



Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Assigns 'A' Rating To Nomura Real Estate Office Fund Inc.'s Proposed ¥10 Billion Senior Unsecured J-REIT Bonds

Tokyo, Feb. 24, 2005 – Standard & Poor's Ratings Services said today that it had assigned its 'A' rating to Nomura Real Estate Office Fund Inc.'s (NOF) proposed ¥5 billion first senior unsecured notes due March 2015 and ¥5 billion second senior unsecured notes due March 2020. At the same time, Standard & Poor's affirmed its 'A' long-term and 'A-1' short-term corporate credit ratings on NOF. The outlook on the long-term rating is stable.

The ratings on NOF reflect its above-average business position, measured external growth strategy, and relatively conservative financial profile. The company currently ranks within the top-tier group of J-REITs, backed by a high-quality portfolio of office properties, and sponsors with strong real estate expertise in Japan. NOF has a conservative capital structure, and solid coverage measures supported by above-average profitability.

These strengths are partly offset by concerns regarding the unseasoned market in which NOF operates, as well as tenant and property concentration risk in its comparatively small 18-property office portfolio. The ratings also take into consideration the unique structure of J-REITs compared with REITs rated by Standard & Poor's in other global markets, which restricts management from pursuing certain higher-risk activities, such as ground-up development, to safeguard investors.

During NOF's second fiscal period (May 2004 to October 2004), the company purchased Isuzu Shiba Building (Minato-ward, Tokyo) for ¥10 billion, Seiwa Shinjuku Building (Shibuya-ward, Tokyo) for ¥2.3 billion, and Seibu Shinyokinko Shibuya Building (Shibuya-ward, Tokyo) for ¥12 billion. Currently, NOF owns 18 office properties with a total purchase price of ¥151.5 billion. In its third fiscal period (November 2004 to April 2005), NOF plans to purchase 51% of JAL Building (Shinagawa-ward, Tokyo) for ¥33.1 billion in March. JAL Building is a 26-floor landmark office building constructed in June 1996 in the Tennoz business district. It is a large and competitive office property, with 670 tsubo floor space that can be divided into multiple zones, and facilities such as individual air-conditioning systems and raised floors (for office automation systems) in order to meet recent tenant demands. Standard & Poor's expects that NOF will continue to accumulate portfolio assets and achieve its ¥200 billion external growth target by April 2006.

At the end of its second fiscal period, NOF's debt-to-capital ratio (leverage) was 41%. After the acquisition of the JAL Building funded by debt financing, it is estimated that the company's leverage will increase to 51% at the

end of April 2005. This level is higher than NOF's targeted debt-to-capital ratio averaging in the 35%-45% range. NOF's recent public equity issues, as well as its sound investment criteria and underwriting procedures somewhat offset such concern. Standard & Poor's will monitor whether NOF can maintain a conservative capital structure by timely management of its leverage through equity issues and other means.

The addition of JAL Building will decrease the portfolio's property concentration exposure to Nomura Shinjuku Building (Shinjuku-ward, Tokyo), the largest asset in terms of purchase price, from 26% to 21%. On the other hand, the portfolio's tenant concentration risk will increase from 5.2% to 12% as Japan Airlines International Co. Ltd. (BB-/Negative/--), the sole tenant of JAL Building, has emerged as the largest tenant in terms of net rentable area. It is expected that these concentration risks will decrease as NOF acquires additional properties and pursues its external growth strategy.

A Japanese-language version of this media release is available via Standard & Poor's CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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