



**KENEDIX, INC.**

**17**th Term Interim Business Report

January 1, 2011 — June 30, 2011

# Message from the Management

We are pleased to present our business report for the first half of the 17th fiscal term (from January 1, 2011 to June 30, 2011).

During the first half, the Great East Japan Earthquake struck, resulting in the worst disaster in recent Japanese history.

川島敦

Atsushi Kawashima  
President

堀内 良祐

Ryosuke Homma  
Chairman



In the aftermath of the crisis, concerns of an economic slow-down added to credit uncertainty in the Euro area, prompting volatility in global financial markets. An August ratings downgrade on U.S. treasuries exacerbated this situation.

Despite this adversity in its operating environment, the Kenedix Group continued working to improve its revenue and income—efforts that resulted in first-half net income of ¥0.6 billion. This profitability was not compromised by the Great East Japan Earthquake, as the Group had only limited damage from the disaster.

Following the earthquake, however, the investment real estate market turned lackluster, and despite the Group's diligent marketing efforts, the formation of new funds slowed down for a while. At the same time, property sales operations progressed smoothly. This combination caused our assets under management (AUM) to decline slightly.

As we committed in our Medium-Term Management Plan, we believe that expansion of our customer base and achievement of AUM growth are of key importance to the Group. Accordingly, all Kenedix employees are fully committed to further grow the size of our AUM.

We remain undaunted in our determination to make steady progress as Japan's leading real estate asset manager. We ask for your continued support and understanding of our management policy.



Even though the Great East Japan Earthquake prompted a slowdown in the real estate investment market, the Group posted net income of ¥0.6 billion in the first half. Through a continued drive to boost assets under management and expand fee-based business, we are committed to perform as a Japan's leading real estate asset manager.

### First Interim Profits in Six Fiscal Terms, Despite an Extraordinary Loss Recorded as a Result of the Major Earthquake

How would you assess the impact of the Great East Japan Earthquake on the operations of Kenedix Group?

**Kawashima:** We experienced some damages to buildings and equipments owned by the Group. Most of these damages were to a commercial facility in the City of Mito, Ibaraki Prefecture, and rental multi-family properties in the City of Sendai, Miyagi Prefecture. We recorded an extraordinary loss of approximately ¥0.3 billion to account for the anticipated cost of repairing these properties.

**Homma:** The Group's assets in the disaster area account for 10% of the value of our on-balance-sheet properties and 2.3% of our assets under management (AUM). The majority of these properties were built after 1981, when the new Building Standards Law went into effect, significantly upgrading standards for earthquake-resistant construction. As these properties conform to the stricter regulatory requirements, the real impact of the earthquake on our first-half performance was limited.

**Kawashima:** More concretely, our operating revenues in the first half amounted to ¥9.7 billion (down 58.0% from the first half of the previous year) and the operating income was ¥3.5 billion (down 35.0%), and the ordinary income amounted to ¥1.5 billion (down 45.4%). First-half net income, on the other hand, turned black for the first time in last three years, posting a positive ¥0.6 billion, compared with a net loss of ¥0.5 billion in the first half of last year.

What were the major factors of the profitability?

**Kawashima:** In the first quarter, we recorded a net loss of around

¥0.1 billion an extraordinary loss of ¥0.6 billion. In addition to reserves for damages caused by the earthquake, we experienced losses on sales of investments to private funds. In the second quarter, however, we enjoyed capital gains on the sale of principal investment properties such as urban rental condominiums and gas stations, as well as profits from the collection of non-performing loans. Distributions from overseas investments also contributed to earnings. As a result, we achieved a return to profitability.

### Real Estate Investment Business Compensated for Sluggish Performance in Asset Management Business

How would you evaluate your performances by business segment?

**Kawashima:** To make our financial performances more comprehensive, we have revised our business segment classifications from this fiscal period by categorizing our operations into three segments: Asset Management (AM) Business, Real Estate Investment Business and Real Estate Leasing Business. (See page 7 for details.)

Looking at gross profit by segment, in the AM Business, the fee revenues were somewhat negatively affected by a ¥46.0 billion AUM decrease during the first half, to ¥1,051.9 billion. On the other hand, rental revenues were steady in the Real Estate Investment and the Real Estate Leasing Businesses, and capital gains on the sale of properties and profits from the collection of non-performing loans contributed to the performance in the Real Estate Investment Business. As a result, our overall financial performances were in line with our initial expectations.

# Message from the Management

**Homma:** The post-earthquake slow down in the number of real estate transactions caused the pace of new property acquisitions to be stagnant, while the property sales operations of our AUM were relatively active.

Your AUM has declined for the first time after formulating your Medium-Term Management Plan. How would you assess the cause of the decline and its potential impact on the Plan itself?

**Kawashima:** Because of the slump in real estate transaction volumes caused by the Great East Japan Earthquake, we were unable to procure new funds in the first half. Our AUM declined due to such factors, while the volume of sales of existing real estate assets to external buyers and completion of some asset management contracts exceeded new contracts. But I believe that this is a temporary situation resulting from the earthquake, and we are fully confident that we will achieve continuous AUM growth as we committed in our Medium-Term Management



Plan. We will continue to target our goal of AUM reaching ¥1,400 billion by the end of 2013.

