

## BABCOCK & BROWN JAPAN PROPERTY TRUST

Babcock & Brown Japan Property Management Limited · ABN 94 111 874 563  
as responsible entity of the Babcock & Brown Japan Property Trust ARSN 112 799 854  
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### ASX Release

22 June 2007

#### **BJT OPERATIONAL UPDATE**

Attached is a presentation outlining the continued strong operational performance of Babcock & Brown Japan Property Trust.

It is intended that this will be presented by Mr Eric Lucas, Managing Director of Babcock & Brown Japan Property Management Limited, in a series of investor meetings in Europe and Asia. These meetings will commence with an institutional presentation in London on Friday 22 June 2007.

#### **Ends**

#### **Investor & Media Enquiries:**

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#### **About Babcock & Brown Japan Property Trust**

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Babcock & Brown Japan Property Trust is a listed property trust with a strategy to invest into the real estate market of Japan. It currently holds interests in a portfolio comprising 39 office, retail and residential properties.

The Responsible Entity of the Trust is Babcock and Brown Japan Property Management Limited, a subsidiary of Babcock & Brown. Asset management services in Japan are generally undertaken by Babcock & Brown Co., Ltd., which is also a subsidiary of Babcock & Brown.

For further information please see our website: <http://www.bb-japan-property-trust.com>

# BJT OPERATIONAL UPDATE

22 June 2007

# AGENDA

1. Overview and key features
2. Management structure and team
3. Performance history
4. Portfolio overview and leasing activity
5. BJT relative to J-REIT peers
6. Appendices

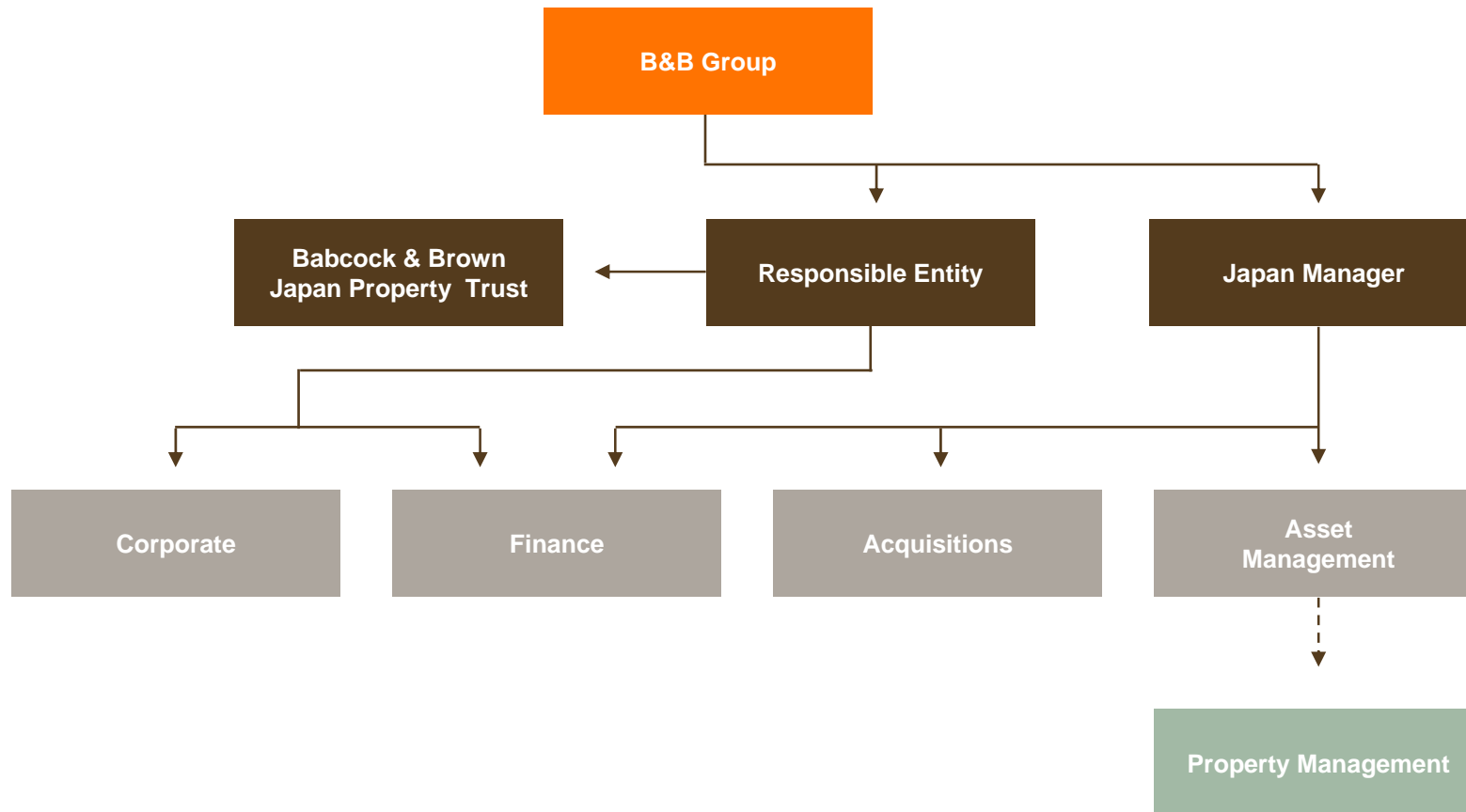
## OVERVIEW OF BJT

- First Australian LPT with a mandate to invest solely in Japanese real estate
- Listed in April 2005
- Current market capitalisation of \$907.3 million (based on 21 June 2007 closing price of \$1.83)
- Property portfolio valued at ¥118.5 billion (\$1.2 billion) as at 31 May 2007
- 39 properties – 16 retail, 20 office and 3 residential
- BJT has outperformed the ASX 200 Property Accumulation Index benchmark by approximately 45% on an annualised basis since listing
- Distributions fully paid out of operating cash flows and 100% tax deferred to date
- Significant gearing capacity available - gearing ratio 51.1% at 31 May 2007, near the bottom of BJT's preferred gearing range of 50-60%

## KEY FEATURES OF BJT

- **Earnings growth.** Focus on sustainable earnings growth
- **Selective acquisition process.** Proven ability to source quality properties at strong yields
- **Bottom up investment approach.** Properties for acquisition are reviewed on their individual merits, with attention given to the impact on overall portfolio cash flow and diversification
- **Diversified portfolio.** Creating a portfolio diversified by asset class, geography and tenant mix
- **Balance between cancellable and non-cancellable leases.** Maintaining this balance creates stability to the Trust's income whilst retaining exposure to potential upside
- **Conservative capital management.** Prudent capital management whilst maintaining an effective cost of capital
- **Large B&B team in Tokyo.** Utilising the expertise of the local B&B team in Tokyo, active in Japanese real estate since 1998

