

**13th Fiscal Period**

May 1, 2011 – October 31, 2011

**Semiannual Report**



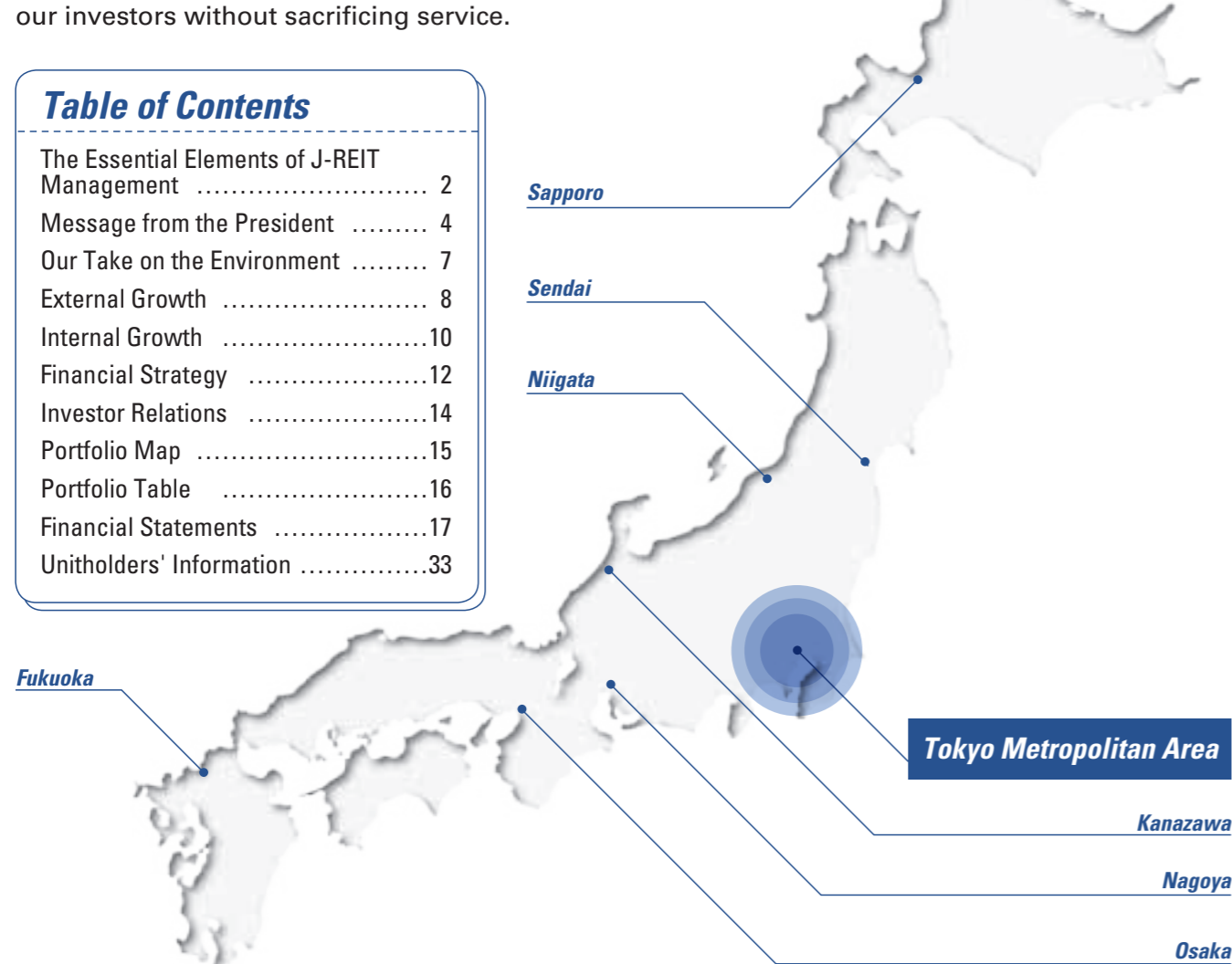
*Delivering the Whole Package*

# The KENEDIX-REIT Investment and Management Strategy

Kenedix Realty Investment Corporation (KENEDIX-REIT) and its asset management company Kenedix REIT Management, Inc. are committed to prudent investment primarily in mid-sized Tokyo office buildings so that KENEDIX-REIT can fully utilize Kenedix REIT Management's **expertise** in real estate asset management of mid-sized office buildings, ensure **maximum efficiency** of funds and asset, property and leasing management resources; and deliver **consistently strong returns** to our investors without sacrificing service.

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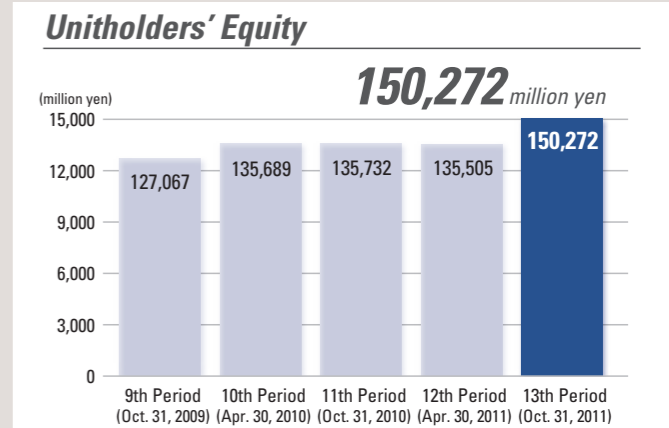
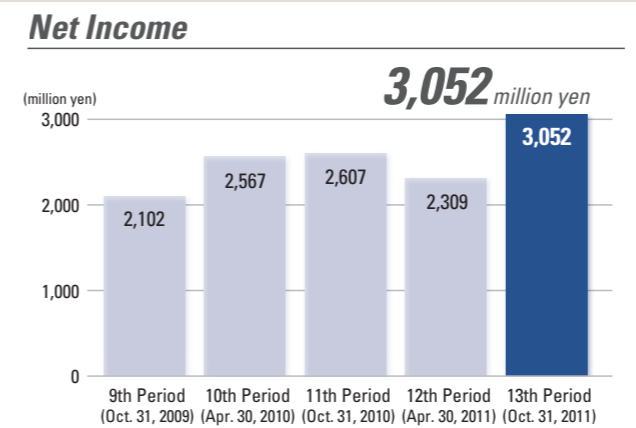
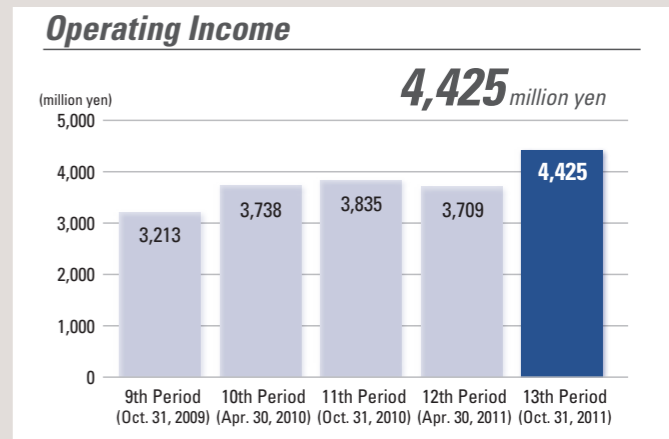
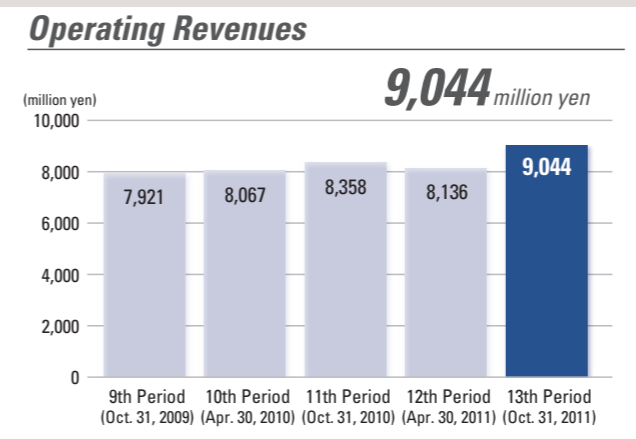


General Manager,  
 Investment Management Division  
**Koju Komatsu**

CEO and President  
**Taisuke Miyajima**

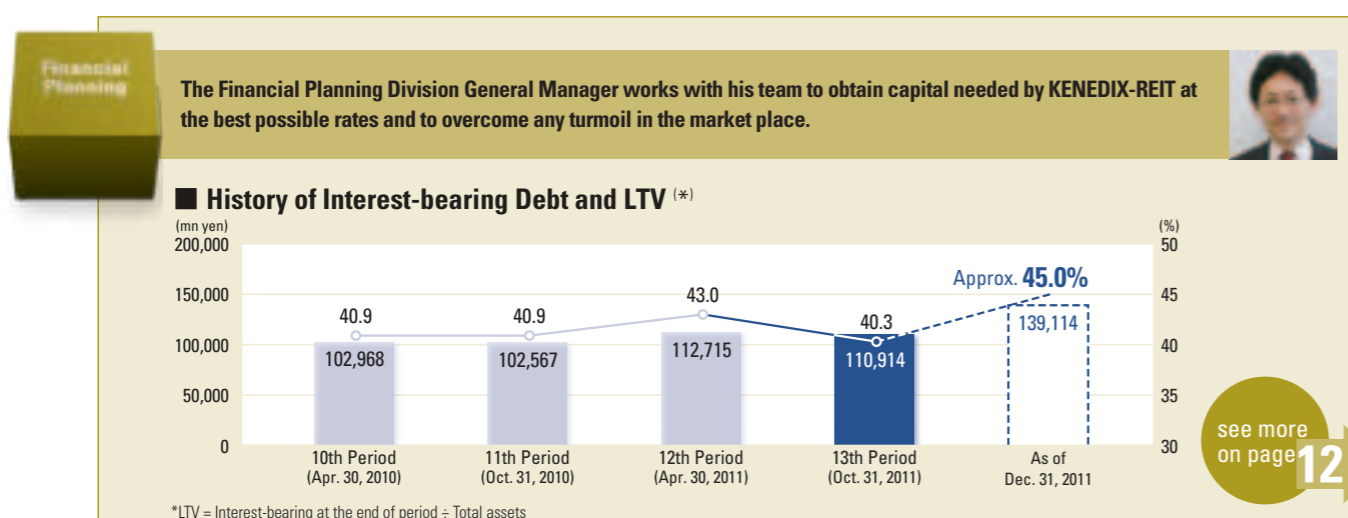
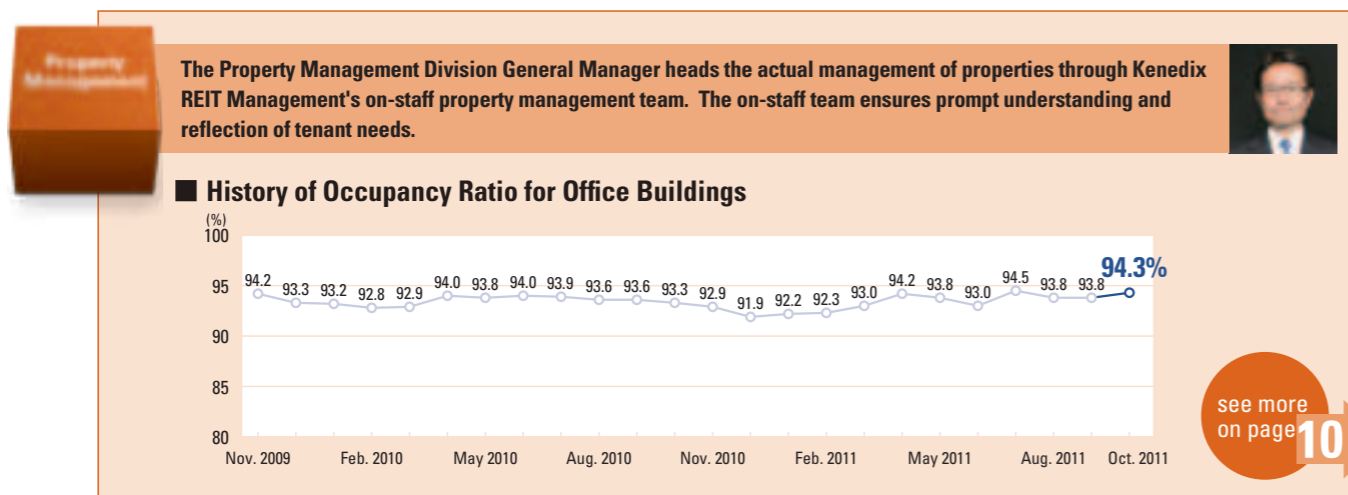
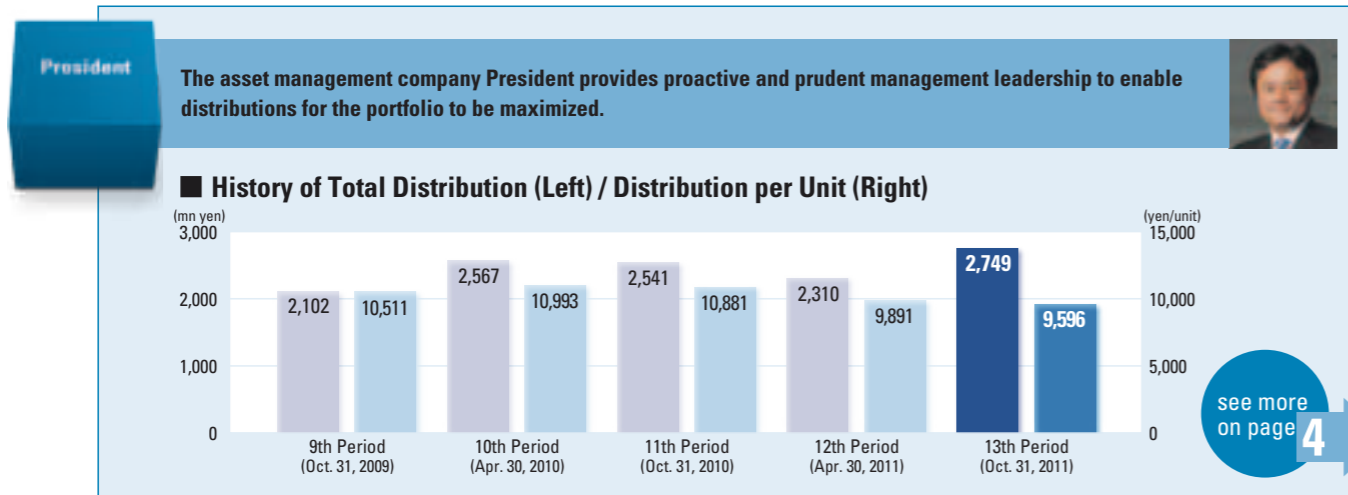
Director and General Manager,  
 Property Management Division  
**Masashi Ohwa**

Director and General Manager,  
 Financial Planning Division  
**Masahiko Tajima**



# The Essential Elements of J-REIT Management

The externally managed J-REIT is designed to be a human-less, transparent vehicle providing dividends to its investors. Although the transparency is clearly top of the class among vehicles listed on the Tokyo Stock Exchange, nothing could be further from the truth when it comes to being "human-less." Though outside the walls of the J-REIT vehicle, a J-REIT is entirely dependent on its asset management company and the services the said company provides for its performance. A J-REIT can only deliver optimal dividends consistently if its asset management company, Kenedix REIT Management in this case, delivers the whole package – from leadership to individual services. Kenedix REIT Management's delivery of the whole package enabled KENEDIX-REIT to post the following "2 years of results" after the financial crisis.