## Building Business by Flexibly Responding to Market Trends, Procuring New Funds and Expanding AUM

How do you forecast the business environment for the second half of 2011?

**Kawashima:** We were unable to escape the negative impact of the Great East Japan Earthquake in the first half, but I believe that the real estate investment market is clearly in a recovery phase. This is demonstrated by J-REIT's public equity offerings, which have been increasing since last year. And the Bank of Japan's J-REIT purchase program is also sustaining the real estate market. Also, as overall rental rates appear to have stopped falling, I assume that the real estate fundamentals are not bad now. The economic backlash from the earthquake is gradually fading away, and Japanese and overseas client

## Medium-Term Management Plan

## Return to the Pure Asset Management Business





investors are becoming more willing to invest into Japanese real estate. At the same time, since foreign investment banks /securities companies are returning to Japanese market and Japanese financial institutions have started to seek for new business in Japanese real estate market, liquidity in the financial market is increasing and the debt financing environment is improving. In other words, we are observing greatly renewed vigor on both equity and debt sides in the current real estate market. Having said that, although the number and volume of potential investment opportunities are reasonably sufficient in the market, not many transactions are taking place because expected prices of buyers and sellers do not match and therefore prices of new properties are not being reduced.

**What will be areas of your focus in the second half?**

**Kawashima:** We will redouble our efforts to grow our AUM. To achieve the growth, we must work steadily to procure new funds and significantly increase the number and value of new contracts in the AM business. One example of these activities will likely be an office fund jointly forming with ITOCHU Corporation with whom we entered into a strategic capital and business alliance last year.

One of our good news in the first half was our new contract with Japanese pension funds, which has not taken place in last three years since 2008. We are making our efforts to broaden spectrum of domestic and foreign investors to procure new funds, and such a new contract with conservative domestic pension funds is a significantly encouraging event for us. We will continue to make strong efforts to raise capital from domestic investors.



**Working to Expand Fee-Based Business and Make Best Efforts to Secure Net Income for the Full Year**

With the strong momentum in the first half, would you think that the company will return to the profitability for the full fiscal year 2011?

**Kawashima:** We will make our best efforts to achieve the forecasted ¥2.0 billion in net income for the full year. To achieve this, as I explained, we will continue our efforts to procure new funds and expand our AUM, while aggressively pursuing all kinds of fee-based business opportunities. For example, we will proactively explore various revenue opportunities, including financial advisory, brokerage of commercial properties if such opportunities arise in front of us. As a matter of fact, we have recently successfully completed our first M&A advisory project in the first half, which is a good example of expansion of our fee based business categories. With such efforts and passion, we will attempt to grow the Group's profit. Finally, please give your messages to the shareholders.

**Kawashima:** For the past three years, we had to primarily focus, in our business planning, on resolving our financial problems on our own balance sheet. But such problems have been successfully resolved. This year, we think that it is time to improve our profitability in the income statement. We would highly appreciate your continuous support to us. We are fully committed to further improve our financial performances and grow our business platform.

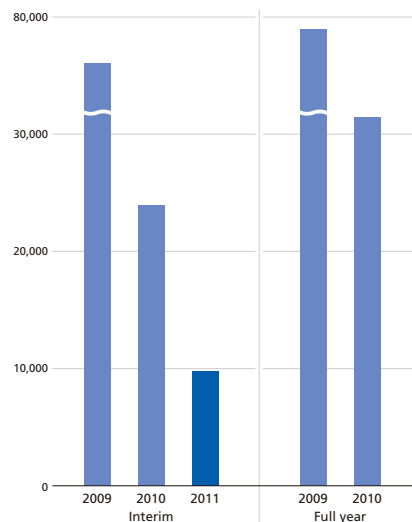
**Homma:** As Mr. Kawashima has said, our business rehabilitation phase has come to an end. This year, we will do our best to prove our survivor's advantage. We cordially request your continuous and strong support to us.



# Consolidated Financial Highlights

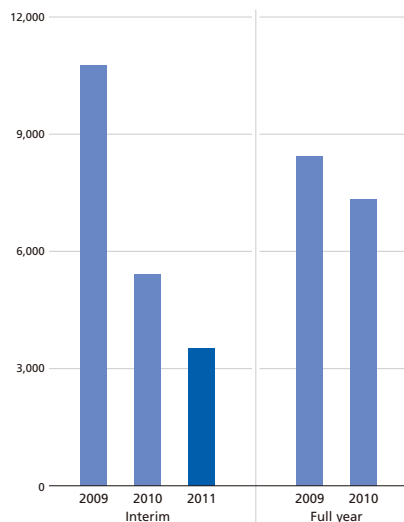
## Revenue

(Millions of yen)



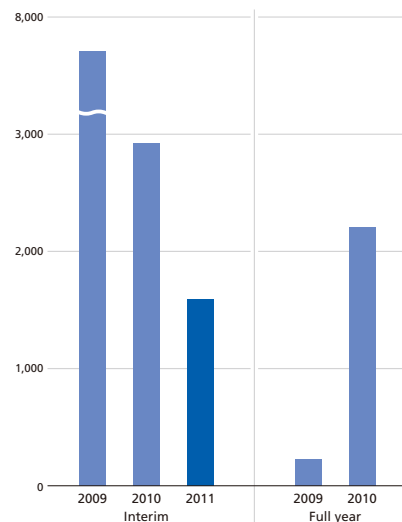
## Operating Income

(Millions of yen)



