

(Reference Material)

Nippon Residential Investment Corporation  
Summary of Analyst Meeting

November 19 (Wednesday), 2008

The following is a summary of the analyst meeting held on November 19 (Wednesday), 2008.

**< Masaru Nishimura, Chief Executive Officer of Nippon Residential Investment Corporation >**

I am Nishimura, the Chief Executive Officer of Nippon Residential Investment Corporation. Allow me to express our deepest gratitude for so many joining us today despite their busy schedules and the short notice.

NRIC yesterday announced cancellation of the acquisition of Pacific Royal Court Minato Mirai Urban Tower. The environment surrounding NRIC is undergoing rapid changes due to turmoil in global financial markets stemming from the subprime mortgage crisis in the U.S. since the latter half of 2007. Under such circumstances, the decision was made to cancel the acquisition of the property based on a comprehensive view of NRIC's future asset management.

We deeply regret the tremendous inconvenience this may cause to unitholders. Please accept our sincere apologies.

The asset management company will follow with a briefing on the details. NRIC intends to keep consistently engaging in asset management to continue to provide excellent rental housing by identifying the maintaining and strengthening of our financial base as our task of top priority. We ask for your continued support and encouragement of NRIC.

**< Takeshi Takano, President and Chairman of the Board of Pacific Residential Corporation (NRIC's Asset Management Company) >**

I am Takano, the President and Chairman of the Board of Pacific Residential Corporation. Firstly, I would like to start by again taking this opportunity to apologize for the recent substantial decrease in distributions to investors taking shape

in this form. Please accept our sincere apologies.

Allow me to brief you on this matter in chronological order, along with an explanation of how this came to be or the sort of discussions that took place.

This is a project set up by a vehicle known as a *tokutei mokuteki kaisha* (TMK; an SPC governed by the Law concerning Liquidation of Assets). With regards to the parties concerned, Pacific Holdings, which is the largest shareholder of Pacific Residential, had about a 50% stake at the time and other investors also took up stake. This project also holds funds contributed by other parties concerned such as lenders of senior loans, as well as lenders of *tokutei shasai* (corporate bonds issued by a TMK under the Law concerning Liquidation of Assets) and other mezzanine loans.

This property was originally a project of two buildings combined, where the other building is the property called Ocean Tower that was purchased by NRIC in December last year. The operation of the two buildings together was, at the time, a major premise to acquiring this property and deemed to contribute extremely effectively to ongoing operation.

The acquisition decision was made on September 27 last year as already announced. At that point in time, we decided that, if the acquisition was to take place, then to go about the acquisition by acquiring both buildings. This decision was made in anticipation of its stable contribution to NRIC's future operation and cash flows, having taken the abovementioned factors into account and having considered the rarity in that these are the only rental buildings in Yokohama's Minato Mirai area and that the project is for tower properties.

However, with the acquisition of Urban Tower being over one year away from then, the funds for the acquisition in one year's time was of course also discussed. The LTV level was 49.6% at the time. The LTV for the total assets at the time of acquisition of

Urban Tower, taking this project and other anticipated acquisition projects scheduled at the time into account, was assumed to be 55%.

Accordingly, speaking from the point of view of keeping the finances and LTV under control at the time, to keep leverage under control while maintaining LTV below 50% in normal operations and below 55% at the end of fiscal periods is something we have been consistently adopting as one of our policies and fulfilling since listing. Speaking from that standpoint, the discussions concluded that we must curb the rise in leverage that would result from acquiring Urban Tower.

An increase in capital through public offering was considered as the main scenario. As the investment unit price as at the time the acquisition decision was made was 625,000 yen to the 580,000 yen in BPS at the time, an increase in capital through public offering being feasible was firstly one point.

Furthermore, concerning loans, there were also discussions on taking out loans in keeping leverage under control. Moreover, concerning investment corporation bonds as well, we have issued a relatively large sum compared to other J-REITs and have also achieved a stellar track record. To execute the acquisition by issuing investment corporation bonds was also being considered as one approach in the event that funding via loans or equity was insufficient.

However, in the event that investment corporation bonds or loans/equity fail to be procured as funds, the acquisition of this asset by pursuing such steps as selling properties was also being discussed on the other hand.

The projects being purchased by NRIC have been approximately worth about 2.0 billion yen per building. Real estate is regarded to be generally of low liquidity, but looking at residential properties and considering the pricing of 2.0 billion yen per building, the residential property category out of all real estate categories, as well as

NRIC's portfolio assets, were deemed to be of relatively high liquidity. Selling under such circumstances was also deemed feasible to a certain degree.

