

## Rating Assigned To Nomura Real Estate Residential Fund Inc.'s Series 1 Unsecured Bonds

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TOKYO (Standard & Poor's) Feb. 9, 2011--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 1 unsecured bonds, due Feb. 25, 2016.

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 the brand recognition of its sponsor, Nomura Real Estate Holdings Inc. (NR). As of Jan. 31, 2011, NRF's portfolio comprised 145 residential properties for lease (total number of rentable units: 7,687) worth approximately ¥134.4 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 is also replacing assets to maintain and raise the quality of its portfolio. The portfolio's average occupancy rate as of Nov. 30, 2010 (the end of the eighth fiscal term) was about 96.3%, and the properties generate, in general, stable cash flows. As residential properties have a high degree of tenant diversification and their tenants can be easily replaced, their 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.

NRF pursues a conservative financial policy, maintaining a ratio of debt to total assets of between 35% and 45% (cruising level). Nevertheless, we see

some risk factors that could affect NRF's credit quality. These are:

- As of the end of the eighth fiscal term, NRF's debt-to-capital ratio, according to Standard & Poor's definition (interest-bearing debt including hoshokin liabilities/(interest-bearing debt including hoshokin liabilities + total net assets), remained at a level (about 54.1%) that was higher than the target set under the J-REIT's conservative financial policy. In addition, NRF's financial measures, which include interest coverage ratios and profitability-related indicators, are slightly weak; and
- The unrealized losses in NRF's portfolio remain high.

Over the long term, the J-REIT intends to lower its ratio of debt to total assets to a level that is closer to that set under its financial policy, through prudent property acquisitions and improved cash management efficiency. We will continue to focus on the extent to which NRF is able to improve its financial profile.

NRF maintains financial flexibility because it has established good business relationships with multiple financial institutions in Japan, from which it borrows on an unsecured basis only.

RELATED CRITERIA AND RESEARCH

"Principles Of Corporate And Government Ratings," published June 26, 2007  
"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 1)

Proposed issue amount	Coupon	Rating
¥5 bil.	1.21%	A

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