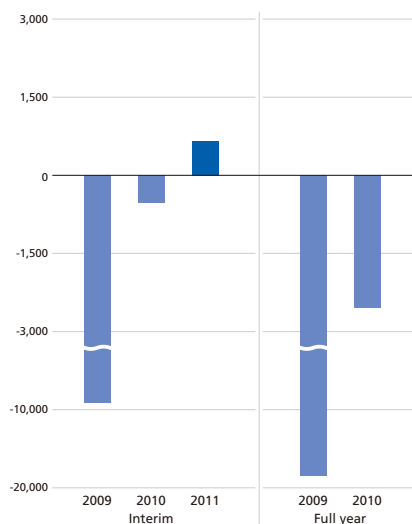
## Ordinary Income

(Millions of yen)



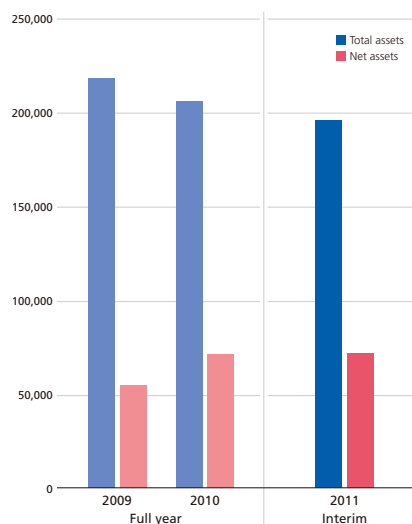
## Net Income

(Millions of yen)



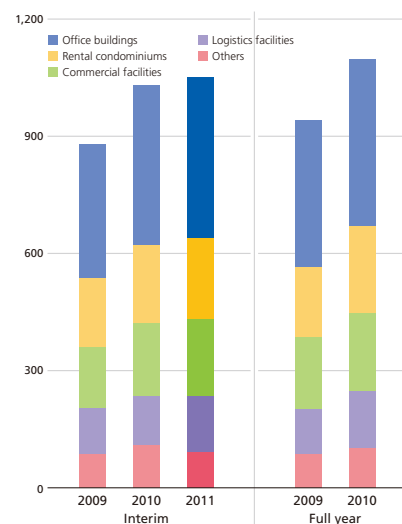
## Total Assets/Net Assets

(Millions of yen)



## Assets under Management

(Billions of yen)



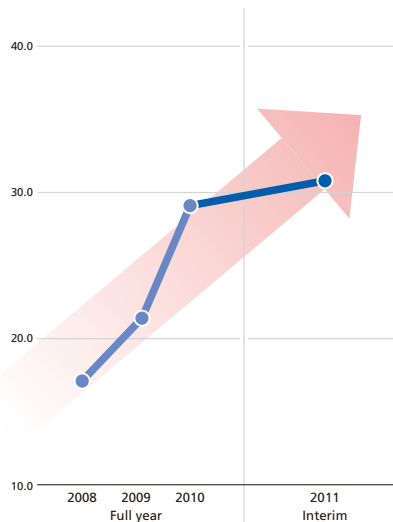
Note: The Group uses the following standards for calculating the balance of assets under management (AUM).

(1) AUM includes real estate properties for which the Group performs asset management services, but does not include development projects prior to completion.

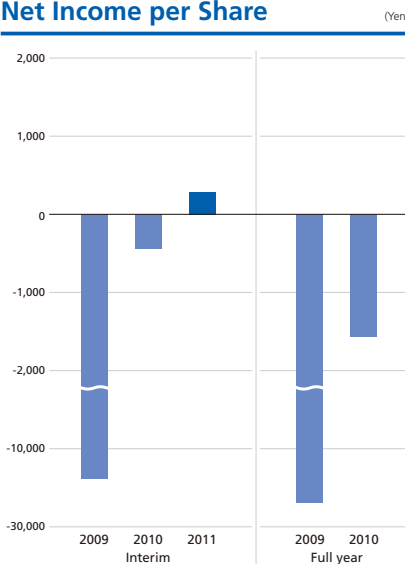
(2) AUM uses the purchase price of a property exclusive of tax. Costs associated with acquisitions, capital expenditures to raise a property's value and other related items are included in the book value of a property for accounting purposes. However, these items are not included in AUM.



## Equity Ratio (Excluding minority interests) (%)



## Net Income per Share

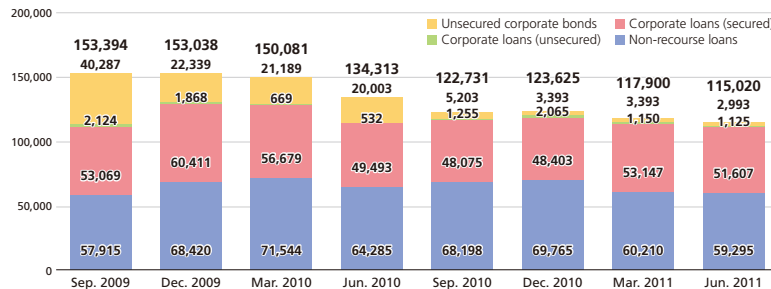


## Working toward Financial Soundness by Downsizing Our Balance Sheet and Reducing Interest-Bearing Debt

Through ongoing efforts to monetize on-balance-sheet properties, the balance of total assets has become ¥195.7 billion as of June 30, 2011 (down ¥10.4 billion compared with December 31, 2010) and the balance of interest-bearing debt has become ¥115.0 billion (down ¥8.6 billion). By downsizing the balance sheet and reducing interest-bearing debt in this manner, the Group's financial soundness have been more strengthened in the first half.

