



October 19, 2017

Financial Results for the Fiscal Period From March 1, 2017 to August 31, 2017

Nippon Accommodations Fund Inc. (NAF) is listed on the Tokyo Stock Exchange (J-REIT) with the securities code number 3226. (Website: <https://www.naf-r.jp/english/>)

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1. Business Results for the Fiscal Period from March 1, 2017 to August 31, 2017

(1) Operating Results

(in millions of yen, rounded down; except as noted)

	Total revenues		Operating income		Income before income taxes	
		(%)*		(%)*		(%)*
For the period ended						
August 31, 2017	10,775	1.2	4,675	(0.9)	4,118	(0.5)
February 28, 2017	10,650	0.3	4,717	3.3	4,139	5.1

	Net income		Net income per unit	Net income/net assets	Income before income taxes/total assets	Income before income taxes/operating income
		(%)*	(yen)	(%)	(%)	(%)
For the period ended						
August 31, 2017	4,117	(0.5)	8,497	2.9	1.4	38.2
February 28, 2017	4,138	5.1	8,541	3.0	1.4	38.9

* Percent figures show changes from previous period.

(2) Distributions*(in millions of yen, rounded down; except as noted)*

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/net assets (%)
For the period ended						
August 31, 2017	8,497	4,116	–	–	100.0	2.9
February 28, 2017	8,428	4,083	–	–	98.7	2.9

Note:

For the period ended February 28, 2017, the amounts of “Total distributions” and “Net income” are different because a part of retained earnings (¥55 million) was retained internally.

(3) Financial Position*(in millions of yen, rounded down; except as noted)*

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
August 31, 2017	294,828	139,845	47.4	288,626
February 28, 2017	293,446	139,812	47.6	288,557

(4) Cash Flows*(in millions of yen, rounded down; except as noted)*

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
August 31, 2017	6,330	(4,450)	(3,081)	6,849
February 28, 2017	7,170	(272)	(5,939)	8,050

2. Forecasts for the Fiscal Period from September 1, 2017 to February 28, 2018

(in millions of yen, rounded down; except as noted)

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*		(%)*		(%)*		(%)*		(yen)	(yen)
For the period ending										
February 28, 2018	10,728	(0.4)	4,769	2.0	4,240	3.0	4,239	3.0	8,750	—

* Percent figures show changes from previous period.

Note:

Projected net income per unit for the fiscal period ending February 28, 2018 is ¥8,750.

3. Other

1. Changes in significant accounting policies, Changes in accounting estimates and Restatement

- (1) Changes in significant accounting policies due to revisions in accounting standards and others: None
- (2) Changes other than in the above item (1): None
- (3) Changes in accounting estimates: None
- (4) Restatement: None

2. Total number of investment units issued

- (1) The total number of investment units issued (including treasury investment units) as of the period-end

As of August 31, 2017: 484,522 units

As of February 28, 2017: 484,522 units

- (2) The number of treasury investment units as of the period-end

As of August 31, 2017: - units

As of February 28, 2017: - units

Disclaimer:

The above forecasts are based on information currently available to NAF and on certain assumptions deemed to be reasonable. Actual operations may differ substantially due to a number of factors. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

23rd Period (August 2017) Overview of Investment

External Growth (Acquisition of properties)

During the period under review, NAF acquired a total of 3 new properties with a total acquisition price of ¥4,124 million: 1 property in April 2017 and 2 properties in June 2017.

Internal Growth (Management and operation of properties held by NAF)

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. as property management company on management of NAF's rental apartments portfolio. The company and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, collaborate in the management of properties NAF owns with the aim of implementing effective management and operational activities based on regional characteristics and the individual features of each property. Specifically, NAF aims to maintain and improve its rent levels and occupancy rate through the formulation and implementation of a leasing strategy that takes into account the characteristics of each individual property and reduce costs through rational means by reviewing the adequacy of the grade of property management, cost of management and operation in an appropriate timeframe and by utilizing the merits of outsourcing all property management tasks to the property management company.

Meanwhile in the management of "Hospitality Facilities" ^(Note), NAF will contract out the management and operational activities to a professional operator or business corporation. The asset management company regularly monitors the management and operational activities, and makes adjustments through professional dialog with the operator or business corporation as necessary.

In order to maintain and improve the competitiveness of NAF's portfolio, operations are adequately planned and carried out at the asset management company. These include appropriate renewal work according to the property age, and work to enhance the property value. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities in a timely manner.

In the period under review, NAF carried out renovations in common areas and private areas at Okawabata Apartment Communities. Changes implemented at other properties include reviews of contract capacity for electricity through the introduction of controllable circuit breakers, and work to change the lighting in common areas to LED lighting.

(Note) "Hospitality Facilities" is a generic term for "Accommodation Assets" that includes the four categories of "Dormitories, Corporate Housing," "Serviced Apartments," "Senior Residences," and "Hotels," excluding "Rental Apartments." The Hotels category was added as an investment target by amending the Articles of Incorporation at NAF's 8th General Meeting of Unitholders held on May 19, 2017.

Financial Strategy (Overview of funds procurement)

NAF's basic policies is to carry out operations in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term, while paying attention to risk factors and market trends. During the period under review, while taking into account market trends and interest rate levels, NAF and the asset management company pursued financing from various sources with diversified repayment dates and an emphasis on long-term loans in its procurement of funds.

