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Press Release

For Immediate Release

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S&P Assigns 'A/A-1' Ratings to Office Building Fund of Japan, Inc.; Outlook Stable

Tokyo, May 1, 2002 – Standard & Poor's today assigned its 'A' long-term and 'A-1' short-term corporate credit ratings to Office Building Fund of Japan, Inc. (NBF). The outlook on the long-term rating is stable.

The rating reflects NBF's strong business position, high asset quality, and moderately conservative financial profile. The company holds a dominant position in the relatively young Japanese real estate investment trust (J-REIT) market, and has good brand recognition. NBF owns a portfolio of well-maintained office buildings with high occupancy rates, which generates stable and sustainable cash flow. The company has a relatively conservative capital structure and benefits from high profitability, above-average cash flow protection, and high financial flexibility. The rating also takes into consideration the unique nature of the structure of J-REITs (in comparison to REITs rated by Standard & Poor's in other markets), which prohibits them from pursuing certain high risk activities. These strengths are partly offset by concerns regarding the unseasoned market in which NBF operates, relatively weak credit quality of some of its sponsor companies, its moderately aggressive growth strategy (including the potential for development risk), and asset concentration and tenant concentration risk in its current portfolio. Although the company's limited track record is a further concern, this is mitigated to a certain degree by the sufficient performance history of its property portfolio, as evidenced by historical rent rolls.

NBF was among the first J-REITs to be listed on the Tokyo stock exchange in September 2001. The asset manager of NBF is Office Building Fund Management Japan. Ltd. (NBFM), which was formed by eight sponsors: Mitsui Fudosan Co. Ltd. (—/—/B), Sumitomo Life Insurance Co. (BBB/Negative/—), Chuo Mitsui Trust & Banking Co. Ltd. (BB+/Negative/B), Sumitomo Mitsui Banking Corp. (BBB/Negative/A-2), Daido Life Insurance Co. (A+/Stable/—), Mitsui Sumitomo Insurance Co. Ltd. (AA-/ Negative/ A-1+), Mitsui Mutual Life Insurance Co. (BB-/Negative/—), and Britel Fund Trustees Ltd., an affiliate of Hermes Investment Management, London. These companies own a combined 14.8% of NBF, as well as 100% of NBFM. Among them, Mitsui Fudosan and Sumitomo Life own 43% and 35% of NBFM respectively.

As of the end of December 2001, NBF owned a portfolio of 24 office properties located throughout Japan worth approximately ¥218 billion (Standard & Poor's underwriting value) with some geographical diversification. The overall asset quality is strong, with average occupancy at 97.5%, and portfolio rent levels are mostly consistent with submarket rents. NBF also leverages the broad real estate information network and strong leasing ability of its property manager, Mitsui Fudosan. There is, however, a degree of property concentration and tenant concentration risk within the portfolio, particularly with respect to the NKK building. This asset comprises approximately 32% of asset value and is wholly leased to NKK Corp. ('Bpi'), a steel company with a relatively weak credit standing. This single property and single tenant concentration risk is expected to decline as the company acquires more properties. NBF's strategy is to enlarge its portfolio at a slightly aggressive pace, aiming to reach ¥300 billion by December 2002 and ¥500 billion by December 2005. According to the company's guidelines, once the total portfolio value has reached ¥300 billion, NBF is allowed to allocate 10% of the total portfolio to development projects that are near completion, but which may have lease-up risk.

NBF's management expects to maintain a moderately conservative capital structure, with its debt-to-capital ratio averaging 40%-50%. However, leverage could periodically rise to 60% as the company pursues its growth strategy by using debt to acquire additional properties. Following acquisitions, the company is expected to lower leverage to a more moderate range by issuing new equity. While this strategy and policy are untested, as the company has a limited track record, NBF's sound investment criteria and underwriting procedures somewhat offset this concern. Cash flow protection is strong, with the debt-service coverage ratio expected to remain at around 2.7 times (x) on average, using Standard & Poor's conservative stressed constant interest rate of 6%. As of December 2001, EBITDA interest coverage, based on attractive low financing costs was 17x. Over 70% of NBF's debt is comprised of long-term fixed-rate debt with diversified maturities, reducing interest rate and refinancing risks. With all of its debt currently unsecured, NBF's financial flexibility is high.

OUTLOOK: STABLE.
NBF's high quality assets should provide the company with a stable income stream and sustainable profitability. NBF is expected to maintain a moderate financial profile as the company pursues acquisitions and portfolio growth. The rating anticipates that although NBF's leverage may vary throughout this portfolio growth period, average leverage is expected to remain moderate.

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