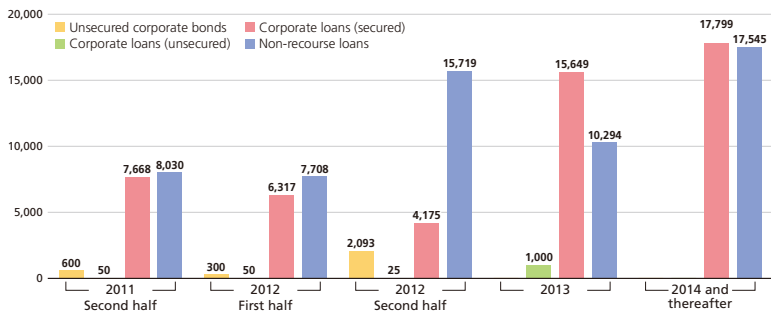
### Interest-Bearing Debt

(Millions of yen)



### Schedule for Repayment of Interest-Bearing Debt

(Millions of yen)

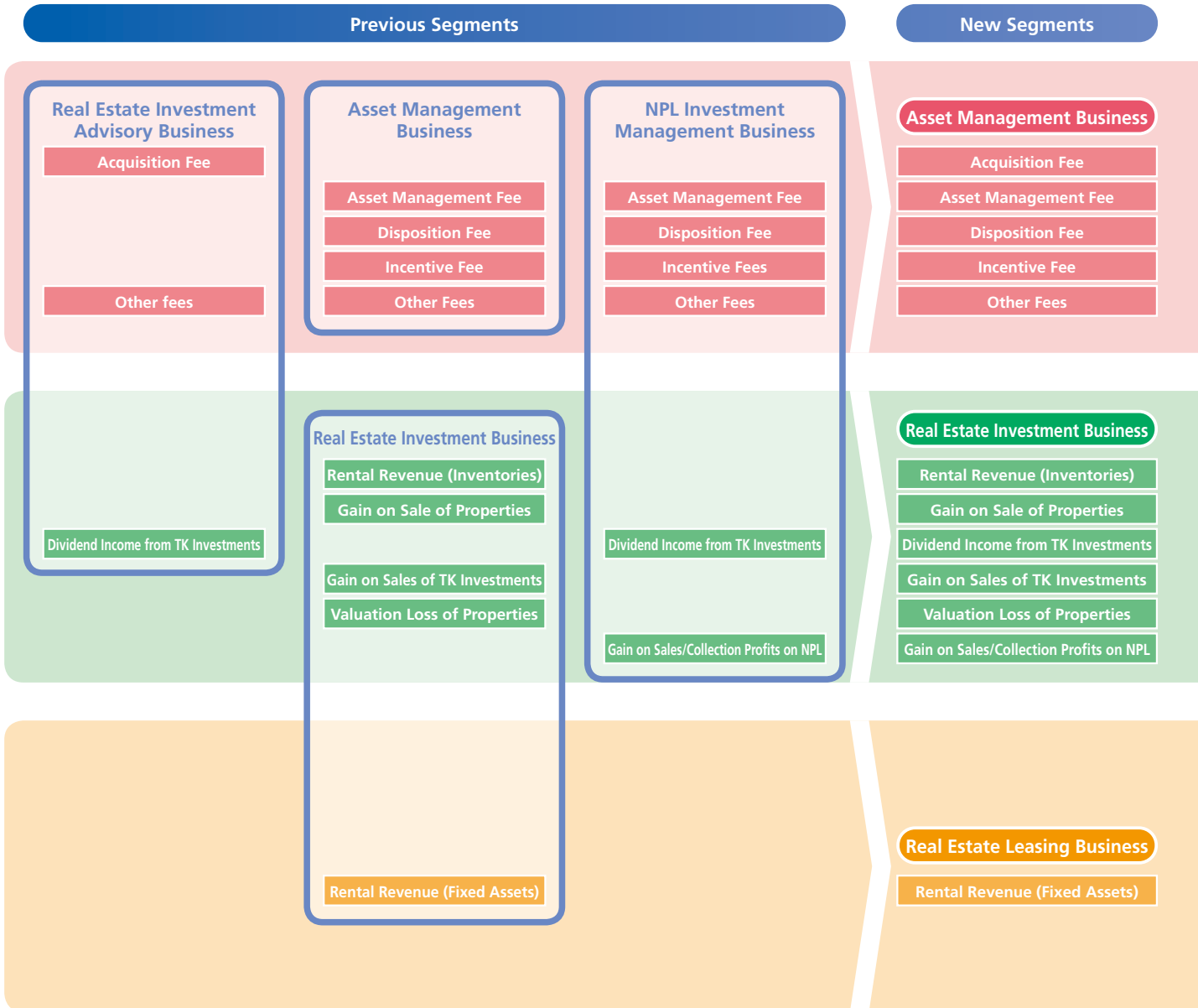


For more detailed financial information, please visit the Investor Relations section of our website.

