



NEWS RELEASE

Aug 20, 2010

R&I Affirms AA-/a-1+, 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. (Sec. Code: 8959)
Issuer Rating

R&I RATING: AA- (Affirmed)
RATING OUTLOOK: Stable

Commercial Paper

R&I RATING a-1+ (Affirmed)

RATIONALE:

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

NOF invests in large office buildings located in major cities nationwide. The fund is in a major position in the industry, being the fourth largest REIT with an asset size of 378.6 billion yen (in the third spot among office REITs). Thanks to stable external growth, the property portfolio is well diversified. The percentages of its largest building Shinjuku Nomura Building and the largest tenant have fallen to approximately 10% of the entire assets on an acquisition value basis and on a square measure basis, respectively.

Japan Airlines International Co., Ltd. (JALI) filed for bankruptcy protection under the Corporate Rehabilitation Law in January 2010. Updates on this had been a cause of concern since JALI was the tenant of JAL Building. As part of JALI's restructuring plan, the rent was reduced in July, and a partial return of space has been scheduled for April 2011. The fall in revenues from JAL Building is not ignorable. However, with the diversified investment portfolio, negative impacts on the entire fund are mitigated to some extent.

Due to the downturn in the rent market, rent revenues from other properties are also falling. In the fiscal term ended April 2010, NOF suffered substantially from vacancies and rent-free contracts because of an increase in exiting tenants and a fall in the unit rent as a result of tenant changeovers. Rents for renewed contracts are expected to continue falling for the time being. However, with the occupancy rate maintained at 94.8% (as of end-June 2010) thanks to a slowdown in the pace of cancellations and an increase in new tenants, a fall in rent revenues is slowing to a certain extent.

Although the cap rate nearly stopped rising, falls in rent estimates resulted in a 5% decline in end-term appraisal value at the end of April 2010. As a consequence, the fund incurred slight unrealized losses. Since end-term appraisal values may sway considerably depending on earnings from properties, attention will be paid to trends in earnings from the portfolio from a viewpoint of asset value.

The ratio of debt to total assets has been generally maintained at a conservative 35-45% target range over more than 5 years of asset expansion, thanks to several capital increases. At end-April, the ratio rose to 46.8%, slightly exceeding the target range. Still, the level is not considerably high compared with that of other REITs in the AA category. NOF takes a conservative stance on raising the leverage to higher levels.

Most of the debts are long-term fixed-rate borrowings. At the end of April 2010, long-term borrowings and fixed-rate borrowings accounted for 80.8% and 90.2%, respectively, of the total debts with the average term to maturity of long-term fixed-rate borrowings standing at four years. Since the time of its listing on the stock exchange, NOF has obtained the entire fund without pledging any collateral. Even in the time of very harsh financial environment (between 2H 2008 and 1H 2009), NOF has been able to smoothly refinance debts. Financing activities continue to be firm as the fund expanded transactions with more financial institutions, taking advantages of recent overall improvements in the financial environment.

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

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NEWS RELEASE

Currently, NOF has no short-term bond issues, although it has set a CP program with the issue limit of 30 billion yen. When NOF decides to issue short-term bonds, the fund will ensure the liquidity that exceeds the outstanding amount of issues by obtaining, for example, committed lines of credit. At present, NOF has an unused committed line of credit of 20 billion yen earmarked for refinancing.

NOF's asset manager Nomura Real Estate Asset Management Co., Ltd. (NREAM) created an unlisted open-ended REIT Nomura Real Estate Private REIT, Inc. (NPR) in March 2010. Since NPR's investment targets include office buildings, it may compete with NOF in acquiring properties. In order to avoid conflicts of interest, NREAM has set a rotation rule of placing priority on either REIT depending on the year (odd number year or even number year) of the completion of a building, should both NPR and NOF show willingness to acquire the same building. Even so, R&I needs to pay some attention to potential negative effects on external growth of NOF.

The Rating Outlook is Stable. The downturn of the office market remains a cause of concern. However, adverse effects on cash flow should be mitigated, considering the competitive strength of properties NOF holds, the management capability of the asset manager and the sponsor, and the diversification of properties and tenants. In addition, its conservative leverage management policy and prudent financing plan should underpin the current rating.

The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". 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/sf/about/methodology/index.html>

<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:

AA- (Affirmed)

RATING OUTLOOK:

Stable

LONG-TERM ISSUE RATING:

	Issue Date	Redemption	Issue Amount (mn)
Unsec. Str. Bonds No.1	Mar 16, 2005	Mar 16, 2015	Yen 5,000
Unsec. Str. Bonds No.2	Mar 16, 2005	Mar 16, 2020	Yen 5,000
Unsec. Str. Bonds No.3	Nov 28, 2005	Nov 29, 2010	Yen 10,000
Unsec. Str. Bonds No.4	Nov 28, 2005	Nov 30, 2015	Yen 10,000
Unsec. Str. Bonds No.5	Mar 19, 2007	Mar 19, 2012	Yen 5,000
Unsec. Str. Bonds No.6	Mar 19, 2007	Mar 17, 2017	Yen 5,000
Unsec. Str. Bonds No.7	Mar 19, 2007	Mar 17, 2028	Yen 4,500

R&I RATING:

AA- (Affirmed)

PROGRAM:

Commercial Paper

Issue Limit: Yen 30,000 million

R&I RATING:

a-1+ (Affirmed)

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan

Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

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