

Guidelines for Appraising Overseas Investment Real Estate

[The following is a rush translation.]

Guideline Objectives

These guidelines specify standard appraisal procedures for Japanese real estate appraisers (the only profession that is licensed and registered by the government by law. Hereinafter “Japanese Appraisers”) to appraise overseas real estate for investment purposes.

As the globalization of the real estate market progresses, cross-border real estate investment is gaining momentum. In addition, real estate investment trust (REIT) markets have been set up in the past few years, and international competition in real estate markets is heightening rapidly.

In Japan’s domestic market, there are no regulations that prohibit Japanese REITs (J-REITs) from acquiring overseas properties. The Tokyo Stock Exchange, however, has established criteria for J-REIT listing that prohibits the acquisition of overseas properties. This prohibition is said to be partly due to the lack of standards for overseas property valuation for Japanese Appraisers.

Further, the domestic real estate industry is actively looking into investing in overseas real estate assets from the perspective of diversifying the risks of portfolios concentrated in domestic real estate investment. The establishment of appropriate guidelines for appraising overseas properties is thus expected to promote the further healthy growth of real estate markets.

With the recent changes in the global real estate market stated above, these guidelines specify standards for Japanese Appraisers to perform appropriate collaborative or joint appraisals with overseas real estate appraisers, protecting the interests of investors and enhancing the reliability of appraisals.

I. Basic Procedures for Appraising Overseas Properties

A. When a Japanese Appraiser is to appraise overseas properties, he/she may

- travel to the country in which the property to be valued is located to perform a property appraisal on his/her own or
- perform a collaborative or joint appraisal with an overseas real estate appraiser (hereinafter “Overseas Appraiser”).

It will be reasonable and practical to prepare an appraisal with an Overseas Appraiser as a supportive or collaborative staff that is familiar with the real estate market trends and social and economic conditions in the country in which the property is located.

B. In performing an appraisal, the Japanese Appraiser shall in principle complete an appraisal:

- through collaborative or joint work with an Overseas Appraiser who is certified or qualified as a specialist in the country in which the property is located; and
- in accordance with locally authorized or officially recognized real estate appraisal standards.

C. A Japanese Appraiser must fully understand the basic information needed to appraise overseas real estate properties, such as local real estate market trends, legal and taxation systems, appraisal standards, and the qualification system for appraisers. In addition, the Japanese Appraiser must review the work of the Overseas Appraiser, examining whether or not the work is appropriately and reasonably performed and confirming that the results of the work are also appropriate.

II. Agreement on Basic Procedures for Appraising Overseas Real Estate

In the appraisal of overseas real estate properties, the following basic

appraisal procedures must be explained to the client and the client's written consent to them must be received.

1. Selection of an Overseas Appraiser according to Section III
2. Scope of work of the Japanese Appraiser and the Overseas Appraiser, and the allocation of responsibilities
3. Property inspections and other investigations into the attributes and characteristics of the real estate to be appraised
4. Currency unit to be used to express the appraisal value of the property
5. Receipt of technical reports (if any) on the conditions of the buildings, facilities and environment of the property to be appraised (often called Engineering Report (hereinafter "ER"))

III. Selection of Overseas Appraisers

A. Japanese Appraisers shall understand overseas appraisal standards and overseas appraiser organizations (meaning organizations that grant licenses or titles to real estate appraisers; hereinafter the same). Overseas Appraisers shall be selected for collaborative or joint appraisal work from among Overseas Appraisers who are certified or qualified as specialists in the country after the Japanese Appraiser confirms the following minimum requirements:

1. Professional qualifications of the Overseas Appraiser and the overseas appraiser organization with which the appraiser is affiliated
2. Broad knowledge and practical experience of the Overseas Appraiser as a real estate appraiser; and
3. No conflicts of interest in the transaction of the real estate to be appraised.

B. The Overseas Appraiser selected according to Subsection A may be a nonresident of the country in which the property is located, but should be familiar with social and economic conditions concerning real estate appraisal in the country in which the property is located. The Overseas

Appraiser shall be capable of performing appraisals in the country based on the grounds that he/she has practical experience in making appraisals in that country.

