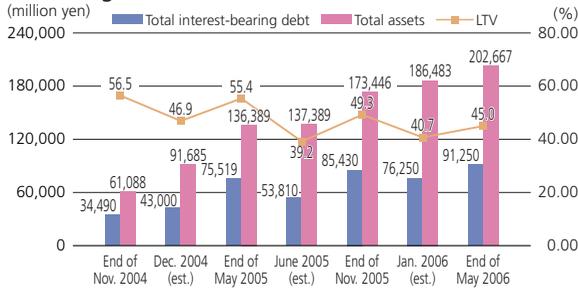
Financial Strategy

In procuring funds, we have aimed to preserve financial stability while enhancing flexibility and liquidity by sustaining a healthy debt ratio, hedging interest rate risk, dispersing maturity dates, diversifying fund procurement methods and sources, and keeping fund procurement costs down.

Maintaining a Healthy Debt Ratio

NRIC conducts fund procurement through loans focused on liquidity to acquire properties during the fiscal period. We have executed the procurement of funds through capital increases three times in the past with the objective of maintaining the debt ratio, which varies with such loans, at a healthy level. As a result of controlling the debt ratio in this manner, we managed to keep our Loan to Value (LTV) at a conservative level of 45.0%.

LTV Changes



Dispersion of Maturity Dates

With the aim to control the risks of refinancing periods for interest-bearing debts concentrating in a certain period, NRIC disperses the maturity dates for interest-bearing debts.

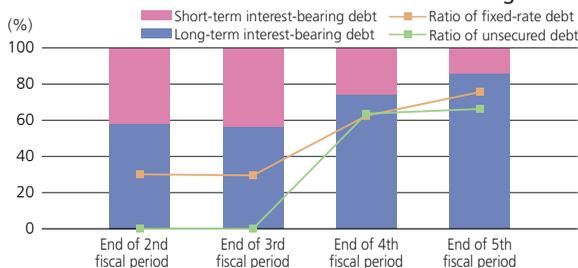
Dispersion of Maturity Date



Hedging Interest Rate Risk

In anticipation of rising interest rates, we promoted interest-bearing debt accounts that are long-term rather than short-term 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 jumping to 85.48% at the end of the fifth fiscal period and the ratio of loans with fixed interest rates rising to 72.88%.

Trend in Fiscal Indicators Related to Interest-Bearing Debt



Expanding Fund Procurement Methods

As part of the expansion of fund procurement methods, NRIC filed a shelf registration statement in compliance with the Securities and Exchange Law in June 2005 and set the limit to the issue of investment corporation bonds through a public offering. Based on this, NRIC conducted its third issue of unsecured investment

corporation bonds in the fourth fiscal period.

In the fifth fiscal period, NRIC also issued its fourth unsecured investment corporation bond in February, raising the balance of investment corporation bonds issued to ¥45 billion as at the end of the fifth fiscal period.

Summary of Investment Corporation Bonds

Name of Investment Corporation Bonds	Public/Private Offering	Issuance Date	Redemption Maturity (Period)	Total Issuance Amount	Interest Rate	Rating
First Unsecured	Public	July 20, 2005	July 20, 2010 (5 yrs)	¥10bn	0.74%	A3 (Note 1)
Second Unsecured	Public	Sept. 26, 2005	Sept. 24, 2010 (5 yrs)	¥10bn	0.84%	A3 (Note 1)
Third Unsecured	Public	Sept. 26, 2005	Sept. 24, 2010 (7 yrs)	¥10bn	1.28%	A3 (Note 1)
Fourth Unsecured	Public	Feb. 20, 2006	Feb. 18, 2011 (5 yrs)	¥15bn	1.50%	A3 (Note 1) A+ (Note 2)
Total	—	—	—	¥45bn	—	—

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

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

Outlook for the 6th Fiscal Period

In terms of external growth, we will continue our efforts to enhance portfolio quality. In particular, we will promote better revenue potential of our portfolio centering on securing superior assets that we commit to from the development phase and replacing properties.

In terms of internal growth, we will raise rent and shorten the period when units are unoccupied by proposing and executing leasing strategies utilizing the database of the NRIC Portfolio Management System. In addition, we will realize thoroughly efficient management and cost reductions via consolidating entrustment of building maintenance and management work as well as restoration and repair construction, and capitalizing on our portfolio being the largest among the housing sector.

In terms of financial strategy, we will continue our risk hedging efforts against rising interest rates and the building of a healthy financial foundation.

Pacific Investment Advisors Corporation will be unchanging in its dedication to maximizing performance as a professional in asset management and Nippon Residential Investment Corporation pledges to continue fulfilling the expectations of our unitholders.

Portfolio Strategy

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.

Maintaining and Improving
Revenue Potential



Optimizing the Rising
Revenue Balance



Core Assets
Stability, Growth

Sub-core Assets
Profitability, Liquidity

Core Assets 80-100%

- Properties in superior quality residential environments with long-term revenue potential
- Properties that are competitive in the rental housing market
- Properties with long-term stability and growth
- Properties with strategic management planning potential beyond the long-term
- Properties that advance the NRIC brand strategy

Sub-core Assets 0-20%

- Properties with relatively good profitability and liquidity, capable of contributing steady rental revenue into the mid-and-long term
- Properties that can be flexibly added to the portfolio at profit-earning opportunities
- Properties that ensure liquidity in the real estate market
- Properties that add portfolio management flexibility to respond to fluctuation in property value and real estate market trends

Note: The portfolio weighting of core and sub-core assets is determined on the basis of acquisition price.

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.

Definition of Property Type

Room Layout	Area of Possession							
	Up to 30m ²	Up to 40m ²	Up to 50m ²	Up to 60m ²	Up to 70m ²	Up to 80m ²	Up to 90m ²	Over 90m ²
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
4LDK or over	—	—	—	—	F	F	F	L

Note 6: 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 7: The Asset Management Company uses the following criteria to classify room layouts:

"Studio" Residential accommodation composed of single room with integral kitchen.

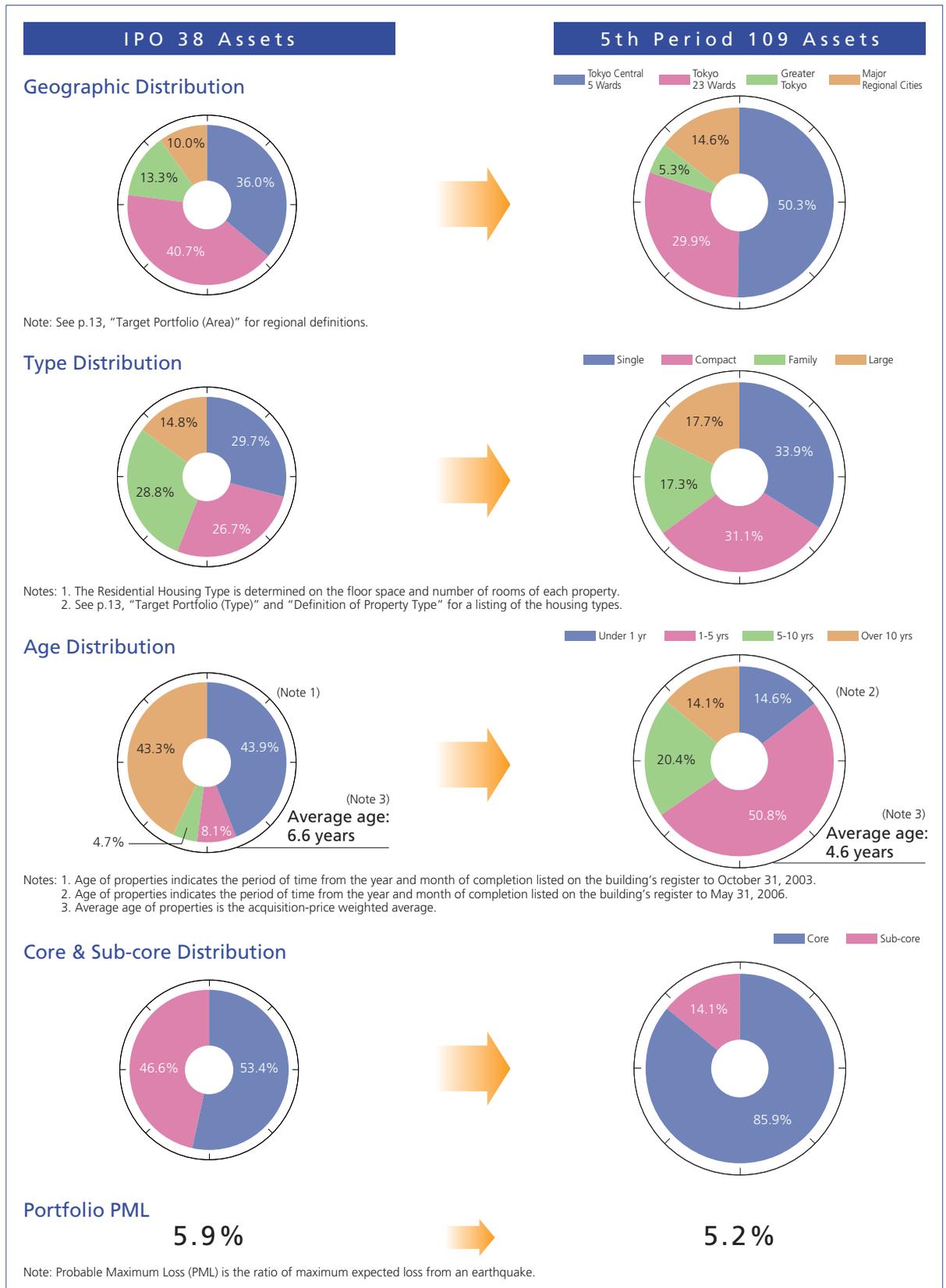
"1K" Residential accommodation composed of one main living room and one separate independent kitchen.

"1(2,3)DK" Residential accommodation composed of one (two or three) bedroom(s) with separate combined dining room and kitchen with a space of 4.5 Jo or more (1 "Jo" is about 1.7 square meters).

"1(2,3,4)LDK" Residential accommodation composed of one (two, three or four) bedroom(s) with separate combined lounge, dining and kitchen room with a space of 8 Jo or more.

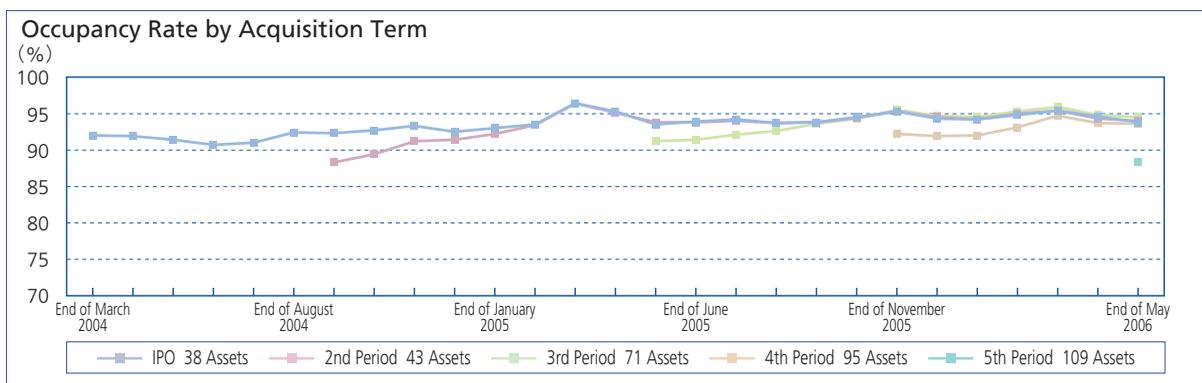
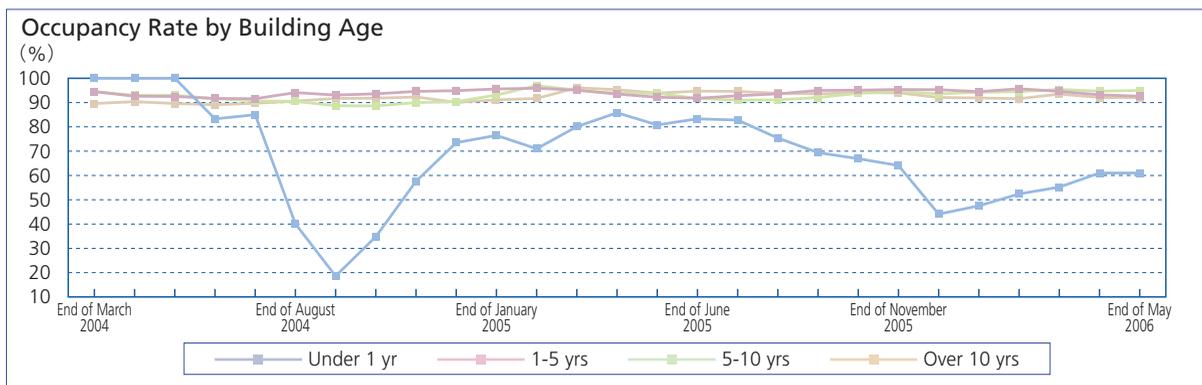
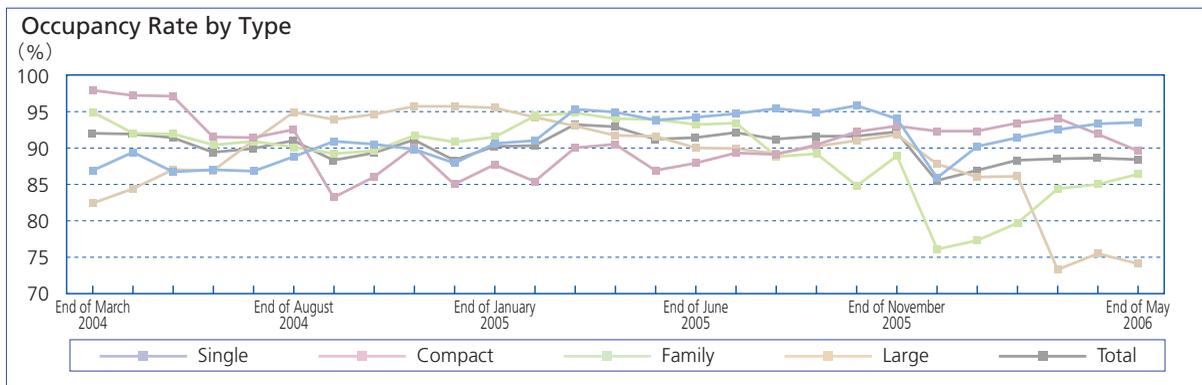
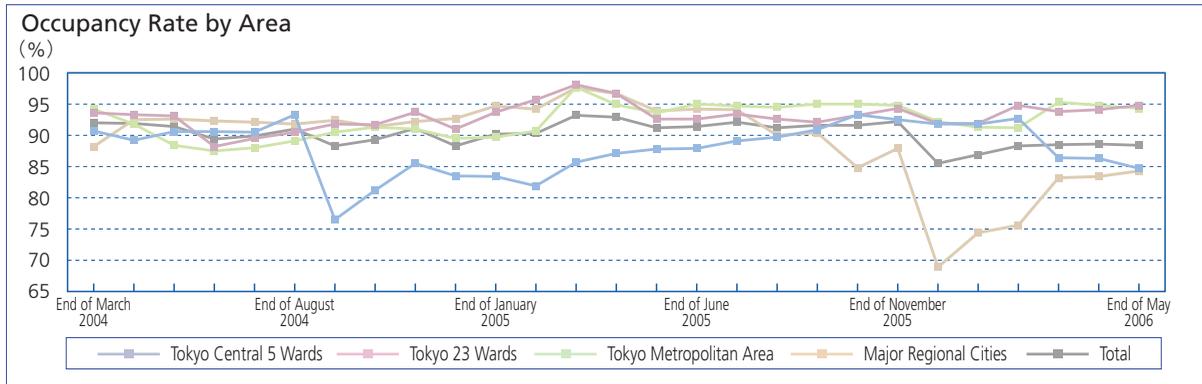
Real Estate Portfolio

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.

