



NEW CITY RESIDENCE

New City Residence Investment Corporation

SEMI-ANNUAL REPORT FOR THE PERIOD
MARCH 1ST 2007 TO AUGUST 31ST 2007

NEW CITY RESIDENCE

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New City Residence Investment Corporation (New City Residence) was listed on the Real Estate Investment Trust section of the Tokyo Stock Exchange on December 15, 2004 (securities code: 8965).

Through the acquisition of leasing properties featuring high-quality residences, and the introduction of an array of value-added services, New City Residence has positioned itself as a high-end multifamily apartment brand.

New City Residence aims to build a portfolio that appeals to a broad range of tenants, responds to diverse and changing lifestyle preferences, as well as environmental, demographic and generational trends.

New City Residence delivers strong growth through a pipeline strategy and extensive outside information network, and continues to meet the needs of its tenants through centralized property management functions and standardized services.

Given the importance inherent in the nature of residential properties, New City Residence is confident that it is well positioned for stable medium- to long-term earnings.

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Financial Highlights

Summary of 1st to 5th Period Results

	1st Period (ended Aug 31, 2005)*	2nd Period (ended Feb 28, 2006)	3rd Period (ended Aug 31, 2006)	4th Period (ended Feb 28, 2007)	5th Period (ended Aug 31, 2007)
Operating period	260 days	181 days	184 days	181 days	184 days
Operating revenues	3,224 million yen	3,346 million yen	4,201 million yen	5,678 million yen	5,730 million yen
Income before income taxes	1,151 million yen	1,435 million yen	1,635 million yen	2,442 million yen	2,199 million yen
Net income	1,146 million yen	1,433 million yen	1,630 million yen	2,437 million yen	2,197 million yen
NOI (Note 1)	2,591 million yen	2,637 million yen	3,293 million yen	3,615 million yen	4,122 million yen
FFO (Note 2)	1,657 million yen	1,934 million yen	2,282 million yen	3,175 million yen	3,044 million yen
Total cash distribution	1,146 million yen	1,433 million yen	1,630 million yen	2,437 million yen	2,197 million yen
Total assets	104,678 million yen	135,663 million yen	164,094 million yen	181,509 million yen	195,685 million yen
Total interest-bearing liabilities	62,200 million yen	66,900 million yen	94,600 million yen	90,300 million yen	104,350 million yen
Net assets	40,503 million yen	66,539 million yen	66,756 million yen	88,242 million yen	88,006 million yen
LTV (Note 3)	59.4%	49.3%	57.6%	49.7%	53.3%
Outstanding investment units issued	74,556 units	122,612 units	122,612 units	164,068 units	164,068 units
Distribution per unit	15,381 yen	11,692 yen	13,302 yen	14,858 yen	13,393 yen
Net asset per unit	543,268 yen	542,687 yen	544,451 yen	537,843 yen	536,404 yen
FFO per unit	22,231 yen	15,774 yen	18,616 yen	19,351 yen	18,555 yen

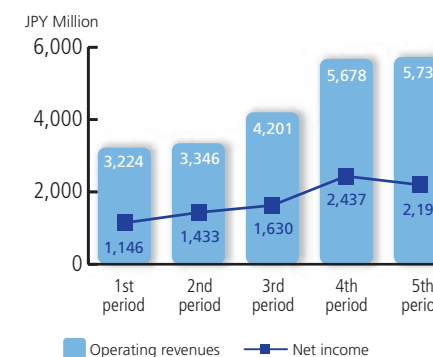
Note 1: NOI = Rental income for the period (rental revenues – rental expenses) + depreciation for the period

Note 2: FFO = Net income for the period + depreciation for the period

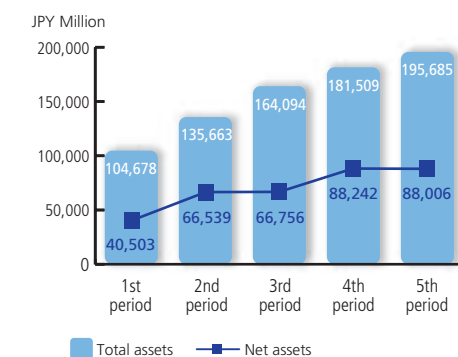
Note 3: LTV (Loan to value ratio) = Total interest bearing liabilities/total assets at end of period

*The 1st period was from December 15, 2004 to August 31, 2005

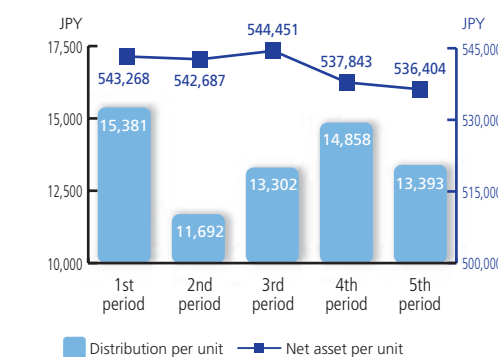
Operating Revenues and Net Income



Total Assets and Net Assets



Distribution per Unit and Net Asset per Unit



Issuer Ratings

(as of August 31, 2007)

Rating Agency	Issuer Rating	Rating Outlook
Moody's Investors Service, Inc.	A3	Positive
Rating and Investment Information, Inc.	A+	Stable

Further Reinforcing Market Trust by Becoming More Transparent and Understandable

New City Residence Investment Corporation (New City Residence) is a Japanese real estate investment trust (J-REIT) listed in December 2004. In the more than three years since, New City Residence has consistently and successfully secured "stable revenues and steady growth," and has continued to grow as a representative residential property J-REIT.

We are resolved in our commitment to continuously achieve steady growth in the future, with a portfolio centering on "close," "new" and "large" properties primarily located in the Tokyo Metropolitan Area, and to maintain our efforts to further reinforce our trust relationship with investors.



Jun Arai
Executive Director, New City Residence Investment Corporation
President, CBRE Residential Management K.K.

Q: Please explain the new management structure and stance following your appointment as Executive Director of New City Residence and President of CBRE Residential Management on July 31, 2007.

Arai: I assumed the post of Executive Director of New City Residence and President of CBRE Residential Management K.K. (hereafter, CBRERM), the asset manager of New City Residence at the end of July.

There has been no change in the asset management policy of New City Residence with my appointment. I will conduct asset management in line with the policies and strategies New City Residence has diligently implemented since the IPO. I believe this is what is required of the representative director of the asset manager, and this is my first message to our unitholders.

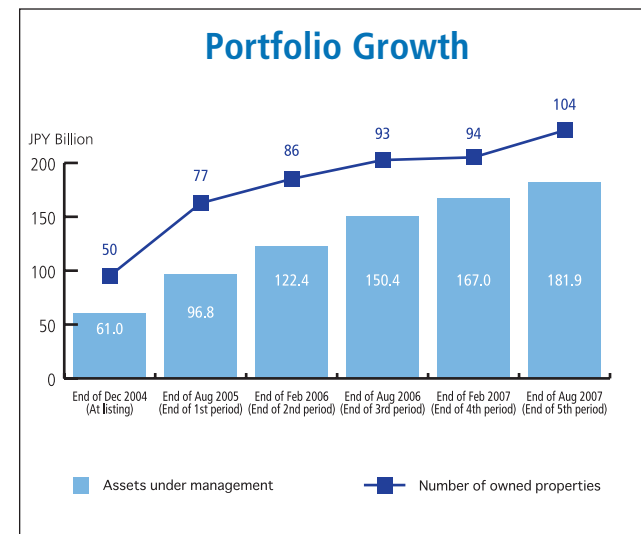
Q: What are your property acquisition strategy and external growth targets?

Arai: New City Residence started with a portfolio of 61 billion yen when listed. By the end of August 2007 when the 5th period ended, the total acquisition price topped 180 billion yen. Our initial target of a 200 billion yen portfolio by the end of 2007 is near at hand.

New City Residence has concluded an agreement with New City Corporation K.K., a sponsor of CBRERM, for the provision of certain information and properties. This pipeline, through which we acquire properties, will continue to contribute to our external growth in the future. New City Residence has also constructed a diverse acquisition network outside of its sponsors that includes large developers and other real estate companies.

As we continue our external growth efforts in the future, New City Residence will pursue expansion through the acquisition of excellent assets at the appropriate timing, after

fully examining changes in the external environment such as real estate market conditions and interest rate trends.



Q: Within your external growth strategy, you have positioned the "close," "new" and "large" properties as core portfolio assets. Can you tell us about the background of this policy?

Arai: Let me first summarize the characteristics of "close," "new" and "large" assets.

"Close" means locations close to business zones.

Residents of New City Residence properties desire the high quality lifestyle that can be attained through the closeness of their workplace and residence. Not to mention being within walking distance from railway stations, closeness to central business districts (CBDs) is key to leasing residences that gain stable revenues over the long term. By living in centrally located rental residences, tenants save valuable time.

"New" means buildings constructed based on recent regulations.

In recent years, increasingly rigorous earthquake resistance standards are required. In addition, ceiling heights and sash heights are indispensable factors from the perspective of the living environment. Likewise, ensuring security is also essential. Keeping such in mind, New City Residence endeavors to acquire properties that have a building age of five years or less as much as possible.

"Large" means properties having well-equipped common spaces that only large properties can afford.

In Japan, traditionally owners of rental housing tended to be individuals, and their insufficient capital served as a barrier against the building of large rental housing. Moreover, there was also a market "belief" that rental housing was easy to lease up when it had a maximum of around 50 units.

However, the emergence of J-REITs has made large rental housing properties common, and they are being leased up at a good pace. This means that residents appreciate the common spaces in these apartments, which enjoy the facilities of large for-sale condominiums (i.e., hotel-like entrance halls, lounges with excellent views, etc.).

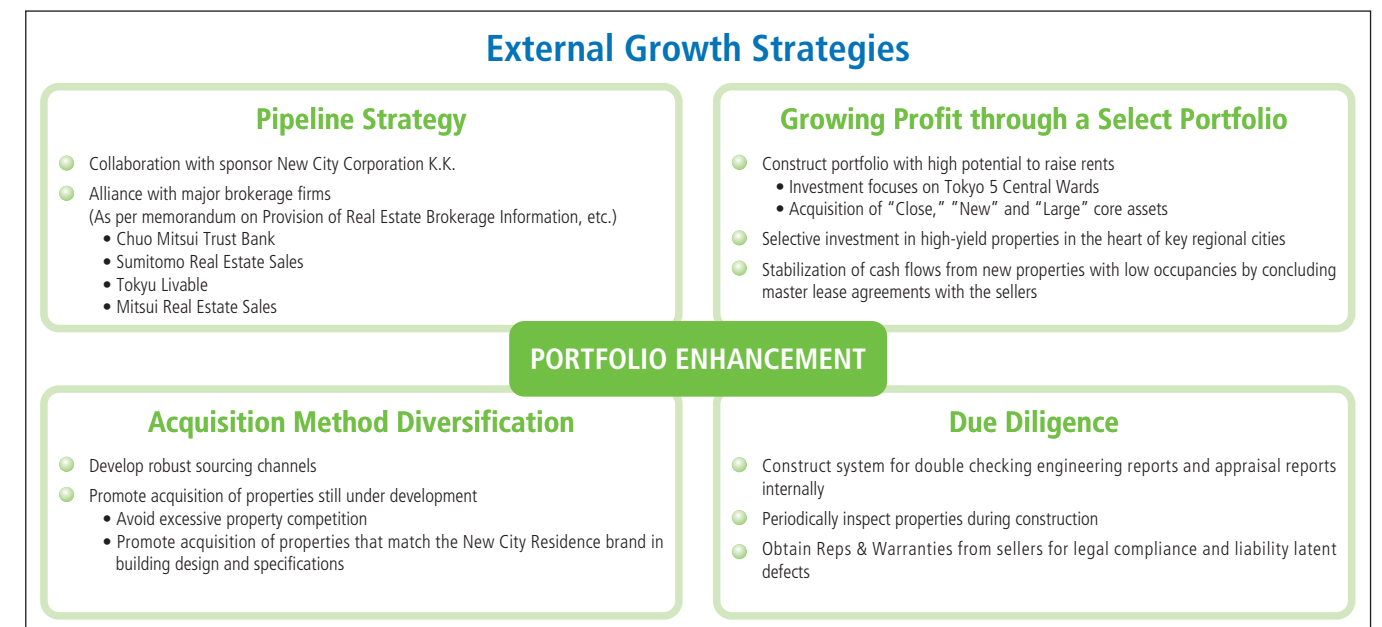
We have constructed a portfolio that has "close," "new" and "large" properties as core assets that are complemented by other excellent assets that are smaller in size but feature similar characteristics. "Close," "new" and "large" properties are highly competitive, and thus have much room for rent increases in the future. We believe this type of investment strategy is indispensable in building a portfolio that is competitive in the medium to long term.

Q: We understand you are focused on central Tokyo, but what is your investment policy for other cities?

Arai: We are investing in ordinance designated cities including Osaka and Nagoya.

We strictly select locations from the perspective that people want to live in rental housing that is close to their workplace, as well as take into consideration the specific area characteristics. Our selective investment focuses on properties that generate high revenues and for which stable demand over the long term can be projected.

For example, our investments in Osaka are second only to the Tokyo Metropolitan Area. This is because we assume there will be increased demand for offices in Osaka as redevelopment increases, and New City Residence owns many properties within walking distance from office areas in Osaka City. We are confident that we can expect future rent hikes for our portfolio properties.



Q. New City Residence was the pioneer of implementing a branding strategy within its internal growth strategy among J-REITs. Why is this?