<http://www.kenedix.com/eng/ir/>

# Segment Information

Business segments have changed, beginning with the period under review.

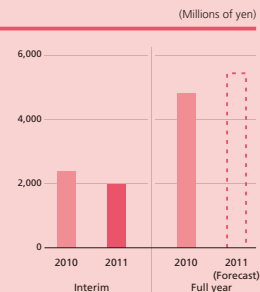




## Overview

Compared with last year, when we earned a one time performance fee from privatizing our affiliate Australian Listed Property Trust (LPT), this year's revenues and operating profit have decreased as a result of temporary decrease in our AUM, which resulted in the reduction of fee revenues which is primarily asset management fees. As a result, operating revenues amounted to ¥2,557 million and operating income amounted to ¥1,565 million.

	2010 Interim	2010 Full year	2011 Interim	2011 Full year (Forecast)
<b>Asset Management Business</b>	<b>2,393</b>	<b>4,807</b>	<b>1,982</b>	<b>5,432</b>
Acquisition Fees	122	619	38	796
Asset Management Fees	1,754	3,438	1,489	3,735
Disposition Fees	17	76	103	38
Incentive Fees	158	292	140	227
Other Fees	340	380	209	633



## Overview

TK investments distributed certain accounting losses, but this business segment recorded rental revenues from on-balance sheet inventory properties for the holding period, and revenues from bulk sales of properties. The result was operating revenues of ¥3,747 million and operating income of ¥905 million.

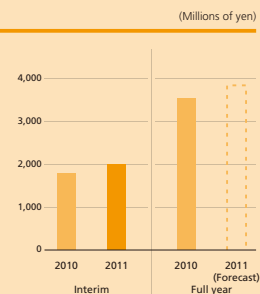
	2010 Interim	2010 Full year	2011 Interim	2011 Full year (Forecast)
<b>Real Estate Investment Business</b>	<b>3,248</b>	<b>3,060</b>	<b>1,193</b>	<b>1,623</b>
Rental Revenue (Inventories)	1,290	2,317	748	1,676
Gain on Sale of Properties	1,745	1,921	203	0
Dividend Income from TK Investments	174	(784)	(125)	(204)
Gain (Loss) on Sales of TK Investments	0	0	0	(190)
Valuation Loss of Properties	(132)	(596)	(5)	0
Gain (Loss) on Sales/Collection Profits on NPL	50	(52)	184	178
Others	120	255	187	163



## Overview

This business generated consistent rental revenues from properties owned by the Group that are classified as fixed assets for the purpose of long-term holdings. Consequently, operating revenues were ¥3,885 million, and operating income amounted to ¥1,418 million.

	2010 Interim	2010 Full year	2011 Interim	2011 Full year (Forecast)
<b>Real Estate Leasing Business</b>	<b>1,794</b>	<b>3,543</b>	<b>1,990</b>	<b>3,844</b>
Rental Revenue (Fixed Assets)	1,794	3,564	2,004	3,873
Others	0	(21)	(14)	(29)



# Market Researcher Interview

We look at the current state of the real estate investment market and attempt to understand future implications. In particular, we explore the potential impact of the Great East Japan Earthquake, the mood of Japanese and overseas investors and the stance toward investment in J-REITs.

The Great East Japan Earthquake caused massive damage, centered on the Pacific coastal area of the Tohoku region. Following is an interview with Yuki Hatano, a member of the strategic research team, about the state of the post-earthquake market and implications for the future.

## A Relatively Rapid Recovery as J-REIT's Public Offerings Rebound

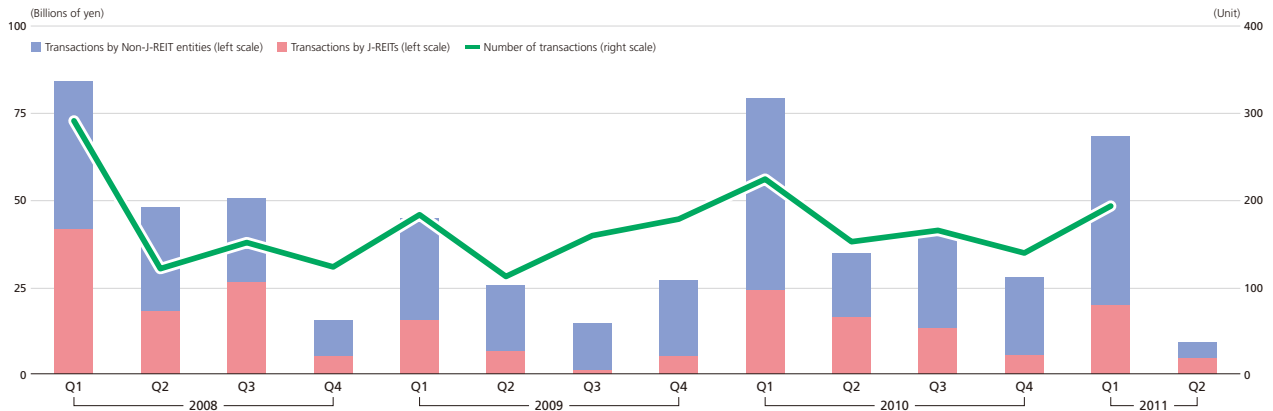
How did the Great East Japan Earthquake affect real estate market fundamentals?