## Investment Strategy – Not a Point but a Line

KENEDIX-REIT had a busy 13th Fiscal Period (ended October 31, 2011) with a public offering and the issuance of an investment corporation bond. These diverse fund procurement initiatives eloquently reflect CEO & President Taisuke Miyajima's belief that investment isn't a point but a line. The following interview is a part of a broad discussion held on a November afternoon in Tokyo.

**Q:** In your discussions with investors and analysts you can often be heard speaking about investment being a line rather than a point. Can you illustrate your position as it pertains to this fiscal period in particular?

**Miyajima:** It is true that some existing investors questioned our timing for the public offering because it led to a small drop in our cash distribution per unit and was done at a value below our net asset value (NAV). It is vital to note, however, that we are operating KENEDIX-REIT from a medium to long-term perspective and not a short-term perspective. As such, we were convinced that this was the appropriate time and opportunity for equity financing because: 1) Real estate have adjusted in the medium to long-term, 2) Necessity to lower our leverage to enable future acquisitions in line with our investment strategy which calls for the best properties, best prices and best timing, and 3) Our recovery from the post-Lehman credit crunch.

This equity financing allowed us to lower fund procurement costs, eliminate collateral and generate other positive effects. Yes, the public offering traded below our NAV, but through the acquisitions and lower fund procurement costs we are taking steps to lower costs and overcome this negative.

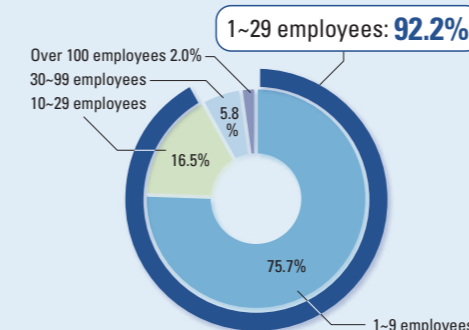
It must also be noted that legal changes enabled more than half of the offering to be marketed overseas and, in fact, we allocated a strong 58% of the offering to overseas investors. Further, if the question becomes have we been successful – the simple truth is that our fund procurement costs soared in the wake of the Lehman crises, but following the equity financing we were able to issue an investment corporation bond at a reasonable spread. Coming down from **130bps spread to around 100bps** is an enormous improvement on the near future bottom line, which was in part made possible by the public offering.

July 2011 Public Offering			
Issuance of new investment units through public offering	50,400 units	Payment date	July 20, 2011
Secondary offering	1,000 units	Discount rate	3.0%
Third-party allotment	1,600 units	Selling price	¥274,510
Outstanding units after offering	286,550 units	Offering size	¥14.1 bn
Pricing date	July 12, 2011	Bookrunners	Nomura Securities Co., Ltd. UBS Securities Japan Ltd., etc.

**Q:** Why are you so confident about your investment strategy?

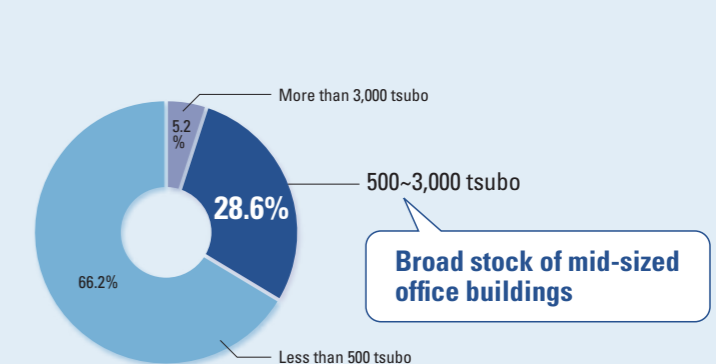
**Miyajima:** I am confident because I believe the numbers back it up. First, 92.2% of offices in Tokyo have 29 or fewer workers and 94.9% less than 3,000 tsubos. First, this means that the numbers overwhelmingly back us up. Put differently, there is always demand for a Lexus, but its price and other aspects mean that there is always greater demand for a Corolla. Second, we are in the process of building a brand with a portfolio of 70 properties. We cannot compete for tenants that seek 200-300 tsubo floor plates, but for the overwhelming share of tenants we provide good properties with excellent, identifiable services. We are on the verge of becoming the office brand of choice for SMEs and enjoy an occupancy of around 95% for Tokyo, about 5% above market because we are focused on improving quality of services for an office building size where this is not commonly provided. Finally, because of the size of our tenants, we have a diverse group of over 700 tenants of which about a tenth relocate each year. Thus, we proactively conclude contracts with 70-80 new tenants a year. This means that we can maintain strong relationships with leasing agents due to the large scope of business we provide. To put it simply, I am confident because of an overwhelming quantity of market demand and our strong identity and service for emerging mid-sized office buildings.

■ Breakdown of Offices by Number of Employees (Tokyo)



Source: Kenedix REIT Management, based on Tokyo office statistics report as of 2009 (MPHPT Statistics Bureau)

■ Breakdown of Office Buildings by GFA (tsubo)



Note: The above data covers rental office buildings located in Tokyo's central 5 wards that were surveyed by CB Richard Ellis Research Institute. The above data may not include the data of all properties in the said 5 wards. Source: Survey conducted by CB Richard Ellis Research Institute based on KENEDIX-REIT's request "Macro market survey of Tokyo's 5 wards" (as of May 2011)

**Q:** You refinanced a number of loans this fiscal period. What were the highlights or accomplishments of the fund procurement activities?

**Miyajima:** We had a number of refinancing events this 13th Fiscal Period (ended October 31, 2011). You must understand that we have already borrowed 100 billion yen. One of our goals for the equity financing was to reduce our present average spread of 130bps to below 100bps over two to three years. This represents a huge reduction of costs when you consider the fact that we already borrowed 100 billion yen. Lowering costs also required diversified sources of fund procurement. The equity financing helped us release collateral and made it possible to issue 1.5 billion yen in an investment corporation bond. It also means that we were able to secure new participation of Mizuho Trust & Banking in our bank formation. Our focus is presently on maintaining a sound financial base to lower costs and on the refinancing of 90 billion yen in corporate bonds maturing next fiscal period, which we can accomplish with the many financial tools we have at our disposal.

**Q:** Is your philosophy to develop strong tenant relations and to build solid building identities proving successful?

**Miyajima:** Our customer satisfaction survey conducted with global marketing information company J.D. Power Asia Pacific, our new participation in the Global Real Estate Sustainability Benchmark (GRESB) survey, the branding of our KDX office buildings, tie-ups with leasing brokers, property value-up strategies, and more than anything our quality properties have generated more than adequate results to date. This is backed up by the fact that our vacancy in Tokyo is around 5%, while the market is at 8-9% vacancy. We have not yet attained our ultimate goal, but we are approaching it. One day, maybe when we have around 100 properties, it will be good to have a system in place to provide incentives for tenants moving from one KDX property to another, and tenants moving to KDX properties from local areas. However, we need to broaden our supply further before this can be established.

**Q:** Why are you so proactive concerning investor relations? What tools are you prone to use?

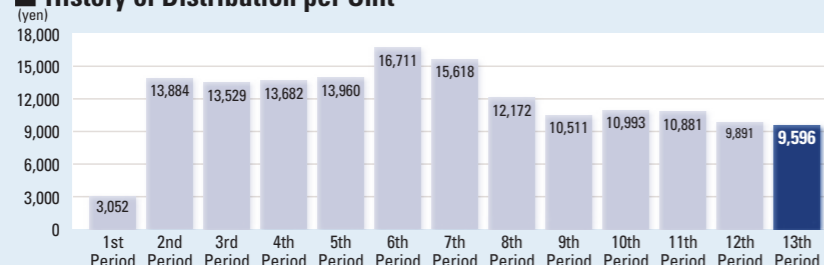
**Miyajima:** First in reference to the tools, we use Japanese and English semi-annual reports, the website, real world seminars, web seminars, road shows, etc. It is essential for us to meet with present and potential investors.

As to why we are proactive, there are two dominant reasons. First, the strength and advantage of a REIT lies with the equity liquidity, simplicity and transparency of the product and IR is the most essential means for maintaining this transparency. Second, and this is my personal reason, is that the discussion of strategy with investors and their ensuing questions helps me to polish our strategy further and to learn what the market thinks about us and the market as a whole. The vehicle for this is obviously IR. This "fine-tuning" of thought is great. Of course, banks and leasing agents are also a good source of information but doing so with investors provides a completely different perspective and is absolutely essential as it requires you to fine tune the message.

**Q:** What is the pledge you make to investors in paying cash distributions?

**Miyajima:** Ultimately, one of the most important tasks of a REIT manager is to pay stable cash distributions. Unfortunately, at various short-term periods in the management of a REIT there will be times like now when rents drop or leverage must be lowered to enable further growth. As professionals, we must do our best to overcome these with as little damage to the

History of Distribution per Unit



bottom line and cash distributions as possible. What this means is our responsibility is to **maximize total performance over the medium to long-term, but entails a certain degree of flexibility to overcome short-term issues.**

**Q:** Corporate Japan is once again in the news for governance issues with the cases of a lens maker and paper and pulp manufacturer particularly filling up the pages of newspapers. Why is this so "foreign" to a REIT?

**Miyajima:** It comes back to the simplicity and transparency I discussed earlier. These are definite and clear merits. The type of scandal being reported in corporate Japan today is impossible for a REIT. Our governance is quite tight with outside management, a compliance committee, outside lawyers and even a board on the REIT which all serve to prevent these types of scandals from occurring. On top of this, our bookkeeping and accounting is handled by a trust bank. **Our simplicity, transparency and clear safety measures protect investors and us from scandals.**

**Q:** Post-earthquake, environmental response and energy conservation have become greater parts of our lives. How does KENEDIX-REIT perceive these issues?

**Miyajima:** Obviously, energy conservation and environmental response have been growing issues from even before the earthquake. However, after the earthquake, the government asked us to reduce peak-time electricity consumption by 15%, I am proud to say we actually attained a reduction of about 30%. This was achieved through good tenant relations, good portfolio management and our active management approach. The issue now is how to achieve a low carbon society without giving up comfort and without burden being placed on tenants. I must also strongly iterate that the key to this issue is not the Class S and Class A office buildings, it is the mid-sized office buildings due to their overwhelming quantity. Unless it is realized in mid-sized office buildings, nothing will be accomplished.



**Taisuke Miyajima**  
CEO and President  
Kenedix REIT Management, Inc.

**"First, the strength and advantage of a REIT lies with the equity liquidity, simplicity and transparency of the product and IR is the most essential means for maintaining this transparency."**

## Our Take on the Environment

### Environmental Policy, Measures and Achievements

KENEDIX-REIT recently announced a simple environmental policy to represent our foundation as we confront environmental issues.

### Environmental Policy

The officers and employees of KENEDIX-REIT will undertake investment management operations in accordance with the following environmental policies.

- 1 Compliance with Environmental Laws and Regulations**  
KENEDIX-REIT will promote environment-friendly investment management operations by adhering to environmental laws and regulations.
- 2 Promotion of Energy Conservation Measures**  
KENEDIX-REIT will systematically advance energy conservation measures at its managed properties, maintaining a strong awareness of the importance of natural and energy resources.
- 3 Reduction of Environmental Burden**  
KENEDIX-REIT will undertake initiatives to reduce CO<sub>2</sub> and waste emissions as well as promote recycling at its managed properties, underscoring its commitment to alleviating its environmental burden. In addition, KENEDIX-REIT will take sufficient care when handling harmful substances and environmental pollutants.
- 4 Disclosure of Environmental Information**  
KENEDIX-REIT will work to disclose necessary information to a variety of concerned parties, including investors, tenants and business partners, in such areas as its environmental policies and measures.
- 5 Environmental Education**  
KENEDIX-REIT will take steps to improve the environmental consciousness of its officers and employees through internal education.

### Global Real Estate Sustainability Benchmark (GRESB)

KENEDIX-REIT's new participation in the GRESB survey is discussed separately; however, here we would like to outline the scale of this movement so that you the investor can understand its significance. The following is taken from the 2011 GRESB survey.

Key Figures 2011 GRESB Survey		GRESB Survey Respondents by Region	
Institutional Capital	\$1.7 trillion	North America	60
Survey respondents	340	South America	4
Properties covered	21,000	Europe	194
Total Property Value	\$928 billion	Asia	49
Green Stars	65	Australia	33
Reported Energy Costs	\$1 billion		
Estimated Tons of CO <sub>2</sub> Emitted	34 million		
Reduction of CO <sub>2</sub> Emissions in 2010	1.8%		

### New Environment System Based Loan Issued New Development: 14th Fiscal Period

On January 10, 2012, KENEDIX-REIT announced that it had become the first J-REIT to take out a loan with Sumitomo Mitsui Banking Corporation that took advantage of the SMBC Environmentally Friendly Building Assessment System. This system was established by the bank and by CSR Design & Landscape Co., Ltd. The financial product recognizes buildings owned by companies for their environmental performance, risk management, and policies and implementation of management to achieve environmental friendliness. In the case of the Series 67 loan issued by the bank (2.5 billion yen), KDX Nagoya Sakae Building was recognized as a Silver building and the KDX Harumi Building as a Bronze building.