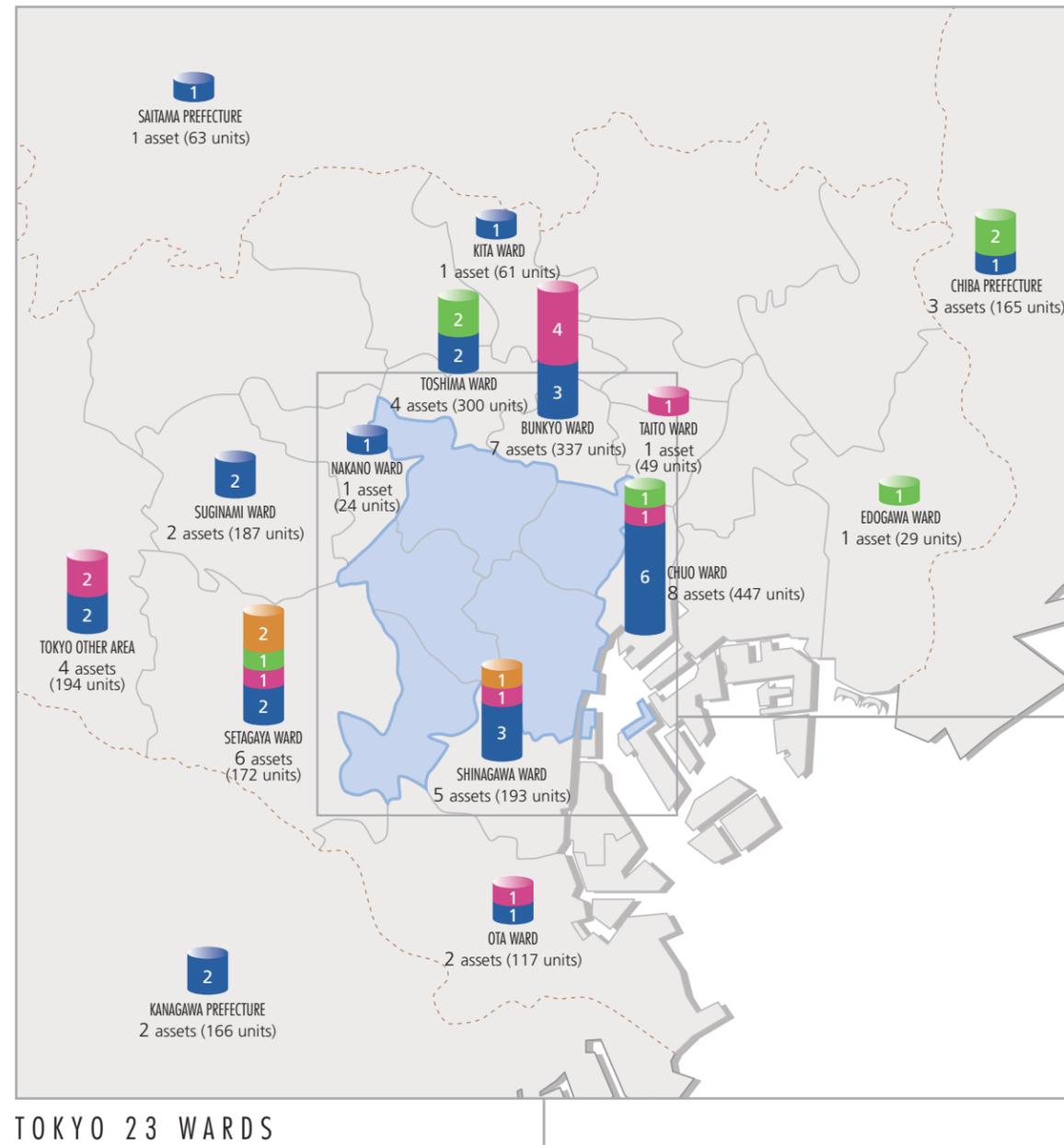
Changes in Occupancy Rate of Portfolio (as of May 31, 2006)



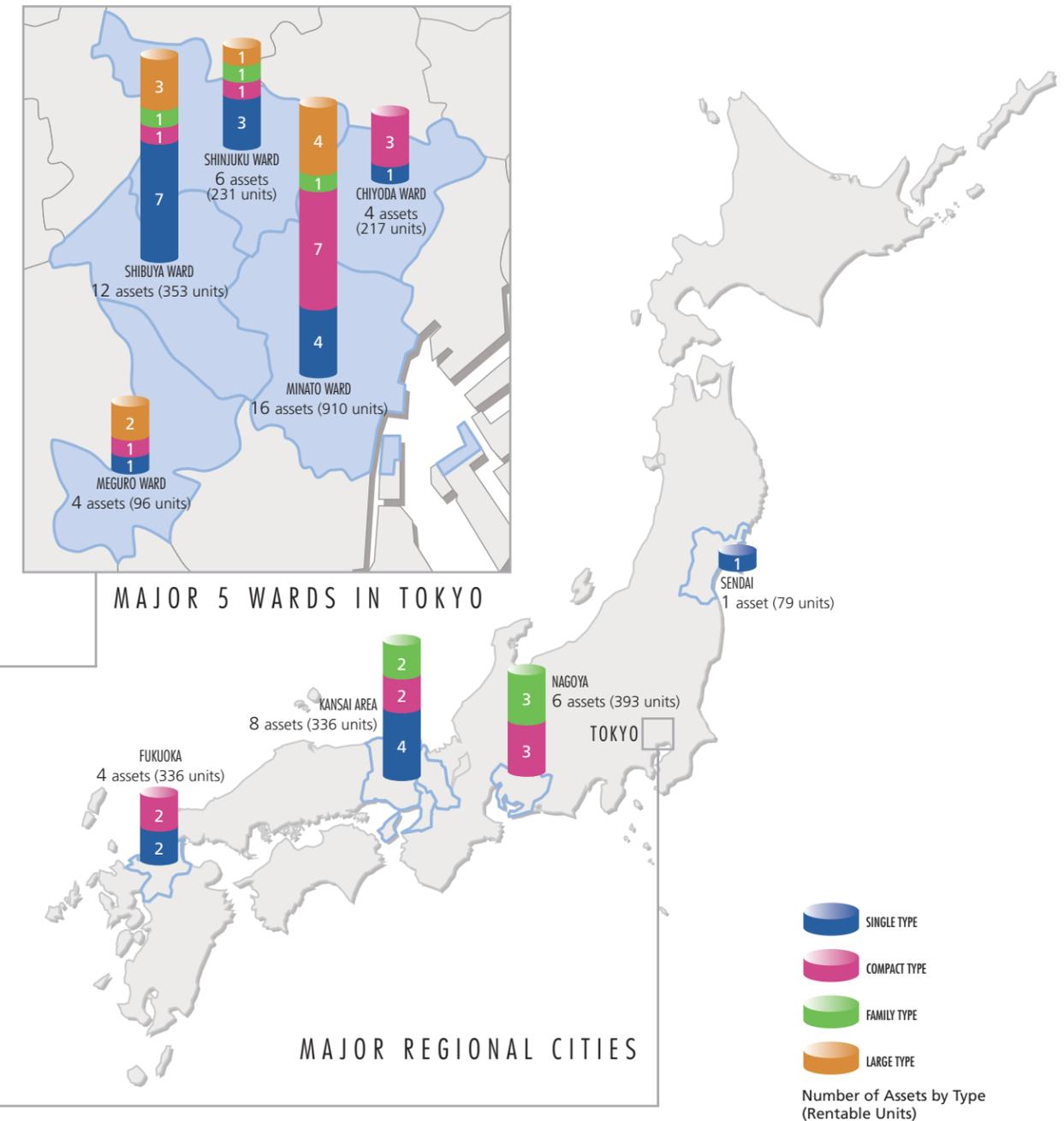
Real Estate Portfolio

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

We are Concentrating on Properties in Tokyo Downtown Area.



We Invest in Prime Areas in Each Region.



Real Estate Portfolio

Properties Roster

Roster of Assets owned at the end of 5th fiscal period (Note 8)

Property No. (Note 2)	Asset Type (Note 1)	Area (Note 3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (Note 4)	Building Structure (Note 5, 6)	Number of Floors (Note 5, 6)	Rentable Units (Note 7)	Date of Completion (Note 5)
S-1	Core 1	Tokyo 23 wards	Pacific Livew Shinkawa	2,050	0.99%	RC	7F	83	Feb. 2003
S-2	Core 1	Tokyo central 5 wards	Pacific Livew Shiba Daimon	1,900	0.91%	RC	B1F/10F	63	Nov. 2002
S-3	Sub-core	Tokyo central 5 wards	Glenpark Sangubashi	1,040	0.50%	RC	7F	27	Mar. 2003
S-4	Sub-core	Tokyo central 5 wards	Fresca Yoyogiuehara II	524	0.25%	RC	3F	17	Nov. 1995
S-5	Sub-core	Tokyo central 5 wards	Leopalace Udagawacho Mansion	569	0.27%	RC	5F	30	Aug. 2001
S-7	Sub-core	Tokyo 23 wards	Escort Kami-Ikebukuro	644	0.31%	RC	8F	44	Dec. 2001
S-8	Core 1	Tokyo 23 wards	Pacific Residence Shin-Nakano	448	0.22%	SRC	11F	24	Jun. 2002
S-9	Sub-core	Tokyo metropolitan area	Dormitory Haramachida	490	0.24%	SRC/S	B1F/12F	73	Jul. 1992
S-10	Sub-core	Tokyo metropolitan area	J Stage Minami-Urawa	700	0.34%	SRC	9F	63	Aug. 1992
S-13	Sub-core	Major regional cities	Yoshizuka AG Building No.6 and No.7	428	0.21%	RC	5F	86	No.6: Mar. 1987 No.7: Jun. 1988
S-14	Core 1	Tokyo 23 wards	Pacific Livew Shirokanedai	1,250	0.60%	RC	B1F/5F	32	May 2004
S-15	Core 2	Major regional cities	Grand Blue Hakata	1,582	0.76%	SRC	14F	155	Mar. 2002
S-16	Sub-core	Tokyo 23 wards	J Stage Honancho	952	0.46%	RC	B1F/7F	91	Mar. 1992
S-17	Core 2	Tokyo 23 wards	Park Habio Kyobashi	2,725	1.31%	SRC	B1F/13F	63	Aug. 2004
S-18	Core 1	Major regional cities	Pacific Livew Tenjinbashi	970	0.47%	SRC	12F	78	Feb. 2000
S-19	Core 1	Tokyo 23 wards	Pacific Residence Yushimasanchome	1,020	0.49%	SRC	12F	63	Mar. 2004
S-20	Core 1	Tokyo central 5 wards	Pacific Residence Shinjuku East	1,397	0.67%	RC	10F	54	Feb. 2004
S-21	Core 1	Tokyo central 5 wards	Pacific Livew Shinjuku-higashi	854	0.41%	SRC	8F	48	Aug. 2000
S-22	Core 1	Tokyo central 5 wards	Pacific Residence Kandaiwamotocho	1,657	0.80%	RC	B1F/15F	65	Feb. 2004
S-23	Core 2	Major regional cities	Umeda Excelheights	5,250	2.53%	SRC	B1F/15F	414	Feb. 2002
S-24	Core 1	Tokyo 23 wards	Pacific Residence Tsukiji	1,320	0.64%	RC	11F	54	Dec. 2005
S-25	Core 1	Tokyo 23 wards	Pacific Residence Sasaduka	1,950	0.94%	RC	6F	96	Mar. 2000
S-26	Core 1	Tokyo central 5 wards	Pacific Residence Minamiazabu	1,060	0.51%	RC	B1F/9F	37	Feb. 2001
S-27	Core 1	Tokyo central 5 wards	Pacific Residence Ebisuhigashi	660	0.32%	SRC	10F	26	Jan. 2001
S-28	Core 1	Tokyo 23 wards	Pacific Residence Meguronishi	800	0.39%	RC	B1F/7F	20	Oct. 1999
S-29	Core 1	Tokyo central 5 wards	Pacific Residence Hiroo 3chome	850	0.41%	RC	2-3F	29	Sep. 1999
S-30	Core 1	Tokyo central 5 wards	Pacific Residence Akasaka II	1,567	0.75%	RC	B1F/5F	37	Jan. 2005
S-31	Core 1	Tokyo 23 wards	Pacific Livew Kyobashi	1,401	0.67%	SRC/S	B1F/15F	52	Jan. 2005
S-32	Core 1	Major regional cities	Pacific Residence Sannomiyahigashi	2,247	1.08%	RC	15F	161	Nov. 2005
S-33	Core 1	Tokyo 23 wards	Pacific Livew Tamagawa	1,514	0.73%	RC	7F	98	Sep. 2004
S-34	Sub-core	Tokyo 23 wards	Maison Korakuen	710	0.34%	SRC	11F	31	Oct. 2004
S-35	Core 1	Tokyo 23 wards	Pacific Livew Ginzahigashi	2,348	1.13%	SRC	B1F/14F	94	Sep. 2004
S-36	Sub-core	Tokyo 23 wards	Relation Oji	1,027	0.49%	RC	11F	61	Feb. 2005
S-37	Sub-core	Tokyo metropolitan area	No. 6 Zelvova Mansion	609	0.29%	RC	9F	33	Feb. 2003
S-38	Core 1	Tokyo 23 wards	Pacific Livew Wasedanishi	1,100	0.53%	RC	12F	63	Jul. 2005
S-39	Sub-core	Major regional cities	KC21 Building	1,167	0.56%	SRC	11F	79	Mar. 1997
S-40	Core 1	Tokyo central 5 wards	Pacific Livew Hiroo	1,741	0.84%	SRC	12F	76	Nov. 2005
S-41	Sub-core	Tokyo metropolitan area	Cosmo Nishi-Funabashi II	799	0.38%	RC/S	B1F/7F	70	Mar. 1992
S-42	Core 1	Tokyo metropolitan area	Pacific Livew Yokohama Kannai	1,950	0.94%	SRC	11F	102	Aug. 2004
S-43	Sub-core	Tokyo 23 wards	K2	393	0.19%	SRC	B1F/11F	22	Sep. 1992
S-44	Sub-core	Tokyo metropolitan area	FLATS OKURAYAMA	895	0.43%	RC	5F	64	Mar. 1998
S-45	Core 2	Tokyo central 5 wards	Pianeta Shiodome	2,782	1.34%	RC	12F	67	Feb. 2005
S-46	Sub-core	Tokyo 23 wards	ZESTY KOMAZAWADAIGAKU	393	0.19%	RC	4F	18	Oct. 2004
S-47	Sub-core	Tokyo central 5 wards	ZESTY YOYOGI	377	0.18%	RC	4F	16	Feb. 2005
S-48	Sub-core	Tokyo central 5 wards	ZESTY NISHISHINJUKU	436	0.21%	RC	5F	19	Feb. 2005
S-49	Sub-core	Tokyo 23 wards	ZESTY KYODO	344	0.17%	RC	4F	15	Feb. 2005
S-50	Core 1	Major regional cities	Pacific Livew Utsuboko	1,200	0.58%	SRC	15F	94	Jan. 2006
S-51	Core 1	Tokyo 23 wards	Pacific Residence Tsukishima I	1,176	0.57%	RC	9F	40	Feb. 2006
S-52	Core 2	Tokyo 23 wards	CYNTHIA Oimachi	1,100	0.53%	RC	13F	48	Dec. 2005
S-56	Core 2	Tokyo central 5 wards	LUKE	1,530	0.74%	RC	B1F/5F	34	Jan. 2006
C-1	Core 1	Tokyo 23 wards	Pacific Residence Bunkyoootowa	3,590	1.73%	RC	B1F/10F	104	Aug. 2003
C-2	Core 1	Tokyo 23 wards	Pacific Residence Sengoku	760	0.37%	SRC	12F	33	Feb. 2003
C-3	Core 1	Tokyo central 5 wards	Pacific Livew Jiyugaoka	1,080	0.52%	SRC	B1F/10F	28	Mar. 2002
C-4	Core 1	Tokyo 23 wards	Pacific Residence Yushima	1,110	0.53%	RC	11F	39	Feb. 2003
C-6	Sub-core	Tokyo 23 wards	ZESTY Ikegami Building A and Building B	381	0.18%	RC	4F	19	Jul. 2003

