



Nippon Residential Investment Corp.

Semiannual Report 6th Fiscal Period From June 1, 2006 to November 30, 2006



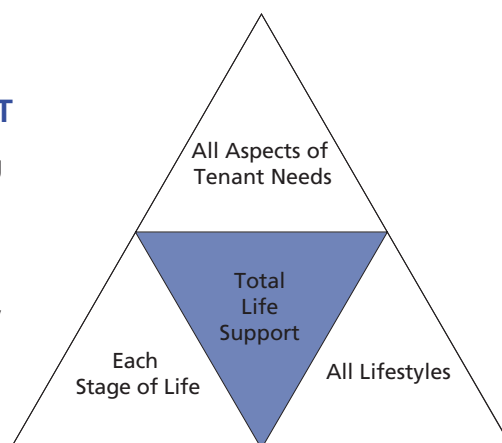
NIPPON
RESIDENTIAL
INVESTMENT
CORPORATION

Nippon Residential Investment Corp.

The Comprehensive Residential Property REIT

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

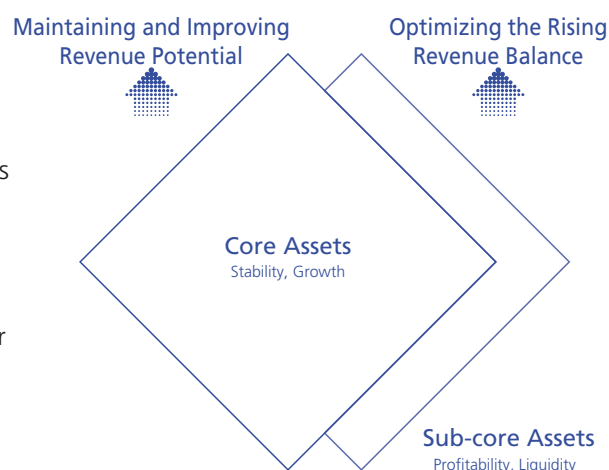
Our properties offer living environments and services covering all aspects of tenant needs and that are uniquely catered to each tenant’s stage of life and lifestyle.



Asset Classification

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

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



Japan’s First Residential J-REIT Listed on TSE

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

■ Largest Asset Property Holdings of All J-REITs

With 107 properties and 6,171 rentable units (as of the end of November 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.

Contents

To Our Unitholders.....	1	Properties Roster.....	13
Report of Activities in the 6th Fiscal Period.....	2	Financial Section.....	16
Real Estate Portfolio.....	6	Corporate Data.....	31

To Our Unitholders

Allow me to take this occasion to introduce myself. I, Masaru Nishimura, was appointed Chief Executive Officer of Nippon Residential Investment Corporation (NRIC) at the general meeting of unitholders held on August 30, 2006. I am delighted to have this opportunity of addressing our unitholders and would like to express my sincere appreciation for your support of NRIC.

Five years have passed since the launch of the J-REIT market and the market has grown in size to have forty J-REITs at the end of December 2006. In order to continue receiving the support of unitholders, NRIC will ensure that management is conducted with the aim of securing the steady growth of our assets under management and stable revenues in the medium to long term.

The financial statements, asset management report and statements on cash distributions concerning our performance for the sixth fiscal period (June 1, 2006 to November 30, 2006) were approved at a meeting of the board of directors held on January 24, 2007. Below is an overview of our management and details of our financial results.

In the sixth fiscal period, NRIC recorded operating revenues of ¥6,343 million, ordinary profit of ¥2,660 million and net income of ¥2,658 million. Based on these results, we have set the cash distributions for the sixth fiscal period as ¥14,232 per investment unit.

Thanks to your support, NRIC has not only managed to secure stable earnings but has been engaging in judicious investment into highly-competitive rental housing properties since our listing. Consequently, the asset size of our entire portfolio totaled 107 properties worth ¥184.3 billion (sum of acquisition prices) at the end of the sixth fiscal period. We were also committed to maintaining/enhancing the quality of our portfolio and were able to secure revenue growth and stability.

From a financial perspective, NRIC raised a total of ¥12.0 billion in funds from an issuance of investment corporation bonds in October 2006. We will continue to be dedicated to diversifying fund procurement methods and sources and thereby construct a sound financial base.

In the sixth fiscal period, NRIC received a Work Improvement Order regarding inadequate holding of board of directors' meetings from the Director-General of the Kanto Local Finance Bureau on July 14, 2006. As promised to our unitholders in a general meeting of unitholders, we have taken steps to reinforce and steadily implement our legal compliance system to ensure sound and appropriate business operations.

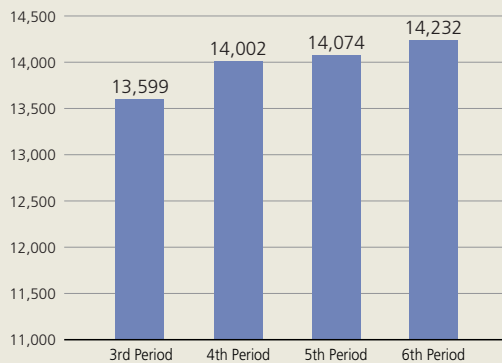
We look forward to your continued support and encouragement in the future.



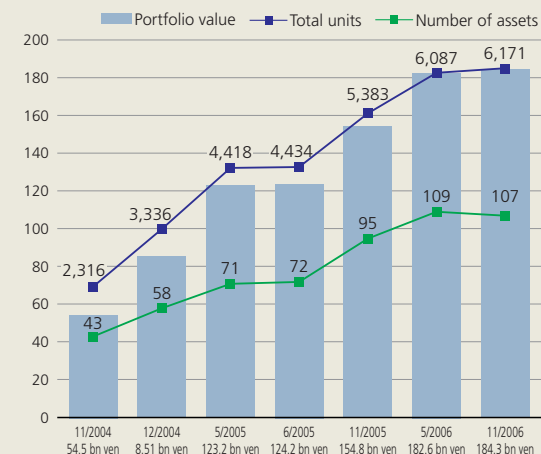
M. Nishimura

Masaru Nishimura
Chief Executive Officer
Nippon Residential Investment Corporation

Distribution Growth
(yen)



Portfolio Growth
(billion yen)



Moving to the Next Stage

Since listing 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 sixth fiscal period.

Takeshi Ishida

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



Steady Portfolio Growth

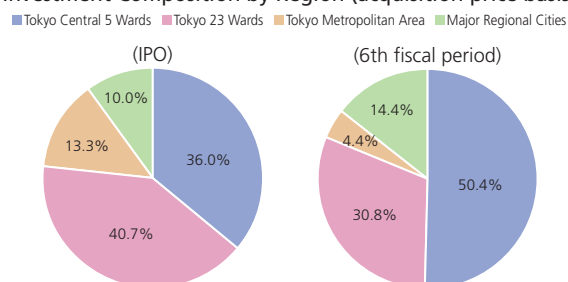
Constructing a High-Quality Residential Portfolio through Judicious Investment into Highly-Competitive, Superior Properties

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

Three properties were newly acquired and five properties sold during the sixth fiscal period to bring the total number of properties in our portfolio to 107 at the end of the sixth fiscal period. The number of rentable units totaled 6,171 units with portfolio value (sum of acquisition prices) amounting to ¥184,303 million. This makes NRIC the J-REIT specializing in residential properties that has the largest portfolio size and the highest portfolio value.

The management of this portfolio resulted in NRIC securing ¥4,271 million in rental NOI (before subtracting

Investment Composition by Region (acquisition price basis)



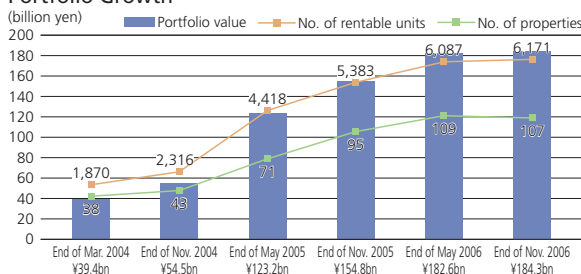
interest, depreciation and amortization, income taxes and other public charges) in the sixth fiscal period, which was an increase of ¥145 million compared to the fifth fiscal period.

Enhancing Revenue Potential through Replacement of Portfolio Assets

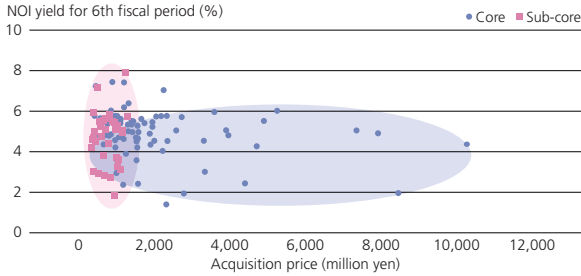
Since the fourth fiscal period, our portfolio management has aimed to increasingly boost portfolio revenue and revenue potential by classifying our portfolio assets into “core assets” and “sub-core assets” under a new asset classification based on the characteristics of the assets and purposes of our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

In the sixth fiscal period, we newly acquired three core asset properties and sold five sub-core asset properties. Consequently, the proportion of all properties that are core assets was heightened to 88.1% (based on acquisition price). By incorporating properties that exhibit high revenue potential into the portfolio, NRIC has managed to form a basis for future stable management over the medium and long term.

