

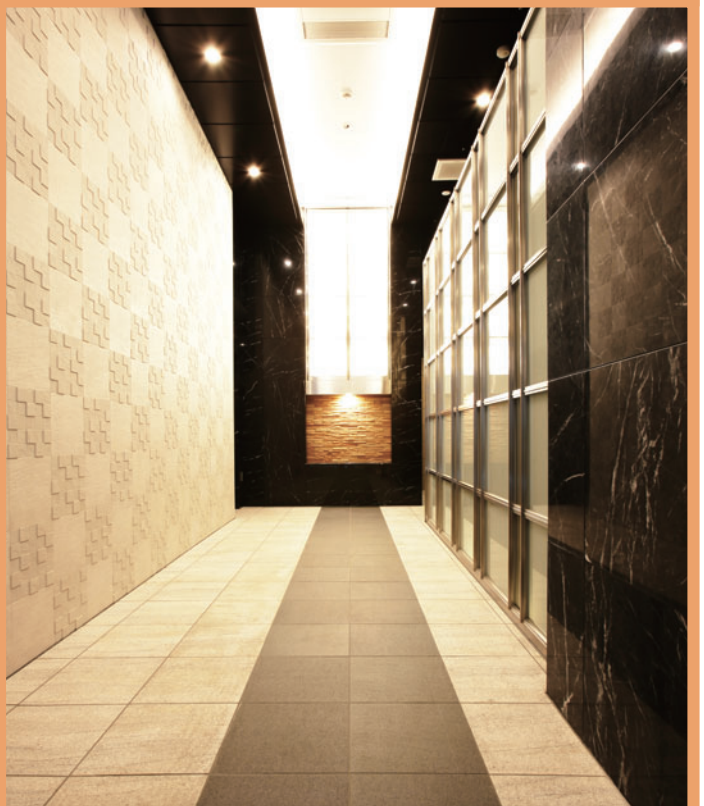


17th Period

NAF Report | March 2014 – August 2014

<http://www.naf-r.jp/english/>

 **Nippon Accommodations Fund**



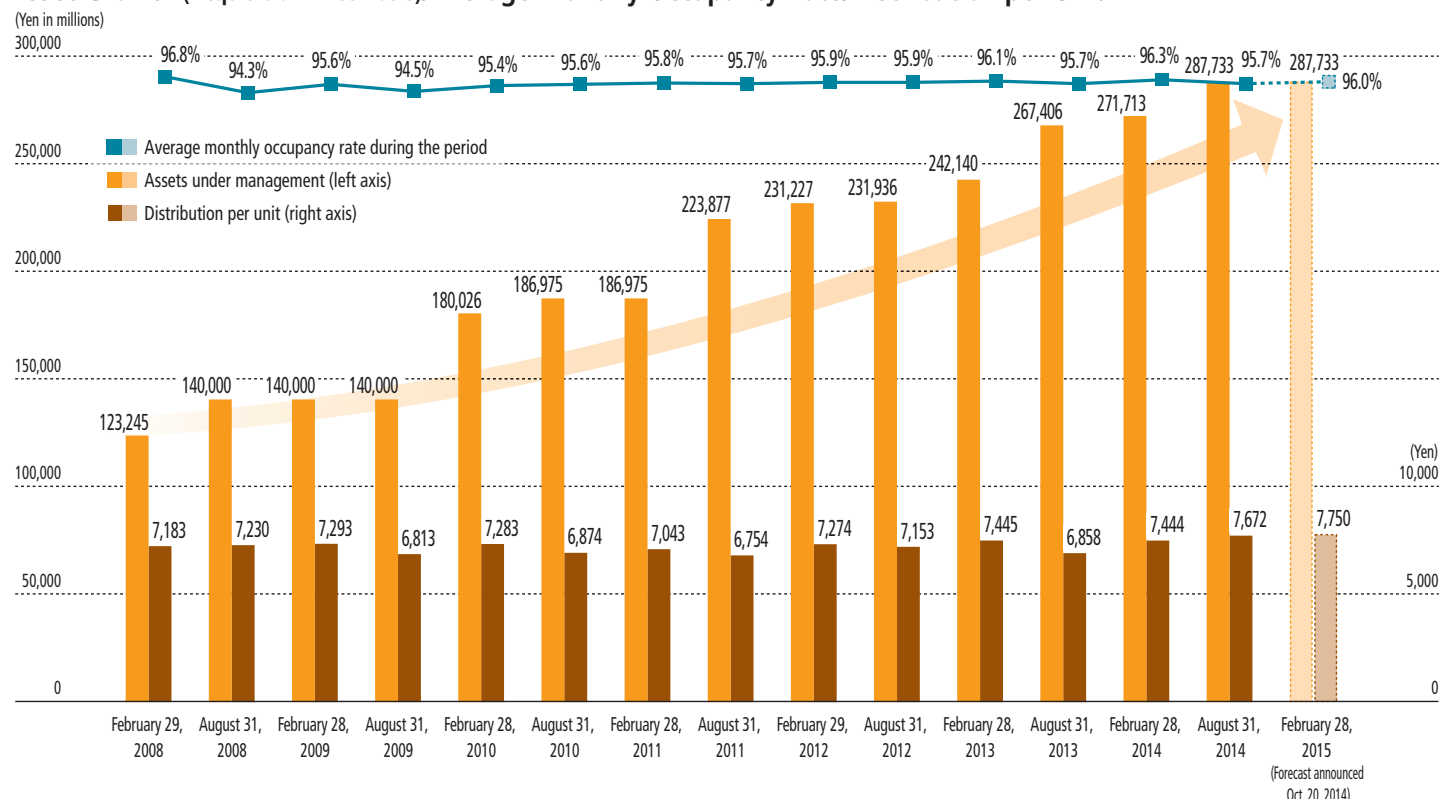
Profile

Nippon Accommodations Fund Inc. ("NAF") was incorporated as an investment corporation on October 12, 2005 with an initial investment by Mitsui Fudosan Co., Ltd. ("Mitsui Fudosan"), and was listed on the Tokyo Stock Exchange on August 4, 2006 with assets of more than ¥100 billion. NAF invests in accommodation assets* located mainly in the 23 wards of Tokyo. The Investment Trust and Investment Corporation Act of Japan requires an investment corporation to be managed by an external entity. NAF's assets are managed by Mitsui Fudosan Accommodations Fund Management Co., Ltd., a 100 percent subsidiary of Mitsui Fudosan.

* Accommodation assets in this report are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences. They do not include hotel properties.



Asset Growth (Acquisition Price Basis)/Average Monthly Occupancy Rate/Distribution per Unit



Note: NAF implemented a two-for-one split of investment units with an effective date of March 1, 2014. Distribution per unit for the 16th Period and earlier is adjusted for this split (actual distribution divided in half, rounded down to the nearest yen).

NAF Snapshot (As of August 31, 2014)

Profitability

95.7%

An average monthly occupancy rate of 95.7 percent

5.2%

Net operating income (NOI) yield* of 5.2 percent

¥7,672

Distribution per unit of ¥7,672 for the 17th Period

Outstanding Portfolio

¥287,733 million

Portfolio of 112 superior properties with a total acquisition price of ¥287,733 million

**468,458.28m²/
11,295 units**

11,295 units with a total rentable area of 468,458.28m²

87.2%

87.2 percent of portfolio located in the 23 wards of Tokyo

Financial Stability

AA-, A+, A3

Rated AA- by Rating and Investment Information; A+ (Long-term) and A-1 (Short-term) by Standard & Poor's; and A3 by Moody's

53.5%

LTV (Loan-to-value) ratio of 53.5 percent, long-term loan ratio of 97.4 percent

*Weighted average of annual NOI yield on the acquisition value of each property

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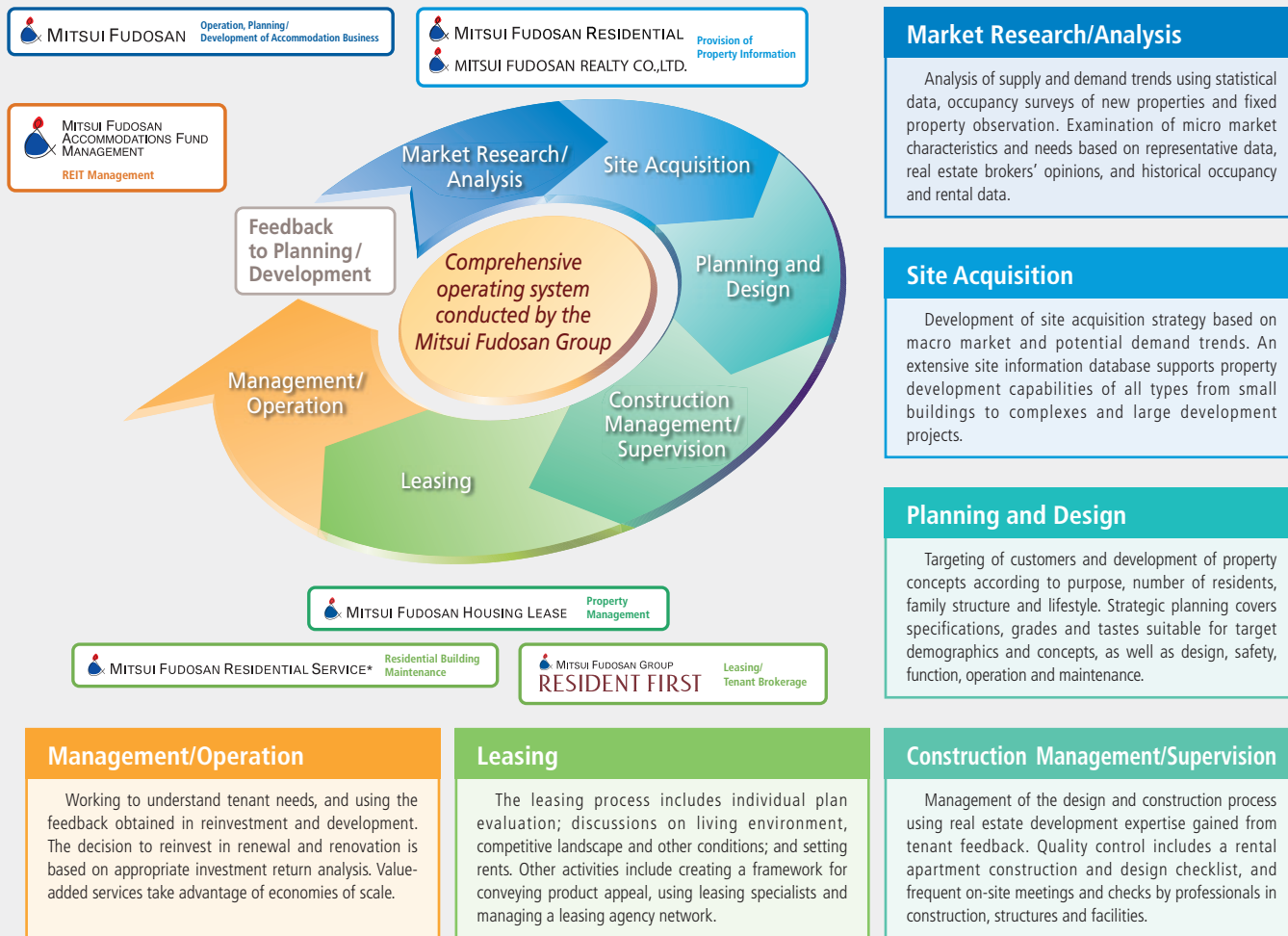
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Note: In this report, amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

NAF's Two Core Strategies

Utilization of the Mitsui Fudosan Group

- Full and active use of the Mitsui Fudosan Group's value chain from planning and development to management and operation
- Access to investment opportunities through Mitsui Fudosan's properties and its Group's extensive real estate information network

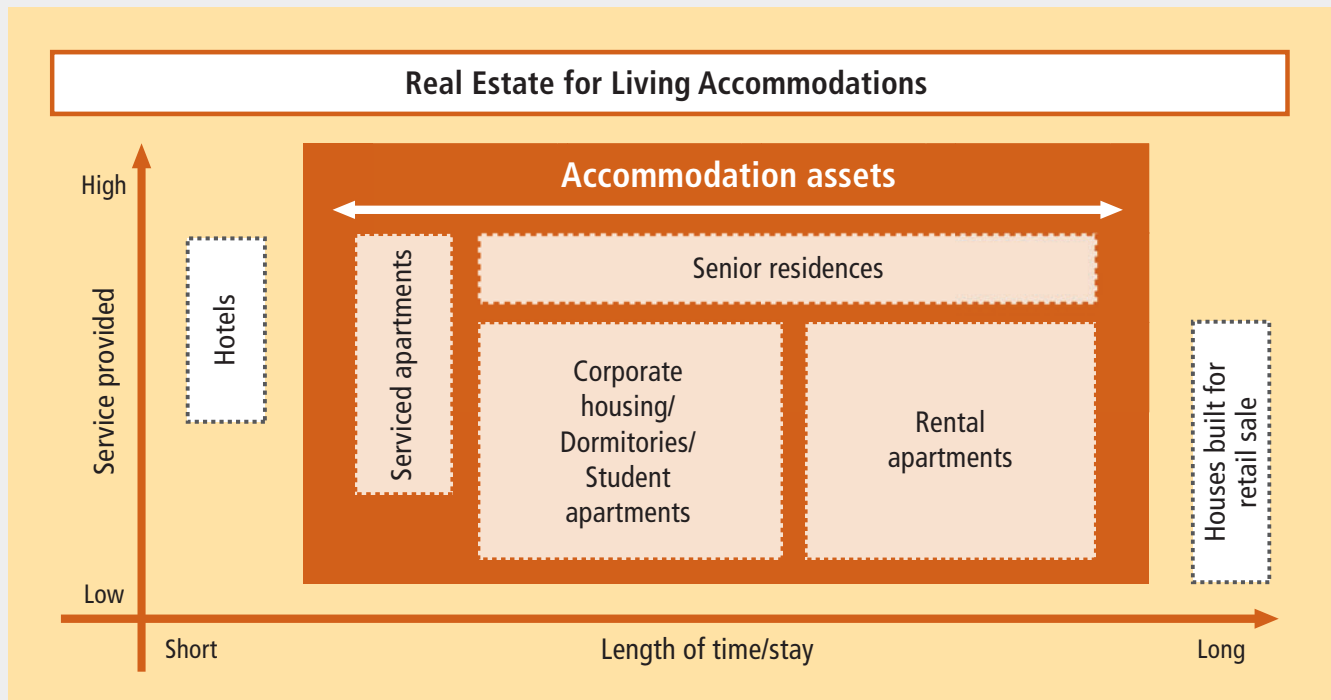


*Mitsui Fudosan Housing Service Co., Ltd. changed its name to Mitsui Fudosan Residential Service Co., Ltd. on April 1, 2014.



Investment in Accommodation Assets

- Accommodation assets: Newly developed residential properties created in response to ongoing social and lifestyle changes
- Objective: To maximize the value of accommodation assets by providing accommodations that satisfy diverse tenant needs



Real estate for living accommodations is classified in relation to two axes, "length of time/stay" and "service provided." Accommodation assets are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences.



To Our Stakeholders



We are enhancing value for our unitholders by generating steady growth from an expanding portfolio of quality properties.

During the six months ended August 31, 2014 (the “17th Period”), the Japanese economy continued to recover gradually due to factors such as an increase in capital expenditures and improvement in the employment and income environment even though demand dropped following a surge prior to the increase in the consumption tax rate. Looking forward, weakness will remain in some sectors of the economy due to the drop in demand following the surge prior to the increase in the consumption tax rate. However, the gradual recovery is expected to continue, supported by the diminishing impact of this factor and the effect of various government policies. At the same time, the risk of an economic downturn in Japan due to factors such as a protracted decline in demand following the surge prior to the tax hike and a slowdown in economies overseas requires careful attention.

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with stronger signs that rents have bottomed out and begun to recover. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF’s portfolio is located, and in the centers of other major cities. Contributing factors include the continuing influx of people into these areas from other regions and growth in the number of households due to an increase in single- and two-person households. At the same time, the balance of supply and demand is expected to remain favorable for the time being due to factors such as the limited supply of the quality rental apartments in which NAF typically invests.

In the real estate trading market, competition for property acquisitions is overheating due to the growing number of participants, including but not limited to J-REITs. Therefore, the acquisition environment is expected to remain challenging due to factors such as ongoing increases in acquisition and disposition prices for the limited supply of quality rental real estate.

