



# NEWS RELEASE

May 27, 2013

## **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 reit 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 a sponsor.

NAF places a focus 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 properties acquired from the sponsor represent a large part, NAF has also steadily piled up the number of properties formerly owned by external sources. In December 2012, it acquired a tower apartment building in Meguro, currently one of its flagship properties, for 9 billion yen. The asset size of the reit has grown to approximately 260 billion yen.

Despite the harsh environment for acquiring residential buildings, NAF has generally been able to acquire properties with NOI yields equivalent or higher than the yield of its current portfolio. Going forward, NAF is expected to steadily expand its asset size without eroding portfolio quality and profitability.

Of NAF's property holdings, 87.2% are located in Tokyo's 23 wards, with most of them being large buildings priced at 2.7 billion yen on average at the time of acquisition. In addition, since the average building age stands at approximately 7.9 years, NAF has kept its portfolio quality at high levels. Furthermore, apartments for rent are well-diversified, exceeding 9,000 units.

While the occupancy rate (rental apartments only) is trending high at 95-96%, a fall in the unit rent is only negligible. Thanks to the sustained influx of population into the Greater Tokyo area as well as a low level of new apartment supply, the supply-demand balance of rental apartments is projected to remain favorable for the time being. R&I believes NAF's competitive properties will keep performing well going forward.

NAF made a public offering of investments units in March 2013, which lowered the LTV ratio to slightly below 50%. The ratio could rise again after property acquisitions in the future. However, since NAF has comfortable access to the capital market and its funding capacity is sufficient, financing risk is limited.

All debts are unsecured. NAF has been able to finance debts, most of which being long-term, fixed rate loans from major domestic financial institutions. The average remaining term of debts exceeds three years, with due dates staggered every year through 2023. Since its financing costs are lower than other reits' and the financing environment is currently favorable, NAF has been able to lower costs.

The Rating Outlook is Stable. R&I believes NAF plans to continuously acquire properties, mainly large, relatively new buildings developed by the sponsor, located in Tokyo's 23 wards where tenant demand is high, going forward. The reit is expected to maintain portfolio quality and a high occupancy rate, and continue with healthy 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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**R&I RATINGS:**

**ISSUER:** Nippon Accommodations Fund Inc. (Sec. Code: 3226)  
**ISSUER Rating**  
**RATING:** AA-, Affirmed  
**RATING OUTLOOK:** Stable

<b>Unsec. Str. Bonds No.1</b>	<b>Issue Date</b> Nov 15, 2007	<b>Maturity Date</b> Nov 14, 2014	<b>Issue Amount (mn)</b> JPY 10,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		
<b>Unsec. Str. Bonds No.2</b>	<b>Issue Date</b> Jul 30, 2010	<b>Maturity Date</b> Jul 29, 2016	<b>Issue Amount (mn)</b> JPY 7,000
<b>RATING:</b>	<b>AA-, Affirmed</b>		

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