

Jun 02, 2021

## 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. It newly acquired five properties in Tokyo and Yokohama for a total of 18.5 billion yen from the period ended August 2020 onward. NAF's rental apartments, of which about 88% are located in Tokyo 23 wards, are good assets with the average property age of 14.6 years (as of April 2021). Its portfolio is well diversified, as shown by an asset size of 328.2 billion yen invested in 131 properties.

The average month-end occupancy rate during the period ended February 2021 stands at 96.4%, down year on year. It is attributable to slightly weak tenant demand for units designed for single residents in central Tokyo as a result of a decline in net in-migration to Tokyo 23 wards affected by the COVID-19 outbreak. Meanwhile, the occupancy rate recovered during the period until end-February, backed by the sponsor group's successful leasing activities in addition to solid demand for compact units and units for families. The average rate of rent changes at tenant turnover therefore remained positive. Going forward, NAF will likely be able to maintain high occupation rates and secure stable cash flow, even though rent growth is slower than that in the past few years.

Since the COVID-19 pandemic has had only a relatively small impact on the performance of rental apartments, investment demand is increasing and selling prices are kept strong. That said, given the sponsor's rich pipeline, NAF is able to achieve high-quality external growth while avoiding excessive competition on an ongoing basis.

NAF conducted a public offering in December 2020 for the first time in five years. The LTV ratio as of February 2021 was 50.2%. The ratio has been controlled at around 50% over the past six years. With the appraisal value rising, unrealized gains have grown to about 37% of the book value.

NAF has stable funding sources which mainly consist of long-term fixed-rate loans from major domestic financial institutions. The average remaining term of long-term debts is 4.6 years (as of February 2021), with due dates staggered. Its financing costs are low compared to those of other REITs.

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. Though occupancy rates declined slightly due to the impact of the COVID-19 pandemic, NAF still enjoys highly stable earnings. 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](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

Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 16, 2020	Jul 16, 2025	JPY 2,000

**RATING:** AA-, Affirmed

Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 16, 2020	Jul 16, 2030	JPY 2,000

**RATING:** AA-, Affirmed