In this environment, NAF acquired new properties with a total acquisition price of ¥16,020 million. In addition, Mitsui Fudosan Housing Lease Co., Ltd., our master property management company, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., our asset management company, also conducted collaborative management and other activities. As a result of these and other factors, NAF successfully maintained the average monthly occupancy rate at a high level of 95.7 percent during the 17th Period.

As a result, distribution per unit was ¥7,672. This report presents our results and operational status for the 17th Period.

We will continue working to earn the trust of our unitholders and request your continued support and cooperation.

Nippon Accommodations Fund Inc. Management Team



From left: Michihiko Takabe, Nobumi Tobari, Kosei Murakami, Takeo Tomita, Hiroyuki Sodeyama

Nobumi Tobari	Executive Director
Kosei Murakami	Executive Director
Takeo Tomita (Attorney at Law)	Supervisory Director
Michihiko Takabe (Attorney at Law)	Supervisory Director
Hiroyuki Sodeyama (Certified Public Accountant, Certified Public Tax Accountant)	Supervisory Director

December 2014

Kosei Murakami

Executive Director of Nippon Accommodations Fund Inc.
President and CEO of Mitsui Fudosan Accommodations Fund Management Co., Ltd.

Financial Highlights

	16th Period (Actual) (Ended February 28, 2014)	17th Period (Actual) (Ended August 31, 2014)	18th Period (Forecast) ¹ (Ending February 28, 2015)
Total revenues	¥9,241 million	¥10,152 million	¥10,092 million
Operating income	¥4,181 million	¥4,304 million	¥4,311 million
Net income	¥3,434 million	¥3,540 million	¥3,576 million
Total assets	¥277,125 million	¥292,317 million	—
LTV (Loan-to-value) ratio	51.2%	53.5%	—
Distribution per unit (Yen) ²	¥7,444	¥7,672	¥7,750
Assets under management			
Acquisition price basis	¥271,713 million	¥287,733 million	¥287,733 million
Number of properties	108	112	112

Notes: 1. The above forecast was announced on October 20, 2014.

2. NAF implemented a two-for-one split of investment units with an effective date of March 1, 2014. Distribution per unit for the 16th Period is adjusted for this split (actual distribution divided in half, rounded down to the nearest yen).

New Acquisitions in the 17th Period

Property Name	Location	Acquisition Price	Rentable Area	Rentable Units	Acquisition Date
Park Cube Nishigahara Stage	Kita-ku, Tokyo	¥ 4,110 million	19,693.35m ²	357 residential, 1 retail, etc.	March 7, 2014
Park Cube Atagoyama Tower	Minato-ku, Tokyo	8,650 million	8,389.91m ²	165 residential	March 7, 2014
Park Axis Shibaura	Minato-ku, Tokyo	1,045 million	1,273.60m ²	42 residential	April 1, 2014
Park Axis Asakusa Kuramae	Taito-ku, Tokyo	1,095 million	1,456.35m ²	45 residential	April 1, 2014
Okawabata Parking	Chuo-ku, Tokyo	1,120 million	—	—	March 7, 2014
Total		¥16,020 million	30,813.21m²	609 residential 1 retail, etc.	



Park Cube Nishigahara Stage



Park Cube Atagoyama Tower



Park Axis Shibaura

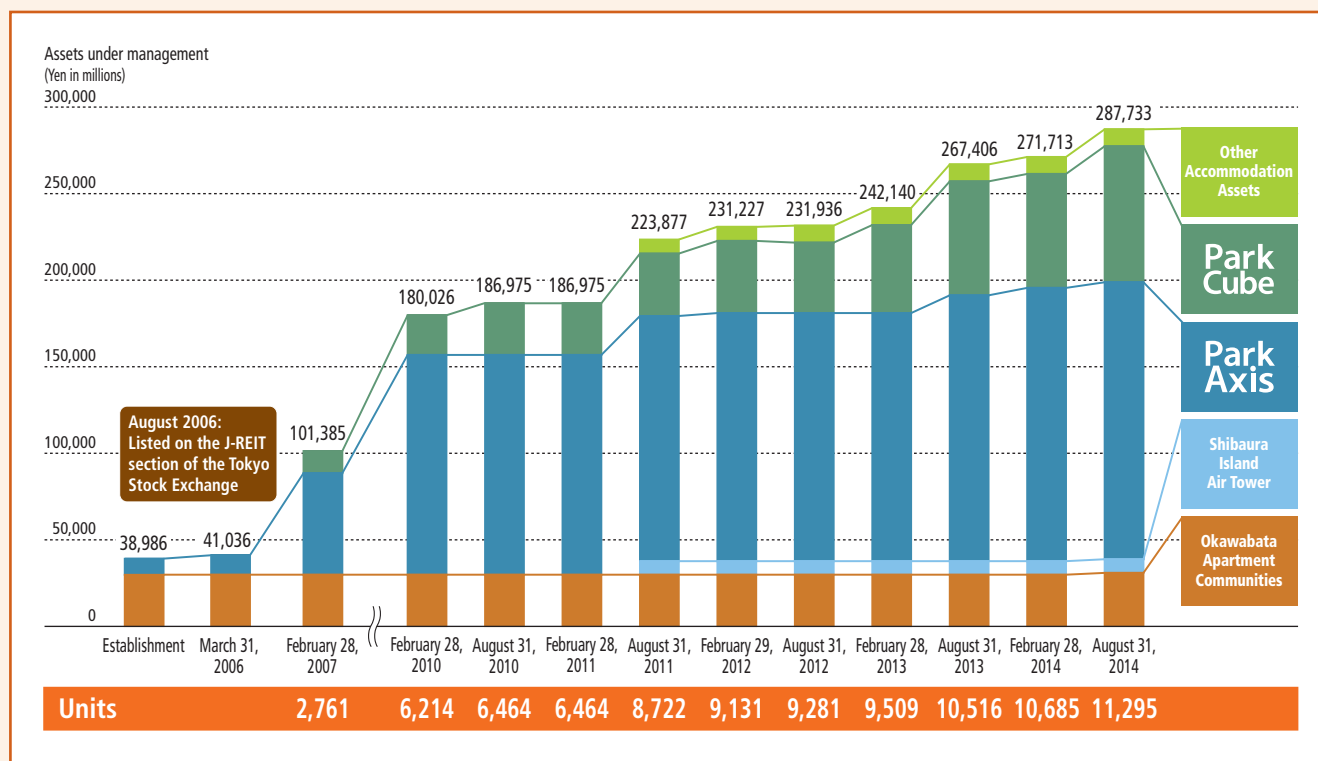


Park Axis Asakusa Kuramae

Portfolio Strategy

Steady Portfolio Expansion

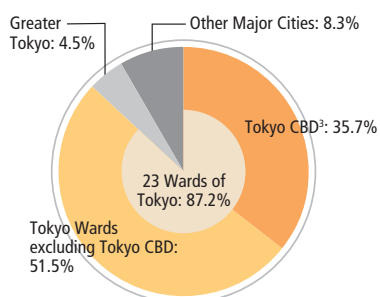
NAF has steadily expanded its portfolio, primarily by acquiring properties in the Park Axis series. NAF's portfolio as of August 31, 2014, the end of the 17th Period, consisted of 112 properties valued at ¥287,733 million on an acquisition price basis.



A Portfolio Mainly Composed of Large-Scale Properties in the 23 Wards of Tokyo

(As of August 31, 2014)

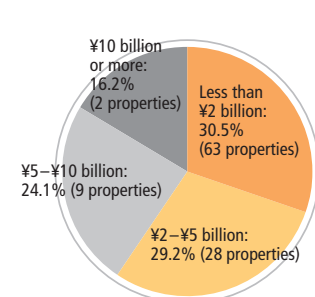
1. Portfolio by Location



87.2% in the 23 wards of Tokyo

Amount excluding the Okawabata Apartment Communities >>>

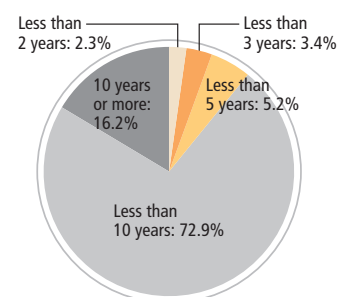
2. Portfolio by Acquisition Price



Average ¥2.7 billion per property

[Average ¥2.4 billion per property]

3. Portfolio by Property Age⁴



Average 9.2 years

[Average 7.1 years]

Notes: 1. The data above are calculations for rental apartments owned as of August 31, 2014 and do not include other accommodation assets.

2. The calculations for graphs 1 to 3 above are based on acquisition price. Graph 3, Portfolio by Property Age, uses a weighted average.

3. Tokyo CBD (Central Business District) includes Chiyoda, Chuo and Minato wards; Greater Tokyo includes Tokyo (other than the 23 wards), Kanagawa, Chiba and Saitama; Other Major Cities include Sapporo, Sendai, Nagoya, Kyoto, Osaka, Kobe, Hiroshima and Fukuoka.

4. The calculations are based on individual property age as of August 31, 2014.

Portfolio Composition

Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating the majority of its portfolio in the 23 wards of Tokyo where demand for rental apartments is strong, NAF achieves even greater earnings stability.



Note: Portfolio as of August 31, 2014

NAF aims for steady portfolio expansion centered on properties in the high-quality Park Axis series planned and developed by the Mitsui Fudosan Group, complemented with acquisitions of properties that meet NAF's proprietary standards in the Park Cube series constructed by other developers. In addition, NAF focuses investment on single and compact apartments for which it expects high occupancy rates, as well as on large-scale and relatively new properties. Geographically, NAF invests mainly within the 23 wards of Tokyo while also acquiring carefully selected properties in major regional cities.

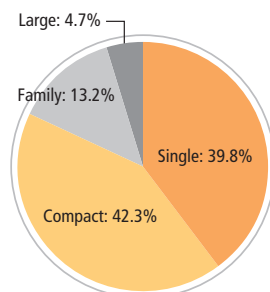
NAF has also begun investing in accommodation assets* other than rental apartments.

*NAF defines accommodation assets as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences.

A Balanced Mix of Properties Centered on Single and Compact Units

(As of August 31, 2014)

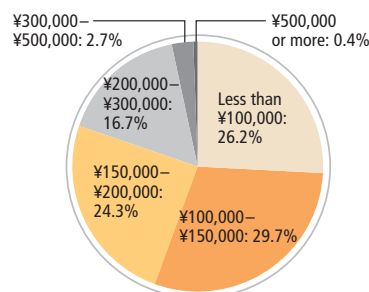
4. Portfolio by Category³



Percentage of single and compact units: 82.1%

[86.2%]

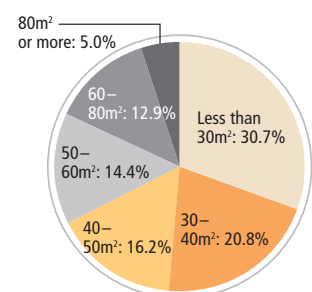
5. Portfolio by Monthly Rent⁴



Average ¥150 thousand per unit

[Average ¥143 thousand per unit]

6. Portfolio by Unit Area



Average 43.3m² per unit

[Average 41.2m² per unit]

Notes: 1. The data above are calculations for rental apartments owned as of August 31, 2014 and do not include other accommodation assets.

2. The calculations for graphs 4 to 6, above are based on units, excluding retail units.

3. The calculations are based on unit categories as of August 31, 2014.

4. The calculations are based on total monthly rent (rent and common area fees) per unit as of August 31, 2014.

Portfolio Summary (As of August 31, 2014)

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m ²)	Rentable Units	PML (Note 2) (%)
1	Okawabata Apartment Communities	Chuo-ku, Tokyo	30,816	10.7	43,812.41	544	
	River Point Tower						4.5
	Park Side Wings						7.9
	Pier West House						7.0
	Okawabata Parking						3.2
2	Park Axis Gakugei Daigaku	Setagaya-ku, Tokyo	1,760	0.6	2,437.66	64	7.6
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.1	2,766.62	75	6.8
5	Park Axis Aoyama Kotto Dori	Minato-ku, Tokyo	1,730	0.6	1,537.24	40	7.0
6	Park Axis Kagurazaka Stage	Shinjuku-ku, Tokyo	1,400	0.5	1,891.05	59	7.5
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	1.8	4,704.44	99	8.7
8	Park Axis Bunkyo Stage	Bunkyo-ku, Tokyo	4,440	1.5	6,078.93	154	6.6
9	Park Axis Tsukishima	Chuo-ku, Tokyo	930	0.3	1,383.99	30	6.8
10	Park Axis Otsuka	Toshima-ku, Tokyo	1,655	0.6	2,606.37	52	6.5
11	Park Axis Minami Azabu	Minato-ku, Tokyo	3,939	1.4	3,938.14	64	7.4
12	Park Axis Shibuya	Shibuya-ku, Tokyo	1,282	0.4	1,094.28	20	7.9
13	Park Axis Nihonbashi Stage	Chuo-ku, Tokyo	7,557	2.6	10,025.40	184 residential, 1 retail, etc.	7.6
14	Park Axis Hamamatsucho	Minato-ku, Tokyo	2,025	0.7	2,426.45	80	7.1
15	Park Axis Hongo no Mori	Bunkyo-ku, Tokyo	2,910	1.0	3,317.94	86 residential, 1 retail, etc.	8.8
16	Park Axis Tameike Sanno	Minato-ku, Tokyo	2,860	1.0	2,710.69	70	8.2
17	Park Axis Roppongi Hinokicho Koen	Minato-ku, Tokyo	2,170	0.8	2,054.46	46	9.2
18	Park Axis Ochanomizu Stage	Bunkyo-ku, Tokyo	9,710	3.4	12,025.25	324	7.2
19	Park Axis Okachimachi	Taito-ku, Tokyo	1,070	0.4	1,621.73	42	6.8
20	Park Cube Hongo	Bunkyo-ku, Tokyo	1,760	0.6	2,160.12	60	8.2
21	Park Cube Kanda	Chiyoda-ku, Tokyo	2,454	0.9	3,194.59	95	8.9
22	Park Cube Ichigaya	Shinjuku-ku, Tokyo	1,949	0.7	2,288.46	53	6.8
23	Park Cube Asakusa Tawaramachi	Taito-ku, Tokyo	2,508	0.9	4,012.68	76	8.8
24	Park Cube Ueno	Taito-ku, Tokyo	2,233	0.8	3,041.61	91	7.5
28	Park Cube Ikebukuro Kanamecho	Toshima-ku, Tokyo	1,608	0.6	1,886.82	65	8.1
29	Park Axis Meguro Honcho	Meguro-ku, Tokyo	1,810	0.6	1,884.77	60	8.3
30	Park Axis Shin Itabashi	Itabashi-ku, Tokyo	3,430	1.2	4,395.99	152	7.3 East, 7.5 West
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.4	1,346.07	41	7.4
32	Park Axis Toyochō	Koto-ku, Tokyo	3,950	1.4	5,412.40	140	10.2
33	Park Axis Takinogawa	Kita-ku, Tokyo	1,820	0.6	2,924.75	48 residential, 1 retail, etc.	5.8
34	Park Axis Asakusabashi	Taito-ku, Tokyo	2,717	0.9	3,400.78	78 residential, 1 retail, etc.	8.9
38	Park Axis Nihonbashi Hamacho	Chuo-ku, Tokyo	5,540	1.9	6,999.83	118	8.1
39	Park Cube Yoyogi Tomigaya	Shibuya-ku, Tokyo	1,975	0.7	1,929.10	38	7.1
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.6	1,886.39	55	10.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	1.4	5,317.07	165 residential, 1 retail, etc.	8.1
43	Park Cube Gakugei Daigaku	Meguro-ku, Tokyo	910	0.3	957.88	24	6.8
44	Park Cube Oimachi	Shinagawa-ku, Tokyo	1,440	0.5	1,511.12	65	10.0
46	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.3	1,435.83	46	7.7
47	Park Axis Kinshicho	Sumida-ku, Tokyo	1,448	0.5	2,288.13	65	10.7
48	Park Axis Tatsumi Stage	Koto-ku, Tokyo	7,464	2.6	16,474.06	299 residential, 1 retail, etc.	10.0
51	Park Axis Kameido	Koto-ku, Tokyo	2,359	0.8	3,986.78	118	11.0
52	Park Axis Honancho	Nakano-ku, Tokyo	745	0.3	1,231.08	31	8.0
53	Park Axis Itabashi	Kita-ku, Tokyo	1,448	0.5	2,567.96	64	9.1
54	Park Axis Oshiage	Sumida-ku, Tokyo	1,193	0.4	2,121.29	57 residential, 1 retail, etc.	10.5
55	Park Axis Takadanobaba	Toshima-ku, Tokyo	1,222	0.4	1,463.25	36 residential, 1 retail, etc.	7.9
59	Park Axis Toyosu	Koto-ku, Tokyo	14,300	5.0	25,537.94	401 residential, 2 retail, etc.	7.8
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	0.6	2,416.29	63 residential, 1 retail, etc.	9.1
61	Park Axis Itabashi Honcho	Itabashi-ku, Tokyo	987	0.3	2,048.31	66	9.2
62	Park Axis Sumiyoshi	Sumida-ku, Tokyo	1,006	0.3	1,785.72	60	11.4
63	Park Cube Yotsuya Sancho	Shinjuku-ku, Tokyo	2,749	1.0	3,599.82	130	8.7
64	Park Cube Hatchobori	Chuo-ku, Tokyo	4,200	1.5	5,191.86	118 residential, 2 retail, etc.	8.2
68	Park Axis Kamata Ichibankan	Ota-ku, Tokyo	1,069	0.4	1,721.28	63	9.5
70	Park Axis Taito Negishi	Taito-ku, Tokyo	672	0.2	1,283.13	40	10.5
72	Park Axis Komagome	Toshima-ku, Tokyo	1,389	0.5	1,979.51	39 residential, 1 retail, etc.	8.5
74	Park Axis Itabashi Honcho Nibankan	Itabashi-ku, Tokyo	1,859	0.6	3,661.58	99	7.7
75	Shibaura Island Air Tower (Note 4)	Minato-ku, Tokyo	7,905	2.7	17,646.33	270 residential, 2 retail, etc.	
	Air Tower						2.3
	Air Terrace						8.7
84	Park Cube Higashi Shinagawa	Shinagawa-ku, Tokyo	6,060	2.1	10,636.67	201	9.8
86	Park Cube Sasazuka	Shibuya-ku, Tokyo	2,200	0.8	2,416.00	92 residential, 1 retail, etc.	9.5
88	Park Axis Higashi Jujo	Kita-ku, Tokyo	1,700	0.6	2,893.54	70 residential, 1 retail, etc.	6.8
91	Park Cube Heiwadai	Nerima-ku, Tokyo	1,204	0.4	2,656.00	34	6.5