Arai: Our revenues come from services in which we provide “space for living.” Thus, we exercise utmost care regarding the expectations and concerns of residents, and reflect our findings in our services. This leads to higher satisfaction of the residents, and eventually realizes improvement in portfolio values, or internal growth, as a result of increases in rent and occupancy rate.

Since the listing, we have affixed the name of “New City Residence” to most of the properties we own. We have also provided a variety of services to the tenants, such as the issuance of the “New City Residence Card,” the first such service among J-REITs. It is a credit card with a rent deduction function, and bonus points are awarded according to the rent payments. This service is very popular, as it eliminates steps to go and pay the rent and the saved points can be changed to products, JAL mileage, etc. It also reduces the risk of late rent payments and such.

The most recent addition to our variety of services is the “New City Reform.” Usually, renovations and such to individual rooms of rental housing are not allowed but we have permitted this in a number of our properties by tying up with a renovation firm. Thus, tenants can make interior changes and renovations in accordance with their needs and desires.

These services for tenants are provided through New City Property Services K.K., the property manager of New City Residence. Assigning the property management work to a single firm allows us to provide high-quality and standardized

services. Since we own properties of various types and in various locations, we believe service programs must be an important factor for existing tenants to consider moving to our other properties when they marry, have a change in workplace or go through other life stage or such changes.

The penetration of the New City Residence brand has improved the renewal rate of tenants (rate of tenants who renew the rental contracts), and has contributed to a rise in occupancy rate for the entire portfolio. We intend to continue taking various measures in the future to enhance the brand value.

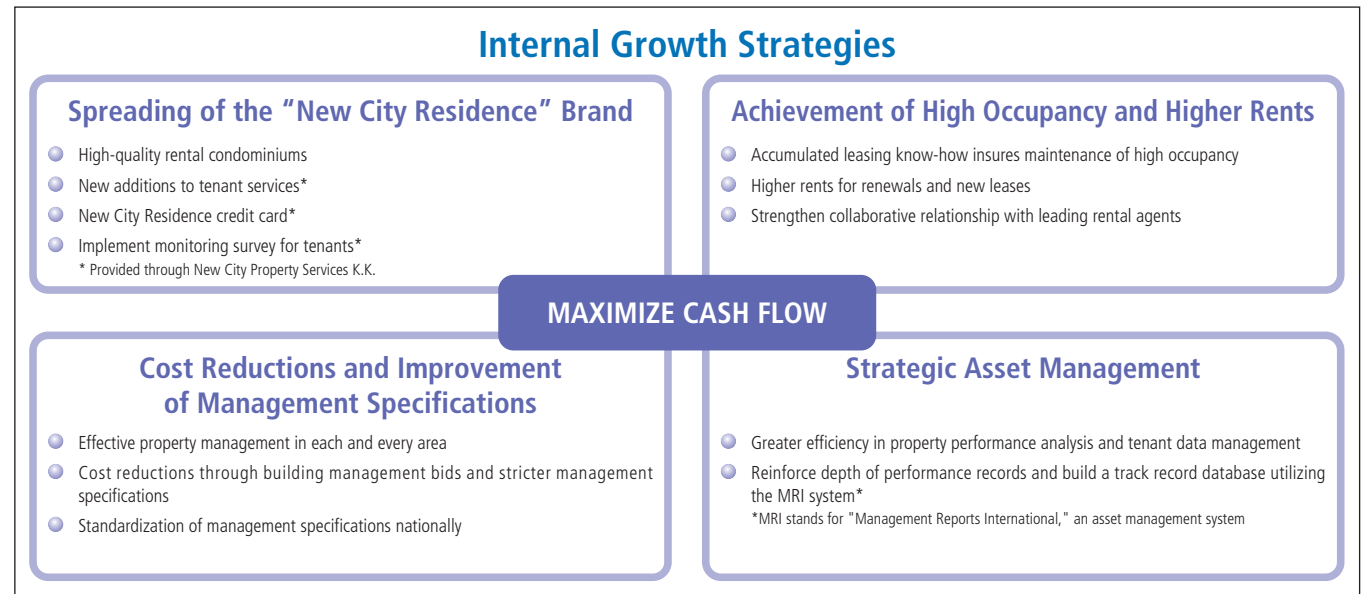
Q: Can you explain your financial strategy, as it is also an important factor?

Arai: New City Residence has been focused on developing a stable financial foundation by keeping an LTV level of a maximum 60% in principle.

New City Residence has promoted a shift to fixed-rate borrowings and presently almost 70% of borrowings are at a fixed interest rate. We will maintain this level in the future to reduce the risk of increased interest rates.

Moreover, we are working to lengthen the average duration of debts and to diversify fund procurement methods by issuance of investment corporation bonds, as well as reducing refinancing risks by spreading out repayment dates of borrowings.

We will aim to maintain the optimal fund procurement structure while working to ensure flexible and stable financing activities as well as improving the balance of interest payments.



Q. Concerning the increasing rents for rental housing, a common perception is that rents peak when properties are new. Do you agree?

Arai: This common perception is because in the past, most of the owners of rental housing were individuals, who found it difficult to provide services and to bear the repair and maintenance costs. Therefore, the buildings and interiors tended to deteriorate as years passed, and owners often had to decrease rent as they couldn’t compete with newly built properties. Additionally, the public sector (such as government-owned corporations) was among the few owners who tried to operate rental housing from a long-term perspective. However, since they were public organizations, there was not much incentive to increase rents.

In this regard, the emergence of J-REITs has first produced owners in the private sector who can operate rental housing over the long term. I believe we can change the past image of rental housing by acquiring high quality, well-located properties that should be able to maintain competitiveness over the medium to long term by providing a variety of services to the tenants and by renovating them at the appropriate time. Actually, the unit rent of properties owned by New City Residence has been increasing, and we will work to maintain this trend.

Furthermore, CERERM, the asset manager of New City Residence, has been proactively accumulating know-how on rental housing from CB Richard Ellis (CBRE), one of its sponsors and a real estate company listed on the New York Stock Exchange.

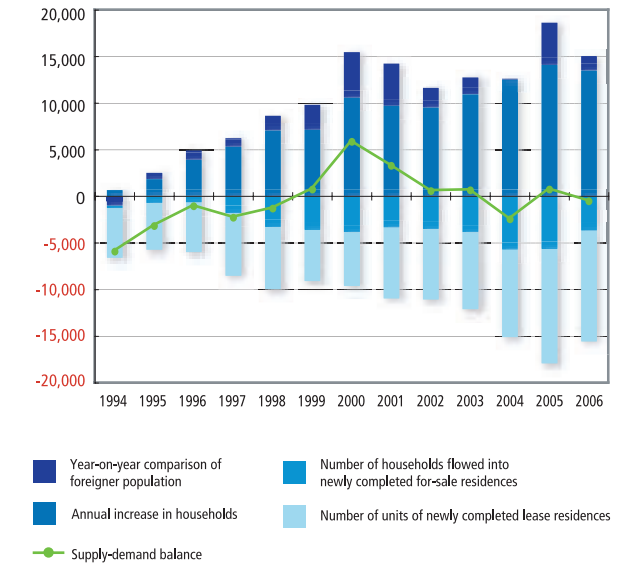
Q. What type of changes do you foresee in the supply and demand balance of rental housing?

Arai: I believe the trend of people returning to city centers in rental housing demand will continue. This is because we anticipate retired people will move to the city centers in pursuit of a cultured living environment or because of excellent healthcare facilities available there, to say nothing of businesspersons in their thirties who constitute the main tenants of our properties and who demand residences close to their workplaces.

Japan is experiencing a population decrease and a slowdown in the increase of households is anticipated. Nevertheless, there should be strong demand for rental condominiums in the city center. One of the challenges for New City Residence is to establish a portfolio or realize an asset quality that can steadfastly meet this need.

Needless to say, a fundamental position is that fluctuations in the supply and demand of residences are much more stable than office retail and other asset classes. This is a basic condition.

Supply-Demand Analysis in the Tokyo 5 Central Wards



(Source: Attractors Laboratories)

Q: In closing, do you have a message to unitholders?

Arai: Since the listing, New City Residence has been engaged in “securing a steady growth of assets under management and stable revenues from a medium- to long-term perspective” by implementing the advantages of a residential J-REIT. We are resolved to implement a variety of measures to further reinforce the trust relationship we have enjoyed with unitholders.

In addition, New City Residence is committed to clarifying the features of the portfolio and the risk characteristics to present ourselves as an “understandable REIT” to unitholders.

My sincere desire and hope is that you, our unitholders, will continue and renew your support of New City Residence.

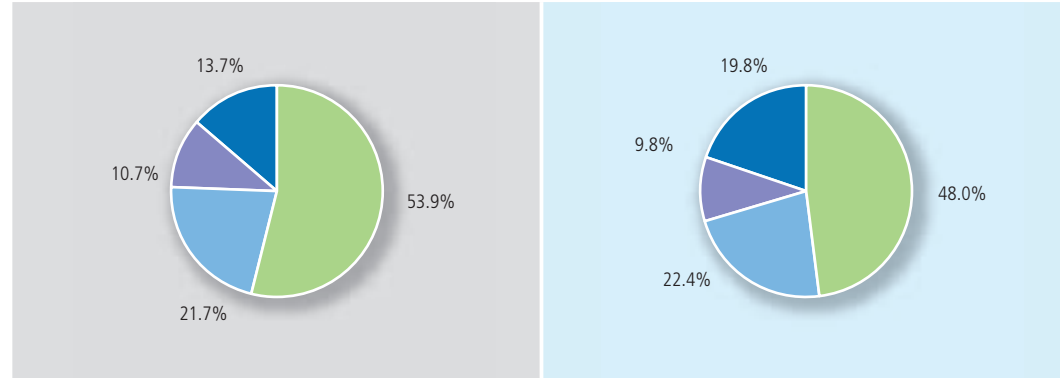
Diversification Highlights

	4th Period (as of February 28, 2007)	5th Period (as of August 31, 2007)
No. of Properties (properties)	94	104
Portfolio Size (JPY Billion)	167.0	181.9
No. of Leasable Units (units)	5,779	6,479
PML (%)	3.1	2.5

Note: PML, or probable maximum loss, refers to the probability of the maximum loss from an earthquake and in this case the level of damage that may result from the assumed maximum earthquake size (large earthquake that occurs once every 475 years = large earthquake with 10% or greater probability of occurring within 50 years) assumed for the assumed scheduled use period expressed as a percentage (%) of the replacement cost of the expenses expected to be required to restore the damages.

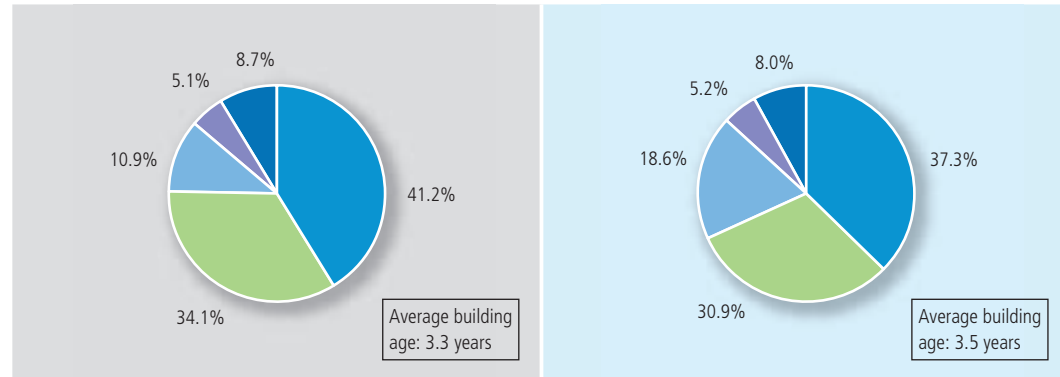
Geographic Spread

- Tokyo 5 Central Wards
- Tokyo 23 Wards (excluding 5 central wards)
- Greater Tokyo (excluding Tokyo 23 wards)
- Regional



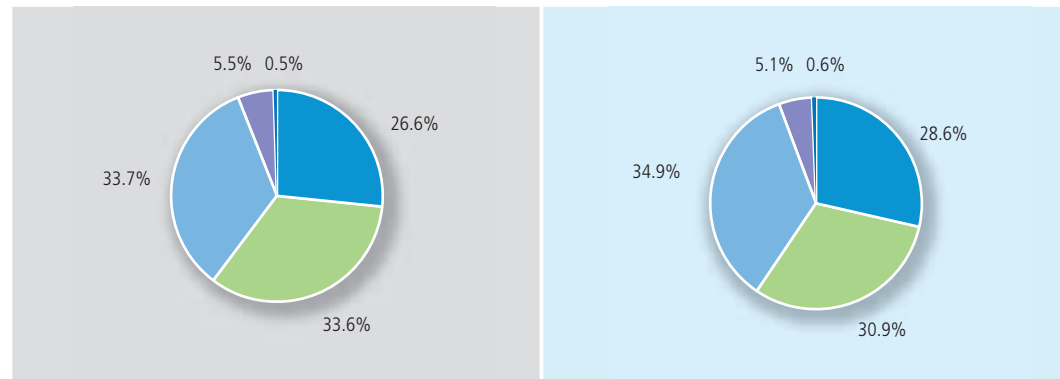
Building Age

- Less than 2 years
- 2 to 4 years
- 4 to 6 years
- 6 to 8 years
- More than 8 years



Unit Type

- Single
- Urban Family
- Family
- Premium
- Other



Note 1: Ratio of geographic spread and building age are based upon acquisition price. Unit type is based upon net leasable area.

