STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

September 29, 2011

Ratings On Nomura Real Estate Residential Fund Affirmed At 'A/A-1'; Outlook Stable

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

Secondary Contact:
Roko Izawa, Tokyo (81) 3-4550-8674; roko_izawa@standardandpoors.com

- NRF's portfolio has sound occupancy rates, generating generally stable cash flows.
- We affirmed our 'A' long-term and 'A-1' short-term ratings on NRF. The outlook remains stable.
- We expect NRF to continue to generate steady cash flows because the residential leasing market is recovering.

TOKYO (Standard & Poor's) Sept. 29, 2011--Standard & Poor's Ratings Services today affirmed its 'A' long-term corporate credit and series 1 unsecured bond ratings, as well as its 'A-1' short-term corporate credit rating, on Nomura Real Estate Residential Fund Inc. (NRF). The outlook on the long-term corporate credit rating remains stable. The ratings reflect NRF's relatively strong business position and moderately conservative financial policy.

NRF has secured a relatively strong business position in the Japanese real estate investment trust (J-REIT) market, supported by the real estate management and development capabilities and brand recognition of its sponsor, Nomura Real Estate Holdings Inc. (NR). As of Aug. 31, 2011, NRF's portfolio comprised 144 residential properties for lease (total number of rentable units: 7,697) worth approximately ¥134.1 billion based on total purchase price. NRF's properties and tenants are extremely well diversified, which is a factor that supports the J-REIT's credit quality. As residential properties have a high degree of tenant diversification, tenants can be easily replaced and rent levels are little affected by economic fluctuations, hence Standard & Poor's believes that residential properties generate more stable cash flows than other types of properties.

Occupancy rates in the residential leasing market are recovering, and rent levels are showing signs of bottoming out. As a result, the average occupancy rate of NRF's portfolio was high at 96.2% as of Aug. 31, 2011, with its properties generating, in general, stable cash flows. In order to increase the profitability of its portfolio, NRF replaces assets by selling properties with declining competitiveness and operational efficiency while acquiring more profitable properties.

NRF has a conservative financial policy of maintaining a ratio of debt to total assets of between 35% and 45%. However, NRF's debt-to-capital ratio (interest-bearing debt/interest-bearing debt + total net assets), according to Standard & Poor's definition, stood at approximately 54.1% (53.1% based on NRF's definition) as of the end of the ninth six-month term (ended May 31, 2011), which is high relative to the J-REIT's conservative financial policy. In addition to this risk factor, NRF's measures related to interest coverage and profitability are slightly weak. Furthermore, unrealized losses in NRF's portfolio are shrinking but remain high, leaving the J-REIT little financial leeway. Nevertheless, these risks are mitigated somewhat, in our opinion, because NRF has experience increasing capital, and it plans to continue pursuing a conservative financial policy and focus on investing selectively in highly profitable properties.

The J-REIT maintains adequate financial flexibility, as it borrows on an unsecured basis. Although liquidity on hand is slightly low, its good relationships with many financial institutions enable NRF to secure its debt repayment.

The outlook on NRF's long-term corporate rating is stable. We expect NRF to generate stable earnings because it owns a well-diversified portfolio of relatively high quality, occupancy rates in the residential leasing market are recovering, and rent levels are showing signs of bottoming out. To raise the ratings on NRF, we would need to observe a clear improvement in NRF's financial indicators. In particular, we would need to see the J-REIT's debt-to-total assets ratio decline to a level that is commensurate with the range set under its conservative financial policy. In contrast, we will consider lowering the ratings on NRF if we see a high likelihood that its debt-to-total asset ratio (based on NRF's definition) rises to 56% or more and stays high, and its interest coverage and profitability related indicators remain weak or deteriorate.

RELATED CRITERIA AND RESEARCH
Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Rating Policy for Japanese Real Estate Investment Trusts , May 9, 2001

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>. Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.