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m ²)	Rentable Units	PML (Note 2) (%)
92	Park Cube Meguro Tower	Meguro-ku, Tokyo	9,000	3.1	12,367.62	193 residential, 1 retail, etc.	3.1
93	Park Cube Nihonbashi Suitengu	Chuo-ku, Tokyo	2,711	0.9	4,235.33	77	9.3
94	Park Cube Ginza East	Chuo-ku, Tokyo	2,269	0.8	3,358.63	77	6.9
95	Park Cube Kayabacho	Chuo-ku, Tokyo	1,105	0.4	1,695.06	27 residential, 1 retail, etc.	7.6
96	Park Cube Honjo Azumabashi	Sumida-ku, Tokyo	1,252	0.4	2,241.63	45	9.5
97	Park Axis Kiyosumi Shirakawa	Koto-ku, Tokyo	696	0.2	1,159.84	36	10.8
98	Park Axis Asakusabashi Nichome	Taito-ku, Tokyo	1,079	0.4	1,569.00	48	7.8
99	Park Axis Nishi Sugamo	Kita-ku, Tokyo	1,439	0.5	2,326.32	56	9.6
100	Park Axis Ueno	Taito-ku, Tokyo	1,389	0.5	1,992.29	59	8.5
101	Park Axis Akihabara East	Taito-ku, Tokyo	1,369	0.5	1,890.20	58	9.7
103	Park Axis Kayabacho	Chuo-ku, Tokyo	1,809	0.6	2,355.07	72	9.7
104	Park Axis Kinshicho Shinsui Koen	Sumida-ku, Tokyo	1,369	0.5	2,085.62	60	8.0
105	Park Cube Kasuga Andozaka	Bunkyo-ku, Tokyo	2,670	0.9	3,581.09	68	6.5
106	Park Cube Kameido	Koto-ku, Tokyo	3,020	1.0	4,442.09	121 residential, 1 retail, etc.	10.4
108	Park Axis Shin Okachimachi East	Taito-ku, Tokyo	1,299	0.5	1,847.01	49	7.4
110	Park Axis Nihonbashi Honcho	Chuo-ku, Tokyo	1,469	0.5	1,808.12	49	7.6
111	Park Cube Nishigahara Stage	Kita-ku, Tokyo	4,110	1.4	19,693.35	357 residential, 1 retail, etc.	7.0
112	Park Cube Atagoyama Tower	Minato-ku, Tokyo	8,650	3.0	8,389.91	165	3.7
113	Park Axis Shibaura	Minato-ku, Tokyo	1,045	0.4	1,273.60	42	9.1
114	Park Axis Asakusa Kuramae	Taito-ku, Tokyo	1,095	0.4	1,456.35	45	6.7
23 Wards of Tokyo Total			242,424	84.3	357,793.97	7,623 residential, 22 retail, etc.	
26	Park Cube Keio Hachioji II	Hachioji-shi, Tokyo	1,130	0.4	3,082.32	47 residential, 1 retail, etc.	7.6
40	Park Axis Nishi Funabashi	Funabashi-shi, Chiba	1,020	0.4	2,074.35	55	7.9
66	Park Axis Yokohama Idogaya	Yokohama-shi, Kanagawa	1,419	0.5	2,706.59	99 residential, 1 retail, etc.	11.4
67	Park Axis Chiba Shinmachi	Chiba-shi, Chiba	1,679	0.6	3,318.15	77 residential, 7 retail, etc.	11.1
69	Park Axis Chiba	Chiba-shi, Chiba	970	0.3	2,270.32	91	7.8
85	Park Cube Kita Matsudo	Matsudo-shi, Chiba	1,200	0.4	2,358.66	108 residential, 1 retail, etc.	9.2
87	Park Cube Musashi Kosugi	Kawasaki-shi, Kanagawa	2,250	0.8	3,057.36	136	9.6
102	Park Axis Yokohama Tanmachi Koen	Yokohama-shi, Kanagawa	1,119	0.4	1,682.46	63	9.5
109	Park Axis Yokohama Yamashitacho	Yokohama-shi, Kanagawa	1,539	0.5	2,325.92	70 residential, 1 retail, etc.	11.2
Greater Tokyo Total (Note 3)			12,326	4.3	22,876.13	746 residential, 11 retail, etc.	
27	Park Axis Meieki Minami	Nagoya-shi, Aichi	2,440	0.8	5,565.13	169	4.3
35	Park Axis Marunouchi	Nagoya-shi, Aichi	1,920	0.7	3,821.75	98 residential, 1 retail, etc.	6.1
36	Park Axis Ropponmatsu	Fukuoka-shi, Fukuoka	1,515	0.5	3,473.67	111 residential, 1 retail, etc.	2.2
37	Park Axis Hakataeki Minami	Fukuoka-shi, Fukuoka	1,890	0.7	4,668.29	176 residential, 1 retail, etc.	3.1
45	Park Axis Naka Gofukumachi	Fukuoka-shi, Fukuoka	742	0.3	2,707.88	112	2.8
49	Park Axis Shirakabe	Nagoya-shi, Aichi	1,547	0.5	4,735.89	86	6.1
50	Park Axis Sendai	Sendai-shi, Miyagi	2,320	0.8	8,843.17	204	5.7
56	Park Axis Hakata Minoshima	Fukuoka-shi, Fukuoka	960	0.3	3,461.85	112	2.9
57	Park Axis Takamiya Higashi	Fukuoka-shi, Fukuoka	605	0.2	2,289.21	70	2.3
58	Park Axis Sapporo Shokubutsuen Mae	Sapporo-shi, Hokkaido	1,650	0.6	7,845.01	146	2.4
65	Park Axis Shin Sapporo	Sapporo-shi, Hokkaido	827	0.3	3,729.05	84 residential, 1 retail, etc.	2.5
71	Park Axis Esaka Hiroshibacho	Suita-shi, Osaka	2,369	0.8	4,309.24	130	11.2
73	Park Axis Utsubo Koen	Osaka-shi, Osaka	2,399	0.8	4,952.45	133	13.1
107	Park Cube Kitahama	Osaka-shi, Osaka	1,970	0.7	4,683.33	138	11.0
Other Major Cities Total			23,154	8.0	65,085.92	1,769 residential, 4 retail, etc.	
Rental Apartments Total			277,904	96.6	445,756.02	10,138 residential, 37 retail, etc.	
76	Dormy Ashiya	Ashiya-shi, Hyogo	928	0.3	2,826.00	140	10.0
77	Kawaijuku Kyoto Gakushin Ryo	Kyoto-shi, Kyoto	991	0.3	2,785.40	134	5.5
78	Sundai Horikawa Ryo	Kyoto-shi, Kyoto	916	0.3	2,043.32	113	6.9
79	Dormitory Rakuoku	Kyoto-shi, Kyoto	374	0.1	1,035.00	69	6.5
80	Rikkyo University International Dormitory (RUID) Shiki	Shiki-shi, Saitama	1,478	0.5	2,293.20	126	5.4
81	Dormy Naka Itabashi	Itabashi-ku, Tokyo	1,041	0.4	1,911.00	105	7.1
82	Philosophia Nishidai	Itabashi-ku, Tokyo	1,249	0.4	2,184.00	120	8.3
83	Dormy Musashi Kosugi	Kawasaki-shi, Kanagawa	1,152	0.4	1,996.47	111	8.3
89	Artis Sendai Kakyoin	Sendai-shi, Miyagi	540	0.2	1,564.40	60	4.5
90	Artis Sendai Kimachi-dori	Sendai-shi, Miyagi	1,160	0.4	4,063.47	142	5.0
Other Accommodation Assets Total			9,829	3.4	22,702.26	1,120	
Grand Total			287,733	100.0	468,458.28	11,295	3.6 (Portfolio PML)

Notes: 1. Acquisition Price does not include acquisition-related expenses, property tax (to be capitalized) and consumption tax (not refundable for residential properties).
Amounts are rounded to the nearest million.

2. PML = Probable maximum loss

3. Greater Tokyo includes Tokyo (other than the 23 wards), Kanagawa, Chiba and Saitama.

4. Rentable units and rentable area for Shibaura Island Air Tower are calculated by multiplying NAF's equity share (31%) by the property's total rentable units (871 residential, 7 retail, etc.) and total rentable area (56,923.63m²) and rounded to the nearest unit and one-hundredth of a square meter, respectively.

5. Numbers and property names in blue indicate properties acquired during the 17th Period.

Management's Discussion and Analysis

Summary of Selected Financial Data

	Yen in millions (Except per unit data or where otherwise indicated)			U.S. dollars in thousands (Note 1) (Except per unit data)
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013	17th Period March 1, 2014 to August 31, 2014
Total revenues (Note 2)	¥ 10,152	¥ 9,241	¥ 9,002	\$ 97,860
Rental revenues	9,711	8,917	8,605	93,609
Other revenues related to property leasing	440	324	392	4,241
Dividend income	—	—	4	—
Operating expenses	5,847	5,060	5,037	56,362
Income before income taxes	3,541	3,435	3,165	34,133
Net income (a)	3,540	3,434	3,164	34,123
Funds from operations (Note 3)	5,628	5,411	5,079	54,251
Net operating income from property leasing activities (Note 3)	7,450	7,090	6,783	71,814
Total amount of cash distribution (b)	3,540	3,434	3,164	34,123
Depreciation and amortization	2,088	1,976	1,915	20,127
Capital expenditures	168	247	252	1,619
Total assets (c)	292,317	277,125	273,872	2,817,784
Interest-bearing debt	156,500	142,000	139,000	1,508,579
Total net assets (d)	129,296	129,191	128,921	1,246,346
Total number of common units issued (Units) (e)	461,422	230,711	230,711	
Net assets per unit (Yen/\$) (d) / (e) (Note 4)	280,214	279,985	279,400	2,701.11
Distribution per unit (Yen/\$) (b) / (e)	7,672	14,888	13,717	73.95
Funds from operations per unit (Yen/\$) (Note 3)	12,198	23,454	22,018	117.58
ROA (Note 5)	1.2%	1.2%	1.2%	
(Annual rate)	(2.5%)	(2.5%)	(2.4%)	
ROE (Note 5)	2.7%	2.7%	2.7%	
(Annual rate)	(5.4%)	(5.4%)	(5.3%)	
LTV (Loan-to-value) ratio (Note 3)	53.5%	51.2%	50.8%	
Capital ratio (d) / (c)	44.2%	46.6%	47.1%	
Payout ratio (b) / (a) (Note 6)	100.0%	100.0%	100.0%	
Number of days in the period	184	181	184	
Number of investment properties (Note 7)	112	108	105	
Total rentable area (m ²)	468,458	437,645	431,664	
Average occupancy rate at the end of the period (Note 7)	95.5%	97.0%	95.6%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥103.74 = U.S.\$1.00, the approximate exchange rate as of August 31, 2014.

2. "Total revenues" do not include consumption tax.

3. Funds from operations: Net income + Depreciation and amortization – Gain on sale of investment properties

Net operating income from property leasing activities: (Revenues from property leasing – Rental expenses) + Depreciation and amortization

Funds from operations per unit: (Net income + Depreciation and amortization – Gain on sale of investment properties) ÷ Total number of units issued and outstanding at the end of the period

LTV ratio: Interest-bearing debt ÷ Total assets

4. NAF implemented a two-for-one split of investment units with the effective date of March 1, 2014. "Net assets per unit" is calculated on the assumption that this split of investment units was implemented at the start of the period ended August 31, 2013.

5. ROA: Income before income taxes ÷ [(Initial total assets + Total assets at the end of the period) ÷ 2]

ROE: Net income ÷ [(Initial net assets + Net assets at the end of the period) ÷ 2]

The figures in parentheses are annualized based on the number of actual days in each period.

Annual equivalent amounts for the period ended August 31, 2014: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 28, 2014: Amount for the period ÷ Actual days in the period (181) x 365 days

Annual equivalent amounts for the period ended August 31, 2013: Amount for the period ÷ Actual days in the period (184) x 365 days

Net assets and total assets used in calculating ROA and ROE are beginning-of-period and period-end averages, respectively.

6. "Payout ratio" is calculated to one decimal place only.

7. "Number of investment properties" means properties generally perceived to be one residential building.

"Average occupancy rate at the end of the period" is the ratio of gross leased area to total rentable area at the end of the period.

Overview

Investment Environment and Operating Performance

During the six months ended August 31, 2014 (the “17th Period”), the Japanese economy continued to recover gradually due to factors such as an increase in capital expenditures and improvement in the employment and income environment even though demand dropped following a surge prior to the increase in the consumption tax rate. Underpinned by this recovery, the Nikkei Stock Average Index rose from ¥14,652.23 at the start of the 17th Period (March 3, 2014) to ¥15,424.59 at the period end (August 29, 2014). Looking forward, weakness will remain in some sectors of the economy due to the drop in demand following the surge prior to the increase in the consumption tax rate. However, the gradual economic recovery is expected to continue, supported by the diminishing impact of this factor and the effect of various government policies. At the same time, the risk of an economic downturn in Japan due to factors such as a protracted decline in demand following the surge prior to the tax hike and a slowdown in economies overseas requires careful attention.

In the J-REIT market, due to expectations of recovery in the Japanese economy and real estate market, the Tokyo Stock Exchange REIT Index performed steadily, rising from 1,497.46 points at the start of the 17th Period (March 3, 2014) to 1,648.90 points at the period end (August 29, 2014).

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with stronger signs that rents have bottomed out and begun to recover. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF’s portfolio is located, and in the centers of other major cities. Contributing factors include the continuing influx of people into these areas from other regions and growth in the number of households due to an increase in single- and two-person households. At the same time, the balance of supply and demand is expected to remain favorable for the time being due to factors such as the limited supply of the quality rental apartments in which NAF typically invests.

In the real estate trading market, competition for property acquisitions is overheating due to the growing number of participants, including but not limited to J-REITs. Therefore, the acquisition environment is expected to remain challenging due to factors such as ongoing increases in acquisition and disposition prices for the limited supply of quality rental real estate.

