



The proposed property acquisition is in line with FRONTIER REIT's basic asset management policy and investment stance as outlined in its Articles of Incorporation. The Asset Management Company undertook an evaluation based on the following factors:

(1) Location

The property is located in Tosu city, Saga prefecture, approximately 150 meters west from JR Tosu Station on JR Kagoshima Honsen Line and JR Nagasaki Honsen Line. On grounds that the property enjoys a handy location and offers convenient access to public and educational institutions, Joyfultown Tosu is recognized as a property possessing ideal location for commercial facilities. In general, Tosu city is known as a key junction of Kyushu region. The city has three expressways, Nagasaki, Kyushu and Oita Expressway. It is accessible in a couple of hours by car from major cities in Kyushu region.

(2) Trading Conditions

Trade area population of the property is approximately 48,000 residents within three kilometers radius and 99,000 within five kilometers radius. The size of trade area population is with a certain degree of potential. In addition, the population growth rate in Tosu city has continued to rise, topping that of neighboring Kurume city. This area provides a suitable location for multi-faced retail facilities composed of supermarkets and specialty stores.

(3) Building Facilities

Developed by the previous owner, Japan Tobacco Inc. ("JT"), in 1997, the building on this property is a three-story, steel-made multi-faceted retail facility, with Daiwa Lease Co., Ltd. ("DAIWA LEASE") as the lessee. Though KOTOBUKI-YA was a core tenant of sublease agreement upon inauguration of the building, the facility is currently occupied by approximately 90 specialty stores centered around core tenants, including SunLive (one of the popular local supermarkets), and TSUTAYA (major rental chain store of CDs, DVDs and TV Games in Japan), while Kyushu-JUSCO was the only core tenant before this situation. As DAIWA LEASE plans to acquire the building on this property from JT, FRONTIER REIT will enter into a business-use leasehold set-up contract with DAIWA LEASE immediately after the acquisition of the property.

### 3. Property Details

#### (1) Real Estate Details

Type of Acquisition		Real estate (Land with business-use leasehold)
Address	Registered	1-537 Aza-Shimotosu, Hontosu-machi, Tosu-shi, Saga Prefecture and other blocks
Land	Lot Area (Registered)	79,774.57m <sup>2</sup>
	Zoning	Commercial area
	Plot Ratio	400%
	Building-to-Land Ratio	80%
	Ownership	Proprietary ownership
Acquisition Price		¥3,178.8 million
Appraisal Value		¥3,340 million (as of October 1, 2007)
Appraiser		Japan Real Estate Institute
Probable Maximum Loss (PML)		-
Collateral offered		None
Note	<p>1. As a result of the previous owner's soil environment assessment of the property, excluding the land under the building, lead and arsenic traces that exceed the standards stipulated in the Soil Contamination Countermeasures Law were confirmed from a part of the surface layer of the property. The entire property is now covered with asphalt and planting soil, so there will be no health risk from direct contact if the current conditions are maintained. When contaminated soil is removed, in case of building reconstruction in the future, however, relevant parties must comply with applicable laws and regulations and appropriately process the soil. According to this report, FRONTIER REIT conducted a soil environment assessment (subcontractor: OYO Corporation) and received a report stating that there are no hazardous risks in the property under its current condition.</p> <p>2. FRONTIER REIT received a report that part of the foundation of the previous owner's old factory remains under the ground at the site. Currently this area is used as parking lot, but there will be no problem if its current use is maintained.</p> <p>3. Upon the acquisition of the property, FRONTIER REIT obtained a cost estimation for countermeasures against soil contamination, as well as underground obstacle clearance from Takenaka Corporation, as of August 21, 2007. To that end, the acquisition cost is the aforementioned appraisal value minus the relevant estimation of ¥161.2 million.</p>	

(2) Lease Details

The following details are based on the business-use leasehold set-up contract planned to be made between FRONTIER REIT, as lessor, and DAIWA LEASE, as lessee, and are presented with the relevant parties' consent for disclosure.