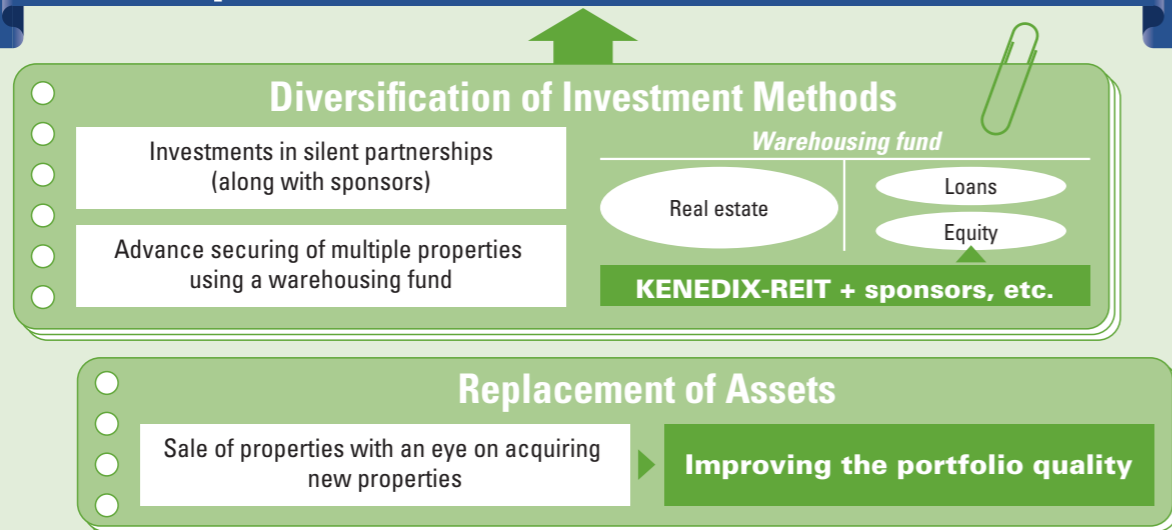
## Choosing the Best Property, the Best Price and the Best Timing

KENEDIX-REIT is committed to expanding and molding its portfolio of primarily mid-sized office buildings based on a dynamic and flexible approach that considers market trends and other factors. KENEDIX-REIT bases its investments on property type, location and size and will continue its dedication to **prudent growth at the right timing** as it constructs portfolios that can **withstand and perform within different economic cycles**. Our strength is fast decision-making and a strong track record that makes KENEDIX-REIT, a chosen destination for new and existing property sources.

### Step-by-Step: Prudent Steps Towards a Portfolio of 100 Properties and 400 Billion Yen

KENEDIX-REIT is presently targeting to build a 400 billion yen portfolio of office buildings that will solidify the brand among office users and investors both institutional and retail.

## Steps Toward a 400 Billion Yen Portfolio



## Molding the Portfolio to Achieve Optimal Growth

The 13th Fiscal Period (ended October 31, 2011) proved to be a case study of our newly evolved growth strategy. During this period we sold the KDX Hirakawacho Building in June for a capital gain and lessened the need for capital from the newly issued units in the acquisition of four properties we believe were ideally priced and available at the **best timing for us to strengthen our portfolio and lower our leverage towards future growth**. The four properties we acquired this time were the KDX Iidabashi Building, KDX Higashi-Shinagawa Building, KDX Hakozaki Building and KDX Shin-Nihonbashi Building. All of these buildings were renamed on October 31.



**A-71 KDX Iidabashi Building**  
Location: Shinjuku-ku, Tokyo  
Gross Floor Area: 5,422.64 m<sup>2</sup>  
Acquisition Price: 4,670 million yen  
Acquisition Date: July 22, 2011



**A-72 KDX Higashi-Shinagawa Building**  
Location: Shinagawa-ku, Tokyo  
Gross Floor Area: 10,138.65 m<sup>2</sup>  
Acquisition Price: 4,590 million yen  
Acquisition Date: July 22, 2011



**A-73 KDX Hakozaki Building**  
Location: Chuo-ku, Tokyo  
Gross Floor Area: 6,332.48 m<sup>2</sup>  
Acquisition Price: 2,710 million yen  
Acquisition Date: July 22, 2011



**A-74 KDX Shin-Nihonbashi Building**  
Location: Chuo-ku, Tokyo  
Gross Floor Area: 3,712.25 m<sup>2</sup>  
Acquisition Price: 2,300 million yen  
Acquisition Date: July 22, 2011

## Continued Building Blocks to a Vibrant, Optimal Portfolio New Development: 14th Fiscal Period

KENEDIX-REIT acquired eight properties on December 26, 2011. The properties were acquired from AIG Edison Life Insurance Company for a total of 28,550 million yen using debt financing. With this transaction, the total portfolio of KENEDIX-REIT grew to 82 properties with an acquisition price of 284.0 billion yen.



**A-75 Kabutocho Nikko Building**  
Location: Chuo-ku, Tokyo  
Gross Floor Area: 11,705.49 m<sup>2</sup>  
Acquisition Price: 11,270 million yen  
Acquisition Date: Dec. 26, 2011



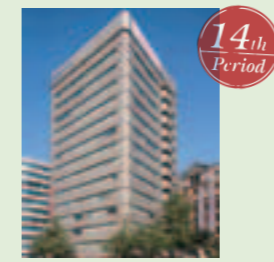
**A-76 Ikebukuro Nikko Building**  
Location: Toshima-ku, Tokyo  
Gross Floor Area: 3,223.75 m<sup>2</sup>  
Acquisition Price: 1,653 million yen  
Acquisition Date: Dec. 26, 2011



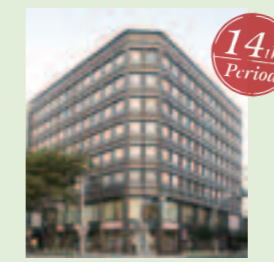
**A-77 Kabutocho Nikko Building II**  
Location: Chuo-ku, Tokyo  
Gross Floor Area: 2,016.03 m<sup>2</sup>  
Acquisition Price: 1,280 million yen  
Acquisition Date: Dec. 26, 2011



**A-78 Tachikawa Ekimae Building**  
Location: Tachikawa-shi, Tokyo  
Gross Floor Area: 2,896.48 m<sup>2</sup>  
Acquisition Price: 1,267 million yen  
Acquisition Date: Dec. 26, 2011



**A-79 Nagoya Ekimae Sakura-dori Building**  
Location: Nakamura-ku, Nagoya  
Gross Floor Area: 13,380.30 m<sup>2</sup>  
Acquisition Price: 7,327 million yen  
Acquisition Date: Dec. 26, 2011



**A-80 Nagoya Nikko Shoken Building**  
Location: Naka-ku, Nagoya  
Gross Floor Area: 14,308.76 m<sup>2</sup>  
Acquisition Price: 4,158 million yen  
Acquisition Date: Dec. 26, 2011



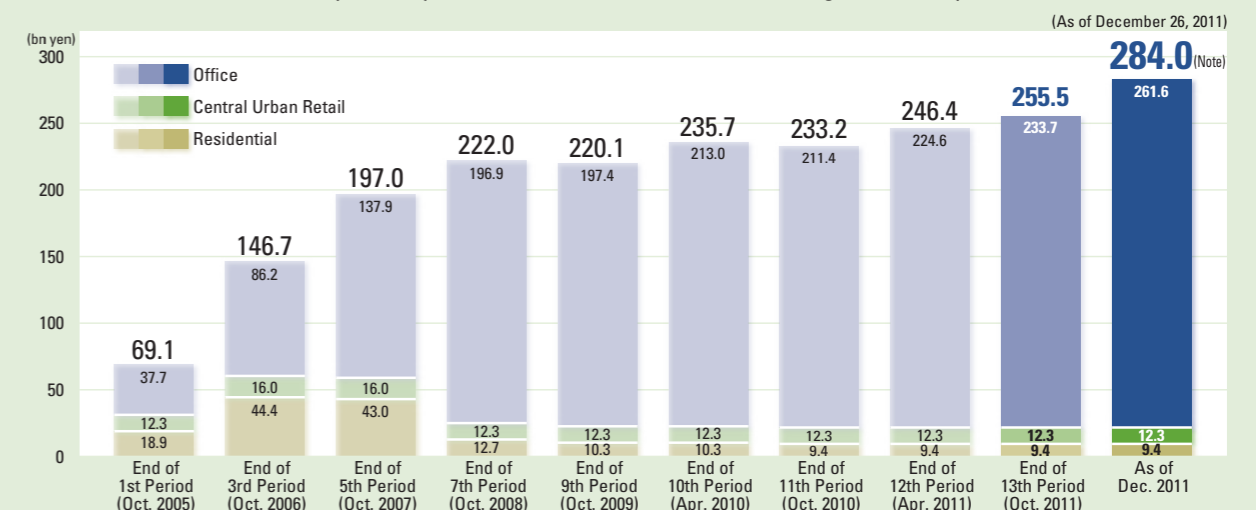
**A-81 Sendai Nikko Building**  
Location: Aoba-ku, Sendai  
Gross Floor Area: 3,598.01 m<sup>2</sup>  
Acquisition Price: 950 million yen  
Acquisition Date: Dec. 26, 2011



**D-1 Kanazawa Nikko Building**  
Location: Minamicho, Kanazawa  
Gross Floor Area: 4,497.22 m<sup>2</sup>  
Acquisition Price: 645 million yen  
Acquisition Date: Dec. 26, 2011

## Another Step Forward

The acquisition of four properties on July 22, 2011 was an important step to strengthening our portfolio and was also optimal in laying the foundation for future growth by **lowering our leverage and positioning us for future advantageous acquisitions, which we made on December 26, 2011**. As a result, as of December 31, 2011, the portfolio is 92.0% office and 81.0% of it is located in the Tokyo Metropolitan Area. The table below shows the growth history of KENEDIX-REIT.



Note: The total amount of the acquisition price for December 2011 includes usage of Other (Hotel) valued at 600 million yen.



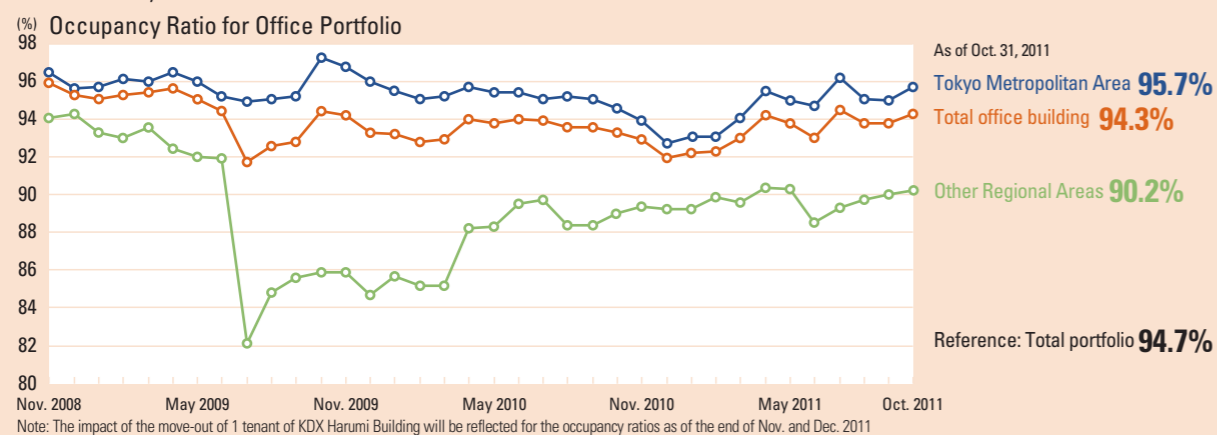
**Koju Komatsu**  
General Manager,  
Investment Management Division

## Exceeding Market Figures through Proven, Evolving Strategies

KENEDIX-REIT has time and again posted occupancy figures that exceed the market average. With a portfolio that has around a 10% turnover ratio annually for leases, performing above market means **being attuned to the market** more than the average property owner. It means the ability to **adapt strategies to fit the times** with programs like the DBJ Green Building certification, but continuing with effective strategies such as the internal property management team and customer satisfaction survey.

### ■ Proving the Market by Beating the Market

One of the central arguments of our investment strategy is that more than 93% of Tokyo offices have 29 or fewer workers; in other words, our market enjoys a phenomenal share of the entities looking for leased space. This combined with excellent relationships with leasing agents that have been cultivated to be beneficial in both good and bad times and a portfolio of strong mid-sized office buildings means that our agents are out in the market recommending our buildings and spaces. Our leasing agents not only provide us with market info that is "live" they proactively hold open houses to secure new tenants. As a result KENEDIX-REIT has once again outperformed the market at 95.7% for the Tokyo Metropolitan Area as of October 31, 2011.



## Property Management: Internal Team Means Fast Timely Response

KENEDIX-REIT is the only J-REIT with an **internal property management team**. This competitive advantage is distinct. First, it places skilled professionals of the Kenedix Group in direct responsibility of properties rather than having said professionals overseeing third parties handling the property management. KENEDIX-REIT is known by its tenants as the "go to team" for handling any problems that may occur and KENEDIX-REIT constantly hones its skills through customer satisfaction surveys conducted with market leader J.D. Power Asia Pacific, on-site inspections and access to tenants. Our team of 14 people is committed to building a **powerful, dependable KDX office brand**.

## Expanding the Identity of KENEDIX-REIT in the Market

As KENEDIX-REIT marches toward 100 office buildings, it is also strategically renaming buildings to create the KDX brand of office buildings that is relied upon in Tokyo as the de-facto choice for small and mid-sized companies. On October 31, 2011, we changed over the names of seven office buildings to further broadcast to the public that they are a part of KENEDIX-REIT.