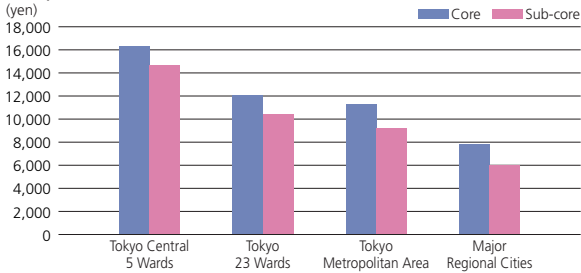
Portfolio Growth



Characteristics of Core and Sub-Core Assets



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

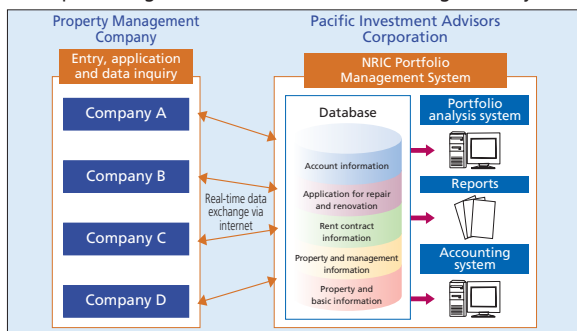


Seeking Stability and Growth

Strategic Asset Management Based on Database

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

Conceptual Diagram of the NRIC Portfolio Management System

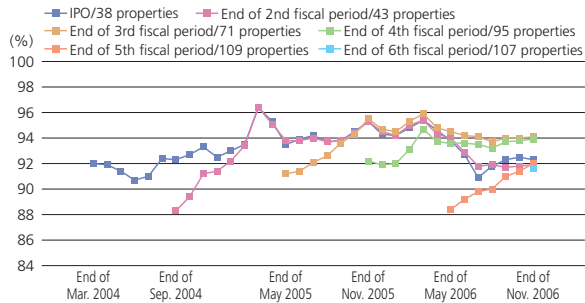


Steady Increase in Occupancy Rate

NRIC managed to sustain an occupancy rate of 91.6% (based on floor space; hereafter the same) for the 107 properties owned at the end of the sixth fiscal period. A comparison 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 – shows that we have managed to sustain occupancy rates

of more than 90% in each fiscal period. Concerning the 104 properties owned from the beginning of the sixth fiscal period through to the end of the sixth fiscal period, while the occupancy rate started off at the beginning of the fiscal period at 88%, our steady leasing activities during the fiscal period resulted in the occupancy rate reaching 92% at the end of the fiscal period.

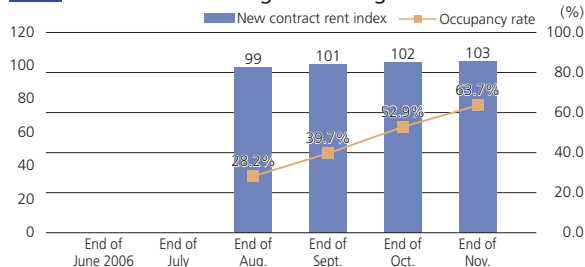
Occupancy Rate by Acquisition Term



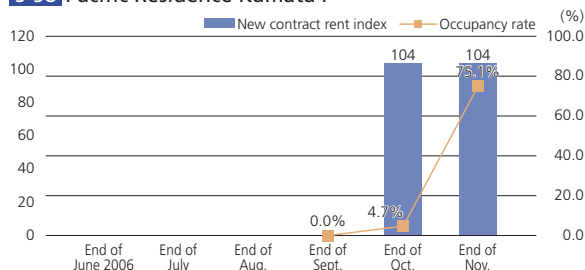
Early Lease-Up for Properties Under Construction or Development

With each of Pacific Residence Higashi-Shinagawa (S-55), Pacific Residence Kamata I (S-58) and Pacific Residence Toranomon (S-57), which were acquired during the sixth fiscal period, sublease agreements were concluded in the form of rent guarantees with sublease companies for all or some of the residential units. NRIC is convinced that making use of such sublease agreements enables a stable inflow of rent revenues to be achieved right from the beginning upon acquisition also in the case of properties under construction or development. NRIC intends to strive for stable portfolio revenue by capitalizing on such sublease agreements, centering on large properties, in the seventh fiscal period as well.

S-55 Pacific Residence Higashi-Shinagawa



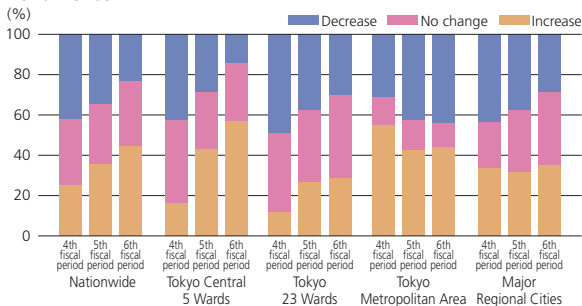
S-58 Pacific Residence Kamata I



Improving Rental Revenue and Boosting Value

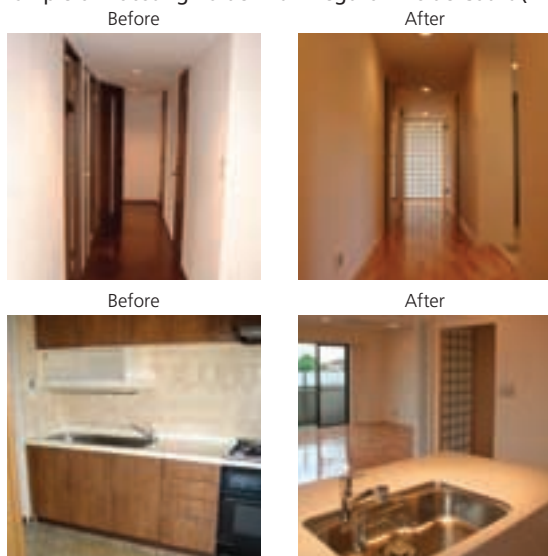
NRIC pursues rent increases primarily for properties that exhibit superior competitiveness in the rental housing market and properties for which we have heightened added-value for tenants through new capital investment, provision of services, etc. Of the 509 new contracts entered into during the sixth fiscal period (excluding the three properties newly acquired during the fiscal period), we improved rent by 0.8% on average (comparison between previous contracted rent and new contracted rent) for 227 contracts or 57% of the contracts. NRIC plans to seek revenue expansion by building on this momentum of rent increases.

Rent Trends

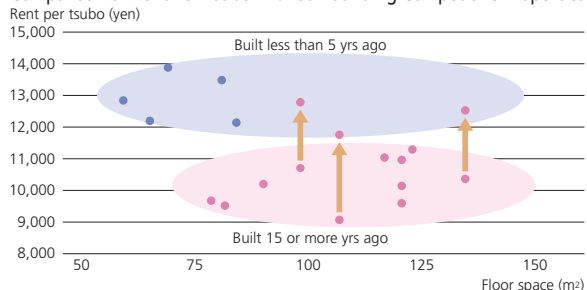


Major repair construction was performed on three units of Meguro Hillside Court (L-4). Residential facilities, which had become obsolete from fifteen years having passed since the property was constructed, were upgraded and spatial composition was reconstructed to restore the units into a state of resembling a brand new residence. Consequently, contracted rent increased by 11% compared to before the construction was implemented, recovering to rent levels similar to competitive properties in the surrounding area that are relatively brand new.

Example of Boosting Value with Meguro Hillside Court (L-4)



Comparison of Rent Per Tsubo with Surrounding Competitive Properties



Maintaining High Property Management Levels

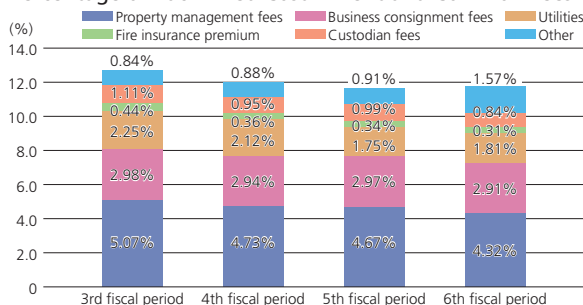
NRIC regularly evaluates the performance and credibility of property management (PM) companies to which rental management and property management for portfolio assets are entrusted. Additionally, NRIC changes PM companies depending on those evaluation results. During the sixth fiscal period as well,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

Cost Reduction Effects of Economies of Scale

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

As indicated in the following graph, the percentage of fixed costs in the income from rent and common fees is on the decrease. By owning several properties in a certain region, we can contract the management of those properties in bulk to a single company.

Percentage of Each Fixed Cost in Rent and Common Fees



Flexible Financial Strategy

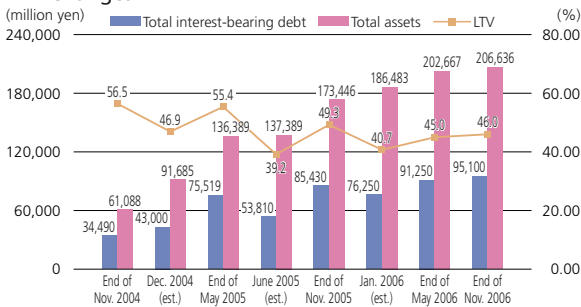
Balanced Fund Procurement

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

Maintaining a Healthy Debt Ratio

NRIC 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 at a healthy level. As a result of controlling the debt ratio in this manner, we managed to keep our LTV (Loan to Value = Interest-bearing debt ÷ Total assets) at a conservative level of 46.0%.

