

Rating Action: Nippon Building Fund Inc.

Moody's Upgrades Nippon Building Fund to A1 from A2: Outlook Stable

Tokyo, October 17, 2006 -- Moody's Investors Service has upgraded the issuer rating and senior unsecured long-term debt rating of Nippon Building Fund Inc. (NBF) to A1 from A2. The upgrade reflects [1] NBF having established a solid revenue base through portfolio expansion, [2] the company having established and taken advantage of a leading position in the growing Japanese REIT (J-REIT) market, [3] its asset management company, Nippon Building Fund Management Ltd., having demonstrated a good ability to acquire and manage high-quality real estate properties in cooperation with its sponsor company, Mitsui Fudosan Co., Ltd. (Mitsui Fudosan), and [4] Moody's opinion that NBF is likely to maintain its conservative financial policy. This concludes the review initiated on June 19, 2006. The outlook is stable.

Moody's notes that NBF accomplished its portfolio expansion goal (JPY 500 billion by end-March 2006) six months earlier than scheduled, and as of end-September 2006 had grown the portfolio to approximately JPY624.8 billion, with 55 properties (on an acquisition value basis). Also, in April 2006 it succeeded in trading JFE Building, the largest property in its portfolio, for five properties owned by Mitsui Fudosan. As a result of this and other acquisitions, properties acquired in and after the second half of 2005 to date currently represent approximately 46% of the portfolio (on an acquisition value basis).

Through this trading and portfolio expansion, NBF has been successful in stabilizing cash flow while improving portfolio quality, as illustrated by its top five properties representing 33.1% of the portfolio (on an acquisition value basis) and the average property age decreasing to approximately 13 years as of end-September 2006. Having acquired the largest portfolio of the 39 listed J-REITs, it has maintained a leading market position and enjoyed scale advantages.

As per its financial strategy, NBF has conservatively controlled its leverage through three public offerings since its listing. As its LTV swing is becoming more stable accordingly with the portfolio expansion, the predictability in its business continuity and financial risk is likely to further improve going forward. In addition, NBF has effectively managed the duration of its debts through increasing the variety of its financing channels, including issuances of straight bonds, as well as extending and diversifying debt maturities. Moreover, its outstanding long-term debts all bear fixed rates, and a commitment line of JPY30 billion is provided to address refinancing risk.

Having achieved the portfolio expansion goal, NBF has now set out on the second phase of its portfolio strategy to improve revenue base: it has shifted its focus to internal growth from the external growth of its portfolio, by revising rent levels and replacing properties. Its acquisition strategy for external growth is intended to capture real estate market trends and focus on acquiring only high-quality properties, but with no timing goals. Moody's has taken into account in the rating action that the solid portfolio strategy will contribute to strengthening and stabilizing NBF's cash flow.

Nippon Building Fund Inc. is a listed J-REIT, focused on investments in and management of high-quality office buildings. Its revenues totaled Yen 24.3 billion in the fiscal half-year ended June 2006.

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