## Customer Satisfaction Survey: Conducted in 13th Period (ended October 31, 2011) to Implement in 15th Period

As an owner of for-rent office buildings, KENEDIX-REIT must take steps to make sure its customers, tenants, are happy with their space. KENEDIX-REIT has teamed up with J.D. Power Asia Pacific to conduct biannual surveys of its tenants where findings are reflected in needed improvements over the coming two terms. The last survey, which was conducted in the 9th Fiscal Period, also resulted in the renovation of stairs and installation of new security cameras at many properties along with establishment of a more detailed maintenance and upgrade schedule for portfolio properties. The 2011 survey is being compiled now for implementation in the coming fiscal periods. We are all keen to see the improvements that will come out of the newest study.



## Applying J.D. Power's Proven Approach to Cultivating a Competitive Advantage

J.D. Power Asia Pacific's consulting services assist clients in developing competitive advantages by helping them understand and integrate the Voice of the Customer into their strategic planning and operational activities. The methodologies employed are practical and proven, yielding measurable results and providing clients with assistance in developing and refining processes and products from concept through sales and service.

## DBJ Green Building Certification

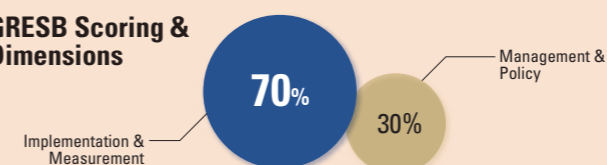
Despite economically tough times, the importance of the environment to tenants is growing on a daily basis. The original driver was global warming but the fact that less power plants are available post-earthquake has led to greater consumer awareness. The Development Bank of Japan Inc. awards buildings a green certification looking at five areas: Disaster-prevention & anticrime measures, tenant comfort & convenience, harmony with the environment & community, collaboration with tenants and investors and environmental IR activities. The bank's certification system boasts three levels and recently the KDX Harumi Building and Nagoya Sakae Building received silver certifications and the KDX Kobayashi-Doshomachi Building the bronze.



## GRESB: Benchmarking Our Environmental Performance

The Global Real Estate Sustainability Benchmark (GRESB) Foundation is a program enacted by globally renowned institutional investors, academics and associations that provide a sustainability benchmark for commercial property portfolios with the goal of improving real estate environmental and social performance. Over 300 entities participated in the annual survey that is at the core of the rating. GRESB scoring places a 70% weight on Implementation and Measurement and 30% on Management and Policy. KENEDIX-REIT ranked fourth among listed companies in Asia for its performance.

### ■ GRESB Scoring & Dimensions



**Masashi Ohwa**  
Director and General Manager,  
Property Management

## Progressing Toward a Better Spread

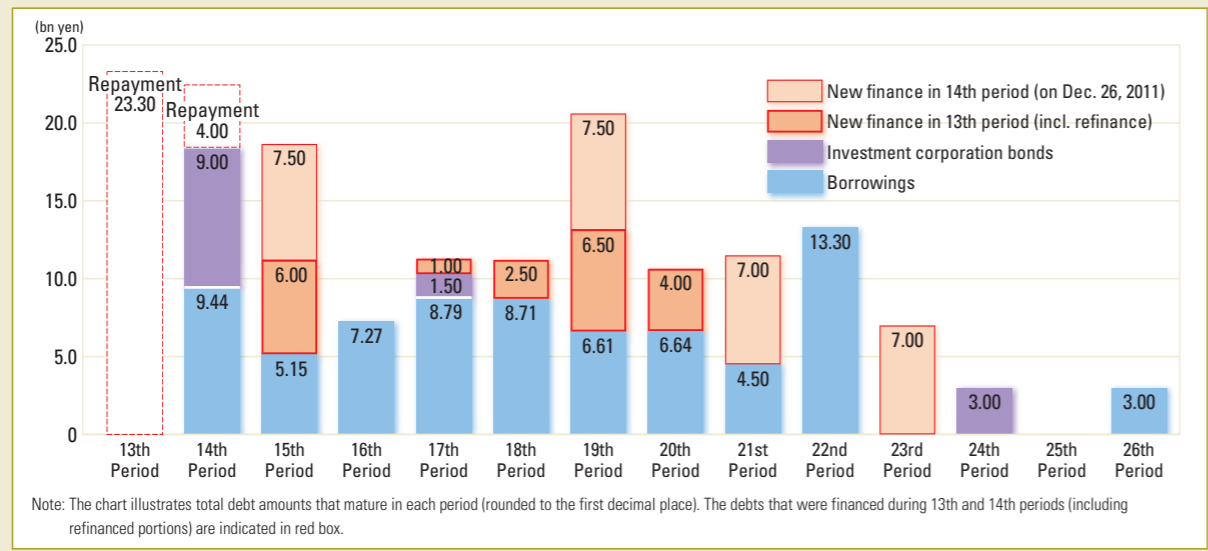
Previously, CFO Masahiko Tajima is quoted as saying, "The three most vital elements in maintaining banking relations are: 1) Maintain deep communications with banks and notify them of any policy or other changes in advance (don't surprise them), 2) Prevent yourself from being unilaterally dependent on banks by maintaining a plethora of financing and capital-raising options, and 3) Maintain a balanced exposure to banks. During the 13th and 14th Fiscal Periods, his team was active in proving their expertise in this area. Their accomplishments included:

- 1 Refinancing of 20.0 billion yen
- 2 Equity financing with an approximate net value of 14,024 million yen was used to purchase four properties, lower the LTV and release collateral on all properties
- 3 Issued Third Series Unsecured Investment Corporation Bond (1.5 billion yen)
- 4 Adding Mizuho Trust Bank to the formation of lenders
- 5 Entered term-loan commitment agreement for the maximum amount of 7 billion yen to prepare for redemption of First series bond

## KENEDIX-REIT Finances Acquisitions with ¥29 Billion in Loans New Development: 14th Fiscal Period

KENEDIX-REIT demonstrated its strong standing with Japanese financial institutions when it took out 29 billion yen in a combination of new long and short-term loans to acquire eight new properties on December 26, 2011. These loans were provided by 7 banks with Sumitomo Mitsui Banking Corporation as the arranger and Development Bank of Japan Inc. as the co-arranger. The average spread for the loans was 100bps with some above and some below.

## Diversification of Debt Maturities (as of December 26, 2011)



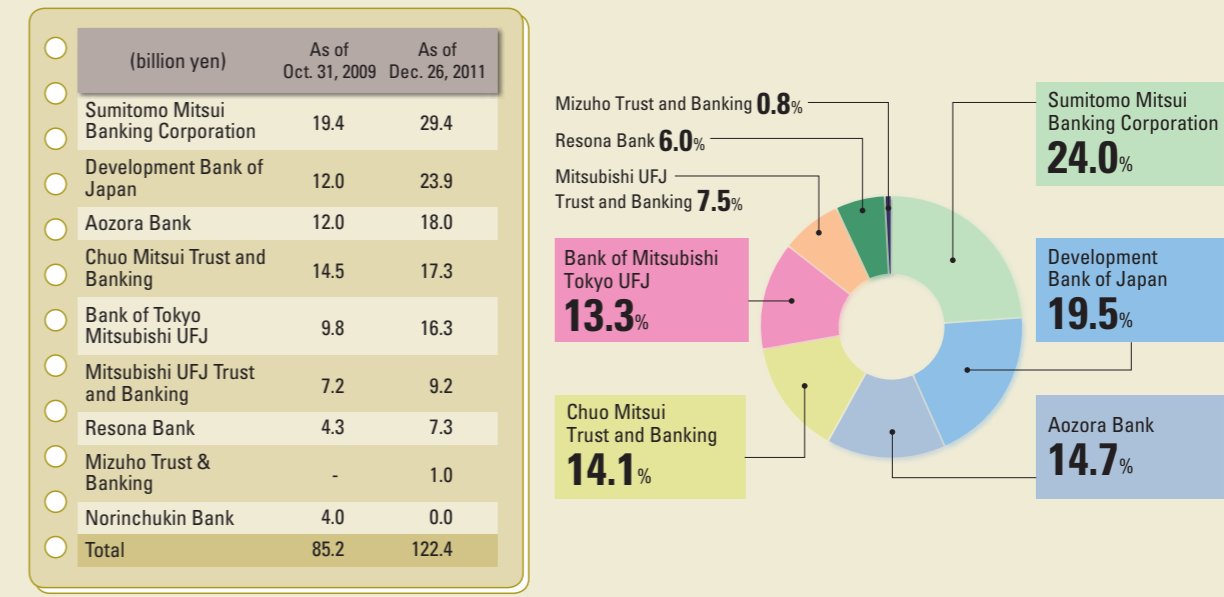
(As of December 19, 2011)

Credit ratings and investment corporation bonds				
Rating agency	Rating			
Japan Credit Rating Agency (JCR)	A (Stable)			
Bonds	Size	Interest rate	Maturity	Maturity date
1st Bond	¥9 bn	1.74% p.a.	5 yrs	Mar. 15, 2012
2nd Bond	¥3 bn	2.37% p.a.	10 yrs	Mar. 15, 2017
3rd Bond	¥1.5 bn	1.59% p.a.	2 yrs	Sep. 13, 2013

## Building an Even More Robust Formation of Leaders

One of Japan's leading trust banks was added to give the formation a broader base of support among nationally leading banks.

### Breakdown of Lenders (As of December 26, 2011)



## Average Spread of KENEDIX-REIT Debt

The average spread - which refers to the spread for financing obtained during the concerned fiscal period - is a clear sign of KENEDIX-REIT's standing among banks. One of the key goals of KENEDIX-REIT, both with this fiscal period's equity financing and with its portfolio management - is to lower the average spread of its financing and generate cost savings. As is evident in the diagram below, KENEDIX-REIT has succeeded in considerably lowering the spread from the post-Lehman low.

	8th Period (Apr. 2009) and 9th Period (Oct. 2009)	12th Period (Apr. 2011)	13th Period (Oct. 2011)	14th Period Borrowed in Dec. 2011
<b>Average life</b>	1.8 years	3.4 years	2.4 years	<b>3.1 years</b>
<b>Average spread</b>	2.27%	1.42%	1.18%	<b>1.07%</b>
<b>Amount</b>	¥25 bn	¥32.5 bn	¥20 bn	<b>¥29 bn</b>

Notes: 1. Average life is weighted by borrowing amount (rounded to the first decimal place).  
2. Average spread - which refers to the spread for financing obtained during the concerned fiscal period - is weighted by borrowing amount and by adding annualized upfront fee to the spread cost for total debt costs (rounded to the second decimal place).  
3. Amount represents the amount borrowed or refinanced during the period. The amounts borrowed and repaid during the same period (i.e. no outstanding balance at the end of the period) are not included.



**Masahiko Tajima**  
Director and General Manager,  
Financial Planning Division



## Constantly Honing Our IR Prowess

"Conversations" with existing and potential investors that assist in fine-tuning strategies further by providing an opportunity to ruminate on the thoughts of investors through an educated dialog among parties and also helps convince investors to buy, hold or sell. The constant communication needs to be a skillful weaving of print, virtual and human (verbal) communication. KENEDIX-REIT uses a diverse group of tools as it regularly hones its IR prowess. Below are some of the tools recently and regularly used by KENEDIX-REIT to convey its presence and strategy.

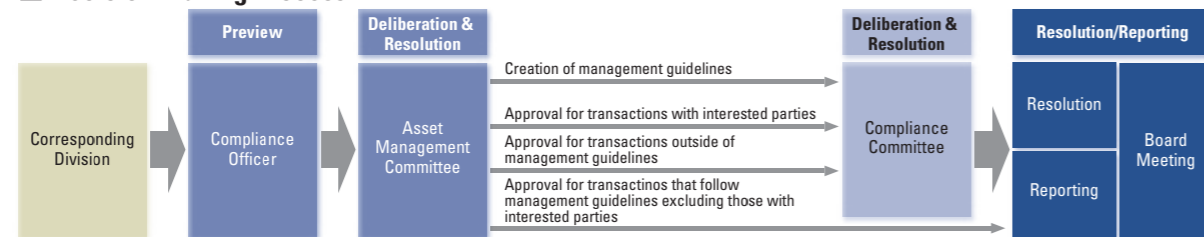
	<b>The Economist:</b> Joined with other J-REITs in a celebratory cover marking the tenth anniversary of J-REITs.
	<b>Website:</b> Actively updated website by posting releases, disclosure materials, etc.
	<b>Semi-annual reports:</b> English presentation of business over the most recent period.
	<b>Presentation materials:</b> An English set of PPT materials is always prepared for our overseas investors.
	<b>Road shows:</b> Our leadership regularly travels in Japan and overseas on road shows and to participate in investment conferences.

KENEDIX-REIT also published Japanese business reports, Kessan Tanshin, releases, etc. and the leadership participates in Web seminars, traditional securities seminars and other vehicles to spread the message to users.

## Simplicity, Transparency and Diligence Set KENEDIX-REIT Apart

Unfortunately recent corporate maneuvers have shifted investor attention to manipulation of financial statements and other deeds by staff at a number of major Japanese firms making investors question what they read. The fact is, however, as President Miyajima pointed out earlier, the simplicity and transparency of J-REITs make this impossible. Additionally, KENEDIX-REIT has set up a clear decision-making process and rules for transactions with interested parties that are adhered to prevent any misunderstanding from occurring.

### Decision-making Process



## Rules for Transactions with Interested Parties

### Transactions with interested parties

- Asset acquisition: Must not acquire properties for more than appraised price (except for properties pre-acquired by Kenedix Inc. pursuant to the Memorandum of Understanding)
- Asset disposal: Must not sell properties for less than appraised price

Implementation is most important and KENEDIX-REIT stands apart from its competition through the frequency of its implementation of committee meetings in place to prevent issues from occurring. It is important to both adhere to rules in spirit and in practice and KENEDIX-REIT is proud of its success in doing both.