Property No. (Note 2)	Asset Type (Note 1)	Area (Note 3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (Note 4)	Building Structure (Note 5, 6)	Number of Floors (Note 5, 6)	Rentable Units (Note 7)	Date of Completion (Note 5)
C-8	Core 1	Tokyo metropolitan area	Pacific Livew Hachioji	700	0.34%	RC	9F	40	Jan. 1988
C-9	Sub-core	Major regional cities	Grand Heights Hibino	1,230	0.59%	SRC	14F	124	Apr. 1992
C-10	Core 1	Major regional cities	Pacific Residence Koyochō	454	0.22%	RC	5F	40	Feb. 2000
C-11	Core 1	Tokyo central 5 wards	Pacific Livew Nagatacho	1,000	0.48%	RC	10F	23	Jan. 2003
C-12	Core 1	Tokyo central 5 wards	Pacific Residence Suidobashi	2,330	1.12%	SRC	B1F/14F	65	Dec. 2004
C-13	Core 1	Tokyo central 5 wards	Pacific Tower Nogizaka	3,900	1.88%	RC	B2F/19F	68	Aug. 2004
C-14	Core 1	Tokyo central 5 wards	Pacific Residence Akasaka I	1,300	0.63%	RC	5F	37	May 2004
C-15	Core 2	Tokyo central 5 wards	Apartments Nishi-Azabu	7,920	3.81%	SRC	B1F/14F	125	Jul. 2004
C-16	Core 1	Major regional cities	Pacific Residence Tenjinminami	1,200	0.58%	SRC	15F	56	Jan. 2004
C-17	Core 1	Major regional cities	Pacific Livew Hakataeki-Minami	420	0.20%	SRC	11F	39	Jan. 2003
C-18	Core 1	Tokyo 23 wards	Pacific Residence Ningyocho	572	0.28%	RC	B1F/7F	25	Mar. 2004
C-19	Core 1	Tokyo central 5 wards	Pacific Residence Daikanyama	2,180	1.05%	RC	B1F/8F	42	Jul. 2004
C-20	Core 1	Tokyo central 5 wards	Pacific Residence Ichigaya	2,580	1.24%	SRC	B1F/14F	85	Aug. 2004
C-21	Core 1	Tokyo metropolitan area	Pacific Residence Kichijoji	1,445	0.70%	RC	3F	48	Mar. 1995
C-22	Core 1	Tokyo 23 wards	Pacific Residence Bunkyoengoku	1,557	0.75%	SRC	13F	45	Apr. 2005
C-23	Core 1	Tokyo central 5 wards	Pacific Residence Akasaka Hinokicho	4,710	2.27%	RC	B1F/8F	87	Sep. 1999
C-24	Core 1	Tokyo central 5 wards	Pacific Residence Takanawa	1,550	0.75%	SRC	B2F/8F	31	Jan. 2003
C-26	Core 2	Tokyo 23 wards	Storia SANGEN-JAYA	3,311	1.59%	RC	B1F/14F	78	Jan. 2005
C-27	Core 1	Tokyo 23 wards	Pacific Livew Chojamaru	3,338	1.61%	RC	B2F/3F	71	Mar. 2005
C-28	Sub-core	Tokyo central 5 wards	L'air Minami Aoyama	1,030	0.50%	RC	B1F/4F	13	Mar. 2005
C-29	Core 2	Major regional cities	Mare	963	0.46%	SRC	12F	38	Feb. 2005
C-30	Core 1	Tokyo central 5 wards	Pacific Livew Kandahigashi	1,880	0.91%	SRC	15F	64	Oct. 2003
C-31	Sub-core	Major regional cities	Melody Heim Shin-Osaka	956	0.46%	SRC	10F	70	Apr. 1994
C-32	Sub-core	Major regional cities	Melody Heim Matsubara	643	0.31%	RC	8F	53	Mar. 1994
C-33	Core 1	Tokyo 23 wards	Pacific Livew Iriya	1,190	0.57%	SRC	11F	49	Dec. 2004
C-34	Core 1	Tokyo central 5 wards	Pacific Residence Higashi-Azabu	1,570	0.76%	RC	12F	31	Apr. 2006
F-1	Core 1	Tokyo central 5 wards	Pacific Residence Sakuragaoka	3,960	1.91%	SRC	B2F/12F	66	Apr. 2003
F-2	Core 1	Tokyo central 5 wards	Pacific Residence Mejiro Otomeyama	1,100	0.53%	RC	B1F/3F	19	Dec. 2002
F-3	Core 1	Tokyo 23 wards	Pacific Residence Shinkawa	1,420	0.68%	SRC	14F	36	Feb. 2003
F-4	Sub-core	Tokyo 23 wards	Setagaya Sun Heights	982	0.47%	RC	4F	38	Jul. 1992
F-5	Sub-core	Tokyo 23 wards	Ars Shin-Otsuka	1,117	0.54%	SRC	B1F/10F	31	Mar. 1989
F-8	Sub-core	Tokyo metropolitan area	Maison Kashiwa	840	0.40%	RC	8F	56	Nov. 1989
F-9	Sub-core	Major regional cities	Sky Heights Hirabari	554	0.27%	RC	B1F/9F	36	Feb. 1995
F-10	Core 1	Tokyo 23 wards	Pacific Residence Mejiro	7,350	3.54%	SRC	B1F/10F	162	Jan. 1999
F-11	Core 1	Tokyo central 5 wards	Pacific Residence Shibaura	4,900	2.36%	SRC	B2F/15F	154	Sep. 1991
F-12	Core 1	Major regional cities	Pacific Residence Shirakabehigashi	1,070	0.52%	RC	8F	33	May 2005
F-13	Core 1	Major regional cities	Pacific Residence Sakaihigashi	890	0.43%	SRC/RC	15F	50	Aug. 2005
F-14	Sub-core	Tokyo metropolitan area	Maison Yachiyodai	1,281	0.62%	SRC	8F	39	Aug. 1989
F-15	Sub-core	Tokyo 23 wards	Abreast Kasai	807	0.39%	RC	7F	29	Jan. 2000
F-16	Core 1	Major regional cities	Pacific Residence Uzumasa	958	0.46%	RC	B1F/7F	48	Jan. 2000
F-17	Core 1	Major regional cities	Pacific Residence Izumi	4,400	2.12%	SRC	15F	122	Nov. 2005
L-1	Sub-core	Tokyo 23 wards	Manoa Okamoto	590	0.28%	RC	B1F/3F	12	Oct. 1989
L-2	Core 2	Tokyo central 5 wards	Bellwood	1,530	0.74%	RC	B1F/5F	6	Sep. 1989
L-3	Core 2	Tokyo central 5 wards	Grand Forme Ichigaya Haraikatamachi	970	0.47%	RC	B1F/3F	6	Jul. 1990
L-4	Sub-core	Tokyo central 5 wards	Meguro Hillside Court	1,000	0.48%	RC	3F	18	Feb. 1991
L-5	Sub-core	Tokyo 23 wards	Petit Cour Kinuta	684	0.33%	RC	B1F/5F	11	Mar. 1990
L-7	Core 2	Tokyo central 5 wards	Motoazabu Place	10,270	4.94%	RC	3-5F	41	Feb. 2001
L-8	Core 1	Tokyo central 5 wards	Pacific Tower Roppongi	8,456	4.07%	RC/S	B2F/27F	83	Feb. 2006
L-9	Core 1	Tokyo central 5 wards	Pacific Residence Kamimeguro	1,000	0.48%	RC	B1F/5F	16	Jan. 1993
L-10	Core 1	Tokyo central 5 wards	Pacific Residence Yoyogikoen	1,310	0.63%	RC	B1F/4F	6	Jul. 1998
L-11	Core 2	Tokyo central 5 wards	Windsor House Hiroo	2,000	0.96%	RC	B1F/3F	12	Jun. 2003
L-12	Sub-core	Tokyo central 5 wards	SOHO Kita Aoyama	1,160	0.56%	RC	B1F/3F	10	Mar. 2004
L-13	Core 1	Tokyo 23 wards	Pacific Residence Ohi	1,120	0.54%	RC	B1F/5F	22	Oct. 1989
L-14	Core 2	Tokyo central 5 wards	Root Azabu Jyuban	2,220	1.07%	SRC/S	14F	26	Jan. 1999
Total				182,693	87.96%	—	—	6,087	—

Real Estate Portfolio

Properties Roster

Roster of Assets to be acquired during 6th fiscal period

Property No. (Note 2)	Asset Type (Note 1)	Area (Note 3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (Note 4)	Building Structure (Note 5, 6)	Number of Floors (Note 5, 6)	Rentable Units (Note 7)	Date of Completion (Note 5)
S-54	Core 1	Tokyo central 5 wards	Pacific Residence Kami-Ochiai	1,310	0.63%	RC (planned)	B1F/6F (planned)	75 (planned)	Sep. 2006 (planned)
S-55	Core 1	Tokyo 23 wards	Pacific Residence Higashi-Shinagawa	2,317	1.12%	RC (planned)	11F (planned)	122 (planned)	Aug. 2006 (planned)
S-57	Core 1	Tokyo central 5 wards	Pacific Residence Toranomon	1,484	0.71%	RC (planned)	B1F/14F (planned)	63 (planned)	Nov. 2006 (planned)
Total				5,111	2.46%	—	—	260	—

Roster of Assets to be acquired during and after 7th fiscal period

Property No. (Note 2)	Asset Type (Note 1)	Area (Note 3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (Note 4)	Building Structure (Note 5, 6)	Number of Floors (Note 5, 6)	Rentable Units (Note 7)	Date of Completion (Note 5)
C-25	Core 1	Tokyo 23 wards	Pacific Tower Meguroyamate	14,507	6.99%	RC (planned)	B3F/30F (planned)	356 (planned)	Feb. 2007 (planned)
F-18	Core 1	Tokyo 23 wards	Pacific Residence Nihonbashi Bakurocho	5,380	2.59%	RC (planned)	B2F/17F (planned)	132 (planned)	Mar. 2007 (planned)
Total				19,887	9.58%	—	—	488	—

Note 1. Asset Categories (Core, Sub-core)

Core assets are properties determined to have 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 2. 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. Please see "Definition of Property Type" on Page 13 for a further explanation of the five types of residential housing.

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 investment ratio is the ratio of the acquisition (or planned acquisition) value of the acquired (or planned) property to the total acquisition (or planned acquisition) value of all acquired (or planned) properties. (The figure has been rounded off to two decimal places.)

Note 5. The "Building Structure," "Number of Floors" and "Date of Completion" are based on official registration entries. Properties scheduled for acquisition (planned) in the sixth fiscal period and after are registered as follows. S-54 Pacific Residence Kami-Ochiai inspection certificate dated September 30, 2005. S-55 Pacific Residence Higashi-Shinagawa inspection certificate dated May 17, 2005. S-57 Pacific Residence Toranomon inspection certificate dated February 22, 2006. C-25 Pacific Tower Meguroyamate inspection certificate dated November 19, 2004. F-18 Pacific Residence Nihonbashi Bakurocho inspection certificate dated June 27, 2005.

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 May 2006.

Note 8. Figures include the J Stage Minami-Urawa, Maison Kashiwa, Fresca Yoyogiuehara II, and Ars Shin-Otsuka for which sales transactions were completed on June 26, 2006.

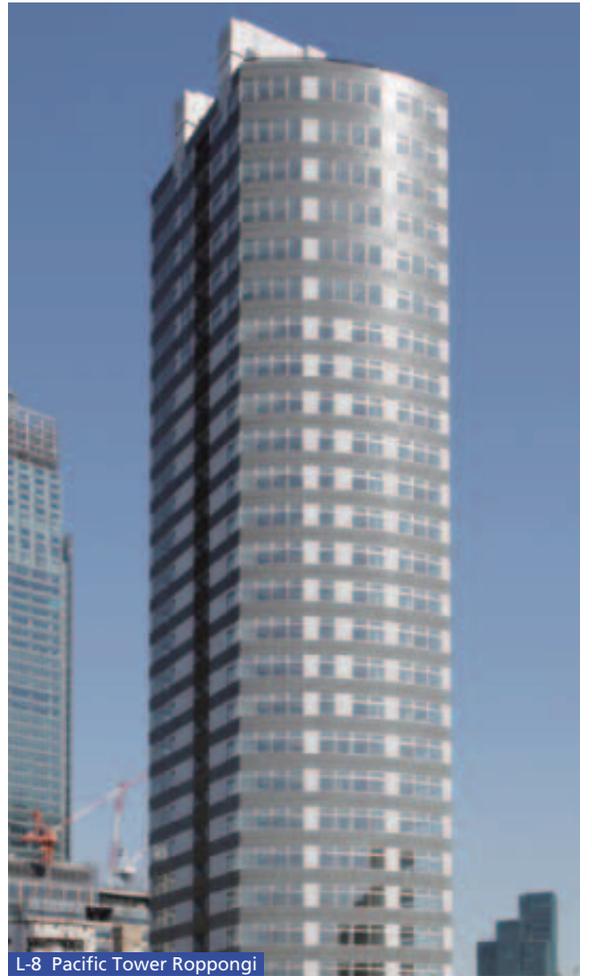


Pacific Quality

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.



