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Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Affirms 'A/A-1' Ratings On Nomura Real Estate Office Fund

Tokyo, July 19, 2006 – Standard & Poor's Ratings Services today affirmed its 'A' long-term and 'A-1' short-term corporate credit ratings on Nomura Real Estate Office Fund Inc. (NOF). The outlook on the long-term rating is stable.

The ratings reflect NOF's above-average business position, measured external growth strategy, and relatively conservative financial profile and financial policy. NOF is currently the fourth-largest Japanese real estate investment trust fund (J-REIT) in terms of its asset base. It owns a high-quality portfolio of office properties, and its sponsor has strong real estate brand recognition in Japan. The company continues to generate stable cash flow, backed by a solid portfolio of well-managed office buildings with high occupancy rates. These strengths are partly offset by concerns over property concentration risk, NOF's comparatively old office property portfolio, its relatively aggressive speed of expansion compared with its initial plans, and the lowering of portfolio Net Operating Income (NOI). Regarding the latter factor, newly acquired properties show lower NOI, although the NOI of existing properties is stable. Standard & Poor's affirmed the ratings because NOF is expected to maintain a generally solid financial profile, pursuing growth through the constant and well-selected acquisition of properties while diversifying its portfolio.

As of April 2006, NOF's portfolio comprised 28 office buildings nationwide worth ¥240.8 billion on an acquisition price basis. Having targeted property holdings worth ¥200 billion by April 2006, NOF achieved that goal as early as 2005, and is expected to maintain its external growth strategy over the coming years. In June 2006, NOF acquired Sapporo North Plaza in the city of Sapporo in Hokkaido for ¥6.8 billion. Its portfolio is geographically diversified in accordance with its investment policy, and its average occupancy rate stood at 98.4% as of April 2006, providing a stable source of cash flow.

From November 2005 to April 2006, NOF posted a net profit of ¥3.6 billion on total revenue of ¥9.8 billion. The company's debt-to-assets ratio (as defined by Standard & Poor's, excluding security deposit liabilities from total assets) was 48.3%, while its LTV ratio was 53.8% (based on Standard & Poor's assessment). Under its financial policy, NOF aims to keep its debt-to-assets ratio (NOF's definition; debt/total assets) roughly in the 35%-45% range. Currently, the company's LTV (based on Standard & Poor's assessment) has improved to about 45%, underpinned by the three capital increases through public offerings implemented since its listing, including the most recent equity financing in June 2006. Standard & Poor's expects NOF to maintain its LTV ratio at the current level via timely capital increases through public offerings, although the ratio is likely to rise temporarily as a result of real estate property acquisitions, which are likely to be covered by cash and debt financing.

The company's cash flow protection against debt remains strong. As of April 2006, NOF's EBITDA interest coverage ratio, based on the current low level of financing costs, was about 8x, while its ratio of funds from operations (FFO) to total debt was 8.4%. Its debt service coverage ratio (DSCR) including dividends was also comparatively high at about

1.4x, and its cash balance as of April 2006 was about ¥25.5 billion, a level sufficient to cover immediate operating expenses (including security deposit liabilities). NOF maintains ample liquidity at hand, supported by its favorable business relations with multiple banks.

Nomura Real Estate Asset Management Co. Ltd. (NREAM), a fund manager for NOF, obtained approval from the Financial Services Agency (FSA) regarding its corporate structure reorganization plan, which envisions asset management services for multiple investment companies. Based on this plan, NREAM established two divisions in April 2006: the Office Management Division and the Residence Management Division. Although the impact of this corporate reorganization on NOF is likely to be limited, Standard & Poor’s will monitor how this reorganization unfolds in the coming years.

The outlook on the long-term corporate credit rating on NOF is stable. The company is expected to generate steady earnings, supported by its high quality assets, and maintain sufficient liquidity at hand and a good financial profile even in the course of portfolio expansion.

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>.

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