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Outlook On Nippon Accommodations Fund Revised To Stable; Ratings Affirmed

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OVERVIEW

- Nippon Accommodations Fund Inc. (NAF) is a J-REIT specializing in residential properties.
- Amid signs of increased stability in the residential property rental market, NAF has launched equity offerings and pursued external growth. These moves have enabled the J-REIT to improve its business profile, particularly the diversity and profitability of its portfolio, as well as its financial standing.
- We have revised to stable from negative the outlook on the long-term rating on NAF.
- We have affirmed our long-term and short-term corporate credit ratings and unsecured debt ratings on NAF because the J-REIT has a strong business position and a high-quality real estate portfolio, allowing it to generate stable cash flows.

TOKYO (Standard & Poor's) Dec. 5, 2011--Standard & Poor's Ratings Services today said that it has revised to stable from negative the outlook on its long-term corporate credit rating on Nippon Accommodations Fund Inc. (NAF). At the same time, we have affirmed our 'A+' long-term and 'A-1' short-term ratings on NAF, as well as our 'A+' ratings on NAF's series 1 and series 2 unsecured J-REIT bonds.

We today revised the outlook on the long-term rating on NAF because:

- Amid signs of increased stability in the residential property market, NAF has acquired multiple properties, while securing acquisition yields that we consider reasonable. This has enabled the Japanese REIT (J-REIT) to

improve its business profile, particularly the diversity and profitability of its portfolio.
- NAF's financial indicators have improved to a degree. In particular, NAF's debt-to-total assets ratio, although still fairly high, has declined moderately because the J-REIT has conducted equity offerings. In addition, NAF's interest coverage indicators have recovered and are now virtually in line with previous levels.

In terms of portfolio size, NAF ranks relatively high among the listed J-REITs that specialize in residential properties. As for NAF's credit quality, the J-REIT maintains a strong business position and generates stable cash flows from its high-quality portfolio of residential properties for lease, which have high occupancy rates. Accordingly, we today affirmed our long-term and short-term corporate credit ratings on NAF.

Business conditions in the residential property rental market seem to be stabilizing. Specifically, occupancy rates have generally bottomed out, and the decline in rent levels appears to have virtually come to a halt as the supply of newly constructed properties in the market is receding.

NAF's operating strategy is to invest in high-quality residential properties that are, for the most part, located in the 23 wards of Tokyo, backed by the real estate management and development capabilities, and brand recognition of its sponsor, Mitsui Fudosan Co. Ltd. (BBB+/Stable/A-2). As of Nov. 30, 2011, NAF owned a portfolio of 86 residential properties with a total purchase price of about ¥229.5 billion.

In its 11th six-month fiscal term (ended Aug. 31, 2011), NAF raised ¥22.1 billion through equity offerings and acquired 20 properties for a total purchase price of ¥36.7 billion. These include relatively new, high-quality properties, such as Shibaura Island Air Tower (Minato Ward, Tokyo; purchase price: about ¥7.9 billion), that it purchased from its sponsor. NAF also increased its ownership stake in another property during the same fiscal term.

Meanwhile, for the first time since listing, NAF has acquired other types of housing assets, such as student dormitories and corporate housing facilities, which the J-REIT categorizes as "other accommodation assets." Although these assets are managed by one company, which entails a degree of operational risk, we consider any possible adverse impact on cash flow to be limited because: (1) these assets can be easily converted into typical rental properties; and (2) the total purchase price of the assets represents only about 3.5% of the total value of NAF's portfolio. In addition, portfolio profitability has improved moderately because the properties that the J-REIT purchased in the 11th fiscal term command higher average yields than those acquired before that term.

As of Nov. 30, 2011, NAF's portfolio featured 86 residential properties for lease (about 9,000 residential units), suggesting that portfolio diversification has progressed significantly. The J-REIT has improved its business profile, particularly the diversity and profitability of its portfolio, since it resumed its external growth strategy in 2009.

NAF aims to maintain its ratio of debt to total assets at a relatively conservative level of between 40% and 50% (cruising level). The ratio of debt to total assets, which hovered at levels that we considered fairly high over the last few years, declined moderately following the J-REIT's equity offerings, to about 51.8% as of the end of the 11th fiscal term. The ratio of debt to capital (interest-bearing debt including hoshokin liabilities/(interest-bearing debt including hoshokin liabilities + total net assets), as defined by Standard & Poor's) stood at about 53.0% as of the end of the same fiscal term. Although its still fairly high debt ratios are a negative credit factor, NAF's funding conditions have been improving and it is able to secure funds in a stable manner. The share of unrealized losses to the total value of NAF's portfolio has declined moderately after peaking in the seventh fiscal term (ended Aug. 31, 2009). Furthermore, the J-REIT's cash flow has increased and its debt ratios have declined slightly. As a result, its interest coverage indicators have recovered and are now virtually in line with previous levels.

NAF has shifted its focus to external growth in an effort to meet its near-term growth targets (portfolio size: ¥300 billion, or 10,000 residential units) because it believes that the residential market has reached bottom. Accordingly, to maintain our ratings on NAF, we need to see whether the J-REIT is able to strike a balance between achieving external growth and maintaining its financial health by controlling debt levels.

NAF is expected to maintain good credit quality, backed by its strong business position, its well-diversified portfolio of well-managed and well-maintained rental properties, its adequate liquidity on hand, and its high financial flexibility. We see little likelihood of the ratings on NAF being raised because the J-REIT's ratio of debt to total assets is somewhat high. On the other hand, we may consider lowering the ratings on NAF if the J-REIT's debt profile, capital structure, and interest coverage indicators worsen again, and if it suffers prolonged weakness in its financial indicators, particularly if its ratio of debt to total assets rises to and remains above 55%.

RELATED CRITERIA AND RESEARCH

"Key Credit Factors: Global Criteria For Rating Real Estate Companies," published June 21, 2011

"Principles Of Credit Ratings," published Feb. 16, 2011

"Rating Policy for Japanese Real Estate Investment Trusts," published May 9, 2001

RATINGS AFFIRMED

Nippon Accommodations Fund Inc.	Rating
Long-term corporate credit rating	A+
Short-term corporate credit rating	A-1
Senior unsecured J-REIT bonds series 1 and 2	A+

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>. Complete ratings information is available to Global Credit Portal subscribers at www.globalcreditportal.com and to RatingsDirect subscribers at www.ratingsdirect.com.