Note 2: "Other" unit type includes non-residential use areas such as retail, offices, etc.

Note 3: The Tokyo 5 Central Wards are the Minato, Shibuya, Shinjuku, Chiyoda and Chuo Wards.

Tokyo 23 Wards represents the other 18 wards after excluding the 5 Central Wards.

Greater Tokyo represents Tokyo (excluding Tokyo 23 Wards), Kanagawa, Chiba and Saitama Prefectures.

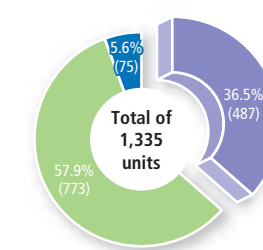
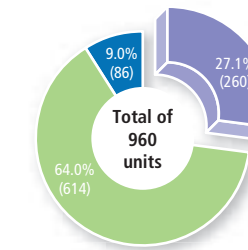
Note 4: Figures are rounded to the first decimal place. Thus, the sum totals of the above may not necessarily be 100%.

Rent Trends of New and Renewed Contracts

Rent Trends

4th Period (Sep 1, 2006 - Feb 28, 2007)

5th Period (Mar 1, 2007 - Aug 31, 2007)



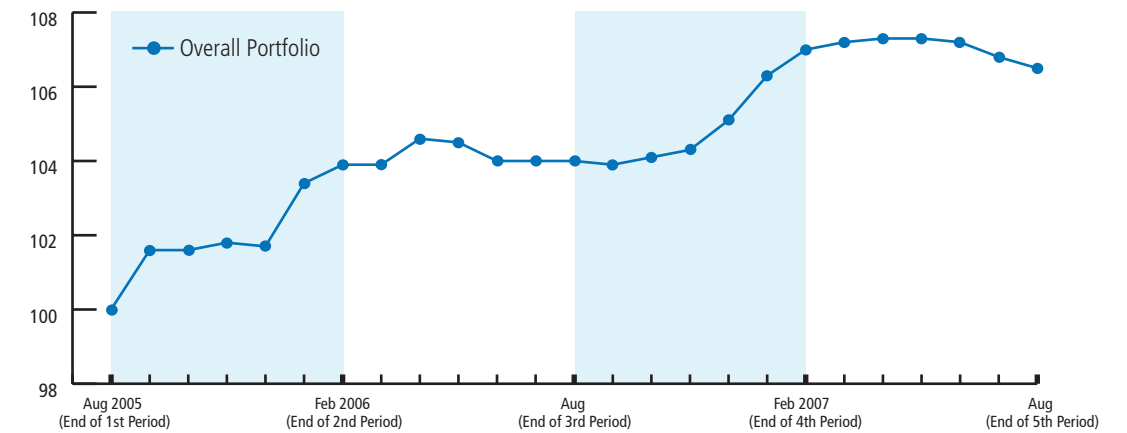
- Increase
- Unchanged
- Decrease

Vacated (new leases): 469 units
Renewals: 491 units

Vacated (new leases): 652 units
Renewals: 683 units

Note: The pie charts show the number of units that increased, decreased or had unchanged rents when comparing new rents to old rents at the time of new leases and renewals, and the percentage that they represent within the total number of units.

Unit Price of Rent Per Tsubo (occupied area basis)

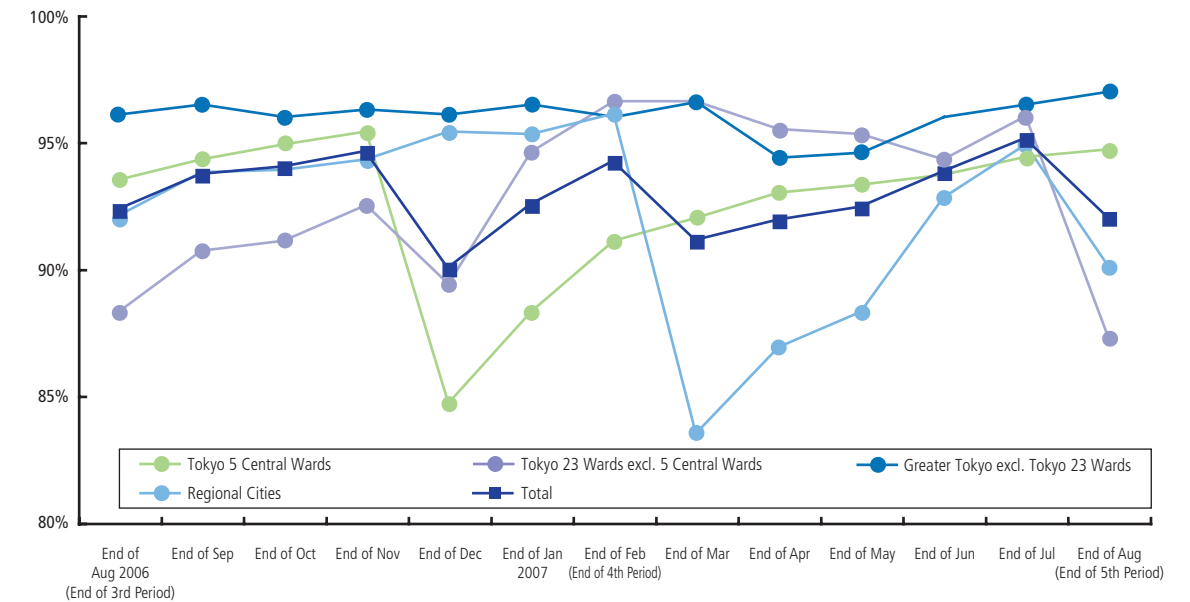


Note 1: Entered figures are indexes calculated by setting the unit price of rent per tsubo (rent per 3.3m²) at the end of August 2005 (end of 1st period) as 100. Assets already sold have been excluded.

Note 2: Figures have been rounded to the first decimal place.

Note 3: Offices, shops and other areas not used for residence have been excluded in the calculation of unit price of rent.

Occupancy Rate by Area



Total(%)	92.3	93.7	94.0	94.6	90.0	92.5	94.2	91.1	91.9	92.4	93.8	95.1	92.0
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Note 1: Occupancy rate represents the percentage of the end-of-month leased area of residences with concluded lease contracts against the total leasable area of the entire portfolio.

Note 2: The Tokyo 5 Central Wards are the Minato, Shibuya, Shinjuku, Chiyoda and Chuo Wards. Tokyo 23 Wards excl. 5 Central Wards represents the other 18 wards after excluding the Tokyo 5 Central Wards. Greater Tokyo excl. Tokyo 23 Wards represents Tokyo (excluding Tokyo 23 wards), Kanagawa, Chiba and Saitama Prefectures. Regional cities represents other regions.

Tenant Service Programs that Support Living in Rental Housing

New City Residence Card

All tenants living in properties with the name "New City Residence" attached are eligible to receive this personalized credit card with its variety of benefits.

- [Benefits]**
- Automatic rent deductions from bank accounts
 - Points are added in accordance with rent payments made using the Card
 - No guarantor is necessary when contracting the lease, etc.



New City 24

New City 24 is New City Residence's around-the-clock call center staffed by dedicated maintenance personnel ready to assist tenants with everything from water leaks and air conditioning problems to questions from new tenants before moving in.



Call center

New City Patrol

New City Patrol comprises a team of building and security professionals that make monthly inspections of New City Residence properties from the perspective of the tenant, confirming the proper upkeep of the exterior, cleaning, building management, and security features.



Coordination

Reporting

New City Reform

Unit renovations are provided under a central structure handling everything from orders to construction via New City Residence's property manager, New City Property Services K.K., and a partner company (within Tokyo Metropolitan Area and Osaka Area).

Reformation and renovation cases

Tatami unit



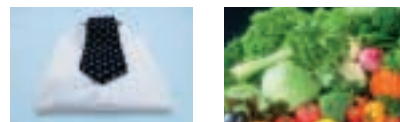
Installation of system furniture



Living Option

A variety of services are provided in relation to clothing, meals and living.

- [Services]**
- Home delivery of food
 - Cleaning of clothes
 - Housecleaning
 - Furniture and home appliance rentals
 - Shopping services, etc.
- (Through direct contracts between the tenants and service companies)



Welcome Kit

Upon signing of new rental contracts, tenants are given booklets describing available services and providing useful information.

- [Content]**
- Maps of surrounding area
 - Schedule chart for moving in
 - Contacts for inquiries
 - Available services
 - Questionnaire postcard, etc.



Exclusive Website for Tenants

Useful information can be obtained through the exclusive tenant homepage, which also serves as a communication conduit between tenants and property management.

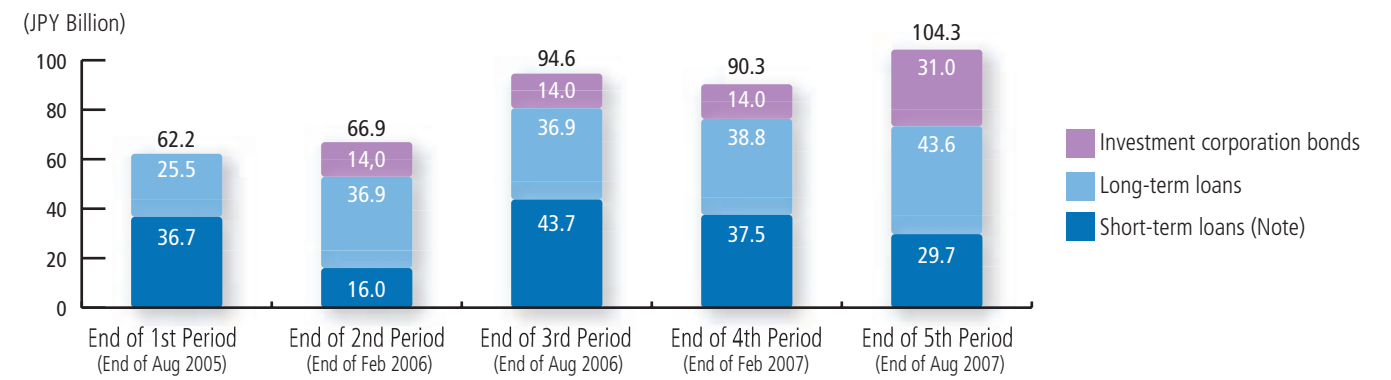


Note 1: The tenant service programs are provided through New City Property Services K.K., a main property management company for New City Residence.
 Note 2: The tenant service programs are not provided at all of the properties and real estate in trusts that New City Residence owns. At some properties, a limited number of service programs are provided.

Financial Policy

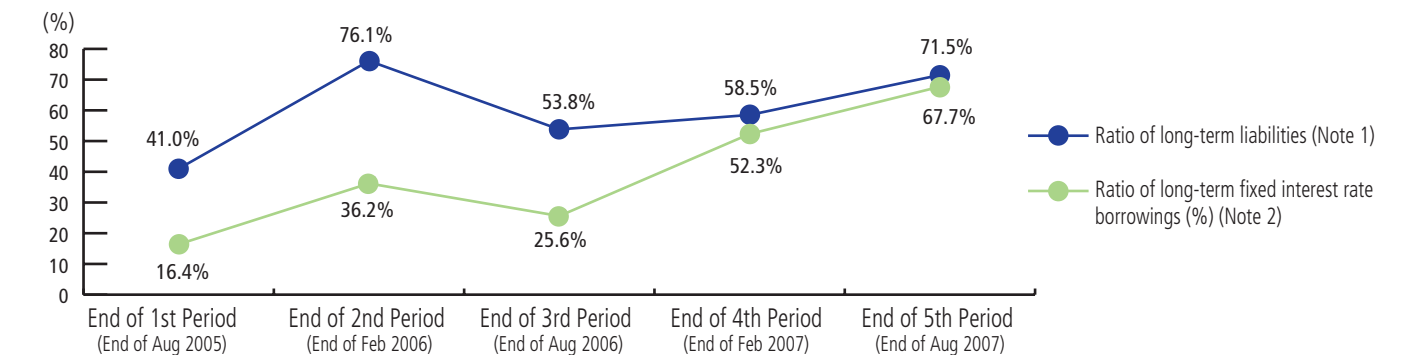
- **Shift to fixed interest rates**
Responses to risks of higher interest rates: Purchase of floating-for-fixed interest rate swap, issuance of investment corporation bonds
- **Longer average duration and more diversified repayment maturity dates**
Reduction of refinancing risks: Obtain long-term (five-year) loans when acquiring properties
- **Diversify fund procurement measures and lenders**
Secure stability and flexibility in fund procurement: Registration for issuance of investment corporation bonds, extension of commitment line ceilings

Interest-bearing liabilities



Note: Short-term loans include long-term loans payable due within one year.

