

April 16, 2020

## Financial Results for the Fiscal Period from September 1, 2019 to February 29, 2020

**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 September 1, 2019 to February 29, 2020

#### (1) Operating Results *(in millions of yen, rounded down; except as noted)*

	Total revenues		Operating income		Income before income taxes	
	(%)*		(%)*		(%)*	
For the period ended						
<b>February 29, 2020</b>	<b>11,401</b>	<b>(7.8)</b>	<b>5,307</b>	<b>(12.8)</b>	<b>4,866</b>	<b>(13.5)</b>
August 31, 2019	12,361	10.5	6,084	17.3	5,624	18.9

	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						
<b>February 29, 2020</b>	<b>4,865</b>	<b>(13.5)</b>	<b>10,041</b>	<b>3.4</b>	<b>1.6</b>	<b>42.7</b>
August 31, 2019	5,623	18.9	11,606	4.0	1.9	45.5

\* 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						
<b>February 29, 2020</b>	<b>10,042</b>	<b>4,865</b>	–	–	<b>100.0</b>	<b>3.4</b>
August 31, 2019	10,449	5,062	–	–	90.0	3.6

Note:

For the period ended August 31, 2019, the amounts of “Total distributions” and “Net income” are different because a part of retained earnings (¥561 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				
<b>February 29, 2020</b>	<b>301,946</b>	<b>141,181</b>	<b>46.8</b>	<b>291,382</b>
August 31, 2019	303,133	141,378	46.6	291,790

**(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				
<b>February 29, 2020</b>	<b>6,832</b>	<b>(730)</b>	<b>(6,063)</b>	<b>12,741</b>
August 31, 2019	10,103	(6,170)	297	12,702

## 2. Forecasts for the Fiscal Period from March 1, 2020 to August 31, 2020 and Fiscal Period from September 1, 2020 to February 28, 2021

(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										
August 31, 2020	11,567	1.5	5,201	(2.0)	4,740	(2.6)	4,739	(2.6)	9,780	—
February 28, 2021	11,552	(0.1)	5,382	3.5	4,919	3.8	4,918	3.8	10,150	—

\* Percent figures show changes from previous period.

Note:

The net income per unit projections for the fiscal period ending August 31, 2020 and the fiscal period ending February 28, 2021 are ¥9,780 and ¥10,150, respectively.

### 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 February 29, 2020: 484,522 units

As of August 31, 2019: 484,522 units

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

As of February 29, 2020: - units

As of August 31, 2019: - 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.

## **28th Period (February 2020) Overview of Investment**

### **Main Trend of NAF**

NAF is a J-REIT that invests in “Accommodation Assets,” which it defines as real estate that is mainly used/may be used for residence or hotels. Based on the Act on Investment Trusts and Investment Corporations (hereinafter “Investment Trust Act”), NAF was established on October 12, 2005, and was listed on the Real Estate Investment Trust Securities Market (J-REIT Market) of the Tokyo Stock Exchange on August 4, 2006 (securities code number: 3226).

Since being listed, NAF has continued to acquire properties and the assets under management at the end of the period under review consisted of 126 properties at a total acquisition price of ¥309,723 million (assets at time of listing: 27 properties at a total acquisition price of ¥101,385 million).

### **Investment Environment**

During the six months ended February 29, 2020 (the “28th Period”), despite signs of weakness primarily in exports and production due to a slowdown in overseas economies and the impact of natural disasters, etc., the Japanese economy stayed on a moderate recovery trend, including moderate increases in capital investment, against a backdrop of improvements in corporate earnings and the employment and income situation. However, a novel coronavirus (COVID-19) has been spreading since January, and it has begun to have a major impact on the economy and society.

In NAF’s main investment area, the residential rental market, occupancy rates remained high at rental apartments in central areas, with an ongoing trend of increases in rents. Stable demand for rental apartments is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF’s rental apartments portfolio is located, and in the urban areas of other major cities<sup>(Note)</sup>. Contributing factors include the continuing influx of people into these areas from other regions. At the same time, the balance of supply and demand is expected to remain favorable for the time being due to the limited supply of the quality rental apartments in which NAF typically invests.

Concerning the real estate trading market, the acquisition environment remains challenging due to factors such as acquisition and disposition prices for quality rental real estate remaining high.

(Note) “Other major cities” refers to each of the urban areas of Sapporo, Sendai, Nagoya, Osaka, Kyoto, Kobe, Hiroshima and Fukuoka.

