



NEWS RELEASE

No.2009-C-454
May 25, 2009

R&I Places Nippon Accommodations Fund on Monitor v/downgrading

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

ISSUER: Nippon Accommodations Fund Inc. (Sec. Code: 3226)
Issuer Rating

R&I RATING: (AA); Placed on the Rating Monitor with a view to downgrading

RATIONALE:

Nippon Accommodations Fund Inc. (NAF) is a real estate investment trust (J-REIT) that went public in August 2006. The fund invests in "accommodation assets" primarily for rental purposes, including dormitories, student apartments, serviced apartments, senior residences and corporate housing. Mitsui Fudosan Co., Ltd. serves as its sponsor.

R&I has placed NAF on the Rating Monitor chiefly because 1) LTV ratios (Debt / Total assets) have been high during the past year, standing in the mid-50% range, 2) It will remain difficult for NAF to substantially reduce LTV ratios through a capital increase due to a continued slowdown in the REIT market, and 3) The harsh environment for a capital increase has been impeding NAF's external growth.

R&I assigned a rating of AA based on its expectations that LTV ratios will generally stay between 40% and 50% and even if the ratios temporarily exceed 50% due to a series of property acquisitions, they will be reduced through a capital increase, etc. and will not remain high for a long period of time. Despite market fluctuations that will affect its capital increase, R&I expected that NAF will build track records by leveraging the strong creditworthiness of its sponsor, as well as its competitive advantages in the residential REIT sector, and steadily expand its assets while controlling LTV ratios. However, due to the drastic change in the REIT market, it has become difficult for NAF, like its competitors, to increase its capital. Several factors, including LTV ratios, actual control of LTV ratios, and asset size, have changed from those R&I originally expected when assigning a rating.

Meanwhile, regardless of its LTV ratios, NAF has been refinancing its debts successfully. Supported by its sponsor's creditworthiness, NAF maintains good relationships with major financial institutions in Japan. While spreads are increasing like other REITs, NAF continues stable procurement of unsecured funds, mainly at long-term fixed interest rates.

Occupancy rates of NAF's properties are solid. 92% of NAF's properties are located in the 23 wards of Tokyo. NAF's properties are mostly large with the average acquisition price of 3.2 billion yen, and they are new, standing only for approximately 7 years on average (approximately 3 years, excluding Okawabata Apartment Communities). Furthermore, rentable units exceed 4200 and are well diversified. Strong property competitiveness, diversified tenants and the Mitsui Fudosan group's leasing capability are major components that support NAF's high occupancy rates.

While NAF's rating is on the Rating Monitor, R&I will examine future developments regarding NAF's financial profile, particularly its control of LTV ratios. Based on the results, a new rating will be announced. Nevertheless, as mentioned above, NAF's cash flow and financing are stable. Even if the rating is downgraded, it is highly probable that the downgrade will be only one notch.

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The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/st/methodology.html>

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

R&I RATINGS:

ISSUER:

Nippon Accommodations Fund Inc. (Sec. Code: 3226)

R&I RATING:

(AA); Placed on the Rating Monitor with a view to downgrading

ISSUE:

Preliminary Rating for the Shelf Registration scheme

Bonds to be Rated: Corporate Bonds

Issue Amount: Yen 100,000 million (Shelf Amount)

Issue Period: Two years from Jul 18, 2007

R&I RATING:

(AA); Placed on the Rating Monitor with a view to downgrading

LONG-TERM ISSUE RATING:

	Issue Date	Redemption	Issue Amount (mn)
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Unsec. Str. Bonds No. 1

Nov 15, 2007

Nov 14, 2014

Yen 10,000

R&I RATING:

(AA); Placed on the Rating Monitor with a view to downgrading

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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