# ORGANISATION CHART



# ESTABLISHED MANAGEMENT TEAM

## Expanded from 12 at IPO to current team of 25

### **Babcock & Brown Japan**

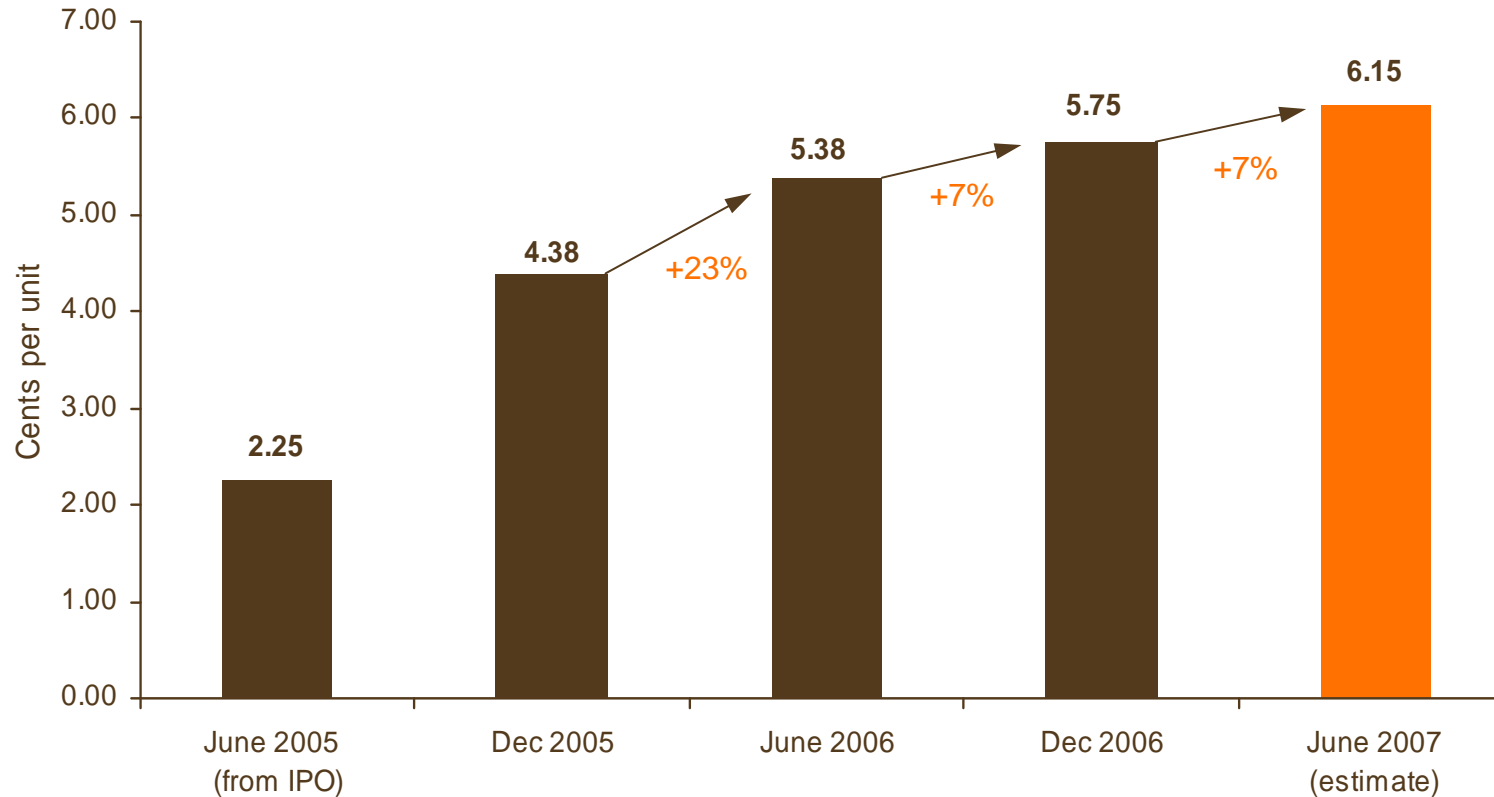
- Eric Lucas, Chief Executive Officer (20)
- Naoto Ichiki, Chief Operating Officer (17)
- Shinya Sato, Head of Acquisitions (32)
- Hideyuki Satoh, Acquisitions (8)
- Kentaro Sato, Acquisitions (5)
- Koichi Kurokawa, Acquisitions (8)
- Manabu Suzuki, Acquisitions (4)
- Masahiro Nakazato, Acquisitions/Asset Management (18)
- Masaki Katsura, Acquisitions (17)
- Masato Tanaka, Acquisitions (17)
- Yuki Hashimoto, Acquisitions (4)
- Hajime Inoue, Acquisitions/Asset Management (3)
- Naoto Yabu, Head of Asset Management (18)
- Chiaki Matsumoto, Asset Management (7)
- Chihiro Hara, Asset Management (9)
- Isao Noguchi, Asset Management (1)
- Itsusaburo Hirayama, Asset Management (13)
- Mayumi Emoto, Asset Management (2)
- Satoru Oishi, Asset Management (15)
- Sachi Ogino, Head of Administration/Accounting (14)
- Ai Yamaguchi, Accounting (4)
- Junko Ichikawa, Accounting (12)
- Mikiko Shimano, Accounting (17)
- Sanae Murata, Accounting (8)
- Rie Ariga, Office Manager (9)

### **Babcock & Brown Australia**

- Michelle Calcarao, Financial Controller (12)
- Dane Rennie, Financial Accountant (5)
- Alex Ong, Legal Counsel (6)
- Alison Carter, Investor Relations (14)