Lessee	Daiwa Lease Co., Ltd.
Type of Contract	Business-use leasehold set-up contract
Contract Date	October 31, 2007
Contract Term	November 8, 2007 — November 7, 2027 (20years)
Annual Rent	¥236,400,000 (Monthly Rent ¥19,700,000)
Deposit	¥512,200,000
Rent Revisions	Fixed rent in principle
Early Termination	In principle not allowed  ( The Lessee, however, can terminate the contract anytime before expiry by renouncing its claim for the security deposit. )
Number of Lessees	1
Total Rentable Area <Note>	79,447.76 m <sup>2</sup>
Total Leased Floor Space <Note>	79,447.76m <sup>2</sup>
Occupancy Rate	100%

Note: "Total Rentable Area" and "Total Leased Floor Space" foregoing chart are the total property area or space excluding 326.81 m<sup>2</sup> used by Saga Prefecture, free of charge, as a prefectural read.

#### 4. The Significance of the Acquisition

This property is exempt from the pipeline contract stipulated in the “Contract Relating to the Development and Sale of Properties Owned by Japan Tobacco Inc.” made and entered into between FRONTIER REIT, JT and the Asset Management Company. The acquisition of properties outside of this pipeline contract will enable FRONTIER REIT to improve its portfolio and expand its asset size.

#### 5. Seller Profile

Company Name	Japan Tobacco Inc.
Head Office Address	2-2-1 Toranomon, Minato-ku, Tokyo
Representative	Hiroshi Kimura, President & CEO
Capital	¥100 billion (As of September 30, 2007)
Principal Shareholders	The Finance Ministry of Japan, others (As of September 30, 2007)
Principal Activities	Active in the tobacco, pharmaceuticals and food industries
Relationship with the Investment Corporation	The Asset Management Company is a wholly owned subsidiary of Japan Tobacco Inc.

#### 6. Status of the Company Acquiring the Property

Property Name and Location	Joyfultown Tosu (Sokochi) 1-537 Aza-Shimotosu, Hontosu-machi, Tosu-shi, Saga Prefecture and other blocks	
Status of Property Owner	Last owner	Owner before last owner
	Owner of trust beneficiary interest	Owner of trust beneficiary interest
Name of Company/Person	Japan Tobacco Inc.	None
Relations with Interested Parties	Sole parent company of the Asset Management Company	—
Background	Property developed by the last	—
Rationale of the Acquisition	owner	—
Acquisition Price (including other expenses)	—	—
Acquisition Period	—	—

#### 7. Broker Profile

No broker was involved in this transaction.

## **8. Interested-Party Transactions**

(1) FRONTIER REIT has contracted to acquire the subject property from JT, an interested party as defined under Article 201 of the Investment Trusts and Investment Corporations Law and Article 123 of the Implementation Guidelines of the Investment Trusts and Investment Corporations Law. Accordingly, and pursuant to internal rules and measures to prevent conflicts of interest as formulated by its Asset Management Company, Frontier REIT Management Inc., FRONTIER REIT has obtained the following in connection with the acquisition of the property: (1) prior approval to the acquisition from its Board of Directors, (2) unanimous approval from all members of the Asset Management Company's Compliance and Management Evaluation Committee, and (3) approval from more than two thirds of the Asset Management Company's Board of Directors, as well as unanimous approval from the Asset Management Company's external directors.

(2) In relation to the acquisition of this property, FRONTIER REIT will receive "Joyful town" with registered trademark No. 4054372 and proper authorization of use from JT.

## **9. Outlook**

There are no changes to operating forecasts for the seventh period ending December 31, 2007 following the acquisition of the subject property.

### **[Attachments]**

1. Property appraisal
2. Photograph of the property exterior
3. Overview of the investment portfolio following acquisition

- This document is released to media organizations through the "Kabuto Club" (the press club of the Tokyo Stock Exchange), the Ministry of Land, Infrastructure and Transport Press Club, and the Press Club for the Ministry of Land, Infrastructure and Transport Construction Paper.
- Frontier Real Estate Investment website : <http://www.frontier-reit.co.jp/eng/>

[Attachment 1]