During the 17th Period, NAF acquired a total of four new properties with a total acquisition price of ¥16,020 million: two properties in March 2014 and two properties in April 2014 (Okawabata Parking is not included in the number of properties but included in the total acquisition price). As a result, NAF’s portfolio as of August 31, 2014 consisted of 112 properties valued at ¥287,733 million on an acquisition price basis.

NAF has chosen Mitsui Fudosan Housing Lease Co., Ltd. as master property management company (below, “Master PM”) to manage NAF’s rental apartment portfolio. The Master PM and the asset management company 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. These include efforts such as speedy management and operations by the Master PM by applying the portfolio management system, tenant recruiting activities suited to the circumstances of individual properties, streamlining efforts such as reduction of management costs and providing tenants with “accommodation” services that correspond to various needs based on the results of resident questionnaires.

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 property age, and work to enhance the value of properties such as Okawabata Apartment Communities, which is one of the core properties of NAF. 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 17th Period, 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.

As a result of these activities, the occupancy rate for NAF’s overall portfolio as of August 31, 2014 remained at a high level of 95.5 percent.

Consequently, for the 17th Period, total revenues were ¥10,152 million, operating income was ¥4,304 million, income before income taxes was ¥3,541 million and net income was ¥3,540 million.

Changes in Assets, Liabilities and Net Assets

Total assets as of August 31, 2014 increased from February 28, 2014 by ¥15,191 million to ¥292,317 million. Total current assets decreased by ¥236 million to ¥9,619 million and total investment properties net of accumulated depreciation compared with February 28, 2014 increased by ¥14,910 million to ¥281,592 million as a result of NAF's acquisitions during the 17th Period, in addition to normal depreciation.

One of NAF's basic policies is to carry out financing in a conservative manner while giving consideration to such matters as maintaining stable distributions in the medium and long term, and paying attention to various risk factors and market trends. Based on this policy, NAF has pursued financing from various sources with diversified repayment dates and long-term, fixed interest rates in its procurement of funds during the 17th Period.

As a result, at the end of the period, total interest-bearing debt amounted to ¥156,500 million, the long-term loan ratio was 97.4 percent, the fixed-rate loan ratio was 90.4 percent, and the LTV (loan-to-value) ratio was 53.5 percent. The average annual current maturity of long-term interest-bearing loans was 4.7 years and the number of financial institutions was 21. Furthermore, the weighted average interest rate at the end of the period was 0.95 percent, and NAF achieved both further progress in its conversion to long-term borrowing and a reduction in financing costs.

NAF has also established a commitment line with a total maximum borrowing amount of ¥10,000 million to secure flexible and stable fund procurement methods. The expiration date of the commitment line agreement was extended for another year during the 17th Period.

Net assets totaled ¥129,296 million as of August 31, 2014. Unitholders' capital was unchanged at ¥125,686 million, and retained earnings increased to ¥3,610 million from ¥3,504 million as of February 28, 2014.

Distributions to Unitholders

NAF determines the amount of cash distributions such that they exceed 90 percent of NAF's retained earnings available for dividends as set forth in Article 67-15 of the Act on Special Measures Concerning Taxation. For the 17th Period, cash distributions totaled ¥3,540,029,584, or ¥7,672 per unit.

	Yen in thousands, except per unit amounts		
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013
Retained earnings	¥3,540,118	¥3,434,842	¥3,164,705
Undistributed earnings	89	17	42
Total cash distribution	3,540,029	3,434,825	3,164,662
(Per unit)	7,672	14,888	13,717
Distribution of retained earnings	3,540,029	3,434,825	3,164,662
(Per unit)	7,672	14,888	13,717
Cash distribution in excess of retained earnings	—	—	—
(Per unit)	—	—	—

Note: The above cash distributions were paid after the close of the period.

Funding

Balance of Paid-in Capital

NAF was established on October 12, 2005 with initial paid-in capital of ¥100 million. NAF began investing activities on November 29, 2005 after ¥21,140 million was raised through private placement. As of August 31, 2014, NAF had issued 461,422 investment units out of 4,000,000 total authorized units. NAF's investment units were listed on the J-REIT section of the Tokyo Stock Exchange in August 2006 upon the completion of a public offering. As the Investment Trust and Investment Corporation Act of Japan does not contain any provision for the issue of more than one class of units, NAF's investment units comprise the sole class of units authorized and issued by NAF.

Issue date	Remarks	Units outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(Units)		(Yen in millions)		
October 12, 2005	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
November 29, 2005	Private placement	42,280	42,480	21,140	21,240	Note 2
August 3, 2006	Public offering	67,200	109,680	37,611	58,851	Note 3
September 4, 2006	Third party allocation	3,800	113,480	2,126	60,978	Note 4
November 4, 2009	Public offering	42,000	155,480	19,795	80,773	Note 5
December 1, 2009	Third party allocation	698	156,178	328	81,102	Note 6
March 1, 2011	Public offering	37,500	193,678	21,539	102,641	Note 7
March 28, 2011	Third party allocation	1,033	194,711	593	103,235	Note 8
March 1, 2013	Public offering	34,000	228,711	21,204	124,439	Note 9
March 26, 2013	Third party allocation	2,000	230,711	1,247	125,686	Note 10
March 1, 2014	Split of investment units	230,711	461,422	—	125,686	Note 11

Notes: 1. NAF was established with initial capital of ¥500,000 per unit.

2. Follow-on private offering at ¥500,000 per unit to raise funds for acquisition of investment properties.

3. Public offering of new units for ¥580,000 per unit (excluding underwriting fee: ¥559,700) to fund property acquisition.

4. Additional issue of new units (third party allocation) for ¥559,700 per unit undertaken pursuant to the public offering in Note 3.

5. Public offering of new units for ¥487,910 per unit (excluding underwriting fee: ¥471,311) to fund property acquisition.

6. Additional issue of new units (third party allocation) for ¥471,311 per unit undertaken pursuant to the public offering in Note 5.

7. Public offering of new units for ¥593,872 per unit (excluding underwriting fee: ¥574,380) to fund property acquisition.

8. Additional issue of new units (third party allocation) for ¥574,380 per unit undertaken pursuant to the public offering in Note 7.

9. Public offering of new units for ¥644,816 per unit (excluding underwriting fee: ¥623,652) to fund property acquisition.

10. Additional issue of new units (third party allocation) for ¥623,652 per unit undertaken pursuant to the public offering in Note 9.

11. NAF implemented a two-for-one split of investment units with the effective date of March 1, 2014.

Market Price of Units

High/Low (closing price) of units on the Tokyo Stock Exchange:

	17th Period March 1, 2014 to August 31, 2014 (Yen)	16th Period September 1, 2013 to February 28, 2014 (Yen)	15th Period March 1, 2013 to August 31, 2013 (Yen)	14th Period September 1, 2012 to February 28, 2013 (Yen)	13th Period March 1, 2012 to August 31, 2012 (Yen)
High	¥400,000	¥732,000 (Note) 353,500	¥831,000	¥699,000	¥554,000
Low	339,000	635,000 (Note) 351,000	601,000	524,000	488,500

Note: Unit prices are for the term following the ex-rights date (February 26-28, 2014) for the investment unit split.

Borrowings

Borrowings by financial institution as of August 31, 2014 are shown below.

Short-term loans

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity (Note 2)	Repayment method	Use of funds	Notes
The 77 Bank, Ltd.	¥1,000	0.2%	September 30, 2014	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)
Shinsei Bank, Limited	2,000	0.2%	September 30, 2014			
Shinkin Central Bank	1,000	0.2%	September 30, 2014			
Total short-term loans	¥4,000					

Long-term loans (Note 7)

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 4,000	0.6% (Note 5)	November 30, 2015	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)
	5,000	1.2%	August 13, 2018			
	5,500	0.9%	February 28, 2020			
	3,000	0.7%	May 28, 2021			
	2,000	0.5%	May 31, 2019			
Sumitomo Mitsui Trust Bank, Limited	2,000	0.6% (Note 5)	November 30, 2015			
	3,500	1.0%	August 14, 2017			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000	1.6%	March 5, 2015			
Nippon Life Insurance Company	2,000	1.3%	February 28, 2017			
	1,000	1.5%	February 28, 2018			
	2,000	0.9%	November 30, 2022			
	3,000	1.0%	May 31, 2024			
Development Bank of Japan Inc.	5,000	1.2%	October 18, 2017			
	2,000	1.0%	December 21, 2018			
	3,000	1.0%	April 11, 2019			
	3,000	1.1%	April 11, 2023			
	2,500	1.3%	February 6, 2024			
	2,500	1.4%	August 6, 2024			
	2,500	1.2%	April 1, 2025			
The Hachijuni Bank, Ltd.	1,000	0.5%	September 14, 2017			
	1,500	0.8%	May 31, 2019			
	1,000	0.6%	April 9, 2021			
Mizuho Bank, Ltd.	1,000	1.5%	April 19, 2018			
	2,000	0.8%	October 12, 2016			
	3,000	0.9%	October 31, 2017			
	2,000	0.7%	June 15, 2020			
	2,000	0.8%	November 30, 2021			
The Chugoku Bank, Limited	2,000	1.0%	April 1, 2016			
	2,000	1.0%	April 20, 2015			
Shinsei Bank, Limited	1,000	1.0%	April 20, 2015			
	1,000	1.2%	January 19, 2023			
	1,000	0.7%	May 28, 2021			
	1,000	1.0%	May 28, 2024			
Shinkin Central Bank	1,500	0.9%	April 1, 2015			
	3,000	0.6%	October 12, 2018			
The Bank of Fukuoka, Ltd.	2,000	0.9%	February 20, 2017			
	2,000	0.6%	April 27, 2018			
	1,000	0.8%	January 8, 2020			
	2,500	0.6%	April 28, 2020			
Mitsubishi UFJ Trust and Banking Corporation	3,000	1.2%	April 25, 2017			
	5,000	0.5% (Note 6)	September 3, 2018			
	2,000	0.7%	March 16, 2020			
	4,000	0.7%	September 15, 2020			
	1,000	1.0%	August 23, 2021			
	3,000	0.8%	March 7, 2022			
	3,000	0.9%	September 7, 2022			
	3,000	0.8%	May 31, 2022			
The Norinchukin Bank	1,500	0.9%	April 1, 2015			
	3,000	0.7%	November 30, 2020			
Resona Bank, Limited	2,000	1.2%	April 3, 2017			
	3,000	0.6%	December 16, 2019			
Mizuho Trust & Banking Co., Ltd.	1,000	1.0%	June 14, 2021			
	1,000	1.2%	June 14, 2022			
	1,000	1.0%	February 23, 2022			
	1,000	1.1%	August 23, 2022			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
THE YAMAGUCHI BANK, Ltd.	¥ 1,000	1.3%	June 14, 2023	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)
	1,000	1.3%	July 19, 2023			
	1,000	1.0%	May 31, 2024			
The Daishi Bank, Ltd.	2,000	0.6%	April 28, 2020			
The Ashikaga Bank, Ltd.	2,000	0.3%	June 30, 2019			
DAIDO LIFE INSURANCE COMPANY	1,000	0.6%	June 30, 2021			
MITSUI LIFE INSURANCE COMPANY LIMITED	1,000	1.0%	March 28, 2024			
Total long-term loans	¥135,500					
Total borrowings	¥139,500					

Notes: 1. "Interest rate" is presented by loan from each lending institution and is rounded to the nearest tenth. The weighted average interest rate is presented for the outstanding balance of short-term borrowings if the institution has provided more than one short-term loan.

2. The earliest maturity of short-term borrowings is presented if the institution has provided more than one short-term loan.

3. Use of the proceeds of debt financing included purchase of property or real estate trust beneficiary interests, refinancing of other borrowings, and operating expenses.

4. The loan agreements between NAF and each financial institution stipulate that the above borrowings from all financial institutions rank pari passu to each other.

5. From August 29, 2014 to September 29, 2014.

6. From August 1, 2014 to August 31, 2014.

7. The expected annual maturities of long-term borrowings within five years (excluding maturities within one year) of the balance sheet date are as follows.

(Yen in millions)

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount	¥8,000	¥14,500	¥18,000	¥18,500

Bonds

Issue	Issue date	Balance as of August 31, 2014 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No. 1 unsecured bonds	November 15, 2007	¥10,000	1.7%	November 14, 2014	Bullet payment	(Note 1)	(Note 2)
No. 2 unsecured bonds	July 30, 2010	7,000	1.2%	July 29, 2016			
Total		¥17,000					

Notes: 1. Use of proceeds includes repayment of borrowings.

2. These bonds are only issued to rank pari passu with other bonds issued.

Capital Expenditures

1. Planned

NAF is planning the following capital expenditures for the renovation of its properties. The amounts below include repairs and maintenance costs that will be expensed as incurred. Moreover, in addition to a steady program of expenditures for construction, repair and renovation of facilities, a program of renewal construction is being implemented in order to increase competitive power in the market as well as to increase the level of tenant satisfaction.

Name of property	Objective	Estimated duration	Estimated amounts		
			Total amounts	Payment for the current period (March 1, 2014 to August 31, 2014)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc.	From September 2014 to February 2015	¥63	¥ —	¥ —
Okawabata Apartment Communities	Renovation of common use areas, etc.	From September 2014 to February 2015	30	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥168 million in capital expenditures together with ¥437 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities, Other Properties	Renovation of common use areas, etc.	From March 2014 to August 2014	¥ 60
Okawabata Apartment Communities	Renovation of rentable areas, etc.	From March 2014 to August 2014	46
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc., other construction	From March 2014 to August 2014	62
Total			¥168

3. Cash Reserve for Capital Improvements

NAF accumulates a cash reserve from cash flows to prepare for large-scale mid-term to long-term capital improvements and repairs and maintenance that will be conducted based on NAF's business plan for each property.

	Yen in millions		
	As of August 31, 2014	As of February 28, 2014	As of August 31, 2013
Reserve balance at the beginning of the period	¥1,437	¥1,451	¥1,228
Amount accumulated in the current period	339	243	481
Withdrawal from reserves in the current period	163	257	259
Amount carried forward	¥1,613	¥1,437	¥1,451

Expenses regarding Entrustment, etc.

The following table sets forth the breakdown of entrustment fees, etc. paid by NAF.

	Yen in millions		
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013
Asset management fees	¥ 720	¥667	¥640
Asset custody fees	13	13	12
Agent fees (stock transfer, accounting and administrative)	30	30	34
Directors' remuneration	7	7	8
Auditor's fees	12	12	13
Other expenses	271	201	198
Total	¥1,057	¥932	¥907

Related Party Transactions

1. Transactions

Category	Total amount paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 2)
		Paid to	Amount of payment (B) (Yen in millions)	
Acquisition price of real estate and real estate held in trust	¥16,020	Mitsui Fudosan Co., Ltd.	¥3,260	20.3%

2. Fees Paid for the Period from March 1, 2014 to August 31, 2014

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 2)
		Paid to	Amount of payment (B) (Yen in millions)	
Property management fees	¥683	Mitsui Fudosan Housing Lease Co., Ltd.	¥683	100.0%
Building management fees	376	Mitsui Fudosan Housing Lease Co., Ltd.	372	98.8%
		Mitsui Fudosan Realty Co., Ltd.	4	1.2%
Operation management fees	4	Mitsui Fudosan Investment Advisors, Inc.	4	100.0%
Leasing related service fees	193	RESIDENT FIRST CO., LTD.	25	13.2%
		Mitsui Fudosan Realty Co., Ltd.	3	1.9%
		Mitsui Home Estate Co., Ltd.	2	1.0%
		Mitsui Fudosan Realty Tohoku Co., Ltd.	1	0.8%
		Mitsui Fudosan Realty Sapporo Co., Ltd.	0	0.3%
		Mitsui Fudosan Realty Kyushu Co., Ltd.	0	0.1%

3. Other Payments to Related Parties (Note 1)

Paid to	Amount of payment (Yen in millions)	Item
Mitsui Fudosan Reform Co., Ltd.	¥13	Repair and maintenance costs
Accommodation First Co., Ltd.	10	Repair and maintenance costs
Mitsui Fudosan Facilities Co., Ltd.	7	Repair and maintenance costs
Mitsui Fudosan Residential Service Co., Ltd. (Note 3)	2	Repair and maintenance costs
MITSUI Designtec Co., Ltd.	1	Repair and maintenance costs

Notes: 1. "Related parties" means parties defined in the government ordinance regarding the Investment Trust and Investment Corporation Act of Japan, principally, parties related to an asset management company.