( ) : years of experience in real estate, finance, accounting and investment

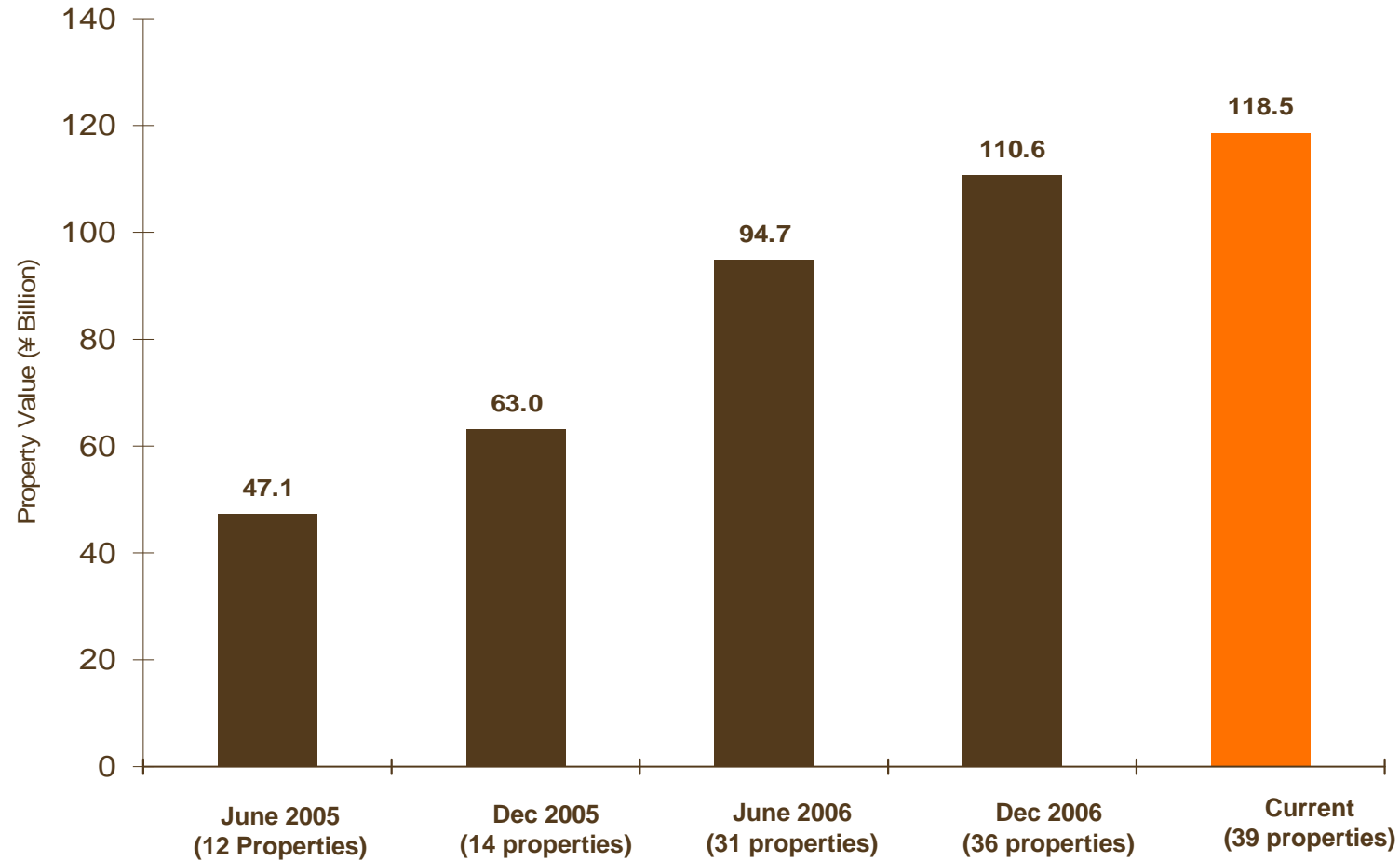
## CONTINUED GROWTH IN DISTRIBUTIONS



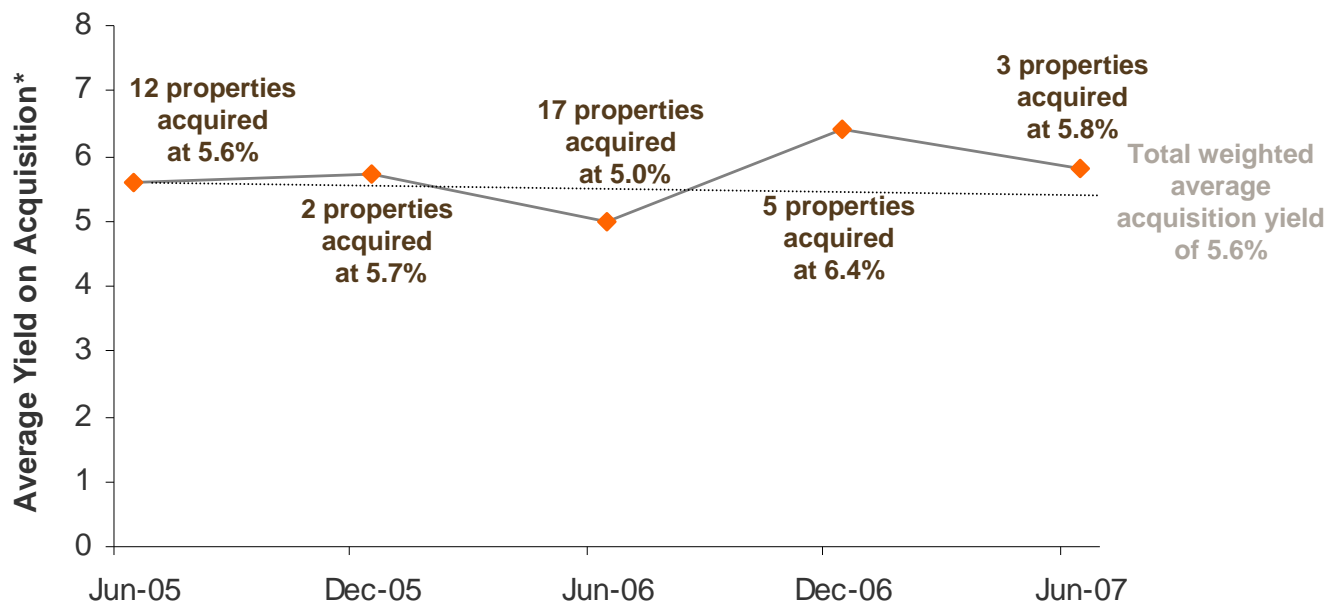
6.15 cpu estimated distribution for six months ended 30 June 2007 is:

- 7% higher than distribution for six months ended 31 December 2006
- 14% higher than distribution for six months ended 30 June 2006

## PORTFOLIO INCREASED BY 150% SINCE IPO



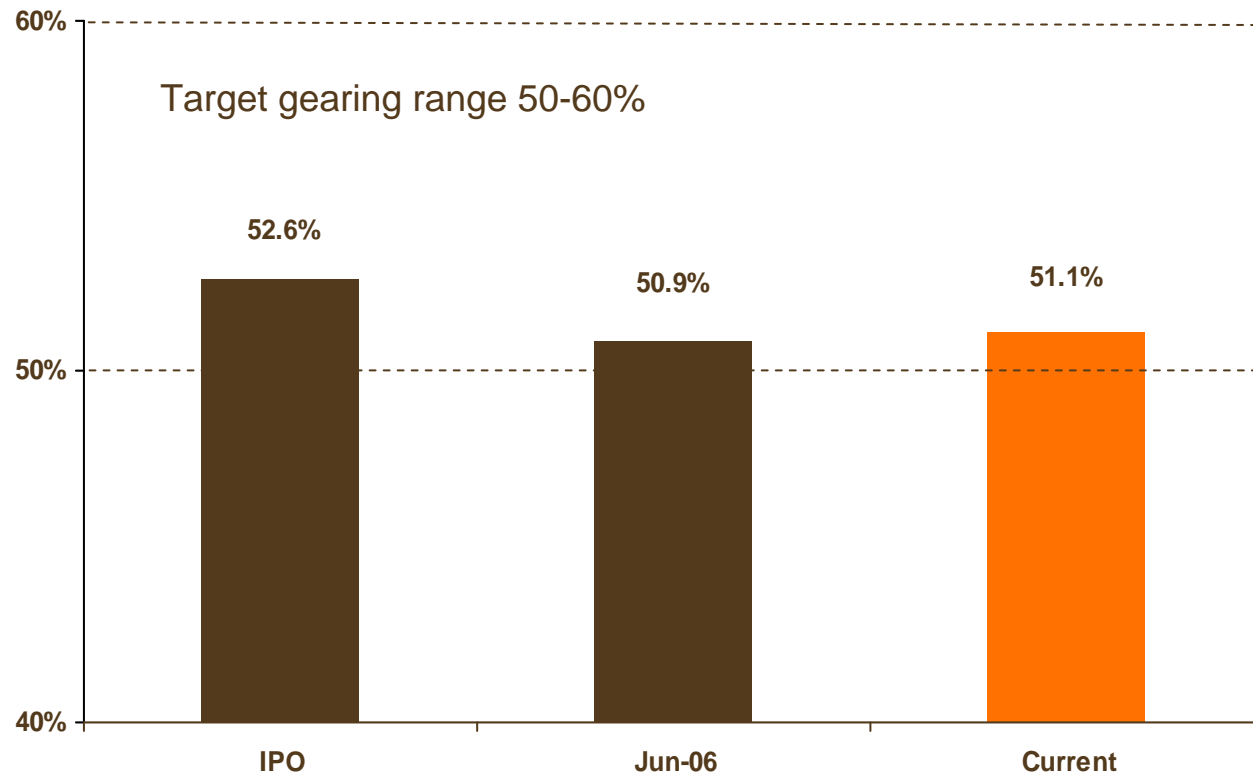
## STRONG YIELDS ACHIEVED ON ACQUISITIONS



