



Rating Action: Nippon Building Fund Inc.

MOODY'S CHANGES NIPPON BUILDING FUND'S A3 RATING OUTLOOK TO POSITIVE

Tokyo, January 26, 2004 -- Moody's Investors Service has changed its outlook on the A3 issuer rating and senior unsecured long-term debt rating of Nippon Building Fund Inc. (NBF) to positive from stable.

The change reflects the growth in NBF's portfolio; the steady management track record of its asset management company, Nippon Building Fund Management Ltd. (NBFM); and the growth of the Japan Real Estate Investment Trust (J-REIT) market, which started with NBF's listing.

As of December 2003, NBF had grown its portfolio to approximately JPY 300 billion with 34 properties from JPY 230 billion with 24 properties on its listing date of September 2001. Its portfolio is still the largest among those of the 10 listed J-REITs and Moody's considers NBF as occupying the leadership position in the J-REIT market. On the other hand, its growth is moderate when compared with its original target. At the same time, in Moody's view, this achievement is reasonable and is the result of investments that balance well its portfolio quality. In 2003, NBF faced lease terminations by major tenants which occupied 7,200 tsubo on 2 properties. However, NBFM managed to quickly lease up these vacant areas, showing that it and the property managers have high asset management abilities, including controls on property expenses. Moody's expects its advantages in business to further improve due to above risk management.

With its financial strategy, the company's Loan-To-Value ratio (LTV) has gradually risen due to a series of debt-funded acquisitions. However, NBF has funded itself with diversified forms of debt - such as two issuances of straight bonds and an increase in the number of lenders - and keep its annual repayment amount below its syndicated committed bank lines of credit at JPY 30 billion. Moody's believes that this mitigates refinance risk and that NBF continues to maintain its financial flexibility and conservative financial management policies.

NBF's has adopted a positive stance towards portfolio growth, given its target of achieving as much as JPY 500 billion by March 2006. In this process, de-levering will be accomplished through a public offering to keep its LTV target between 40 and 50%, as announced. At the same time, NBF needs to achieve reliable portfolio growth and differentiation from other J-REITs to retain its leadership position. Moody's will continue to monitor NBF's portfolio performance, management strategy and financial strategy.

NBF is a leading listed J-REIT, focused on investments in and management of high-quality office buildings. Its revenues totaled Yen 12.2 billion in FYE 6/2003.

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