

Rating Action: Nomura Real Estate Residential Fund, Inc.

Moody's downgrades NRF's rating; outlook negative

Tokyo, April 21, 2009 -- Moody's Investors Service has downgraded to A2 from A1 the issuer rating of the Nomura Real Estate Residential Fund, Inc. ("NRF"). The rating had been under review for possible downgrade. The rating outlook is negative. This concludes the review initiated on January 15, 2009.

The downgrade reflects Moody's concerns that NRF's conservative financial policy may be stressed, since its ratio of debt to total assets (including "released deposits" -- tenant deposits that can be used for temporary liquidity) is roughly 57% and remains high relative to its historical level.

The negative rating outlook reflects Moody's view that NRF will need some time to reduce its leverage.

NRF intends to keep the ratio (total interest bearing debts/total assets) in the 35%-45% range. Moody's is concerned that NRF's already conservative financial policy may be stressed, given the high debt ratio relative to its historical leverage. The prices of properties in the company's portfolio are apparently declining, while leverage based on appraisal values is rising. Whether NRF can reduce its leverage in the near future will be an issue, in Moody's opinion.

Long-term debt represents approximately 92% of total debt and funding terms are long for the J-REIT sector. However, the company's limited liquidity -- such as the lack of a commitment line -- will be an issue in the future.

NRF's portfolio focuses on residential properties, with properties in the Tokyo area comprising 86% of the portfolio's value. The average monthly rent is roughly JPY 90,000. The portfolio focuses mainly on students, single households, and double-income couples with no children. The properties are characterized by very stable demand and are less vulnerable to economic cycles, which helps stabilize cash flows. Moody's believes that NRF's portfolio will continue to benefit from stable cash flows, because (1) the company takes advantage of the property management expertise of the Nomura Real Estate Development Co., Ltd. group, and (2) the number of rentable units is near 7,000, contributing to portfolio diversity.

Moody's previous rating action on NRF took place on January 15, 2009, when the agency initiated a review of its issuer rating of A1 for a possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moody's.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report, "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moody's.com.

Nomura Real Estate Residential Fund, Inc. is a J-REIT that focuses on investing in and managing residential properties. Its operating revenue for the fiscal half-year that ended in November 2008 was approximately JPY 3.8 billion.

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