Demonstrates track record in acquiring well-located properties at strong yields, despite general firming of cap rates in the Japanese market

\* Yield = Net operating income / purchase price

# SIGNIFICANT GEARING CAPACITY AVAILABLE



Gearing: interest bearing debt/property value

## PORTFOLIO OVERVIEW – 31 MAY 2007

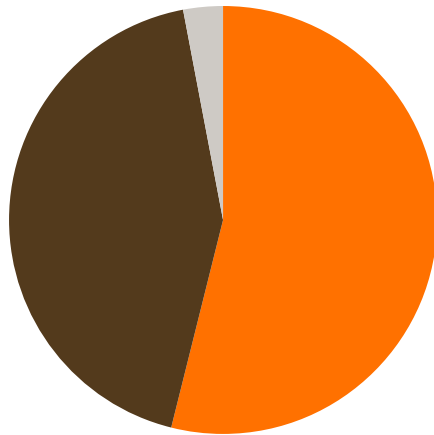
As at:	31 May 2007
Total no. of properties	39
NRA (sqm)	241,123
Occupancy by income <sup>(1)</sup>	95.5%
Occupancy by area	97.6%
No. of leases	361
% non-cancellable leases by income <sup>(2)</sup>	39%
Average term to expiry (non-cancellable leases)	9.1

1. Occupancy by income increases to 97.7% when Kuroshio Shijo (it is expected that this property will be sold) and Tsudanuma (acquired on 20 April 2007 with 68.5% occupancy by income) are excluded. Applications for the remaining vacant space at Tsudanuma have already been received
2. The non-cancellable leases provide considerable stability to the Trust's income

# DIVERSIFIED BY GEOGRAPHY AND ASSET CLASS

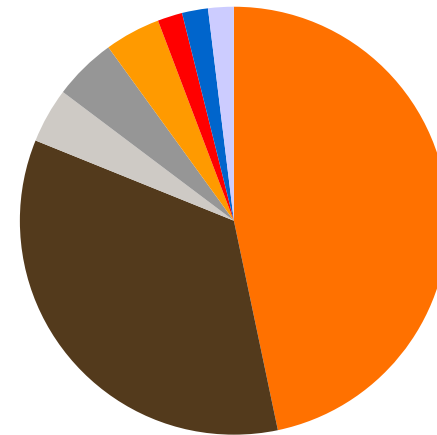
## 31 MAY 2007

Asset class diversification (by value)



■ Retail - 54%  
■ Office - 43%  
■ Residential - 3%

Geographic diversification (by value)



■ Central Tokyo - 47%    ■ Greater Tokyo - 35%  
■ Kyoto - 4%    ■ Sapporo - 5%  
■ Okinawa - 3%    ■ Nagoya - 2%  
■ Greater Sapporo - 2%    ■ Shizuoka - 2%

## LEASING ACTIVITY – 11 MONTHS ENDED 31 MAY 2007

Leasing Activity	Number of Leases	SQM	% OF NRA
<b>Existing/scheduled leasing activity</b>			
Expired leases	(92)	(19,221)	(8.0)%
Renewed leases	92	19,221	8.0%
<b>Net change due to renewals</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<b>New/unscheduled leasing activity</b>			
Cancelled leases <sup>(1)</sup>	(35)	(8,621)	(3.5)%
New leases <sup>(1)</sup>	45	7,980	3.3%
<b>Net change due to new leases</b>	<b>10</b>	<b>(641)</b>	<b>(0.2%)</b>
<b>Net increase in occupied area</b>	<b>10</b>	<b>(641)</b>	<b>(0.2%)</b>

1. Includes the cancellation of a 1,585 sqm lease for the sole tenant of Kuroshio Shijo that defaulted and was evicted in December 2006 and the activation of a master lease. The master lease guarantee expired in mid-January 2007

## RENTAL GROWTH ACHIEVEMENTS

- Portfolio occupancy has improved over the past two years
- Improved occupancy supports planned rental negotiations with tenants
- Smaller staged rental increases are targeted to optimise balance between tenant retention and income growth
- Rental increases are being negotiated during lease terms in addition to upon expiry
- Positive signs of rental growth in the 11 months to 31 May 2007:

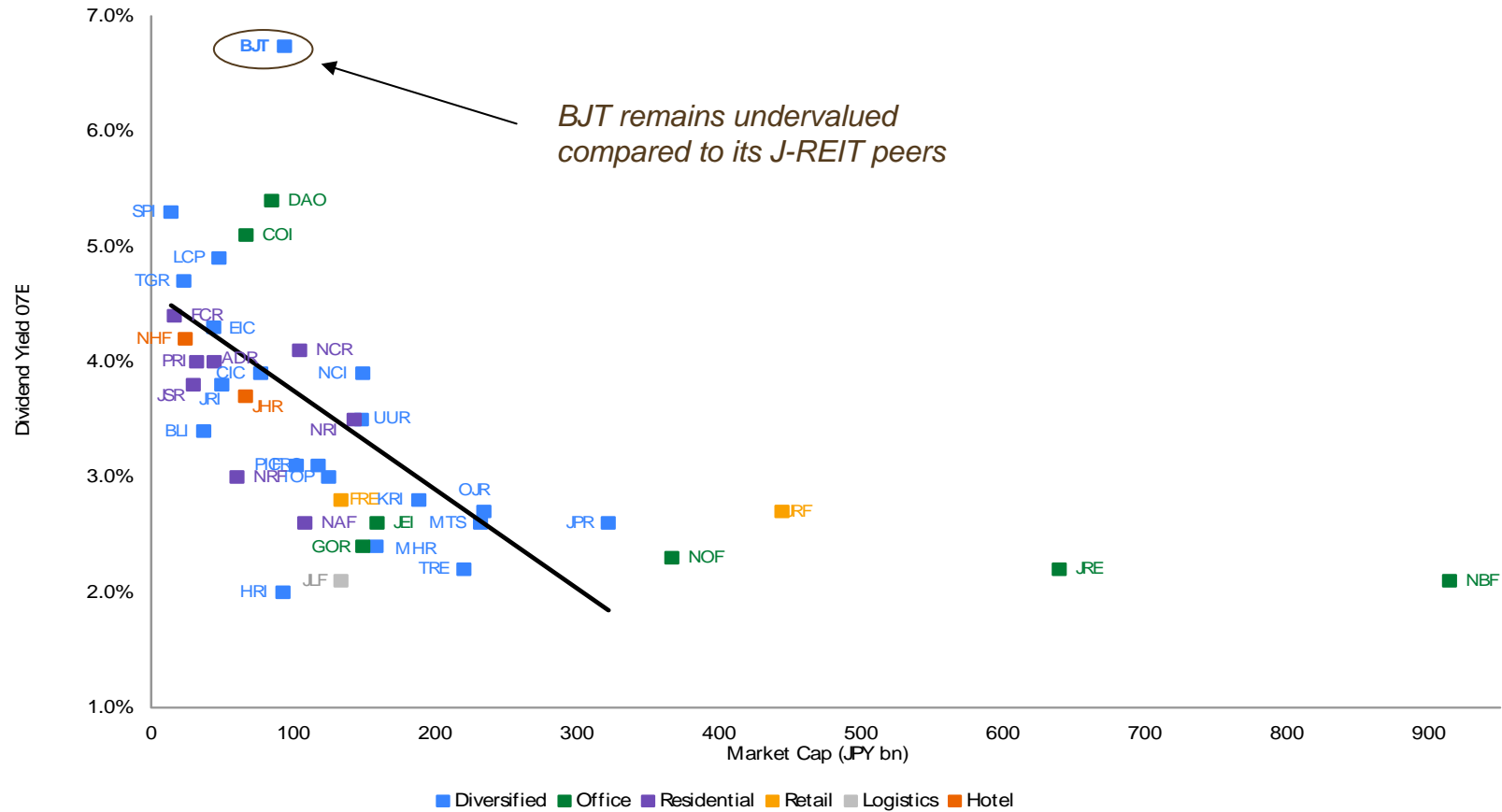
Timing of rental negotiation	No. of leases	% of portfolio income	% increase in rent
On renewal of lease	7	2.0%	9.7%
New leases	28	4.2%	16.2%
During lease term	9	8.1%	7.9% <sup>(1)</sup>
<b>Currently in progress</b>	<b>13</b>	<b>5.1%</b>	<b>Under negotiation</b>