**Hatano:** The real estate rental market was sluggish for a month or so after the earthquake, but things gradually began to improve soon after. The office vacancy rate worsened slightly in March, but has continued to improve since April. Demand has grown for

relocation from older buildings that meet previous earthquake resistance standards to those built since 1981, which conform to the new standards. Although there had been concerns about a supply glut of office buildings in 2011, this demand seems to be behind the higher-than-expected occupancy rates of newly constructed office buildings. Although still soft, rents seem to have largely bottomed out. New tenants are particularly sensitive to building quality and location. This demand shift is driving the leasing of high-end REIT-owned properties.

## Commercial Real Estate Transactions

Source: Prepared by Kenedix based on DTZ, Nikkei Real Estate Market Report and publicly available J-REIT documentation





## What is the status among Japanese and overseas investors, developers, financial institutions and other market participants?

**Hatano:** Overseas institutional investors were spooked by the potential impact of the nuclear accident, so there was essentially no activity for the first month or so. At the same time, some investors were aggressive under these circumstances, seeing an opportunity to acquire properties inexpensively. Moving into May, the number of investors adopting a wait-and-see attitude began to decline, and the overall investment environment seems to be moving in a positive direction. Developers appear to have re-entered the market, as they need to acquire land in order to develop it and generate profits. There are mismatches in the current market, however, between buyers' target prices and the prices that sellers are willing to accept, so that buyers who would like to make purchases are unable to do so.

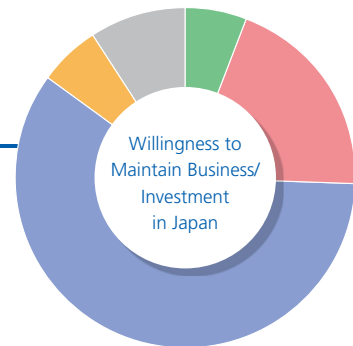
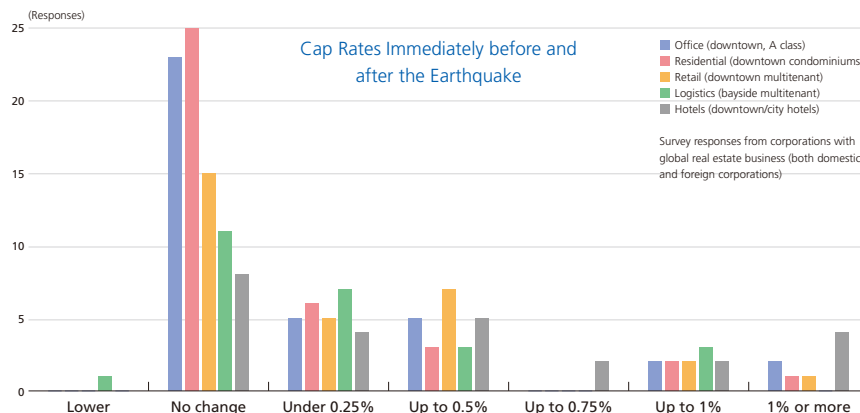
Meanwhile, except in the disaster area financial institutions and other lenders in general remain willing to fund purchases of investment properties.

## How was the impact of the earthquake to J-REITs?

**Hatano:** This year, we had expected to see a rush of public offerings in J-REITs, but some of this increase in public offering was temporarily suspended following the earthquake. The discontinuation of REIT public offerings that had already been announced caused concern about the market outlook to spread, but two months after the earthquake these offerings gradually began to resurface. Kenedix Realty Investment Corporation (J-REIT) managed by our own subsidiary announced plans to raise capital through a public offering in July. REITs have a strong predilection toward superior properties and need to raise capital for this purpose, so the trend is likely to continue. We are concerned, however, about a recent softness in the J-REIT share price. This market is affected by fluctuations in the global stock markets, which remain an area of focus.

## Investor Sentiment

Source: Nikkei Real Estate Market Report



Willingness to Maintain Business/Investment in Japan	Percentage
Considering entry	6%
Planning to expand	20%
Continue with current scale	60%
Considering exit	6%
Not certain	9%

Survey responses from corporations with global real estate business (both domestic and foreign corporations)  
Source: Nikkei Real Estate Market Report

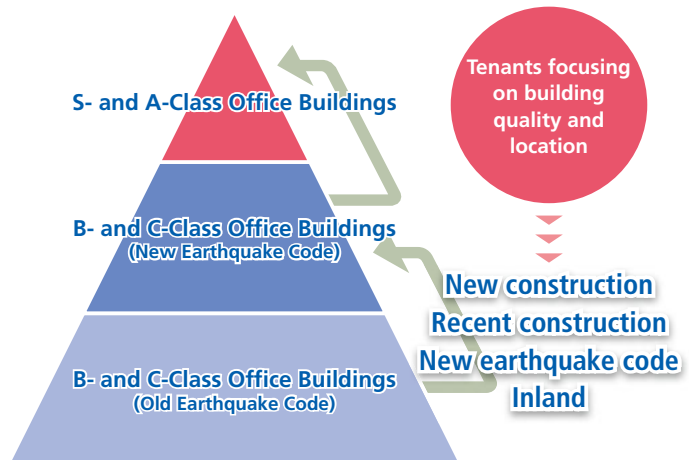
# Management Discussion

## Buying and Selling Price Perceptions the Key to Market Movements

Now that nearly half a year has passed since the earthquake, and its risk has been factored in to some extent, what changes do you foresee for the real estate market?