Core Asset



L-8 Pacific Tower Roppongi



F-2 Pacific Residence Mejiro Otomeyama



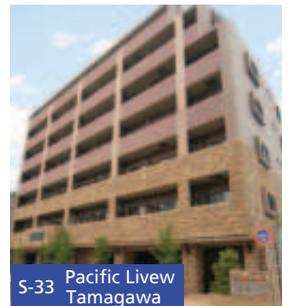
S-50 Pacific Livew Utsubokoen



S-28 Pacific Residence Meguronishi



C-23 Pacific Residence Akasaka Hinokicho



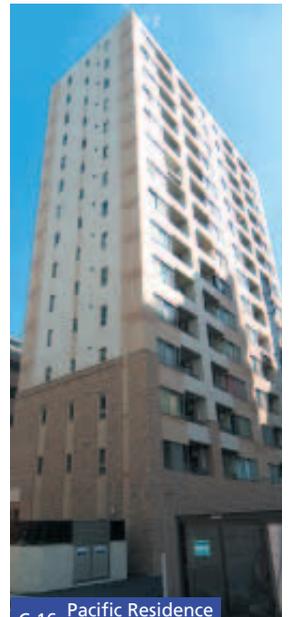
S-33 Pacific Livew Tamagawa



S-24 Pacific Residence Tsukiji



L-11 Windsor House Hiroo



C-16 Pacific Residence Tenjinminami



C-29 Mare



S-42 Pacific Livew Yokohama Kannai



C-3 Pacific Residence Jiyugaoka



S-8 Pacific Residence Shin-Nakano



L-2 Bellwood



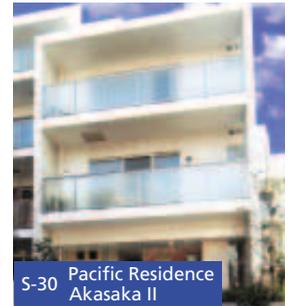
S-18 Pacific Livew Tenjinbashi



L-14 Root Azabu Jyuban



L-10 Pacific Residence Yoyogikoen



S-30 Pacific Residence Akasaka II



C-33 Pacific Livew Iriya



L-7 Motoazabu Place



C-11 Pacific Livew Nagatacho



C-26 Storia SANGEN-JAYA



C-2 Pacific Residence Sengoku



S-14 Pacific Livew Shirokanedai



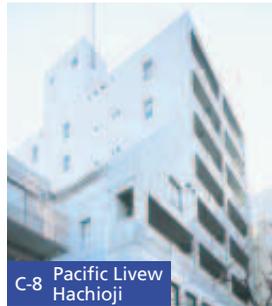
S-15 Grand Blue Hakata



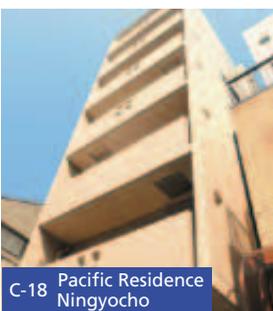
C-17 Pacific Livew Hakataeki-Minami



F-17 Pacific Residence Izumi



C-8 Pacific Livew Hachioji



C-18 Pacific Residence Ningyocho



C-27 Pacific Livew Chojamaru



F-13 Pacific Residence Sakaihigashi



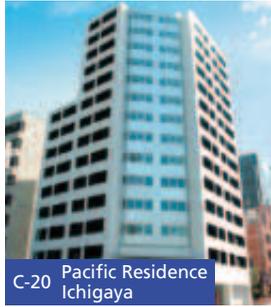
C-13 Pacific Tower Nogizaka



S-17 Park Habio Kyobashi



L-13 Pacific Residence Ohi



C-20 Pacific Residence Ichigaya



S-25 Pacific Residence Sasaduka



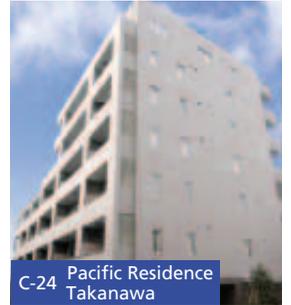
C-22 Pacific Residence Bunkyo-sengoku



S-45 Pianeta Shiodome



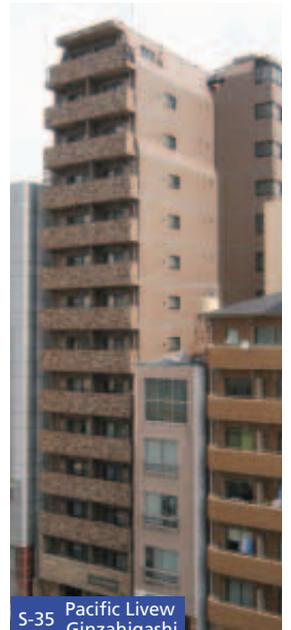
S-23 Umeda Excelheights



C-24 Pacific Residence Takanawa



S-29 Pacific Residence Hiroo 3chome



S-35 Pacific Livew Ginzahigashi



C-30 Pacific Livew Kandahigashi



C-19 Pacific Residence Daikanyama



C-1 Pacific Residence Bunkyoootowa



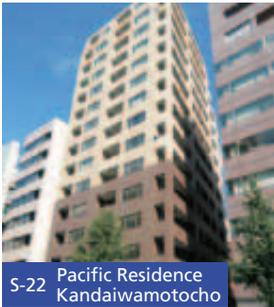
S-20 Pacific Residence Shinjuku East



S-38 Pacific Livew Wasedanishi



C-14 Pacific Residence Akasaka I



S-22 Pacific Residence Kandaiwamotocho



L-9 Pacific Residence Kamimeguro



C-12 Pacific Residence Suidobashi



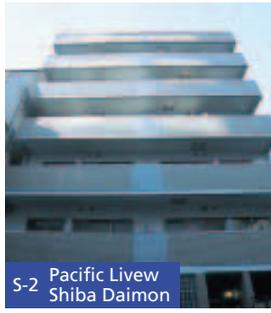
C-10 Pacific Residence Koyochō



S-40 Pacific Livew Hiroo



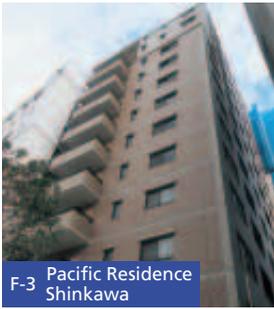
F-16 Pacific Residence Uzumasa



S-2 Pacific Livew Shiba Daimon



F-11 Pacific Residence Shibaura



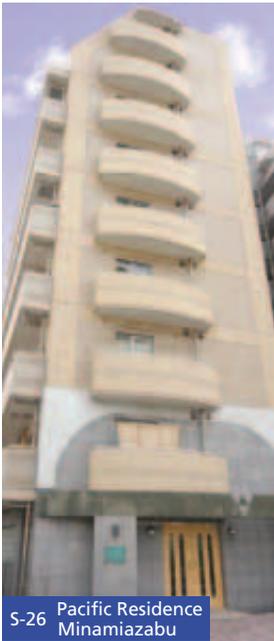
F-3 Pacific Residence Shinkawa



S-19 Pacific Residence Yushimasanchome



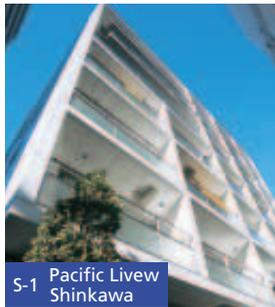
S-21 Pacific Livew Shinjuku-higashi



S-26 Pacific Residence Minamiazabu



C-15 Apartments Nishi-Azabu



S-1 Pacific Livew Shinkawa



F-10 Pacific Residence Mejiro



S-32 Pacific Residence Sannomiyahigashi



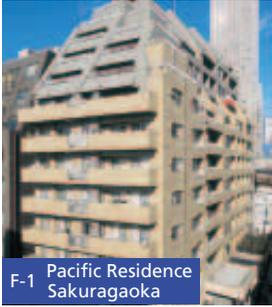
C-21 Pacific Residence Kichijoji



S-51 Pacific Residence Tsukishima I



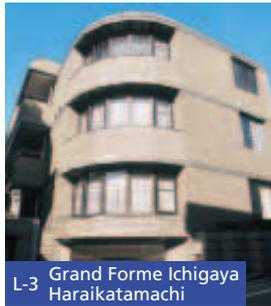
S-52 CYNTHIA Oimachi



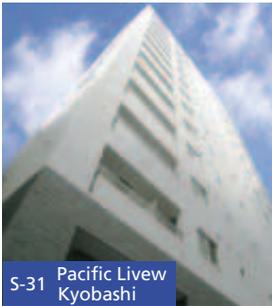
F-1 Pacific Residence Sakuragaoka



C-34 Pacific Residence Higashi-Azabu



L-3 Grand Forme Ichigaya Haraikatamachi



S-31 Pacific Livew Kyobashi



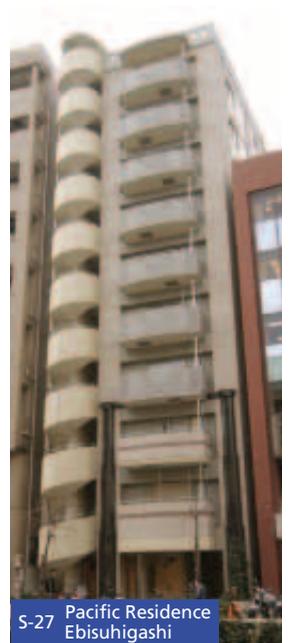
C-4 Pacific Residence Yushima



S-56 LUKE



F-12 Pacific Residence Shirakabehigashi



S-27 Pacific Residence Ebisu Higashi

Sub-core Asset



S-16 J Stage Honancho



S-43 K2



L-12 SOHO Kita Aoyama



C-9 Grand Heights Hibino



C-6 Zesty Ikegami Building A and Building B



S-5 Leoplace Udagawacho Mansion



F-9 Sky Heights Hirabari



S-10 J Stage Minami-Urawa



S-34 Maison Korakuen



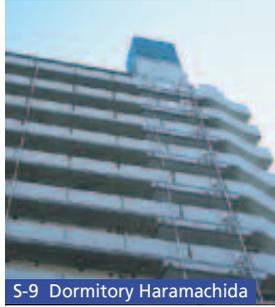
F-8 Maison Kashiwa



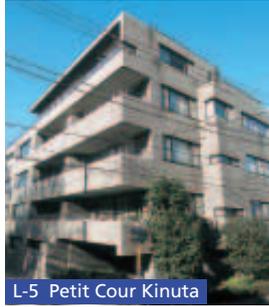
S-36 Relation Oji



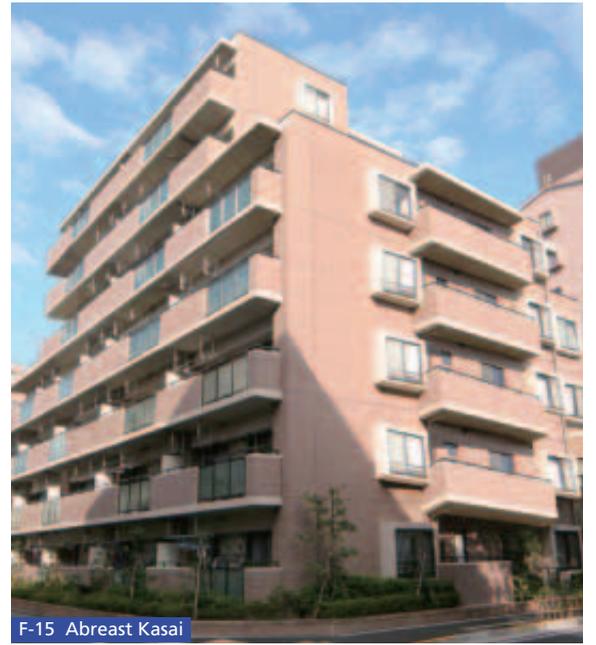
L-1 Manoa Okamoto



S-9 Dormitory Haramachida



L-5 Petit Cour Kinuta



F-15 Abreast Kasai



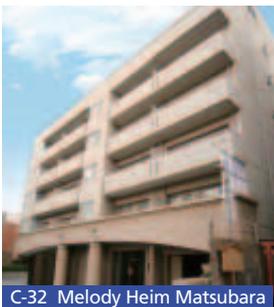
C-28 L'air Minami Aoyama



S-41 Cosmo Nishi-Funabashi II



F-4 Setagaya Sun Heights



C-32 Melody Heim Matsubara



S-7 Escort Kami-Ikebukuro



S-46 ZESTY KOMAZAWADAIGAKU



F-14 Maison Yachiyodai



S-37 No. 6 Zelvova Mansion



S-13 Yoshizuka AG Building No.6 and No.7



S-4 Fresca Yoyogiuehara II



S-44 FLATS OKURAYAMA



C-31 Melody Heim Shin-Osaka



S-49 ZESTY KYODO



S-39 KC21 Building



S-48 ZESTY NISHISHINJUKU



F-5 Ars Shin-Otsuka



S-47 ZESTY YOYOGI



S-3 Glenpark Sangubashi



L-4 Meguro Hillside Court



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.

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Investment Approach

(1) Investment Approach

This investment corporation (“**NRIC**”) will, in accordance with its Bylaws, invest in and manage the qualified assets set out below in (2) *Investment Targets: Types of Assets that are Investment Targets*, aiming to secure steady growth and stable profitability of assets under management for the medium and long term (Article 9 of the Bylaws).

NRIC has entrusted the management of all of its assets to Pacific Investment Advisors Corporation, an asset management company. The asset management company has formulated asset management guidelines as one of its internal regulations in accordance with both the basic policy set out in NRIC’s Bylaws and an asset management agreement between it and NRIC (which means an asset management agreement as defined in Article 8, Item 2, of the Investment Trusts and Investment Corporations Act (the “**ITIC Act**”); the same applies throughout this Investment Policy). The operational and administrative policies applicable to the management of assets are set out in the asset management guidelines.

The asset management company determined its internal regulations, including the asset management guidelines, after comprehensively considering the economic situation and real estate market trends. In line with changing circumstances, the internal regulations might be revised at the discretion of the asset management company, but only to the extent such revisions do not contravene NRIC’s Bylaws and the asset management agreement.

Investment Approach

I Basic Policies

- (A) Policy on Portfolio
- (B) Ensuring Growth

II Portfolio Management Policies

- (A) Portfolio Composition
- (B) Age of Buildings
- (C) Criteria for Acquiring Investment Target Properties, Etc.
- (D) Investigation required for Due Diligence
- (E) Investment in Development Projects
- (F) Property Management Policies
- (G) Insurance Policy
- (H) Policies on Selling Properties
- (I) Financial Policy
- (J) Policy on Disclosure
- (K) Administrative Policies on Cash Equivalents
- (L) Others

I Basic Policies

NRIC primarily invests in the qualified assets set out in (2) *Investment Targets: Types of Assets that are Investment Targets (I) Qualified Assets that are Primary Investment Targets* (“**investment target properties, etc.**”; within the investment target properties, etc., (1) real estate, real-estate leasing rights, and surface rights, and (2) real estate constituting assets in trust related to beneficiary rights of trusts or constituting investment assets related to silent partnership equity interests are collectively referred to as “**investment target properties**”), particularly in properties primarily used for rental housing (“**rental housing**”) and qualified assets primarily backed by rental housing.

(A) Policy on Portfolio

In accordance with NRIC's Bylaws and the asset management guidelines, the asset management company determines NRIC's investments and formulates its portfolio as follows.

(a) Use

NRIC intends to invest primarily in rental housing or qualified assets mainly backed by rental housing (residential building specialized type).

Rental housing is perceived to have the following features compared to office buildings, commercial facilities, and other property used for non-residential purposes.

(i) Diversified properties and tenants

Because rental housing is smaller in scale, both in terms of the properties themselves and their tenants, compared to property used for other purposes, it is possible to formulate a portfolio with a suitably diverse number of properties and tenants.

(ii) Stable rent revenue

Housing being a major component of life's necessities (clothing, food, and housing), the rent for rental housing is considered an unavoidable living expense, so relative to property for other purposes, it is less likely to be affected by fluctuations in economic and social conditions.

(iii) Increasing need for diverse rental housing

As more people move away from "owning" and toward "using (renting)" property, rental housing must respond to tenant's lifestyles, diversified housing needs, and the change in the stages of life that tenants are at.

(iv) Particular demand for stable management of rental housing by capable operators

Compared to property for other purposes, many properties used for rental housing require better maintenance and management, which has created a situation where capable operators of sound financial standing with appropriate managerial know-how in rental housing are in great demand.

(v) Liquidity in the Real Estate Market

Market liquidity is relatively high in the real estate market, because rental houses are relatively smaller in scale than properties for other uses and because participants in the market are varied, such as individuals, corporations, and the like.

For the reasons stated above, NRIC makes rental housing and qualified assets primarily backed by rental housing its primary investment targets, and by building a diverse portfolio supported by stable profitability and using the asset management company's managerial know-how, it will operate with the aim of securing steady growth of and stable profits from the assets under management over the medium- to long-term.

(b) Target portfolio

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

Note 1: 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 life stage, resident group, private space, floor plan, and other factors.

In the expansion of the scale of NRIC's assets, investment target properties might exhibit a temporary bias toward a particular area or type due to the conditions of the economy and the real estate market.

(i) Tokyo Metropolitan area priority portfolio

With regard to areas that will be investment targets for NRIC, the Tokyo Metropolitan area will be the primary investment target area, because this particular area has shown steady housing demand due to its high concentration of population and industries as well as its well-established economic infrastructure.

NRIC will also maintain a specific rate of investment in Major Regional Cities (excluding the Tokyo Metropolitan area) in order to reduce any risks (such as a major earthquake or unusual shifts in the real estate market occurring in a particular area) arising from bias distribution of investment target properties in certain areas.

(ii) Comprehensive housing-type portfolio

As a general rule, NRIC focuses on rental housing as the investment target properties. However, any properties primarily used as rental housing, though partly inclusive of office or commercial facilities, are included within the category of rental housing.

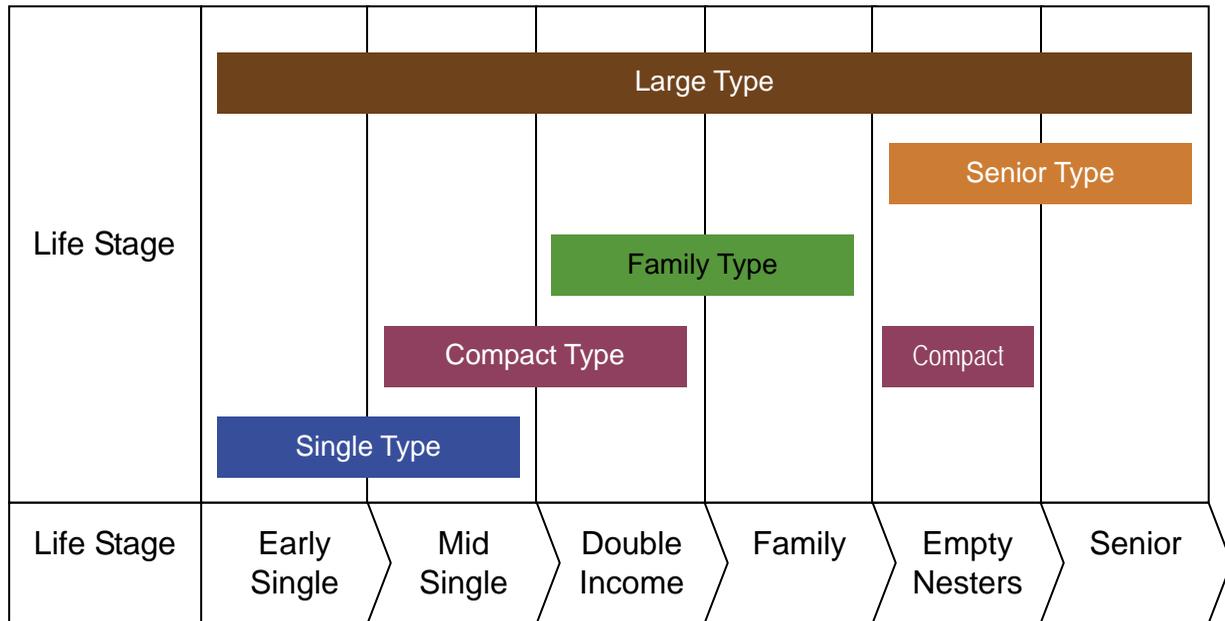
NRIC aims to invest in a broad range of rental housing as a "general residential-type" investment corporation. As such, NRIC provides "Total Life Support," in terms of services and residential environment, in order to satisfy the variety of residential demand arising from each set of values for different life stages and lifestyles, by supplying prime groups of rental housing property.