Ratios of Long-term Fixed Interest Rate Borrowings and Long-term Liabilities



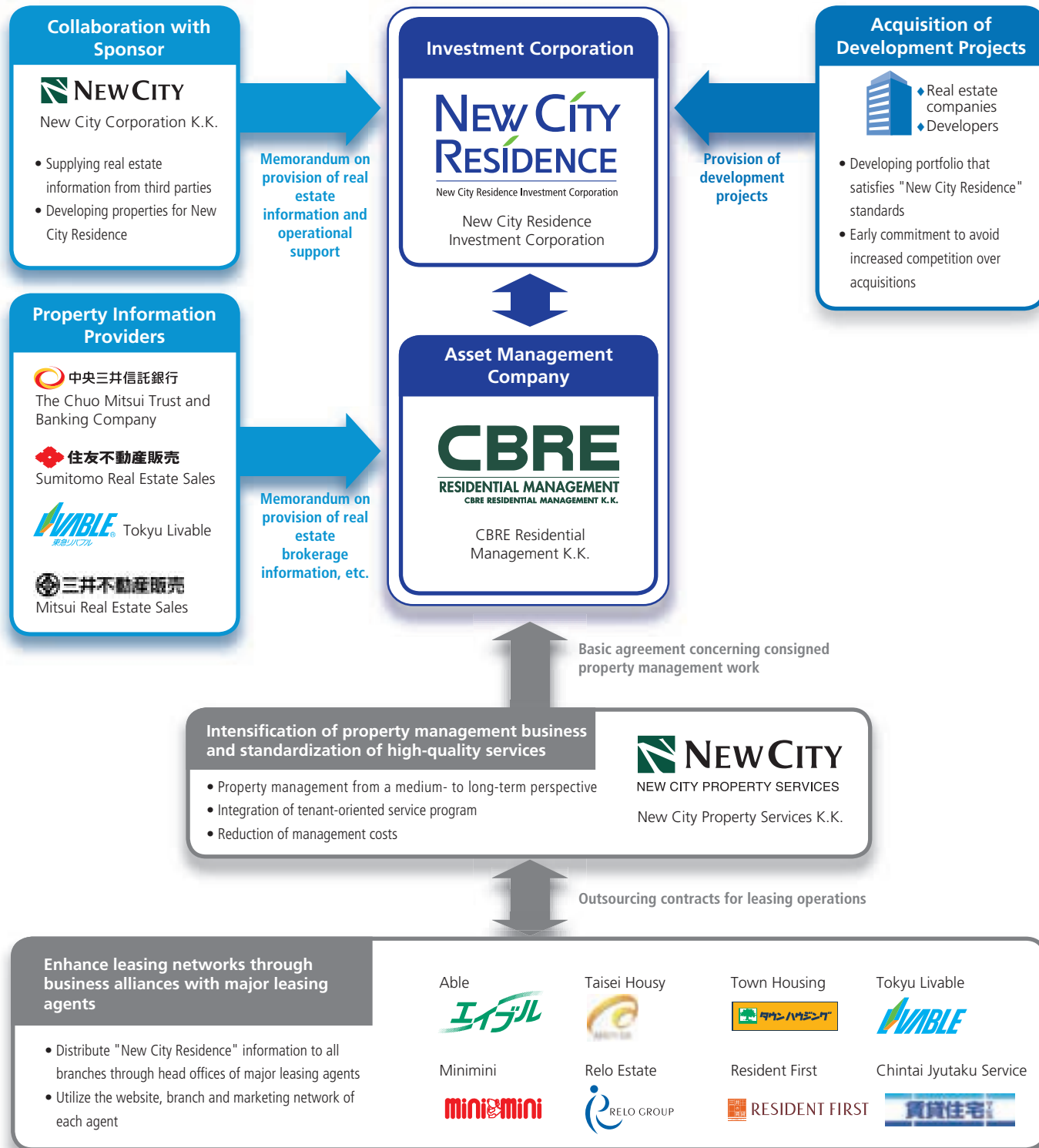
- (1) The ratio is the percentage of interest-bearing liabilities with maturity of over one year against the balance of interest-bearing liabilities.
- (2) The ratio is the percentage of borrowings with fixed interest rates (including those with forward-dated interest rate swap agreements) against the balance of interest-bearing liabilities.
- (3) The figures have been rounded to the first decimal place.

Status of Investment Corporation Bonds

Investment corporation bonds	Issue date	Issue amount	Interest rate	Maturity date	Ratings
First series of unsecured investment corporation bonds	February 24, 2006	14,000 million yen	1.61% per annum	February 24, 2011	Moody's: A3
Second series of unsecured investment corporation bonds	April 12, 2007	12,000 million yen	1.79% per annum	April 12, 2012	Moody's: A3 R&I: A+
Third series of unsecured investment corporation bonds	April 12, 2007	5,000 million yen	2.15% per annum	April 11, 2014	Moody's: A3 R&I: A+

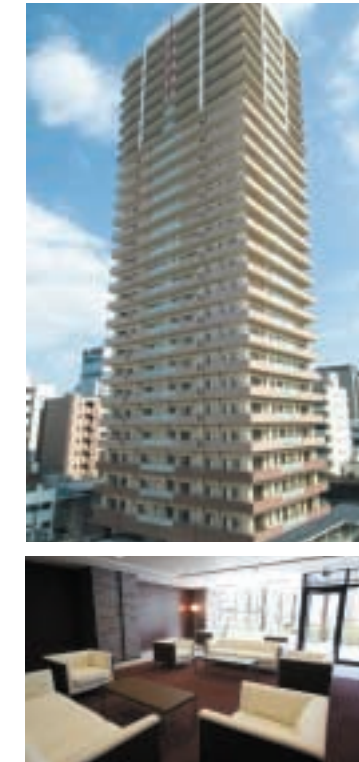
Collaboration Network

Our clearly defined collaboration network provides the backbone to our growth and includes: strategic pipelines as sources to excellent properties; integrated property management services provided by New City Property Services K.K. for standardized, high-quality and economical management services; and business alliances with major real estate agents to maintain high occupancy rates.



Acquisitions in the 5th Period

R-20 New City Residence Shinsaibashi East Tower



Acquisition price	JPY 4,693 million
Acquisition date	March 2007
Location	1-15-25, Shimanouchi, Chuo-ku, Osaka
Floors	28
Net rentable area	8,747.40m ²
Number of units	133 (entire building)
Completion date	January 2007
Appraisal value*	JPY 4,700 million (CR 5.3%)

Features	
Surveillance system	
Various amenities:	
• Floor heating in living and dining rooms	
• Hands-free interphone with color TV monitor	
• Heated toilet seat with shower (bidet) functions	
Parking facilities for 81 vehicles	

New City Residence Shinsaibashi East Tower, a 28-story tower condominium with a total of 133 units, is a core asset of our portfolio in Osaka. The units are fully equipped for-sale condominiums, including floor heating. Located on a site that is walking distance from the central town area of Osaka, it offers great convenience in terms of closeness between workplace and residence.

R-25 New City Residence Uemachidai



Acquisition price	JPY 3,214 million
Acquisition date	August 2007
Location	4-1-12, Uehonmachi Nishi, Chuo-ku, Osaka
Floors	15/B1
Net rentable area	5,415.39m ²
Number of units	69 (entire building)
Completion date	January 2007
Appraisal value*	JPY 3,240 million (CR 5.1%)

Features	
Surveillance system	
Various amenities:	
• Floor heating in living room	
• Bath with mist sauna and clothes and bath drying ventilation system	
• Heated toilet seat with shower (bidet) functions	
• Disposer	
• Hands-free interphone with color TV monitor	
Parking facilities for 35 vehicles	

New City Residence Uemachidai is a 15-story family-type condominium with 69 units, all of which face south and receive ample sunlight. Located within walking distance of three different train stations, it has great accessibility. There are parks and public facilities near the property, and the environment is full of greenery despite its closeness to the central part of Osaka.

*Appraisal value is based on the appraisal report as of the date of acquisition. Cap rate is based on net cash flow.

Acquisitions in the 5th Period (continued)

M-27 New City Residence Minowa



Acquisition price	JPY 1,720 million
Acquisition date	August 2007
Location	5-24-4, Negishi, Taito-ku, Tokyo
Floors	15
Net rentable area	2,406.41m ²
Number of units	78 (entire building)
Completion date	June 2007
Appraisal value*	JPY 1,730 million (CR 5.1%)

M-29 New City Residence Nakano



Acquisition price	JPY 1,250 million
Acquisition date	August 2007
Location	2-12-13, Arai, Nakano-ku, Tokyo
Floors	12
Net rentable area	1,613.86m ²
Number of units	42 (entire building)
Completion date	March 2007
Appraisal value*	JPY 1,250 million (CR 4.8%)

M-28 New City Residence Jiyugaoka West



Acquisition price	JPY 720 million
Acquisition date	August 2007
Location	7-14-11, Todoroki, Setagaya-ku, Tokyo
Floors	3/B1
Net rentable area	857.32m ²
Number of units	28 (entire building)
Completion date	August 2007
Appraisal value*	JPY 720 million (CR 4.7%)

R-15 New City Residence Sakae



Acquisition price	JPY 1,360 million
Acquisition date	March 2007
Location	4-16-10 Sakae, Naka-ku, Nagoya-shi, Aichi Prefecture
Floors	13
Net rentable area	2,836.00m ²
Number of units	73 (entire building)
Completion date	February 2007
Appraisal value*	JPY 1,410 million (CR 5.6%)

R-21 New City Residence Sannomiya



Acquisition price	JPY 1,485 million
Acquisition date	March 2007
Location	3-2-31, Isobedori, Chuo-ku, Kobe-shi, Hyogo Prefecture
Floors	15
Net rentable area	3,071.60m ²
Number of units	112 (entire building)
Completion date	January 2007
Appraisal value*	JPY 1,490 million (CR 5.5%)

M-25 New City Residence Morishita West



Acquisition price	JPY 810 million
Acquisition date	June 2007
Location	2-12-11, Shin-Ohashi, Koto-ku, Tokyo
Floors	11
Net rentable area	1,275.60m ²
Number of units	40 (entire building)
Completion date	May 2007
Appraisal value*	JPY 837 million (CR 5.1%)

R-22 New City Residence Kotodaikoen



Acquisition price	JPY 655 million
Acquisition date	April 2007
Location	3-10-24, Kokubuncho, Aoba-ku, Sendai-shi, Miyagi Prefecture
Floors	11/B1
Net rentable area	1,684.10m ²
Number of units	50 (entire building)
Completion date	February 2007
Appraisal value*	JPY 655 million (CR 5.5%)

R-23 New City Residence Ichibancho

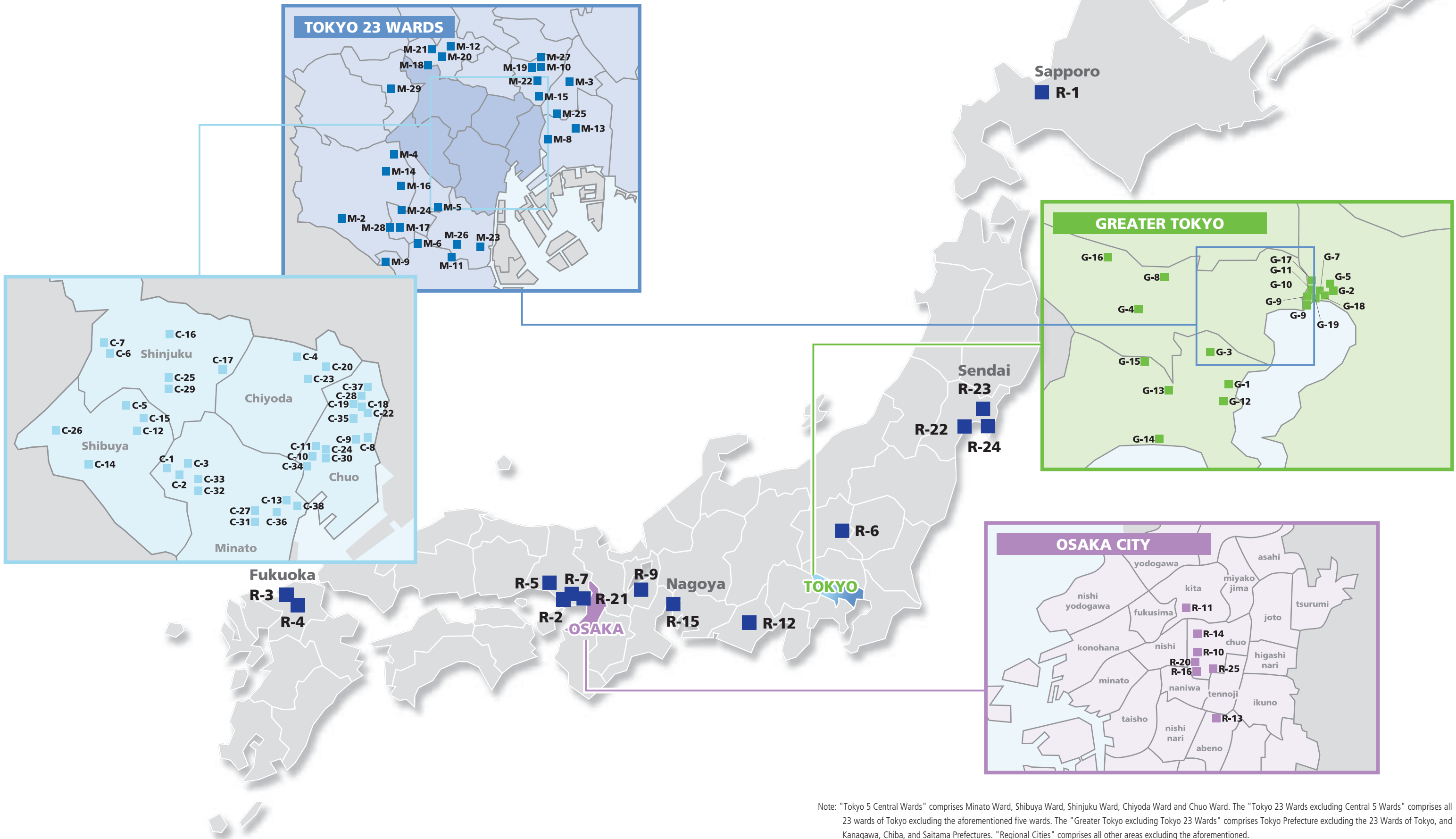


Acquisition price	JPY 965 million
Acquisition date	July 2007
Location	1-6-27, 1-6-30, Ichibancho, Aoba-ku, Sendai-shi, Miyagi Prefecture
Floors	10 (A building) 9 (B building)
Net rentable area	2,800.32m ²
Number of units	68 (entire building)
Completion date	June 2007
Appraisal value*	JPY 970 million (CR 5.6%)

