STANDARD & POOR'S

Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Revises Outlook On Nippon Building Fund To Positive, Affirms 'A' Long-Term Rating

Tokyo, May 12, 2006 – Standard & Poor's Ratings Services today revised the outlook on its long-term corporate credit rating on Nippon Building Fund Inc. (NBF) to positive from stable. At the same time, Standard & Poor's affirmed its 'A' long-term and 'A-1' short-term corporate credit ratings on NBF, as well as its 'A' rating on NBF's outstanding senior unsecured notes, series 2 through 7 (see list below).

The outlook change reflects improvements in NBF's asset quality and concentration risk, resulting from the company's efforts to expand its asset portfolio. It also reflects expectations for an improvement in the company's financial profile, including its capital structure, profitability and cash flow protection, as NBF shifts its focus toward internal growth and thus pursues more conservative leverage control. NBF boasts a strong business position, owning a portfolio of well-maintained office buildings with high occupancy rates that generate stable and sustainable cash flow. It has a relatively solid financial profile and is financially flexible.

As of the end of December 2005, NBF owned 52 office properties throughout Japan, with its total portfolio valued at approximately ¥539.4 billion based on purchase price. NBF acquired NBF Platinum Tower (¥31 billion) and Shin-Kawasaki Mitsui Building (¥20.3 billion) in March 2006. In April 2006, NBF exchanged JFE Building, which had a sales price of ¥91 billion and was formerly the largest property in its portfolio, for five properties that were owned by Mitsui Fudosan Co. Ltd. and had a total purchase price of ¥110.1 billion. The deals boosted NBF's total assets to more than ¥620 billion as of the end of April 2006. Asset quality and concentration risk in NBF's portfolio is thus improving through the acquisition and exchange of new properties. In addition, Standard & Poor's views the JFE building exchange as an effective means of avoiding an expected plunge in cash flow resulting from the scheduled departure of the building's single tenant (JFE Steel Corp.) in March 2007. The average age of the asset portfolio has fallen to approximately 13 years, and overall profitability is expected to improve. NBF has a regionally diversified portfolio and stable cash flow, boasting an occupancy rate of 98.1% as of the end of December 2005.

NBF now plans to focus on internal growth measures, such as boosting revenue from rents. Moreover, it plans to respond to an overheating acquisition market by toning down its relatively aggressive external growth strategies and being more selective in its property acquisitions. As a result, NBF is expected to maintain moderate external growth.

As of December 2005, NBF's total revenue stood at ¥19.4 billion, its net income at ¥7.2 billion, its debt-to-capital ratio at 48.9% and its loan-to-value ratio at 50.5%, based on Standard & Poor's underwriting. NBF's financial policy is to maintain a debt-to-capital ratio of 40% to 50%. With NBF's asset portfolio having reached a certain magnitude, future leverage ratios are expected to be less volatile. Since its listing, NBF has issued equity three times. Standard & Poor's expects NBF to maintain its leverage ratios within a relatively conservative low-40% to mid-40% range through timely equity finance.

NBF's cash flow is highly stable, with its interest coverage ratio (EBITDA to interest expense) standing at about 9x and FFO to debt standing at 8.4% as of December 2005. Liquidity remains high, with NBF's coverage ratio (net cash flow to interest expense plus dividends) standing at about 1.5x. Cash outstanding as of December 2005 stood at approximately ¥29.7 billion, which was sufficient to cover immediate operating expenses (including security deposit liabilities). NBF's unused commitment lines stand at ¥30 billion in total. In terms of debt repayment, NBF has ample liquidity via its sound relations with nearly thirty banks. Its financial flexibility is also sound, as all of the properties in its portfolio are unencumbered.

NBF's high-quality assets should provide it with a stable income stream and sustainable profitability. A ratings upgrade would require NBF to improve its financial profile through more conservative leverage control, as it shifts its focus toward internal growth. This would include maximizing returns from its expanded and more diversified portfolio, and improving its capital structure and cash flow protection.

RATINGS AFFIRMED

Rating	Outstanding bonds
A	¥10 billion senior unsecured notes series 2 due February 2007
A	¥10 billion senior unsecured notes series 3 due June 2018
A	¥10 billion senior unsecured notes series 4 due September 2009
A	¥10 billion senior unsecured notes series 5 due September 2011
A	¥10 billion senior unsecured notes series 6 due March 2010
A	¥10 billion senior unsecured notes series 7 due November 2015

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>.

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