### **External Growth (Acquisition and sale of properties)**

No properties were acquired during the period under review, and NAF’s assets under management at the end of the period under review were unchanged from the end of the previous period.

## **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, implementing effective management and operational activities based on regional characteristics and the individual features of each property. Specifically, NAF maintains and improves its rent levels and occupancy rate through the implementation of a leasing strategy that has been formulated for each individual property. In addition, NAF aims to reduce costs by utilizing the merits of outsourcing all property management tasks to the property management company while examining, whenever necessary, the adequacy of the grade of property management, cost of management and operation.

Meanwhile in the management of "Hospitality Facilities"<sup>(Note)</sup>, NAF contracts 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 private areas at Okawabata Apartment Communities. At other properties, NAF planned and implemented such works as changing 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."

## **Financial Strategy (Overview of funds procurement)**

NAF's basic policy 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. During the period under review, while taking into account market trends and interest rate levels, NAF pursued financing from various sources with diversified repayment dates and an emphasis on long-term, fixed-rate loans in its procurement of funds.

As a result, at the end of the period, total interest-bearing debt amounted to ¥153,500 million (¥1,000 million decrease from previous period), the long-term debt ratio was 98.0%, the long-term, fixed-rate debt ratio was 95.4%, and the loan-to-value (LTV) ratio was 50.8%. The average annual current maturity of long-term interest-bearing debt was 4.4 years and the number of financial institutions was 25. Furthermore, the weighted average interest rate at the end of the period was 0.57%.

NAF also has secured a commitment line for the purpose of securing flexible and stable fund procurement methods. At the end of the period under review, its total maximum borrowing amount was ¥15,000 million.

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 2019. 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 25, 2019 to July 24, 2021
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 February 29, 2020 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

### Overview of Performance and Distribution

In the period under review, NAF recorded total revenues of ¥11,401 million, operating income of ¥5,307 million, income before income taxes of ¥4,866 million and net income of ¥4,865 million. In addition to the above, NAF has decided to distribute the majority of retained earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥10,042.

## **Management Policy and Issues for the 29th Period Onward**

Looking ahead, the difficult-to-predict environment is expected to continue for the Japanese economy due to the impacts of the novel coronavirus (COVID-19). Furthermore, the economy in Japan and overseas has stagnated due to the further spread of infection, and attention should be given to the risk of impact on financial and capital markets as well.

In the residential rental market, the balance of supply and demand is expected to remain favorable due to the continuing influx of people into the 23 wards of Tokyo and the urban areas of other major cities. Currently, there are no signs of major impacts due to the novel coronavirus (COVID-19), but impacts due to the further spread of infection should be observed closely.

Concerning the real estate trading market, the placement of quality rental apartments as stable investment assets is not expected to change, but trends among financial and capital markets and investors resulting from the spread of the novel coronavirus (COVID-19) should be carefully assessed.

### **External Growth (New acquisition of properties)**

NAF steadily acquires properties with highly competitive advantage from a medium- to long-term perspective, leveraging our pipeline to the Mitsui Fudosan Group and enhancing information channel at the asset management company.

While concentrating on a property acquisition strategy of stable acquisition of “Rental Apartments,” NAF will also acquire “Hospitality Facilities” that offer stable revenue and competitiveness over the long term. With respect to the acquisition of “Hospitality Facilities,” NAF will practice due diligence depending on the asset’s characteristics.

NAF will keep the Hospitality Facilities’ share of the portfolio (based on acquisition price) to a maximum of 10% in the near-term.

### **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**

In regard to borrowings, taking into account borrowing cost, NAF will conduct financing activities that emphasize on financing by long-term, fixed-rate loans and diversified repayment dates by taking measures to counter future interest rate risks 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

(Reference information)

The following asset was acquired on March 30, 2020. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

#### Park Axis Akatsuka

Acquisition price:	¥2,420 million
Appraised value <sup>(Note)</sup> :	¥2,580 million (date of value appraisal: January 31, 2020)
Type of property:	Real estate (55% of co-ownership)
Location (residence indication):	2-18 Akatsuka 2-chome, Itabashi-ku, Tokyo
Completion date:	September 12, 2018
Structure/Number of stories:	Flat-roof reinforced concrete and steel structure/13 stories
Rentable units:	156 residential, 3 retail, etc.
Rentable area:	4,370.31 m <sup>2</sup>
Seller:	Mitsui Fudosan Residential Co., Ltd.

