

Nomura Real Estate Residential Fund's Series 2 Unsecured Bonds Rated 'A'

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

TOKYO (Standard & Poor's) Feb. 8, 2012--Standard & Poor's Ratings Services today assigned its 'A' rating to Nomura Real Estate Residential Fund Inc.'s (NRF; A/Stable/A-1) proposed ¥5 billion series 2 unsecured bonds, due Feb. 24, 2017.

The rating on NRF reflects its relatively strong business position and moderately conservative financial policy. NRF has secured a relatively strong business position in the Japanese REIT (J-REIT) market, supported by the real estate management and development capabilities and the brand recognition of its sponsor, Nomura Real Estate Holdings Inc. (not rated). As of Jan. 31, 2012, NRF's portfolio comprised 153 residential properties for lease (total number of rentable units: 8,906) worth approximately ¥150.1 billion based on total purchase price. NRF's portfolio is extremely well diversified, which is a factor that supports the J-REIT's credit quality. NRF has a conservative financial policy, maintaining a cruising-level ratio of debt to total assets of between 35% and 45%.

Operating in the residential leasing market--where we have observed occupancy rates stabilizing and rent levels stopping their decline--NRF has a policy of acquiring properties selectively, targeting tenants that can provide sustainable demand. As a result, the average occupancy rate of properties in NRF's portfolio has been high and stable, standing at 96.0% as of the end of December 2011. NRF's real estate portfolio is highly diversified with high occupancy rates, and changes in rents of properties have been limited. As such, Standard & Poor's expects NRF to generate stable profits.

NRF raised about ¥7.2 billion in equity capital in December 2011. It also

purchased eight properties in the same month for a total purchase price of about ¥15.1 billion, funding the acquisitions with the equity it raised as well as additional bank loans. Standard & Poor's holds the view that NRF's profitability indicators will recover gradually, based on the following: (1) The equity issuance in December 2011 made it possible for NRF to purchase properties with higher yields than existing ones; and (2) the J-REIT replaces existing properties with new ones with higher profitability.

On the other hand, Standard & Poor's views the following as risks to NRF's credit quality: (1) NRF's debt-to-capital ratio remains high despite its conservative financial policy; (2) its financial indicators related to interest coverage and its profitability measures have been somewhat low; and (3) although the unrealized loss (the difference between the appraisal value and the book value of the portfolio at the end of a fiscal term) in its portfolio has improved slightly due to the purchase of new properties, the unrealized loss remain high, thereby weakening NRF's financial buffer. Nevertheless, in our view, NRF's conservative financial policy--which the J-REIT intends to firmly maintain--and its new property acquisitions--which could lead to enhanced profitability--partially mitigate these risks.

RELATED CRITERIA AND RESEARCH

"Key Credit Factors: Global Criteria For Rating Real Estate Companies," published June 21, 2011

"Principles Of Credit Ratings," published Feb. 16, 2011

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

RATING ASSIGNED

Nomura Real Estate Residential Fund Inc.

Unsecured J-REIT bonds (series 2)

Proposed issue amount	Coupon	Rating
¥5 bil.	1.03%	A

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 subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.