Property Appraisal

Appraiser	Japan Real Estate Institute								
Appraisal Value	¥3,340,000,000								
Date of Value Estimate	October 1, 2007								
	<b>Figures</b>	<b>Remarks</b>							
<b>Direct-Reduction Method Value</b>	<b>¥3,350,000,000</b>								
(A) Revenues ( + + )	¥236,409,000								
<table border="0" style="width: 100%;"> <tr> <td style="width: 150px;">Potential Revenue</td> <td style="width: 100px;"></td> <td rowspan="3" style="vertical-align: top;">Annual rent recorded under the fixed-lease contract and land leasing revenues for electric poles</td> </tr> <tr> <td style="border-left: 1px solid black; border-right: 1px solid black; padding-left: 10px;">Rent, Common service revenues</td> <td style="text-align: center;">¥236,409,000</td> </tr> <tr> <td style="border-left: 1px solid black; border-right: 1px solid black; padding-left: 10px;">Other revenues etc.</td> <td></td> </tr> </table>	Potential Revenue		Annual rent recorded under the fixed-lease contract and land leasing revenues for electric poles	Rent, Common service revenues	¥236,409,000	Other revenues etc.			
Potential Revenue		Annual rent recorded under the fixed-lease contract and land leasing revenues for electric poles							
Rent, Common service revenues	¥236,409,000								
Other revenues etc.									
Loss on Vacant Areas	¥0	Not recorded in the light of tenant attribute.							
Loss on Doubtful Accounts	¥0	Not recorded in the light of tenant standing.							
(B) Expenses ( + + + )	¥52,108,000								
Maintenance and Management Fee	¥1,182,000	Property Management Fee							
Taxes and Public Dues	¥50,926,000	Based on taxation standards for 2007							
Casualty Insurance Premiums	¥0								
Other Expenses	¥0								
(C) Operating Income (A-B)	¥184,301,000								
(D) Income from Security and Guarantee Deposits	¥10,244,000	Based on an investment yield of 2.0%							
(E) Capital Expenditure	¥0								
(F) Net Income	¥194,545,000								
(G) Cap Rate	5.80%	<Note>							
<b>DCF Value</b>	<b>¥3,330,000,000</b>								
Discount Rate	6.50%								
<b>Leasehold Ratio Allocation Method Value</b>	<b>¥3,430,000,000</b>								
Raw Land Price	¥4,290,000,000								
Fixed-term Leasehold Ratio calculated in accordance with the Basic Notification of Asset Evaluation	20%								
Fixed-term Leasehold Prices	¥858,000,000								

Note: With reference to yielding of similar real estate properties such as those with limited proprietary land rights, the property's individuality was comprehensively assessed.

[Attachment 2]

Photograph of the Property Exterior





**[Attachment3]**

**Overview of the Investment Portfolio Following Acquisition**

Property Name	Location	Type of Asset	Acquisition Date	Acquisition Price (MM) (Note1)	Percentage of Portfolio (%) (Note 2)
AEON Shinagawa Seaside Shopping Center	Shinagawa-ku Tokyo	Trust Beneficiary Interest	August 9, 2004	¥20,100	16.7
MYCAL Ibaraki	Ibaraki-shi, Osaka Prefecture	Trust Beneficiary Interest	August 9, 2004	¥18,100	15.0
Joyfultown Okayama	Okayama-shi, Okayama Prefecture	Trust Beneficiary Interest	August 9, 2004	¥11,000	9.1
Joyfultown Hadano	Hadano-shi, Kanagawa Prefecture	Trust Beneficiary Interest	August 9, 2004	¥9,300	7.7
Papillon Plaza	Fukuoka-shi, Fukuoka Prefecture	Trust Beneficiary Interest	August 9, 2004	¥4,810	4.0
Kamiikedai Tokyu Store	Ota-ku, Tokyo	Trust Beneficiary Interest	August 9, 2004	¥1,490	1.2
Belltown Tambaguchi Eki-mae Store	Kyoto-shi, Kyoto Prefecture	Real Estate	August 29, 2005	¥2,130	1.8
AEON NAGOYADOME-mae Shopping Center	Nagoya-shi, Aichi Prefecture	Real Estate	March 23, 2006	¥24,800	20.6
Summit Store Takinogawa Momiji-bashi	Kita-ku, Tokyo	Real Estate	September 29, 2006	¥3,100	2.6
Sports Club Renaissance Hiroshima	Hiroshima-shi, Hiroshima Prefecture	Real Estate	April 13, 2007	¥1,940	1.6
Joyfultown Tosu (Sokochi)	Tosu-shi, Saga Prefecture	Real Estate (Sokochi)	November 8, 2007	¥3,178	2.6
You-Me Town Hiroshima (Provisional Name)	Hiroshima-shi, Hiroshima Prefecture	Real Estate or Trust Beneficiary Interest	February 2008 (Planned)	¥20,700 (Planned)	17.2
<b>Total</b>	—	—	—	<b>¥120,648</b>	<b>100.0</b>

Notes:

1. Millions of YEN rounded down.
2. Based on acquisition prices, actual or projected, percentages of portfolio figures are rounded to the nearest first decimal place.