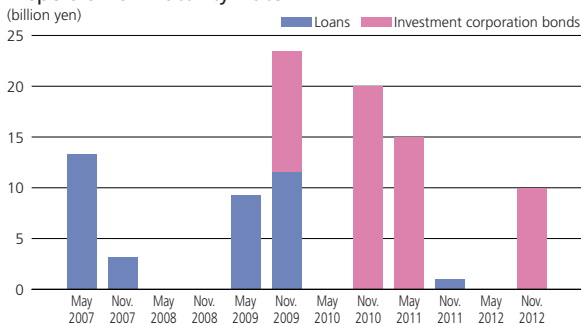
LTV Changes



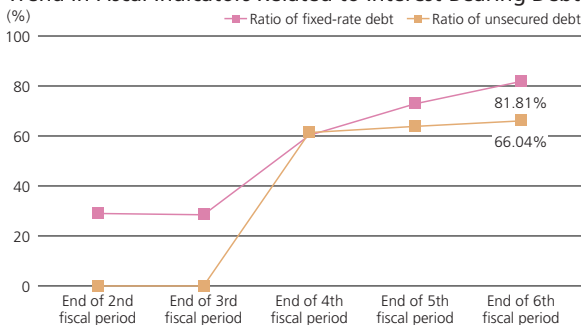
Coping with Rising Interest Rates

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 loans with fixed interest rates rising to 81.8% at the end of the sixth fiscal period.

Dispersion of Maturity Date



Trend in Fiscal Indicators Related to Interest-Bearing Debt



Minimizing the Risks of Fund Procurement

As one of the diversified fund procurement methods, NRIC issued investment corporation bonds in the sixth fiscal period, raising ¥12 billion. Moreover, NRIC is also striving to diversify fund procurement sources.

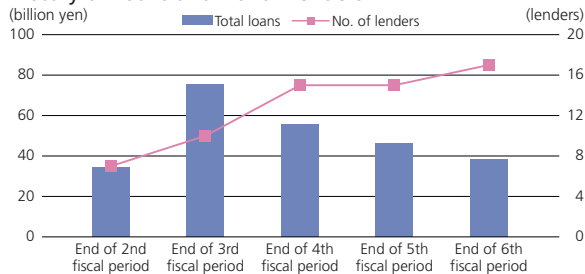
Summary of Investment Corporation Bonds

Public/Private Offering	Issuance Date	Redemption Maturity (Period)	Total Issuance Amount	Interest Rate	Rating
Public	July 20, 2005	July 20, 2010 (5 yrs)	¥10bn	0.74%	A3 (Note 1)
Public	Sept. 26, 2005	Sept. 24, 2010 (5 yrs)	¥10bn	0.84%	A3 (Note 1)
Public	Sept. 26, 2005	Sept. 24, 2010 (7 yrs)	¥10bn	1.28%	A3 (Note 1)
Public	Feb. 20, 2006	Feb. 18, 2011 (5 yrs)	¥15bn	1.50%	A3 (Note 1) A+ (Note 2)
Public	Oct. 25, 2006	Oct. 23, 2009 (3 yrs)	¥12bn	1.54%	A3 (Note 1) A+ (Note 2)
Total	—	—	¥57bn	—	—

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

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

History of Loans and No. of Lenders



Outlook for the 7th Fiscal Period

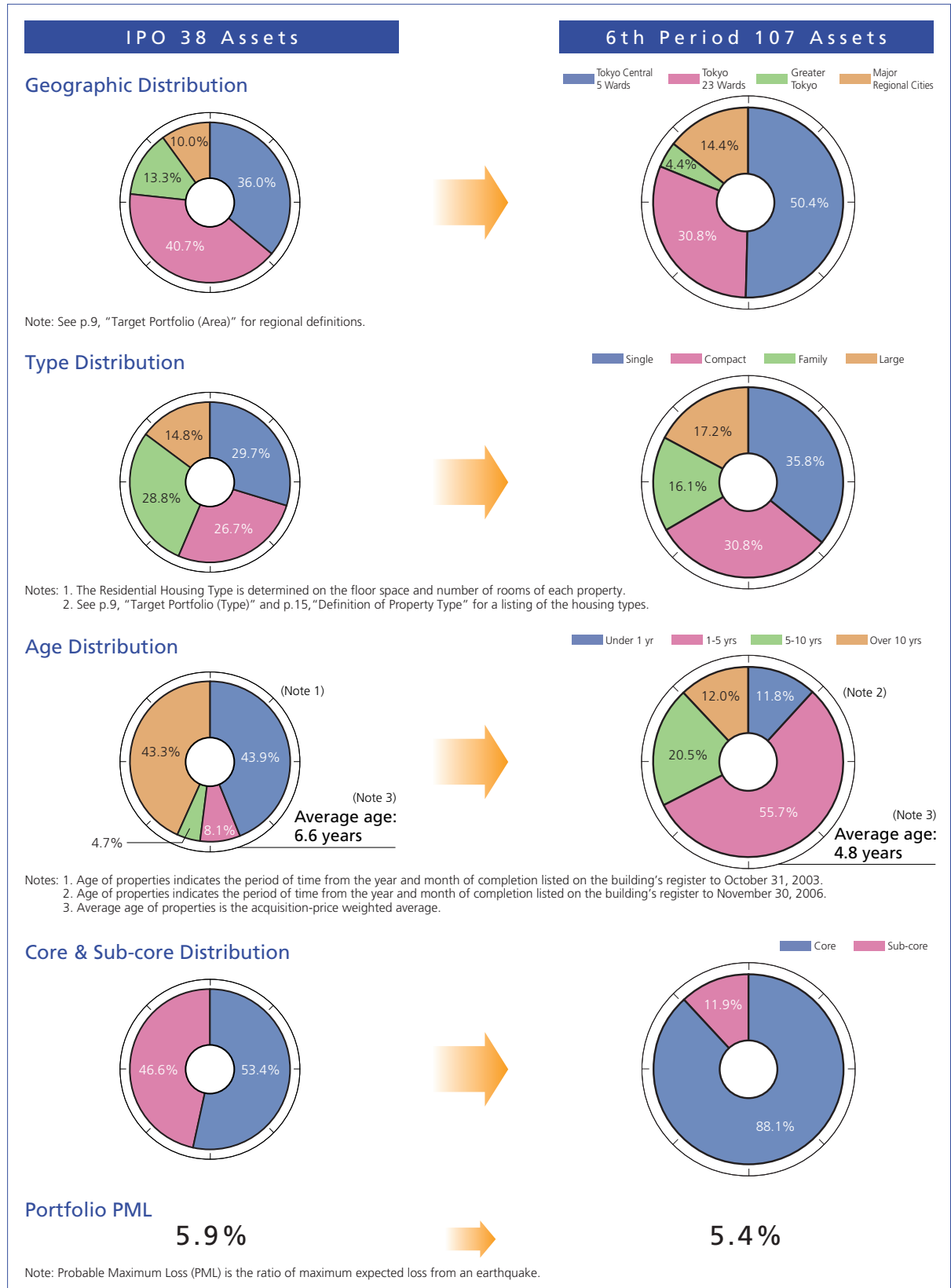
In the seventh fiscal period, NRIC intends to proactively develop measures from the viewpoint of tenants while continuing to conduct judicious investment into highly-competitive properties. We will introduce a new cash management system for some properties in collaboration with The Tokyo Electric Power Company, Inc., and thereby streamline the collection of rent from tenants as well as minimize risk.

Furthermore, our portfolio we see the addition of residential housing for senior citizens, which is a property type that we have been considering to acquire since amending our investment policy in November 2005. The "Total Life Support" advocated by NRIC is set to finally begin in earnest.

Pacific Investment Advisors Corporation will be unchanging in its dedication to maximizing performance as a professional in asset management and pledges to continue fulfilling the expectations of NRIC's unitholders so that the portfolio of NRIC is duly recognized as a solid social infrastructure.