1. Half of increase has taken effect, remainder to take effect between November 2007 and April 2008.

## RECENT ASSET IMPROVEMENT INITIATIVES

- The Babcock & Brown Asset Management Team in Tokyo is focused on pro-active value-add capital expenditure
- Only undertaken when expenditure is cost-efficient and likely to support rental increases or improved occupancy
- These initiatives include upgrades to building facades, lobby areas and facilities
- Recent examples include:
  - **Sun Ace Tokugawa:** Refurbishment of lobby area, following which two existing tenants increased their rental space and one new tenant signed a lease
  - **Sun No.5:** Refurbishment of building facade and lobby area, resulting in rental increases
  - **Prime Stay Tsukiji:** Conversion of idle storage room into rentable space, increasing NRA

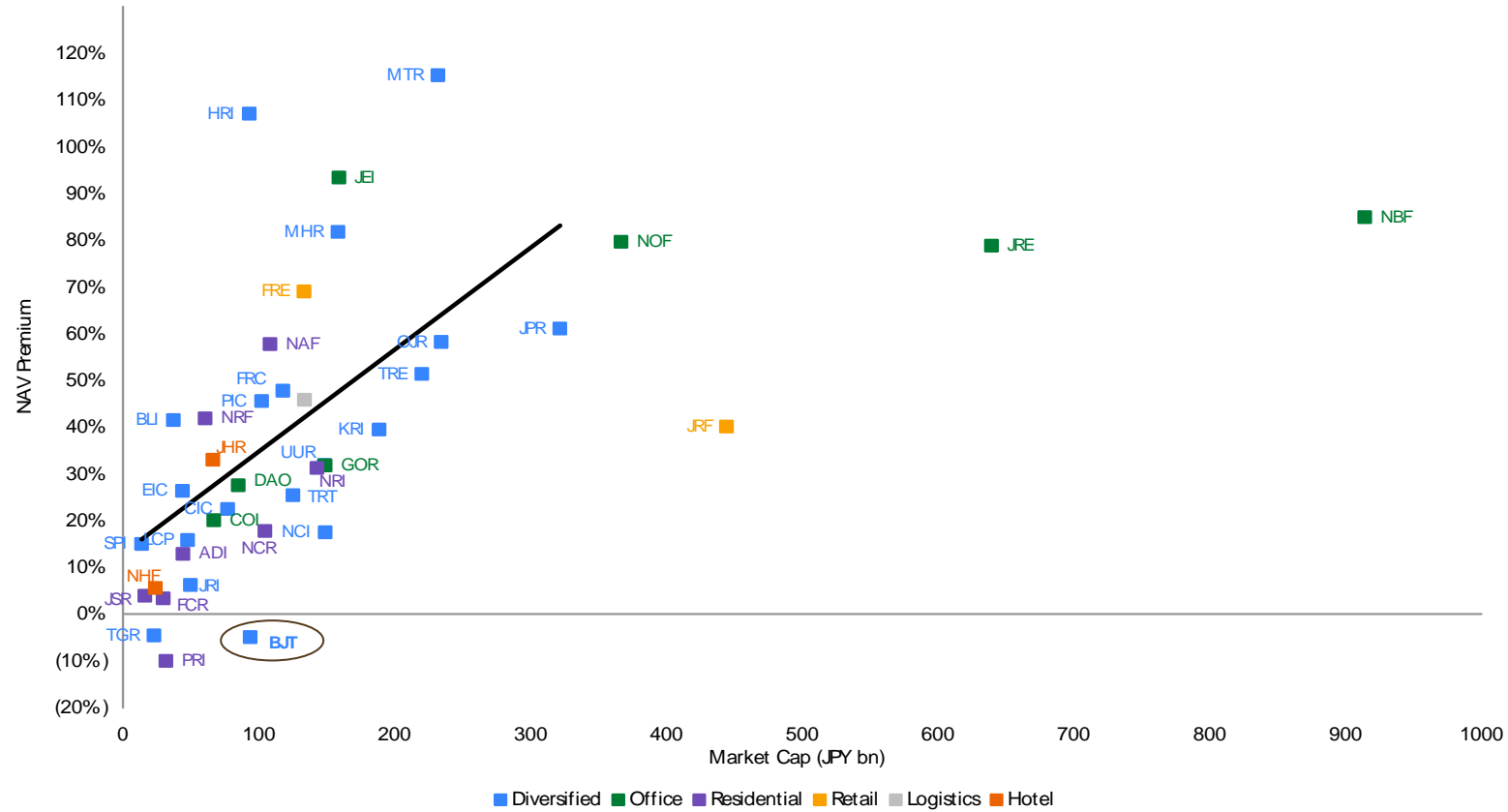
# DIVIDEND YIELD VS. MARKET CAPITALISATION



**Source:**

1. For BJT 2007E:UBS estimate (estimated distribution to 30 June 2007 of 6.15 cps x 2)
2. For FY07 consensus dividend yield of J-REITs: Asset management companies, UBS estimates (as of 8 June 2007)
3. For market cap: Datastream, Bloomberg

# NAV PREMIUM VS. MARKET CAPITALISATION



**Source:**

1. NAV premium/discount for BJT according to UBS Research NAV comparison methodology as outlined in "Net Asset Value (NAV) analysis – Comparing Australian REITs to their global peers" of 16 May 2007
2. Source for FY07 consensus dividend yield and Prem./disc. to NAV of J-REITs: Asset management companies, UBS estimates (as of 8 June 2007)
3. Source for market cap: Datastream, Bloomberg