R-24 New City Residence Omachi



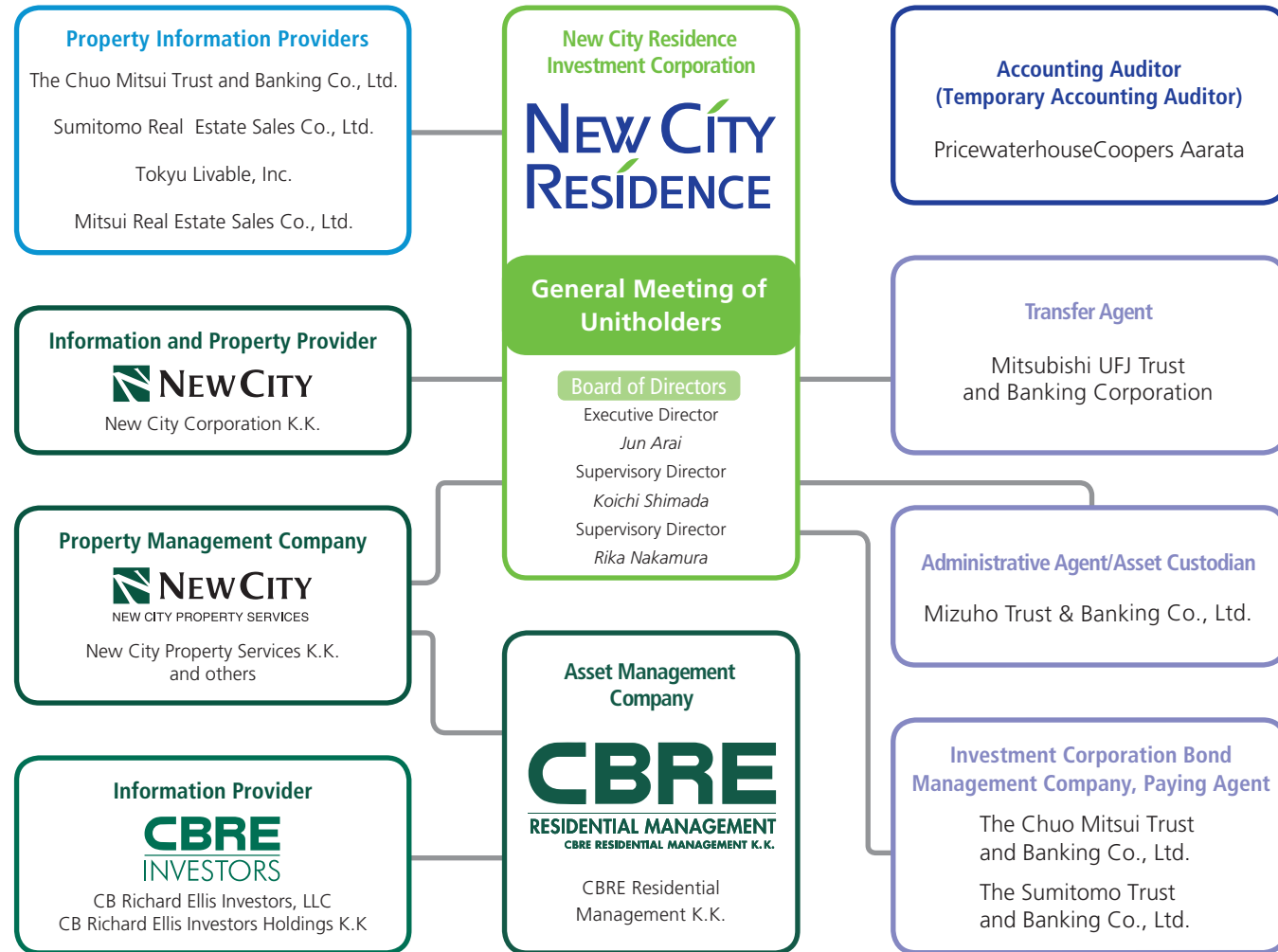
Acquisition price	JPY 841 million
Acquisition date	August 2007
Location	2-5-8, Omachi, Aoba-ku, Sendai-shi, Miyagi Prefecture
Floors	13
Net rentable area	2,149.08m ²
Number of units	72 (entire building)
Completion date	June 2007
Appraisal value*	JPY 849 million (CR 5.6%)



Note: "Tokyo 5 Central Wards" comprises Minato Ward, Shibuya Ward, Shinjuku Ward, Chiyoda Ward and Chuo Ward. The "Tokyo 23 Wards excluding Central 5 Wards" comprises all 23 wards of Tokyo excluding the aforementioned five wards. The "Greater Tokyo excluding Tokyo 23 Wards" comprises Tokyo Prefecture excluding the 23 Wards of Tokyo, and Kanagawa, Chiba, and Saitama Prefectures. "Regional Cities" comprises all other areas excluding the aforementioned.

Overview of New City Residence

Investment Corporation Structure



Notes to the Investment Corporation Structure

ASSET MANAGEMENT COMPANY: CBRE Residential Management K.K. provides services including matters relating to the management of investment assets and the procurement of funds by New City Residence, submitting reports on investment assets to New City Residence and establishing asset management plans.

ADMINISTRATIVE AGENT/ASSET CUSTODIAN: Mizuho Trust & Banking Co., Ltd. undertakes administration related to the issue of investment units, administration of accounting matters and tax payments, preparation of accounting records and financial statements and other services.

TRANSFER AGENT: Mitsubishi UFJ Trust and Banking administrates the register of unitholders and payment of distributions to unitholders under the storage transfer system of the Japan Securities Depository Center, Inc., and provides certain other services concerning unitholders.

INVESTMENT CORPORATION BOND MANAGEMENT COMPANY AND PAYING AGENT: The Chuo Mitsui Trust and Banking Co., Ltd. and The Sumitomo Trust and Banking Co., Ltd. receives payments, preserves debt, conducts management functions related to investment corporation bonds, and to repayment of principal to the investment corporation creditor of the investment corporation bonds and the payment of interest on these bonds.

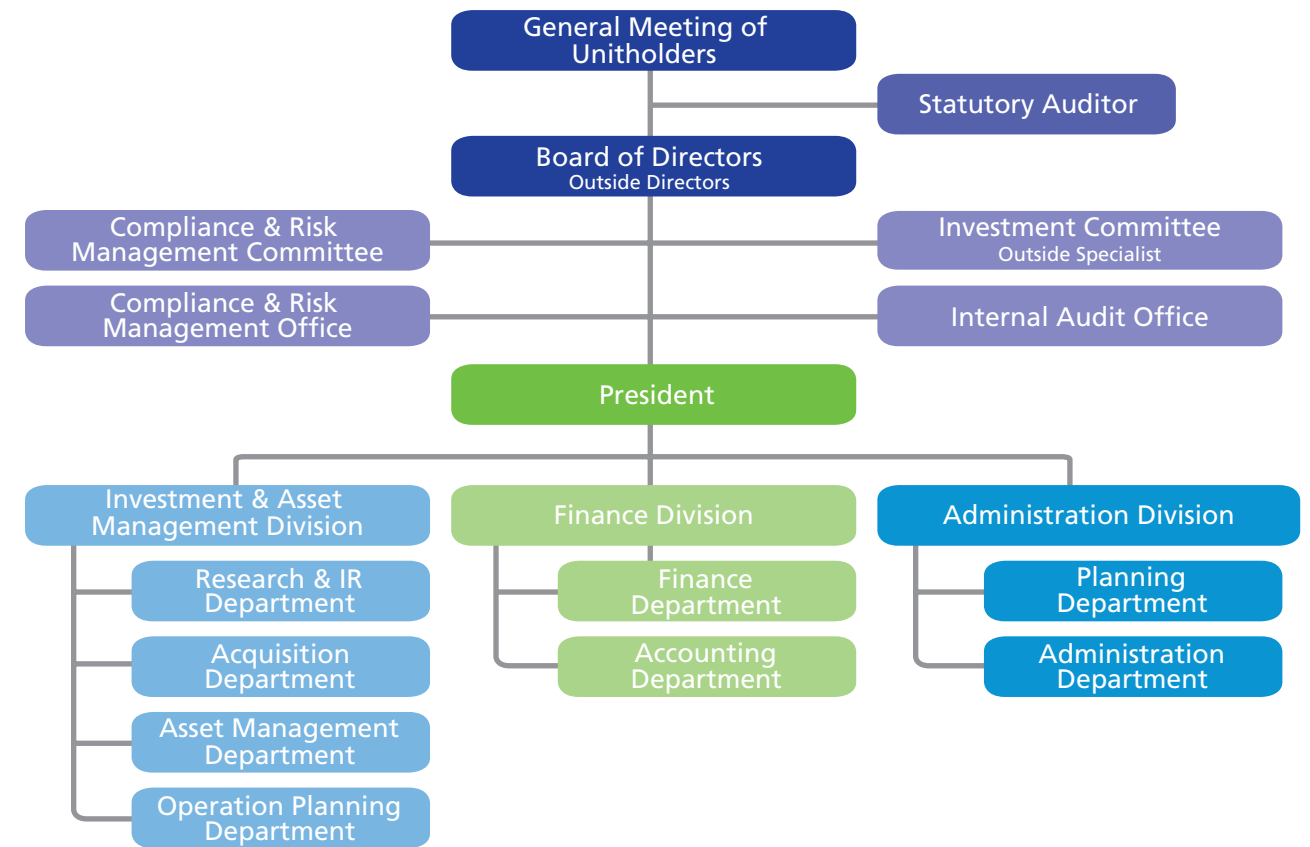
INFORMATION AND PROPERTY PROVIDER: New City Corporation K.K. provides New City Residence with real estate information concerning properties for acquisition, in addition to other business support.

INFORMATION PROVIDER: CB Richard Ellis Investors LLC and CB Richard Ellis Investors Holdings K.K. provide certain information and advice in support of CBRE Residential Management K.K.

PROPERTY MANAGEMENT COMPANY: New City Property Services K.K. and other companies provide services including the administration of repairs, maintenance, renovation, improvements and inspection on a limited basis; the purchase and supervision of installation and related work regarding equipment, fixtures, materials and consumables; leasing management service administration; lease execution and maintenance, and collection of lease payments and overdue rent.

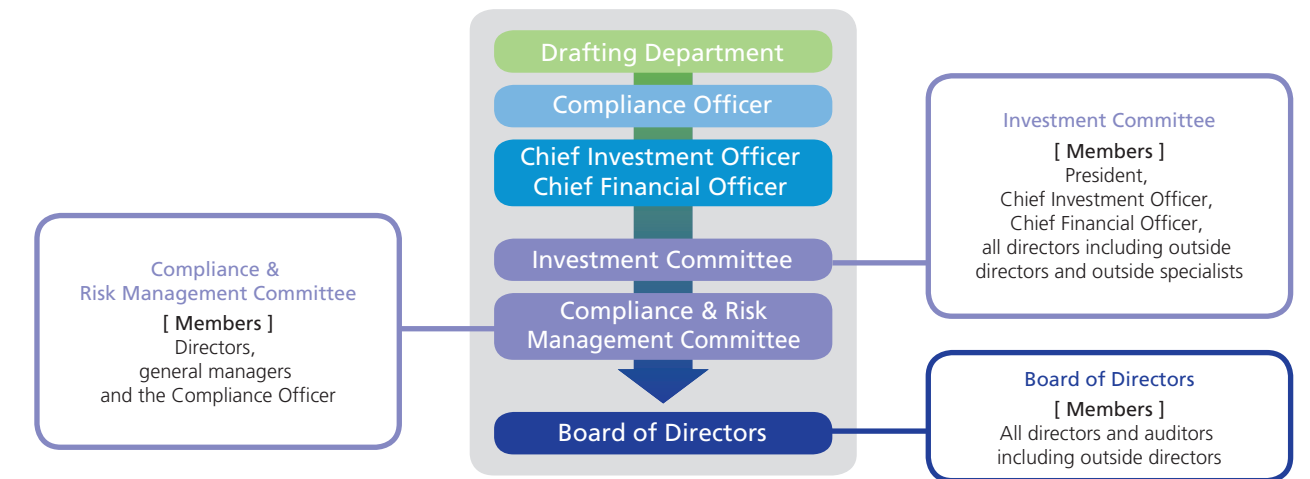
PROPERTY INFORMATION PROVIDER: The Chuo Mitsui Trust and Banking Co., Ltd., Sumitomo Real Estate Sales Co., Ltd., Tokyu Livable, Inc. and Mitsui Real Estate Sales Co., Ltd. provide information relating to real estate held by, or to be developed and held by third parties.

Organizational Chart of Asset Management Company



Governance for Conflicts of Interest

A three-layer check system, including outside personnel, has been established to monitor transactions between interested parties. Interested parties are defined in the Investment Trust Law of Japan as shareholders with a 10% or more share of the asset management company, or those who have established special-purpose vehicles on behalf of asset management affiliates.