	7th Period	8th Period	9th Period	10th Period	11th Period	12th Period	13th Period
Compliance committee	9	8	8	10	7	7	8
Asset Management Committee	52	44	36	39	32	37	44
Board of Directors	10	8	10	12	11	9	11
Board of Directors of Investment Corporation	7	8	8	8	8	7	9

The Frequency of Board of Directors, Asset Management Committee and Compliance Committee Meetings at Kenedix REIT Management and the Board of Directors at KENEDIX-REIT

This page only represents properties in Central Tokyo.



A-75 Kabutocho Nikko Building    A-60 KDX Harumi Building    A-40 Toranomom Toyo Building    A-46 Hiei Kudan-Kita Building    A-66 KDX Shinjuku Building



A-37 KDX Ochanomizu Building    A-32 KDX Shiba-Daimon Building    A-13 KDX Kojimachi Building

# Portfolio Table

(As of October 31, 2011)

	No.	Property Name	Location	Acquisition Price (mn yen)	Year Built (Note 1)	Occupancy Ratio		
Office (Tokyo Metropolitan Area)	A-1	KDX Nihonbashi 313 Building	Chuo-ku, Tokyo	5,940	Apr. 1974	85.2%		
	A-3	Higashi-Kayabacho Yuraku Building	Chuo-ku, Tokyo	4,450	Jan. 1987	100.0%		
	A-4	KDX Hatchobori Building	Chuo-ku, Tokyo	3,680	Jun. 1993	100.0%		
	A-5	KDX Nakano-Sakaue Building	Nakano-ku, Tokyo	2,533	Aug. 1992	84.1%		
	A-6	Harajuku F.F. Building	Shibuya-ku, Tokyo	2,450	Nov. 1985	100.0%		
	A-7	FIK Minami Aoyama	Minato-ku, Tokyo	2,270	Nov. 1988	100.0%		
	A-8	Kanda Kihara Building	Chiyoda-ku, Tokyo	1,950	May 1993	100.0%		
	A-13	KDX Kojimachi Building	Chiyoda-ku, Tokyo	5,950	May 1994	100.0%		
	A-14	KDX Funabashi Building	Funabashi, Chiba	2,252	Apr. 1989	98.7%		
	A-15	KDX Hamacho Building	Chuo-ku, Tokyo	2,300	Sep. 1993	95.0%		
	A-16	Toshin 24 Building	Yokohama, Kanagawa	5,300	Sep. 1984	96.2%		
	A-17	KDX Ebisu Building (Note 3)	Shibuya-ku, Tokyo	4,640	Jan. 1992	100.0%		
	A-18	KDX Omori Building	Ohita-ku, Tokyo	3,500	Oct. 1990	100.0%		
	A-19	KDX Hamamatsucho Building	Minato-ku, Tokyo	3,460	Sep. 1999	100.0%		
	A-20	KDX Kayabacho Building	Chuo-ku, Tokyo	2,780	Oct. 1987	100.0%		
	A-21	KDX Shinbashi Building	Minato-ku, Tokyo	2,690	Feb. 1992	100.0%		
	A-22	KDX Shin-Yokohama Building	Yokohama, Kanagawa	2,520	Sep. 1990	93.1%		
	A-23	KDX Yotsuya Building	Shinjuku-ku, Tokyo	1,950	Oct. 1989	100.0%		
	A-26	KDX Kiba Building	Koto-ku, Tokyo	1,580	Oct. 1992	100.0%		
	A-27	KDX Kajicho Building	Chiyoda-ku, Tokyo	2,350	Mar. 1990	100.0%		
	A-28	KDX Nogizaka Building	Minato-ku, Tokyo	1,065	May 1991	100.0%		
	A-29	KDX Higashi-Shinjuku Building	Shinjuku-ku, Tokyo	2,950	Jan. 1990	83.3%		
	A-30	KDX Nishi-Gotanda Building	Shinagawa-ku, Tokyo	4,200	Nov. 1992	100.0%		
	A-31	KDX Monzen-Nakacho Building	Koto-ku, Tokyo	1,400	Sep. 1986	100.0%		
	A-32	KDX Shiba-Daimon Building	Minato-ku, Tokyo	6,090	Jul. 1986	100.0%		
	A-33	KDX Okachimachi Building	Taito-ku, Tokyo	2,000	Jun. 1988	100.0%		
	A-34	KDX Hon-Atsugi Building	Atsugi, Kanagawa	1,305	May 1995	100.0%		
	A-35	KDX Hachioji Building	Hachioji, Tokyo	1,155	Dec. 1985	100.0%		
	A-37	KDX Ochanomizu Building	Chiyoda-ku, Tokyo	6,400	Aug. 1982	100.0%		
	A-38	KDX Nishi-Shinjuku Building	Shinjuku-ku, Tokyo	1,500	Oct. 1992	100.0%		
	A-39	KDX Toranomon Building	Minato-ku, Tokyo	4,400	Apr. 1988	100.0%		
	A-40	Toranomon Toyo Building	Minato-ku, Tokyo	9,850	Aug. 1962	100.0%		
	A-41	KDX Shinjuku 286 Building	Shinjuku-ku, Tokyo	2,300	Aug. 1989	100.0%		
	A-45	KDX Roppongi 228 Building	Minato-ku, Tokyo	3,300	Apr. 1989	65.1%		
	A-46	Hiei Kudan-Kita Building	Chiyoda-ku, Tokyo	7,600	Mar. 1988	98.8%		
	A-47	KDX Shin-Yokohama 381 Building (Note 2)	Yokohama, Kanagawa	5,800	Mar. 1988	93.0%		
	A-48	KDX Kawasaki-Ekimae Hon-cho Building	Kawasaki, Kanagawa	3,760	Feb. 1985	100.0%		
	A-49	Nissou Dai-17 Building	Yokohama, Kanagawa	2,710	Jul. 1991	86.4%		
	A-50	Ikejiri-Oohashi Building	Meguro-ku, Tokyo	2,400	Sep. 1988	54.9%		
	A-51	KDX Hamacho Nakanohashi Building	Chuo-ku, Tokyo	2,310	Sep. 1988	100.0%		
	A-52	KDX Kanda Misaki-cho Building	Chiyoda-ku, Tokyo	1,380	Oct. 1992	100.0%		
	A-55	Shin-toshin Maruzen Building	Shinjuku-ku, Tokyo	2,110	Jul. 1990	81.2%		
	A-56	KDX Jimbocho Building	Chiyoda-ku, Tokyo	2,760	May 1994	100.0%		
	A-57	KDX Gobancho Building	Chiyoda-ku, Tokyo	1,951	Aug. 2000	100.0%		
	A-59	KDX Iwamoto-cho Building	Chiyoda-ku, Tokyo	1,864	Mar. 2008	100.0%		
	A-60	KDX Harumi Building	Chuo-ku, Tokyo	10,250	Feb. 2008	88.9%		
	A-61	KDX Hamamatsucho Dai-2 Building	Minato-ku, Tokyo	2,200	Apr. 1992	100.0%		
	A-62	Koishikawa TG Building	Bunkyo-ku, Tokyo	3,080	Nov. 1989	100.0%		
	A-63	Gotanda TG Building	Shinagawa-ku, Tokyo	2,620	Apr. 1988	80.0%		
	A-64	KDX Nihonbashi 216 Building	Chuo-ku, Tokyo	2,010	Oct. 2006	100.0%		
	A-66	KDX Shinjuku Building	Shinjuku-ku, Tokyo	6,800	May 1993	100.0%		
	A-67	KDX Ginza 1chome Building (Note 3)	Chuo-ku, Tokyo	4,300	Nov. 1991	100.0%		
	A-68	KDX Nihonbashi Honcho Building (Note 3)	Chuo-ku, Tokyo	4,000	Jan. 1984	100.0%		
	A-71	KDX Iidabashi Building (Note 3)	Shinjuku-ku, Tokyo	4,670	Mar. 1990	100.0%		
	A-72	KDX Higashi-Shinagawa Building (Note 3)	Shinagawa-ku, Tokyo	4,590	Jan. 1993	100.0%		
	A-73	KDX Hakozaki Building (Note 3)	Chuo-ku, Tokyo	2,710	Nov. 1993	83.3%		
	A-74	KDX Shin-Nihonbashi Building (Note 3)	Chuo-ku, Tokyo	2,300	Nov. 2002	100.0%		
	Office (Other Regional Areas)	A-12	Portus Center Building	Sakai, Osaka	5,570	Sep. 1993	90.1%	
		A-24	KDX Minami Semba Dai-1 Building	Osaka, Osaka	1,610	Mar. 1993	94.7%	
		A-25	KDX Minami Semba Dai-2 Building	Osaka, Osaka	1,560	Sep. 1993	94.3%	
		A-36	KDX Niigata Building	Niigata, Niigata	1,305	Jul. 1983	64.6%	
		A-42	Karasuma Building	Kyoto, Kyoto	5,400	Oct. 1982	99.2%	
		A-44	KDX Sendai Building	Sendai, Miyagi	2,100	Feb. 1984	87.4%	
		A-53	KDX Hakata-Minami Building	Fukuoka, Fukuoka	4,900	Jun. 1973	79.3%	
		A-54	KDX Kitahama Building	Osaka, Osaka	2,220	Jul. 1994	84.4%	
		A-58	KDX Nagoya Sakae Building	Nagoya, Aichi	7,550	Apr. 2009	100.0%	
		A-69	KDX Kobayashi-Doshomachi Building	Osaka, Osaka	2,870	Jul. 2009	95.6%	
		A-70	Kitanajo SIA Building	Sapporo, Hokkaido	2,005	Oct. 1989	100.0%	
		<b>Office Subtotal (68 properties)</b>				<b>233,726</b>	<b>Avg. 21.6 years</b>	<b>94.3%</b>
		Residential	B-3	Court Mejuro	Shinjuku-ku, Tokyo	1,250	Mar. 1997	100.0%
	B-18		Venus Hibirigaoka	Sapporo, Hokkaido	1,800	Mar. 1989	99.5%	
	B-19		Residence Charmante Tsukishima	Chuo-ku, Tokyo	5,353	Jan. 2004	100.0%	
	B-34		Gradito Kawaguchi	Kawaguchi, Saitama	1,038	Feb. 2006	100.0%	
	<b>Residential Subtotal (4 properties)</b>				<b>9,441</b>	<b>Avg. 11.3 years</b>	<b>99.7%</b>	
Central Urban Retail	C-1	Frame Jinnan-zaka	Shibuya-ku, Tokyo	9,900	Mar. 2005	89.5%		
	C-2	KDX Yoyogi Building	Shibuya-ku, Tokyo	2,479	Aug. 1991	100.0%		
	<b>Central Urban Retail Subtotal (2 properties)</b>				<b>12,379</b>	<b>Avg. 9.3 years</b>	<b>91.6%</b>	
<b>Total (74 properties)</b>				<b>255,546</b>	<b>Avg. 20.6 years</b>	<b>94.7%</b>		

- Notes: 1. The year built refers to the date of construction completion recorded in the land register. The average age subtotal and total data are calculated using the weighted-average based on acquisition prices as of October 31, 2011, and are rounded down to the first decimal place.
2. As of the end of the fiscal period ended October 31, 2010, A-47 KDX Shin-Yokohama 381 Building and A-65 KDX Shin-Yokohama 381 Building Annex Tower are presented collectively as one property. Year of construction of existing tower is shown. Upon calculating the weighted-average portfolio age, the completion date (April 2009) for the KDX Shin-Yokohama 381 Building Annex Tower is not considered.
3. KENEDIX-REIT has changed the names of seven assets to heighten its brand presence. The new asset names are followed by their previous names in parentheses: A-17 KDX Ebisu Building (Ebisu East 438 Building), A-67 KDX Ginza 1 chome Building (Kyodo Building (Ginza No. 8)), A-68 KDX Nihonbashi Honcho Building (Kyodo Building (Honcho 1 chome)), A-71 KDX Iidabashi Building (Kyodo Building (Iidabashi)), A-72 KDX Higashi-Shinagawa Building (P's Higashi-Shinagawa Building), A-73 KDX Hakozaki Building (Nihonbashi Dai-2 Building), and A-74 KDX Shin-Nihonbashi Building (Kyodo Building (Shin-Nihonbashi)).
4. Amounts indicated have been rounded down.

# Financial Statements

(13th Fiscal Period: From May 1, 2011 to October 31, 2011)

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## Financial Summary (Unaudited)

