



Press Release

Structured Finance Ratings & Research

For immediate release

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S&P: Ratings On Nomura Real Estate Office Fund Affirmed At 'A/A-1'

Tokyo, Oct. 1, 2007 – 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). At the same time, Standard & Poor's affirmed its 'A' ratings on NOF's senior secured bonds (1st to 7th bonds; ¥44.5 billion). The outlook on the long-term rating is stable.

The ratings reflect NOF's above-average business position, steady 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 expertise 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 NOF's comparatively old office property portfolio, which has an average age of about 22 years, and by its property concentration risk, though this is improving. Standard & Poor's affirmed the ratings because NOF is expected to maintain a generally solid financial profile, pursuing growth through the regular and astute acquisition of properties while diversifying its portfolio.

As of April 2007, NOF's portfolio comprised 31 properties worth approximately ¥282.8 billion based on acquisition price (the number of properties became 34 as of September 2007 upon the acquisition of Hacchobori NF Building, Yokohama Odori Koen Building, and Kita-Sanjo Building, thereby boosting the total value to approximately ¥292.4 billion on an acquisition price basis). Amid intense competition, NOF is acquiring relatively new and competitive properties, including the Omron Kyoto Center Building (acquired in March 2007 for ¥23.7 billion). NOF's portfolio is geographically diversified in accordance with its investment policy, and its occupancy rate stood at 98.5% as of April 2007, contributing to stable cash flow.

Although NOF aims to expand its portfolio to ¥500 billion under its external growth plans, it has not set a particular timeline for achieving this target and plans to selectively acquire properties, taking the investment climate into account. Standard & Poor's expects the company to maintain relatively conservative financial conditions through coordination with its sponsors, and to continue pursuing steady external growth.

Additionally, NOF is achieving stable internal growth via timely renovations and rent revisions relating to some existing tenants, measures that are contributing to the company's sustained profitability. Standard & Poor's will monitor NOF's renovation plans, since capital expenditures are expected to increase in the future.

From November 2006 to April 2007, NOF posted net income of approximately ¥4.5 billion on total revenue of around ¥11.1 billion. The company's debt-to-asset ratio (as defined by Standard & Poor's, excluding security deposit liabilities from total assets) was 44.6%, while its LTV ratio was 49.9% (based on Standard & Poor's assessment). Although the company's LTV ratio is likely to rise temporarily as a result of real estate property acquisitions, Standard & Poor's

expects NOF to maintain its LTV ratio at the current level via timely capital increases through public offerings, as it did in the three capital increases implemented since its listing.

The company's cash flow protection against debt remains strong. As of April 2007, NOF's EBITDA interest coverage ratio was about 7.8x, while its ratio of funds from operations (FFO) to total debt was 9.2% (total debt as of April 2007). Its debt service ratio (DSCR) including dividends was about 1.3x.

NOF has ample liquidity at hand, with a cash balance of approximately ¥32.1 billion as of April 2007, a level sufficient to cover immediate operating expenses (including security deposit liabilities). The company also has favorable business relations with multiple banks, having secured a ¥40 billion commitment line, of which ¥30.0 billion remained unused as of September 2007. All debts are unsecured

Nomura Real Estate Asset Management Co., Ltd. (NREAM; NR), an asset manager for NOF, established Nomura Real Estate Residential Fund, Inc. (NRF; A+/Stable/A-1) in August 2006. NRF was listed on the Tokyo Stock Exchange in February 2007, and Standard & Poor's assigned its ratings to the entity on July 18, 2007. NREAM is highly recognized in the J-REIT market as an asset manager with two divisions: the Office Management Division and the Residence Management Division. Standard & Poor's believes that NREAM's operating know-how relating to both NOF and NRF will be beneficial to its future management of NOF. Additionally, NREAM has established an appropriate governing structure to avoid conflict of interest in managing NOF and NRF.

The outlook on the long-term corporate credit rating on NOF is stable. Standard & Poor's expects the company to generate steady earnings, supported by its sponsor, which has considerable real estate management expertise, and maintain sufficient liquidity at hand and a good financial profile even while its portfolio expands. Standard & Poor's will continue to monitor the concentration of properties and tenants, leverage control, and the level of cash flow protection.

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