

Jun 04, 2014

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 rental apartments in general and "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 focuses on properties situated in convenient areas in Tokyo's 23 wards and creates a quality portfolio consisting mainly of "Park Axis" brand rental apartments developed by its sponsor. Although the majority of its properties are acquired from the sponsor, NAF also steadily piled up those acquired from external sources. As a result, the asset size of the REIT has expanded to 287.7 billion yen.

The environment for acquiring quality residential properties has become even more severe. Although NAF has been able to acquire properties at a price below appraisal value, the NOI yield is somewhat lower than before because of market conditions. It should continue to be important for the REIT to maintain a cautious investment stance with due considerations to profitability.

Of NAF's rental apartment assets, 86.5% are located in Tokyo's 23 wards. Most of them are large buildings priced at 2.6 billion yen on average at the time of acquisition. In addition to this, since the average building age stands at approximately 8.8 years (both price and age are as of end-February 2014), NAF has kept its portfolio quality at high levels. The REIT has a very diverse portfolio, with the number of apartment units under management exceeding 10,000.

While the occupancy rate (rental apartments only) is trending high at 95-97%, a fall in the unit rent has nearly stopped. Thanks to the sustained influx of population into Tokyo's 23 wards as well as a low level of new apartment supply, the supply-demand balance of rental apartments is projected to stay favorable for the time being. R&I believes NAF's competitive properties will keep performing well going forward.

Since NAF is in the process of external growth, its short-term upper limit of the LTV ratio is set at 55%. This suggests that its leverage is somewhat high as with the case of other residential REITs. Even so, given that the REIT is able to access the capital market at favorable terms and has a strong fundraising capacity, financial risk is mitigated. Thanks to rises in the appraisal value of its properties, the REIT has unrealized gains.

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 is about four years, with due dates staggered every year through 2024. Financing costs are also lower compared to those of other REITs.

The Rating Outlook is Stable. Going forward, NAF intends to continue acquiring properties, particularly large buildings located in Tokyo's 23 wards where tenant demand is robust, with a focus on those developed by the sponsor in recent years. The REIT is thereby expected to maintain portfolio quality and the high occupancy rate. Although its funding base is solid, the LTV ratio is currently rising. R&I will pay attention to how the REIT will control leverage in the future.

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.

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<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

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

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