Model Life Stages as Perceived by the Asset Management Company			
Life Stages	Age Group	Events	Criteria
Early Single	Early 20s	Student activities; work	A variety of lifestyles and values
Mid Single	Late 20s -	Career switches; job relocation	A variety of lifestyles and values, economic affluence, and demand for quality residential living
Double Income	Late 20s–30s	Marriage; starting a family	Economic affluence and demand for quality residential living
Family	30s–50s	Childbirth; education of children; work	Demand for flexible residential environment tailored to the growth of children
Empty Nesters	Around 60	Retirement; independence of children	Time and economic affluence; demand for flexible residential environment for life after the independence of children
Senior	Mid 60s -	Pension; post-retirement	Time and economic affluence; demand for value-added services

The asset management company avoids the risks of investing too heavily into certain layers of the market by classifying properties into target segments by life stage, the residents, the amount of exclusive area the property has, the floor plan, and other factors and controlling the ratio of investment into each type.

Type	Features of Residents and Investment Areas as Perceived by the Asset Management Company
Single Type (S)	<p>Major Life Stage Early Single and Mid Single</p> <p>Main Tenants Live-alones</p> <p>Features of Market Demand is steady in the Tokyo Metropolitan area, where population and the number of households are on the increase, and the rent per unit space is also relatively high.</p> <p>Primary Investment Target Area Tokyo Metropolitan area; Major Regional Cities and others etc.</p> <p>Preferred Environment Convenient for transportation and shopping.</p>
Compact Type (C)	<p>Major Life Stage Mid Single, Double Income and Empty Nesters</p> <p>Main Tenants Working couples without children; people who live alone and have a relatively high income; or elderly couples whose children are independent.</p> <p>Features of Market This type is suitable for new family and employment styles brought about by a diversified lifestyle. Lately the demand for such housing has been increasing primarily in the central part of the Tokyo Metropolitan area. The need for SOHO space is also increasing. (SOHO is an acronym for “small office, home office” that refers to the method of using property as a small home office.)</p> <p>Primary Investment Target Area Tokyo Metropolitan area.</p> <p>Preferred Environment Convenient for transportation and shopping; cultural institutions nearby.</p>

<p>Family Type (F)</p>	<p>Major Life Stage Family and Double Income</p> <p>Main Tenants Families of three or more.</p> <p>Features of Market This group of tenants strongly desires their own homes but some are gradually shifting to rental housing. While demand from this group is expected to grow, they have the advantage that their lease periods are generally longer relative to other types.</p> <p>Primary Investment Target Area Tokyo Metropolitan area, Major Regional Cities and others, etc.</p> <p>Preferred Environment Quiet neighborhood, good public security, educational institutions located nearby, and no aversive facilities in the neighborhood.</p>
<p>Large Type (L)</p>	<p>Major Life Stage All Stages</p> <p>Main Tenants Upper income group and foreign nationals employed by foreign-backed companies.</p> <p>Features of Market There is demand, though relatively small, to meet the needs of the upper income group for this type of high-class rental housing with good location, spacious well-planned rooms, and high-grade facilities. In an upward phase of the economy, the rent for this class is likely to show a relatively rapid increase. In addition, many properties of this type have good property values.</p> <p>Primary Investment Target Area Tokyo's 5 main wards</p> <p>Preferred Environment Quiet neighborhood, good public security, and proximity to communities of foreign nationals.</p>
<p>Senior Type (SE)</p>	<p>Major Life Stage Empty Nesters and Senior</p> <p>Main Tenants Aged people</p> <p>Features of Market Due to the increase in households with older residents and a diversification in the demand for services, the growth in demand is becoming increasingly visible, which is expected to expand the market significantly.</p> <p>Primary Investment Target Area Tokyo Metropolitan area and Major Regional Cities and others</p> <p>Preferred Environment Quiet, safe, and close or adjacent to community facilities</p>



Legend:

Life stage	Early single	Mid single	Double income	Family	Empty nesters	Senior
Typical age bracket	20 – 24	25 +	25 – 30s	30s – 50s	Around 60	65 +
Main events in those stages	School; finding work	Changing jobs; relocating for work	Marriage; starting a family	Babies; children going to school; finding work	Retirement; children independent of parents	Pension; senior life-style

The asset management company classifies the properties into four types—Single, Compact, Family, and Large—based on the amount of exclusive area each property has and its floor plan (number of rooms per unit) as follows:

Room layout	Exclusive Area (m ²)							
	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
4LDK or 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 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) bedrooms with separate combined lounge, dining and kitchen room with a space of 8 jo or more.

The senior-type properties are rental housing tailored in specifications, equipment, and services to the lifestyles of aged people, including nursing homes and assisted-living facilities. If this type is added to the above four types, all the life stages are covered by the available rental housing property groups. The primary constituents of this type are empty nesters and seniors with time and economic affluence, and because the number of constituents in this type are increasing, it is expected to grow considerably in the future.

(B) Ensuring Growth

Pacific Management Corporation, a shareholding company of the asset management company, has substantial experience in the discovery, selection, sale, and management services of investment properties for rental housing across the nation. The asset management company has succeeded to that experience and know-how.

Under an asset management agreement with Pacific Management Corporation dated November 1, 2005, the asset management company has priority to examine much of the information on investment properties for sale that Pacific Management Corporation receives and to selectively adopt offers that comply with the investment criteria set out by NRIC. And by providing Pacific Management Corporation information the asset management company has on properties NRIC is selling, the asset management company also receives information on suitable parties to sell to.

Thus, by utilizing the network and the expertise of Pacific Management Corporation, the asset management company strives to achieve stable growth in NRIC's investment assets under management in accordance with NRIC's Bylaws and asset management guidelines through internal and external development.

(a) Policy on Internal Growth

NRIC will promote internal growth by taking advantage of the management know-how of the asset management company applicable to the management of rental housing entrusted to the asset management company in accordance with the asset management agreement.

(i) Management Cost Reductions

With respect to individual investment target properties, the asset management company will examine the adequacy of administrative and managerial costs such as building service charges, lease management charges, and repair expenses, and rationalize the entrusted business.

The asset management company will also work toward reducing unit prices by introducing competitive bidding to reduce the number of suppliers, such as by concentrating property maintenance contractors into fewer contractors for each locality .

(ii) Quicker and more efficient lease and accounting management

Lease and accounting management for rental housing is often voluminous and cumbersome, because the multitude of tenants is overwhelming compared to property used for other purposes. By consolidating and managing these businesses efficiently using a support system that matches the business conditions of the property maintenance contractors, the asset management company will establish and analyze internal growth strategies in a timely fashion, such as by revising the portfolio strategy and revising management policies.

(iii) Enhancement of Tenant Satisfaction and Acquisition of New Tenants

By implementing the measures outlined below, the asset management company intends not only to enhance tenant satisfaction but also to drive the acquisition of new tenants and maintain and improve occupancy rates of rental housing owned by NRIC. By analyzing the management status and the tenant's needs for each property at the time of acquisition and every three months thereafter for the purpose of verifying the results of the various measures, the asset management company will also maintain a management system to provide optimum service at all times.

- Optimization of management and operational methods appropriate to the features of each property.
- Implementation of strategic campaign to seek new tenants focused on suitable targets determined based on an analysis of the features of the property, the features of the locality, and the data on existing tenants.
- Standardization and increased speed of responses to requests and complaints from tenants.
- Implementation of repairs and remodeling according to the business plan for each property.

(b) Policy on External Growth

NRIC will promote external growth as follows by taking advantage of the know-how of both the asset management company entrusted the management of NRIC's asset under the assets management services agreement and the companies that contribute funds into, in return for equity interests in, the asset management company (such companies, "**contributing companies**").

- (i) Using information provided by the asset management company's contributing companies to acquire property** Using proprietary information of its contributing companies on rental housing offered for sale, the asset management company helps the NRIC to avoid missing investment opportunities in properties, thereby increasing NRIC's acquisition opportunities.
- (ii) Building a broad-ranging cooperative relationship with the asset management company's contributing companies and housing developers** In addition to the external growth achieved through its systematic acquisition of properties, NRIC will strive to acquire, under the asset management comp's management, newly developed rental housing to achieve a more competitive edge in the rental property market and to maintain a lower average age of buildings in the portfolio, both aims being attainable by virtue of the properties being newly developed. To make this scheme workable, the asset management company intends to build a broad-ranging cooperative relationship with its contributing companies and with housing developers. (See // *Portfolio Management Policies (E) Investment in Development Projects*)

II Portfolio Management Policies

(A) Portfolio Composition

As a general rule, NRIC strives to achieve internal growth by daily efforts to produce favorable investment results and acquiring properties for the purpose of tenancy for the mid and long term.

Based on property characteristics and tenancy purpose, NRIC optimizes the balance in its income streams by classifying acquired properties into core assets and sub-core assets and managing them under those classifications. Specifically, the core asset properties are positioned as the integral assets of the portfolio, and stability and growth potential is attained by using their high competitiveness, while profit-earning opportunities are secured by flexibly and quickly incorporating sub-core asset properties into NRIC's portfolio. And by promoting the shuffling of properties, in particular the sub-core asset properties, NRIC can respond to changes in the rental housing market and maintain and improve the profit-earning potential of the portfolio.

Portfolio Composition Overview

Portfolio Composition	Overview
Core Assets (Core)	The core asset properties provide particularly favorable residential environments in terms of convenience, surrounding environment, management conditions, deterioration, equipment specifications and the like that are sustainable over the long term. The core asset properties are competitive in the rental housing market with relatively high downward rigidity and high sensitivity to rent increases as well as demonstrating long-term stability and growth potential. Competitiveness is maintained by systematic management over a longer term than sub-core assets.
Sub-core Assets (Sub-core)	The sub-core asset properties are as competitive as the core asset properties with relatively high profitability and liquidity along with the potential for generating stable rent income for the mid-to-long term, above all. They are managed flexibly in response to real estate market trends and fluctuations in asset value with liquidity being leveraged in the real estate market.

Note: As a general rule, core assets will constitute 80% – 100% of NRIC's total portfolio, while sub-core assets will constitute 0%–20% (on an investment value basis).

The names of the core asset properties are, as a general rule, changed to start with *Pacific*, insofar as it is sequentially possible to do so, thereby promoting NRIC's brand strategy. The core asset properties whose name starts with "Pacific" are classified as Core 1, while others are classified as Core 2.

In consideration of rental housing market trends and property conditions, property classifications may be changed at the discretion of the asset management company after periodically examining the need for review.

(B) Age of Buildings

NRIC invests in properties so that their weighted average age is approximately 10 years or less.

(C) Criteria for Acquiring Investment Target Properties, Etc.

When acquiring investment target properties, etc., NRIC has the property examined comprehensively to ensure that it satisfies the criteria shown in the items below. If the asset management company's investment planning division determines that the property is eligible as a potential property for acquisition and investment by NRIC in consideration of the policies set out under *I Basic Policies* above even though the property does not meet one or more of the standards below, NRIC may acquire the property once the asset management company has completed its property acquisition processes.

Item	Acquisition Criteria
Location	As a general rule, within 10 minutes walk from the nearest station. (See note below.)
Size of investment for one property	As a general rule and for each property: The amount of the investment must be 0.5 billion yen or more (the purchase value of the property only, excluding taxes, acquisition expenses, etc.) The size of the property must be 500 square meters or more.
Floor space per unit	As a general rule, the accommodation must be at least 20 square meters. However, decisions are made for each property based on market conditions in that particular locality.
Building structure	As a general rule, the structure must be reinforced concrete (RC) or steel-framed reinforced concrete (SRC).
Ownership Rights	<ul style="list-style-type: none"> (i) As a general rule, ownership of a building must include acquisition of one full block in order to secure a free hand in the repair schedule. If necessary, sectional ownership may be considered for each property. (ii) As a general rule, land ownership includes property rights, land lease rights, and term leasehold rights.
Style of operation	<p>Aside from the usual style of operation for ordinary rental housing, the following styles may also be considered for investments depending on the features of the property, the purpose of which is for NRIC to achieve its goal of providing "Total Life Support."</p> <ul style="list-style-type: none"> (i) Serviced apartment (rental housing, furnished, with change of bed clothes and front reception services); this is conditional on the whole operation being assigned to a specialized operator, since the operation requires special organization. (ii) Short-term rental housing ("mansion") (rental housing, furnished, available on a monthly basis or other short-term contract); this is conditional on the whole operation being assigned to a specialized operator in one package, since the operation requires special organization and know-how. (iii) Company housing or dormitory; this is conditional on the conclusion of a lease of an entire building to a tenant who is a corporation, but investment is permitted only when the property is operable as ordinary rental housing even after the corporate tenant has vacated. (iv) Nursing homes and assisted-living facilities; this is conditional on the whole operation being assigned to a specialized operator in one package, since operating such property requires a special organizational structure and specialist know-how. As a general rule, NRIC will only invest in properties that can be leased out again in their entirety, or converted to other uses, after the operator has resigned.

Note: The figure shown has been calculated based on a walking speed of 80 meters per minute in accordance with the Fair Competition Codes concerning Description of Real Estate Property (Tokyo Metropolitan area) (Fair Trade Commission Notification No. 14).

(D) Investigation required for Due Diligence

When selecting properties, NRIC comprehensively examines the estimated profit from the property, potential of the location, building and facility specifications, resistance to earthquakes, relationships of rights, the state of the management of the building, environment, geological conditions, and the like, and it conducts the necessary investigations (Article 11, Paragraph 3, of the Bylaws).

When selecting investment target properties, etc., for acquisition by NRIC, in order to ascertain the investment value of the property, the asset management company comprehensively considers what NRIC should acquire after referring to analytical evaluations, market reports, and the like, based on property appraisal reports, building conditions and status investigation reports, and earthquake risk diagnosis reports prepared by impartial third parties experienced in and capable of conducting such investigations

and after conducting its own detailed investigations (due diligence) into the economic, physical, and legal aspects of the properties.

Also, in addition to investigating the above matters, the asset management company will, depending on the form in which the investment target properties are managed, investigate the financial conditions, business management skills, and business environments of operators by using specialist outside agencies experienced in and capable of conducting such investigations.

The asset management company carries out the above investigations considering the items set out in the following table.