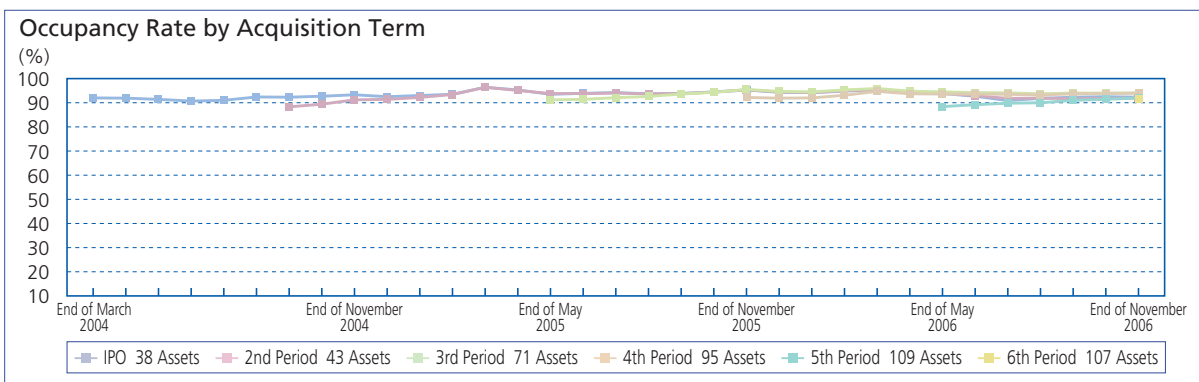
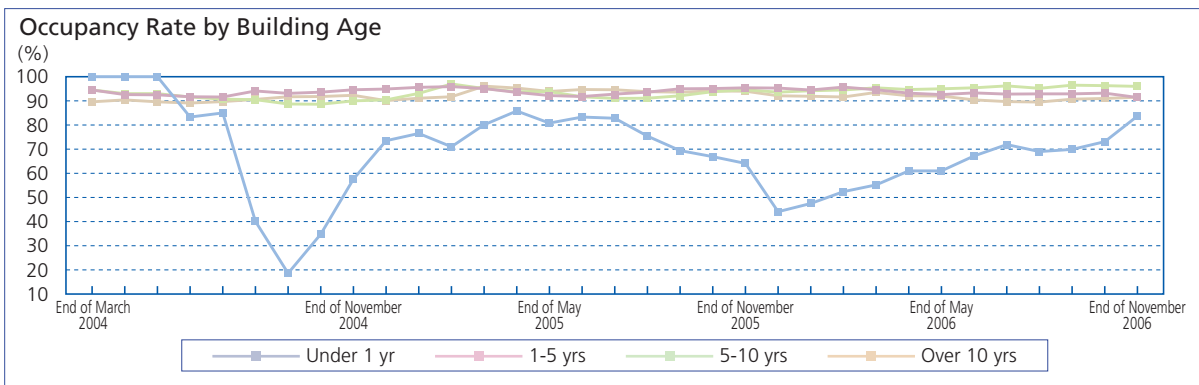
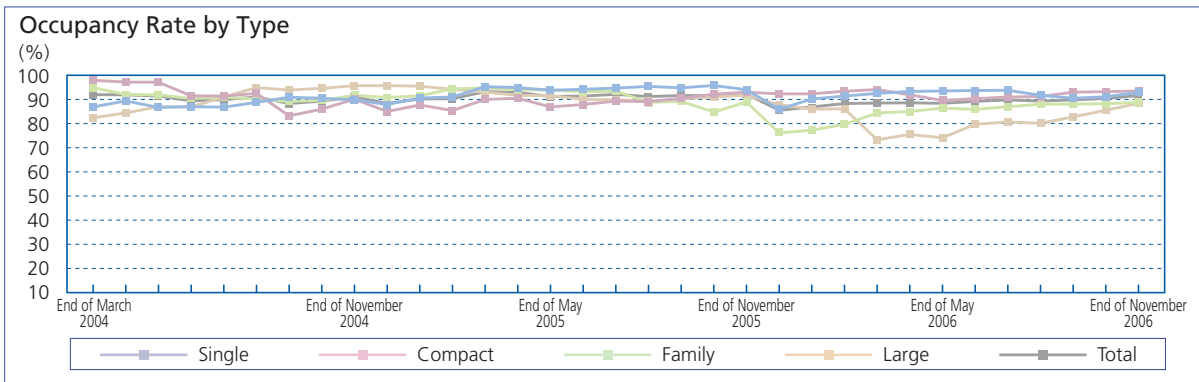
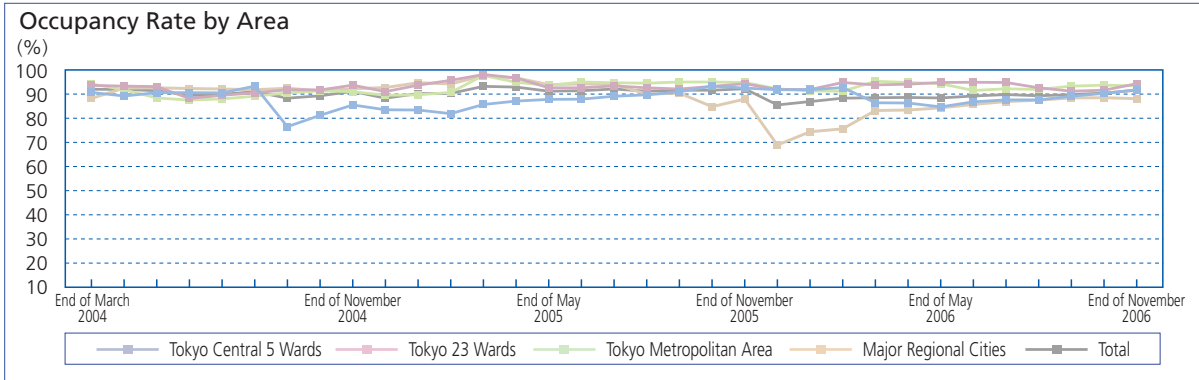
Real Estate Portfolio

Diversified High-quality Portfolio

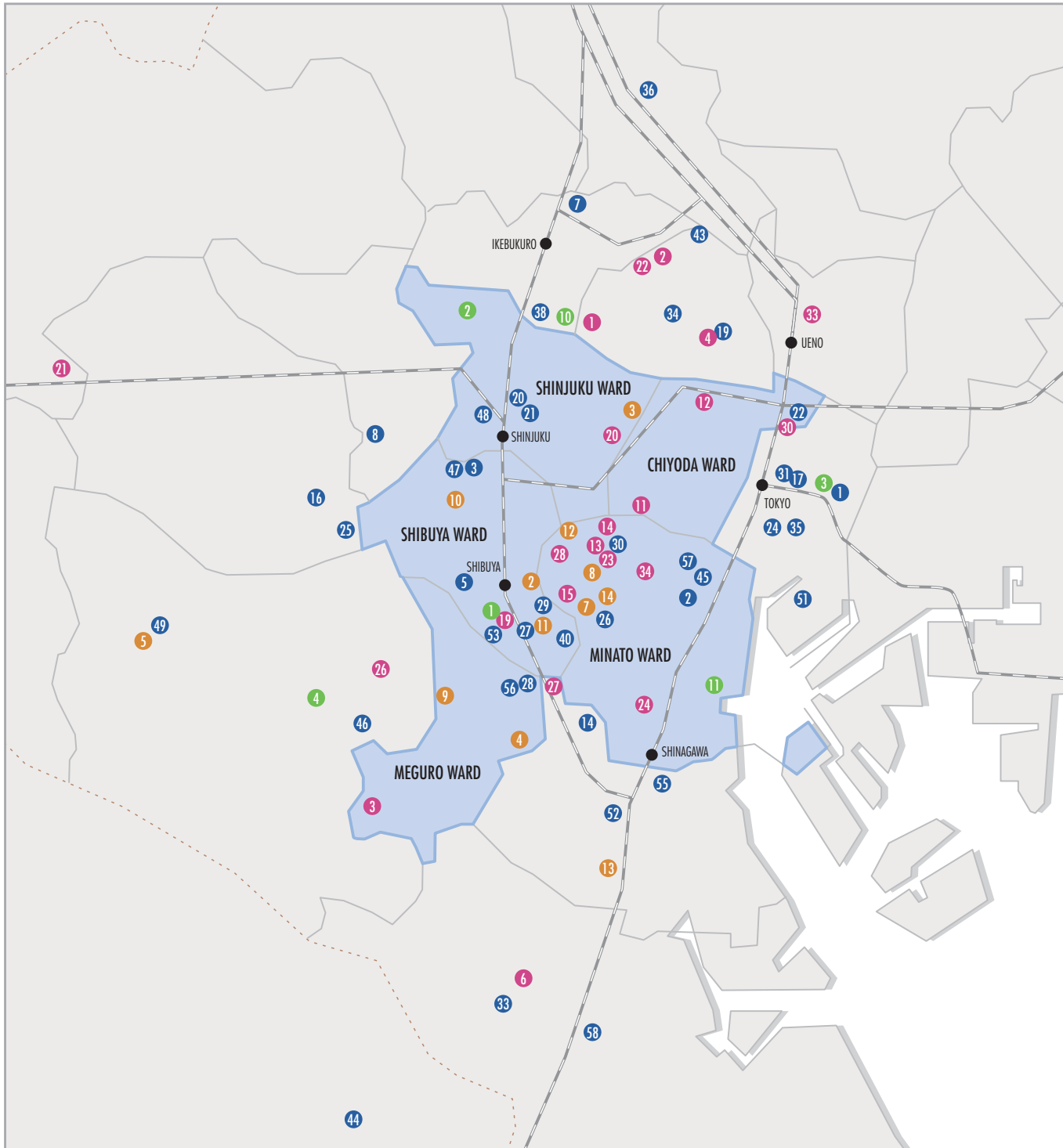


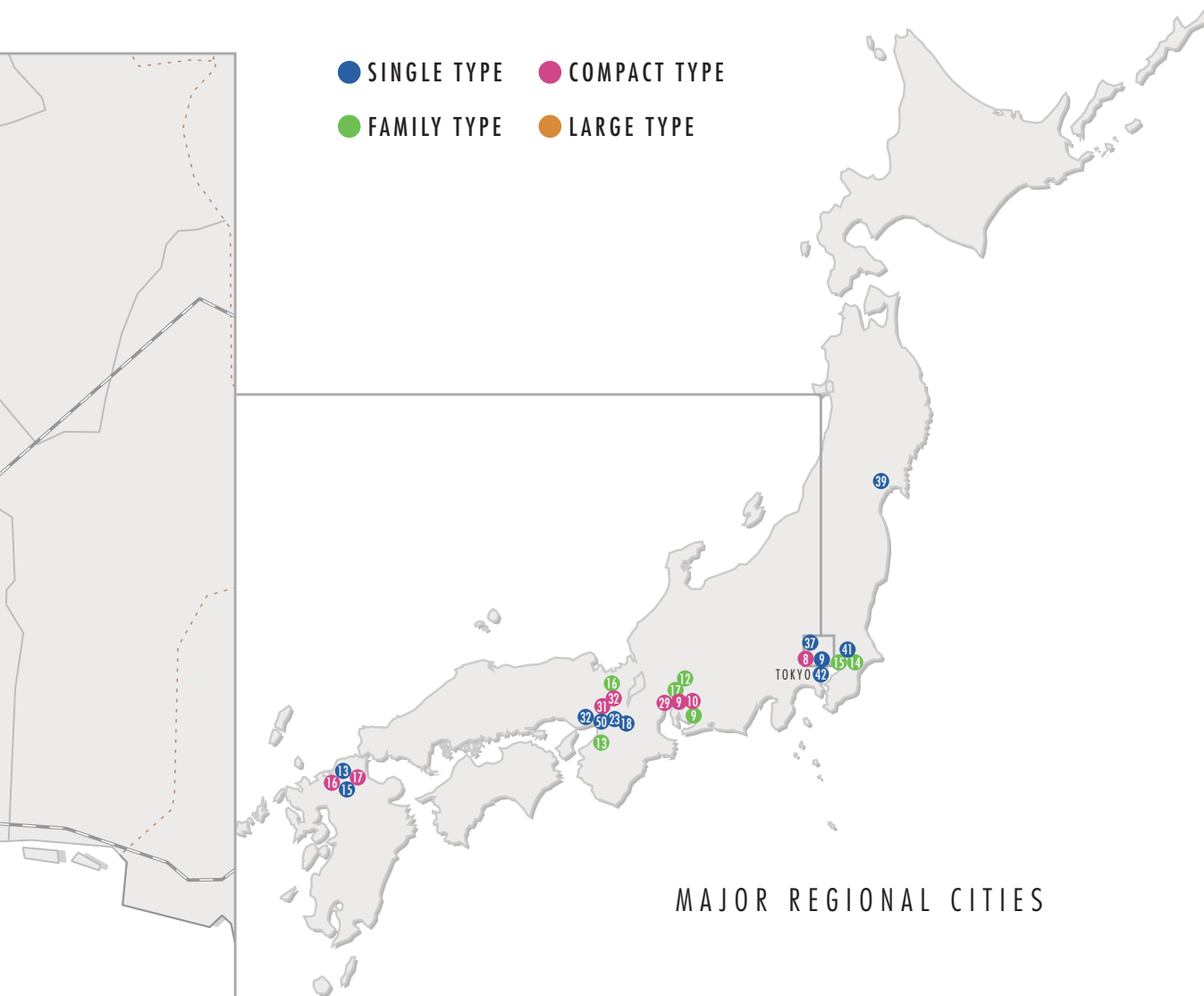
Note: The investment ratios above are the ratios of the total acquisition price of assets acquired in each category to the total acquisition price of all acquired assets.

