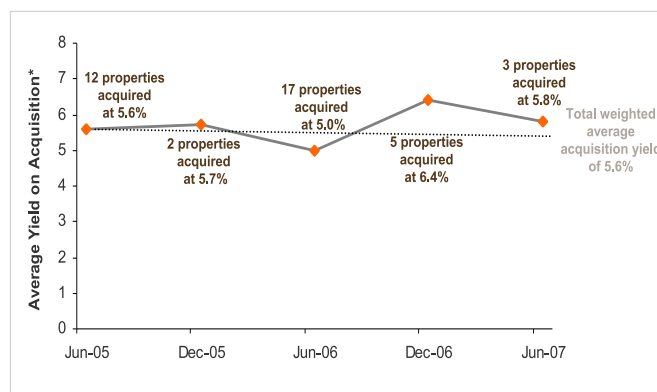


REAL ESTATE



Avg. Yields achieved on acquisitions (yield= net operating income/purchase price)

Source: BJT

BABCOCK & BROWN JAPAN PROPERTY TRUST

Focus: Babcock & Brown Japan Property Trust is a listed property trust with a strategy that invests in the real estate market of Japan.

- Property portfolio as at 30 June 2007: **JPY120.6 bn**
- It currently holds interests in a portfolio comprising 39 properties: office, 16 retail, 20 office, 3 residential
- Acquire a stake in properties which:
 - Are expected to provide sustainable earnings
 - offer opportunities to create value including through redevelopment, repositioning and applying more pro-active and cost-effective asset management; or
 - Are development projects where the risks associated with such projects can be reasonably mitigated through joint ventures, pre-commitments from tenants or other measures.
- Properties are acquired at no more than fair market value as determined by an independent qualified Japanese property appraiser.

Strengths: • Provides exposure to the office and retail real estate markets in the central and greater Tokyo area

- Expertise of local team - active in Japan since 1998 (which is when they identified structural changes, as well as significantly lower overall pricing compared to the early 1990s, gave rise to attractive real estate investment opportunities)
- Track record in acquiring well located properties at strong yields, despite the firming of capital rates in the Japanese market

Weaknesses: • Possibility of failure by a tenant to pay rent

- Reduction in occupancy rates
- Unforeseen capital expenditures that would increase the trust's funding costs
- Sensitivity to Japanese interest rates

Opportunities: • Significant investment opportunities are available - Japanese economy (market size)




- Continues to undergo major structural changes - attractive property yields relative to the cost of debt funds








Threats: • Man-made (terrorism), natural catastrophes (occurrence of earthquakes)

- Changes in the property market, especially changes in the valuations of properties and in market rents.
- Changes in political, legal, regulatory , economic conditions in Japan

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Major risk : Major risk to BJT's investment strategy would be an unexpectedly strong increase in interest rates that would not be accompanied by growth in rents
 - Trust's ability to sustain, purchase price which is at a discount to the valuation of the relevant property: 
- The market in Japan has traditionally been, and still remains, very much relationship driven, with the majority of property transactions taking place "off-market". It is therefore possible to find value if one does not compete for some of the major trophy assets in Central Tokyo which generate more competitive bidding.
- Property valuation related risk: 
- valuations for all properties at the time of acquisition and then periodically thereafter, are acquired from a range of independent qualified Japanese property appraisers.
- Due diligence skills: 

- Trust's ability to secure properties (i.e. pipeline) 
- Ability to match rate and duration of vacancies following the expiry or cancellation of leases: 
- Liquidity: 
- Leverage related risk: Target gearing range of 50-60% (interest bearing debt/property value) 51.1% as of 31.05.07 
- Exchange rate risk: (hedged) 
- Interest rate risks: 
uses interest rate hedging instruments to reduce the Trust's exposure to changes in interest rates
- Capital Hedging - policy- between 10%-30% of the Trust's net investments in Japanese assets will be hedged against currency fluctuations on an ongoing basis
- Key man risk: 

Contact Information:

**Babcock & Brown Japan Property Trust,
Managing Director, Eric Lucas**

Telephone : +61 2 9229 1800 (Australia) +81 3 3238 1671 (Japan)
Email : eric.lucas@babcockbrown.com
Website : www.bbajapanpropertytrust.com

REAL ESTATE

BABCOCK & BROWN JAPAN PROPERTY TRUST

Performance Parameters

Low
 Low / Moderate
 Moderate
 Moderate to High
 High

- No. of properties currently in the portfolio: 39
- Trusts ability to efficiently allocate capital: Since listing -grown its portfolio by 150% and funded distributions fully from operating cash flow
- Ability to achieve and maintain a balance between cancellable :non-cancellable leases: (no. of leases as of 31.05.07 =361 :39% non-cancellable leases by income)
- Avg. term to expiry of non cancellable leases 9.1 years (provide stability to the trust's income)
- Total Return since BJT's listing (1 Apr 05) thru 7 Aug 07
 - BJT: 103%;
 - S&P/ASX200: 62.17%
- S&P/ASX200 Property: 45.98%
- Trusts performance could be challenged if:
Increased supply of office and/or retail properties in the central and greater Tokyo area may affect the ability to secure lease renewals or obtain replacement tenants and increase the time required to let vacant space.
- Annual expense ratio:
2006 base fee AUD4,262,000/AUM AUD1.1bn = 0.76%

Outlook

- Barriers to entry: Expertise
- Outlook for Japanese real estate: Upside potential to range bound
- Outlook for BJT Trust: Upside potential
- Prospects:
 - Offer attractive distribution yield
 - Improved occupancy supports planned rental negotiations with tenant retention and income growth
- Rental increases are being negotiated during lease terms in addition to upon expiry
- Threat posed by competition: head start advantage; market large enough to cope with new entrants

Investment

- AuM : JPY120.6 bn
- Targeted at: Sophisticated Investors
- Geographic restrictions: Apply
- Asset base currency: JPY (partially funding currency AUD)
- Trust is listed on the ASX
- Transparency provided: Very high
- Complexity of strategy: Simple
- The Responsible Entity of the Trust is Babcock and Brown Japan Property Management Limited, a subsidiary of Babcock & Brown. Asset management services