I would also like to add that that there was an 18.0 billion yen commitment line comprised of five major financial institutions at that point in time at the time. In other words, we had five approaches – that is, to increase capital through public offering as the main scenario and to issue investment corporation bonds, to take out loans, to sell properties or to draw on the commitment line – under consideration at the acquisition stage. Consequently, although we reflect upon it now thinking we should have dealt with the situation differently, we at the time deemed that it would be unlikely that the situation would fall to the extent that all of these approaches would become infeasible.

Of course, provisions were made for a penalty from that time in the screening for compliance and in our management thinking as well, and so it would not be true to say that a loss on penalty was not discussed. The discussions at the time did, however, result in a decision to make the acquisition under the judgment that the probability of a penalty being incurred would be extremely low.

Nevertheless, although now too late, we do solemnly acknowledge as a matter that should be reflected upon that we, just the same, should have assumed as a possible scenario the case similar to this time where the supply of funds is suspended against a backdrop of a credit crunch in all real estate, financial and capital markets and should have discussed more deeply what losses would be incurred in the event of such. This is a point we intend to set as a task that we shall review to improve, along with the nature of risk management, in our future operations.

Another point is the part on the penalty this time being 20%. This is not a condition attached only to this project. Rather, a similar penalty has been attached to past projects we have purchased. In acquiring this project, the signing of an agreement for

this project without imposing a penalty would be quite difficult. Since our view was to promote operating the two buildings together by getting the project even if that means a penalty will be imposed, we agreed to impose the penalty.

However, while disclosure of the section on penalties is not required by law, this is another point we believe we must consider regarding how disclosure shall be performed in the future, along with thinking about whether or not we ought to have more proactively disclosed such risks.

The acquisition decision was made based on the abovementioned factors, and we acted in this project with our mind set on acquiring Urban Tower. With the outcome ending up taking this form, we consulted with concerned authorities and other parties, the consultations of which also encompassed the nature of our management at the time of acquisition and whether or not there were slight shortcomings in our thinking, and we even discussed whether or not the asset management company side would be able to cover these shortcomings in some sort of form.

As you know, however, the Financial Instruments and Exchange Law strictly prohibits the compensation of losses in management. In effect, it was impossible for us to compensate for this loss in any way. Concerning this point, although it will take time, we have our views set on working to enable the loss incurred this time to be returned by building up distributions as much as possible each fiscal period in our future operations under the going concern assumption.

Next, allow me to briefly outline the events that led to the cancellation of acquisition of this project. The decision to acquire the property was made on September 27 last year and was handed over to the TMK mentioned earlier on June 13 this year. This took place on June 13, at which time the investment unit price was in a state where it was discounted about 40 to 50% compared to the same time a year ago.

And one month later, on July 11 of the same year, Pacific Holdings, which is the largest shareholder of Pacific Residential, announced a revision of its performance for the fiscal period under review, significantly revising its performance downward. In addition, Pacific Holdings also announced its basic agreement on capital participation with the Daiwa Securities Group Inc. These resulted in the market recognizing at that point in time that the so-called sponsor credit was deteriorating.

Furthermore, the commitment period for the commitment line, which was being considered as one approach as mentioned earlier, was close to ending in the following month, on August 5. The commitment line was comprised of five major financial institutions for 18.0 billion yen. Of course, as a last resort, drawing on the commitment line was one approach for acquiring the project that we were considering. Consequently, it was a must for us that the commitment line continue to be available after August 5 and so a series of negotiations were conducted with the financial institutions.

However, the outcome was three out of the five major financial institutions renewing the commitment line for a total amount of 13.0 billion yen. It is against the backdrop of the earlier-mentioned July 11 deterioration of sponsor credit having some influence on this, that the number of financial institutions taking part in the commitment line ended up becoming three financial institutions and the amount decreasing from 18.0 billion yen to 13.0 billion yen.

As such, while the 13.0 billion yen commitment line would normally be renewed for a period of one year, consultations with financial institutions failed to reach an agreement to more than a tentative renewal for the period up to the end of October for the project, which could be expected since a recovery in the sponsor credit was still not definitive at that stage.

Under the belief that sponsor credit would recover to a certain degree by the end of

September (the targeted schedule), the view was for the commitment line to be renewed at the end of October based on consultations that also take into account recovery in sponsor credit and based on consultations that also take into account the economic conditions and other factors. That was the discussion at the time when the commitment line was renewed for 13.0 billion yen on August 5.