Changes in Occupancy Rate of Portfolio (as of November 30, 2006)



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





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.



Pacific Quality

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





Moving to the Next Stage

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



Our Vision

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



Properties Roster

Roster of Assets owned at the end of 6th fiscal period

Property No. (note2)	Asset Type (note1)	Area (note3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (note4)	Building Structure (note5,6)	Number of Floors (note5,6)	Rentable Units (note7)	Date of Completion (note5)
S-1	Core1	Tokyo 23 Wards	Pacific Livew Shinkawa	2,050	0.96%	RC	7F	83	Feb.2003
S-2	Core1	Tokyo Central 5 Wards	Pacific Livew Shiba Daimon	1,900	0.89%	RC	B1F/10F	63	Nov. 2002
S-3	Sub-core	Tokyo Central 5 Wards	Glenpark Sangubashi	1,040	0.49%	RC	7F	27	Mar.2003
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	0.30%	RC	8F	44	Dec.2001
S-8	Core1	Tokyo 23 Wards	Pacific Residence Shin-Nakano	448	0.21%	SRC	11F	24	Jun.2002
S-9	Sub-core	Tokyo Metropolitan Area	Dormitory Haramachida	490	0.23%	SRC/S	B1F/12F	73	Jul.1992
S-13	Sub-core	Major Regional Cities	Yoshizuka AG Building No.6 and No.7	428	0.20%	RC	5F	86	No.6: Mar.1987 No.7: Jan.1988
S-14	Core1	Tokyo 23 Wards	Pacific Livew Shirokanedai	1,250	0.59%	RC	B1F/5F	32	May 2004
S-15	Core2	Major Regional Cities	Grand Blue Hakata	1,582	0.74%	SRC	14F	155	Mar. 2002
S-16	Sub-core	Tokyo 23 Wards	J Stage Honancho	952	0.45%	RC	B1F/7F	91	Mar. 1992
S-17	Core2	Tokyo 23 Wards	Park Habio Kyobashi	2,725	1.28%	SRC	B1F/13F	63	Aug. 2004
S-18	Core1	Major Regional Cities	Pacific Livew Tenjinbashi	970	0.46%	SRC	12F	78	Feb. 2000
S-19	Core1	Tokyo 23 Wards	Pacific Residence Yushimasanchome	1,020	0.48%	SRC	12F	63	Mar. 2004
S-20	Core1	Tokyo Central 5 Wards	Pacific Residence Shinjuku East	1,397	0.66%	RC	10F	54	Feb. 2004
S-21	Core1	Tokyo Central 5 Wards	Pacific Livew Shinjuku higashi	854	0.40%	SRC	8F	48	Aug. 2000
S-22	Core1	Tokyo Central 5 Wards	Pacific Residence Kandaiwamotocho	1,657	0.78%	RC	B1F/15F	65	Feb. 2004
S-23	Core2	Major Regional Cities	Umeda Excelheights	5,250	2.47%	SRC	B1F/15F	414	Feb. 2002
S-24	Core1	Tokyo 23 Wards	Pacific Residence Tsukiji	1,320	0.62%	RC	11F	54	Dec. 2005
S-25	Core1	Tokyo 23 Wards	Pacific Residence Sasaduka	1,950	0.92%	RC	6F	96	Mar. 2000
S-26	Core1	Tokyo Central 5 Wards	Pacific Residence Minamiazabu	1,060	0.50%	RC	B1F/9F	37	Feb. 2001
S-27	Core1	Tokyo Central 5 Wards	Pacific Residence Ebisuhighashi	660	0.31%	SRC	10F	26	Jan. 2001
S-28	Core1	Tokyo 23 Wards	Pacific Residence Meguronishi	800	0.38%	RC	B1F/7F	20	Oct. 1999
S-29	Core1	Tokyo Central 5 Wards	Pacific Residence Hiroo 3chome	850	0.40%	RC	2~3F	29	Sep. 1999
S-30	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka II	1,567	0.74%	RC	B1F/5F	37	Jan. 2005
S-31	Core1	Tokyo 23 Wards	Pacific Livew Kyobashi	1,401	0.66%	SRC/S	B1F/15F	52	Jan. 2005
S-32	Core1	Major Regional Cities	Pacific Residence Sannomiyahigashi	2,247	1.06%	RC	15F	161	Dec. 2005
S-33	Core1	Tokyo 23 Wards	Pacific Livew Tamagawa	1,514	0.71%	RC	7F	98	Sep. 2004
S-34	Sub-core	Tokyo 23 Wards	Maison Korakuen	710	0.33%	SRC	11F	31	Oct. 2004
S-35	Core1	Tokyo 23 Wards	Pacific Livew Ginzaahigashi	2,348	1.10%	SRC	B1F/14F	94	Sep. 2004
S-36	Sub-core	Tokyo 23 Wards	Relation Oji	1,027	0.48%	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	Core1	Tokyo 23 Wards	Pacific Livew Wasedanishi	1,100	0.52%	RC	12F	63	Jul. 2005
S-39	Sub-core	Major Regional Cities	KC21 Building	1,167	0.55%	SRC	11F	79	Mar. 1997
S-40	Core1	Tokyo Central 5 Wards	Pacific Livew Hiroo	1,741	0.82%	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	Core1	Tokyo Metropolitan Area	Pacific Livew Yokohama Kannai	1,950	0.92%	SRC	11F	102	Aug. 2004
S-43	Sub-core	Tokyo 23 Wards	K2	393	0.18%	SRC	B1F/11F	22	Sep. 1992
S-44	Sub-core	Tokyo Metropolitan Area	FLATS Okurayama	895	0.42%	RC	5F	64	Mar. 1998
S-45	Core2	Tokyo Central 5 Wards	Pianeta Shiodome	2,782	1.31%	RC	12F	67	Feb. 2005
S-46	Sub-core	Tokyo 23 Wards	ZESTY Komazawadaigaku	393	0.18%	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	0.16%	RC	4F	15	Feb. 2005
S-50	Core1	Major Regional Cities	Pacific Livew Utsubokoan	1,200	0.56%	SRC	15F	94	Jan. 2006
S-51	Core1	Tokyo 23 Wards	Pacific Residence Tsukishima I	1,176	0.55%	RC	9F	40	Mar. 2006
S-52	Core2	Tokyo 23 Wards	CYNTHIA Oimachi	1,100	0.52%	RC	13F	48	Dec. 2005
S-55	Core1	Tokyo 23 Wards	Pacific Residence Higashi-Shinagawa	2,317	1.09%	RC	11F	122	Aug. 2006
S-56	Core2	Tokyo Central 5 Wards	LUKE	1,530	0.72%	RC	B1F/5F	34	Jan. 2006
S-57	Core1	Tokyo Central 5 Wards	Pacific Residence Toranomom	1,484	0.70%	RC	B1F/14F	63	Sep. 2006
S-58	Core1	Tokyo 23 Wards	Pacific Residence Kamata I	1,579	0.74%	RC	15F	78	Sep. 2006
C-1	Core1	Tokyo 23 Wards	Pacific Residence Bunkyoootowa	3,590	1.69%	RC	B1F/10F	104	Aug. 2003
C-2	Core1	Tokyo 23 Wards	Pacific Residence Sengoku	760	0.36%	SRC	12F	33	Feb. 2003
C-3	Core1	Tokyo Central 5 Wards	Pacific Livew Jiyugaoka	1,080	0.51%	SRC	B1F/10F	28	Mar. 2002

