STANDARD & POOR'S

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Rating On Japan's Nomura Real Estate Residential Fund Lowered To 'A', Off CreditWatch; Outlook Stable

Primary Credit Analysts:
Yumi Oikawa, Tokyo (81) 3-4550-8775; yumi_oikawa@standardandpoors.com
Ryo Onodera, Tokyo (81) 3-4550-8690; ryo_onodera@standardandpoors.com

- NRF's ratio of debt to capital remains high, and amid difficult business conditions, the company may see a delay in the recovery of its financial profile.
- We have lowered our long-term corporate credit rating on NRF by one notch and removed the rating from CreditWatch with negative implications. At the same time, we have affirmed our 'A-1' short-term corporate rating on NRF.
- We expect NRF to generate stable cash flow, backed by its portfolio of properties with generally sound occupancy rates. Hence, the outlook on the long-term corporate rating is stable.

TOKYO (Standard & Poor's) Sept. 2, 2009--Standard & Poor's Ratings Services today lowered to 'A' from 'A+' its long-term corporate credit rating on Nomura Real Estate Residential Fund Inc. (NRF) and removed the rating from CreditWatch with negative implications, where it had been placed on May 29, 2009. At the same time, Standard & Poor's affirmed its 'A-1' short-term rating on NRF. The outlook on the long-term corporate rating is stable.

NRF has pursued a relatively active external growth strategy, leaving its debt-to-capital ratio high and cash flow-related indicators weak. As of the end of the company's fifth fiscal term (the six-month period ended May 31, 2009), NRF's ratio of debt to total capital (according to Standard & Poor's definition: interest-bearing liabilities/(interest-bearing liabilities + total

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net assets) stood at about 57%. In addition, as unrealized losses in the company's portfolio are growing gradually, NRF's leverage ratio based on property appraisal values is even higher than the ratio of debt to total capital based on Standard & Poor's definition, indicating a reduction in the company's financial buffer.

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%. Therefore the company is carefully examining plans to improve its financial profile. Nevertheless, amid prolonged difficulties in the business environment, Standard & Poor's expects the company will see a delay in improving its financial indicators to the levels set under its conservative financial policy.

NRF has a relatively strong business position in the 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 the end of the fifth fiscal term, NRF's portfolio comprised 139 residential properties for lease worth approximately ¥121.5 billion based on total purchase price. NRF's portfolio is extremely well diversified, with the top four properties accounting for about 10% of the total value of the company's portfolio, a factor that supports the company's credit quality. The company aims to select properties with stable leasing demand. Overall, the company's portfolio of properties, with a sound average occupancy rate of 93.1% (as of the end of the fifth fiscal term), generates stable cash flow. As residential properties have a high degree of tenant diversification and their tenants can easily be replaced, their rent levels are little affected by economic fluctuations. Hence, Standard & Poor's believes that they generate more stable cash flows than other types of properties.

Standard & Poor's does not regard NRF's current liquidity at hand and short-term and long-term funding capabilities as potential risk factors. Since the company has established good business relationships with 14 financial institutions, it should be able to secure sufficient funding to meet its debt repayment obligations and its needs in terms of working capital, including hoshokin liabilities. In addition, the company is able to maintain financial flexibility as all of its interest-bearing debt is unsecured.

The outlook on the long-term corporate rating is stable. We expect NRF to generate stable earnings, backed by its well-diversified portfolio of relatively high-quality properties with generally sound occupancy rates. We will monitor the company's debt-to-capital ratio, and its financial indicators such as cash flow protection and profitability. The rating on NRF may come under downward pressure if the company fails to improve its financial management, or its financial indicators remain weak or deteriorate. In contrast, to raise the long-term cooperate rating on NRF, we would need to see the company's debt-to-capital ratio decline to within the range set under its conservative financial policy and a clear improvement in its financial indicators.

RATING LOWERED, OFF CREDITWATCH NEGATIVE

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

RATING AFFIRMED

	Rating
Short-term corporate credit rating	A-1

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>.