Investigation Item		Subject of Analysis
Economic Investigation	Market Research	<ul style="list-style-type: none"> (1) Confirmation of present state and mid-to-long-term predictions regarding the environment for residents in the area where the property is located. (2) Demand and supply status for rental housing and houses built for sale in the area where the property is located. (3) Trends of competing rental housing in the area where the property is located. (4) Rent level in the market where the property is located (present state and mid-to-long-term predictions). (5) Levels of discount rate and capitalization yield.
	Check of current tenants	<ul style="list-style-type: none"> (1) Credit information and payment record. (2) State of household or occupation of tenant, number of tenants, purpose of use of the property.
	Investigation of Operators	<ul style="list-style-type: none"> (1) Financial condition and credibility of operators (2) Business management skills of operators (3) Business environment and competitiveness of operators
	Earnings	<ul style="list-style-type: none"> (1) Confirmation of present state of building operating expenses and possibility of reductions. (2) Creation of a plan to increase value by changing the operating method and remodeling of buildings. (3) Drafting a mid-to-long-term plan for repair and remodeling expenses. (4) Development of a plan for income and expenditure. (5) Examination of consistency between portfolio strategy and other plans.
Physical investigation	Location	<ul style="list-style-type: none"> (1) Condition of streets and convenience to main transportation system. (2) Access to convenient facilities and public offices. (3) Present state of boundaries with adjoining land and cross boundaries. (4) Habitability, daylight availability, noise, ventilation, etc. (5) Existence or non-existence of aversive facilities. (6) Future development projects in surrounding areas.
	Building and facility specifications	<ul style="list-style-type: none"> (1) Building structure, age of building, contractor, etc. (2) Layout, height of ceiling, internal specifications (ceiling, walls, floor, etc.), materials used for the interior and exterior, sanitary accommodation, air-conditioning equipment, electrical installations, elevators and escalators, parking lots, present state of maintenance and management of these installations and equipment, state of deterioration. (3) Necessity of urgent repairs. (4) Conversion to other uses and operation styles

Physical investigation	Earthquake analysis	<p>(1) Whether the property measures up to the new earthquake-resistance levels (which refers to the earthquake-resistance levels provided for in the Building Standards Act (1950, Act No. 201, as amended; the “Building Standards Act”) as it was after revisions in 1981) or to an equal or greater level.</p> <p>(2) The earthquake predicted maximum loss (PML) value must, as a general rule, be kept lower than 15%. If it is over 20%, corresponding measures must be considered, such as anti-earthquake reinforcement or earthquake insurance. (With regard to PML value, see (G) <i>Insurance Policy (b)</i> below.)</p>
	Environmental and geological conditions	<p>(1) Investigation of any substances affecting the life of the building.</p> <p>(2) History of land use and determination of any soil pollution.</p>
	Management of building	<p>(1) Compliance with applicable laws and regulations, such as the Building Standards Act, City Planning Act (1968, Act No. 100, as amended), and Act for Planning the Use of National Land (1974, Act No. 92, as amended).</p> <p>(2) Actual state of management.</p> <p>(3) Quality of management service company and contractual relationship.</p>
Legal investigation	Relationship of Rights	<p>(1) Relationship of ownership and mortgage (<i>teitô-ken</i>).</p> <p>(2) Relationship of lease agreements.</p> <p>(3) Relationship and details of agreements between residents and landlord</p> <p>(4) Payment methods of lump sums for residents moving in and moving out</p> <p>(5) Letters of confirmation confirming boundaries and memorandums of agreement on crossing borders, etc.</p> <p>(6) Permission to occupy roads based on the 1952 Road Act</p> <p>(7) Compliance with regulations and laws concerning conservation of environment and the like (Natural Environment Conservation Act (1972, Act No. 85, as amended) and Urban Green Space Conservation Act (1973, Act No. 72, as amended) etc.)</p> <p>The asset management company checks the certainty of the previous owners’ rights. In particular, if the relationship of rights concerning the property is complex—such as if joint ownership rights, unit ownership rights, or leased land rights exist in relation to the property or NRIC does not have ownership, or does not have sole ownership, over the property—then the asset management company will carefully examine the relationship of rights concerning the property, including the following items.</p> <p>(1) Check whether perfection has been established over the land lease rights and whether there are any other rights that take priority over land lease rights.</p> <p>(2) Check whether site rights are registered and whether there are any restrictions on separate disposal of the building and site rights and, if there are, whether they have been registered. Check the ratio of equity interests.</p> <p>(3) Check whether provisional measures are implemented for the grounds. Check what plans and actions have been prepared for a reserve fund according to the long-term repair schedule.</p>

Legal investigation	Relationship of Rights	<p>(4) Check whether there are special agreements for non-partition of jointly owned property and, if there are, whether they have been registered. Check whether there any appropriate measures concerning claims for, for example, partition of jointly owned property or sale of joint equity interests. Check the relationship of debts and credits among co-owners.</p> <p>(5) Separability of unit ownership properties.</p> <p>(6) State of security established before acquisition by NRIC; details of agreements establishing the security; and whether the agreement can be succeeded to by a third party.</p> <p>(7) Details of any rules or special agreements concluded between land lease rights holders, unit owners, and co-owners (particularly whether it provides for a right of first refusal and, if it does, the details of the relevant provisions).</p> <p>(8) Whether land lease rights holders, unit owners, co-owners, and the like are corporations or individuals.</p> <p>(9) Details of trust agreements if the property is subject to the beneficiary rights of a trust.</p>
	Investigation of boundaries	(1) Confirmation of letters of confirmation confirming boundaries, certifications of defined boundaries, etc.
	Tenants	(1) Whether there are any disputes with tenants.

Note: The items shown in the table above are those items that are considered in order to determine whether NRIC should acquire investment target properties, etc. Ultimately, the investment target properties, etc., that NRIC actually acquires might not fully satisfy some of the above criteria.

(E) Investment in Development Projects

As a general rule, NRIC does not expect to acquire land and build on the property by itself. However, the asset management company may, in order to diversify the way in which NRIC acquires competitive core asset properties, invest in properties being developed by a third party if the conditions described below are satisfied and after it fully considers the benefits of acquiring the property, the disadvantages (that no income will be yielded for a certain period), and the risks that may arise from acquiring the property.

NRIC may entrust the supervisory function to specialist outside agencies during the period to completion of construction and delivery in order to acquire properties that meet the following conditions.

- (a) It must be possible to conclude a pre-engagement purchase contract that provides as a condition that delivery is accepted by the purchaser after the purchaser has confirmed the building has been completed in accordance with the contract, and avoid the risks associated with delivery and completion of construction.
- (b) The plans and specifications of the property must conform to the investment criteria set by NRIC and the property must be expected to prove advantageous in relation to the rest of NRIC's portfolio.
- (c) From investigating and analyzing the rental housing market related to the property, it must be possible to judge that it will be highly feasible to secure a sufficient number of tenants after completion of construction.

(F) Property Management Policies

The asset management company strives to maintain and enhance the value of the investment target properties, etc., acquired by NRIC over the medium and long terms and to promote lower vacancy rates and decreased expenses to realize stable growth of management income.

(a) Criteria for selecting property manager

With a view to realizing stable growth of management income, the asset management company will select the most appropriate business entity to delegate the property management to (that entity, the “**property manager**”) in accordance with the following criteria.

- Experience and actual performance
- Organizational structure and system
- Financial basis
- Good knowledge of the relevant property and relationship with tenants (when continued)
- High leasing capability (ability to recruit new tenants)
- Familiar with the real estate property market including the relative locality
- Ability to report on properties (developing business plans and reports)
- Speedy, timely, and proper response to complaints from tenants
- Ability to manage and maintain the buildings and installations
- Level of commission

(b) Management policies, guidance, and supervision of property manager

The asset management company receives status reports covering the items described below from the property manager every month, and based on those reports the company verifies the business plans for each investment target property. At the same time, the asset management company guides and supervises the property manager so that the property manager may continue to operate and manage in accordance with the individual management plan for each investment target property.

- State of payment from tenants
- Details of expenditure
- Information concerning removal of tenants
- Tenants’ requests and complaints; how they are handled
- Information and the activities concerning acquisition of new tenants
- Examine trends in the rental housing market surrounding each investment objective property
- Recognition of the state of repair included in the plan and the need for any repairs outside the plan.

(c) Evaluation of the property manager by the asset management company

Regularly (once a year, as a general rule), the asset management company evaluates the property manager’s results of operations in accordance with (a) *Criteria for selecting property manager* and (b) *Management policies, guidance, and supervision of property manager* above, and if necessary it will consider changing the property manager.

(d) Brand strategies

The names of NRIC’s properties that provide particularly favorable residential environments for the long term start with *Pacific*. This is intended to increase NRIC’s name recognition and reliability in the real estate market and establish NRIC’s own brand image (Pacific Quality) by creating demand for its quality and by providing value-added services.

(G) Insurance Policy

- (1)** Accident insurance must cover any damage to the building caused by such disasters as fire and accidents or damage resulting from claims from a third party due to bodily injury or accidents causing property damage. Depending on the features of each investment target property, the proper type of accident insurance such as fire insurance and umbrella liability insurance must be obtained.

- (2) For earthquake insurance, NRIC considers covering property against a major earthquake that might have a particularly severe effect. NRIC considers the impact on the property and the overall assets in comparison with insurability and the amount of the insurance premium. It would then consider an appropriate level of earthquake insurance to cover a certain proportion of the probable maximum loss for the property and other assets. However, after considering the PML (less than 20%, as a general rule) for each investment target property, costs required to obtain the insurance, and the property's insurability, we may decide to forgo the coverage.

Note: PML means the probable maximum loss that might be caused by an earthquake. The term PML is used in connection with individual properties and also in connection with entire portfolios. No consistent definition for PML exists, but in this Investment Policy it is used as an expression, represented as a ratio (%) of expenses required to recover from the damage versus replacement cost of the property, of how much damage would be incurred if a hypothetical major earthquake (which means a major earthquake the possibility of occurrence of which is once in 475 years or, over a 50-year period, 10%) occurred during the estimated period of use of a building (which is taken to be 50 years, the life for general buildings).

(H) Policies on Selling Properties

NRIC's basic policy is mid-to-long-term operations. It acquires investment target properties, etc., and strives to secure internal growth through its daily management efforts. However, NRIC will consider selling properties, mainly sub-core asset properties, where it should to enjoy the benefits of internal results or to ensure it is managing properties in a flexible manner that addresses real estate market trends, fluctuations in asset values, and the like. Specifically, in considering selling individual properties, the asset management company aims to secure profit-earning opportunities by considering the following criteria and by making full use of both the special feature of rental housing, its relatively high liquidity, and the asset management company's networks and know-how in the real estate market owned by contributing companies of the asset management company.

- (a) The real estate market trend in the medium to long term
- (b) Prospects for future earnings
- (c) Prediction of increase or decrease and asset value
- (d) Future potentiality and stability of the area in which the property is located
- (e) The risk that the property may become obsolete or deteriorate, and estimation of the possible cost as a result
- (f) Composition of portfolio

(I) Financial Policy

(a) Borrowing and NRIC bonds

- (i) In order for its assets to be managed efficiently and to maintain stability in the management of its assets, NRIC borrows money and issues investment corporation bonds for the acquisition of assets under management and for the payment of construction costs, operating funds, and debts associated with investment target properties for lease (including payment of leasehold deposits and guarantee deposits, repayment of borrowings, and redemption of investment corporation bonds) and the like. However, the limit on the aggregate of all borrowings and investment corporation bonds outstanding must not exceed one trillion yen.
- (ii) When NRIC borrows money under item (i) above, it aims to lower costs by selecting an efficient method to raise money based on a loan period and fixed or floating rates after comprehensive consideration of the capital market and financial environment and after projecting changes in the economic situations. However, costs associated with raising funds could vary as a result of changes in the economic environment that are difficult to foresee, such as if a commission or the

like is determined payable on early redemption because of interest rates at the time of the early redemption.

- (iii) If NRIC borrows money, lenders are limited to qualified institutional investors set out in Article 2, Section 3, Item 1 of Japan's Securities Exchange Act (1948, Act No. 25, as amended; the "**Securities Exchange Act**").
- (iv) As a general rule, the approximate upper limit to the ratio of the balance of all borrowings and investment corporation bonds outstanding to total assets (the "**ratio of interest-bearing debts to total assets**") is 60%.

Note: "Total assets" refers to the total value of assets on the balance sheet for a fiscal year at the time of calculation of the ratio of interest-bearing debts to total assets, but it is calculated by adding or subtracting from the book value of those tangible fixed assets as at the end of the term the difference between (a) the appraisal value or the value from a written opinion on the price of the assets and (a) their book value as at the end of the term.

- (v) NRIC trades financial derivative contracts (defined in Article 3, Item 14 of the Enforcement Order of the ITIC Act (2000, Enforcement Order 480, as amended; the "**ITIC Act Enforcement Order**") to hedge the interest rate risk arising from its liabilities and other risks.
- (vi) NRIC might enter into pre-engagement agreements that establish an the upper limit on borrowings in advance or provide for borrowings on an as-needed basis (collectively, the "**upper limits on borrowings**"), such as commitment-line agreements, in order to purchase new assets or to respond flexibly to demands for funds such as redemption of deposits or the like received from tenants and operating funds.
- (vii) NRIC may pledge assets under management as security for borrowings and issuing investment corporation bonds.

(b) Additional issuing of investment units

- (i) NRIC may additionally issue investment units to meet financing needs under the approval of the Board of Directors.
- (ii) The additional issuance is conducted after considering NRIC's financial condition, such as the ratio of interest-bearing debts to total assets, and taking care the investment units are not diluted.

(J) Policy on Disclosure

- (i) NRIC discloses information accurately and promptly in accordance with legal regulations, rules, and specified formats. In order to receive adequate evaluations on asset management by NRIC from investors, NRIC discloses information in addition to that legally required in a timely and continual manner, giving consideration to the clarity of the information when it does.

(K) Administrative Policies for Cash Equivalent

- (a) In order to respond to a variety of demands for funds, NRIC retains at all times a reasonable amount of cash in consideration of the upper limits on borrowings (for repair and other capital expenditures, dividend payments, repayment of small-lot debts, operating funds for NRIC operations, repayment of tenant deposits and the like, or the purchase of new properties for management).

- (b) NRIC may invest in marketable securities or monetary claims for the purpose of managing surplus funds. When it does, it selects investment targets giving importance to security and liquidity.

(L) Others

(a) Lease of properties

- (i) NRIC enters lease agreements with third parties and leases its own properties (qualified assets) for their management. With property constituting trust assets associated with beneficiary's trust interests that are qualified assets backed by NRIC's assets, NRIC causes the trustee of the trust to lease the property by entering into a lease agreement with the third party.
 - (ii) In leasing real estate, NRIC might accept leasehold deposits or guarantee deposits and their equivalents ("**leasehold deposits, etc.**") by itself or via the trustee of the trust (the "**trustee**"). These leasehold deposits are managed according to NRIC's Bylaws or are used to repay borrowings.
 - (iii) NRIC may lease assets other than property for the purpose of efficiently managing surplus assets.
 - (iv) If property has one or more co-owners, NRIC may, either itself or through the trustee, sublease it to a third party after either obtaining all of the co-owners' consent on NRIC's use of all of the jointly owned property or, if the building is a building provided for in Article 1 of the Act for Unit Ownership, Etc., of Buildings (1962, Act No. 69, as amended), obtaining a lease the areas exclusively owned by other unit owners (including the joint interests in the common areas).
- (b) NRIC may take any action required to protect investors' profits despite the above if investors could be impaired by radical changes in macro-economic conditions, such as the general economy, financial situations, consumer trends, and real estate market or business conditions of the corporation.

(2) Investment Targets

(I) Types of Assets that are Investment Targets

NRIC invests in the following investment targets (Article 11 of the Bylaws).

Type, Purpose, and Scope of Assets Targeted for Management

- (A) NRIC's primary investment targets are the properties etc. set out under (B) and the securities for real estate set out under (C).
- (B) "**properties etc.**" means the following:
- (1) real estate
 - (2) real-estate leasing rights
 - (3) surface rights
 - (4) beneficiary interests of trusts in which only real estate, real-estate leasing rights, and surface rights have been entrusted ("**beneficiary interests**" here includes comprehensive trusts entrusted together with money incidental to the real estate, but it here excludes those beneficiary interests that correspond to securities ("**securities**" here means securities as provided for in Article 2, Paragraph 5 of the ITIC Act and Article 2, Paragraphs 2 and 5 of the Securities Exchange Act (1948, Act No. 25, as amended; the same applies hereafter in this Investment Policy)); the same applies hereafter in this Investment Policy)
 - (5) trust beneficiary interests in money with respect to the assets set out in (1) through (3) above where the purpose is for the beneficiary interests to be managed as investments ("**beneficiary interests**" here excludes those beneficiary interests that correspond to securities)
 - (6) equity interests arising from contributions made in accordance with contracts under which one party makes a contribution to another party for the purpose of the management of any of the assets set out in (1) through (5) above and under which that party then manages that contribution primarily as an investment with respect to those assets and distributes the profits from its management of those assets to the other party ("**equity interests**" here excludes those equity interests that correspond to securities; hereafter in this Investment Policy such equity interests will be referred to as "**equity interests of silent partnership relating to real estate**")
 - (7) trust beneficiary interests in money with respect to the equity interests of a silent partnership concerning real estate (mainly trust assets) the purpose of which trust beneficiary interests in money is to be managed as investments ("**beneficiary interests**" here excludes those beneficiary interests that correspond to securities)
- (C) "**securities for real estate**" means any of the securities set out in (1) through (5) below the purpose for which is to be invested in properties etc. in an amount that exceeds half the value of the assets:
- (1) **preferred contribution securities:** the preferred contribution securities set out in Article 2, Paragraph 9 of the Act on Securitization of Assets (1998, Law No. 105, as amended; the "**Assets Securitization Act**")
 - (2) **investment trust beneficiary certificates:** the investment trust beneficiary certificates set out in Article 2, Paragraph 12 of the ITIC Act the purpose of which beneficiary certificates is to cause a trustee of another specified investment trust to acquire the beneficiary certificates, where the trustee of that investment trust and the trustee of the other, specified investment trust that is to acquire the beneficiary certificates of that investment trust are the same person, and where the trust regulations of that other investment trust that is to acquire those investment trust beneficiary certificates provides to that effect.
 - (3) **investment certificates:** the investment certificates set out in Article 2, Paragraph 22 of the ITIC Act the purpose of which investment certificates is to cause the assets of another specified investment corporation to acquire those investment certificates, where the trust regulations of that other, specified investment corporation that is to acquire the investment certificates of that investment corporation provides to that effect.
 - (4) **beneficiary certificates of specified purpose trust:** the beneficiary certificates of specified purpose trust set out in Article 2, Paragraphs 13 and 15 of the Assets Securitization Act

(“**beneficiary certificates of specified purpose trust**” here excludes those invested into any of the assets set out in (4), (5), or (7) under (B) above).