In addition to the efforts to conform to legal requirements, the asset management company has established provisions in its internal rules that relate to behavior and transactions with extended interested parties, including the Management Guidelines and the Committee Rules. These provisions have been established to better allow the asset management company to fulfill its responsibilities in the management of investment assets.

Operating Results and Asset Status	Unit	5th Fiscal Period	4th Fiscal Period	3rd Fiscal Period	2nd Fiscal Period	1st Fiscal Period
		Aug. 2007	Feb. 2007	Aug. 2006	Feb. 2006	Aug. 2005
Operating revenues	Millions of yen	5,730	5,678	4,201	3,346	3,224
(Real estate rental revenues)	Millions of yen	(5,328)	(4,734)	(4,201)	(3,346)	(3,224)
Operating expenses	Millions of yen	2,752	2,527	2,125	1,607	1,485
(Property operating expenses)	Millions of yen	(2,053)	(1,856)	(1,559)	(1,209)	(1,143)
Operating income	Millions of yen	2,978	3,151	2,075	1,739	1,738
Ordinary income	Millions of yen	2,199	2,442	1,635	1,435	1,151
Net income (a)	Millions of yen	2,197	2,437	1,630	1,433	1,146
Total assets (b)	Millions of yen	195,685	181,509	164,094	135,663	104,678
Total unitholders' equity (c)	Millions of yen	88,006	88,242	66,756	66,539	40,503
Unitholders' capital	Millions of yen	85,791	85,791	65,106	65,106	39,357
Investment units outstanding (d)	Unit	164,068	164,068	122,612	122,612	74,556
Total unitholders' equity per unit	JPY	536,404	537,843	544,451	542,687	543,268
Total distributions (e)	Millions of yen	2,197	2,437	1,630	1,433	1,146
Distribution per unit (e)/(d)	JPY	13,393	14,858	13,302	11,692	15,381
(Portion of distribution of earnings per unit)	JPY	(13,393)	(14,858)	(13,302)	(11,692)	(15,381)
(Portion of distribution in excess of earnings per unit)	JPY	(-)	(-)	(-)	(-)	(-)
Ordinary income to total assets (Note 2)	%	1.2 (2.3)	1.4 (2.9)	1.1 (2.2)	1.2 (2.4)	1.6 (2.2)
Return on total unitholders' equity (Note 2)	%	2.5 (4.9)	3.1 (6.3)	2.4 (4.9)	2.7 (5.4)	2.9 (4.1)
Equity ratio (c)/(b)	%	45.0	48.6	40.7	49.0	38.7
Payout ratio (e)/(a)	%	99.9	99.9	100.0	99.9	99.9
[Other reference information]						
No. of properties	Property	104	94	93	86	77
Gross leasable floor space	m ²	276,209.31	246,553.52	227,310.83	183,722.52	153,429.01
End-of-period occupancy rate	%	92.0	94.2	92.3	94.6	91.7
Depreciation and amortization	Millions of yen	846	737	651	500	510
Capital expenditure	Millions of yen	53	29	65	46	40
NOI from leasing (Note 2)	Millions of yen	4,122	3,615	3,293	2,637	2,591
Debt service coverage ratio (DSCR) (Note 2)	Times	5.6	7.6	7.4	12.7	9.3
Funds from operation (FFO) per unit (Note 2)	JPY	18,555	19,351	18,616	15,774	22,231
Funds from operation (FFO) (multiple) (Note 2)	Times	15.5	15.5	13.6	16.9	18.3
Total interest-bearing liabilities	Millions of yen	104,350	90,300	94,600	66,900	62,200
End-of-period ratio of interest-bearing liabilities to total assets (Note 2)	%	53.3	49.7	57.6	49.3	59.4
Management period	Days	184	181	184	181	260

Note 1: Monetary figures are rounded down to the digit indicated. Figures for each comparison, etc. are rounded to the first decimal place. The payout ratio is also rounded down to the first decimal place.

Note 2: Denoted indicators are calculated utilizing the methods described below. In addition, annualized figures from the management period are indicated in parentheses.

The actual management of the first fiscal period started on December 15, 2004 and ordinary income to total assets and return on total unitholders' equity are calculated with December 15, 2004 as the start of the period.

Ordinary income to total assets	Operating income / Average assets Average assets = (Total assets at start of period + Total assets at end of period) / 2
Return on total unitholders' equity	Net income/Average unitholders' equity Average unitholders' equity = (Unitholders' equity at start of period + Unitholders' equity at end of period) / 2
NOI from leasing	Rental business income (Rental revenues - Property operating expenses) + Depreciation and amortization
DSCR	Net income before interest, depreciation and amortization / Interest payments
FFO per unit	(Net income + Depreciation and amortization) / Investment units outstanding
FFO multiple	Investment unit price at end of period / Annualized FFO per unit
End-of-period ratio of interest-bearing liabilities to total assets	Interest-bearing liabilities at end of period / Total assets at end of period

Financial Statements

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PricewaterhouseCoopers Aarata
8th Marunouchi Bldg., 32nd Floor
1-6-1 Marunouchi
Chiyoda-ku, Tokyo 100-8002
Japan
Telephone: 011(3) 5427 6565
Facsimile: 011(3) 5427 6565
www.pwc.com/jp/aarata

Report of Independent Auditors

To the Board of Directors of New City Residence Investment Corporation

We have audited the accompanying balance sheets of New City Residence Investment Corporation (the "Company") as of August 31, 2007 and February 28, 2007 and the related statements of income, changes in unitholders' equity and cash flows for each of the six months ended August 31, 2007 and February 28, 2007, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of August 31, 2007 and February 28, 2007 and the results of its operations and its cash flows for each of the six months ended August 31, 2007 and February 28, 2007 in conformity with accounting principles generally accepted in Japan.

As disclosed in Note 2 of the financial statements, in accordance with the amended Japanese tax law, properties and equipment acquired on or after April 1, 2007 are depreciated with the one yen recognized at the end of the useful life. In addition, as disclosed in Note 2 of the financial statements, effective March 1, 2007, the Company adopted a new accounting standard, "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006), which allows bond issuance costs to be amortized over the term of the bond using the straight line method. Furthermore, as disclosed in Note 17 of the financial statements, the Company sold the trust beneficiary rights of certain properties.

PricewaterhouseCoopers Aarata

November 19, 2007

Balance Sheets

Item	As of August 31, 2007	As of February 28, 2007
	Thousands of yen	Thousands of yen
Assets		
Current assets:		
Cash and bank deposits	¥ 4,245,687	¥ 4,713,872
Cash and bank deposits in trust (Note 5)	4,076,730	3,885,406
Rental receivables	119,610	136,718
Prepaid expenses	33,124	47,387
Advanced money	—	700,000
Consumption tax refundable	41,731	—
Other current assets	51,866	24,134
Allowance for doubtful receivables	(4,917)	(3,616)
Total current assets	8,563,834	9,503,902
Fixed assets:		
Property and equipment, at cost:		
Land including trust accounts (Notes 4, 5)	115,105,970	107,527,140
Buildings including trust accounts (Notes 4, 5)	71,007,807	63,284,072
Other tangible assets including trust accounts (Notes 4, 5)	2,726,564	2,182,453
Accumulated depreciation (Note 4)	(3,081,700)	(2,280,442)
Total property and equipment	185,758,642	170,713,224
Intangible assets:		
Leasehold interests in trust	913,996	913,996
Other intangible assets	4,875	5,252
Total intangible assets	918,871	919,248
Investments and other assets		
Deposits	11,454	10,274
Long-term prepaid expenses	108,445	116,156
Reserve for repairs and maintenance	197,441	181,632
Derivative assets	12,110	28,871
Total investments and other assets	329,453	336,934
Total fixed assets	187,006,967	171,969,407
Deferred assets		
Bond issuance costs	114,657	36,604
Total deferred assets	114,657	36,604
Total assets	¥ 195,685,458	¥ 181,509,914
Liabilities and Unitholders' Equity		
Liabilities		
Current liabilities:		
Trade payables	¥ 222,623	¥ 255,079
Short-term loan payable (Notes 5, 7)	17,500,000	25,300,000
Long-term loan payable due within one year (Notes 5, 7)	12,200,000	12,200,000
Other payables	571,083	382,161
Accrued expenses	283,164	155,213
Consumption taxes payable	—	32,675
Accrued income taxes	1,484	4,983
Rents received in advance	508,475	436,150
Deferred tax liabilities	7,274	11,038
Other current liabilities	42,084	13,381
Total current liabilities	31,336,189	38,790,684
Long-term liabilities		
Investment corporation bonds (Note 8)	31,000,000	14,000,000
Long-term loan payable (Note 7)	43,650,000	38,800,000
Deferred tax liabilities	4,770	—
Leasehold and security deposits	262,001	217,062
Leasehold and security deposits in trust	1,425,269	1,455,701
Derivative liabilities	477	3,592
Total long-term liabilities	76,342,519	54,476,356
Total liabilities	107,678,709	93,267,040
Unitholders' Equity (Note 6)		
Unitholders' capital	85,791,179	85,791,179
Units authorized: 2,000,000 units		
Units issued and outstanding: 164,068 units as of August 31, 2007 and February 28, 2007		
Unappropriated income	2,197,443	2,437,788
Unrealized gain		
Unrealized gain from deferred hedge transactions	18,126	13,906
Total unitholders' equity	88,006,749	88,242,874
Total liabilities and unitholders' equity	¥ 195,685,458	¥ 181,509,914

The accompanying notes are an integral part of these financial statements.

Statements of Income

Item	For the six months ended August 31, 2007	For the six months ended February 28, 2007
	Thousands of yen	Thousands of yen
Operating Revenues:		
Rental revenues (Note 9)	5,328,215	4,734,746
Gain on sale of properties (Note 10)	401,893	944,147
Total operating revenues	¥ 5,730,109	¥ 5,678,893
Operating Expenses:		
Property operating expenses (Note 9)	2,053,080	1,856,401
Asset management fees	508,953	462,192
Custodian fees	11,575	10,704
Administrative service fees	19,945	27,212
Officers' salaries	4,200	4,200
Other operating expenses	154,325	166,782
Total operating expenses	2,752,080	2,527,493
Operating income	2,978,028	3,151,400
Non-Operating Income		
Interest income	1,452	805
Other non-operating income	2,090	1,907
Non-Operating Expenses		
Interest expense on loans	423,048	371,280
Financing related expenses	98,049	123,257
Interest expense on bonds	238,862	110,903
Unit issuance costs	—	88,544
Amortization of bond issuance costs	19,041	12,201
Other non-operating expenses	3,402	5,505
Ordinary income	2,199,166	2,442,420
Income before income taxes	2,199,166	2,442,420
Income taxes: (Note 12)		
Current	1,501	5,012
Deferred	287	(333)
Net income	2,197,377	2,437,740
Income carried forward	65	47
Unappropriated income	¥ 2,197,443	¥ 2,437,788

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Unitholders' Equity

For the six months ended February 28, 2007 and August 31, 2007

	Unitholders' capital	Unappropriated income	Unrealized gain from deferred hedge transactions	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance as of August 31, 2006	¥ 65,106,293	¥ 1,631,032	¥ 19,000	¥ 66,756,326
New unit issuance	20,684,885	—	—	20,684,885
Cash dividends paid	—	(1,630,984)	—	(1,630,984)
Net income	—	2,437,740	—	2,437,740
Changes in unrealized gain on interest-rate swap	—	—	(5,093)	(5,093)
Balance as of February 28, 2007	85,791,179	2,437,788	13,906	88,242,874
Cash dividends paid	—	(2,437,722)	—	(2,437,722)
Net income	—	2,197,377	—	2,197,377
Changes in unrealized gain on interest-rate swap	—	—	4,219	4,219
Balance as of August 31, 2007	¥ 85,791,179	¥ 2,197,443	¥ 18,126	¥ 88,006,749

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Item	For the six months ended	
	August 31, 2007	February 28, 2007
	Thousands of yen	Thousands of yen
Cash Flows from Operating Activities		
Income before income taxes	¥ 2,199,166	¥ 2,442,420
Depreciation	846,941	737,301
Amortization of long-term prepaid expenses	37,129	39,552
Amortization of bond issuance costs	19,041	12,201
Interest income	(1,452)	(805)
Interest expense	661,911	482,183
Unit issuance costs	—	88,544
(Increase) Decrease of rental receivables	(59,078)	(9,798)
(Increase) Decrease of consumption tax refundable	(41,731)	46,449
(Decrease) Increase of trade payables	(32,456)	92,562
Increase of other payables	79,510	61,057
(Decrease) Increase of consumption tax payable	(32,675)	32,675
Increase of rents received in advance	72,324	52,406
Long-term prepaid expenses	(29,418)	(60,066)
Decrease of property and equipment due to sale (including trust accounts)	2,846,117	7,706,296
Others, Net	48,773	(86,059)
Subtotal	6,614,103	11,636,922
Interest income received	1,452	805
Interest expense paid	(533,959)	(447,477)
Income taxes paid	(5,000)	(634)
Net cash provided by operating activities	6,076,595	11,189,615
Cash Flows from Investing Activities		
Purchases of property and equipment in trust	(34,696)	(16,661,391)
Purchases of property and equipment	(17,912,736)	(7,294,971)
Payments for advanced money	—	(700,000)
Purchases of intangible assets	(57)	(245)
Proceeds from deposits	39	—
Payments for deposits	(1,220)	—
Proceeds from leasehold and security deposits in trust	174,178	277,060
Payments for leasehold and security deposits in trust	(141,721)	(313,338)
Payments for restricted bank deposits in trust	(193,045)	(283,119)
Proceeds from restricted bank deposits in trust	214,842	423,981
Proceeds from leasehold and security deposits	68,760	103,286
Payments for leasehold and security deposits	(16,384)	(3,692)
Payments for restricted bank deposits	(79,432)	(132,678)
Proceeds from restricted bank deposits	31,966	16,380
Payments for reserve for repairs and maintenance	(13,135)	(121,738)
Net cash used in investing activities	(17,902,643)	(24,690,468)
Cash Flows from Financing Activities		
Proceeds from short-term loan payable	9,200,000	25,300,000
Repayment of short-term loan payable	(17,000,000)	(33,500,000)
Proceeds from long-term loan payable	6,400,000	17,700,000
Repayment of long-term loan payable	(1,550,000)	(13,800,000)
Proceeds from issuance of investment corporation bonds	17,000,000	—
Payments of bond issuance costs	(97,093)	—
Proceeds from issuance of units	—	20,684,885
Payments of unit issuance costs	—	(88,544)
Payment of dividends	(2,429,259)	(1,630,984)
Net cash provided by financing activities	11,523,646	14,665,356
Net change in cash and cash equivalents	(302,401)	1,164,504
Cash and cash equivalents at the beginning of period	6,838,162	5,673,658
Cash and cash equivalents at the end of period (Note 3)	¥ 6,535,761	¥ 6,838,162

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. Organization and Basis of Presentation

◆ Organization

New City Residence Investment Corporation (“NCRI”) was established on September 27, 2004 and is based on the Investment Trust and Investment Corporation Law (Law No. 198 in 1951, including amendments thereafter; hereafter, “ITL”). On December 15, 2004, NCRI listed in the Real Estate Investment Trust section of the Tokyo Stock Exchange (TSE), Securities Code: 8965. NCRI is dedicated to the management of residential properties.