Property No. (note2)	Asset Type (note1)	Area (note3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (note4)	Building Structure (note5,6)	Number of Floors (note5,6)	Rentable Units (note7)	Date of Completion (note5)
C-4	Core1	Tokyo 23 Wards	Pacific Residence Yushima	1,110	0.52%	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
C-8	Core1	Tokyo Metropolitan Area	Pacific Livew Hachioji	700	0.33%	RC	9F	40	Jan. 1988
C-9	Sub-core	Major Regional Cities	Grand Heights Hibino	1,230	0.58%	SRC	14F	124	Apr. 1992
C-10	Core1	Major Regional Cities	Pacific Residence Koyochō	454	0.21%	RC	5F	40	Feb. 2000
C-11	Core1	Tokyo Central 5 Wards	Pacific Livew Nagatacho	1,000	0.47%	RC	10F	23	Jan. 2003
C-12	Core1	Tokyo Central 5 Wards	Pacific Residence Suidobashi	2,330	1.10%	SRC	B1F/14F	65	Dec. 2004
C-13	Core1	Tokyo Central 5 Wards	Pacific Tower Nogizaka	3,900	1.83%	RC	B2F/19F	68	Aug. 2004
C-14	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka I	1,300	0.61%	RC	5F	37	May 2004
C-15	Core2	Tokyo Central 5 Wards	Apartments Nishi-Azabu	7,920	3.72%	SRC	B1F/14F	125	Jul. 2004
C-16	Core1	Major Regional Cities	Pacific Residence Tenjinminami	1,200	0.56%	SRC	15F	56	Jan. 2004
C-17	Core1	Major Regional Cities	Pacific Livew Hakataeki-Minami	420	0.20%	SRC	11F	39	Jan. 2003
C-18	Core1	Tokyo 23 Wards	Pacific Residence Ningyocho	572	0.27%	RC	B1F/7F	25	Mar. 2004
C-19	Core1	Tokyo Central 5 Wards	Pacific Residence Daikanyama	2,180	1.03%	RC	B1F/8F	42	Jul. 2004
C-20	Core1	Tokyo Central 5 Wards	Pacific Residence Ichigaya	2,580	1.21%	SRC	B1F/14F	85	Aug. 2004
C-21	Core1	Tokyo Metropolitan Area	Pacific Residence Kichijoji	1,445	0.68%	RC	3F	48	Mar. 1995
C-22	Core1	Tokyo 23 Wards	Pacific Residence Bunkyo-sengoku	1,557	0.73%	SRC	13F	45	Apr. 2005
C-23	Core1	Tokyo Central 5 Wards	Pacific Residence Akasaka Hinokicho	4,710	2.21%	RC	B1F/8F	87	Sep. 1999
C-24	Core1	Tokyo Central 5 Wards	Pacific Residence Takanawa	1,550	0.73%	SRC	B2F/8F	31	Jan. 2003
C-26	Core2	Tokyo 23 Wards	Storia Sangen-Jaya	3,311	1.56%	RC	B1F/14F	78	Jan. 2005
C-27	Core1	Tokyo 23 Wards	Pacific Livew Chojamaru	3,338	1.57%	RC	B2F/3F	71	Mar. 2005
C-28	Sub-core	Tokyo Central 5 Wards	L'air Minami Aoyama	1,030	0.48%	RC	B1F/4F	13	Mar. 2005
C-29	Core2	Major Regional Cities	Mare	963	0.45%	SRC	12F	38	Feb. 2005
C-30	Core1	Tokyo Central 5 Wards	Pacific Livew Kandahigashi	1,880	0.88%	SRC	15F	64	Oct. 2003
C-31	Sub-core	Major Regional Cities	Melody Heim Shin-Osaka	956	0.45%	SRC	10F	70	Apr. 1994
C-32	Sub-core	Major Regional Cities	Melody Heim Matsubara	643	0.30%	RC	8F	53	Mar. 1994
C-33	Core1	Tokyo 23 Wards	Pacific Livew Iriya	1,190	0.56%	SRC	11F	49	Dec. 2004
C-34	Core1	Tokyo Central 5 Wards	Pacific Residence Higashi-Azabu	1,570	0.74%	RC	12F	31	May 2006
F-1	Core1	Tokyo Central 5 Wards	Pacific Residence Sakuragaoka	3,960	1.86%	SRC	B2F/12F	66	Apr. 2003
F-2	Core1	Tokyo Central 5 Wards	Pacific Residence Mejiro Otomeyama	1,100	0.52%	RC	B1F/3F	19	Dec. 2002
F-3	Core1	Tokyo 23 Wards	Pacific Residence Shinkawa	1,420	0.67%	SRC	14F	36	Feb. 2003
F-4	Sub-core	Tokyo 23 Wards	Setagaya Sun Heights	982	0.46%	RC	4F	38	Jul. 1992
F-9	Sub-core	Major Regional Cities	Sky Heights Hirabari	554	0.26%	RC	B1F/9F	36	Feb. 1995
F-10	Core1	Tokyo 23 Wards	Pacific Residence Mejiro	7,350	3.46%	SRC	B1F/10F	162	Jan. 1999
F-11	Core1	Tokyo Central 5 Wards	Pacific Residence Shibaura	4,900	2.30%	SRC	B2F/15F	154	Sep. 1991
F-12	Core1	Major Regional Cities	Pacific Residence Shirakabehigashi	1,070	0.50%	RC	8F	33	May 2005
F-13	Core1	Major Regional Cities	Pacific Residence Sakaihigashi	890	0.42%	SRC/RC	15F	50	Aug. 2005
F-14	Sub-core	Tokyo Metropolitan Area	Maison Yachiyodai	1,281	0.60%	SRC	8F	39	Aug. 1989
F-15	Sub-core	Tokyo 23 Wards	Abreast Kasai	807	0.38%	RC	7F	29	Jan. 2000
F-16	Core1	Major Regional Cities	Pacific Residence Uzumasa	958	0.45%	RC	B1F/7F	48	Jan. 2000
F-17	Core1	Major Regional Cities	Pacific Residence Izumi	4,400	2.07%	SRC	15F	122	Dec. 2005
L-2	Core2	Tokyo Central 5 Wards	Bellwood	1,530	0.72%	RC	B1F/5F	6	Sep. 1989
L-3	Core2	Tokyo Central 5 Wards	Grand Forme Ichigaya Haraikatamachi	970	0.46%	RC	B1F/3F	6	Jul. 1990
L-4	Sub-core	Tokyo Central 5 Wards	Meguro Hillside Court	1,000	0.47%	RC	3F	18	Feb. 1991
L-5	Sub-core	Tokyo 23 Wards	Petit Cour Kinuta	684	0.32%	RC	B1F/5F	11	Mar. 1990
L-7	Core2	Tokyo Central 5 Wards	Motoazabu Place	10,270	4.83%	RC	3~5F	41	Feb. 2001
L-8	Core1	Tokyo Central 5 Wards	Pacific Tower Roppongi	8,456	3.98%	RC	B2F/27F	83	Feb. 2006
L-9	Core1	Tokyo Central 5 Wards	Pacific Residence Kamimeguro	1,000	0.47%	RC	B1F/5F	16	Jan. 1993
L-10	Core1	Tokyo Central 5 Wards	Pacific Residence Yoyogikoen	1,310	0.62%	RC	B1F/4F	6	Jul. 1998
L-11	Core2	Tokyo Central 5 Wards	Windsor House Hiroo	2,000	0.94%	RC	B1F/3F	12	Jun. 2003
L-12	Sub-core	Tokyo Central 5 Wards	SOHO Kita Aoyama	1,160	0.55%	RC	B1F/3F	10	Mar. 2004
L-13	Core1	Tokyo 23 Wards	Pacific Residence Ohi	1,120	0.53%	RC	B1F/5F	22	Oct. 1989
L-14	Core2	Tokyo Central 5 Wards	Root Azabu Jyuban	2,220	1.04%	SRC/S	14F	26	Jan. 1999
Total				184,303	86.66%	-	-	6,171	-

Roster of Assets to be acquired during 7th fiscal period

Property No. (note2)	Asset Type (note1)	Area (note3)	Property Name	Acquisition Price (mn yen)	Investment Ratio (note4)	Building Structure (note5,6)	Number of Floors (note5,6)	Rentable Units (note7)	Date of Completion (note5)
S-54	Core1	Tokyo Central 5 Wards	Pacific Residence Kamiochiai	1,332	0.63%	RC	B1F/6F	70	Sep.2006
C-25	Core1	Tokyo 23 Wards	Pacific Tower Meguro-Fudomae	14,507	6.82%	RC	B3F/30F	358	Jan. 2007
C-35	Core1	Tokyo Central 5 Wards	Pacific Residence Ebisu-Minami	2,436	1.15%	RC	B1F/8F (planned)	39 (planned)	Mar. 2007 (planned)
C-39	Core1	Major Regional Cities	Pacific Residence Kita-sanjo	1,261	0.59%	RC	B1F/11F (planned)	100 (planned)	Feb. 2007 (planned)
F-18	Core1	Tokyo 23 Wards	Pacific Residence Nihonbashi-Bakurocho	5,380	2.53%	RC	B1F/17F (planned)	132 (planned)	Mar. 2007 (planned)
F-19	Core1	Tokyo 23 Wards	Pacific Residence Gotenyama	1,186	0.56%	RC	B1F/3F	16	Jan. 2007
F-20	Core1	Major Regional Cities	Pacific Residence Maruyama Kita-gojo	1,284	0.60%	RC	15F (planned)	56 (planned)	Feb. 2007 (planned)
F-21	Core1	Major Regional Cities	Pacific Residence Tokugawa	975	0.46%	RC	9F	27	Dec. 2006
Total				28,363	13.34%	-	-	798 (planned)	-

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.

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 7th fiscal period are registered as follows. C-35 Pacific Residence Ebisu-Minami confirmation certificate dated August 3, 2006. C-35 Pacific Residence Ebisu-Minami confirmation certificate dated January 10, 2006. F-18 Pacific Residence Nihonbashi-Bakurocho confirmation certificate dated February 28, 2006. F-20 Pacific Residence Maruyama Kita-gojo confirmation certificate dated February 28, 2006.

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.

Definition of Property Type

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 8: 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 9: 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.