**Hatano:** In my opinion, we should focus more on the global markets than on the impact of the earthquake. Last year, overseas real estate investment markets were characterized by numerous commercial real estate transactions, but recently the pace has slowed somewhat. It is difficult to predict the general flow of global investment funds. Turning our eyes to the Japanese market, though, as I mentioned earlier the real estate fundamentals are not bad; changing tenant demand is affecting office vacancy

## Post-Earthquake Office Leasing Market



## Recent Trends

	April	June
<b>Overseas Investors</b>	<ul style="list-style-type: none"> <li>● General wait-and-see attitude until nuclear power plant situation stabilizes</li> <li>● Certain investors aggressively seeking opportunistic transactions</li> <li>● Anticipated increase in investor activity after nuclear situation stabilizes, with additional support from the weakening yen</li> </ul>	<ul style="list-style-type: none"> <li>● Calmness restored in seeking investment opportunities, having overcome initial over-reaction</li> <li>● Seeking the right moment to shift weight on Japanese real estate, alarmed by the risk of credit tightening in Asia</li> <li>● Few owners are pressed to sell assets, and as a result, the amount of deal flows remains slim since the earthquake</li> </ul>
<b>Domestic Institutional Investors</b>	<ul style="list-style-type: none"> <li>● Sudden drop in interest towards real estate investment from pension funds, which had been rising since the second half of 2010</li> <li>● Closely watching the activities of other investors; they may make a quick comeback when they return to the market</li> </ul>	<ul style="list-style-type: none"> <li>● Seeking new investment opportunities due to lackluster performance in core fixed income investments, and gradually returning to the real estate market</li> <li>● Certain financial institutions have begun considering specific real estate equity investments</li> </ul>
<b>J-REITs</b>	<ul style="list-style-type: none"> <li>● Fathoming trends in the financial markets and seeking the right timing to reconvene equity financing</li> <li>● High likelihood of more aggressive asset acquisition activities in association with the recommencement of financing</li> <li>● Access to debt capital remains open; some asset acquisition activities have been partially ongoing post the earthquake</li> </ul>	<ul style="list-style-type: none"> <li>● Aggressively seeking investment opportunities, given the solid debt financing environment and the re-opening of equity financing markets in May</li> <li>● Strong performance continues for residential J-REITs</li> <li>● J-REIT prices are supported by the BoJ's policy to continue purchasing REITs in the market through the end of 2011</li> </ul>
<b>Developers</b>	<ul style="list-style-type: none"> <li>● Slowing acquisitions due to an expected rise in construction costs</li> <li>● Aware of the risk of potentially protracted development periods due to the strain in construction resources in Tokyo, caused by higher demands in affected areas</li> </ul>	<ul style="list-style-type: none"> <li>● Recommended acquisitions of land, as the spike in development costs turned out to be milder than expected</li> <li>● Becoming cautious on the development of waterfront properties and high-rise rental condos</li> </ul>



rates and rents. Some aggressive players in the real estate investment market, including lenders and developers, continue to increase their J-REIT's public offerings. At the same time, high prices in China, Singapore and other Asian real estate markets are resulting in low yields. This situation has caused some investors to return to the Japanese market. Whether properties are available to meet the needs of Japanese and overseas investors, and whether this will further encourage major global investment funds are key questions, the answers to which will shape the real estate investment market of the future.

### What advice would you leave with shareholders regarding fluctuations in the real estate investment market?

**Hatano:** The easiest way to catch up the real estate investment markets is to closely monitor the J-REIT markets, as they have high disclosure standards. As J-REITs are currently playing a key role in the real estate investment market, you can open up the newspaper any day and track REIT investment trends by checking the Tokyo Stock Exchange REIT Index.

## Executive Summary

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- 1 We have not observed any material changes of stance of investors and lenders toward real estate before and after the Great East Japan Earthquake. They are generally retaining aggressive positions with affluent liquidity.
- 2 REITs have become the major players in the real estate investment market as they have reconvened fund procurement activities.
- 3 At the same time, there remains a gap in price expectations between buyers and sellers, both with ample volume of capital. As a result, the growth in the volume of real estate transactions appears stagnant.
- 4 The office building market is demonstrating signs of bottom out. Additionally, we observe a shift in tenants' needs due to the earthquake disaster, which is creating favorable market conditions for newer buildings.
- 5 As a result of the U.S. treasuries downgrade on August 5, the uncertainty of global financial market is rising. In this environment, Kenedix will take sensible measures to maximize our performance.

# Corporate Profile

(As of June 30, 2011)



## Company Information

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<b>Company name</b>	Kenedix, Inc.
<b>Founded</b>	April 17, 1995
<b>Address</b>	Head office at 2-2-9, Shimbashi, Minato-ku, Tokyo, 105-0004
<b>Capital</b>	¥31,322,068,805
<b>Number of employees</b>	53 (166 on a consolidated basis)
<b>Major financial institutions</b>	Sumitomo-Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd. Resona Bank, Ltd. The Chuo Mitsui Trust and Banking Co., Ltd. Aozora Bank, Ltd.