Asset management services are provided by CBRE Residential Management K.K. (the “Asset Manager”). The Asset Manager is composed of the following shareholders: CB Richard Ellis Investors Holdings K.K. (42.5%), New City Corporation K.K. (42.5%), CSK Holdings Corporation (10.0%), Mizuho Trust and Banking Co., Ltd (2.5%), and Mitsubishi UFJ Trust and Banking Corporation (2.5%).

Since NCRI went public, it has increased its property holdings. As of the end of August 2007, NCRI owns a total of 104 properties worth 181 billion yen (approximately 3 times its IPO level).

NCRI posted the following performance in the fiscal period audited: 5,730 million yen in operating revenues, 2,978 million yen in operating income, 2,199 million yen in ordinary income, and 2,197 million yen in net income. As a result, the dividend per unit has been set at 13,393 yen.

◆ Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law, and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter “Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English from the financial statements of NCRI prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan.

Amounts less than 1 thousand yen have been omitted. As a result, the total shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

2. Summary of Significant Accounting Policies

◆ Cash and cash equivalents

Cash and cash equivalents presented in statement of cash flows consist of cash on hand, cash held in trust, deposits that can be withdrawn at any time, and short-term investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are readily convertible and represent only minimal risk of value fluctuation.

◆ Property and equipment (including assets held in trust)

Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment, except for land, is computed by using the straight-line method. Estimated useful lives of principal property and equipment are as follows:

Buildings	2–65 years
Structures	10–65 years
Machinery and equipment	17–30 years
Tools, furniture and fixtures	2–30 years

In accordance with the amended Japanese tax law, properties and equipment acquired on or after April 1, 2007 are depreciated with the residual value of one yen recognized at the end of the useful life. The impact of this change in accounting policy is immaterial for the six months ended August 31, 2007.

Notes to Financial Statements

◆ Intangible assets

Other intangible assets are depreciated using the straight-line method.

◆ Long-term prepaid expenses

Long-term prepaid expenses are depreciated using the straight-line method and are comprised of deferred financing costs and other items.

◆ Unit issuance costs

Costs related to the issuance of new investment units are treated as period expenses. Furthermore, the issuance of new investment units through a public offering on November 22, 2006 was conducted under an underwriting agreement in which a security company underwrote the shares at an issue price and then sold the shares to general investors at an offer price different from the issue price (known as the "spread method").

In the spread method, the proceeds from the difference between the issue and offer price belong to the underwriter. Therefore, NCRI does not pay the underwriter an underwriting commission. At the time of the public offering on November 22, 2006, the difference between the issue price and offer price was 739,200 thousand yen. If the underwriting agreement had been such that the securities underwriter had conducted the underwriting at the issue price, and if the new investment units had been offered to general investors at an identical offer price (conventional method), this amount would have been treated as issuance costs. Consequently, under the spread method, there are no issuance costs recorded on the Statements of Income and retained earnings of the financial statements, and as a result, issuance costs are 739,200 thousand yen lower, compared to the conventional method. Ordinary income and income before income taxes increased by this amount, compared with the conventional method.

◆ Bond issuance costs

Effective March 1, 2007, NCRI adopted a new accounting standard, "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006), which allows bond issuance costs to be amortized over the term of the bond using the straight line method. As a result of this change for the six months ended August 31, 2007, bond issuance costs and income before income taxes increased by 9,342 thousand yen, and amortization of bond issuance costs decreased by the same amount.

Bond issuance costs recorded as of and before February 28, 2007 were amortized over three years based on the previous accounting rule in accordance with the transition measurement of Practical Solution No. 19.

◆ Allowances

To cover possible credit losses, an allowance for doubtful receivables is provided for any amount deemed uncollectible. The allowance is calculated on the basis of historical default rates for normal claims or on the basis of individual assessments on specific claims on debtors threatened with bankruptcy.

◆ Revenue recognition

Rental revenue is recognized on an accrual basis based on the lease agreement.

◆ Property-related taxes

Property-related taxes including city planning taxes, depreciable property taxes, and other taxes are imposed on property on a calendar year basis. The amount of such taxes assessed in the period is charged to income as property operating expenses. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for property-related taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. In accordance with Japanese business practice, the seller, however, is reimbursed by the purchase of the property for the accrued property-related tax liabilities, and the amount of the settlement reflects this adjustment. NCRI is allocated the portion of the property-related taxes for the period from the purchase date of each property through the end of the calendar year. Capitalized property-related taxes are 9,517 thousand yen for the period ended August 31, 2007 and 1,191 thousand yen for the period ended February 28, 2007, respectively.

◆ Derivatives and hedge accounting

The derivative transactions utilized by NCRI are interest rate swaps. Pursuant to NCRI's policy on interest rate swap transactions, NCRI enters into derivative transactions solely for the purpose of hedging the risks of interest rate fluctuations, which is defined in the Article of Incorporation of NCRI, and does not enter into such transactions for speculative or trading purposes.

Derivative transactions are measured at fair value. Gains and losses on derivatives are deferred until maturity of the hedged transactions and are recognized as either an asset or liability (known as "deferred hedge treatment").

Although deferred hedge treatment was adopted, NCRI has applied the "simplified method" since September 1, 2006 in accordance with the amended ITL (effective beginning on May 1, 2006) for interest rate swaps that were executed after the effective date of the amended

ITL. Under the simplified method, interest rate swaps are not measured at fair value. Instead, the net amount to be paid or received under the swap agreements is recognized and included in interest expense or income as incurred.

Consequently, liabilities decreased by 43,881 thousand yen compared to those based on the former accounting method, and unitholders' equity increased by the same amount for the six months ended February 28, 2007. There was no impact to net income.

NCRI evaluates the effectiveness of hedging instruments by comparing the cumulative fluctuations in cash flows of the hedged items with that of hedging instruments. However, hedge effectiveness is not evaluated for interest rate swap transactions that meet the criteria for the simplified method.

◆ Accounting method for beneficiary interests in trust assets including real estate

Regarding trust beneficiary rights in trust assets, including real estate, all asset and liability accounts within the trust assets and all income and expense accounts generated by or incurred from the trust assets are recorded in the relevant account items of the balance sheets and the statement of income and retained earnings.

◆ Accounting for consumption taxes

Consumption taxes are excluded from transaction amounts. However, non-deductible consumption taxes on fixed assets are included in the acquisition costs of the respective assets.

3. Cash and Cash Equivalents

Cash and cash equivalents as of August 31, 2007 and February 28, 2007 consisted of the following:

	(Thousands of yen)	
	As of August 31, 2007	As of February 28, 2007
Cash and bank deposits	¥4,245,687	¥4,713,872
Cash and bank deposits in trust	4,076,730	3,885,406
Bank deposits retained for repayment of leasehold and security deposits	(311,784)	(264,317)
Bank deposits in trust retained for repayment of leasehold and security deposits in trust	(1,474,871)	(1,496,798)
Cash and cash equivalents	¥6,535,761	¥6,838,162

4. Schedule of Tangible Assets of Property and Equipment

Tangible assets as of August 31, 2007 and February 28, 2007 consisted of the following:

	As of August 31, 2007			As of February 28, 2007		
	Acquisition Costs	Accumulated Depreciation	Book Value	Acquisition Costs	Accumulated Depreciation	Book Value
Land	¥26,135,278	¥-	¥26,135,278	¥16,600,462	¥-	¥16,600,462
Land in trust	88,970,691	-	88,970,691	90,926,678	-	90,926,678
Land including trust accounts	115,105,970	-	115,105,970	107,527,140	-	107,527,140
Buildings	19,514,342	(358,582)	19,155,759	10,896,689	(174,835)	10,721,854
Buildings in trust	51,493,465	(2,552,931)	48,940,534	52,387,383	(1,988,547)	50,398,835
Buildings including trust accounts	71,007,807	(2,911,513)	68,096,294	63,284,072	(2,163,382)	61,120,689
Structures	174,700	(2,270)	172,430	87,157	(1,021)	86,136
Machinery and equipment	409,816	(10,450)	399,366	209,476	(4,545)	204,931
Tools, furniture and fixtures	622,434	(33,461)	588,973	357,431	(16,617)	340,813
Structures in trust	500,751	(16,913)	483,837	503,391	(12,828)	490,563
Machinery and equipment in trust	605,360	(40,464)	564,896	615,229	(31,528)	583,701
Tools, furniture and fixtures in trust	413,500	(66,626)	346,873	409,766	(50,518)	359,247
Other tangible assets including trust accounts total	2,726,564	(170,186)	2,556,377	2,182,453	(117,060)	2,065,393
Total	¥188,840,342	¥(3,081,700)	¥185,758,642	¥172,993,667	¥(2,280,442)	¥170,713,224

5. Pledged Assets and Secured Loans

As of August 31, 2007 and February 28, 2007, the following assets were pledged as collateral for the following loans:

Pledged assets:	(Thousands of yen)	
	As of August 31, 2007	As of February 28, 2007
Cash and bank deposits in trust	¥2,147,202	¥2,154,062
Buildings in trust	26,659,739	27,853,419
Structures in trust	277,819	282,767
Machinery and equipment in trust	71,892	82,581
Tools, furniture and fixtures in trust	135,141	137,190
Land in trust	46,556,988	48,513,072
Total	¥75,848,783	¥79,023,094

Loans secured by the pledged assets:	(Thousands of yen)	
	As of August 31, 2007	As of February 28, 2007
Long-term loan payable due within one year	¥12,200,000	¥12,200,000
Long-term loan payable	19,550,000	21,100,000
Total	¥31,750,000	¥33,300,000

6. Unitholders' Equity (stipulated in Paragraph 4, Article 67 of the ITL)

NCRI issues only non-par value of investment units in accordance with the Investment Trust Law of Japan. The entire amount of the issue price of the new units is designated as state capital. The Company is required to maintain net assets of at least 50,000 thousand yen as required by the Investment Trust Law of Japan.

7. Short-Term Loans and Long-Term Loans

Short-term loans and long-term loans as of August 31, 2007 and February 28, 2007 consisted of the following:

	As of August 31, 2007		As of February 28, 2007	
	Amount (Thousands of yen)	Interest rate (%)	Amount (Thousands of yen)	Interest rate (%)
Short-term loan payable				
Unsecured loans due on November 30, 2007 with floating rate	¥2,099,610	1.11%	¥6,400,000	0.96%
Unsecured loans due on December 13, 2007 with floating rate	688,940	1.11%	2,100,000	0.98%
Unsecured loans due on December 21, 2007 with floating rate	5,511,450	1.11%	16,800,000	1.01%
Unsecured loans due on March 31, 2007 with floating rate	4,400,000	1.17%	–	–
Unsecured loans due on March 31, 2007 with floating rate	1,800,000	1.17%	–	–
Unsecured loans due on March 31, 2007 with floating rate	2,250,000	1.17%	–	–
Unsecured loans due on March 31, 2007 with floating rate	750,000	1.17%	–	–
Sub total	¥17,500,000		¥25,300,000	
Long-term loan payable due within one year				
Secured loans due on December 17, 2007	¥12,200,000	0.90%	¥12,200,000	0.86%
Sub total	¥12,200,000		¥12,200,000	
Long-term loan payable				
Secured loans due on September 21, 2008	19,550,000	1.22%	21,100,000	1.14%
Unsecured loans due on December 18, 2008	4,000,000	1.03%	4,000,000	0.87%
Unsecured loans due on December 18, 2009	5,700,000	1.12%	5,700,000	0.96%
Unsecured loans due on December 17, 2010	8,000,000	1.80%	8,000,000	1.80%
Unsecured loans due on March 26, 2012	6,400,000	1.50%	–	–
Sub total	¥43,650,000		¥38,800,000	
Total	¥73,350,000		¥76,300,000	

NCRI entered into 7,000 million yen and 2,000 million yen credit facilities in the form of commitment lines with certain financial institutions for the periods ended August 31, 2007 and February 28, 2007. The unused amount of such credit facilities was 7,000 million yen as of August 31, 2007 and 2,000 million yen as of February 28, 2007.