Historical Operating trends For the 9th - 13th Periods

Period	Unit	9th Period (as of Oct. 31, 2009)	10th Period (as of Apr. 30, 2010)	11th Period (as of Oct. 31, 2010)	12th Period (as of Apr. 30, 2011)	13th Period (as of Oct. 31, 2011)
<b>Operating revenues</b>	mn yen	7,921	8,067	8,358	8,136	9,044
<b>(Rental revenues)</b>	mn yen	7,921	8,067	8,242	8,136	8,498
<b>Operating expenses</b>	mn yen	4,708	4,329	4,522	4,427	4,618
<b>(Property-related expenses)</b>	mn yen	3,652	3,714	3,817	3,767	3,961
<b>Operating income</b>	mn yen	3,213	3,738	3,835	3,709	4,425
<b>Ordinary income</b>	mn yen	2,103	2,568	2,608	2,346	3,040
<b>Net income (a)</b>	mn yen	2,102	2,567	2,607	2,309	3,052
<b>Total assets (b)</b>	mn yen	236,320	251,566	251,080	261,928	274,973
<b>(Period-on-period change)</b>	%	(-1.0)	(+6.5)	(-0.2)	(+4.3)	(+5.0)
<b>Interest-bearing debt (c)</b>	mn yen	97,220	102,968	102,567	112,715	110,914
<b>(Period-on-period change)</b>	%	(-1.5)	(+5.9)	(-0.4)	(+9.9)	(-1.6)
<b>Unitholders' equity (d)</b>	mn yen	127,067	135,689	135,732	135,505	150,272
<b>(Period-on-period change)</b>	%	(-0.3)	(+6.8)	(+0.0)	(-0.2)	(+10.9)
<b>Unitholders' capital</b>	mn yen	124,973	133,129	133,129	133,129	147,153
<b>(Period-on-period change)</b>	%	(0.0)	(+6.5)	(0.0)	(0.0)	(+10.5)
<b>Number of investment units issued and outstanding (e)</b>	unit	200,000	233,550	233,550	233,550	286,550
<b>Unitholders' equity per unit (d)/(e)</b>	yen	635,335	580,987	581,170	580,199	524,419
<b>Total distribution (f)</b>	mn yen	2,102	2,567	2,541	2,310	2,749
<b>Distribution per unit (f)/(e)</b>	yen	10,511	10,993	10,881	9,891	9,596
<b>(Earnings distributed per unit)</b>	yen	10,511	10,993	10,881	9,891	9,596
<b>(Distribution in excess of earnings per unit)</b>	yen	-	-	-	-	-
<b>Return on assets (annualized) (Notes 1 and 2)</b>	%	0.9 (1.8)	1.1 (2.1)	1.0 (2.1)	0.9 (1.8)	1.1 (2.2)
<b>Return on net assets (annualized) (Notes 2 and 3)</b>	%	1.7 (3.3)	2.0 (3.9)	1.9 (3.8)	1.7 (3.4)	2.1 (4.2)
<b>Net assets ratio at end of period (d)/(b)</b>	%	53.8	53.9	54.1	51.7	54.6
<b>(Period-on-period change)</b>	%	(+0.4)	(+0.2)	(+0.1)	(-2.3)	(+2.9)
<b>Interest-bearing debt ratio at end of period (c)/(b)</b>	%	41.1	40.9	40.9	43.0	40.3
<b>(Period-on-period change)</b>	%	(-0.2)	(-0.2)	(-0.1)	(+2.2)	(-2.7)
<b>Payout ratio (Note 4) (f)/(a)</b>	%	100.0	99.9	97.4	100.0	90.0
<b>Other reference</b>						
<b>Number of properties</b>	properties	65	70	67	71	74
<b>Total leasable floor area</b>	m <sup>2</sup>	254,225.04	271,260.81	267,737.33	286,237.93	300,016.89
<b>Occupancy at end of period</b>	%	94.7	94.4	93.6	94.6	94.7
<b>Depreciation expenses for the period</b>	mn yen	1,451	1,477	1,440	1,406	1,442
<b>Capital expenditures for the period</b>	mn yen	400	330	312	574	674
<b>Leasing NOI (Net Operating Income) (Note 5)</b>	mn yen	5,721	5,830	5,864	5,776	5,980
<b>FFO (Funds From Operation) (Note 6)</b>	mn yen	3,994	4,044	3,995	3,716	3,950
<b>FFO per unit (Note 7)</b>	yen	19,973	17,318	17,106	15,914	13,786

- Notes: 1. Return on assets = Ordinary income/(Total assets at beginning of period + Total assets at end of period)/2 × 100
2. Annualized values for the 9th Fiscal Period are calculated based on a period of 184 days, 181 days for the 10th Fiscal Period, 184 days for the 11th Period, 181 days for 12th Fiscal Period and 184 days for the 13th Fiscal Period.
3. Return on net assets = Net income/(Total net assets at beginning of period + Total net assets at end of period)/2 × 100
4. Payout ratio is rounded down to the first decimal place.
5. Leasing NOI = Rental revenues - Rental expenses + Depreciation expenses for the period
6. FFO = Net income + Depreciation expenses for the period - Profit on sale of trust beneficiary interests in real estate or real estate + Loss on sale of trust beneficiary interests in real estate or real estate
7. FFO per unit = FFO/Number of investment units issued and outstanding (figures below ¥1 rounded down)
8. Where applicable, figures are rounded down to the nearest million.

Report of Independent Auditors

The Board of Directors  
Kenedix Realty Investment Corporation

We have audited the accompanying balance sheets of Kenedix Realty Investment Corporation as of October 31, 2011 and April 30, 2011, and the related statements of income and retained earnings and changes in net assets for the six-month periods then ended, all expressed in yen.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating internal control as management determines is necessary to enable to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation at October 31, 2011 and April 30, 2011, and the results of its operations for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

*Emphasis of matter*

As described in Note 17, Subsequent Events, the Company decided to acquire properties and concluded loan agreement. Our opinion is not qualified in respect of this matter.

*Ernst & Young Shin Nihon LLC*

December 19, 2011

As of October 31, 2011 and April 30, 2011

(In thousands of yen)

	As of October 31, 2011	As of April 30, 2011
<b>Assets</b>		
<b>Current assets:</b>		
Cash and bank deposits (Notes 6 and 15)	¥ 18,338,535	¥ 13,794,963
Rental receivables	173,773	186,413
Consumption tax refundable	-	310,485
Other current assets (Note 9)	77,564	60,390
<b>Total current assets</b>	<b>18,589,872</b>	<b>14,352,251</b>
<b>Property and equipment, at cost:(Notes 4, 6, 14 and 16)</b>		
Land	177,220,871	171,111,081
Buildings and structures (Note 7)	89,329,995	85,658,330
Machinery and equipment	1,354,493	1,308,858
Tools, furniture and fixtures	406,173	401,538
Construction in progress	1,874	-
Less-accumulated depreciation	(13,751,870)	(12,653,540)
<b>Net property and equipment</b>	<b>254,561,536</b>	<b>245,826,267</b>
<b>Other assets:</b>		
Ground leasehold (Notes 14 and 16)	359,429	360,204
Corporate bond issuance costs	30,906	22,206
Unit issuance costs	111,272	25,136
Other assets (Notes 6, 14 and 16)	1,320,426	1,342,835
<b>Total assets</b>	<b>¥ 274,973,441</b>	<b>¥ 261,928,899</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade and other payables	¥ 802,437	¥ 617,497
Current portion of corporate bonds (Notes 5 and 15)	9,000,000	9,000,000
Short-term debt and current portion of long-term debt (Notes 5, 6 and 15)	24,050,000	36,160,000
Deposits received	2,814	16,243
Rents received in advance	1,281,807	1,872,708
Provision for loss due to disaster	2,334	30,932
Other current liabilities	272,913	244,822
<b>Total current liabilities</b>	<b>35,412,305</b>	<b>47,942,202</b>
Corporate bonds (Notes 5 and 15)	4,500,000	3,000,000
Long-term debt (Notes 5, 6 and 15)	73,364,000	64,555,500
Leasehold and security deposits received	11,424,682	10,925,583
<b>Total liabilities</b>	<b>124,700,987</b>	<b>126,423,285</b>
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	147,153,820	133,129,755
Units authorized: 2,000,000 units		
Units issued and outstanding: 286,550 and 233,550 units		
As of October 31, 2011 and April 30, 2011, respectively		
<b>Surplus</b>		
Voluntary retained earnings		
Reserve for reduction entry	65,796	65,796
Retained earnings	3,052,838	2,310,063
<b>Total Surplus</b>	<b>3,118,634</b>	<b>2,375,859</b>
<b>Total unitholders' equity</b>	<b>150,272,454</b>	<b>135,505,614</b>
<b>Total net assets (Note 10)</b>	<b>150,272,454</b>	<b>135,505,614</b>
<b>Total liabilities and net assets</b>	<b>¥ 274,973,441</b>	<b>¥ 261,928,899</b>

See accompanying notes to the financial statements.

## Statements of Income and Retained Earnings

For the period from May 1, 2011 to October 31, 2011 and the period from November 1, 2010 to April 30, 2011

(In thousands of yen)

	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
<b>Operating revenues:</b>		
Rental revenues (Notes 12 and 14)	¥ 8,498,949	¥ 8,136,917
Profit on sale of real estate (Note 12)	545,282	-
<b>Total operating revenues</b>	<b>9,044,231</b>	<b>8,136,917</b>
<b>Operating expenses:</b>		
Property-related expenses (Notes 12 and 14)	3,961,611	3,767,178
Asset management fees	487,406	448,106
Administrative service and custodian fees	81,852	79,591
Other operating expenses	88,039	132,133
<b>Total operating expenses</b>	<b>4,618,908</b>	<b>4,427,008</b>
<b>Operating income</b>	<b>4,425,323</b>	<b>3,709,909</b>
<b>Non-operating expenses:</b>		
Interest expense	1,036,388	1,048,723
Financing-related expenses	298,043	303,479
Amortization of unit issuance costs	27,282	8,380
Amortization of corporate bond issuance costs	6,881	5,782
Others, net	16,322	(3,193)
<b>Total non-operating expenses</b>	<b>1,384,916</b>	<b>1,363,170</b>
<b>Ordinary income</b>	<b>3,040,407</b>	<b>2,346,739</b>
<b>Extraordinary income</b>		
Subsidy	-	26,230
Gain on donation of noncurrent assets	13,970	-
<b>Extraordinary losses</b>		
Loss on disaster	-	35,360
Loss on reduction of fixed assets	-	26,230
<b>Income before income taxes</b>	<b>3,054,377</b>	<b>2,311,379</b>
Income taxes (Note 9)	1,560	1,384
<b>Net income</b>	<b>3,052,817</b>	<b>2,309,995</b>
Retained earnings at the beginning of period	21	68
<b>Retained earnings at the end of period</b>	<b>¥ 3,052,838</b>	<b>¥ 2,310,063</b>

See accompanying notes to the financial statements.

## Statements of Changes in Net Assets

For the period from May 1, 2011 to October 31, 2011 and the period from November 1, 2010 to April 30, 2011

(In thousands of yen)

	Unitholders' Equity					Valuation, Transaction Adjustments and Others	Total
	Unitholders' capital	Surplus			Total unitholders' equity		
		Voluntary retained earnings	Retained earnings	Total Surplus			
Balance as of October 31, 2010	¥ 133,129,755	¥ -	¥ 2,607,122	¥ 2,607,122	¥ 135,736,877	¥ (4,502)	¥ 135,732,375
<b>Changes during the fiscal period</b>							
Provision for reserve for reduction entry	-	65,796	(65,796)	-	-	-	-
Payments of dividends	-	-	(2,541,258)	(2,541,258)	(2,541,258)	-	(2,541,258)
Net income	-	-	2,309,995	2,309,995	2,309,995	-	2,309,995
Interest-rate swap	-	-	-	-	-	4,502	4,502
<b>Total changes during the fiscal period</b>	<b>-</b>	<b>65,796</b>	<b>(297,059)</b>	<b>(231,263)</b>	<b>(231,263)</b>	<b>4,502</b>	<b>(226,761)</b>
Balance as of April 30, 2011	133,129,755	65,796	2,310,063	2,375,859	135,505,614	-	135,505,614
<b>Changes during the fiscal period</b>							
New unit issuance	14,024,065	-	-	-	14,024,065	-	14,024,065
Payments of dividends	-	-	(2,310,042)	(2,310,042)	(2,310,042)	-	(2,310,042)
Net income	-	-	3,052,817	3,052,817	3,052,817	-	3,052,817
<b>Total changes during the fiscal period</b>	<b>14,024,065</b>	<b>-</b>	<b>742,775</b>	<b>742,775</b>	<b>14,766,840</b>	<b>-</b>	<b>14,766,840</b>
<b>Balance as of October 31, 2011</b>	<b>¥ 147,153,820</b>	<b>¥ 65,796</b>	<b>¥ 3,052,838</b>	<b>¥ 3,118,634</b>	<b>¥ 150,272,454</b>	<b>¥ -</b>	<b>¥ 150,272,454</b>

See accompanying notes to the financial statements.

## Notes to Financial Statements

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Realty Investment Corporation ("the Investment Corporation") was established on May 6, 2005 under the Law concerning Investment Trusts and Investment Corporations of Japan ("the Investment Trust Law"). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding. (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through public offerings including three global offerings. Most recently, the Investment Corporation additionally issued 51,400 investment units on July 20, 2011 through public offerings including global offerings, and 1,600 investment units on August 8, 2011 by way of third-party allotment. As a result, as of October 31, 2011, the end of the thirteenth fiscal period, the number of investment units issued and outstanding totaled 286,550 units. The Investment Corporation issued the Third Series Unsecured Investment Corporation Bonds (totaling ¥1,500 million and maturing in two years) on September 15, 2011. As a result, the outstanding investment corporation bonds as of the end of the fiscal period under review (fiscal period ended October 31, 2011) totaled ¥13,500 million.

The Investment Corporation is externally managed by Kenedix REIT Management, Inc. ("the Asset Management Company") as its asset management company. In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation endeavors to develop a diversified investment portfolio named "KENEDIX Selection," adopting a three-point investment criteria based on property type, area and size.

During the period ended October 31, 2011, the Investment Corporation acquired 4 office buildings (total acquisition price of ¥14,270 million) and sold 1 office building (initial acquisition price of ¥5,180 million) located in the Tokyo Metropolitan Area (sales price: ¥5,800 million). As of October 31, 2011, the Investment Corporation had total unitholders' capital of ¥147,154 million with 286,550 investment units outstanding. The Investment Corporation owned a portfolio of 74 properties with a total acquisition price of ¥255,547 million containing a total leasable area of 300,016.89 m<sup>2</sup>. The occupancy ratio was approximately 94.7%. A portfolio of 74 properties consists of 68 office buildings, 4 residential properties and 2 central urban retail properties. 62 properties are located in the Tokyo metropolitan area and 12 properties are located in other regional areas.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Law of Japan, the Japanese Corporation Law, the Financial Instruments and Exchange Law of Japan and related regulations, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of the International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a basically translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by the Investment Corporation and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made from the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation's fiscal period is a six-month period which ends at the end of April and October of each year, respectively. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
Buildings and structures	2-49 years	2-49 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-20 years	3-20 years

### (B) Unit Issuance Costs

Unit issuance costs are amortized over a period of three years under the straight-line method.

### (C) Corporate Bond Issuance Costs

Corporate bond issuance costs are amortized over a loan period under the straight-line method.

### (D) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan, all assets and liabilities within trust are recorded in the relevant balance sheets and statements of income and retained earnings.

### (E) Leasehold rights

Fixed term leasehold with special agreement on buildings sales, and the building are amortized over a contractual period of forty-eight years and nine months under the straight-line method.

### (F) Provision for loss due to disaster

For cost of repairs on impaired fixed assets due to the massive earthquake off the east coast of Japan, the amount reasonably estimable at the end of period is recognized as "provision for loss due to disaster" under current liability.