- C. The Overseas Appraiser must be selected by the Japanese Appraiser's office in order to smoothly perform collaborative or joint appraisal work. Should the client recommend a candidate to serve as the Overseas Appraiser, the Japanese Appraiser's office shall select the candidate only after determining that the candidate is appropriately qualified to perform the collaborative or joint work by confirming the candidate's resume, practical experience, professional qualifications as a real estate appraiser, and so forth.

IV. Property Inspections and Survey of Market Trends and Legal Restrictions

A. Property Inspections

The property to be appraised must be identified through a property inspection that includes an internal inspection of the buildings.

However, in case that a property were to be reappraised by the same Japanese Appraiser who has done the property inspections before and if it were recognized that there were no relevant legal, physical, economic and other factors' changes on the subject property nor in the neighboring area, the inspections of the subject property may be admitted through an inspection report submitted by the Local Appraiser.

B. Survey of local real estate market trends and legal restrictions on the property

The Japanese Appraiser must have a thorough understanding of overseas real estate market trends, legal and taxation systems on the property, and appraisal standards, before performing property inspections or when

visiting the foreign locality, through reports or information supplied by the Overseas Appraiser.

In evaluating market trends and legal restrictions, the Japanese Appraiser must bear in mind that the appraisal report or its summary can be disclosed to investors. It is necessary to obtain a sufficient amount of information, including a macroeconomic analysis of local markets and social, economic, and administrative factors affecting the property value, such as standard contract conditions, land title system and other practices in real estate markets. The Japanese Appraiser shall collect and analyze information regarding the property. The appraisal report or the appraisal review report must contain sufficient information analysis.

C. Other surveys of the property for valuation

If an ER is issued or a ground contamination survey or other examination is conducted, the Japanese Appraiser must obtain these reports and incorporate that information in the appraisal if necessary.

V. Collaborative or Joint Work with an Overseas Appraiser

A. Collaborative or Joint Work Procedures

The Japanese Appraiser shall work collaboratively or jointly with an Overseas Appraiser based on an appropriate allocation of responsibilities. Basically, either of the following two methods may be applied.

1. The Japanese Appraiser requests the Overseas Appraiser to collect and provide basic materials and other support considered to be necessary to complete the appraisal (hereinafter, “Overseas Appraisal Support Work”), and the Japanese Appraiser performs the appraisal by using the services of Overseas Appraisal Support Work (hereinafter, “Overseas Appraisal Support Method”).
2. The Japanese Appraiser requests the Overseas Appraiser to prepare

an appraisal report and performs the appraisal by reviewing the overseas appraiser's report (hereinafter, "Overseas Report Review Method").

B. Promotion of Collaborative or Joint Work

The Japanese Appraiser and the Overseas Appraiser shall smoothly and steadily perform collaborative or joint work through close discussions and coordination at each phase in the appraisal process by means of meetings in person, telephone conversations, and communication via the Internet. Thus, the Japanese Appraiser's office shall conclude a written contract with the overseas real estate appraisal office to which the Overseas Appraiser is affiliated. The contract should contain appropriate procedures for collaborative or joint work between the Japanese Appraiser and the Overseas Appraiser.

	Overseas Appraisal Support Method	Overseas Report Review Method
Japanese Appraiser's office	1. Selection of the Overseas Appraiser 2. Overall appraisal report (quality control)	1. Selection of the Overseas Appraiser 2. Overall Appraisal Report (quality control)
Japanese Appraiser	1. Confirmation of Local Basic Materials 2. Overall appraisal report	1. Review of the Overseas Appraisal Report 2. Appraisal review report on the Overseas Appraisal Report 3. Translation into Japanese of the Overseas Appraisal Report
Overseas Appraiser	1. Local Basic Materials	1. Overseas Appraisal Report

VI. Contract Specifics for Collaborative or Joint Work

A. Overseas Appraisal Support Method

In applying the Overseas Appraisal Support Method, the contract shall

include provisions on the following.

