

May 30, 2012

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 (J-REIT) that went public in August 2006. The fund invests in "accommodation assets," which are primarily rental apartments but also includes dormitories, student apartments, serviced apartments, senior residences and corporate housing. Mitsui Fudosan Co., Ltd. serves as its sponsor.

NAF focuses on convenient areas in Tokyo's 23 wards. It has created a quality portfolio consisting mainly of "Park Axis" brand rental apartments developed by its sponsor. Although NAF mainly acquires properties from its sponsor, acquisitions from external sources are also steadily increasing. The asset size has grown to exceed 230 billion yen.

Approximately 85.7% of its rental apartments (held as of the end of February 2012) are located in Tokyo's 23 wards, with most of them being a large building priced at 2.8 billion yen at the time of acquisition on average. The average building age of approximately 7.4 years shows that NAF has kept its portfolio quality at a high level. Furthermore, rental apartments in the overall portfolio are well-diversified, with the number of units exceeding 9,000.

The Reit also invests in "other accommodation assets (dormitories, student apartments and corporate housing)." At present, the investment proportion of "other accommodation assets" stands at as low as 4.2%, and the Reit plans to keep the proportion below the current 10% ceiling. Moreover, since "other accommodation assets" overall achieve higher yields than general rental apartments, investment risk is reduced.

The occupancy rates (rental apartments only) are high, trending at 95-97%, while a fall in unit rents is marginal. The NOI yield of its properties improved to 5.4% as of end-February 2012. Given a sustained population inflow into the Tokyo Metropolitan area and a drop in new rental apartment supply, the supply-demand condition of rental apartments should continue to be favorable for the foreseeable future. NAF's competitive properties will likely show solid performance going forward.

Although the LTV ratio is still somewhat high at 53%, NAF has an excellent funding raising capacity, allowing it to access the capital market as evidenced by two public offerings after the collapse of Lehman Brothers. As such, financial risk is limited.

NAF's borrowings after its listing are all unsecured. NAF stably obtains long-term fixed rate loans made by major domestic financial institutions. Since the average remaining term of debts is relatively long (approximately three years), with the due dates being staggered every year through 2019. NAF is also believed to be in an advantageous position compared with other Reits in terms of funding costs.

The Rating Outlook is Stable. NAF plans to keep acquiring large properties, mainly relatively new buildings developed by the sponsor in Tokyo's 23 wards where tenant demand is robust, going forward. The Reit is expected to maintain the quality of portfolio and high occupancy rates and continue with sound financial management.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". 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/cfp/about/methodology/index.html>

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

RATING: Issuer Rating
AA-, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Nov 15, 2007	Nov 14, 2014	JPY 10,000

RATING: AA-, Affirmed

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 30, 2010	Jul 29, 2016	JPY 7,000

RATING: AA-, Affirmed