- (5) **silent partnership equity interests certificates:** the silent partnership equity interests certificates set out in Article 2, Paragraph 2, Item 3 of the Securities Exchange Act.

(D) In addition to investing in the properties etc. and securities for real estate set out in (B) and (C) above, NRIC also invests in the following qualified assets.

- (1) deposits
- (2) call loans
- (3) negotiable deposit certificates
- (4) payment obligations (which means those payment obligations set out in Article 3, Paragraph 11 of the ITIC Act Enforcement Order)
- (5) shares of real-estate management companies etc. (but limited to where the purpose is, in effect, to invest in real-estate-related assets or where the purpose is related to or incidental to investment in to real-estate-related assets)
- (6) securities (“**securities**” here excludes those securities set out in (B), (C), and (1) through (5) of (D) above)
- (7) trust beneficiary interests in money the purpose of which is to be managed as investments in any of the assets set out in (1) through (6) of (D) above primarily as trust assets (such interests here exclude securities).
- (8) rights relating to financial forwards transactions (which means those set out in Article 3, Paragraph 13, of the ITIC Act Enforcement Order)
- (9) rights relating to financial derivatives (which means those set out in Article 3, Paragraph 14, of the ITIC Act Enforcement Order)

(E) In addition to the qualified assets set out in (B) through (D), NRIC may invest in the following assets if it is necessary for investment in properties etc.:

- (1) trademark rights etc. (which means trademark rights or exclusive licenses (as set out in Article 30 of the Trademark Law) or ordinary licenses (as set out Article 31 of the Trademark Law) for trademark rights) under the Trademark Law (Law no. 127 of 1959, as amended; the same applies hereafter in this Investment Policy)
- (2) copyrights etc. (which means copyrights and moral rights (as defined in Article 17.1 of the Copyright Law) and related rights (as defined in Article 89 of the Copyright Law)) under the Copyright Law (Law no. 48 of 1970, as amended; the same applies hereafter in this Investment Policy)
- (3) rights to the use source of hot springs as set out in the Hot Spring Law (Law no. 125 of 1948, as amended) or facilities relating to such hot springs
- (4) movables (which means those movables provided in the Civil Code (Law no. 89 of 1896, as amended; the same applies hereafter in this Investment Policy) that are facilities, equipment or other such items affixed to real estate for structural or usage purposes)
- (5) trust beneficiary interests in money with respect to the assets set out in (1) through (4) above where the purpose is for the beneficiary interests to be managed as investments (“**beneficiary interests**” here excludes those beneficiary interests that correspond to securities)
- (6) qualified contributions as provided in Article 2.6 of the Assets Securitization Act
- (7) equity interests in companies accounted for under the equity method under the Corporation Act (Law no. 86 of 2005, as amended; the “**Corporation Act**”)
- (8) equity interests in partnerships set out in Article 667 of the Civil Code (limited to equity interests established by contributions to real estate, real-estate leasing rights, and surface rights for the purpose of the leasing, management or maintenance thereof)
- (9) rights relating to all manner of insurance policies (limited to cases in which the purpose is to reduce risk associated with investment in real-estate-related assets.)
- (10) acquisition rights or other rights incidental to investment in properties etc. and securities for real estate

(3) Distribution Policy

NRIC distributes cash to investors entered in the final investors record for a given fiscal year and registered pledgees in accordance with the policies below (Article 15 of the Bylaws).

- (I) The distributable amount arising out of the management of NRIC's assets ("**distributable amount**") means an amount which is computed as $A + B - C - D$, where

A is the total of rents, common area charges, parking lot fees, annexed earnings, charges to use and install facilities, and late payment charges generated from property (including property backed by trust beneficiary rights or other assets acquired by NRIC), early termination penalties arising from termination of lease agreements or equivalent cash, earnings, interest, and dividend revenues from other lease operations and equivalent revenue,

B is earnings (or losses) on sales or redemption of assets,

C is costs (including depreciation expenses), interest expenses, and asset management fees, etc., and

D is all losses carried forward, if any.

If losses are incurred, they are carried forward.

- (II) If NRIC is to distribute cash up to a maximum of its profits, the distribution amount is set by NRIC and must be at least 90% of NRIC's distributable amount as set out in Article 67-15 of the Special Taxation Measures Act (1957, Act No. 26, as amended) and Article 39-32-3 of the Enforcement Order of the Special Taxation Measures Act (1957, Act No. 43, as amended) (hereinafter referred to as the "**Special Taxation Measures Act Enforcement Order**").

NRIC may accumulate long-term reserves for repairs, payment reserves, and reserves for dividends, as well as reserves and allowances equivalent to those 3 reserves, necessary to maintain NRIC's assets and improve their value.

- (III) NRIC focuses on stable payment of distributions, but for as long as it would be necessary for investors, were they to receive a distribution of cash that exceeds NRIC's profits, to calculate capital gains or losses on each such distribution, NRIC will not distribute cash to investors above its profits. It may, however, in accordance with Article 137, Paragraph 1, of the ITIC Act, distribute cash to investors above its profits based on a written statement relating to the cash distributions that has been approved as set out in Article 131, Paragraph 2, of the ITIC Act if the Board of Directors determines the distribution reasonable.
- (IV) If NRIC distributes cash above its profit, an upper limit on the amount is computed by adding profits for the fiscal year to an amount corresponding to recorded depreciation expenses for the business period. However, if the resulting amount is equal to or below 90% of NRIC's surplus available to dividends as set out in Article 39-32-3 of the Special Taxation Measures Act Enforcement Order, NRIC may distribute cash above the distributable amount up to 91% of the surplus available for dividends.
- (V) NRIC pays distributions to investors in cash, and as a general rule it pays them to those investors entered in the final investors record (which includes the beneficial investors register; the same applies hereafter in this Investment Policy) for a given fiscal year and registered pledgees, in accordance with their number of investment units, within three months after the end of that fiscal year.
- (VI) Once a full 3 years passes since the date the distributions set out in the preceding paragraph became payable, NRIC will be released from its duty to pay them.

Accrued distributions do not bear interest.

- (VII) In distributing cash, NRIC is subject to the rules established by the Investment Trusts Association, Japan, as well as to the rules and the like set out in (I) to (VI) below.

Investment Restrictions

(I) Investment restrictions based on NRIC's Bylaws

(A) Limited to domestic investments

The investment target properties are limited to domestic properties. Additionally, investments will not be made in foreign currency denominated assets.

(B) Restrictions on financial derivative transactions

The rights relating to financial derivative contracts in *(2) Investment Targets (I) Types of Assets that are Investment Targets (B) Qualified Assets other than Primary Investment Targets* above (Article 13 of the Bylaws) above are limited to asset management for the purpose of hedging against interest rate fluctuation risks and other risks arising from liabilities relating to NRIC.

(C) Restrictions on borrowings

NRIC may, in accordance with the following terms and conditions, borrow funds. However, the lenders are limited to qualified institutional investors set out in Article 2, Paragraph 3, Item 1, of the Securities Exchange Act (Article 19, Paragraph 4 of the Bylaws).

(a) Purpose of Borrowing

Borrowing is undertaken in order to seek efficient and stable asset management.

(b) Limits on the amount of borrowing

Borrowing is limited to 1 trillion yen. The total amount of borrowings combined with the investment corporation bonds set out in *(D) Restrictions on issuing investment corporation bonds* below must not exceed 1 trillion yen.

(c) Uses of borrowings

Borrowings are used as funds for the acquisition of investment assets, for the payment of construction costs, operating funds, and debts associated with investment target properties for lease (including payment of leasehold deposits and guarantee deposits, repayment of borrowings, and redemption of investment corporation bonds).

(d) Provision of security

If NRIC is to undertake any borrowing as set out in any of (a) through (c) above, it may provide assets under management as security.

(D) Restrictions on issuing investment corporation bonds

NRIC may issue investment corporation bonds in accordance with the following terms (Article 19 of the Bylaws).

(a) Purpose of issuing investment corporation bonds

NRIC issues investment corporations bonds in order to seek efficient and stable asset management.

(b) Limits on amounts of investment corporation bond issues

Investment corporation bond issues are limited to 1 trillion yen. The total amount of borrowings combined with the investment corporation bonds set out in *(C) Restrictions on borrowings* must not exceed 1 trillion yen.

(c) Matters relating to the use of capital procured through Corporate bond issues

Capital procured through investment corporation bond issues will be used as capital for the acquisition of qualified assets, for the repayment of debts (including the payment of security deposits, repayment of borrowings and the redemption of the Corporate bonds), operating capital and construction expenses relating to investment objective real estate being leased.

(d) Provision of security

If NRIC is to issue investment corporation bonds as set out in any of (a) through (c) above, it may provide assets under management as security.

(II) Restrictions on investments under laws and regulations

NRIC is subject to the restrictions investment under the ITIC Act. The main restrictions are as follows.

- (A)** NRIC must delegate the operations relating to the management of its assets to an asset management company, but the asset management company is prohibited from undertaking certain acts in relation to operating the assets and as a result NRIC is ultimately subject to those restrictions. The main prohibited actions, other than the restrictions on transactions with interested parties set out in *Part II Detailed Information of NRIC (3) Management and Operations 2 Restrictions on Interested Parties*, are as follows.

(a) Transactions between investment corporations

Transactions undertaken between investment corporations that manage assets (Article 34-3, Paragraph 1, Item 5, of the ITIC Act). Except for the following transactions where protection of investors of both investment corporations is deemed not to be lacking (Article 33 of the ITIC Act Enforcement Order).

A Transactions that meet all of the requirements listed below

I Transactions corresponding to any one of the following:

- i** A transaction associated with the conclusion of an asset management agreement
- ii** A transaction undertaken in order to deal with payments of refunds associated with repayments of investment units
- iii** A transaction undertaken, when the investment ratio might exceed the investment ratio set out in law or ordinance or the Bylaws, to avoid that ratio being exceeded
- iv** A transaction undertaken by an investment corporation without the intent of executing a transaction with another investment corporation

II A sale or purchase of securities or a transaction set out in the Enforcement Regulations of the ITIC Act (2000, Cabinet Order No. 129, as amended; the “**ITIC Act Enforcement Regulations**”) that is undertaken based on a fair price in accordance with the ITIC Act Enforcement Regulations

B A transaction undertaken with the consent of all investors in both investment corporations

C Any other transaction undertaken with the approval of the Commissioner of the Financial Services Agency as a transaction in which protection of investors of both investment corporations is deemed not to be lacking

(b) Transactions for the benefit of a third party

With respect to specific securities etc. (which means securities set out in Article 15, Paragraph 1, Item 4, of the ITIC Act), a transaction undertaken by an asset management company without a proper basis and having as an objective the profit of the management company itself or a third party other than the investment corporation by using fluctuations in the value of consideration or in the price, index, or numerical value based on a transaction in line with the management of the assets of the investment corporation (Article 34-3, Paragraph 1, Item 6 of the ITIC Act).

(c) Transactions harming the interests of an investment corporation

A transaction undertaken by an asset management company under terms that differ from the normal terms of such a transaction and, furthermore, the terms will harm the interests of the investment corporation (Article 34-3, Paragraph 1, Item 7 of the ITIC Act).

(d) Other transactions stipulated in the ITIC Act Enforcement Regulations

In addition to the transactions noted above, the following actions undertaken by an asset management

company with respect to which the ITIC Act Enforcement Regulations stipulated that protection for investors was lacking, that the appropriate management of the investment corporation would be damaged, or that the transaction would reduce trust in the investment corporation (Article 34-3, Paragraph 1, Item 8, of the ITIC Act; Article 52 of the ITIC Act Enforcement Regulations).

- A** Amending matters relating to the scope and execution of asset management, the timing and amount of remuneration or other material parts of an asset management agreement without the exchange of written documentation as provided for under Article 15, Paragraph 1, of the Act concerning Restrictions etc. on Investment Advisory Business Associated with Securities (1986, Act No. 74, as amended; the “**Investment Advisory Act**”), which applies *mutatis mutandis* under Article 34-7 of the ITIC Act (not providing matters electronically that should be written on a document instead of providing a written document for those matters).
 - B** Undertaking a transaction that will harm the interests of an investment corporation for the benefit of a party other than the investment corporation with which the investment trust management company has concluded an asset management agreement (except transactions corresponding to transactions set out in Articles 34-3, Paragraph 1, Item 6, 34-3, Paragraph 1, Item 7, and 34-3, Paragraph 2, Item 1 through to 34-3, Paragraph 2, Item 3 of the ITIC Act).
 - C** To undertake or not undertake the sale or purchase of an investment corporation’s assets or any other transaction subject to inappropriate restrictions or constraints of another party.
 - D** With respect to a specific securities issue, to undertake a transaction for the purpose of inappropriately increasing sale or transaction volume or for the purpose of artificially pricing the securities.
 - E** To become the agent of the other party in a securities transaction when undertaking a securities transaction for an investment corporation (which means a securities transaction set out in Article 2, Paragraph 13, of the Investment Advisory Act; the same applies hereafter in this Investment Policy). However, this does not apply when the asset management company is operating a securities business.
- (e)** Acquisition restrictions on the same shares

An Investment Corporation must not acquire a company’s shares when the shares will exceed 50% of the total voting rights of the shares issued by the company (Article 194 of the ITIC Act and Article 221 of the ITIC Act Enforcement Regulations).

- A** Restrictions on the acquisition of one’s own investment units or receiving such units as a pledge
- B** An investment corporation must not acquire investment units issued by itself or receive such units for the purpose of a pledge. However, this does not apply when investment units issued by itself are acquired in the following circumstances (Article 80, Paragraph 1 of the ITIC Act)
 - i** A succession of investment units from an investment trust that will be extinguished as a result of merger
 - ii** A buy back of investment units in accordance with the ITIC Act
 - iii** Besides the events set out in *i* and *ii* above, any event stipulated under the ITIC Act Enforcement Regulations

3. Other Investment Restrictions

- A** Underwriting securities and margin trading
NRIC must not engage in the underwriting of securities or in margin trading.
- B** Investing in other funds
Investment in other funds (investment securities and investment trust beneficiary securities) shall be limited to real estate and assets backed by cash and cash equivalents.

(C) Concentrated Investments

There are no restrictions in laws and regulations relating to concentrated investments. With respect to policies relating to diversified investments based on the location of properties, please refer to (1) *Investment Approach (I) Basic Policies (A) Policy on Portfolio (b) Target Portfolio.*”

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FINANCIAL REPORT

For the 5th Period from December 1, 2005 to May 31, 2006

<Results of Operations>

Selected Financial Data

	5th. Period	4th. Period	3rd. Period	2nd. Period	(Yen in millions) 1st. Period
Operating revenues	¥ 5,817	¥ 4,628	¥ 3,403	¥ 2,440	¥ -
Operating expenses	2,763	2,244	1,794	1,243	3
Operating income	3,054	2,384	1,609	1,196	(3)
Income before income tax	2,631	2,022	1,386	941	(9)
Net income	2,629	2,021	1,385	935	(6)
Total assets	202,668	173,446	136,389	61,087	146
Total unitholders' equity	108,405	84,958	58,462	25,356	93
Unitholders' capital	105,593	82,937	57,077	24,427	100
Number of units issued (units)	186,809	144,327	101,845	50,882	200
Total unitholders' equity per unit (Yen)	580,300	588,649	574,034	498,342	468,931
Cash distribution	2,629	2,021	1,385	930	—
Distribution per unit (Yen)	14,074	14,002	13,599	18,263	—
Net operating income from property leasing activities	4,126	3,478	2,554	1,961	—
FFO(Funds From Operation) per unit (Yen)	16,932	19,145	19,583	28,530	2,053
Debt service coverage ratio (times)	10	10	8	8	—
Number of days	182	183	182	274	—

The term for the 2nd Period is 366 days from December 1, 2003 to November 30, 2004, but the term of asset management is 274 days long, commencing on March 2, 2004.

