



# NEWS RELEASE

Aug 14, 2012

## **R&I Affirms AA-, Changes Outlook to Negative: 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:** AA-, Affirmed  
**Rating Outlook:** Negative, Changed from 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 change in the Rating Outlook 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 in the near term.

NOF invests in large office buildings located in major cities nationwide. The fund is in a major position in the industry, being the third largest office REIT with an asset size of 375.4 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 recovered to 96.7% at end-June 2012. The pace of decline in the unit rent rate is slowing and rent revenues from NRE Tennozu Building is projected to recover from the term ending April 2013. However, the NOI yield is expected to remain as low as around 4.5% even with an earnings recovery of NRE Tennozu Building taken into account. 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 on 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 46.1% as of end-April 2012, the LTV ratio somewhat exceeded the guideline level, but not overly high. However, with unrealized losses (the difference between book values and appraisal values) reaching approximately 36.0 billion yen as of end-April 2012 (or 9.8% of book values), the LTV ratio (debt divided by appraisal values) based on appraisal value rose to 55%. Since the unit price is not recovering sufficiently, NOF will remain cautious on active acquisition of properties for the time being. Accordingly, a strong improvement in unrealized losses is unlikely to happen in the near future. Since the proportion of buildings located in regional cities is relatively high at 27.8% and the average age of buildings is old at 23.6 years, a recovery in appraisal values may slow.

The main form of debt financing is long-term fixed-rate borrowing. At present, 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 unused committed line of credit amounting to 30.0 billion yen and cash and deposits (including trust deposits) totaling 26.7 billion yen as of end-April 2012. Since the listing, NOF has raised the entire funds without pledging any collateral. The Reit has forged good relationships with major financial institutions centering on megabanks and trust banks, and continued to achieve steady fund raising.

The most important point is whether the Reit will be able to improve the profitability of the portfolio and the effective leverage based on appraisal value in the near term. If R&I judges that the profitability and the effective leverage will unlikely improve in the near future because of the continuously harsh earnings and fundraising environments, the rating downgrade will become more likely.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's

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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 the rating.

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

## R&I RATINGS:

<b>ISSUER:</b>	<b>Nomura Real Estate Office Fund, Inc. (Sec. Code: 8959)</b>
	<b>Issuer Rating</b>
<b>RATING:</b>	<b>AA-, Affirmed</b>
<b>RATING OUTLOOK:</b>	<b>Negative, Changed from Stable</b>

<b>Unsec. Str. Bonds No.1</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Mar 16, 2005	Mar 16, 2015	JPY 5,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.2</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Mar 16, 2005	Mar 16, 2020	JPY 5,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.4</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Nov 28, 2005	Nov 30, 2015	JPY 10,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.6</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Mar 19, 2007	Mar 17, 2017	JPY 5,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.7</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Mar 19, 2007	Mar 17, 2028	JPY 4,500
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.8</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Nov 26, 2010	Nov 26, 2014	JPY 6,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

<b>Unsec. Str. Bonds No.9</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Nov 26, 2010	Nov 24, 2017	JPY 4,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

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