



NEWS RELEASE

Feb 22, 2013

R&I Downgrades to A+, Stable: Nomura Real Estate Office Fund, Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Nomura Real Estate Office Fund, Inc.
Issuer Rating: A+, Previously AA-
Rating Outlook: Stable

RATIONALE:

Nomura Real Estate Office Fund, Inc. (NOF) is a real estate investment trust (J-REIT) listed on the stock exchange in December 2003. NOF is specialized in office buildings and is sponsored by Nomura Real Estate Holdings, Inc.

The rating downgrade this time is primarily attributable to the facts that 1) it will likely take more time until the profitability recovers due to the unfavorable rent market; and 2) the effective leverage based on appraisal value is high, and the LTV ratio is unlikely to improve substantially in the near term.

NOF invests in large office buildings located in major cities nationwide. It is in a major position in the industry, being the third largest office REIT with an asset size of 372.1 billion yen. Thanks to steady external growth, the property portfolio is well diversified. The percentage of its largest building Shinjuku Nomura Building has fallen to approximately 10% of the entire assets on an acquisition value basis, and the ratio of the largest tenant has also declined to approximately 9% on a square measure basis.

The occupancy rate of NOF's properties has been high at 96-97% for the past year. The Nomura Real Estate Group's excellent leasing ability is considered to be a contributor to this high occupancy rate. Meanwhile, the NOI yield has dropped to 4.4% due to a continued decline in rents per floor area. In light of a full exit of the tenant which occupies the entire NOF Surugadai Plaza Building scheduled in May 2013 and downward pressure on rents for other buildings lingering to a certain degree, it will very likely take a long time before earnings recover in earnest.

NOF sets a conservative guideline of 35-45% for the LTV ratio. At 46% as of end-October 2012, the LTV ratio somewhat exceeded the guideline level, but is not overly high. Because of relatively large unrealized losses, however, the LTV ratio based on appraisal value (debt divided by appraisal values) has reached around 55%. A strong improvement in effective leverage is unlikely to happen in the near future, even if the current recovery trend in the capital raising environment is taken into account.

Other issues include a comparatively large proportion of buildings located in regional cities and the high average age of buildings. Although NOF is addressing these issues by, for example, acquiring relatively new buildings and selling buildings in regional cities, the degree of improvement is yet to be sufficient relative to its asset size.

The main form of debt financing is long-term fixed-rate borrowing. The average term to maturity is more than three years, and the ratio of fixed rate borrowings is at a healthy level, exceeding 90%. The Reit's liquidity is sufficient, given that it has an unused committed line of credit amounting to 30.0 billion yen and cash and deposits (including trust deposits) totaling 27.4 billion yen as of end-October 2012. Since the listing, NOF has raised the entire funds without pledging any collateral. It has forged good relationships with major financial institutions centering on megabanks and trust banks, and continued to achieve steady fund raising.

The Rating Outlook is Stable. While a full recovery in earnings would take time, a further decline in earnings will be limited, given the high occupancy rate and the progress made in rent adjustments. A cautious approach to higher leverage and solid fund raising capabilities would also underpin the rating.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning

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the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: Nomura Real Estate Office Fund, Inc. (Sec. Code: 8959)
Issuer Rating
RATING: A+, Previously AA-
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.1	Issue Date Mar 16, 2005	Maturity Date Mar 16, 2015	Issue Amount (mn) JPY 5,000
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.2	Issue Date Mar 16, 2005	Maturity Date Mar 16, 2020	Issue Amount (mn) JPY 5,000
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.4	Issue Date Nov 28, 2005	Maturity Date Nov 30, 2015	Issue Amount (mn) JPY 10,000
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.6	Issue Date Mar 19, 2007	Maturity Date Mar 17, 2017	Issue Amount (mn) JPY 5,000
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.7	Issue Date Mar 19, 2007	Maturity Date Mar 17, 2028	Issue Amount (mn) JPY 4,500
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.8	Issue Date Nov 26, 2010	Maturity Date Nov 26, 2014	Issue Amount (mn) JPY 6,000
RATING:	A+, Previously AA-		

Unsec. Str. Bonds No.9	Issue Date Nov 26, 2010	Maturity Date Nov 24, 2017	Issue Amount (mn) JPY 4,000
RATING:	A+, Previously AA-		

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