

Jun 11, 2020

R&I Affirms AA-, Stable: Nippon Accommodations Fund Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Nippon Accommodations Fund Inc.
Issuer Rating: AA-, Affirmed
Rating Outlook: Stable

RATIONALE:

Nippon Accommodations Fund Inc. (NAF) is a real estate investment trust that was listed in 2006. The REIT invests primarily in rental apartments in Tokyo 23 wards. Mitsui Fudosan Co., Ltd. serves as a sponsor.

NAF has been investing in "Park Axis Series" properties developed by the Mitsui Fudosan Group. NAF's rental apartments, of which 88.1% are located in Tokyo 23 wards, are relatively new, as shown by the average property age of approximately 14 years (as of February 2020). Its portfolio is well diversified, with an asset size of more than 300 billion yen. While the pace of asset size expansion has been moderate in recent years, steady external growth is expected to continue, given the sponsor's rich pipeline.

The average month-end occupancy rate during the period ended February 2020 remained high, standing at 97.7%. NAF's properties have been performing well, as seen in an increase in rents by 7% at tenant turnover and 0.6% at contract renewal on average. As regards Tokyo 23 wards, in which the REIT has been heavily investing, the supply-demand balance of rental apartments remains tight thanks to the sustained influx of population and a low level of new apartment supply.

The novel coronavirus outbreak will likely have only a small impact on the performance of rental apartments. NAF's properties are mostly compact units designed for single residents or small-sized households, which enjoy strong demand, and the number of economically-sensitive high-rent units is limited. While some retail units and hotels may be affected by the pandemic, these properties account for a marginal share of the total rent revenue.

The LTV ratio as of February 2020 was 50.8%, which is at the same level as those of other residential REITs. The ratio has been trending firmly at around 50% over the past five years. With the appraisal value rising, unrealized gains have grown to about 34% of the book value.

NAF has stable funding sources which are mainly comprised of long-term fixed-rate loans from major domestic financial institutions. The average remaining term of long-term debts is 4.4 years (as of February 2020), with due dates staggered. Its financing costs are low compared to those of other REITs. A committed line of credit is set at 15 billion yen.

The Rating Outlook is Stable. NAF has established a quality portfolio by focusing on investments in properties developed by the sponsor in Tokyo 23 wards, and enjoys highly stable earnings. In recent years, rent growth has been accelerating. The leverage level is managed within the target range, and the funding base is robust.

The primary rating methodology applied to this rating is provided at "Rating Methodology for REITs". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:**ISSUER:****Nippon Accommodations Fund Inc. (Sec. Code: 3226)****Issuer Rating****RATING:****AA-, Affirmed****RATING OUTLOOK:****Stable**

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