Funds from Operations

	(Yen in millions)	
	5th. Period	4th. Period
Net income	2,629	2,021
Adjustments:		
Depreciation	1,051	828
Amortization	121	184
Net gain on sales of discontinued operations	638	270
FFO	3,163	2,763

FFO (funds from operations) is computed as net income (computed 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

Distribution for the Current Period

	(Yen in thousands)	
	5th. Period	4th. Period
Retained earnings	2,629,205	2,020,932
Undistributed earnings	55	65
Cash Distribution	2,629,150	2,020,867
(per unit)	14,074	14,002

Number of properties and related units for the periods presented

	Properties	Number of Units	Purchase Price (Yen in millions)
At May 31, 2005	71	4,418	123,277
4th. Period Acquisitions	26	1,205	33,648
4th. Period Dispositions	2	239	2,112
Configuration Changes		1	
At Nov. 30, 2005	95	5,383	154,813
5th. Period Acquisitions	18	1,039	31,760
5th. Period Dispositions	4	336	3,880
Configuration Changes		1	
At May 31, 2006	109	6,087	182,693

Total debt summary and debt maturity schedule

Debt Summary

	5th. Period	4th. Period
Secured	33,000	33,000
Unsecured	58,250	52,430
Total	91,250	85,430
Fixed Rate	66,500	51,500
Floating Rate	24,750	33,930
Total	91,250	85,430

Debt Maturity Schedule

Year	Yen in millions	% of Total
within 1 year	24,750	27.0%
1 to 2 years	-	-
2 to 3 years	10,000	11.0%
3 to 4 years	11,500	12.6%
4 to 5 years	35,000	38.4%
5 to 6 years	-	-
6 to 7 years	10,000	11.0%
Total	91,250	100.0%

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

Investment Portfolio

Living-type

		As of May 31, 2006	
		Investments	Investment to
		Yen in millions	total assets
			%
Trust Assets	Single Type	36,061	17.8
	Compact Type	36,017	17.8
	Family Type	24,857	12.3
	Large Type	21,344	10.5
	Senior Type	-	-
	sub-total	<u>118,279</u>	<u>58.4</u>
Real Property	Single Type	28,953	14.3
	Compact Type	23,251	11.5
	Family Type	7,827	3.8
	Large Type	12,126	6.0
	Senior Type	-	-
	sub-total	<u>72,157</u>	<u>35.6</u>
Cash and other assets		<u>12,232</u>	<u>6.0</u>
	total assets	<u>202,668</u>	<u>100.0</u>

Asset-type

		As of May 31, 2006	
		Investments	Investment to
		Yen in millions	total assets
			%
Trust Assets	Core Type	97,588	48.2
	Sub-Core Type	20,691	10.2
	sub-total	<u>118,279</u>	<u>58.4</u>
Real Property	Core Type	66,052	32.6
	Sub-Core Type	6,105	3.0
	sub-total	<u>72,157</u>	<u>35.6</u>
Cash and other assets		<u>12,232</u>	<u>6.0</u>
	total assets	<u>202,668</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 May 31, 2006 and November 30, 2005, and the related statements of operations, changes in unitholders' equity and cash flows for each of the six months ended May 31, 2006 and November 30, 2005 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, 2006 and November 30, 2005, and the results of its operations and its cash flows for each of the six months ended May 31, 2006 and November 30, 2005, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 7 to the financial statements, which states transfer of investment properties.

KPMG AZSA & Co.

Tokyo, Japan
August 23, 2006

NIPPON RESIDENTIAL INVESTMENT CORPORATION

BALANCE SHEETS

as of May 31, 2006 and November 30, 2005

	<u>As of May. 31, 2006</u>	<u>As of Nov. 30, 2005</u>
	(Yen in millions)	
ASSETS		
Investments in real estate (including trust accounts)		
Land	¥ 102,930	¥ 88,714
Depreciable property	89,067	73,439
Construction in progress	1,189	1,666
Investments in real estate	<u>193,186</u>	<u>163,819</u>
Accumulated depreciation	<u>(2,776)</u>	<u>(1,857)</u>
Investments in real estate, net	190,410	161,962
Other investments		
Leasehold rights	1,214	1,214
Cash and cash equivalents (including trust accounts)	9,414	8,822
Rent receivables	256	214
Allowance for doubtful receivables	<u>(5)</u>	<u>(2)</u>
Receivables, net	251	212
Consumption tax receivables	124	167
Long-term prepaid expense	717	742
Other Assets	<u>538</u>	<u>327</u>
TOTAL ASSETS	<u>¥ 202,668</u>	<u>¥ 173,446</u>
LIABILITIES and UNITHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	¥ 668	¥ 635
Received in advance	10	191
Short-term loans	13,250	22,430
Income taxes payable	4	4
Long-term loans due within 1 year	11,500	11,500
Long-term loans	21,500	21,500
Bonds	45,000	30,000
Security deposit	2,202	2,108
Other liabilities	<u>129</u>	<u>120</u>
TOTAL LIABILITIES	<u>¥ 94,263</u>	<u>¥ 88,488</u>
UNITHOLDERS' EQUITY:		
Unitholders' capital	¥ 105,593	¥ 82,937
Units authorized ; 2,000,000 units		
Units issued and outstanding ;		
186,809 units as of May 31, 2006		
144,327 units as of Nov. 30, 2005		
Retained Earnings	2,629	2,021
Variance of estimate		
Deferred hedge revenue	183	-
TOTAL UNITHOLDERS' EQUITY	<u>¥ 108,405</u>	<u>¥ 84,958</u>
TOTAL LIABILITIES and UNITHOLDERS' EQUITY	<u>¥ 202,668</u>	<u>¥ 173,446</u>

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, 2006 and November 30, 2005

	<u>May 31, 2006</u>	<u>November 30, 2005</u>
	(Yen in millions)	
OPERATING REVENUES		
Rental income	¥ 5,178	¥ 4,358
Gain on sales of investments in real estate	639	270
Total operating revenues	<u>5,817</u>	<u>4,628</u>
OPERATING EXPENSES		
Property operating expenses		
Asset and property management fee	520	425
Property, repairs and maintenance	150	162
Trustee fee	47	38
Real estate taxes and insurance	150	112
Other operating expenses	185	143
Total property operating expenses	<u>1,052</u>	<u>880</u>
Property depreciation	1,051	828
General and administrative expenses	660	536
Total operating expenses	<u>2,763</u>	<u>2,244</u>
OPERATING INCOME	<u>3,054</u>	<u>2,384</u>
Interest and other income	178	186
Interest expenses	(424)	(327)
Other financing costs	(75)	(140)
Unit issue expenses	(34)	(45)
Other depreciation and amortization	(45)	(33)
Other expenses	(23)	(3)
INCOME BEFORE INCOME TAXES	<u>2,631</u>	<u>2,022</u>
INCOME TAXES		
Current	4	4
Deferred	(2)	(3)
NET INCOME	<u>¥ 2,629</u>	<u>¥ 2,021</u>
Earnings per unit:		
Net income (in Yen)	¥ 14,289	¥ 14,321
Weighted average number of units outstanding	183,997	141,115

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)
Balance as of May 31, 2005	101,845	¥58,462
Public offering (included allocation of new units to third party)	42,482	25,860
Cash distributions paid		(1,385)
Net income		2,021
Balance as of Nov. 30, 2005	144,327	¥84,958
Public offering (included allocation of new units to third party)	42,482	22,656
Cash distributions paid		(2,021)
Net income		2,629
Deferred hedge revenue		183
Balance as of May 31, 2006	186,809	¥108,405
Balance as of May 31, 2006		
Unitholders' capital		¥105,593
Retained earnings		¥2,629
Deferred hedge revenue		¥183
Total amounts of Unitholders' equity		¥108,405

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, 2006 and November 30, 2005

	For 5th. Period	(Yen in millions) For 4th. Period
Cash Flows from Operating Activities		
Income before income taxes	¥ 2,631	¥ 2,022
Depreciation and amortization	1,051	828
Bad debt loss	1	8
Amortization of long-term prepaid expenses	76	151
Amortization of organization expenses	7	7
Amortization of bond issuance costs	39	26
Interest income	(0)	(0)
Interest expense	424	327
Profit from insurance	(3)	(0)
Changes in assets and liabilities		
Allowance for doubtful receivables	3	2
Rent receivables	(44)	4
Other receivables	68	(68)
Consumption tax receivables	43	59
Accounts payable	(10)	16
Other payables	21	(6)
Accrued expenses	61	47
Received in advance	(181)	170
Sales of real estate (including trust accounts)	4,004	2,162
Long-term prepaid expenses	(57)	(232)
Others	(17)	12
Sub-total	<u>8,117</u>	<u>5,535</u>
Interest received	0	0
Interest paid	(361)	(274)
Proceeds from insurance	7	0
Income taxes paid	(4)	(1)
Net cash provided by operating activities	<u>7,759</u>	<u>5,260</u>
Cash Flows from Investing Activities		
Purchase of real estate (including trust assets and leasehold rights)	(33,609)	(35,687)
Proceeds from security deposit(including trust accounts)	95	470
Others	(1)	-
Net cash used in investing activities	<u>(33,515)</u>	<u>(35,217)</u>
Cash Flows from Financing Activities		
Proceeds from short-term loans	-	23,800
Repayment of short-term loans	(9,180)	(34,589)
Repayment of long-term loans	-	(9,300)
Proceeds from issuance of units	22,622	25,814
Proceeds from bonds	14,924	29,844
Distributions to unitholders	(2,018)	(1,382)
Net cash provided by financing activities	<u>26,348</u>	<u>34,187</u>
Net Increase in Cash and Cash Equivalents	592	4,230
Cash and Cash Equivalents at beginning of Period	<u>8,822</u>	<u>4,592</u>
Cash and Cash Equivalents at end of Period	<u>¥ 9,414</u>	<u>¥ 8,822</u>

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, 2005 to May 31, 2006 and for the period from June 1, 2005 to November 30, 2005

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 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, 2006, NRIC owned 109 properties (including beneficiary rights) containing 268,353.53 rentable square meters of residential space.

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 month 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.

The public offering of new investment units on December 12, 2005 was conducted through an underwriting agreement under which an underwriting securities company underwrote all of the newly issued units at an agreed issue price and sold them at an offering price different from such issue price to investors ("spread method"). Since, pursuant to such spread method, the difference between an offering price and the issue price is earned by an underwriting securities company as substantial underwriting fees, there were no underwriting fees paid by NRIC to the underwriting securities company. In the case of the public offering of new investment units on December 12, 2005, the total amount of the difference between the offering price and the issue price was ¥766 million, which would have been accounted for as new investment units issue costs of NRIC if it had been conducted through an underwriting agreement under which an underwriting securities company underwrites units at an issue price and sells them at an offering price which is the same as such issue price ("conventional method"). Therefore, under the spread method, the new investment units issue costs were recognized ¥766 million lower, and the operating income and the income before income taxes were resulted in

¥766 million greater than if the conventional method was applied.

e) Allowance for doubtful receivables

Allowance for doubtful receivables is provided in amounts sufficient to cover an estimated uncollectible amount based on the analysis of individual accounts.

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.

Note-3 Secured assets

At May 31, 2006 and November 30, 2005, the following assets were pledged as collateral for the following loans:

	<u>As of May 31, 2006</u>	<u>As of Nov. 30, 2005</u>
	(Yen in millions)	
Pledged assets:		
Bank deposits	¥ 2,362	¥ 1,651
Buildings and improvements	30,773	31,474
Structures	211	226
Machinery and equipment	1	0
Furniture and fixtures	12	13
Land	36,067	36,850
Total	<u>¥ 69,426</u>	<u>¥ 70,214</u>
Loans secured by the pledged assets:		
Long-term loans due within 1 year	¥ 11,500	¥ 11,500
Long-term loans	21,500	21,500
Total	<u>¥ 33,000</u>	<u>¥ 33,000</u>

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

Short-term loans comprise of the following:

	Yen in millions	
	5th. Period	4th. Period
Unsecured loans from banks:		
with interest ranging from 0.51% to 0.71%.....	-	22,430
with interest 0.56%.....	13,250	-
Total	¥ 13,250	¥ 22,430

Long-term debt comprise of the following:

	Yen in millions	
	5th. Period	4th. Period
Secured loans, representing obligations to banks:		
Due 2006 to 2009 with interest ranging from 0.53% to 1.44%.....	-	33,000
Due 2006 to 2009 with interest ranging from 0.56% to 1.43%.....	33,000	-
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	-
Sub-total	78,000	63,000
Less—Portion due within one year.....	11,500	11,500
Total	¥ 66,500	¥ 51,500

Note-5 Per unit information

Net asset value per unit as of May 31, 2006 and November 30, 2005 was ¥580,300 and ¥ 588,649.

Note-6 Income taxes

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

	Rate	
	5th. Period	4th. Period
Statutory effective tax rate	39.39%	39.39%
Deductible cash distributions paid	(39.36)	(39.36)
Others	0.04	0.03
Effective tax rate	0.07%	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 May 31, 2006 (equivalent to ¥14,074 per unit) to its unitholders (¥14,002 per unit was distributed for the period ended November 30, 2005). 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-7 Significant subsequent events

a) Cash Distribution

As of July 25, 2006, the NRIC Board of Directors resolved to effect payment of a cash distribution of ¥14,074 per unit aggregating ¥ 2,629million to unitholders of record on May 31, 2006

b)Transfer of investment properties

On June 26, 2006 NRIC sold four properties set forth below.

(Fresca Yoyogiuehara II)

Location (Address) : 3-4-1 Uehara, Shibuya-ku, Tokyo
Transfer price : ¥ 651 million
(see Note)
Impact of disposition : Approximately ¥ 85 million of gain on sale of real estate property
on gain or loss : will be recorded.
Type of specified : Trust beneficiary right in trust of real estate
asset
Contract date : June 22, 2006
Delivery date : June 26, 2006
Transferred to : GE Real Estate K.K.

(J Stage Minamiurawa)

Location (Address) : 2-42-12 Minamiurawa, Minami-ku, Saitama-shi, Saitama
Transfer price : ¥ 932 million
(see Note)
Impact of disposition : Approximately ¥187 million of gain on sale of real estate
on gain or loss : property will be recorded.
Type of specified : Trust beneficiary rights of a real estate trust
asset
Contract date : June 22, 2006
Delivery date : June 26, 2006
Transferred to : GE Real Estate K.K.

(Ars Shin-Otsuka)

Location (Address) : 3-43-5 Minamiotsuka, Toshima-ku, Tokyo
Transfer price : ¥ 1,323 million
(see Note)
Impact of disposition : Approximately ¥ 148 million of gain on sale of real estate
on gain or loss : property will be recorded
Type of specified : Trust beneficiary rights of a real estate trust
asset
Contract date : June 22, 2006
Delivery date : June 26, 2006
Transferred to : GE Real Estate K.K.

(Maizon Kashiwa)

Location (Address) : 2-9-1 Akehara, Kashiwa-shi, Chiba
Transfer price
(see Note) : ¥ 1,167 million
Impact of disposition : Approximately ¥ 233 million of gain on sale of real estate
on gain or loss : property will be recorded.
Type of specified : Trust beneficiary rights of a real estate trust
asset
Contract date : June 22, 2006
Delivery date : June 26, 2006
Transferred to : GE Real Estate K.K.

Note: The noted sales price amounts (the amounts of money received for the sales of real estate trust beneficiary rights transfer as noted on the contract documents) exclude various expenses (such as sales agent commission, taxes and other public charges).

Corporate Data

Corporate Data of NRIC

Name:	Nippon Residential Investment Corporation
Representative:	Akira Yamanouchi, Chief Executive Officer
Address:	11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo
Contact:	Pacific Investment Advisors Corporation 11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo Phone: +81-3-5251-8528

History of NRIC

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

Disclaimer

This semiannual report includes translation of certain documents originally filed and made available in Japan in accordance with the Securities and Exchange Law of Japan. This English language semiannual report was prepared solely for the convenience of readers outside Japan and is not intended to constitute a statutory document for an offer to sell, or seeking an offer to buy, any securities of Nippon Residential Investment Corporation.

English terms for Japanese legal, accounting, tax, and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. With respect to any and all terms herein, including without limitation, financial statements, if there exist any discrepancies in the meaning or interpretation thereof between the original Japanese documents and English translation contained herein, the Japanese documents will always govern the meaning and interpretation.

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

This semiannual report contains forward-looking statements. These statements appear in a number of places in this semiannual report and include statements regarding the intent, belief, or current and future expectations of 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.

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



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