Underlying the view of applying the commitment line to Pacific Royal Court Minato Mirai at that point in time was the thinking that, although falling in a state where it may in fact be slightly difficult, we wanted somehow for the commitment line to be renewed again for the period after the end of October as well and allocate it to fund this project's property acquisition. Unfortunately, however, sponsor credit did not recover as of September 30, resulting in a state where we were left with no choice but to abandon the idea of renewing the commitment line.

Speaking in this way only about the outcome in chronological order makes it sound like an extremely negative account of the situation, but that was not necessarily the case. At the time of commitment line renewal, although consultations were based on the commitment line being tentative, they proceeded while consulting about separately forming a syndication for this Pacific Royal Court Minato Mirai project with the three major financial institutions that renewed the commitment line at the core and about separately forming such beyond the context of the commitment line to get this project.

The initial request made was for about 13.0 billion yen to be used entirely as a loan that will fund the project. As expected, however, in light of the overall environment and the situation we were in, to go to the extent of taking out a 13.0 billion yen loan for this project would be too much to ask and we failed to obtain the unanimous consent of the financial institutions. Therefore, a change of structure was also considered at that time.

Specifically, this was to extend the TMK period, which was to end at the end of



November this year, by about three years and thereby seizing the opportunity to make the acquisition within three years. As for the holding of funds for the period of three years, to hold the TMK not entirely by using a loan but at a slightly smaller amount with about half (that is, 5.0 or 6.0 billion yen) invested by NRIC was also in the planning. Financial institutions were being consulted based on such thinking and the acquisition of this project in some other way was also considered.

Despite such efforts, as stated at the beginning, the unanimous consent of the senior loan lenders, mezzanine loan lenders and the two investors that are the parties concerned with the TMK, as well as the major financial institutions of NRIC that we were requesting upon, ended up being difficult to obtain.

Of course, all parties did not hold negative views of this project. Rather, all parties regarded this project to be one that should be acquired, and everyone really worked together to discuss any ways for doing so that would not be detrimental to the interests of unitholders. The outcome, however, was that the consent of all parties concerned could not be obtained. Having also talked it over with the main bank, The Bank of Tokyo-Mitsubishi UFJ, Ltd., the decision to abandon this project was reached in the end, thereby bringing this matter to a close.

Nevertheless, we still hold talks with the five major financial institutions on a daily basis. As is the same story as the termination of the commitment line mentioned earlier, all in all, the matter of paramount importance to NRIC is going concern. It was of course important to get this project, but if getting this project places us in a situation where we cannot gain the understanding and support of financial institutions and, as a result, are unable to roll over the 28.0 billion yen in refinancing that is due between the coming November and February, would ultimately mean we had our priorities wrong.

In also taking such into account, talks of acquiring Pacific Royal Court Minato Mirai

were discussed in tandem with the refinancing of the 28.0 billion yen in total due by February next year and consequently led to today's decision.

Concerning the 28.0 billion yen in refinancing, we fully understand that we would also be able to ease everyone's concerns if, upon making an announcement such as this, we were able to make a press announcement that "The five major financial institutions, as well as others, have announced their firm commitment. It is currently being approved and there are no problems." Unfortunately, however, the main topic of the consultations with the financial institutions was the acquisition of Pacific Royal Court Minato Mirai in this project and, in practice, it was difficult to concurrently hold discussions on refinancing.

However, we have in the same way been consistently and continually conducted consultations with the five major financial institutions with regards to the 28.0 billion yen in refinancing. We are not saying that such consultations will no longer be conducted. Rather, consultations continue to be underway with the rollover of such being a premise. We are not yet able to announce that we have received complete approval, as no official deal has been closed as yet, but actual talks with the parties at the forefront are underway based on the premise that they will work on addressing this project and the refinancing.

First there is 2.0 billion yen in refinancing at the end of November. It is probably safe to state that, of the financial institutions, one mega bank has already unofficially given us their consent. As for the other two financial institutions, we are still consulting with them although we are unfortunately not able to inform you that anything has been finalized.

From December onwards, large refinancing of 15.2 billion yen is due in December and 10.9 billion yen is due in February. With regards to this, we are also presently conducting consultations with financial institutions with our sights set on issuing a

press announcement in some form, which will inform everyone that we will address this in such-and-such way, as soon as possible, but preferably some time before December 26. We intend to announce such once it has been finalized.

