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Ratings On Nomura Real Estate Office Fund Affirmed At 'A/A-1'; Off CreditWatch; Outlook Negative

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- Nomura Real Estate Office Fund Inc. (NOF) is likely to improve its portfolio cash flow to an extent, supported by strong ties with its sponsor company, though it may see a temporary decline in its cash flow mainly due to the partial evacuation of a sub-lessee of the largest tenant.
- Standard & Poor's affirmed its 'A' long-term and 'A-1' short-term corporate credit ratings, and removed them from CreditWatch with negative implications.
- The outlook is negative based on our view that NOF's financial profile is likely to remain weak for a certain period of time, owing to downward pressure on its portfolio cash flow.

TOKYO (Standard & Poor's) Oct. 7, 2010--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, we removed the ratings from CreditWatch with negative implications. The outlook is negative. Standard & Poor's placed the ratings on NOF and the ratings on NOF's outstanding unsecured bonds on CreditWatch on July 1, 2010, as we considered that NOF's credit quality could have been adversely affected by a decline in its portfolio cash flow stemming from rent reductions and scheduled partial evacuation of a sub-lessee of the largest tenant, as well as the company's already weakened financial indicators.

NOF's portfolio cash flow may decline due to the reduced rent of Japan Airlines International Co. (JAI; D/-/-), and JAI's scheduled partial evacuation from a property. However, Standard & Poor's considers that NOF's

portfolio cash flow is likely to improve to some extent, given a prompt lease up and stable management of properties in its portfolio in the medium to long term that could be achieved by the strong real estate management capabilities of its sponsor, Nomura Real Estate Holdings Inc. (NR). In addition, under its unchanged conservative financial policy, NOF intends to achieve the targets of financial indicators, in the medium term, which are stipulated in its financial policy, by acquiring and selling properties in a conservative manner, and raising funds timely. Based on this, Standard & Poor's believes that NOF's financial profile is likely to improve moderately.

The outlook on the long-term rating on NOF is negative, based on our view that, amid the persistently sluggish office leasing market, NOF's portfolio cash flow is likely to be squeezed mainly due to JAI's partial evacuation, resulting in a decline in the company's financial indicators. Standard & Poor's continues to monitor developments of NOF's financial indicators, such as debt-to-capital ratio, profitability, and interest coverage ratios. The ratings may come under downward pressure if the downturn in the office leasing market is protracted, making it difficult for NOF to improve its financial profile. Conversely, an upward revision of the outlook would require a decline in NOF's debt-to-capital ratio to the conservative level targeted in its financial policy, and indications of a clear improvement in the company's financial indicators.

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. As of Sept. 30, 2010, the company owned a portfolio consisting of 51 properties, mainly office buildings, worth approximately ¥378.6 billion based on total purchase price. NOF has adequate liquidity at hand, which underpins the ratings. As of the end of the 13th business term (ended April 30, 2010), NOF secured liquidity at hand sufficient for debt repayment, backed by good relationships with 32 financial institutions and unused committed credit lines worth ¥40 billion. The company maintains financial flexibility, as its borrowings are all unsecured.

RELATED CRITERIA RESEARCH

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

RATINGS AFFIRMED; REMOVED FROM CREDITWATCH NEGATIVE

Nomura Real Estate Office Fund Inc.

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

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