## Kenedix Group

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Kenedix Advisors Co., Ltd.  
Kenedix REIT Management, Inc.  
Kenedix Asset Management, Inc.  
Mitsui & Co. Logistic Partners Ltd.  
Kenedix Development Corporation  
Pacific Servicing & Asset Management Co., Ltd.  
Asset One Co., Ltd.  
CRES CO., LTD.  
Kenedix Westwood, LLC  
KW Multi-Family Management Group, LLC  
MAX-REALTY Inc.

## Officers

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<b>Chairman</b>	Ryosuke Homma
<b>President</b>	Atsushi Kawashima
<b>Director</b>	Taiji Yoshikawa
<b>Director</b>	Akira Tanaka
<b>Director</b>	Noboru Kashiwagi
<b>Director</b>	Takashi Uematsu
<b>Corporate Auditor</b>	Harutaka Hamaguchi
<b>Corporate Auditor</b>	Ninji Hayashi
<b>Corporate Auditor</b>	Shintaro Kanno
<b>Corporate Auditor</b>	Haruo Funabashi
<b>Corporate Auditor</b>	Tamon Ohmura
<b>Executive Officer</b>	Kenichi Yamasaki
<b>Executive Officer</b>	Soushi Ikeda



# Shareholder Information

(As of June 30, 2011)



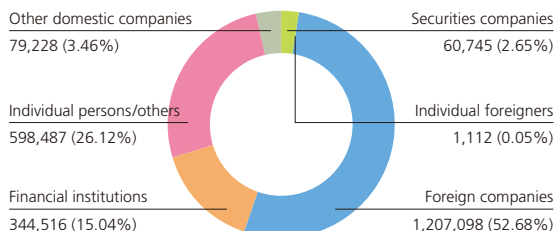
## Number of Shares Issued and Shareholders

Total number of authorized shares	2,400,000
Number of total shares outstanding	2,291,186
Number of shareholders	25,194

## Major Shareholders (Top 10)

Name of Shareholder	Shares held	Shareholding (%)
Goldman, Sachs & Co. Regular Account	225,596	9.84
UBS Securities LLC-HFS Customer Segregated Account	178,335	7.78
Morgan Stanley & Co. LLC	82,734	3.61
State Street Bank & Trust Company	82,279	3.59
Japan Trustee Services Bank, Ltd. (trust account)	69,192	3.01
The Master Trust Bank of Japan, Ltd. (trust account)	65,585	2.86
ITOCHU Corporation	60,000	2.61
Japan Securities Finance Co., Ltd.	58,049	2.53
CBNY S/A Fidelity Dividend Growth Fund	45,234	1.97
Mellon Bank Treaty Client Omnibus	44,343	1.93

## Distribution of Shares in Terms of Category of Holder



Note: The category "Individual persons/others" includes shares in the name of Japan Securities Depository Center.

## Memorandum for Shareholders

<b>Business year</b>	January 1 to December 31
<b>Ordinary General Meeting of Shareholders</b>	To be held in March every year
<b>Record date</b>	December 31 every year (When otherwise required, a date to be determined and announced in advance)

## Share handling locations

<b>Transfer agent</b>	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo
<b>Mailing address</b>	The Chuo Mitsui Trust and Banking Co., Ltd. Stock Transfer Agency Division 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063
<b>Telephone inquiries</b>	0120-78-2031 (Toll free in Japan) Transfer agent services are provided at all nationwide branches of The Chuo Mitsui Trust and Banking Co., Ltd., and the head office and all nationwide branches of Japan Securities Agents, Ltd.

**Public announcements** Notices will be posted in electronic format on our Internet web page (<http://www.kenedix.com>). However, notices will be published in the *Nihon Keizai Shimbun* when it is impossible to make electronic notification for unavoidable reasons.

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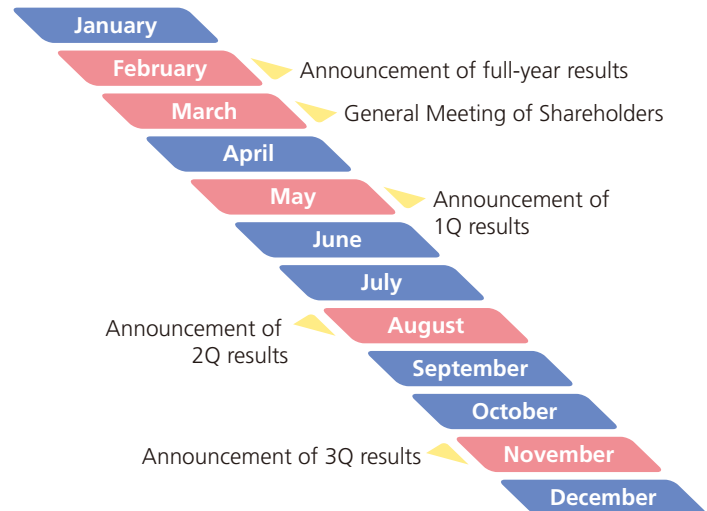
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