Additionally, Moody's yesterday downgraded our ratings. Today, a press release on the grant of collateral was also issued in response to the course of events described. In the grant of collateral, providing collateral to loans for investors purchasing our investment corporation bonds will, in effect, lead to the bonds becoming subordinated. We would like to once again apologize for this. Please accept our sincere apologies.

However, if the provision of collateral is a precondition for maintaining the going concern basis, then we deemed that we would have to provide collateral. Obviously, the provision of collateral is again attributable to the absence of a recovery in our sponsor credit and so we have our hopes on negotiating for this collateral to be removed when our situation improves.

Concerning investment corporation bonds, redemption in the amount of 18.0 billion yen is due in September and October next year. In principle, refinancing and transfers in some form are being considered as the main scenario for this. Of course, we promote the selling of properties in the interest of keeping the current LTV under control, but the selling of properties just so that the funds can be allocated to the redemption of bonds is not considered as the main scenario, if doing so involves excessive discounts and capital loss. The selling of properties is a step embarked on strictly within the confines of keeping LTV under control and we intend to promote selling at the appropriate price within the appropriate price range.

Accordingly, the redemption of bonds is premised on refinancing as the basic scenario. We also acknowledge the need for recovery in sponsor credit, as well as continuous support and understanding of the major financial institutions, in that sense.

That concludes the briefing on the events leading up to the cancellation of the acquisition this time and the provision of collateral as a consequence.

Lastly, although the following is an account made by words alone and so we cannot control how it will be interpreted, I would like to inform you that NRIC Chief Executive Officer Nishimura, along with myself and our asset management company, are united in always placing our the going concern of NRIC as our top priority. We would like to state, based on our joint consultations and discussions, that the possibility of NRIC seeking civil rehabilitation because of us is not being considered as a possible scenario.

The opinions on this may be divided, but our thinking is that we do not recognize placing NRIC under civil rehabilitation or similar state would help unitholders. There are rumors of such going around, but that is not on our minds whatsoever and our management is performed with a dedicated commitment to ensuring that such is avoided.

Of course the best would be for the sponsor credit of our largest shareholder Pacific Holdings to recover and, when that does take place, then this issue will improve significantly. As Pacific Residential is a company that is an affiliate and consolidated subsidiary of Pacific Holdings, for us to also keep on working together for a turnaround as a unit and sponsor credit recovery in unison still remains our policy and philosophy.

However, hypothetically speaking, if a state where the effectiveness of such decreases and a state where NRIC is unable to receive support from financial institutions as a consequence are expected, I believe that steps to avoid such will be taken.

Accordingly, whatever the form may be, concepts that will be detrimental to the interests of NRIC's unitholders are definitely not on our minds and we are dedicated to doing our utmost and making every effort to avoid such a scenario. I realize that it is

difficult to gain your understanding with just words alone and hope you will excuse me for mentioning this, as I just wanted to at least make this point.

Pacific Residential is operated by about forty employees. Although one or two employees have left us under such an environment, with regards to the future of the employees that remain with us today, each of them are performing their respective duties with a focus on supporting and operating NRIC whatever the circumstances.

Despite being currently placed in such an environment, the acquisition and disposition teams are engaged in property selling activities while pursuing an even higher and a more appropriate price, and the engineering team is diligently conducting maintenance and enhancing value while continuously implementing large-scale repairs on relatively-old properties primarily in regional areas on a daily basis.

Additionally, the asset management team is working together with the property management company on a daily basis towards consistently boosting and maintaining occupancy rates at 94% or above, which is already being announced monthly. Equity finance is directly associated with the situation we found ourselves in right now alongside management and so naturally there is a dedication to this part as well.

Our forty employees are truly working in seek of raising the value of NRIC from various angles. It is also true that they are devoting substantial time on this. In closing, I would like to inform you, at the very least, that we, the asset management company, are working together with the Chief Executive Officer and directors of NRIC with a clear vision to keep on operating without ever losing sight of going concern.