## KEY AREAS OF FOCUS FOR FY2008

- **Accretive expansion of the portfolio.** To generate sustainable earnings growth and improve liquidity
- **Ongoing process of planned rental negotiations.** Continuing to target sustainable rental growth
- **Implementation of asset management initiatives.** Selective refurbishments, tenant remixing and improvements to tenant facilities to improve portfolio income and value
- **Maintain low cost of capital.** Negotiation and management of debt facilities
- **Protect yield spread.** Interest rate swaps to facilitate matching of assets and liabilities
- **Ongoing review of hedging policy.** Policy needs to remain appropriate for current market conditions

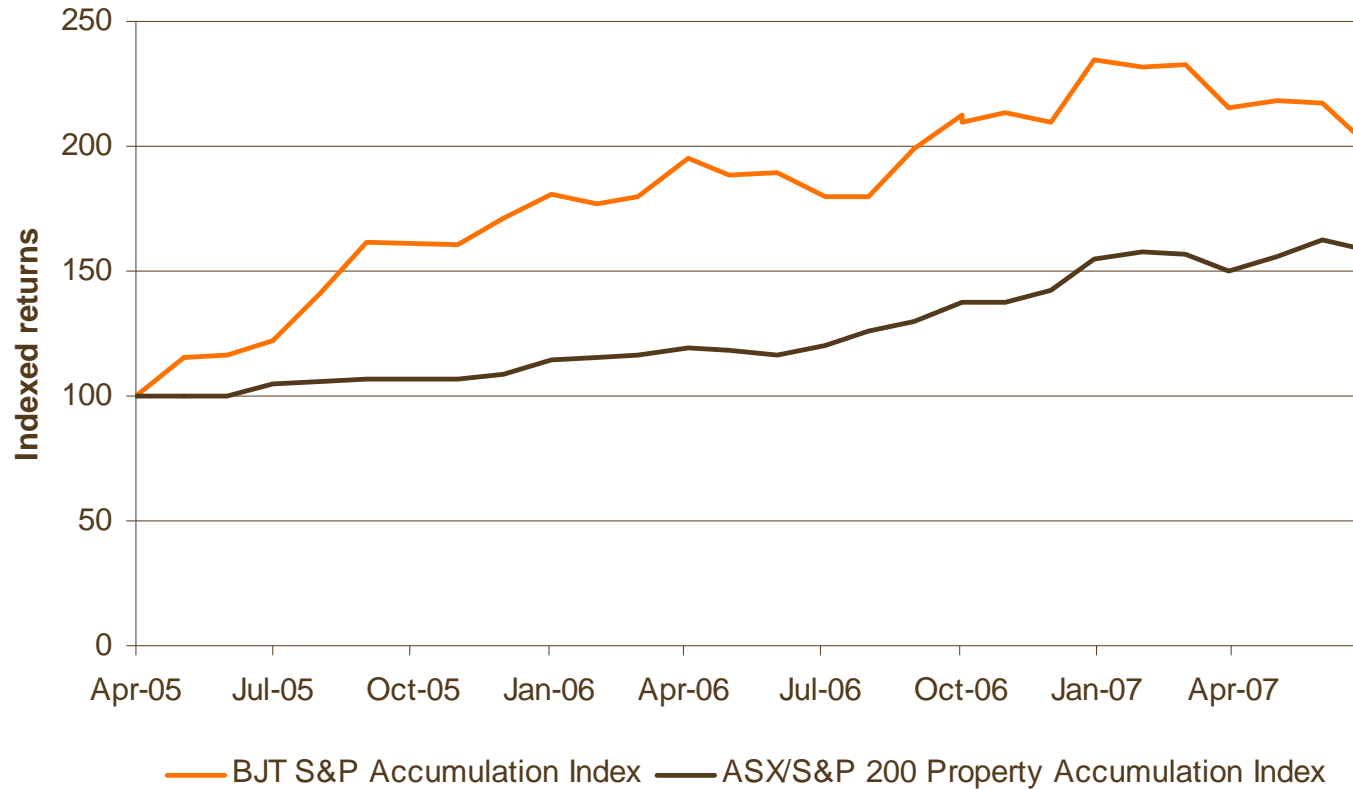
## OUTLOOK

- **The Japanese property market is large and fragmented.** It continues to offer great potential for participants with significant market expertise and extensive networks
- **Significant market recovery taking place.** This market is experiencing a significant recovery in-line with the broader recovery in the Japanese economy
- **Good buying opportunities exist.** Despite substantially increased investor interest we continue to acquire quality properties at strong yields
- **Low interest rate environment.** The yield spread in Japan remains well above that available internationally
- **Significant gearing capacity.** This enhances BJT's ability to fund further accretive acquisitions

# APPENDICES

1. BJT performance
2. Portfolio occupancy
3. Financial information
4. Market data

# BJT PERFORMANCE RELATIVE TO BENCHMARK



## PORTFOLIO SNAPSHOT AT 31 MAY 2007

	Carrying Value		Occupancy by area		Occupancy by income <sup>4</sup>	
	May 2007 ¥ billions	% of portfolio	June 2006	May 2007	June 2006	May 2007
<b>Retail</b>	64.5	54.5%	99.8%	98.8%	99.2%	95.1%
<b>Office</b>	50.5	42.6%	92.2%	94.1%	95.0%	95.7%
<b>Residential</b>	3.4	2.9%	100.0%	99.1%	100.0%	98.7%
<b>Portfolio</b>	<b>118.5</b>	<b>100.0%</b>	<b>97.2%</b>	<b>97.6%</b>	<b>97.0%</b>	<b>95.5%</b>
<b>RETAIL</b>						
<b>Kawasaki Dice</b>	14.2	12.0%	100.0%	99.2%	100.0%	98.9%
<b>Konan Home Centre</b>	10.8	9.1%	100.0%	100.0%	100.0%	100.0%
<b>Mukomachi Saty</b>	5.0	4.2%	100.0%	100.0%	100.0%	100.0%
<b>Shinjuku Fuji</b>	4.8	4.0%	100.0%	100.0%	100.0%	100.0%
<b>Sapporo Nishioka<sup>1</sup></b>	3.9	3.3%	n/a	100.0%	n/a	100.0%
<b>Ginowan<sup>1</sup></b>	3.8	3.2%	n/a	100.0%	n/a	100.0%
<b>Shibuya Konami<sup>1</sup></b>	2.7	2.3%	n/a	100.0%	n/a	100.0%
<b>Susono<sup>1</sup></b>	2.6	2.2%	n/a	100.0%	n/a	100.0%
<b>Sapporo Co-op<sup>1</sup></b>	2.5	2.1%	n/a	100.0%	n/a	100.0%
<b>Matsudo Nitori<sup>1</sup></b>	2.4	2.0%	n/a	100.0%	n/a	100.0%
<b>Kuroshio Shijo<sup>2</sup></b>	2.0	1.7%	100.0%	0.0%	100.0%	0.0%
<b>Harajuku Bell Pier</b>	2.4	2.0%	86.9%	100.0%	84.9%	100.0%
<b>Motomachi</b>	2.3	1.9%	94.7%	100.0%	97.5%	100.0%
<b>Tsudanuma<sup>3</sup></b>	2.3	1.9%	n/a	81.8%	n/a	68.5%
<b>Sapporo Toys R Us</b>	1.8	1.5%	100.0%	100.0%	100.0%	100.0%
<b>Kajicho Ekimae</b>	1.1	1.0%	100.0%	100.0%	100.0%	100.0%
<b>Retail Sub Total / Average</b>	<b>64.5</b>	<b>54.5%</b>	<b>99.8%</b>	<b>98.8%</b>	<b>99.2%</b>	<b>95.1%</b>

1. Properties acquired during the period at 100% occupancy.
2. Tenant was in arrears with rental payment, litigation commenced in June 2006 and the tenant was evicted in December 2006. It is expected that property will be sold and that such an event will not have a material impact on the performance of the Trust.
3. Property acquired on 20 April 2007 at 81.8% occupancy (by area) and 68.5% occupancy (by income). Applications have already been received for the remaining space.
4. Retail occupancy by income increases to 99.8% and total portfolio occupancy by income increases to 97.7% when Kuroshio Shijo (expected to be sold) and Tsudanuma (acquired in April 07 with 31.5% vacancy) are excluded.