Financial Section

Financial Report 17

Independent Auditors' Report 20

Balance Sheets 21

Statements of Operations 22

Statements of Changes in Unitholders' Equity 23

Statements of Cash Flows 24

Notes to Financial Statements 25

Financial Report

For the 6th Period from June 1, 2006 to November 30, 2006

<Results of Operations>

Selected Financial Data

	6th. Period	5th. Period	4th. Period	3rd. Period	(Yen in millions) 2nd. Period
Operating revenues	¥ 6,343	¥ 5,817	¥ 4,628	¥ 3,403	¥ 2,440
Operating expenses	3,061	2,763	2,244	1,794	1,243
Operating income	3,282	3,054	2,384	1,609	1,196
Income before income tax	2,661	2,631	2,022	1,386	941
Net income	2,659	2,629	2,021	1,385	935
Total assets	206,636	202,668	173,446	136,389	61,087
Total unitholders' equity	108,360	108,405	84,958	58,462	25,356
Unitholders' capital	105,593	105,593	82,937	57,077	24,427
Number of units issued (units)	186,809	186,809	144,327	101,845	50,882
Total unitholders' equity per unit (Yen)	580,056	580,300	588,649	574,034	498,342
Cash distribution	2,658	2,629	2,021	1,385	930
Distribution per unit (Yen)	14,232	14,074	14,002	13,599	18,263
Net operating income from property leasing activities	4,271	4,126	3,478	2,554	1,961
FFO (Funds From Operation) per unit (Yen)	16,323	16,932	19,145	19,583	28,530
Debt service coverage ratio (times)	8	10	10	8	8
Number of days	183	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)	
	6th. Period	5th. Period
Net income	2,659	2,629
Adjustments:		
Depreciation	1,107	1,051
Amortization	133	121
Net gain on sales of discontinued operations	850	638
FFO	3,049	3,163

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

Distribution for the Current Period

	(Yen in thousands)	
	6th. Period	5th. Period
Retained earnings	2,658,807	2,629,205
Undistributed earnings	141	55
Cash distribution	2,658,666	2,629,150
(per unit) (Yen)	14,232	14,074

Number of properties and related units for the periods presented

		<u>Properties</u>	<u>Number of Units</u>	<u>Purchase Price (Yen in millions)</u>
	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
6th. Period Acquisitions		3	263	5,381
6th. Period Dispositions		5	179	3,771
Configuration Changes			-	
	At Nov. 30, 2006	107	6,171	184,303

Total debt summary and debt maturity schedule

Debt Summary

		6th. Period	(Yen in millions) 5th. Period
Secured		32,300	33,000
Unsecured		62,800	58,250
	Total	95,100	91,250
Fixed Rate		80,400	66,500
Floating Rate		14,700	24,750
	Total	95,100	91,250

Debt Maturity Schedule

<u>Year</u>	<u>Yen in millions</u>	<u>% of Total</u>
within 1 year	14,700	15.5%
1 to 2 years	-	-
2 to 3 years	32,800	34.5%
3 to 4 years	20,000	21.0%
4 to 5 years	16,000	16.8%
after 5 years	11,600	12.2%
	Total	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 Nov. 30, 2006	
		Investments	Investment to total assets
		Yen in millions	%
Trust Assets	Single Type	34,599	16.8
	Compact Type	35,815	17.3
	Family Type	22,698	11.0
	Large Type	20,693	10.0
	Senior Type	-	-
	sub-total	113,805	55.1
Real Property	Single Type	34,551	16.7
	Compact Type	23,174	11.2
	Family Type	7,768	3.8
	Large Type	12,082	5.8
	Senior Type	-	-
	sub-total	77,575	37.5
Cash and other assets		15,256	7.4
	total assets	206,636	100.0

Asset-type

		As of Nov. 30, 2006	
		Investments	Investment to total assets
		Yen in millions	%
Trust Assets	Core Type	97,081	47.0
	Sub-Core Type	16,724	8.1
	sub-total	113,805	55.1
Real Property	Core Type	71,468	34.5
	Sub-Core Type	6,107	3.0
	sub-total	77,575	37.5
Cash and other assets		15,256	7.4
	total assets	206,636	100.0



Independent Auditors' Report

To the Board of Directors of
Nippon Residential Investment Corporation

We have audited the accompanying balance sheets of Nippon Residential Investment Corporation as of November 30, 2006 and May 31, 2006, and the related statements of operations, changes in unitholders' equity and cash flows for each of the six months ended November 30, 2006 and May 31, 2006 expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nippon Residential Investment Corporation as of November 30, 2006 and May 31, 2006 and the results of its operations and its cash flows for each of the six months ended November 30, 2006 and May 31, 2006, in conformity with accounting principles generally accepted in Japan.

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

- (1) As discussed in Note 7 to the financial statements, Nippon Residential Investment Corporation acquired investment properties.
- (2) As discussed in Note 7 to the financial statements, Nippon Residential Investment Corporation borrowed funds.
- (3) As discussed in Note 7 to the financial statements, Nippon Residential Investment Corporation issued bonds.

KPMG AZSA & Co.

Tokyo, Japan
February 21, 2007

NIPPON RESIDENTIAL INVESTMENT CORPORATION

Balance Sheets

as of November 30, 2006 and May 31, 2006

	<u>As of Nov. 30, 2006</u>	<u>As of May 31, 2006</u>
	(Yen in millions)	
ASSETS		
Investments in real estate (including trust accounts)		
Land	¥ 103,927	¥ 102,930
Depreciable property	90,004	89,067
Construction in progress	1,401	1,189
Investments in real estate	195,332	193,186
Accumulated depreciation	(3,764)	(2,776)
Investments in real estate, net	<u>191,568</u>	<u>190,410</u>
Other investments		
Leasehold rights	1,214	1,214
Cash and cash equivalents (including trust accounts)	12,464	9,414
Rent receivables	287	256
Allowance for doubtful receivables	(6)	(5)
Receivables, net	<u>281</u>	<u>251</u>
Consumption tax receivables	55	124
Long-term prepaid expense	640	717
Other assets	414	538
TOTAL ASSETS	<u>¥ 206,636</u>	<u>¥ 202,668</u>
LIABILITIES and UNITHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	¥ 813	¥ 668
Received in advance	17	10
Short-term loans	3,200	13,250
Income taxes payable	2	4
Long-term loans due within 1 year	11,500	11,500
Long-term loans	23,400	21,500
Bonds	57,000	45,000
Security deposit	2,264	2,202
Other liabilities	80	129
TOTAL LIABILITIES	<u>¥ 98,276</u>	<u>¥ 94,263</u>
UNITHOLDERS' EQUITY:		
Unitholders' capital	¥ 105,593	¥ 105,593
Units authorized ; 2,000,000 units		
Units issued and outstanding ;		
186,809 units as of Nov. 30, 2006		
186,809 units as of May 31, 2006		
Retained earnings	2,659	2,629
Deferred hedge revenue	108	183
TOTAL UNITHOLDERS' EQUITY	<u>¥ 108,360</u>	<u>¥ 108,405</u>
TOTAL LIABILITIES and UNITHOLDERS' EQUITY	<u>¥ 206,636</u>	<u>¥ 202,668</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 November 30, 2006 and May 31, 2006

	<u>November 30, 2006</u>	<u>May 31, 2006</u>
	(Yen in millions)	
OPERATING REVENUES		
Rental income	¥ 5,493	¥ 5,178
Gain on sales of investments in real estate	<u>850</u>	<u>639</u>
Total operating revenues	<u>6,343</u>	<u>5,817</u>
OPERATING EXPENSES		
Property operating expenses		
Asset and property management fee	532	520
Property, repairs and maintenance	282	150
Trustee fee	43	47
Real estate taxes and insurance	168	150
Other operating expenses	<u>198</u>	<u>185</u>
Total property operating expenses	1,223	1,052
Property depreciation	1,107	1,051
General and administrative expenses	<u>731</u>	<u>660</u>
Total operating expenses	<u>3,061</u>	<u>2,763</u>
OPERATING INCOME	<u>3,282</u>	<u>3,054</u>
Interest and other income	72	178
Interest expenses	(517)	(424)
Other financing costs	(86)	(75)
Unit issue expenses	-	(34)
Other depreciation and amortization	(54)	(45)
Other expenses	<u>(36)</u>	<u>(23)</u>
INCOME BEFORE INCOME TAXES	2,661	2,631
INCOME TAXES		
Current	3	4
Deferred	<u>(1)</u>	<u>(2)</u>
NET INCOME	<u>¥ 2,659</u>	<u>¥ 2,629</u>
Earnings per unit:		
Net income (in Yen)	¥ 14,232	¥ 14,289
Weighted average number of units outstanding	186,809	183,997

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 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
Cash distributions paid		(2,629)
Net income		2,659
Deferred hedge revenue		(75)
Balance as of Nov 30, 2006	186,809	¥108,360
Balance as of Nov 30, 2006		
Unitholders' capital		¥105,593
Retained earnings		¥2,659
Deferred hedge revenue		¥108
Total amounts of Unitholders' equity		<u>¥108,360</u>