### (G) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period, respectively.

### (H) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. These taxes are generally charged to operating expenses for the period, for the portion of such taxes corresponding to said period. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥44,439 thousand and ¥23,704 thousand as of October 31, 2011

and April 30, 2011, respectively. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

### (I) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

### (J) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.

### (K) Derivative Financial Instruments

The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-rate swap agreements if its interest-rate swap agreements met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. The hedge effectiveness for interest-rate swap contracts is assessed each fiscal period except for those that meet the criteria of special treatment.

### (L) Rounding of Amounts Presented

Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

## 3. ADDITIONAL INFORMATION

### Accounting Standards for Accounting Changes and Error Corrections

The Investment Corporation has applied the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No. 24; December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24; December 4, 2009), starting with accounting changes and corrections of past errors to be conducted after the beginning of the fiscal period under review.

## 4. SCHEDULE OF PROPERTY

	In millions of yen					
	As of October 31, 2011			As of April 30, 2011		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 177,221	¥ -	¥ 177,221	¥ 171,111	¥ -	¥ 171,111
Buildings and structures	89,330	13,021	76,309	85,658	11,983	73,675
Machinery and equipment	1,354	540	814	1,309	497	812
Tools, furniture and fixtures	406	190	216	402	174	228
Construction in progress	2	-	2	-	-	-
<b>Total</b>	<b>¥ 268,313</b>	<b>¥ 13,751</b>	<b>¥ 254,562</b>	<b>¥ 258,480</b>	<b>¥ 12,654</b>	<b>¥ 245,826</b>

## 5. SHORT-TERM DEBT, LONG-TERM DEBT AND CORPORATE BONDS

The following summarizes short-term debt, long-term debt and corporate bonds outstanding as of October 31, 2011:

Classification	Drawdown Date	Last Repayment Date	Weighted-average interest rate	Balance	
				(In millions of yen)	
Short-term debt	January 31, 2011	January 31, 2012	1.09%	¥ 2,700	
	April 18, 2011	November 30, 2011	1.38%	1,500	
	July 29, 2011	July 31, 2012	1.04%	1,500	
	October 31, 2011	October 31, 2012	0.99%	4,500	
Current portion of long-term debt	December 1, 2006	November 30, 2011	1.96%	2,500	
	January 10, 2008	January 10, 2012	1.50%	2,500	
	February 27, 2009	February 29, 2012	2.07%	450	
	April 2, 2007	April 2, 2012	1.88%	2,000	
	April 30, 2009	April 27, 2012	2.24%	1,500	
	June 30, 2008	June 30, 2012	2.15%	1,500	
	February 27, 2009	August 31, 2012	2.04%	900	
	October 29, 2010	October 31, 2012	1.45%	2,500	
	<b>Subtotal</b>				<b>24,050</b>
	Long-term debt	May 1, 2006	April 30, 2016	2.73%	5,000
September 1, 2006		August 31, 2013	2.12%	3,000	
June 30, 2008		December 28, 2012	2.26%	3,000	
October 26, 2009		October 26, 2013	2.42%	920	
October 30, 2009		October 30, 2013	2.45%	1,840	
December 8, 2009		December 8, 2012	1.67%	500	
January 13, 2010		January 15, 2013	1.90%	1,000	
January 29, 2010		January 30, 2015	2.17%	1,104	
February 18, 2010		February 18, 2013	1.90%	1,500	
February 18, 2010		February 18, 2015	2.19%	4,950	
April 2, 2010		April 2, 2015	2.22%	1,850	
July 30, 2010		July 31, 2013	1.49%	500	
July 30, 2010		January 31, 2014	1.66%	3,700	
July 30, 2010		July 31, 2014	1.73%	3,700	
October 29, 2010		October 31, 2013	1.46%	500	
November 12, 2010		November 12, 2013	1.58%	2,700	
November 12, 2010		November 12, 2015	1.79%	2,000	
November 12, 2010		November 12, 2017	2.02%	2,300	
December 1, 2010		November 12, 2013	1.45%	800	
December 1, 2010		November 12, 2015	1.55%	1,000	
December 1, 2010		November 12, 2017	2.21%	700	
January 31, 2011		January 31, 2014	1.57%	1,300	
January 31, 2011		January 29, 2016	1.94%	800	
February 28, 2011		August 31, 2015	1.91%	3,000	
February 28, 2011		January 29, 2016	1.95%	500	
March 22, 2011		September 22, 2014	1.63%	2,700	
March 31, 2011		September 30, 2013	1.53%	2,000	
March 31, 2011		January 29, 2016	1.91%	2,000	
March 31, 2011		March 31, 2016	1.39%	1,000	
April 28, 2011		April 30, 2013	1.50%	1,000	
April 28, 2011		October 31, 2015	1.86%	1,500	
April 28, 2011		January 29, 2016	1.89%	1,000	
July 13, 2011		July 14, 2014	1.54%	1,000	
July 29, 2011		July 31, 2014	1.14%	3,200	
July 29, 2011	July 31, 2014	1.40%	300		
August 31, 2011	February 27, 2015	1.09%	1,500		
September 1, 2011	August 29, 2014	1.15%	1,000		
September 30, 2011	September 30, 2013	1.15%	1,000		
September 30, 2011	March 31, 2014	1.16%	2,500		
September 30, 2011	September 30, 2014	1.27%	1,000		
September 30, 2011	March 31, 2015	1.29%	2,500		
<b>Subtotal</b>				<b>73,364</b>	
Current portion of corporate bonds	March 15, 2007	March 15, 2012	1.74%	9,000	
Corporate bonds	March 15, 2007	March 15, 2017	2.37%	3,000	
	September 15, 2011	September 13, 2013	1.59%	1,500	
<b>Subtotal</b>				<b>13,500</b>	
<b>Total</b>				<b>¥ 110,914</b>	

## 6. ASSETS PLEDGED AS COLLATERAL AND SECURED LOANS PAYABLE

(As of April 30, 2011)

Assets pledged as collateral	In thousands of yen
Cash and bank deposits	¥ 5,090,463
Land	127,680,740
Buildings and structures	54,309,842
Machinery and equipment	507,811
Tools, furniture and fixtures	135,035
Other assets	909
<b>Total</b>	<b>187,724,800</b>
Secured loans payable:	
Short-term debt	36,160,000
Long-term debt	64,555,500
<b>Total</b>	<b>¥ 100,715,500</b>

(As of October 31, 2011)

On July 20, 2011, the collateral pledges established for the Investment Corporations' 47 properties as of the end of the twelfth fiscal period (April 30, 2011) were released. As a result, all borrowings of the Investment Corporation became unsecured and unguaranteed.

## 7. REDUCTION ENTRY

The amount of reduction entry of property and equipment acquired by government subsidy

	In thousands of yen	
	As of October 31, 2011	As of April 30, 2011
Buildings and structures	¥ 26,230	¥ 26,230

## 8. PER UNIT INFORMATION

	yen	
	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
Net asset value per unit	¥ 524,420	¥ 580,200
Net income per unit	¥ 11,593	¥ 9,891
Weighted average number of units (units)	263,341	233,550

The weighted average number of units outstanding of 263,341 and 233,550 were used for the computation of the amount of net income per unit as of October 31, 2011 and April 30, 2011. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

## 9. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥2,750 million and ¥2,310 million for the periods ended October 31, 2011 and April 30, 2011. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.05% and 0.06% for the periods ended October 31, 2011 and April 30, 2011. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
Statutory tax rate	39.33%	39.33%
Deductible cash distributions	(35.41)	(39.31)
Provision for reserve for reduction entry	(3.90)	-
Other	0.03	0.04
Effective tax rate	0.05%	0.06%

The significant components of deferred tax assets and liabilities as of October 31, 2011 and April 30, 2011 were as follows:

	In thousands of yen	
	As of October 31, 2011	As of April 30, 2011
Deferred tax assets:		
Enterprise tax payable	¥ 49	¥ 39
Amortization of leasehold rights	558	254
Subtotal deferred tax assets	607	293
Valuation allowance	558	254
Total deferred tax assets	¥ 49	¥ 39

Tax rate changes after the settlement date

The Act to Revise the Income Tax Act, etc., in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Act No. 114 of 2011) and the Act on Special Measures for Securing Necessary Financial Resources to Implement Measures to Rebuild Areas Devastated by the Great East Japan Earthquake (Act No. 117 of 2011) were promulgated on December 2, 2011. In accordance with the promulgation, the effective statutory tax rate used to calculate the deferred tax assets and deferred tax liabilities concerning the temporary differences, etc. expected to be reversed in the accounting periods starting on April 1, 2012 and after will be changed to 36.59%, and the effective statutory tax rate used to calculate the deferred tax assets and deferred tax liabilities concerning the temporary differences, etc. expected to be reversed in the accounting periods starting on April 1, 2015 and after will be changed to 34.16%, respectively. These changes will have no impact on the settlement of the Investment Corporation.

## 10. NET ASSETS

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Law. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Law.

## 11. RELATED-PARTY TRANSACTIONS

Transactions with Kenedix REIT Management, Inc.

Kenedix REIT Management, Inc., a consolidated subsidiary of Kenedix, Inc., provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix REIT Management, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥333 million to Kenedix REIT Management, Inc.

## 12. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the periods from May 1, 2011 to October 31, 2011 and from November 1, 2010 to April 30, 2011 consist of the following:

	In thousands of yen	
	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
<b>Rental and other operating revenues:</b>		
Rental revenues	¥ 6,121,318	¥ 5,908,063
Common area charges	1,353,952	1,300,172
Subtotal	7,475,270	7,208,235
<b>Others:</b>		
Parking space rental revenues	249,514	250,325
Utility charge reimbursement	633,845	583,965
Miscellaneous	140,320	94,392
Subtotal	1,023,679	928,682
<b>Total rental and other operating revenues</b>	<b>¥ 8,498,949</b>	<b>¥ 8,136,917</b>
<b>Property management fees and facility management fees</b>	<b>¥ 832,724</b>	<b>¥ 811,787</b>
Depreciation	1,442,935	1,406,895
Utilities	617,943	561,061
Taxes	703,543	643,179
Insurance	14,655	16,209
Repairs and maintenance	152,453	123,949
Trust fees	43,614	42,317
Loss on retirement of fixed assets	-	5,403
Others	153,744	156,378
<b>Total property-related expenses</b>	<b>¥ 3,961,611</b>	<b>¥ 3,767,178</b>
<b>Profit on sale of real estate:</b>		
Revenue from sale of investment property	¥ 5,800,000	-
Cost of investment property	5,122,100	-
Other sales expenses	132,618	-
<b>Profit on sale of real estate</b>	<b>¥ 545,282</b>	<b>-</b>

## 13. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease term of generally two years for office buildings and residential properties and with lease term ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2011 and April 30, 2011 are as follows:

	In thousands of yen	
	As of October 31, 2011	As of April 30, 2011
Due within one year	¥ 788,659	¥ 1,008,045
Due after one year	5,355,453	5,892,331
<b>Total</b>	<b>¥ 6,144,112</b>	<b>¥ 6,900,376</b>

## 14. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2011 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties
	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Number of properties	57	11	3	1	2
<b>Property information</b> (In millions of yen)					
Acquisition price	¥ 196,636	¥ 37,090	¥ 7,641	¥ 1,800	¥ 12,380
Percentage of total acquisition costs	76.95%	14.51%	2.99%	0.70%	4.85%
Net book value	197,560	35,947	7,199	1,830	12,386
Appraisal value at year end	182,925	28,729	6,403	1,470	11,190
Percentage of total appraisal value	79.29%	12.45%	2.77%	0.64%	4.85%
<b>Financial results for the period from May 1, 2011 to October 31, 2011</b> (In thousands of yen)					
Rental and other operating revenues	¥ 6,409,007	¥ 1,448,503	¥ 221,456	¥ 93,778	¥ 326,205
Rental revenues	5,682,652	1,209,438	201,615	83,660	297,905
Other revenues	726,355	239,065	19,841	10,118	28,300
Property-related expenses	1,800,804	554,191	57,894	33,676	72,111
Property management fees	582,629	197,315	22,165	8,319	22,296
Taxes	532,387	126,676	15,369	8,294	20,817
Utilities	454,375	136,436	2,243	1,942	22,947
Repairs and maintenance	112,958	23,066	8,198	6,703	1,528
Insurance	8,842	4,694	498	386	235
Trust fees and other expenses	109,613	66,004	9,421	8,032	4,288
NOI (Net Operating Income)	4,608,203	894,312	163,562	60,102	254,094
Depreciation expenses	953,788	333,002	66,784	23,116	66,245
Operating income from property leasing activities	3,654,415	561,310	96,778	36,986	187,849
Capital expenditures	486,318	129,030	3,193	720	54,805
NCF (Net Cash Flow)	¥ 4,121,885	¥ 765,282	¥ 160,369	¥ 59,382	¥ 199,289

A breakdown of property-type as of October 31, 2011 was as follows:

Class of assets	Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥ 197,560	71.8%
		Other Regional Areas	35,947	13.1%
	Subtotal		233,507	84.9%
	Residential Properties	Tokyo Metropolitan Area	7,199	2.6%
		Other Regional Areas	1,830	0.7%
	Subtotal		9,029	3.3%
Central Urban Retail Properties	Tokyo Metropolitan Area	12,386	4.5%	
<b>Total</b>			<b>254,922</b>	<b>92.7%</b>
Bank deposits and other assets			20,051	7.3%
<b>Total assets</b>			<b>274,973</b>	<b>100.0%</b>
<b>Total liabilities</b>			<b>124,701</b>	<b>45.4%</b>
<b>Net assets</b>			<b>¥ 150,272</b>	<b>54.6%</b>

## 15. FINANCIAL INSTRUMENTS

Thirteenth Fiscal Period (May 1, 2011 to October 31, 2011)

### (A) Overview

#### (1) Policy for financial instruments

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of corporate bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest rate conditions and cash flows.

#### (2) Types of financial instruments and related risk

Debt and corporate bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of seven years following the accounting date. Although a certain portion of said liabilities are subject to interest rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap transactions) in order to reduce such risk.

Interest-rate swap transactions are used as derivative financial instruments. Utilizing interest-rate swap transactions, the Investment Corporation fixes its interest expense for long-term debt bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see 2. (K) Derivative Financial Instruments.