# PORTFOLIO SNAPSHOT AT 31 MAY 2007

OFFICE	Carrying Value		Occupancy by area		Occupancy by income	
	May 2007 ¥ billions	% of portfolio	June 2006	May 2007	June 2006	May 2007
Shinjuku Sanei	10.2	8.6%	96.6%	99.3%	95.8%	99.8%
Ginza Dowa	9.1	7.6%	100.0%	98.1%	100.0%	96.4%
Kokusai Nihombashi	5.8	4.9%	100.0%	100.0%	100.0%	100.0%
Sun	3.6	3.1%	100.0%	100.0%	100.0%	100.0%
Yamashitacho <sup>1</sup>	3.0	2.5%	n/a	100.0%	n/a	100.0%
Higashi Totsuka	2.7	2.3%	90.4%	90.5%	91.2%	91.2%
Sun Ace Tokugawa	2.3	1.9%	64.3%	77.1%	66.4%	78.4%
Takadanobaba	1.8	1.5%	86.1%	100.0%	90.2%	100.0%
Forest Kita Aoyama	1.8	1.5%	100.0%	100.0%	100.0%	100.0%
OS Tsukiji	1.6	1.4%	100.0%	90.9%	100.0%	90.9%
Prime Kanda	1.4	1.2%	100.0%	100.0%	100.0%	100.0%
Asakusa	1.3	1.1%	100.0%	100.0%	100.0%	100.0%
Shiba Daimon	1.0	0.8%	100.0%	100.0%	100.0%	100.0%
Prime Tsukiji	1.0	0.8%	100.0%	100.0%	100.0%	100.0%
Yoksuya KD	0.8	0.7%	83.1%	86.8%	85.8%	86.4%
Akabane	0.8	0.7%	87.3%	87.3%	88.7%	87.8%
Daikanyama Takara	0.8	0.7%	100.0%	100.0%	100.0%	100.0%
Showa Yakubo	0.7	0.6%	78.2%	51.7%	79.5%	50.3%
FT Nihombashi	0.6	0.5%	100.0%	83.3%	100.0%	82.0%
Sun No. 5	0.5	0.4%	87.1%	100.0%	88.4%	100.0%
<b>Office sub total / average</b>	<b>50.5</b>	<b>42.6%</b>	<b>92.2%</b>	<b>94.1%</b>	<b>95.0%</b>	<b>95.7%</b>
<b>RESIDENTIAL</b>						
G-Clef Kamata	1.9	1.6%	100.0%	100.0%	100.0%	100.0%
Prime Stay Tsukiji	0.8	0.7%	100.0%	95.7%	100.0%	95.8%
Kishi-Kasai	0.7	0.6%	100.0%	100.0%	100.0%	100.0%
<b>Retail Sub Total / Average</b>	<b>3.4</b>	<b>2.9%</b>	<b>100.0%</b>	<b>99.1%</b>	<b>100.0%</b>	<b>98.7%</b>
<b>Total / average</b>	<b>118.5</b>	<b>100%</b>	<b>97.2%</b>	<b>97.6%</b>	<b>97.0%</b>	<b>95.5%</b>

1. Properties acquired during the period at 100% occupancy.

## DEBT AND INTEREST RATE SWAPS AT 22 JUNE 2007

	TK#1 borrowings (¥ billion)	TK#2 borrowings (¥ billion)	TK#3 borrowings (¥ billion)	TK#4 borrowings (¥ billion)	Total/weighted average (¥ billion)
Fixed debt	18.6	17.8	11.3	-	47.8
Floating debt	2.1	2.0	2.3	6.8	13.2
Trust interest %	100%	100%	100%	100%	100%
Trust interest	20.7	19.8	13.6	6.8	61.0
Debt maturity date	29 March 2010	22 December 2010	31 May 2012	22 December 2010	17 January 2011
Debt maturity (years)	2.8	3.5	4.9	3.5	3.6
Fixed swap maturity date	29 March 2010	22 December 2010	29 September 2016	-	21 January 2012
Fixed swap maturity (years)	2.8	3.5	9.3	-	4.6
Fixed interest rate (p.a.)	1.30%	1.58%	3.20%	-	1.86%
Floating interest rate (p.a.)	1.31%	1.27%	1.87%	1.41%	1.45%
Blended rate (p.a.)	1.30%	1.55%	2.98%	1.41%	1.77%

## HEDGING ARRANGEMENTS AT 31 MAY 2007

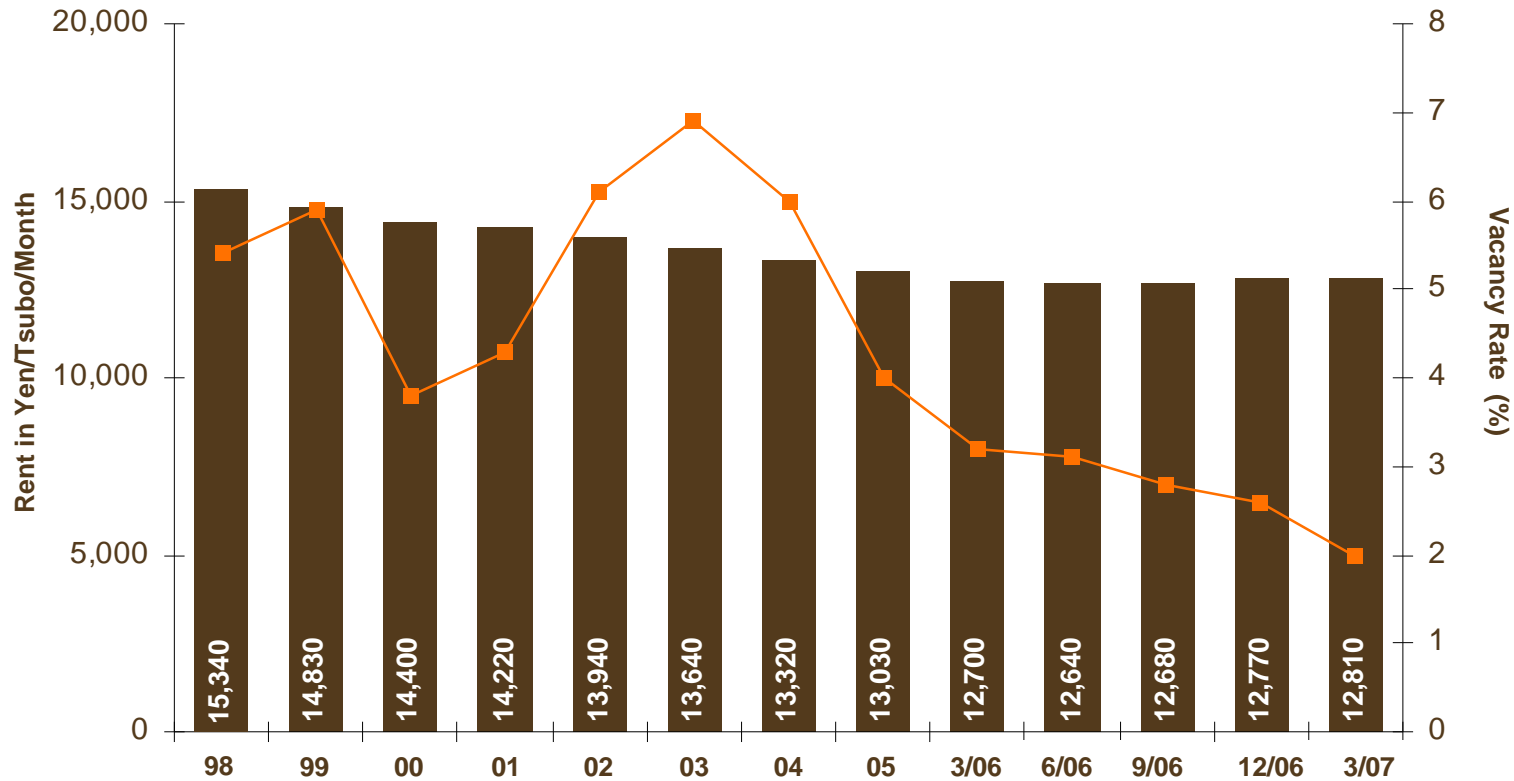
Distribution hedge maturity profile	
Settlement date	Exchange rate
August 2007	77.0
February 2008	75.1
August 2008	73.7
February 2009	71.9
August 2009	70.4
February 2010	69.0
August 2010	69.5
February 2011	68.6
August 2011	67.9
February 2012	68.9