1. Scope of contracted work

- Specifics of Overseas Appraisal Support Work
- Discussion and coordination of the Overseas Appraisal Support Work (by means of meetings in person, telephone conversations, and communication via the Internet)
- Specifics of materials to be supplied at meetings

2. Professional qualifications of the Overseas Appraiser

- Professional qualifications of the Overseas Appraiser who performs the Overseas Appraisal Support Work

3. Fees and expenses

4. Schedule

- Details of the schedule for the collaborative or joint work, including dates of meetings, briefings on Local Basic Materials, and delivery of Local Basic Materials
- The deadline must be strictly observed

5. Scope of responsibility of the Overseas Appraiser

- Scope of the Overseas Appraiser's responsibility for users (the client and others) of the appraisal report prepared by the Japanese Appraiser (limited to portions incorporating the Overseas Appraisal Support Work)

6. Other provisions

- Confidentiality agreement and so forth

B. Overseas Report Review Method

In applying the Overseas Report Review Method, the contract shall include provisions on the following.

1. Scope of contracted work

- Specifics of the appraisal in accordance with the appropriate authoritative standard in the country in which the property is located
- Discussion and coordination for performing the appraisal (by means of meetings in person, telephone conversations, and communication via the Internet)
- Specifics of materials to be supplied at meetings

2. Professional qualifications of the Overseas Appraiser

- Professional qualifications of the Overseas Appraiser who performs the appraisal

3. Fees and expenses

4. Schedule

- Details of the schedule for the collaborative or joint work, including dates of meetings, briefings on the Overseas Appraisal Report, and delivery of the Overseas Appraisal Report
- The deadline must be strictly observed

5. Scope of responsibility of the Overseas Appraiser

- Scope of Overseas Appraiser's responsibility for users (the client and others) of the Overseas Appraisal Report

6. Other provisions

- Confidentiality agreement and so forth

VII. Review and Supplementary Surveys

A. Review of Local Basic Materials or Overseas Appraisal Report

The Local Basic Materials or the Overseas Appraisal Report supplied by the Overseas Appraiser must be reviewed in order to confirm the soundness, relevance, appropriateness, and reasonableness of the work. This review process should at minimum include the following.

1. Review of Local Basic Materials

- Professional qualifications of the Overseas Appraiser, and his/her professional affiliations
- Date of preparation of the Local Basic Materials, and date of the data
- Physical condition of buildings and title related to the property to be appraised
- Assumptions of the Local Basic Materials
- Whether appropriate and sufficient data has failed to be supplied
- Data sources

2. Review of Overseas Appraisal Report

- Professional qualifications of the Overseas Appraiser, and his/her professional affiliations
- Date of preparation of the Overseas Appraisal Report and the effective date of the appraisal and the date of the report
- Physical condition of buildings and title related to the property to be appraised
- Assumptions in the Overseas Appraisal Report
- Whether appropriate and sufficient data has failed to be supplied
- Data sources
- Consistency of the appraisal method with the requirements of the authoritative standards in the country in which the property is

located

- Sound analysis of price factors related to property value
- Preparation of another appraisal or an appraisal review by another Overseas Appraiser if necessary

B. Supplementary surveys

In addition to the review of the Local Basic Materials or the Overseas Appraisal Report, supplementary surveys shall be carried out when deemed necessary to perform a proper appraisal. In this case, the supplementary surveys shall be performed by the Japanese Appraiser or by another overseas expert or specialist in the country.

VIII. Appraisal Value

A. Overseas Appraisal Support Method

The Japanese Appraiser shall work collaboratively or jointly with the Overseas Appraiser in accordance with Sections I through VII and determine the appraisal value.

The appraisal value shall in principle be expressed in the currency unit of the country in which the property is located.

B. Overseas Report Review Method

The Japanese Appraiser shall work collaboratively or jointly with the Overseas Appraiser in accordance with Sections I through VII .If the Overseas Appraisal Report is judged to be appropriate, the Japanese Appraiser shall agree to the appraisal value. However, if the Overseas Appraisal Report is judged to be inappropriate, the Japanese Appraiser shall not agree to it, but shall determine the final appraisal value and state the grounds for his/her judgment.

The appraisal value shall in principle be expressed in the currency unit of

the country in which the property is located.

IX. Appraisal Document

The appraisal report or the appraisal review report shall be prepared in writing by the Japanese Appraiser.

A. Overseas Appraisal Support Method

In performing an appraisal using the Overseas Appraisal Support Method, the Japanese Appraiser shall prepare the appraisal report. The Local Basic Materials (original supplied by the Overseas Appraiser) shall be attached to the appraisal report.