2. Figures indicate percentages of total price.

3. On April 1, 2014, Mitsui Fudosan Housing Service Co., Ltd. changed its corporate name to Mitsui Fudosan Residential Service Co., Ltd.

Financial Statements

Balance Sheets

Nippon Accommodations Fund Inc.
As of August 31, 2014 and February 28, 2014

	Yen in millions		U.S. dollars in thousands (Note 1)
	17th Period As of August 31, 2014	16th Period As of February 28, 2014	17th Period As of August 31, 2014
Assets			
Current assets:			
Cash and cash equivalents	¥ 8,318	¥ 8,579	\$ 80,181
Rent receivables	1,234	1,241	11,895
Consumption tax receivables and other current assets	65	34	626
Total current assets	9,619	9,855	92,722
Investment properties (Note 3):			
Land including trust accounts	173,229	163,809	1,669,838
Depreciable property and improvements including trust accounts	129,273	121,696	1,246,124
Accumulated depreciation	(20,910)	(18,823)	(201,561)
Total investment properties	281,592	266,681	2,714,401
Other assets	1,106	589	10,661
Total Assets	¥292,317	¥277,125	\$2,817,784
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Short-term loans (Note 4)	¥ 4,000	¥ 4,000	\$ 38,557
Bonds due within one year (Note 4)	10,000	10,000	96,394
Long-term loans due within one year (Note 4)	8,000	10,000	77,115
Accounts payable	1,124	838	10,834
Rent received in advance	1,594	1,487	15,365
Accrued expenses and other liabilities	371	343	3,576
Total current liabilities	25,091	26,670	241,864
Long-term liabilities:			
Long-term loans (Note 4)	127,500	111,000	1,229,034
Bonds (Note 4)	7,000	7,000	67,476
Tenant security deposits	3,429	3,264	33,053
Total long-term liabilities	137,929	121,264	1,329,564
Total Liabilities	¥163,020	¥147,934	\$1,571,428
Net Assets			
Unitholders' capital (Note 5)	¥125,686	¥125,686	\$1,211,548
Retained earnings	3,610	3,504	34,798
Total Net Assets	¥129,296	¥129,191	\$1,246,346
Total Liabilities and Net Assets	¥292,317	¥277,125	\$2,817,784

The accompanying notes to financial statements are an integral part of these statements.

Statements of Income

Nippon Accommodations Fund Inc.

March 1, 2014 to August 31, 2014, September 1, 2013 to February 28, 2014 and March 1, 2013 to August 31, 2013

	Yen in millions			U.S. dollars in thousands (Note 1)
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013	17th Period March 1, 2014 to August 31, 2014
Revenues (Note 6):				
Rental	¥ 9,711	¥8,917	¥8,605	\$93,609
Other revenues related to property leasing	440	324	392	4,241
Dividend income	—	—	4	—
Total revenues	10,152	9,241	9,002	97,860
Operating Expenses (Note 6):				
Property management fees	1,103	988	989	10,632
Real estate taxes and insurance	518	432	432	4,993
Repairs and maintenance	437	323	363	4,212
Other rental expenses	641	406	428	6,178
Depreciation and amortization	2,088	1,976	1,915	20,127
Asset management fees	720	667	640	6,940
Other expenses	336	264	267	3,238
Total operating expenses	5,847	5,060	5,037	56,362
Operating Income	4,304	4,181	3,964	41,488
Interest and other income	17	7	10	163
Interest expense	(763)	(737)	(752)	(7,354)
New investment unit issue costs	—	—	(45)	—
Other expenses	(18)	(15)	(11)	(173)
Income before Income Taxes	3,541	3,435	3,165	34,133
Current and deferred income taxes (Note 8)	0	0	0	0
Net Income	¥ 3,540	¥3,434	¥3,164	\$34,123

The accompanying notes to financial statements are an integral part of these statements.

Statements of Changes in Net Assets

Nippon Accommodations Fund Inc.

For the period from March 1, 2013 to August 31, 2014

	Number of Units (Note 5)	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of March 1, 2013	194,711	¥103,235	¥ 2,969	¥106,204
Cash distribution	—	—	(2,899)	(2,899)
Issuance of new units through public offering as of March 1, 2013	34,000	21,204	—	21,204
Issuance of new units through allocation to a third party as of March 26, 2013	2,000	1,247	—	1,247
Net income	—	—	3,164	3,164
Balance as of August 31, 2013	230,711	125,686	3,234	128,921
Cash distribution	—	—	(3,164)	(3,164)
Net income	—	—	3,434	3,434
Balance as of February 28, 2014	230,711	125,686	3,504	129,191
Cash distribution	—	—	(3,434)	(3,434)
A two-for-one split of investment units with the effective date of March 1, 2014	230,711	—	—	—
Net income	—	—	3,540	3,540
Balance as of August 31, 2014	461,422	¥125,686	¥ 3,610	¥129,296

	Number of Units (Note 5)	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of February 28, 2014	230,711	\$1,211,548	\$ 33,776	\$1,245,334
Cash distribution	—	—	(33,101)	(33,101)
A two-for-one split of investment units with the effective date of March 1, 2014	230,711	—	—	—
Net income	—	—	34,123	34,123
Balance as of August 31, 2014	461,422	\$1,211,548	\$ 34,798	\$1,246,346

The accompanying notes to financial statements are an integral part of these statements.

Statements of Cash Flows

Nippon Accommodations Fund Inc.

March 1, 2014 to August 31, 2014, September 1, 2013 to February 28, 2014 and March 1, 2013 to August 31, 2013

	Yen in millions			U.S. dollars in thousands (Note 1)
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013	17th Period March 1, 2014 to August 31, 2014
Cash Flows from Operating Activities:				
Income before income taxes	¥ 3,541	¥ 3,435	¥ 3,165	\$ 34,133
Depreciation and amortization	2,088	1,976	1,915	20,127
New investment unit issue costs	—	—	45	—
Amortization of bond issue costs	7	7	7	67
Interest expense	763	737	752	7,354
(Increase) Decrease in rent receivables	6	(100)	(51)	57
Increase (Decrease) in accounts payable	285	(132)	272	2,747
Increase (Decrease) in rents received in advance	107	53	109	1,031
Cash payments of interest expense	(724)	(766)	(723)	(6,978)
(Increase) Decrease in consumption tax refund receivable	—	13	2	—
Other, net	(43)	33	60	(414)
Net Cash Provided by Operating Activities	6,031	5,259	5,556	58,135
Cash Flows from Investing Activities:				
Payments for purchases of investment properties	(17,002)	(4,761)	(26,389)	(163,890)
Payments for security deposits paid to lessors	(523)	—	—	(5,041)
Proceeds from tenant security deposits	604	368	640	5,822
Payments for tenant security deposits	(429)	(298)	(375)	(4,135)
Other, net	(7)	(2)	143	(67)
Net Cash Used in Investing Activities	(17,358)	(4,693)	(25,981)	(167,322)
Cash Flows from Financing Activities:				
Proceeds from short-term loans	52,000	32,500	35,500	501,253
Repayment of short-term loans	(52,000)	(32,000)	(45,500)	(501,253)
Proceeds from long-term loans	27,500	11,500	24,500	265,085
Repayment of long-term loans	(13,000)	(9,000)	(10,000)	(125,313)
Proceeds from issuance of investment units	—	—	22,406	—
Payment of distribution	(3,434)	(3,164)	(2,899)	(33,101)
Net Cash Provided by (Used in) Financing Activities	11,065	(164)	24,006	106,660
Net Change in Cash and Cash Equivalents	(261)	401	3,581	(2,515)
Cash and Cash Equivalents at the Beginning of the Period	8,579	8,178	4,596	82,697
Cash and Cash Equivalents at the End of the Period	¥ 8,318	¥ 8,579	¥ 8,178	\$ 80,181

The accompanying notes to financial statements are an integral part of these statements.

Notes to Financial Statements

Nippon Accommodations Fund Inc.

March 1, 2014 to August 31, 2014, September 1, 2013 to February 28, 2014 and March 1, 2013 to August 31, 2013

Note 1 Organization and Basis of Presentation

Organization

Nippon Accommodations Fund Inc. (hereinafter "NAF") was established on October 12, 2005 as an investment corporation under the Investment Trust and Investment Corporation Act of Japan with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (hereinafter "MFAFM") acting as a sponsor. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on November 11, 2005 and NAF started acquisition of properties on November 30, 2005.

NAF is an externally managed real estate fund, formed as an investment corporation. MFAFM, as NAF's asset management company, is engaged in the acquisition, management, and renovation of accommodation assets. MFAFM is a 100% subsidiary of Mitsui Fudosan Co., Ltd.

On August 3, 2006, NAF had raised approximately ¥40,000 million through an initial public offering of investment units. Those investment units are listed on the J-REIT section of the Tokyo Stock Exchange.

As of August 31, 2014, NAF had ownership and beneficiary interests in 112 properties containing approximately 468,458 square meters of rentable space. As of August 31, 2014, NAF had leased approximately 447,454 square meters to tenants. The occupancy rate for the properties was approximately 95.5%.

In view of the introduction of the individual savings account system of Japan ("NISA") on January 1, 2014, NAF implemented a two-for-one split of investment units with the effective date of March 31, 2014 to create an environment that facilitates investment for all investors. The number of units issued and outstanding after the split was 461,422.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust and Investment Corporation Act of Japan and the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English from the financial statements of NAF prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. NAF does not prepare consolidated financial statements, as NAF has no subsidiaries.

Amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the approximate exchange rate on August 31, 2014, which was ¥103.74 to U.S.\$1.00. The convenience translation should not be construed as representation that the Japanese yen amounts have been, or could in future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2 Summary of Significant Accounting Policies

Cash and Cash Equivalents

NAF considers all highly liquid investments with original maturity of three months or less to be cash and cash equivalents.

Investment Properties

Investment properties are recorded at cost, which includes the allocated purchase price and related costs and expenses for acquisition of the properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straight-line method over the estimated useful lives. The estimated useful lives of the principal investment properties (including assets held in trust) are as follows:

Buildings and improvements	2-63 years
Structures	3-60 years
Machinery and equipment	2-45 years
Tools, furniture and fixtures	2-15 years

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of a property, are expensed as incurred.

Deferred Assets

New investment unit issue costs are charged to income when incurred.

Bond issue costs are amortized over the period of the bonds under the straight-line method.

Income Taxes

Income taxes are accounted for on the basis of income for financial statement purposes. The tax effect of temporary differences between the amounts of assets and liabilities for financial statements and for income tax purposes is recognized as deferred taxes.

Real Estate Taxes

Properties are subject to taxes including property tax, city planning tax and depreciable asset tax. Taxes for each fiscal period are charged to income on an accrual basis.

The owner of properties is registered in a record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record, as of January 1, based on the assessment made by the local government.

Even when a property is purchased on a date other than January 1 of any given calendar year, these taxes for that year are imposed on the seller. The buyer pays the seller the corresponding tax amounts for the period from the property's transfer date to December 31 of that year as part of the purchase prices of each property, and capitalizes these amounts as the cost of the property. Those taxes capitalized by NAF for the periods ended August 31, 2014 and February 28, 2014 amounted to ¥98 million and ¥3 million, respectively.

Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate

For trust beneficiary interests in real estate, all assets and liabilities associated with assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheet and income statement accounts.

Note 3 Schedule of Investment Properties

Investment properties as of August 31, 2014 and February 28, 2014 consisted of the following:

	Yen in millions					
	As of August 31, 2014			As of February 28, 2014		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥115,415	¥ —	¥115,415	¥105,995	¥ —	¥105,995
Land in trust	57,813	—	57,813	57,813	—	57,813
Land including trust total	173,229	—	173,229	163,809	—	163,809
Buildings and improvements	87,301	(12,041)	75,259	79,990	(10,730)	69,260
Buildings and improvements in trust	35,533	(6,057)	29,475	35,404	(5,533)	29,871
Buildings and improvements including those in trust total	122,835	(18,099)	104,735	115,395	(16,263)	99,131
Structures	1,590	(508)	1,082	1,504	(460)	1,044
Machinery and equipment	1,755	(750)	1,004	1,737	(667)	1,070
Tools, furniture and fixtures	1,040	(748)	291	1,013	(696)	317
Structures in trust	1,120	(257)	862	1,119	(236)	883
Machinery and equipment in trust	547	(262)	284	545	(228)	317
Tools, furniture and fixtures in trust	375	(282)	92	370	(271)	98
Construction in process in trust	8	—	8	9	—	9
Other investment properties total	6,437	(2,811)	3,626	6,301	(2,560)	3,741
Total	¥302,502	¥(20,910)	¥281,592	¥285,505	¥(18,823)	¥266,681

Note 4 Short-Term Loans and Long-Term Debt

The annual interest rate on short-term loans as of August 31, 2014 was 0.2% and the rate as of February 28, 2014 was 0.3%. Long-term debt consists of the following:

	Yen in millions	
	As of August 31, 2014	As of February 28, 2014
Unsecured loans due 2015 to 2025 principally from banks and insurance companies with interest rates mainly ranging from 0.3% to 1.7%	¥135,500	¥121,000
1.7% unsecured bonds due 2014	10,000	10,000
1.2% unsecured bonds due 2016	7,000	7,000
	¥152,500	¥138,000

The annual maturities of long-term debt as of August 31, 2014 were as follows:

	Yen in millions
Due after one to two years	¥15,000
Due after two to three years	14,500
Due after three to four years	18,000
Due after four to five years	18,500
Due after five years	68,500

NAF currently has commitment line contracts of ¥10,000 million with two financial institutions. The unused amount of such commitment line was ¥10,000 million as of August 31, 2014.

Note 5 Unitholders' Capital

	As of August 31, 2014	As of February 28, 2014	As of August 31, 2013
Total number of common units authorized	4,000,000	2,000,000	2,000,000
Total number of common units issued and outstanding	461,422	230,711	230,711

NAF shall maintain minimum net assets of at least ¥50 million as required by the Investment Trust and Investment Corporation Act of Japan.

Note 6 Rental Revenues and Expenses

Rental revenues and expenses for the periods ended August 31, 2014, February 28, 2014 and August 31, 2013 were as follows:

	Yen in millions		
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥ 9,255	¥8,644	¥8,330
Facility charge	455	273	274
Subtotal	9,711	8,917	8,605
Other revenues related to property leasing:			
Income from leasing rights, etc.	301	213	285
Miscellaneous income	139	110	107
Subtotal	440	324	392
Total revenues from property leasing	10,152	9,241	8,997
Rental Expenses:			
Property management fees	1,103	988	989
Repairs and maintenance	437	323	363
Real estate taxes	505	421	421
Trust fees	11	11	11
Utilities	138	134	117
Insurance	13	11	11
Depreciation and amortization	2,088	1,976	1,915
Leasing-related service fees, etc.	193	155	188
Other rental expenses	298	105	110
Total rental expenses	4,789	4,128	4,129
Operating income from property leasing activities	¥ 5,362	¥5,113	¥4,867

Note 7 Leases

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of August 31, 2014 and February 28, 2014, future minimum rental revenues under the non-cancelable operating leases were as follows:

	Yen in millions	
	As of August 31, 2014	As of February 28, 2014
Due within one year	¥ 774	¥ 774
Due after one year	3,419	3,735
Total	¥4,194	¥4,509

Note 8 Income Taxes

NAF is subject to income taxes in Japan. The effective tax rates on NAF's income based on applicable Japanese tax law were 0.03%, 0.03% and 0.03% for the periods ended August 31, 2014, February 28, 2014 and August 31, 2013, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013
Statutory effective tax rate	36.59%	36.59%	36.59%
Deductible distributions paid	(36.58)	(36.58)	(36.58)
Others	0.02	0.02	0.02
Effective tax rate	0.03%	0.03%	0.03%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of August 31, 2014, February 28, 2014 and August 31, 2013 were as follows:

	Yen in thousands		
	As of August 31, 2014	As of February 28, 2014	As of August 31, 2013
Deferred tax assets:			
Enterprise taxes	¥17	¥16	¥15
Total deferred tax assets	17	16	15
Deferred tax liabilities	—	—	—
Net deferred tax assets	¥17	¥16	¥15

NAF was established as an investment corporation under the Investment Trust and Investment Corporation Act of Japan, and as long as an investment corporation distributes to its unitholders at least 90% of earnings available for dividends for a period and other requirements prescribed in Japanese tax regulations are met, the investment corporation is allowed to deduct the total amount of distributions paid in calculating its taxable income under Japanese tax regulations.

