



Moody's assigns A1 to Nomura Real Estate Residential Fund, Inc.

Tokyo, July 18, 2007 -- Moody's Investors Service has assigned an issuer rating of A1 to Nomura Real Estate Residential Fund, Inc. (NRF). The rating outlook is stable.

The rating reflects NRF's [1] stable cash flow based on residential property portfolio with stable rental demand; [2] strong capability in both property acquisition utilizing the network of its asset management company's sponsor, and also in management and operations based on its significant management experience; and [3] reasonably conservative financial policy.

NRF's portfolio currently consists of 91 properties worth JPY 70.4 billion on an acquisition price basis. NRF focuses on investment in and management of residential properties, which mainly located in Tokyo 23 wards, in segments with the most stable demand considering their geographical characteristic and market position.

Properties built less than three years ago account for approximately less than 50% of the portfolio on an acquisition price basis, and the average age of the properties is about 6.8 years. NRF plans to invest in mainly newly-built properties, which may partially offset increases in the average age of the portfolio through its growth phase. NRF's portfolio has extremely high tenant diversification with more than 4,000 tenants in total. As such, the portfolio cash flow is highly unlikely to be affected by the performance of a single tenant of the property.

Taking into consideration the sufficient demand in the residential rental market, Moody's rating incorporates the view that a portfolio consisting of residential properties is less sensitive to economic fluctuation and can generally generate more stable cash flow than one composed mainly of office properties.

NRF's portfolio includes such properties being operated by Nomura Real Estate Development Co., Ltd. Group as a residential private fund. During the operating periods (more than five years is the maximum), the properties' occupancy rates and rent levels were stable.

To achieve its external growth target of JPY 300 billion on an asset value basis, NRF plans to make the most of network of Nomura Real Estate Development Co., Ltd., the parent company of Nomura Real Estate Asset Management Co., Ltd. (NREAM), NRF's asset management company. Moody's rating assumes that NRF will maintain its reasonably strict investment standards to secure a high-quality portfolio during its growth phase.

In property management, NREAM will continuously utilize the asset management expertise of the sponsor company group. NREAM has also employed experienced staff with expertise in real estate private fund management from its parent.

On the financial side, NRF intends to control its leverage ratio (total interest bearing debts/total assets), generally from 35% to no higher than 45%. Although NRF lacks experience in controlling leverage, Moody's has confirmed that the company intends to sustain this reasonably conservative financial policy during its growth phase, and has reflected this policy in the rating.

NRF has already solid liability management, having relationships with twelve financial institutions; its borrowings are all unsecured, with no guarantees, and are mainly long-term. Most of its outstanding borrowings have fixed-interest rates. It intends to further diversify its debt maturities and financial channels, including through a bond issuance. To enhance financial stability, Moody's considers it critical for NRF to introduce measures to address liquidity risk, such as committed line facilities.

Nomura Real Estate Residential Fund, Inc., listed in February 2007, is a Japanese real estate investment trust focusing on the investment in and management of residential properties. Its asset management company, Nomura Real Estate Asset Management Co., Ltd., is wholly owned by Nomura real Estate Development Co., Ltd.

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