B. Overseas Report Review Method

In performing an appraisal using the Overseas Report Review Method, the Japanese Appraiser shall prepare the appraisal review report. The Japanese Appraiser shall also prepare an appropriate Japanese translation of the Overseas Appraisal Report.

The written appraisal document shall consist of the appraisal review report (including supplementary surveys, if any) and the Overseas Appraisal Report (original report). A Japanese translation of the Overseas Appraisal Report shall be attached to the appraisal document.

X. Content of Appraisal Document

A. Report Content Policy

The appraisal document shall include matters deemed necessary in accordance with Japanese Real Estate Appraisal Standards (established by the government in 1969) to the extent possible.

If certain matters deemed necessary according to Japanese Real Estate Appraisal Standards are not considered to be factors in real estate transactions and are usually ignored in appraisal reports in the country in which the property is located, these matters may be left unstated. The reasons for leaving these matters unstated, however, must be recorded.

B. Content

The appraisal report or the appraisal review report shall include matters in Subsection 1 below since the Japanese Appraiser is performing the appraisal with an Overseas Appraiser. Furthermore, it shall include matters in Subsection 2 below since Japanese capital market investors and other parties are usually unfamiliar with overseas real estate market trends.

1. Scope of work of the Japanese Appraiser and the Overseas Appraiser

The scope of work of the Japanese Appraiser and the Overseas Appraiser shall be respectively stated.

2. Information on the overseas real estate market

Since the appraisal document can be disclosed to investors, it shall include overall market analyses, information on real estate market practices and other social, economic, and administrative factors for property value in the country in which the property is located, in particular stating features that differ from those of Japan's real estate market.

a) Overseas real estate market trends

Basic real estate market trends of the regional real estate markets

b) Legal and taxation systems concerning real estate transactions

Title of the legal and taxation systems concerning real estate

transactions

c) Other information

Differences in real estate market practices in the country in which the property is located

3. Content of review using the Overseas Report Review Method

The appraisal review report shall include the specifics of review of the Overseas Appraisal Report, stating the opinions, reasons and conclusions in accordance with Section VII.

4. Appraisal value

The appraisal value shall be stated in the currency unit of the country in which the property is located, and also stated in the currency of Japan (yen) converted by using the closing exchange rate on the effective date of the appraisal.

C. Signature and seal

The appraisal report or the Overseas Appraisal Report shall be signed and sealed, respectively, by the Japanese Appraiser or the Overseas Appraiser.

XI. Notes

Appraisals of overseas properties shall be performed in accordance with the Sections I through X. For performing appropriate appraisals by following these guidelines, the following requirements must be met in the country in which the property is located:

1. Property data, market information needed to perform the appraisal, price factor data for property value and any other information can be

obtained.

2. A real estate appraiser who is affiliated to a professional organization that grants professional qualifications and provides guidance and education for its members can be selected.
3. Authorized or officially recognized real estate appraisal standards are maintained and disclosed as appropriate, and an overseas appraisal organization takes disciplinary actions (such as caution, suspension of title, revocation of title and so forth) in cases where its members fall seriously short of the standards expected of them.

Even in cases where Condition 2 and/or 3 above are not adequately met, the collaborative or joint work of real estate appraisal based on these guidelines may be performed with an Overseas Appraiser whose profession is qualified in other countries in which these conditions are satisfied.

If the requirements stated above are not satisfied, it is inappropriate to engage in overseas real estate appraisals and the client's request for such appraisal services should be declined.

XII. Status and Application of These Guidelines

These guidelines specify standards for Japanese Appraisers to perform appropriate collaborative or joint appraisals with Overseas Appraisers, protecting the interests of investors and enhancing the reliability of appraisals.

When Japanese private funds invest in overseas real estate or if J-REITs are allowed to include overseas real estate in the near future, the Japanese real estate market will be more integrated into the global real estate market. In particular, real estate appraisal by Japanese Appraisers is mandated for J-REITs in the Japanese regulations. Overseas property appraisals by Japanese Appraisers shall thus be

regulated by the Real Estate Appraisal Law (Law No. 152 of 1963).

In this context, these guidelines shall have status equal to the Real Estate Appraisal Standards of Japan for overseas property appraisals. A misleading or fraudulent appraisal violating these guidelines shall be subject to disciplinary actions by the government.