STANDARD & POOR'S

RATINGSDIRECT®

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Long-Term Rating On Japan's Nomura Real Estate Residential Fund Placed On Watch Negative

Primary Credit Analyst:
Yumi Oikawa, Tokyo (81) 3-4550-8775; yumi_oikawa@standardandpoors.com

Secondary Credit Analysts:
Roko Izawa, Tokyo (81) 3-4550-8674; roko_izawa@standardandpoors.com
Ryo Onodera, Tokyo (81) 3-4550-8690; ryo_onodera@standardandpoors.com

-- NRF's ratio of debt to capital remains high, and its financial indicators are weak.

-- We have placed our long-term corporate credit rating on NRF on CreditWatch with negative implications.

-- We intend to resolve the CreditWatch placement after examining NRF's strategy to improve its financial profile, and possible progress made in implementing this strategy.

TOKYO (Standard & Poor's) May 29, 2009--Standard & Poor's Ratings Services today placed on CreditWatch with negative implications its 'A+' long-term corporate credit rating on Nomura Real Estate Residential Fund Inc. (NRF). At the same time, Standard & Poor's affirmed its 'A-1' short-term rating on NRF.

Today's CreditWatch placement is based on the following factors: (1) As NRF has pursued a relatively active external growth strategy, its debt-to-capital ratio remains high and cash flow-related indicators are weak; (2) Unrealized losses in NRF's portfolio (the difference between the appraisal value at the end of a fiscal term and the book value of the portfolio) are growing gradually, thereby reducing NRF's financial buffer; and (3) Amid prolonged difficulties in the business environment, especially on the funding front, NRF may experience a possible delay in the recovery of its financial profile.

NRF had previously announced that it would pursue a conservative financial policy, maintaining a ratio of debt to total assets of between 35% and 45%. However its ratio of debt to total assets is now hovering at higher levels than those seen in the past. As of the end of the company's fourth fiscal term (the six-month period ended Nov. 30, 2008), NRF's ratio of debt to total capital (according to Standard & Poor's definition: interest-bearing liabilities/(interest-bearing liabilities + total net assets) stood at about 54.9%. Given that the company has used bank loans to acquire properties since Nov. 30, 2008, we expect the ratio of debt to total capital (at the end of the fifth fiscal term, ending May 31, 2009), which is scheduled to be announced in July, to remain at about 55%. We regard the scenario in which NRF's leverage ratio seems set to hover at levels higher than the target range established under the company's financial policy as a potential risk factor, since this could affect the company's fundraising conditions.

Standard & Poor's intends to resolve the CreditWatch placement after considering the company's strategy to improve its financial profile, and possible progress made in implementing this strategy. Since NRF's leverage ratio and cash flow-related indicators are weaker than initially expected, we believe the company would need to improve its financial profile, especially its debt-to-capital structure, to maintain its current rating. We will examine NRF's measures to improve its ratio of debt to capital and its cash flow protection, and we will also assess the probability of these measures being implemented.

As of the end of April 2009, NRF had expanded its portfolio, mostly comprising residential properties, to about ¥121.5 billion (total value based on total purchase price), backed by the real estate development and management capabilities of its sponsor, Nomura Real Estate Holdings Inc. (NR). NRF has an extremely well-diversified portfolio comprising residential properties that have relatively high occupancy rates. It also has sufficient liquidity at hand to cover principal and interest payments for the time being, and it has financial flexibility. We therefore anticipate that any rating downgrade, if made, would likely be limited to one notch.

RATING PLACED ON CREDITWATCH NEGATIVE

Nomura Real Estate Residential Fund Inc.	From	To
Long-term corporate credit rating	A+	A+/Watch Neg

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.