



MOODY'S ASSIGNS A3 ISSUER RATING TO NOMURA REAL ESTATE OFFICE FUND, INC.; OUTLOOK STABLE

Tokyo, July 8, 2004 -- Moody's Investors Service has assigned an issuer rating of A3 to Nomura Real Estate Office Fund, Inc. (NOF). The rating outlook is stable.

The A3 rating reflects NOF's structural features as a J-REIT, including its limited business scope, reasonably conservative financial policy, high debt service coverage ratio (DSCR), modest external growth speed, and the high probability of the portfolio asset size reaching Yen 200 billion. Moody's performed fundamental analysis of its future investment policy and financial policy, as well as static analysis of its portfolio and capital structure.

These positive factors are partially offset by 1) the concentration of the top three properties, 2) the slightly high ratio of non-fee-simple assets within the portfolio, 3) the uncertainty regarding the fund's de-leveraging strategy during its growth phase, and 4) Nomura Real Estate Asset Management Co., Ltd.'s limited fund management track record. However, those concerns are mitigated by the portfolio's diversity - to be attained by external growth in the near future (medium-term target: Yen 200 billion in 2006) - as well as NOF's discipline regarding investment eligibility criteria, its integrated asset management policy and procedures, and its having professionals from sponsors.

In its current portfolio, NOF owns 17 properties, which Moody's evaluated at Yen 132.8 billion. One characteristic of the portfolio is that its core consists of buildings in the central wards of Tokyo, which contributes to its high occupancy ratio. The top three properties represent 55% of the portfolio's value. Moody's expects this concentration to be mitigated as the portfolio grows. Over the medium to long term, NOF seeks to have 60-80% of the portfolio assets in the central wards of Tokyo, 10-20% in other parts of Tokyo metropolitan area, and 10-20% in other major cities. Moody's assumes that the current asset allocation ratios are basically in line with NOF's investment policy.

Moody's expects the portfolio's capex to be covered by depreciation over the next 10 years. Moody's will carefully monitor the fund's investment strategy, risk/return profile, and portfolio diversity.

All NOF's debt consists of unsecured and unguaranteed loans from diversified financial institutions. It will be important for the fund to borrow longer-term and fixed-interest loans in the future.

NOF has stated that it will control its average leverage between 35% and 45%, which would result in a strong DSCR, even accounting for the risk of an interest rate spike. De-leveraging - after acquisitions - is to be accomplished mainly through public offerings. NOF issued equity of about Yen 20.5 billion in May 2004, and Moody's expects the fund to perform this kind of de-leveraging again in the future. The yield gap with JGB coupons is tightening, while the aggregate market value of J-REITs is growing. As the REIT market is being established, Moody's believes, generally speaking, public offerings of REITs are becoming increasingly feasible.

Based on Moody's assumptions for the portfolio's expected return - in turn based on NOF's investment strategy - , Moody's employed scenario analysis to review NOF's financial indices. Here it assumed that the state of these indices would depend mainly on leverage and interest rate movement. In the base case (35%-45% Loan to Moody's Value [LTV] at debt cost of less than 3%), which includes successful de-leveraging during the growth phase, DSCR would be 4.5 or higher. Even in a stressed case (LTV 60% and debt cost of 6%) - in which de-leveraging is unsuccessful and a high level of leverage is locked - DSCR would be no less than 1.7. NOF's medium- to long-term financial strategy thus gives a reasonably conservative leverage rate. Moody's expects the fund to maintain reasonable financial flexibility in its refinancing and acquisition financing.

Nomura Real Estate Office Fund, Inc. (NOF) is a Japanese Real Estate Investment Trust listed in December 2003 that focuses on investing in and managing office buildings. Nomura Real Estate Asset Management Co., Ltd. is an asset management company established specifically for NOF and sponsored 100% by Nomura Real Estate Development Co., Ltd.

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