## HEDGING ARRANGEMENTS continued

Capital hedge maturity profile					
Settlement date	BJT receives AUD	BJT pays JPY	Exchange rate	AUD interest rate	JPY interest rate
August 2009	30,000,000	2,487,240,000	82.9	6.10%	0.63%
August 2010	46,500,000	4,040,385,000	86.9	5.86%	0.88%
August 2011	30,000,000	2,487,240,000	82.9	6.13%	0.98%
August 2012	20,000,000	1,793,200,000	89.7	6.17%	0.61%
August 2013	10,000,000	896,600,000	89.7	6.14%	1.56%
August 2014	10,000,000	896,600,000	89.7	6.13%	1.67%
<b>May 2011</b>	<b>146,500,000</b>	<b>12,601,265,000</b>	<b>86.0</b>	<b>6.04%</b>	<b>0.92%</b>

At 31 May 2007 the capital hedge comprised 25.6% of net investment in Japanese assets (24.2% of unit holders' funds)

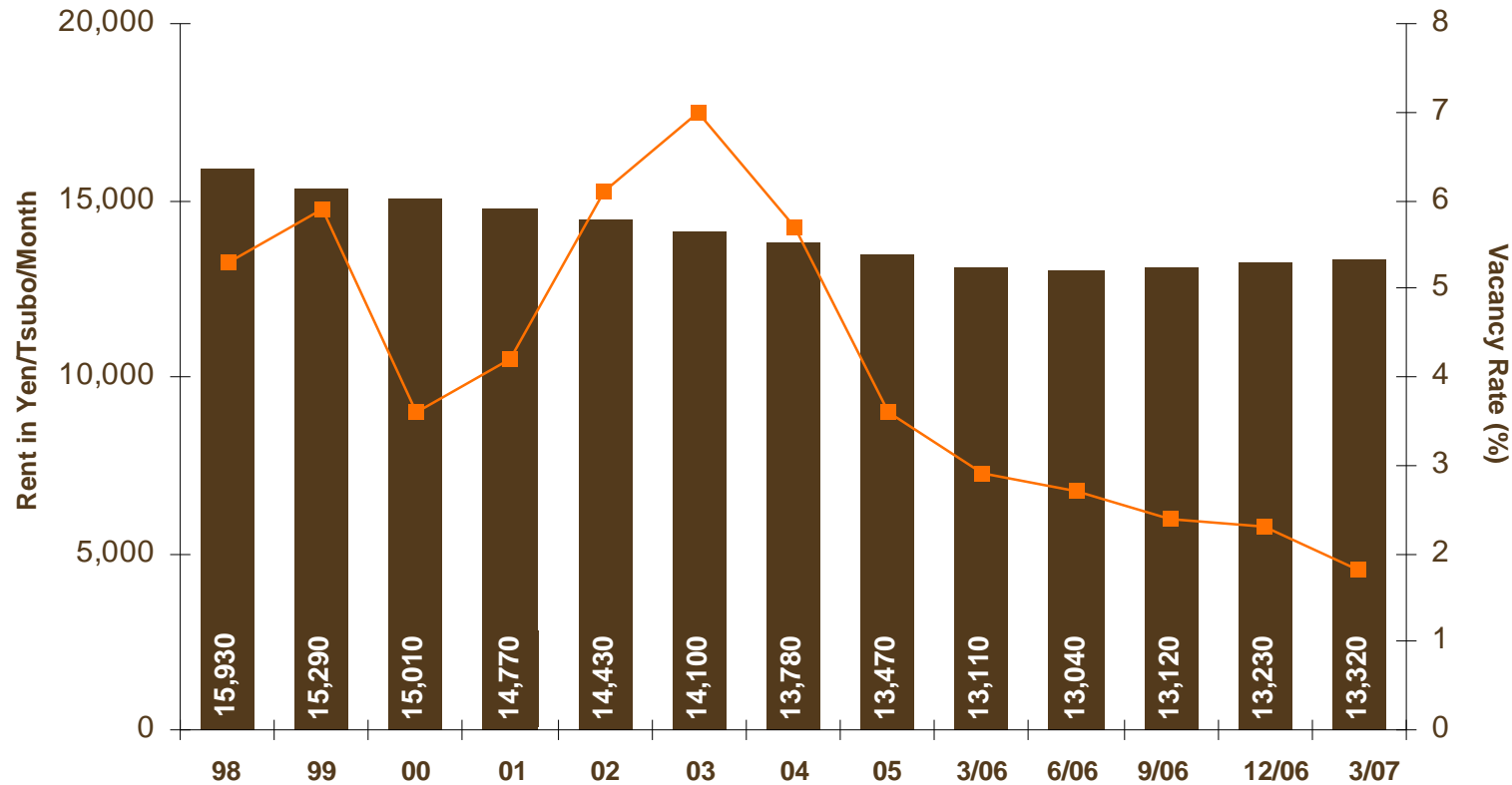
# MARKET VACANCY RATE AND AVERAGE OFFICE ASKING RENTS FOR TOKYO'S 23 WARDS



- Average office asking rents increased to 12,940 Yen/Tsubo/Month in April 2007 (2.4% growth over June 2006), with vacancy remaining at 2%

Source: CBRE

# MARKET VACANCY RATE AND AVERAGE OFFICE ASKING RENTS FOR CENTRAL TOKYO'S FIVE WARDS



- Average office asking rents increased to 13,430 Yen/Tsubo/Month in April 2007 (3.0% growth over June 2006), and vacancy further declined to 1.7%

Source: CBRE

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