Note 9 Per Unit Information

Information about earnings per unit for the periods ended August 31, 2014, February 28, 2014 and August 31, 2013 and net assets per unit as of August 31, 2014, February 28, 2014 and August 31, 2013 were as follows.

The computation of earnings per unit is based on the weighted average number of common units outstanding during the period. The computation of net assets per unit is based on the number of common units outstanding at each period end.

	Yen		
	17th Period March 1, 2014 to August 31, 2014	16th Period September 1, 2013 to February 28, 2014	15th Period March 1, 2013 to August 31, 2013
Earnings per Unit:			
Net income	¥7,672	¥7,443	¥6,866
Weighted average number of common units outstanding	461,422	461,422	460,879
	As of August 31, 2014	As of February 28, 2014	As of August 31, 2013
Net Assets per Unit	¥280,214	¥279,985	¥279,400

Note: NAF implemented a two-for-one split of investment units with the effective date of March 1, 2014. "Net income per unit", "Weighted average number of common units outstanding" and "Net assets per unit" are calculated on the assumption that this split of investment units was implemented at the start of the period ended August 31, 2013.

Note 10 Transactions with Related Parties

(March 1, 2014 – August 31, 2014)

- (1) Parent Company and Major Corporate Unitholders: None applicable
 (2) Affiliates: None applicable
 (3) Sister Companies: None applicable
 (4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of the period (Yen in millions)
Director and/or close relative	Kosei Murakami	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥864 (Note 2)	Accounts payable	¥778
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥1	—	¥—

- Notes: 1. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.
 2. The amount of asset management fees includes ¥143 million for management fees related to acquisition of properties included in the book value of each investment property, etc.
 3. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
 4. "Amount of transaction" does not include consumption taxes.
 "Balance at the end of the period" includes consumption taxes.

(September 1, 2013 – February 28, 2014)

- (1) Parent Company and Major Corporate Unitholders: None applicable
 (2) Affiliates: None applicable
 (3) Sister Companies: None applicable
 (4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of the period (Yen in millions)
Director and/or close relative	Kosei Murakami	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥688 (Note 2)	Accounts payable	¥700
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥0	—	¥—

- Notes: 1. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.
 2. The amount of asset management fees includes ¥21 million for management fees related to acquisition of properties included in the book value of each investment property, etc.
 3. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
 4. "Amount of transaction" does not include consumption taxes.
 "Balance at the end of the period" includes consumption taxes.

Note 11 Financial Instruments

(March 1, 2014 – August 31, 2014)

1. Status of Financial Instruments**(1) Policy for Financial Instruments**

NAF raises funds for acquisition of assets and other uses through bank loans, issuance of bonds and investment units.

NAF may enter into derivative transactions solely for the purpose of hedging interest rate risk. Currently, NAF is not engaged in any derivative transactions. NAF strives for efficiency in its funding plans and has an operating policy of minimizing surplus funds.

(2) Financial Instruments, Their Risks and Risk Management System

Funds from loans and bonds are primarily used for acquiring assets and to repay interest-bearing debt. NAF manages associated liquidity and interest rate fluctuation risk in ways such as diversifying its credit sources and maturities, and by mainly using fixed-rate loans.

(3) Supplemental Explanation regarding Fair Values of Financial Instruments

The fair value of financial instruments is based on their observable market value, if available. When there is no observable market value available, fair value is based on a price that is reasonably estimated. Since various factors are reflected in estimating the fair value, different assumptions and factors could result in a different value.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of August 31, 2014 were as follows. The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2, below).

	Yen in millions		
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 8,318	¥ 8,318	¥ —
Total	¥ 8,318	¥ 8,318	¥ —
Liabilities			
(1) Short-term loans	¥ 4,000	¥ 4,000	¥ —
(2) Bonds due within one year	10,000	10,027	27
(3) Long-term loans due within one year	8,000	8,069	69
(4) Bonds	7,000	7,119	119
(5) Long-term loans	127,500	129,839	2,339
Total	¥156,500	¥159,056	¥2,556

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

Liabilities:

(1) Short-term loans

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

(2) Bonds due within one year and (4) Bonds

Fair values of these bonds are based on observable market value.

(3) Long-term loans due within one year and (5) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates over short time periods.

2. Financial instruments for which it is very difficult to estimate the fair value

	Yen in millions
	Book value
Tenant security deposits	¥3,429

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after August 31, 2014

	Yen in millions
	Due within one year
Cash and cash equivalents	¥8,318

4. Repayment schedule for loans and bonds due after August 31, 2014

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥ 4,000	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	10,000	7,000	—	—	—	—
Long-term loans	8,000	8,000	14,500	18,000	18,500	68,500
Total	¥22,000	¥15,000	¥14,500	¥18,000	¥18,500	¥68,500

(September 1, 2013 – February 28, 2014)

1. Status of Financial Instruments

Same as above.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of February 28, 2014 were as follows. The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2, below).

	Yen in millions		
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 8,579	¥ 8,579	¥ —
Total	¥ 8,579	¥ 8,579	¥ —
Liabilities			
(1) Short-term loans	¥ 4,000	¥ 4,000	¥ —
(2) Bonds due within one year	10,000	10,095	95
(3) Long-term loans due within one year	10,000	10,072	72
(4) Bonds	7,000	7,147	147
(5) Long-term loans	111,000	112,518	1,518
Total	¥142,000	¥143,833	¥1,833

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

Liabilities:

(1) Short-term loans

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

(2) Bonds due within one year and (4) Bonds

Fair values of these bonds are based on observable market value.

(3) Long-term loans due within one year and (5) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates over short time periods.

2. Financial instruments for which it is very difficult to estimate the fair value

Yen in millions	
	Book value
Tenant security deposits	¥3,264

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after February 28, 2014

Yen in millions	
	Due within one year
Cash and cash equivalents	¥8,579

4. Repayment schedule for loans and bonds due after February 28, 2014

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥ 4,000	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	10,000	—	7,000	—	—	—
Long-term loans	10,000	16,000	8,000	18,500	19,000	49,500
Total	¥24,000	¥16,000	¥15,000	¥18,500	¥19,000	¥49,500

Note 12 Investment and Rental Properties

(March 1, 2014 – August 31, 2014)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of March 1, 2014	Change during the 17th Period	As of August 31, 2014	As of August 31, 2014
¥266,672	¥14,911	¥281,583	¥297,012

- Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.
 2. In "Change during the 17th Period," the main factor for the increase in book value was the acquisition of properties for ¥16,775 million. The main factor for the decrease in book value was depreciation.
 3. "Fair value as of August 31, 2014" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended August 31, 2014 is disclosed in Note 6, Rental Revenues and Expenses.

(September 1, 2013 – February 28, 2014)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of September 1, 2013	Change during the 16th Period	As of February 28, 2014	As of February 28, 2014
¥263,889	¥2,782	¥266,672	¥274,691

- Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.
 2. In "Change during the 16th Period," the main factor for the increase in book value was the acquisition of properties for ¥4,427 million. The main factor for the decrease in book value was depreciation.
 3. "Fair value as of February 28, 2014" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended February 28, 2014 is disclosed in Note 6, Rental Revenues and Expenses.

Note 13 Segment Information

(March 1, 2014 – August 31, 2014)

1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

2. Related Information

(1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

(2) Information by Geographic Areas

1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

(3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥9,747	Real estate leasing business

(September 1, 2013 – February 28, 2014)

1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

2. Related Information

(1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

(2) Information by Geographic Areas

1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

(3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥8,849	Real estate leasing business

Note 14 Significant Subsequent Events

None applicable

Independent Auditor's Report



To the Board of Directors of
Nippon Accommodations Fund Inc.:

We have audited the accompanying financial statements of Nippon Accommodations Fund Inc. (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at August 31, 2014 and February 28, 2014, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended August 31, 2014, February 28, 2014 and August 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Accommodations Fund Inc. as at August 31, 2014 and February 28, 2014, and its financial performance and cash flows for each of the six months ended August 31, 2014, February 28, 2014 and August 31, 2013, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended August 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

KPMG AZSA LLC

December 3, 2014
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Rental Apartment Investment Characteristics

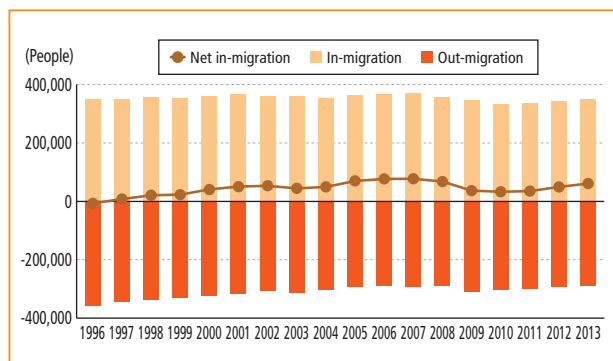
Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating investment in the 23 wards of Tokyo where demand for rental housing is high and developing a portfolio with high market competitiveness and asset value, NAF will stably increase earnings.

Residential Rental Market Trends in the 23 Wards of Tokyo

Population and Number of Households

In the 23 wards of Tokyo, where most of NAF's assets under management are located, the population influx is continuing, reflecting an increasing desire in recent years to live closer to work and the progressive concentration of economic activities in Tokyo. Graph 1 shows migration trends in the 23 wards of Tokyo as well as net in-migration. In-migration has continued to exceed out-migration since 1996, indicating stable demand for residential rental housing in highly convenient areas.

1. Net Migration into Tokyo (23 Wards of Tokyo)



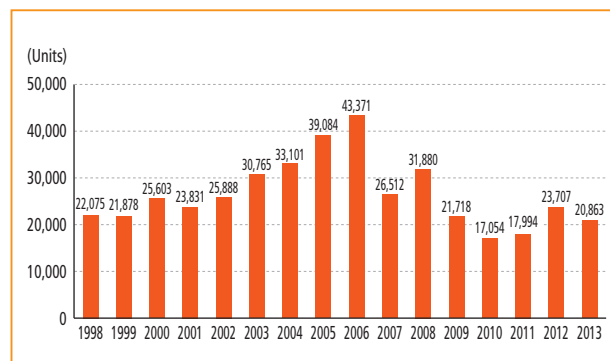
Source: Tokyo Metropolitan Government, Ministry of Internal Affairs and Communications

NAF projects solid demand from the growing number of single and two-person households for single and compact (rentable area under 60m² with two or fewer bedrooms) apartments, which comprise the majority of NAF's portfolio.

Rental Housing Stock

Graph 2 shows the number of rental apartment construction starts in the 23 wards of Tokyo. Construction starts increased more or less steadily until 2006, but decreased significantly following changes in the building authorization procedure resulting from revisions in 2007 to the Building Standards Law (Law No. 201 of 1950 as amended). The number of construction starts has been at a low level since 2007.

2. Rental Apartment Construction Starts (23 Wards of Tokyo)



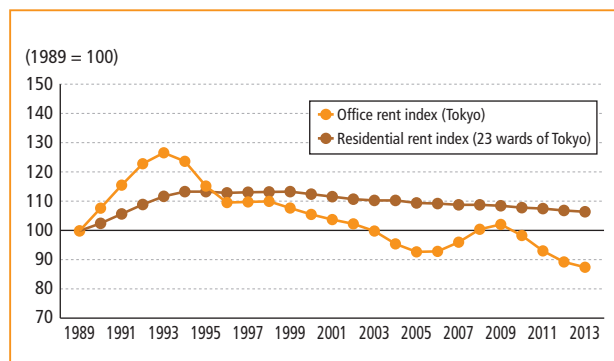
Source: Ministry of Land, Infrastructure, Transport and Tourism

Stability of Residential Rent

Graph 3 shows relative rents for residential units in the 23 wards of Tokyo and offices in Greater Tokyo, with 1989 levels set as 100. Residential rent has remained relatively stable in comparison to office rent. Rental housing is a necessary expense in the same way as clothing and food. Therefore, residential rent is considered stable because it is generally unaffected by fluctuations in economic conditions and asset value, with relatively low risk of change.

In addition, rental housing enables a more diversified portfolio in terms of number of properties and tenants due to its relatively small scale in comparison to office buildings and other properties. Investment in rental housing of this nature is perfectly matched with NAF's core strategy of securing stable revenues. Furthermore, new properties are scarce, comprising a limited share of rental housing stock. Such properties, which make up the majority of NAF's investment portfolio, ensure market competitiveness and asset value.

3. Residential and Office Rents



Source: Ministry of Internal Affairs and Communications, Bank of Japan

Common Practices in Japan's Rental Apartment Market

Contract Validity Period

Leases in Japan are generally two-year contracts, which can be renewed by paying an extension fee (usually one month's rent).

Security Deposit

The tenant must pay a security deposit in advance to the landlord to insure against future unpaid rent and/or damages. Generally, it is equal to two months' rent and is typically refunded when moving out (a cleaning and/or repair fee may be deducted prior to refund).

Key Money

The tenant pays key money to the landlord prior to signing a lease contract. Generally, it is equivalent to two months' rent and is not refunded.

Commission Fee

A commission fee is paid to the leasing agent; by regulation, it cannot exceed one month's rent.

Guarantor/Joint Surety

A guarantor is required when signing a lease contract. The guarantor must have an income sufficient to cover the rent if the tenant cannot pay and/or the cost of repairs to the apartment if the tenant causes any damage.

Corporate Structure and Governance

Nippon Accommodations Fund Inc. has structured systems for compliance and risk management and operates fairly and transparently with the aim of increasing investor value.

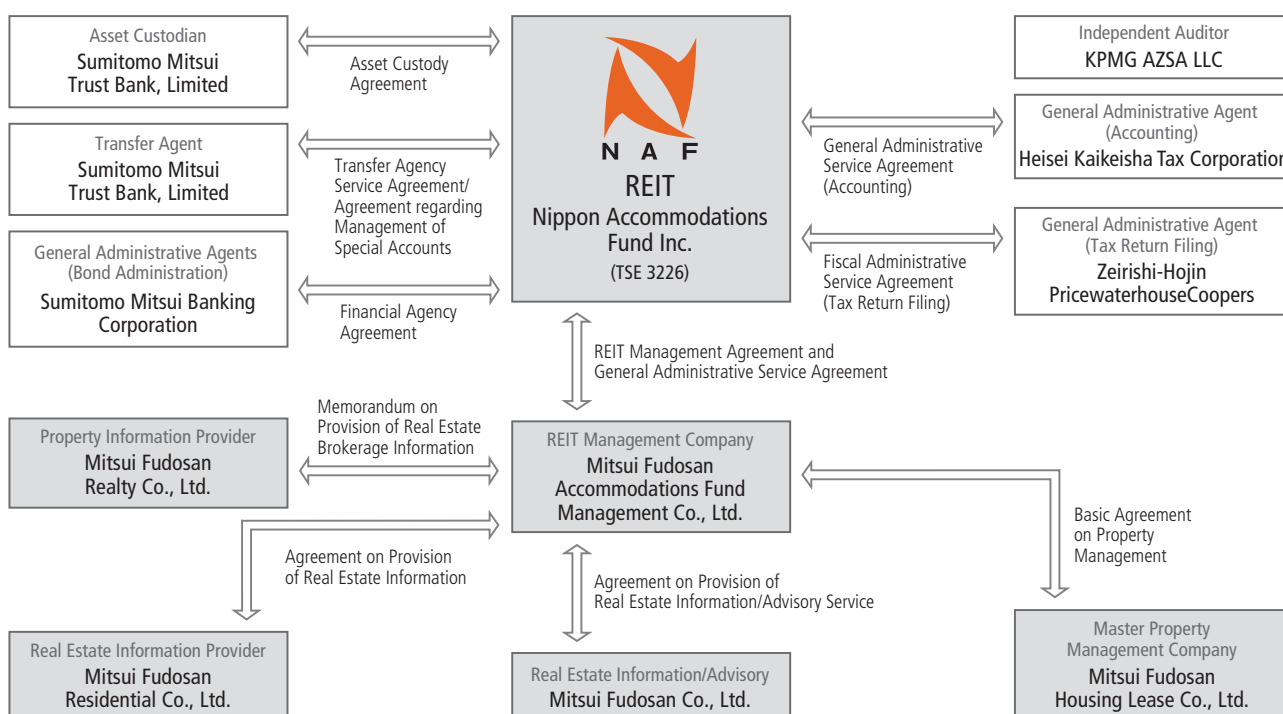
Real Estate Investment Trust (“REIT”) Structure

Nippon Accommodations Fund Inc. (“NAF”) is an investment corporation established with the objective of investing in assets, primarily Designated Assets as defined under the Investment Trust and Investment Corporation Act of Japan. NAF was established on October 12, 2005, with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the “REIT Management Company” or “MFAFM”) as its asset management company.