As a result, at the end of the period, total interest-bearing debt amounted to ¥148,000 million (¥1,000 million increase from previous period), the long-term debt ratio was 97.3%, the long-term, fixed-rate debt ratio was 94.6%, and the loan-to-value (LTV) ratio was 50.2%. The average annual current maturity of long-term interest-bearing debt was 4.3 years and the number of financial institutions was 22. Furthermore, the weighted average interest rate at the end of the period was 0.72%.

NAF has also established a commitment line with a total maximum borrowing amount of ¥10,000 million, for the purpose of securing flexible and stable fund procurement methods. In the period under review, the expiration date of the commitment line agreement was extended for another year.

With respect to financing through investment corporation bonds, NAF filed a shelf-registration statement regarding its establishment of a maximum issuance amount for investment corporation bonds for public offering in July 2017. The remaining balance of the planned issuance amount at the end of the period is ¥100,000 million.

Planned issuance amount	Up to ¥100,000 million
Scheduled period of issuance	From July 18, 2017 to July 17, 2019
Purpose for funds	Acquisition of specified new assets (as defined in Article 2, Paragraph 1 of the Act on Investment Trusts and Investment Corporations), repayment of borrowings, redemption of investment corporation bonds, repayment of tenant security deposits, payment for maintenance and renovations, and operational use

Rating of NAF as of August 31, 2017 is as follows.

Rating agency	Rating subject	Rating
Rating and Investment Information, Inc. (R&I)	Issuer credit rating	A A - (Trend of rating: Stable)
S&P Global Ratings Japan Inc. (S&P)*	Long-term corporate Short-term corporate	A + (Outlook for rating: Stable) A -1
Moody's Japan K.K. (Moody's)	Issuer credit rating	A 3 (Outlook for rating: Stable)

* Standard & Poor's Ratings Japan K.K. changed its trade name to S&P Global Ratings Japan Inc. on April 1, 2017.

Overview of Performance and Distribution

In the period under review, NAF recorded total revenues of ¥10,775 million, operating income of ¥4,675 million, income before income taxes of ¥4,118 million and net income of ¥4,117 million. In addition to the above, NAF has decided to distribute nearly the entire amount of earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥8,497.

Management Policy and Issues for the 24th Period Onward

External Growth (New acquisition of properties)

Concerning the real estate trading market, competition for property acquisitions is expected to remain overheated.

NAF aims to achieve steady external growth by striving to acquire “Accommodation Assets” owned or under development by the Mitsui Fudosan Group stably and continuously, and at the same time, utilizing the Mitsui Fudosan Group’s information network as well as the asset management company’s unique information collection channel to acquire highly competitive, the best real estates from outside the Mitsui Fudosan Group.

Internal Growth (Management and operation of leasehold properties)

In the residential rental market, the balance of supply and demand is expected to remain favorable for the time being.

NAF aims to achieve solid internal growth in accordance with the investment policies by maintaining customer satisfaction and asset value over the long term, maintaining and improving rent levels and occupancy rate, and reducing costs, through brand strategies and tenant services for the investment assets as well as through optimal management and operational activities that utilize the value chain and highly specialized knowhow of the Mitsui Fudosan Group.

Financial Strategy

NAF will emphasize the continued use of long-term, fixed-rate loans by taking measures to counter future interest rate and refinancing risks. With respect to the upper limit of LTV ratio, although the limit is set at around 60% in the asset management guidelines, NAF is aiming for a near-term upper limit at a level of around 55% in its external growth process.

NAF will examine the necessity of issuance of new units by paying attention to market trends and distribution amount levels, and taking into consideration the demand for funds for the purpose of property acquisition, as well as our financial position. Additionally, NAF will examine future issuances of investment corporation bonds in accordance with market trends, within the range of the remaining balance of planned issuance amount for which shelf-registration of NAF bonds has been carried out.

Significant Subsequent Events

Not applicable

Forecasts of Investment Performance

The forecasts for the 24th period (from September 1, 2017 to February 28, 2018) are as follows.

(in millions of yen, rounded down; except as noted)

	24th period (February 2018)
Total revenues	10,728
Operating income	4,769
Income before income taxes	4,240
Net income	4,239
Distribution per unit (not including distributions in excess of earnings) (yen)	8,750
Distribution in excess of earnings per unit (yen)	—

Notes: Underlying assumptions of forecasts

Number of operating days: - From September 1, 2017 to February 28, 2018 (181 days)

Investment assets: - The number of properties held by NAF as of the date of this document is 121. In the forecasts of investment performance, it is assumed that no subsequent transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until February 28, 2018.

- The average month-end occupancy rate during the 24th period for total properties is expected to be 96.8%.

Expenses: - The following expenses are assumed.

(in millions of yen)

	24th period
Fixed property taxes and urban planning taxes	587
Depreciation and amortization	2,041
Interest expense, etc.	524
Amortization of investment unit issuance expenses	4

Interest-bearing debt: - It is assumed that NAF's balance of interest-bearing debt that is ¥148,000 million as of the date of this document shall not change until February 28, 2018.

Number of units issued: - We assume 484,522 units outstanding as of the date of this document.

- It is assumed that there shall be no issuance of new units until February 28, 2018.

The above forecasted figures are calculated based on certain assumptions at the time of preparation of this information. Therefore, actual total revenues, operating income, income before income taxes, net income and distribution per unit may change due to future acquisition or sale of investment assets, fluctuation in the real estate market or other changes in the environment in which NAF operates. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

Disclaimer:

This financial report has been prepared in accordance with Japanese accounting standards and Japanese laws. Figures have been rounded down to eliminate amounts of less than one million yen.

Please note that this English translation, a summary of the Japanese original document, is provided solely for informational purposes. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.