Note: “Appraised value” describes an amount that is equivalent to 55% ownership.



## **Forecasts of Investment Performance**

The forecasts for the 29th period (from March 1, 2020 to August 31, 2020) and for the 30th period (from September 1, 2020 to February 28, 2021) are as follows. For the underlying assumptions of forecasts, please refer to “Underlying assumptions of forecasts for the 29th period (from March 1, 2020 to August 31, 2020) and the 30th period (from September 1, 2020 to February 28, 2021)” below.

	29th period (August 2020)	30th period (February 2021)
Total revenues	¥11,567 million	¥11,552 million
Operating income	¥5,201 million	¥5,382 million
Income before income taxes	¥4,740 million	¥4,919 million
Net income	¥4,739 million	¥4,918 million
Distribution per unit (not including distributions in excess of earnings)	¥9,780	¥10,150
Distribution in excess of earnings per unit	¥ —	¥ —

(Note) 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.

### **Underlying assumptions of forecasts for the 29th period (from March 1, 2020 to August 31, 2020) and the 30th period (from September 1, 2020 to February 28, 2021)**

Item	Underlying assumptions
Number of operating days:	- From March 1, 2020 to August 31, 2020 (184 days) - From September 1, 2020 to February 28, 2021 (181 days)
Investment assets/ Total revenues	- The number of properties held by NAF as of the date of this document is 127 properties. In the forecasts of investment performance, it is assumed that no transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until February 28, 2021. - The average month-end occupancy rates for total properties for the 29th period and 30th period are expected to be 97.5% and 97.7%, respectively. - The actual figures may change due to factors such as transfer of properties.

Item	Underlying assumptions
Operating expenses	<ul style="list-style-type: none"> <li>- The fixed property taxes and urban planning taxes recognized as expenses are expected to be ¥616 million for the 29th period and ¥616 million for the 30th period. However, when an investment asset is acquired, the fixed property taxes and urban planning taxes that are settled with the previous owner according to the number of days the asset is owned are not recognized as expenses because they are included in the acquisition price.</li> <li>- The amounts recognized for the repairs and maintenance expenses and outsourcing expenses of buildings are the required amounts forecast for the number of operating days. However, because repairs and maintenance expenses and outsourcing expenses may arise suddenly due to some unexpected cause (building damage, etc.), amounts usually vary depending on the year, some expenses arise occasionally, etc., the repair and maintenance expenses and outsourcing expenses for the number of operation days may be different from the amounts forecast.</li> <li>- We calculate depreciation and amortization expenses (including ancillary expenses upon initial acquisition) using the straight-line method, and the expenses are expected to be ¥1,996 million for the 29th period and ¥1,961 million for the 30th period.</li> </ul>
Interest-bearing debt/ Non-operating expenses	<ul style="list-style-type: none"> <li>- It is assumed that NAF's balance of interest-bearing debt, which is ¥154,500 million as of the date of this document, shall not change until February 28, 2021. In addition, it is assumed that loans that become due during the period will be fully refinanced.</li> <li>- Interest expense, etc. are expected to be ¥461 million for the 29th period and ¥463 million for the 30th period.</li> </ul>
Number of units issued	<ul style="list-style-type: none"> <li>- We assume 484,522 units outstanding as of the date of this document. In the forecasts of investment performance, it is assumed that there shall be no issuance of new units until February 28, 2021.</li> </ul>
Distribution per unit (not including distributions in excess of earnings)	<ul style="list-style-type: none"> <li>- Distribution (distribution per unit) is calculated assuming it will be in accordance with the Distribution Policy set forth in the Articles of Incorporation of NAF.</li> <li>- The actual amount may change due to factors such as fluctuations in rent revenues owing to changes in tenants, transfer of properties, interest rate fluctuations, and additional issuance of investment units.</li> </ul>
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> <li>- There is no distribution in excess of earnings planned as of the date of this document.</li> </ul>
Other	<ul style="list-style-type: none"> <li>- NAF has assumed no enforcement of such revisions to laws and regulations, tax systems, accounting standards, regulations of the Tokyo Stock Exchange and rules of The Investment Trusts Association, Japan, etc. that may affect the above forecasts.</li> <li>- NAF's forecasts assume no unforeseen significant changes in general economic trends or conditions in the real estate market.</li> </ul>

*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.*