NAF has entrusted management of all of its assets to the REIT Management Company, which is the asset management company required under the Investment Trust and Investment Corporation Act of Japan. Operating in accordance with the REIT Management Agreement concluded on October 13, 2005 (as amended), the REIT Management Company manages NAF’s assets according to NAF’s asset management and administration policies and the asset management guidelines embodied in the internal regulations of the REIT Management Company. The asset management guidelines take current investment conditions into account and follow NAF’s basic operating principle of taking a medium-to-long-term perspective in managing assets to secure stable earnings and steadily increase assets under management.

These guidelines may change in the future in response to changes in the external investment environment and the status of NAF’s assets under management.

In addition, the REIT Management Company has concluded contracts with other companies in the Mitsui Fudosan Group to promote smooth, effective management of NAF’s assets. An Agreement on Provision of Real Estate Information/Advisory Service with Mitsui Fudosan Co., Ltd. provides information regarding real estate owned or developed by Mitsui Fudosan’s Accommodations Business Division, and other management advisory information. Each of (i) a Memorandum on Provision of Real Estate Brokerage Information with Mitsui Fudosan Realty Co., Ltd. and (ii) an Agreement on Provision of Real Estate Information with Mitsui Fudosan Residential Co., Ltd. provides access to certain real estate property information. A Basic Agreement on Property Management with Mitsui Fudosan Housing Lease Co., Ltd., the master property management company to which NAF has entrusted property management services of all its rental apartments, is fundamental to NAF’s policy of outsourcing such property management services required in managing real estate.



Corporate Structure

General Meeting of Unitholders

In accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation, NAF convenes a General Meeting of Unitholders within the 23 wards of Tokyo, generally once every two years. The General Meeting of Unitholders adopts or vetoes ordinary resolutions on the basis of a simple majority of the voting rights of unitholders in attendance. Decisions on substantive resolutions such as changes in the Articles of Incorporation require the attendance of unitholders holding at least a simple majority of total units issued and outstanding, and a vote of two-thirds majority of the voting rights of such unitholders. The asset management policies and standards are stipulated by NAF's Articles of Incorporation.

Executive Directors, Supervisory Directors, Independent Auditor and the Board of Directors

NAF's Articles of Incorporation stipulate that NAF must have one or more executive directors, and two or more supervisory directors (but always equal to the number of executive directors plus at least one additional supervisory director). NAF's independent auditor is KPMG AZSA LLC.

NAF's executive directors are responsible for business execution. In addition, they have authority for all judicial and extrajudicial proceedings related to the operations of NAF.

Supervisory directors are responsible for supervising business execution by the executive directors.

The Board of Directors acts in accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation and other internal rules in exercising their responsibility to supervise the performance of the executive directors. In accordance with the current Articles of Incorporation, the Board of Directors passes or vetoes resolutions on the basis of a simple majority of executive and supervisory directors on the Board who are in attendance and are able to vote. Executive and supervisory directors having special interest in a resolution are prohibited from participating in related decisions.

Independent auditors are elected at the General Meeting of Unitholders. They audit financial and accounting documents including NAF's financial statements. In addition, they are charged with reporting to supervisory directors any unlawful acts or material violations of laws, regulations or NAF's Articles of Incorporation that executive directors may commit in the course of their duties. Independent auditors also perform other duties as required by laws and regulations.

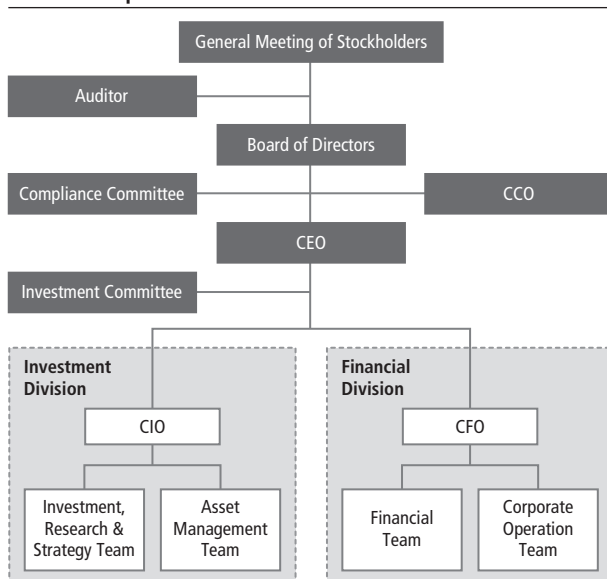
Compliance Initiatives

The REIT Management Company, MFAFM, assumes full responsibility for compliance in order to structure an appropriate asset management system for NAF. A Chief Compliance Officer (CCO) of MFAFM has been appointed to supervise compliance with laws, regulations and internal rules on the part of the REIT Management Company.

The CCO is responsible for internal audits at the REIT Management Company. The Chief Executive Officer (CEO) may also appoint other employees of MFAFM to participate as needed in internal audits, based on the recommendations of the CCO.

MFAFM's entire organization and all personnel within it are subject to internal audits. As a rule, internal audits are conducted on a regular basis in accordance with the compliance program, but the CEO may initiate extraordinary audits.

Corporate Governance Structure of MFAFM



Investment Risk Management System

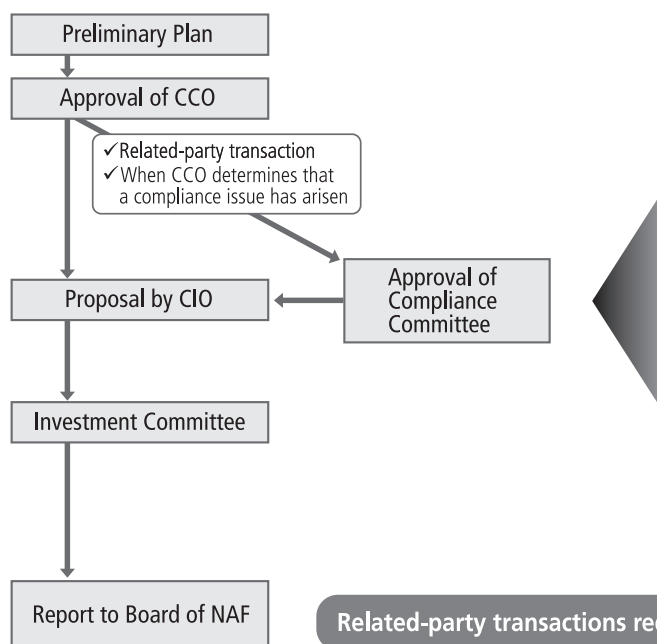
NAF itself is responsible for complying with the Investment Trust and Investment Corporation Act of Japan and related laws and regulations in managing risks. In addition, the REIT Management Company has established appropriate internal rules. In conjunction with appropriate organizational systems, NAF is providing education and implementing other measures to enhance the culture of compliance among officers and employees of MFAFM.

NAF's Board of Directors convenes as needed at least once every three months, and resolves important matters and reports on the status of business execution in accordance with laws, regulations and internal rules for such Board of Directors. Independent supervisory directors supervise business execution.

Moreover, supervisory directors can obtain as needed reports on operations and financial condition from the REIT Management Company and from NAF's asset custodian, Sumitomo Mitsui Trust Bank, Limited. Independent supervisory directors can also conduct required investigations.

The REIT Management Company formulates and revises an annual management plan that is the blueprint for management and administration policies that comply with the asset management guidelines. This annual plan and compliance with the asset management guidelines serve to eliminate or minimize risk. In addition, the REIT Management Company has established internal risk management regulations and a department that focuses on managing each type of risk appropriately.

Investment Policy & Acquisition/Sale Decision Process



Compliance Checking System

Confirmation by the Chief Compliance Officer (CCO)

- The following require approval of Compliance Committee
- Related-party transaction*
 - When CCO determines that a compliance issue has arisen
- *Property acquisition price from sponsor-related parties is below appraisal value

Compliance Committee

- Requires approval by independent external professionals
- Members: CCO (Chairman), CEO, 2 external professionals (Currently 1 lawyer and 1 CPA)
- External professionals: Appointed professionals independent from Mitsui Fudosan
- Resolutions: Require the votes of 2/3 or more members and at least 1 of the 2 independent external professionals

Functions as a Check on the Investment Committee

- CCO can suspend discussion when he sees any problem in the discussion process

Related-party transactions require approval by independent external professionals

Restrictions on Related-Party Transactions

Laws and regulations prohibit the REIT Management Company from conducting specified transactions with related parties. In the case of a transaction with a potential conflict of interest between an entity specified under the Investment Trust and Investment Corporation Act of Japan and its ordinances and its asset management company, in principle the REIT Management Company must prepare a brief describing the transaction and deliver it to NAF and other entities specified by

the Investment Trust and Investment Corporation Act of Japan and its ordinances.

With the objective of enhancing returns for NAF's unitholders, the REIT Management Company's internal regulations specify rules for handling related-party transactions. The REIT Management Company has established standards and procedures for related-party transactions and executes appropriate asset management for NAF by eliminating conflicts of interest.

Primary Related Corporations

Overview of the Roles of Primary Related Corporations

The following outlines the contractual relationship between NAF and its REIT management company, and the contractual relationship between NAF's REIT management company and primary related corporations.

Role	Name	Overview of Relevant Operations
REIT management company and general administrative agent	Mitsui Fudosan Accommodations Fund Management Co., Ltd. (MFAFM)	MFAFM serves as the company entrusted with asset management as a Financial Instruments Business Operator prescribed in Article 28 Paragraph 4 of the Financial Instruments and Exchange Law and under a REIT Management Agreement entered into between MFAFM and NAF on October 13, 2005 (as amended). Under this agreement, MFAFM undertakes asset management of NAF in accordance with the asset management guidelines of MFAFM and the Articles of Incorporation of NAF. Under the above agreement, MFAFM is entrusted with (1) management of assets owned by NAF; (2) fund procurement to be conducted by NAF; (3) reporting on the condition of assets owned by NAF; (4) formulating management plans for assets of NAF; and (5) any other matters related to the above items listed in (1) through (4) that NAF may require. In addition, pursuant to Article 117 of the Investment Trust and Investment Corporation Act of Japan, MFAFM undertakes management of (1) the Board of Directors; (2) the General Meeting of Unitholders; and (3) any other matters related to the above items listed in (1) and (2) that NAF may require, as General Administrative Agent based on a General Administrative Service Agreement dated March 1, 2006. The matters entrusted to the Transfer Agent pursuant to the Agreement between NAF and the Transfer Agent are not included in the above matters set forth in (1) and (2).
Real estate information/ advisory service provider	Mitsui Fudosan Co., Ltd.	Mitsui Fudosan provides real estate sales information, real estate management information, and other services to MFAFM under an Agreement on Provision of Real Estate Information/Advisory Service that MFAFM entered into with Mitsui Fudosan on February 23, 2006.
Real estate information provider	Mitsui Fudosan Residential Co., Ltd.	Mitsui Fudosan Residential provides real estate sales information to MFAFM under an Agreement on Provision of Real Estate Information that MFAFM entered into with Mitsui Fudosan Residential on September 26, 2007.
Property information provider	Mitsui Fudosan Realty Co., Ltd.	Mitsui Fudosan Realty provides real estate brokerage information and other services to MFAFM under a Memorandum on Provision of Real Estate Brokerage Information that MFAFM entered into with Mitsui Fudosan Realty on March 31, 2006.
Master property management company	Mitsui Fudosan Housing Lease Co., Ltd.	In principle, MFAFM will entrust to Mitsui Fudosan Housing Lease as master property management company, all property management services required for real estate of NAF, under a Basic Agreement on Property Management between MFAFM and Mitsui Fudosan Housing Lease dated March 31, 2006.

Mitsui Fudosan Accommodations Fund Management Co., Ltd. REIT Management Company and General Administrative Agent

MFAFM, as a REIT management company provided for in the Investment Trust and Investment Corporation Act of Japan, performs management of NAF's assets and undertakes management of the general affairs of NAF.

MFAFM has no capital relationship with NAF.

Operation

- Undertakes asset management of NAF pursuant to a REIT Management Agreement based on an entrustment from NAF in accordance with the Articles of Incorporation of NAF and the Investment Objectives and Policies set forth therein.
- Undertakes management of the general affairs of the general meeting of unitholders and the Board of Directors of NAF as General Administrative Agent based on an entrustment from NAF and a General Administrative Service Agreement.

Fees for the Asset Management Operation

NAF pays asset management fees to MFAFM, in accordance with the REIT Management Agreement concluded with MFAFM. These fees comprise items 1 to 4 below, with the method of calculation and payment dates as follows.

Management Fees 1

The amount equivalent to 5 percent of the amount of the revenue arising from Real Estate, etc., as calculated on each closing date (excluding revenues from the sale of Real Estate, etc., and other Managed Assets) will be payable. Management Fees 1 are paid without delay after definite settlement of accounts.

Management Fees 2

The amount equivalent to 5 percent of income before income tax prior to deduction of Management Fees 1 and 2 as calculated on each closing date will be payable. Management Fees 2 are paid without delay after definite settlement of accounts.

Management Fees 3

In the event that Real Estate, etc., is newly acquired, compensation equivalent to 1 percent (0.5 percent if it is acquired from Related Parties) of the total amount of the acquisition price of said Real Estate, etc., (excluding consumption tax, local consumption tax, and acquisition costs) will be payable. Management Fees 3 are paid at or before the end of the next month after the month of the acquisition date.

Management Fees 4

In the event that Real Estate, etc., is sold, compensation equivalent to 1 percent (0.5 percent if it is sold to Related Parties) of the total amount of the sales price of said Real Estate, etc., (excluding consumption tax, local consumption tax) will be payable. Management Fees 4 are paid at or before the end of the next month after the month of the sales date.

Mitsui Fudosan Co., Ltd. Real Estate Information and Advisory Service Provider

Pursuant to an Agreement on Provision of Real Estate Information/Advisory Service, Mitsui Fudosan provides to MFAFM a diverse array of support services that employ the information and expertise of Mitsui Fudosan in the area of real estate management and administration.

In order to receive such services, MFAFM provides Mitsui Fudosan with acquisition guidelines included in asset management guidelines.

Provision of Information on Real Estate and Other Assets Owned or Developed by Mitsui Fudosan

In the case Mitsui Fudosan decides to provide any third party with information on real estate or real estate-related assets that it owns or is planning to develop and sell under its Accommodations Business Division or otherwise solicits the third party to purchase such real estate or assets, and such real estate or assets are consistent with MFAFM's asset management guidelines, Mitsui Fudosan provides such information to MFAFM before or at the same time as it provides information to and/or solicits the third party, unless prevented from doing so due to lack of consent of third parties or for any other unavoidable reason.

When MFAFM receives such information and provides written notification that it will consider the purchase of such real estate or assets, Mitsui Fudosan deals with NAF as a prospective purchaser on a pari passu basis with any third party interested in purchasing such real estate or other assets.

Provision of Third-Party Real Estate Sales Information

Regardless of whether Mitsui Fudosan has originated or is brokering the sale, Mitsui Fudosan's Accommodations Business Division in principle provides MFAFM with information concerning available real estate or real estate-related assets owned by third parties, when such real estate or assets are consistent with MFAFM's asset management guidelines, unless prevented from doing so due to lack of consent of third parties or for any other unavoidable reason, or because Mitsui Fudosan itself intends to acquire such real estate or assets with the objective of development or ownership.

Provision of Real Estate Management Information

At least once per calendar year, Mitsui Fudosan will provide in writing, upon request by MFAFM, real estate management information (see note below) that its Accommodations Business Division supervises if MFAFM deems such information necessary for its business and Mitsui Fudosan agrees to such provision.

Note: "Real estate management information" means the following information.

