STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

September 21, 2011

Ratings On Nomura Real Estate Office Fund Lowered To 'A-/A-2'; Outlook Stable

Primary Credit Analyst:
Yumi Oikawa, Tokyo (81) 3-4550-8775; yumi_oikawa@standardandpoors.com

Secondary Contact:
Roko Izawa, Tokyo (81) 3-4550-8674; roko_izawa@standardandpoors.com

OVERVIEW

- It is our view that any future recovery in NOF's financial profile is now more likely to be delayed than we expected, given that we expect portfolio profitability to remain weak amid tough conditions in the office leasing market.
- We have lowered to 'A-' our long-term rating and to 'A-2' our short-term rating on NOF.
- The outlook on the long-term rating on NOF is stable, reflecting our view that NOF's cash flow is unlikely to decrease markedly from current levels over the medium term given that the J-REIT's real estate portfolio consists of high-quality properties.

TOKYO (Standard & Poor's) Sept. 21, 2011--Standard & Poor's Ratings Services today said that it has lowered to 'A-' from 'A' its long-term corporate credit rating, and to 'A-2' from 'A-1' its short-term corporate credit rating, on Nomura Real Estate Office Fund Inc. (NOF). The outlook on the long-term rating on NOF is stable.

We today lowered our ratings on NOF because: (1) it is our view that any future recovery in NOF's financial profile is now more likely to be delayed than we expected, given that we expect portfolio profitability to remain weak, and (2) as of the end of the 15th six-month fiscal term (ended April 30, 2011), the portfolio's unrealized losses represented about 8% of the portfolio's book value, indicating that the Japanese real estate investment trust's (J-REIT) financial buffer has shrunk.

From Oct. 7, 2010, we had maintained our negative outlook on the long-term rating on NOF because NOF's cash flow had been weak and we expected NOF's major financial indicators to decline to levels no longer commensurate with the ratings on NOF at that time, as 1) the J-REIT's existing portfolio's rental revenue had been weak, and 2) portfolio cash flow was squeezed owing to rent reduction and the partial departure of the sublessee (Japan Airlines International; currently JAL; NR) of the portfolio from NRE Tennozu Building.

In July 2011, Nomura Real Estate Development Co. Ltd. (the master lessee of NRE Tennozu Building) entered into a lease agreement with a new sublessee, Canon Marketing Japan Inc. (CMJ; NR). Under the lease, which is scheduled to start Oct. 31, 2011, CMJ will occupy the portion of the building that was partially evacuated by JAL. We regard this agreement as positive for NOF given that CMJ has, in our opinion, high creditworthiness relative to JAL and NOF's tenant diversification will improve. In addition, we see cash flow as unlikely to decline from current levels and rental income from CMJ to support portfolio cash flow.

However, given continued tough conditions in the office leasing market, it is our view that it will take a certain amount of time for cash flow of the new tenant to boost NOF's overall revenue. Considering these factors and the fact that the start period of the lease agreement with CMJ will be slightly later than we expected, we believe that NOF's profitability and cash flow-related indicators are now less likely to recover swiftly to levels commensurate with the ratings on NOF before today's downgrade. Furthermore, as of the end of the 15th fiscal term, NOF's debt-to-capital ratio, according to Standard & Poor's definition (interest-bearing debt including hoshokin liabilities/(interest-bearing debt including hoshokin liabilities + total net assets)) stood at about 49.7%, a level that somewhat exceeds the upper limit of the range set under the J-REIT's conservative financial policy. Together with NOF's unrealized losses, we consider this a risk factor for the J-REIT's credit quality.

NOF maintains a relatively strong business position in the J-REIT market, supported by the strong real estate development and management capabilities and the brand recognition of its sponsor, Nomura Real Estate Holdings Inc. (NR). The J-REIT owns a portfolio of high-quality, well-managed, and well-maintained office buildings.

NOF has ample cash and deposits, which cover immediate operating expenses, suggesting a high level of liquidity on hand. As of the end of the 15th fiscal term, NOF maintained ¥40.0 billion worth of unused credit lines. In addition, the J-REIT secured credit lines, taking into account scheduled debt repayment amounts for each fiscal term. Moreover, the J-REIT maintains good relationships with many financial institutions and financial flexibility, given that all of its debt is unsecured.

The outlook is stable. Although we expect business conditions for NOF to remain challenging, we believe that NOF's portfolio cash flow is unlikely to decline from current levels in the medium term because the J-REIT's portfolio is of high quality and a lease agreement with a new tenant has been executed for NRE Tennozu Building. We may consider raising our ratings on NOF if we see increased likelihood of improvement in profitability and interest coverage-related indicators and signs of recovery in the office leasing market emerge. On the other hand, we would consider lowering our ratings if NOF's financial indicators were to weaken further, although we consider such a downgrade unlikely at this point.

RELATED CRITERIA AND RESEARCH

"Key Credit Factors: Global Criteria For Rating Real Estate Companies", published June 21, 2011
"Principles Of Credit Ratings", published Feb. 16, 2011
"Rating Policy for Japanese Real Estate Investment Trusts", published May 9, 2001

RATINGS LOWERED

Nomura Real Estate Office Fund Inc.	To	From
Long-term corporate credit rating	A-/Stable	A/Negative
Unsecured J-REIT bonds (series 1 and 2, and 4 to 9) (issue amount: ¥44.5 bil.; Series 3 has already been redeemed)	A-	A
Short-term corporate credit rating	A-2	A-1
Short-term note program (up to ¥30 bil.)	A-2	A-1

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>. Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.