

Ratings On Nomura Real Estate Office Fund Placed On CreditWatch Negative

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OVERVIEW

- Amid difficult business conditions in the office leasing market, a master lessee, and biggest tenant in Nomura Real Estate Office Fund's (NOF) portfolio, has entered into an amendment to its lease agreement with the sub-lessee (the current tenant) of the property. Under the amendment, the rent payable by the sub-lessee will be reduced and the sub-lessee will vacate part of the property. Hence, the portfolio cash flow, as well as the company's financial indicators (such as profitability and interest coverage ratios) may decline.
- We are placing our corporate credit ratings on NOF, as well as our ratings on NOF's unsecured bonds and short-term note program, on CreditWatch with negative implications.
- We may lower the ratings if the company faces delays in improving its portfolio cash flow and its financial base under prolonged weakness in office leasing business conditions.

TOKYO (Standard & Poor's) July 1, 2010--Standard & Poor's Ratings Services today placed its 'A' long-term and 'A-1' short-term corporate credit ratings on Nomura Real Estate Office Fund Inc. (NOF), as well as its ratings on NOF's outstanding unsecured bonds, series 1 through 7, and short-term note program, on CreditWatch with negative implications (see list below). The CreditWatch placements reflect our view that an amendment to the lease agreement relating to JAL Building--a property in NOF's portfolio--may affect NOF's credit quality.

On June 30, 2010, NOF announced that the master lessee of JAL Building, Flagship Properties YK (Flagship Properties), which is the portfolio's biggest tenant, had entered into an amendment to its lease agreement with the

sub-lessee of the property, Japan Airlines International Co. Ltd. (JAI).

The amendment to the lease agreement mostly stipulates that: (1) The current ordinary lease shall be converted into a fixed-term lease that will expire on March 31, 2015; (2) The rent payable by the sub-lessee to the master lessee shall be reduced from July 1, 2010; and (3) The lease for part of the JAL Building will expire on March 31, 2011, and JAI will vacate part of the property. Standard & Poor's expects the conversion of the ordinary lease into a fixed-term lease to have only limited negative impact on the portfolio cash flow. Nevertheless, we believe that the rent reduction and JAI's partial departure will lead to a decline in the portfolio's occupancy rate and a certain level of decline in cash flow, and that, at the same time, NOF's rental revenues will decrease.

On Feb. 10, 2009, we revised to negative from stable the outlook on the long-term corporate credit rating on NOF, based mainly on weakness in the company's financial indicators. We are today placing the ratings on NOF on CreditWatch with negative implications because it is our view that NOF's credit quality may be affected if the portfolio cash flow declines and, at the same time, the company's financial indicators remain weak.

We intend to remove the ratings from CreditWatch after assessing whether the company's plans are likely to materialize; specifically the company's policies with respect to boosting its cash flow and enhancing its financial base, as well as its business policies.

NOF has built a high-quality portfolio, backed by the strong real estate development and management capabilities of its sponsor, Nomura Real Estate Holdings Inc. (NR). As of June 30, 2010, the company owned a portfolio of properties worth approximately ¥378.6 billion based on total purchase price. The company's high-quality real estate portfolio, as well as its liquidity at hand, which is sufficient to meet principal and interest payment obligations, and its financial flexibility help support the company's credit quality. Accordingly, any lowering of the rating on the company would likely be limited to one notch.

RELATED CRITERIA AND RESEARCH

"Rating Policy for Japanese Real Estate Investment Trusts," published May 9, 2001.

RATINGS PLACED ON CREDITWATCH NEGATIVE

Nomura Real Estate Office Fund Inc.

Long-term corporate credit rating	A/Watch Neg
Unsecured J-REIT bonds (Series 1 to 7)	A/Watch Neg
Short-term corporate credit rating	A-1/Watch Neg
Short-term note program (up to ¥30 bil.)	A-1/Watch Neg

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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