



NEWS RELEASE

No.2009-C-542
Jun 22, 2009

R&I Downgrades to AA-, Stable: Nippon Accommodations Fund

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- (Downgraded from (AA); Removed from the Rating Monitor)
RATING OUTLOOK: Stable

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 downgraded the ratings this time 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 steadily continues to raise 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.

NAF is taking a cautious stance on a further increase in the leverage. Given that the cash flow and fundraising conditions remain solid as noted above, the Rating Outlook is Stable.

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 methodologies are 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>

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R&I RATINGS:

ISSUER: Nippon Accommodations Fund Inc. (Sec. Code: 3226)
ISSUER RATING: AA- (Downgraded from (AA); Removed from the Rating Monitor)
RATING OUTLOOK: Stable

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- (Downgraded from (AA); Removed from the Rating Monitor)

LONG-TERM ISSUE RATING:	Issue Date	Redemption	Issue Amount (mn)
Unsec. Str. Bonds No. 1	Nov 15, 2007	Nov 14, 2014	Yen 10,000
R&I RATING:	AA- (Downgraded from (AA); Removed from the Rating Monitor)		

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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