The anticipated maturities of long-term loans for the following four years ended August 31 starting in 2009 were as follows:

(Thousands of yen)	
2009	¥23,550,000
2010	¥5,700,000
2011	¥8,000,000
2012	¥6,400,000

8. Investment Corporation Bonds

Details of total investment corporation bonds outstanding are summarized as follows:

	As of August 31, 2007		As of February 28, 2007	
	Amount	Interest rate	Amount	Interest rate
First series of unsecured investment corporation bonds due on February 24, 2011	¥14,000,000	1.61%	¥14,000,000	1.61%
Second series of unsecured investment corporation bonds due on April 12, 2012	¥12,000,000	1.79%	–	–
Third series of unsecured investment corporation bonds due on April 11, 2014	¥5,000,000	2.15%	–	–

The anticipated maturities of these bonds for the following four years ended August 31 starting in 2009 were as follows:

	(Thousands of yen)
2009	–
2010	–
2011	¥14,000,000
2012	¥12,000,000

9. Rental Revenues and Expenses

Rental revenues and expenses for the six months ended August 31, 2007 and February 28, 2007 were as follows:

	(Thousands of yen)	
	As of August 31, 2007	As of February 28, 2007
A. Rental revenues		
Rent	¥4,907,248	¥4,305,680
Parking lot income	160,198	137,530
Incidental income	13,437	15,516
Other rental revenues	247,330	276,017
Subtotal	¥5,328,215	¥4,734,746
B. Property operating expenses		
Repairs and maintenance	315,332	283,269
Utilities	67,954	74,617
Property management fee	144,697	135,677
Property related taxes	164,699	123,485
Insurance	11,559	10,488
Broker fee, advertising fee and others	365,558	358,515
Trust fee	47,563	46,459
Depreciation and amortization	846,941	737,301
Allowance for doubtful accounts	2,772	3,053
Other rental expenses	86,001	83,533
Subtotal	¥2,053,080	¥1,856,401
C. Real estate rental business profit (A-B)	¥3,275,134	¥2,878,345

10. Breakdown of Gain on Sale of Properties

Gains on sales of properties for the six months ended August 31, 2007 and February 28, 2007 were as follows:

	(Thousands of yen)	
	August 31, 2007	February 28, 2007
C-21 New City Residence Jinbocho		
Proceeds from sale of properties	¥3,275,000	–
Cost of properties sold	(2,845,467)	–
Other sales expenses	(27,639)	–
Gains on sales of properties	¥401,893	–
M-1 New City Residence Meguro Mita		
Proceeds from sale of properties	–	¥7,070,000
Cost of properties sold	–	(6,086,246)
Other sales expenses	–	(25,913)
Gains on sales of properties	–	¥957,840
M-7 New City Residence Kyodo		
Proceeds from sale of properties	–	¥757,000
Cost of properties sold	–	(748,249)
Other sales expenses	–	(4,975)
Gains on sales of properties	–	¥3,775
R-8 New City Residence Uehonmachi		
Proceeds from sale of properties	–	¥859,000
Cost of properties sold	–	(871,805)
Other sales expenses	–	(4,662)
Gains on sales of properties	–	¥(17,468)

11. Per Unit Information

The following table summarizes the net income per unit for the six months ended August 31, 2007 and February 28, 2007 and the unitholders' equity per unit as of August 31, 2007 and February 28, 2007.

	For the six months ended August 31, 2007	For the six months ended February 28, 2007
Net income per unit	¥13,393	¥16,804
Weighted-average number of units	164,068 units	145,062 units

	As of August 31, 2007	As of February 28, 2007
Unitholders' equity per unit	¥536,404	¥537,843

Net income per unit is calculated by dividing net income by the weighted daily average number of units.

Diluted net income per unit is not presented since no warrants and convertible bonds were outstanding during the six months ended August 31, 2007 and February 28, 2007.

12. Income Taxes

Income taxes in Japan applicable to NCRI consist of corporate income tax, enterprise tax and inhabitant tax. The following is a reconciliation between the statutory income tax rate in Japan and the effective tax rate reflected in the accompanying financial statements for the six months ended August 31, 2007 and February 28, 2007:

	(%)	
	As of August 31, 2007	As of February 28, 2007
Statutory income tax rate	39.39%	39.39%
Deductible dividend payments	(39.36)	(39.31)
Other	0.05	0.11
Effective tax rate	0.08%	0.19%

Under NCRI's distribution policy, cash distributions are made in excess of 90% of distributable income as defined in the Special Taxation Measures Law of Japan for the fiscal period to qualify for conditions as set forth in the Special Taxation Measures Law to achieve a deduction of cash distributions for income tax purposes. Based on such policy, NCRI treated the cash distributions as taxable distributions as defined in the Special Taxation Measures Law.

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of August 31, 2007 and February 28, 2007 were as follows:

	(Thousands of yen)	
	August 31, 2007	February 28, 2007
Current liabilities		
Deferred tax assets		
Enterprise taxes	45	333
Bad-debt loss	1,897	1,945
Allowance for doubtful accounts	1,936	1,432
Gross deferred tax assets	3,880	3,710
Valuation allowance	(3,834)	(3,377)
Total deferred tax assets	45	333
Deferred tax liabilities		
Unrealized gain from deferred hedge transactions	7,320	11,372
Total deferred tax liabilities	7,320	11,372
(Net deferred tax liabilities)	7,274	11,038
Long-term liabilities		
Deferred tax liabilities		
Unrealized gain from deferred hedge transactions	4,770	-
Total deferred tax liabilities	4,770	-
(Net deferred tax liabilities)	4,770	-

13. Leases

NCRI operates its properties that are rented to tenants on lease terms of two years generally, with monthly payments due in advance. As of August 31, 2007 and February 28, 2007, the future lease revenue under non-cancelable operating leases was as follows:

	(Thousands of yen)	
	For the six months ended August 31, 2007	For the six months ended February 28, 2007
Due within 1 year	¥253,571	¥411,036
Due after 1 year	448,698	554,433
Total	¥702,269	¥965,469

14. Derivatives

NCRI had the following derivatives contracts outstanding as of August 31, 2007 and as of February 28, 2007:

	August 31, 2007		February 28, 2007	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate swap: Fixed rate payable and floating rate receivable	¥39,600,000	¥(51,430)	¥33,200,000	¥(18,602)

Interest rate swap transactions are exposed to interest rate fluctuation risks. Credit risk is recognized as immaterial because transactions are only entered into with financial institutions that have high credit ratings. Risk management for the periods is conducted based on the asset management procedures of the asset management company.

15. Related Party Transactions

Jun Arai, who holds no voting rights of New City Residence Investment Corporation, is the Executive Director of NCRI and President of CBRE Residential Management K.K.

Tetsuya Fujita resigned as the Executive Director of NCRI and President of CBRE Residential Management K.K. on July 31, 2007.

CBRE Residential Management K.K. has entered into an asset management agreement subject to the conditions set forth in Article of Incorporation of New City Residence Investment Corporation. Management fees payable and incurred as of August 31, 2007 and February 28, 2007 and for the periods then ended were as follows:

	(Thousands of yen)	
	August 31, 2007	February 28, 2007
Management fees payable	¥395,713	¥291,127
Asset management fees for the period	686,096	704,692

177,143 thousand yen and 242,500 thousand yen relating to the acquisition of properties for the six months ended August 31, 2007 and February 28, 2007, respectively, were included in asset management fees in the table above and were capitalized as acquisition costs of the respective property.

16. Distribution Information

Pursuant to the distribution policy set forth in Article 35, Paragraph 1 of NCRI's Articles of Incorporation, the maximum distribution amount cannot exceed unappropriated income, and this amount must exceed 90% of the "distributable income" which is defined in Article 67-15 of the Special Taxation Measures Law of Japan. No cash distributions exceeding unappropriated income as set forth in Article 35, Paragraph 1 (2) of NCRI's Articles of Incorporation were made.

Based on this policy, the board of directors of NCRI resolved to make cash distributions on October 24, 2007 and April 24, 2007 of 2,197,362,724 yen and 2,437,722,344 yen for 164,068 units to unitholders of record on August 31, 2007 and February 28, 2007, respectively.

Income carried forward after distributions for the six months ended August 31, 2007 and February 28, 2007 were as follows:

	August 31, 2007	February 28, 2007
		(Thousands of yen)
Unappropriated income	¥2,197,443	¥2,437,788
Cash distribution declared	2,197,362	2,437,722
Income carried forward	81	65
		(yen)
Cash distribution declared per unit	¥13,393	¥14,858

Principal Investment Information

17. Subsequent Events

Transfer of assets

- (i) NCRI has entered into a sales and purchase agreement for trust beneficiary rights in real estate on September 14, 2007. Under the transfer agreement effective September 14, 2007, NCRI sold the trust beneficiary rights in New City Residence Shinjyuku Ichibankan to KAG 8 Investment TMK for 2,181 million yen on October 30, 2007. The resulting gain on the sale of the property is approximately 177 million yen, which will be recorded in operating revenues. The sales price excludes real estate tax, city-planning tax, and consumption tax.
- (ii) NCRI has concluded a transfer agreement for trust beneficiary rights in real estate on September 14, 2007. Under the transfer agreement effective September 14, 2007, NCRI sold the trust beneficiary rights in New City Residence Shinjyuku Nibankan to KAG 8 Investment TMK for 979 million yen on October 30, 2007. The resulting gain on the sale of the property is approximately 76 million yen, which will be recorded in operating revenues. The sales price excludes real estate tax, city-planning tax, and consumption tax.
- (iii) NCRI has concluded a transfer agreement for trust beneficiary rights in real estate on September 14, 2007. Under the transfer agreement effective September 14, 2007, NCRI sold the trust beneficiary rights in New City Residence Sasazuka to KAG 8 Investment TMK for 3,507 million yen on October 30, 2007. The resulting gain on the sale of the property is approximately 352 million yen, which will be recorded in operating revenues. The sales price excludes real estate tax, city-planning tax, and consumption tax.

Composition of Unitholders

(as of August 31, 2007)

Number of units owned - 164,068

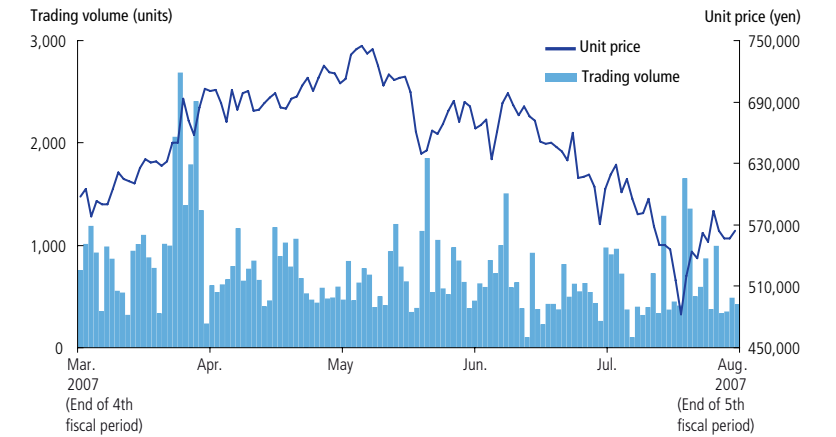
Category	Units	Percentage
Financial institutions (including securities firms)	74,169 units	45.2%
Other domestic corporations	6,456 units	3.9%
Overseas investors	69,757 units	42.5%
Individuals & others	13,686 units	8.3%

Number of unitholders - 6,075

Category	Number	Percentage
Financial institutions (including securities firms)	130	2.1%
Other domestic corporations	107	1.8%
Overseas investors	132	2.2%
Individuals & others	5,706	93.9%

Investment Unit Performance

Note: Unit prices are closing basis.



Principal Unitholders

(as of August 31, 2007)

Name	Investment Units Held	Percentage Share (Note)
Japan Trustee Services Bank, Ltd. (Trust Account)	14,969 units	9.12%
NikkoCiti Trust and Banking Corporation (Investment Trust Account)	11,290 units	6.88%
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,996 units	4.87%
CGML-IPB Customer Collateral Account	7,052 units	4.29%
The Bank of New York, Treaty JASDEQ Account	5,846 units	3.56%
State Street Bank and Trust Company	5,374 units	3.27%
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	4,534 units	2.76%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	3,546 units	2.16%
Goldman Sachs International	3,543 units	2.15%
North Pacific Bank, Ltd.	3,513 units	2.14%
Total	67,663 units	41.24%

Note: Percentage Share indicates the number of investment units held as a percentage of the total number of investment units issued and outstanding

Corporate Data (as of August 31, 2007)

Corporate Office: 1-10-6, Roppongi, Minato-ku, Tokyo 106-0032, Japan

Date of Incorporation: September 27, 2004

Capital: ¥85,791,179,400 (164,068 units)

Stock Listing: Tokyo Stock Exchange

Security Code: 8965

Contact: For further information, please contact our asset management company or visit our website.

(<http://www.ncrinv.co.jp/eng/>)

CBRE Residential Management K.K.

1-10-6, Roppongi, Minato-ku, Tokyo 106-0032, Japan

Phone: +81-3-6229-3860

Fax: +81-3-6229-3867

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