#### (3) Risk management for financial instruments

##### (a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured.

##### (b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with funds procurement

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. Liquidity risk is also managed by such means as regularly checking the balance of cash reserves.

#### (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

### (B) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheets as of October 31, 2011 and estimated fair value are shown in the following table.

	Carrying value	Estimated fair value	Difference
(1) Cash and bank deposits	¥ 18,338,535	¥ 18,338,535	¥ -
Subtotal	18,338,535	18,338,535	-
(1) Short-term debt	10,200,000	10,200,000	-
(2) Corporate bonds(including current portion of corporate bonds)	13,500,000	13,324,050	(175,950)
(3) Long-term debt(including current portion of long-term debt)	87,214,000	86,587,303	(626,697)
Subtotal	¥ 110,914,000	¥ 110,111,353	¥ (802,647)
Derivative Transactions (*)	-	-	-

(\*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing net liability position.

\*1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

#### Assets

##### (1) Cash and bank deposits

Since these items are settled in a short period of time, their carrying value approximates fair value.

#### Liabilities

##### (1) Short-term debt

Since these items are settled in a short period of time, their carrying value approximates fair value.

##### (2) Corporate bonds

The fair value of corporate bonds is based on quoted market prices.

##### (3) Long-term debt

The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term debt bearing interest at variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.



**Derivative Transactions**

**(1) Items that are not applied to hedge accounting**

Not applicable

**(2) Items that are applied to hedge accounting**

Hedge accounting method	Type of Derivative Transactions	Hedged items	Contracted amount (In thousands of yen)		Fair value (In thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term debt	¥6,500,000	¥2,000,000	*	
<b>Total</b>			<b>¥6,500,000</b>	<b>¥2,000,000</b>		

(\*) Special treatment of interest-rate swaps is reported at the fair value of applicable long-term debt. This is because such swaps are handled together with hedged long-term debt.

\*2: Redemption schedule for receivables

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥18,338,535
<b>Total</b>	<b>¥18,338,535</b>

\*3: Redemption schedule for debt and corporate bonds

	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term debt	¥ 10,200,000	¥ -	¥ -	¥ -	¥ -	¥ -
Corporate bonds	9,000,000	1,500,000	-	-	-	3,000,000
Long-term debt	13,850,000	17,606,000	24,323,000	15,135,000	13,300,000	3,000,000

**16. INVESTMENT AND RENTAL PROPERTIES**

Thirteenth Fiscal Period (May 1, 2011 to October 31, 2011)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo metropolitan area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

As of April 30, 2011	Carrying Value (In thousands of yen)		Fair value As of October 31, 2011 (In thousands of yen)
	Net change	As of October 31, 2011	
¥ 246,187,380	¥ 8,734,375	¥ 254,921,755	¥ 230,717,000

\*1: The carrying value represents the acquisition cost less accumulated depreciation.

\*2: The fair value is the appraisal value or the survey value determined by outside appraisers.

\*3: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increases were the acquisition of four properties totaling ¥14,609,502 thousand, the sale of real estate trust beneficiary interests to one property amounting ¥5,122,100 thousand and depreciation amounting to ¥1,442,935 thousand.

Income and loss in the fiscal period ended October 31, 2011 for real estate for rental purposes is listed in the Note "12, BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES"

**17. SUBSEQUENT EVENTS**

**(1) Acquisition of Properties**

On December 19, 2011, the Investment Corporation decided to acquire the eight properties described below (total planned acquisition price: ¥28,550 million) as of December 26, 2011, with funds procured through new borrowings described in (2) below.

The following planned acquisition price does not include the acquisition costs, property tax, city-planning tax and consumption tax, etc.

Details shared by the following acquisitions

Date of Contract	December 19, 2011
Seller	AIG Edison Life Insurance Company
Scheduled Date of Acquisition	December 26, 2011

Type	Type of Specified Asset	Property Name	Planned Acquisition Price (In millions of yen)	Location (Address)	Number of Stories	Year Built
Office Building	Trust beneficiary interest in real estate	Kabutocho Nikko Building	11,270	6-5 Nihombashi Kabutocho, Chuo-ku, Tokyo	B1 F8	Nov. 1998
		Ikebukuro Nikko Building	1,653	1-20-8 Minami Ikebukuro, Toshima-ku, Tokyo	B1 F8	Mar. 1986
		Kabutocho Nikko Building II	1,280	8-1 Nihombashi Kabutocho, Chuo-ku, Tokyo	F8	Oct. 2001
		Tachikawa Ekimae Building	1,267	2-12-18 Akebonocho, Tachikawa-shi, Tokyo	B1 F8	Feb. 1990
		Nagoya Ekimae Sakura-dori Building	7,327	3-26-8 Meieki, Nakamura-ku, Nagoya-shi, Aichi	B2 F15	Apr. 1986
		Nagoya Nikko Shoken Building	4,158	3-2-3 Sakae, Naka-ku, Nagoya-shi, Aichi	B3 F11	Aug. 1974
		Sendai Nikko Building	950	3-2-21 Chuo, Aoba-ku, Sendai-shi, Miyagi	B1 F8	Mar. 1989
		Other		Kanazawa Nikko Building	645	4-65 Minamicho, Kanazawa-shi, Ishikawa

**(2) Debt Financing**

As of December 19, 2011, the Investment Corporation concluded an agreement to borrow funds through syndicated loans, with Sumitomo Mitsui Banking Corporation as the arranger and the agent and Development Bank of Japan Inc. as the co-arranger, in order to finance the acquisition of the above eight properties.

	Short-term debt (Term Loan 65-A)	Long-term debt (Term Loan 65-B)
Amount	¥7,500 million	¥5,000 million (*1)
Lender	Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Chuo Mitsui Trust and Banking Co., Limited	Sumitomo Mitsui Banking Corporation Resona Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Interest Rate	Base rate (JPY TIBOR for 3-month in JBA) + 0.55% (*2)	Base rate (JPY TIBOR for 3-month in JBA) + 0.65% (*2)
Repayment Date	October 31, 2012	October 31, 2014

	Long-term debt (Term Loan 65-C)	Long-term debt (Term Loan 65-D)
Amount	¥2,500 million	¥4,500 million (*1)
Lender	Development Bank of Japan Inc.	Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Interest Rate	Fixed rate of interest	Base rate (JPY TIBOR for 3-month in JBA) + 0.70% (*2)
Repayment Date	October 31, 2014	October 31, 2015

	Long-term debt (Term Loan 65-E)	Long-term debt (Term Loan 65-F)
Amount	¥2,500 million	¥4,500 million (*1)
Lender	Development Bank of Japan Inc.	Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Interest Rate	Fixed rate of interest	Base rate (JPY TIBOR for 3-month in JBA) + 0.75% (*2)
Repayment Date	October 31, 2015	October 31, 2016

	Long-term debt (Term Loan 65-G)
Amount	¥2,500 million
Lender	Development Bank of Japan Inc.
Interest Rate	Fixed rate of interest
Repayment Date	October 31, 2016

Details shared by the abovementioned borrowings

Drawdown Date	December 26, 2011
Interest Payment Date	First interest payment on March 31, 2012, and at the end of every three months (on the last business day of each month, if the end of each month is a non-business day) and repayment date.
Repayment Method	Each principal repayment in full on respective dates of maturity
Collateral	Unsecured, unguaranteed

\*1. The Investment Corporation has decided to execute an interest-rate swap agreement as a hedge against possible increases in future interest rates for the long-term debt which has floating rate of interest (Term Loan 65-B, 65-D and 65-F).

\*2. The base rate for the period commencing December 26, 2011 through March 31, 2012 will be the Japanese Yen TIBOR for four months which Japanese Bankers Association (JBA) will release on December 21, 2011. Thereafter, the base rate shall be calculated based on Japanese Yen TIBOR for three months which JBA releases two business days before each interest payment date. The base rate for the last period shall be calculated based on Japanese Yen TIBOR for one month.

# Statements of Cash Flows and Related Notes (Unaudited)

For the period from May 1, 2011 to October 31, 2011 and the period from November 1, 2010 to April 30, 2011 (In thousands of yen)

	From May 1, 2011 to October 31, 2011	From November 1, 2010 to April 30, 2011
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 3,054,377	¥ 2,311,379
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,724,828	1,634,424
Interest expense	1,036,388	1,048,723
Loss on retirement of fixed assets	-	5,403
Loss on disaster	-	35,360
Subsidy	-	(26,230)
Loss on reduction of fixed assets	-	26,230
Gain on donation of noncurrent assets	(13,970)	-
Changes in assets and liabilities:		
Rental receivables	12,640	22,067
Consumption tax refundable	310,485	(310,485)
Accrued consumption tax	28,956	(230,841)
Trade and other payables	74,415	(33,748)
Rents received in advance	(590,901)	705,812
Property and equipment due to sale	5,122,100	-
Others, net	(258,096)	(628,713)
<b>Subtotal</b>	<b>10,501,222</b>	<b>4,559,381</b>
Cash payments of interest expense	(1,037,432)	(1,011,751)
Payments for loss on disaster	(28,598)	-
Cash payments of income taxes	(1,171)	(633)
<b>Net cash provided by operating activities</b>	<b>9,434,021</b>	<b>3,546,997</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(15,230,474)	(13,803,598)
Purchase of intangible assets	-	(75,499)
Proceeds from leasehold and security deposits received	1,210,624	1,011,848
Payments of leasehold and security deposits	-	(122,709)
Proceeds from collection of lease and guarantee deposits	669	-
Payments of leasehold and security deposits received	(684,035)	(615,156)
Payments of time deposits	-	(74,000)
Proceeds from withdrawal of time deposits	464,000	-
Payments of restricted bank deposits	-	(134,900)
Proceeds from restricted bank deposits	100,404	112,588
<b>Net cash used in investing activities</b>	<b>(14,138,812)</b>	<b>(13,701,426)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	6,000,000	6,200,000
Payment of short-term debt	(4,500,000)	(3,800,000)
Proceeds from long-term debt	14,000,000	26,300,000
Payment of long-term debt	(18,801,500)	(18,551,500)
Proceeds from issuance of investment units	13,938,969	-
Proceeds from issuance of investment corporation bonds	1,485,336	-
Payment of dividends	(2,310,038)	(2,541,094)
<b>Net cash (used in) provided by financing activities</b>	<b>9,812,767</b>	<b>7,607,406</b>
<b>Net change in cash and cash equivalents</b>	<b>5,107,976</b>	<b>(2,547,023)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>12,820,027</b>	<b>15,367,050</b>
<b>Cash and cash equivalents at the end of period</b>	<b>¥ 17,928,003</b>	<b>¥ 12,820,027</b>

See related notes

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (UNAUDITED)

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

### CASH AND CASH EQUIVALENTS (UNAUDITED)

Cash and cash equivalents consisted of the following as of October 31, 2011 and April 30, 2011: (In thousands of yen)

	As of October 31, 2011	As of April 30, 2011
Cash and bank deposits	¥ 18,338,535	¥ 13,794,963
Restricted bank deposits (Note 1)	(410,532)	(510,936)
More than 3-month fixed deposits (Note 2)	-	(464,000)
<b>Cash and cash equivalents</b>	<b>¥ 17,928,003</b>	<b>¥ 12,820,027</b>

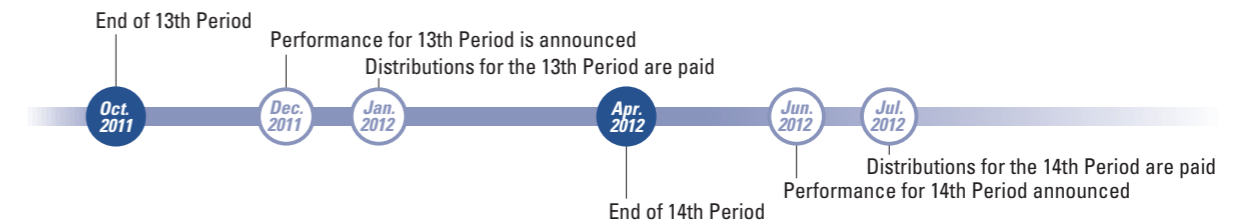
Note 1: Restricted bank deposits are retained for repayment of tenant leasehold and security deposits.  
Note 2: More than 3-month fixed deposits are fixed deposits which have deposit term of more than 3 months.

# Unitholders' Information

## Kenedix Realty Investment Corporation

<b>Fiscal Periods</b>	Six months ending April 30 and October 31
<b>Stock Listing</b>	Real Estate Investment Trust Market of the Tokyo Stock Exchange (Security Code: 8972)
<b>Transfer Agent</b>	The Chuo Mitsui Trust and Banking Company, Limited 2-8-4 Izumi, Sugunami-ku, Tokyo 168-0063 Japan
<b>Auditor</b>	Ernst & Young ShinNihon LLC

## IR Schedule (13th and 14th Fiscal Periods)



## General Breakdown of Unitholders

	Foreign corporations and individuals	Other domestic corporations	Financial institutions (including securities companies)	Individuals and others
End of 13th Period	38.5% 110,189 units	1.8% 5,186 units	47.8% 136,919 units	12.0% 34,256 units
End of 12th Period	43.1% 100,681 units	1.6% 3,757 units	47.2% 110,317 units	8.0% 18,795 units

Note: Figures are rounded to the first decimal place.

## Top Ten Unitholders (As of October 31, 2011)

Name	Units Held	Share of Outstanding Units
Japan Trustee Services Bank, Ltd. (trust account)	57,799	20.17%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	29,841	10.41%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	26,102	9.10%
Nomura Bank (Luxembourg) S.A.	9,620	3.35%
The Master Trust Bank of Japan, Ltd. (trust account)	9,535	3.32%
Goldman Sachs International	6,763	2.36%
The Bank of New York, Treaty JASDEC Account	5,452	1.90%
State Street Bank and Trust Company 505223	4,430	1.54%
BNP Paribas Securities Services Luxembourg/JASDEC/HENDERSON HHF SICAV	3,787	1.32%
Goldman Sachs and Company Regular Account	3,733	1.30%
<b>Total</b>	<b>157,062</b>	<b>54.81%</b>

Note: The respective shares are rounded down to the second decimal place.

## Unit Price Performance





<http://www.kdx-reit.com/eng/>