<<Major Questions and Answers at the Analyst Meeting Held on November 19, 2008>>

Question	Answer
Am I correct to understand that you are tired of negotiations with financial institutions and will not apply for civil rehabilitation?	We will not apply for civil rehabilitation.
Suppose Pacific Holdings, Inc. (hereafter, "PHI"), the principal sponsor of the asset manager (hereafter, "PRS"), goes bankrupt, how will you explain this to financial institutions and negotiate with them?	We believe that, in order to win the support of financial institutions, it is essential for the sponsors of PRS to regain credit. In the worst case, we may discuss with PHI and study the transfer of PRS shares owned by PHI to third parties.
What is the amount or volume of property transfer that you would consider for the future?	Two of our corporate bond series equivalent to 18 billion yen will mature next year. If they are to be redeemed by using the funds gained from selling properties, we would need to take measures centering on selling properties totaling 12 to 13 billion yen.
What is the average cash position you want to have on your books?	We need a minimum of around 1 billion yen to cover monthly running costs. Normally, we want to keep our cash position at 5 to 6 billion yen.
Have you experienced changes in the stance of financial institutions concerning provision of collateral?	Our understanding is that provision of collateral will heighten the probability of refinancing.
Do you mean that financial institutions are positive about providing loans as long as they are collateralized?	We believe that would be a correct understanding.
Will your corporate bonds be refinanced with collateralized loans?	Presently, we understand that will be the case. Aside from the principal five banks, we want to negotiate with other financial institutions regarding such loans.
What is the situation of your negotiations with banks concerning borrowing of funds for the redemption of corporate bonds?	Currently we are engaged in negotiations on loans due in February next year. Therefore, it is difficult for us to simultaneously negotiate refinancing for corporate bonds.
I understand PRS has sponsors other than PHI. Aren't you in a situation in which you should look for a new sponsor now, not after you enter a worst case scenario? You could negotiate with the other sponsors or pick up a new third-party sponsor, for example.	We have set our principal scenario of realizing rehabilitation together with PHI. Thus, we are not conducting a search for a sponsor on our own. As for the worst case scenario, we have the same view as you pointed out that we need to consider the option of having a third party involved as a new sponsor.
When you decided to buy Minato Mirai	The Board of Directors of PRS made the

<p>Urban Tower in September 2007, was the resolution by the Board of Directors of PRS on the purchase a unanimous one? What types of materials did you submit to the Board of Directors of Nippon Residential Investment Corporation (hereafter, “NRI”)?</p>	<p>resolution unanimously. Also, we submitted to NRI’s Board of Directors all of the materials that were used by PRS’s Board of Directors as well as the discussion minutes, and provided full explanations.</p>
<p>Is the LTV (loan to value) rate of 50% a request from financial institutions? Which banks do you mean when you say the five principal banks?</p>	<p>The LTV level is not a request from financial institutions but our own target. The five principal banks are The Bank of Tokyo-Mitsubishi UFJ, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, The Chuo Mitsui Trust and Banking Company, Limited and The Sumitomo Trust and Banking Co., Ltd.</p>
<p>NRI is one of the largest in size among J-REITs specialized in residential properties. As such, I want NRI to continue as a going concern. What is the stance of the Bank of Tokyo-Mitsubishi UFJ, your main bank, in terms of support? Is there any difference in their eagerness to support compared to other banks?</p>	<p>We recognize the support of our main bank as being strong. We are discussing future measures with the bank on the premise that we continue as a going concern. Furthermore, we do not perceive there to be any difference in eagerness between the main bank and the other four primary banks.</p>
<p>I believe that some of the employees of the asset manager have been seconded from PHI. What do they think of the situation?</p>	<p>All employees are from PHI, but they have strong attachments and a sense of belongingness to PRS as most of them have worked for NRI from the beginning. All of the employees are united and committed to their assignments, as I encourage them by briefing them on the latest developments at least once a week, and such.</p>
<p>Concerning collateral you will provide, what will be the percentage against total assets? Do you also plan to provide collateral to all financial institutions involved?</p>	<p>The percentage of collateral will be similar to the ratio of loans to total assets. It will not be as much as 70 to 80% of total assets. Due to the covenant provisions, we must provide collateral to all participating financial institutions.</p>
<p>What were your discussions with the Financial Services Agency and the Ministry of Land, Infrastructure, Transport and Tourism?</p>	<p>We reported to the authorities on the issue (suspension of acquiring Pacific Royal Court Minato Mirai Urban Tower)</p>
<p>Was there a possibility of reducing the cancellation penalty of 2.4 billion yen?</p>	<p>The SPC (the seller of the property) had multiple related parties including third parties, and we were unfortunately not able to reach agreement with all of them.</p>
<p>I read an article in the Fudosan Keizai Tsushin (Real Estate Economy News)</p>	<p>Due to the covenant provisions we are not able to comment on the level of LTV.</p>

<p>that implied that New City Residence recognized LTV differently than financial institutions. In the case of NRI, how do financial institutions recognize its LTV?</p>	
<p>What is the situation concerning PHI's search for a new sponsor?</p>	<p>We are not in a position to comment on the situation of negotiations by PHI.</p>