- (a) Mitsui Fudosan's qualitative view of medium-to-long-term trends relevant to the operating environment of the real estate leasing market (including but not limited to economic trends in Japan, population dynamics and trends in housing stock)
- (b) Mitsui Fudosan's qualitative view of short-term trends relevant to the operating environment of the real estate leasing market, including but not limited to trends in new supply of residential properties for lease (including property summaries, level of rent and initial leasing conditions), lease contracts entered into for specific residential properties, area marketing surveys, financial data for other real estate investment corporations, income and expense data for specific real estate or real estate-related assets, and real estate leasing market trends (including vacancy rate and rent trends)
- (c) Mitsui Fudosan's quantitative data regarding real estate leasing market conditions up to the present (including but not limited to rent rolls of residential properties for lease owned by Mitsui Fudosan or NAF and supplementary data such as records of lease contracts entered into and cancelled, and related expenses)
- (d) Other information related to items (a), (b) or (c) above that MFAFM requests, as needed

Provision of Advisory Services

Mitsui Fudosan provides technical advice to MFAFM regarding the buildings and facilities of the real estate and real estate-related assets that NAF has purchased or is considering purchasing (but in no case does it provide MFAFM with investment advice). This technical advice includes the following.

- (a) Advice and investigational support for the preparation and implementation of daily and long-term maintenance plans for said buildings and facilities
- (b) Advice and investigational support for the preparation and implementation of plans for small repairs, renovations, periodic inspections and response to facility and equipment recalls
- (c) Advice, investigational support and other assistance for the preparation and implementation of large-scale renovations

Operation Fees

MFAFM will provide compensation as separately discussed and agreed with Mitsui Fudosan under this agreement.

Portfolio Policy

Portfolio Structure Policies

Set forth below are the portfolio structure policies and investment standards for individual properties for the REIT Management Company and its internal regulations that serve as asset management guidelines.

1. Proportion of Investment Assets by Category

NAF invests mainly in rental apartments, and currently limits investment in other accommodation assets to a maximum of 10 percent of total portfolio value on an acquisition price basis.

2. Investment Areas

NAF emphasizes Greater Tokyo and other major cities in Japan in

investing in accommodation assets. By region, at least 80 percent of NAF's assets are located in the 23 wards of Tokyo.

When considering individual investments, NAF studies regional characteristics and tenant needs. NAF then deploys this information to invest in properties with suitable residential plans and characteristics.

3. Investment Standards

The REIT Management Company identifies potential investments and decides whether or not to invest in assets on the basis of the asset management guidelines summarized in the table below.

Item	Standard
Investment amount	In principle, the value of each property must exceed ¥1 billion. However, NAF may invest in properties at or below ¥1 billion after taking into account property characteristics and earnings potential and certain relevant matters.
Ownership interests	In principle, NAF shall hold ownership interests of whole properties. However, NAF may invest in co-ownership; compartmentalized ownership; leaseholds, including fixed-term leaseholds; and limited proprietary rights of the land upon consideration of specific properties.
Building structure	In principle, building structures shall be reinforced concrete (RC) or steel reinforced concrete (SRC). Earthquake resistance shall conform to or substantially satisfy the New Earthquake Resistance Standards (in compliance with the 1981 revision to the Building Standards Law (Law No. 201 of 1950), as amended, the "Building Standards Law").
Properties under development	In principle, NAF shall acquire properties that are already producing stable rental income at the time of acquisition, and shall not invest in land with a view to NAF's own construction of the building thereon. However, NAF may consider contracts to acquire uncompleted buildings that, although incomplete, are expected to carry minimum risk in respect to completion, delivery and subsequent leasing.

4. Due Diligence Standards

NAF selects assets to invest in only after due diligence covering economic feasibility, physical condition and legal status in accordance with the asset management guidelines. Due diligence includes various written assessments and reports from third-party specialists. Based on the results

of such due diligence, the REIT Management Company in principle undertakes investigation of the items listed below in order to make investment decisions as a result of comprehensive review.

Item	Issues Investigated	
Economic feasibility studies	Market survey	<ol style="list-style-type: none"> 1. Current residential environment in the relevant region 2. Demand and supply for rental housing in the relevant region 3. Rental housing competition trends in the relevant region 4. Markets rents in the relevant region 5. Discount rate and rate of return
	Tenant survey	<ol style="list-style-type: none"> 1. Tenant creditworthiness and rent income amount 2. Purpose of use and confirmation that tenants are not members of anti-social forces
	Survey of earnings and related issues	<ol style="list-style-type: none"> 1. Current property management costs 2. Development of medium-to-long-term plan for repair and renovation expenses 3. Development of cash flow projections 4. Verification that property is consistent with portfolio strategy
Physical condition studies	Location	<ol style="list-style-type: none"> 1. Street conditions, access to major transportation 2. Convenience and access to public facilities 3. Primarily visual confirmation of status of borders between adjacent tracts and cross-border issues 4. Living conditions including view, light, ambient noise and airflow 5. Presence of unpleasant facilities 6. Future development plans in the surrounding area
	Construction, equipment and specifications	<ol style="list-style-type: none"> 1. Building structure, age and construction company of property and other related matters 2. Layout, ceiling height, interior specifications (including ceiling, walls and floors), materials used for the interior and exterior, maintenance of facilities including sanitary facilities, ventilation facilities, electrical facilities, elevators and parking 3. Need for immediate repairs
	Building management	<ol style="list-style-type: none"> 1. Status of compliance with related regulations such as the Building Standards Law, the City Planning Law, asbestos-related laws and regulations, the Law concerning the Promotion of Expansion of Public Lands and the National Land Use Planning Law 2. Actual management status 3. Quality of the property management company and contract terms

	Antiseismic resistance and probable maximum loss (PML)	<ol style="list-style-type: none"> 1. Antiseismic resistance that meets the New Earthquake Resistance Standards (the new earthquake resistance standards for buildings, etc., based on the 1981 revision to the Building Standards Law) or equivalent resistance 2. Checks by the construction company, architectural firm, construction engineering company and construction confirmation and inspection body; confirmation of authenticity of the structural calculation sheets 3. In principle, earthquake PML shall be below 15 percent. In deciding whether or not to purchase a building for which PML is at or above 20 percent, consideration of additional antiseismic reinforcing work, additional earthquake insurance and other relevant matters must be considered.
	Environmental, soil and other issues	<ol style="list-style-type: none"> 1. Investigation of whether the building contains hazardous materials 2. Investigation of land use records and soil contamination
Legal investigation	Rights and related issues	<p>Investigation shall be conducted as to whether the previous owner had obtained the enforceable real right.</p> <ol style="list-style-type: none"> 1. Issues regarding ownership interests and mortgage 2. Lease contract terms (including confirmation of area of rental units) 3. Any documentation related to confirmation of border or agreement regarding cross-border issues 4. Permission for occupancy of roads under the Traffic Law 5. Compliance with laws and regulations related to environmental preservation, such as the Nature Conservation Law and the Urban Green Space Conservation Law 6. Existence of factors impeding the enforceability of the previous owner's rights <p>In case of complicated relation of rights, the following matters, among others, shall be investigated (the complicated relation of rights includes relationships between NAF and others in cases such as co-ownership; compartmentalized ownership; leaseholds, including fixed-term leaseholds; and limited proprietary rights of the land).</p> <ol style="list-style-type: none"> 1. (If the concerned right is leasehold) the perfection of such leasehold and the absence of any right which supersedes such leasehold 2. The registration status of the relevant right of site; the limitation on separate transfer of such right of site from the building thereon and the registration status of such limitation; share of such right 3. Measures to be taken to ensure the maintenance of deposits; reserve rules or measures based on long-term renovation plan 4. Existence of agreement on prohibition of division of co-ownership property and registration status of such agreement; appropriate treatments in case of request for division of co-ownership property or sales of co-ownership share; (possible) claims against or from other co-owners 5. Status of compartment of compartmentalized ownership 6. Security arrangements established prior to involvement of NAF and assumption of any encumbrances or obligations in connection thereto 7. Terms of special agreement with the lessor, the land lease right holder, other compartmentalized ownership holders, other co-owners and any other relevant parties 8. Characteristics of the lessor, the land lease right holder, compartmentalized ownership holders, co-owners or other relevant parties (for example, corporations or individuals) 9. Terms of trust agreement in case the relevant rights are beneficial interests in real estate trust

Policies for Portfolio Management and Operation

1. Basic Management Policies

The REIT Management Company prepares a yearly management plan for NAF's assets under its management for each fiscal period. This management plan covers issues such as handling of the assets and projected capital expenditures for properties, including plans for large-scale renovation, and is subject to Investment Committee approval.

The REIT Management Company acts in accordance with this yearly management plan in undertaking management and operation of the assets in cooperation with the property management company. The REIT Management Company is also responsible for implementing appropriate changes and revisions to the yearly management plan if necessitated by significant changes in the operating environment.

2. Selection and Monitoring of the Property Management Company

The property management company is responsible for proposal and implementation of various measures for day-to-day, on-site management of tenants and properties. Such functions of the property management company are particularly important to the management of accommodation assets in general and rental housing in particular. Naturally, the property management company should have specialized expertise in the business of

property management, and its operations must be organized and efficient so that it can provide consistent, high-quality services across a wide array of properties and tenants.

For "Rental Apartments" in NAF's portfolio, NAF has selected Mitsui Fudosan Housing Lease Co., Ltd. to provide these services as its master property management company. In principle, NAF intends to entrust property management for assets to be owned by NAF in the future to Mitsui Fudosan Housing Lease, on the condition that it meets the following requirements.

1. An organizational structure that can execute property management operations according to the management and operation specifications of the REIT Management Company
2. The capability to accomplish smooth new tenant recruitment
3. A reasonable compensation level for property management operations compared to the market level

In addition, the REIT Management Company will periodically monitor whether the selected property management company is maintaining its capabilities at the level dictated by the standards for selection. As a result of monitoring, the REIT Management Company may require improvements or may change the property management company.

3. Policies for Property and Casualty Insurance Coverage

NAF maintains property and casualty insurance coverage, to the extent that is deemed appropriate, to address damage to property due to disasters such as fires and accidents or claims for compensatory damages from third parties. Asset characteristics determine such coverage.

NAF comprehensively determines earthquake insurance coverage according to cost effectiveness and the projected impact of an earthquake on each building and on the portfolio as a whole. When earthquake PML for specific buildings is projected above 20 percent or when the acquisition of such property causes portfolio PML to rise above 15 percent, NAF comprehensively considers the impact from an earthquake, insurance premiums and any other relevant issues to determine whether or not to purchase earthquake insurance.

4. Basic Policies for Renovation Plans and Capital Expenditures

The renovation plans are strategic and require renovation and capital expenditures in addition to routine expenses incurred by small repairs in order to maintain and improve the market competitiveness of properties and tenant satisfaction over the medium-to-long term.

NAF determines and revises, for each property, an annual renovation plan in yearly management plans that are based on the established 12-year medium-term renovation plans.

NAF funds a reserve for renovation according to considerations of depreciation expenses and renovation plans based on medium-to-long-term portfolio management. In principle, NAF keeps capital expenditures within the scope of the overall portfolio renovation plan.

Divestiture Policy

In principle, NAF aims to secure stable operating revenue from assets under management through ownership over the medium-to-long term, and does not engage in short-term divestiture.

However, NAF decides to sell specific assets after consideration of the overall portfolio impact based on evaluation of trends affecting the future

rental market in a given area, actual or projected increases or decreases in asset values, risk of asset impairment, obsolescence and associated costs, and other relevant factors.

Financial Policies

1. Issuance of New Units

NAF may flexibly issue additional units through an offering with the objective of financing acquisition of assets, renovation and other capital requirements for operation, or to repay debt, including lease deposits, security deposits, loans and bonds that NAF may have issued.

2. Debt Financing

NAF may issue bonds or take on loans, including call market funding, with the objective of financing acquisition of assets; renovation expenses; dividend payments; working capital; or debt repayment, including lease deposits, security deposits, loans and bonds that NAF may have issued. NAF only borrows capital from qualified institutional investors as defined under the relevant laws and regulations in Japan. In addition, NAF may not take on loans or issue bonds that exceed ¥1 trillion, respectively, nor may the total of loans and bonds exceed ¥1 trillion. According to NAF's current Articles of Incorporation, NAF may use its assets under management as collateral for loans and bonds.

3. Loan-to-Value Ratio

The ratio of interest-bearing debt to NAF's total assets is known as the loan-to-value (LTV) ratio. The REIT Management Company determines the upper limit of NAF's LTV ratio as part of its medium-to-long-term asset management plans and its yearly management plans. NAF's policy is to keep the LTV ratio below 60 percent, although issues including the acquisition of assets may cause the LTV ratio to temporarily exceed 60 percent.

4. Derivatives

According to NAF's current Articles of Incorporation, NAF limits transactions involving financial derivatives to those with the objective of hedging risks including the risk of change in the interest rates associated with debts.

Information Disclosure Policy

NAF defines itself as an open, transparent investment corporation, and has a disclosure policy for public awareness. Moreover, NAF works to maintain an environment that encourages timely and accurate disclosure of unbiased information to all investors. In keeping with its name, NAF's fundamental policy is to accommodate investors in disclosing information.

NAF discloses information in accordance with the Investment Trust and Investment Corporation Act of Japan, the Financial Instruments and Exchange Law of Japan, and the rules of the Tokyo Stock Exchange and the Investment Trusts Association, Japan. Moreover, NAF energetically discloses of its own accord information that it believes is relevant to investment decisions.

Corporate Data

Corporate office	4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan +81-3-3246-3677 http://www.naf-r.jp/english/
Date of incorporation	October 12, 2005
Fiscal period	Six months ending February 28 (February 29 in leap years) and August 31
Unit listing	Tokyo Stock Exchange (Securities Code: 3226)
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Business office of the transfer agent	Stock Transfer Agency Department of Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan
Independent auditor	KPMG AZSA LLC AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor relations	For further information, please contact the REIT Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd. 4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan +81-3-3246-3677

Status of Unitholders

Major Unitholders

(As of August 31, 2014)

Name	Number of units held	Percentage of total*
Japan Trustee Services Bank, Ltd. (Trust Account)	121,143	26.25%
The Master Trust Bank of Japan, Ltd. (Trust Account)	26,425	5.72%
The Nomura Trust and Banking Co., Ltd. (Investment Account)	26,058	5.64%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	22,698	4.91%
Mitsui Fudosan Co., Ltd.	15,600	3.38%
The Chugoku Bank, Limited	8,940	1.93%
Mizuho Trust & Banking Co., Ltd.	7,635	1.65%
Sumitomo Mitsui Trust Bank, Limited	7,200	1.56%
MetLife Insurance K.K.	6,994	1.51%
Trust & Custody Services Bank, Ltd. (Money Trust Tax Account)	6,806	1.47%

*Number of units held as a percentage of total units issued and outstanding, rounded down to the nearest hundredth.

Composition and Distribution of Unitholders

(As of August 31, 2014)

	Individuals and others	Financial institutions	Other domestic corporations	Overseas corporations and individuals	Securities companies	Total
Number of unitholders	6,300 (93.00%)	140 (2.07%)	140 (2.07%)	180 (2.66%)	14 (0.21%)	6,774 (100.00%)
Number of units held	32,350 (7.01%)	335,037 (72.61%)	25,930 (5.62%)	58,222 (12.62%)	9,883 (2.14%)	461,422 (100.00%)

Disclaimer

This document was prepared solely for the convenience of and reference by overseas investors and does not correspond to the original Japanese documents.

This English document contains selected information including a partial translation of the Securities Report (*Yuka shoken hokokusho*) filed on November 27, 2014 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from March 1, 2014 to August 31, 2014, of Nippon Accommodations Fund Inc. prepared pursuant to the Investment Trust and Investment Corporation Act of Japan. This document should not be deemed a summary of the above mentioned Securities Report and the Financial Statements and Performance Information Report.

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The financial statements of Nippon Accommodations Fund Inc. have been prepared in accordance with generally accepted accounting principles in Japan (Japanese GAAP), which may materially differ in certain respects from generally accepted accounting principles in other jurisdictions.

This document contains forward-looking statements and information. We base these statements on our beliefs as well as our assumptions based solely on certain limited information currently available to us. Because these statements reflect our current views concerning future events, these statements involve known and unknown risks, uncertainties and assumptions. Our future performance could materially differ from those set out in these forward-looking statements. We do not undertake and will not undertake to release revisions of forward-looking statements to reflect future events or circumstances or of any other statements or information contained herein.

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