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

NIPPON RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

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

	November 30, 2006	(Yen in millions) May 31, 2006
Cash Flows from Operating Activities		
Income before income taxes	¥ 2,661	¥ 2,631
Depreciation and amortization	1,107	1,051
Bad debt loss	-	1
Amortization of long-term prepaid expenses	79	76
Amortization of organization expenses	7	7
Amortization of bond issuance costs	47	39
Interest income	(1)	(0)
Interest expense	517	424
Profit from insurance	-	(3)
Changes in assets and liabilities		
Allowance for doubtful receivables	2	3
Rent receivables	(31)	(44)
Other receivables	(3)	68
Consumption tax receivables	68	43
Accounts payable	143	(10)
Other payables	(22)	21
Accrued expenses	9	61
Received in advance	7	(181)
Sales of real estate (including trust accounts)	3,863	4,004
Long-term prepaid expenses	(7)	(57)
Others	10	(17)
Sub-total	<u>8,456</u>	<u>8,117</u>
Interest received	1	0
Interest paid	(497)	(361)
Proceeds from insurance	4	7
Income taxes paid	(4)	(4)
Net cash provided by operating activities	<u>7,960</u>	<u>7,759</u>
Cash Flows from Investing Activities		
Purchase of real estate (including trust assets and leasehold rights)	(6,139)	(33,609)
Proceeds from security deposit(including trust accounts)	61	95
Others	-	(1)
Net cash used in investing activities	<u>(6,078)</u>	<u>(33,515)</u>
Cash Flows from Financing Activities		
Proceeds from short-term loans	3,200	-
Repayment of short-term loans	(13,250)	(9,180)
Proceeds from long-term loans	2,600	-
Repayment of long-term loans	(700)	-
Proceeds from issuance of units	-	22,622
Proceeds from bonds	11,945	14,924
Distributions to unitholders	(2,627)	(2,018)
Net cash provided by financing activities	<u>1,168</u>	<u>26,348</u>
Net Increase in Cash and Cash Equivalents	3,050	592
Cash and Cash Equivalents at beginning of Period	<u>9,414</u>	<u>8,822</u>
Cash and Cash Equivalents at end of Period	<u>¥ 12,464</u>	<u>¥ 9,414</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 June 1, 2006 to November 30, 2006 and for the period from December 1, 2005 to May 31, 2006

Note-1 Organization and basis of presentation

Organization

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

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

As of November 30, 2006, NRIC owned 107 properties (including beneficiary rights) containing 263,647.21 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 months or less.

b) Investments in real estate

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

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

Buildings and improvements 2–47 years

Structures 7–20 years

Machinery and equipment 15 years

Furniture and fixtures 3–15 years

c) Organization costs and bonds issuance costs

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

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

d) New investment unit issue costs

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

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

	As of Nov. 30, 2006	As of May 31, 2006
(Yen in millions)		
Pledged assets:		
Bank deposits	¥ 1,703	¥ 2,362
Buildings and improvements	30,410	30,773
Structures	205	211
Machinery and equipment	1	1
Furniture and fixtures	12	12
Land	36,067	36,067
Total	¥ 68,398	¥ 69,426
Loans secured by the pledged assets:		
Long-term loans due within 1 year	¥ 11,500	¥ 11,500
Long-term loans	20,800	21,500
Total	¥ 32,300	¥ 33,000

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

Short-term loans comprise of the following:

	Yen in millions	
	As of Nov.30,2006	As of May 31,2006
Unsecured loans from banks:		
with interest ranging from 0.86% to 0.89%.....	3,200	-
with interest 0.56%.....	-	13,250
Total	¥ 3,200	¥ 13,250

Long-term debt comprise of the following:

	Yen in millions	
	As of Nov. 30,2006	As of May 31,2006
Secured loans, representing obligations to banks:		
Due 2006 to 2009 with interest ranging from 0.56% to 1.43%.....	-	33,000
Due 2007 to 2009 with interest ranging from 0.89% to 1.39%.....	32,300	-
Unsecured loans, representing obligations to insurance companies:		
Due 2011 to 2013 with interest ranging from 1.94% to 2.19%.....	2,600	-
Unsecured 0.74% bonds, due 2010.....	10,000	10,000
Unsecured 0.84% bonds, due 2010.....	10,000	10,000
Unsecured 1.28% bonds, due 2012.....	10,000	10,000
Unsecured 1.50% bonds, due 2011.....	15,000	15,000
Unsecured 1.54% bonds, due 2009.....	12,000	-
Sub-total	91,900	78,000
Less—Portion due within one year.....	11,500	11,500
Total	¥ 80,400	¥ 66,500

Note-5 Per unit information

Net asset value per unit as of November 30, 2006 and May 31, 2006 was ¥580,056 and ¥ 580,300.

Note-6 Income taxes

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

	Rate	
	6th. Period	5th. Period
Statutory effective tax rate	39.39%	39.39%
Deductible cash distributions paid	(39.36)	(39.36)
Others	0.05	0.04
Effective tax rate	0.08%	0.07%

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

In accordance with the distribution policy prescribed in NRIC's articles of incorporation, NRIC intends to distribute approximately 100% of its distributable income for the period ended November 30, 2006 (equivalent to ¥14,232 per unit) to its unitholders (¥14,074 per unit was distributed for the period ended May 31, 2006). NRIC intends to make regular distributions to unitholders with respect to its semi-annual fiscal periods, ending at the end of May and November of each year.

Note-7 Significant subsequent events

a) Cash Distribution

As of January 24, 2007, the NRIC Board of Directors resolved to effect payment of a cash distribution of ¥14,232 per unit aggregating ¥ 2,658 million to unitholders of record on November 30, 2006.

b) Acquisition of investment properties

NRIC acquired the following properties set forth below.

(Leaf Court Azabu)

Location (Address)	: 1-1-12 Mita, Minato-ku, Tokyo
Acquisition price (see Note)	: ¥ 9,060 million
Type of specified asset	: Real estate
Contract date	: December 19, 2006
Delivery date	: December 26, 2006
Seller	: Mars Asset TMK Limited

(Pacific Tower Meguro-Fudomae)

Location (Address)	: 3-7-6 Nishi-gotanda, Shinagawa-ku, Tokyo
Acquisition price (see Note)	: ¥14,507 million
Type of specified asset	: Real estate
Contract date	: March 31, 2005
Delivery date	: February 20, 2007
Seller	: Grantower TMK Limited

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

c) Borrowing of funds

On December 26, 2006 NRIC borrowed funds set forth below.

Lenders : National Mutual Insurance Federation of Agricultural Cooperatives
: Taiyo Life Insurance Company
: The Dai-ichi Mutual Life Insurance Company
: Mitsui Sumitomo Insurance Co., Ltd.

Loan amount : 5,500 million yen
Interest rate : 1.84500%
Drawdown date : December 26, 2006
Principal repayment date : December 26, 2011
Collateral : Unsecured and non-guaranteed

Lenders : The Norinchukin Bank
: The Hachijuni Bank, Ltd.
Loan amount : 6,000 million yen
Interest rate : 1.02702%
Drawdown date : December 26, 2006
Principal repayment date : December 26, 2011
Collateral : Unsecured and non-guaranteed

Lenders : SUMITOMO MITSUI BANKING CORPORATION
Loan amount : 2,000 million yen
Interest rate : 0.94000%
Drawdown date : December 26, 2006
Principal repayment date : December 26, 2007
Collateral : Unsecured and non-guaranteed

Usage of fund : The funds were allocated to the purchase of real estates (Leaf court Azabu and another property) and payment of the associated costs.

Also on February 20, 2007 NRIC borrowed funds set forth below.

Lenders : The Bank of Tokyo-Mitsubishi UFJ, Ltd.
: The Sumitomo Trust & Banking Co., Ltd.
: Mitsubishi UFJ Trust and Banking Corporation
: The Chuo Mitsui Trust and Banking Company, Limited
: The Chiba Bank Limited
: Shinkin Central Bank

Loan amount : 11,000 million yen
Interest rate : 0.94772%
Drawdown date : February 20, 2007
Principal repayment date : February 19, 2010

Collateral	:	Unsecured and non-guaranteed
Lenders	:	Mitsubishi UFJ Trust and Banking Corporation The Chuo Mitsui Trust and Banking Company, Limited Shinkin Central Bank The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Sumitomo Trust & Banking Co., Ltd.
Loan amount	:	4,700 million yen
Interest rate	:	0.90700%
Drawdown date	:	February 20, 2007
Principal repayment date	:	February 20, 2008
Collateral	:	Unsecured and non-guaranteed
Usage of fund	:	The funds were allocated to the purchase of real estate(Pacific Tower Meguro-Fudomae) and payment of the associated costs.

d) Issue of bond

On November 24, 2006, and February 2, 2007, the NRIC Board of Directors approved of issuing the following investment bonds in Japan. The payment was completed on February 9, 2007.

i) Name of bond	:	Nippon Residential Investment Corporate Seventh Unsecured Corporate Bonds (ranking pari passu with designated corporate bonds)
ii) Total amount of the issue of the bond	:	¥ 12 billion
iii) Issue price	:	¥ 100 per par value of ¥ 100
iv) Yield on the bond	:	1.84% per annum
v) Payment due date	:	February 9, 2007
vi) Collateral	:	No secured mortgage or guarantee is on the bond and no assets are reserved as security specifically for the bond.
vii) Redemption method and maturity	:	The entire principal shall be redeemed on February 9, 2012. The bonds may be purchased and cancelled at any time on and after the date following the payment date, except in cases otherwise stipulated by the clearing house.
viii) Usage of fund	:	Repayment of loans

Corporate Data

Corporate Data of NRIC

Name:	Nippon Residential Investment Corporation
Representative:	Masaru Nishimura, 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
August 30, 2006	General Meeting of Unitholders

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.

Pacific Investment Advisors Corporation or any of their respective directors, officers, employees, partners, unitholders, agents, affiliates or their advisors will be responsible or liable for the completeness, appropriateness, or accuracy of English translations or the selection of the portion(s) of any document(s) translated into English. No person has been authorized to give any information or make any representations other than as contained in this document in relation to the matters set out in this document, and if given or made, such information or representation must not be relied upon as having been authorized by Nippon Residential Investment Corporation, Pacific Investment Advisors Corporation or any of their respective directors, officers, employees, partners, unitholders, agents, affiliates or their advisors.

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.



**NIPPON
RESIDENTIAL
INVESTMENT
CORPORATION**

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

