

## NAF Report 22nd Period

September 2016 – February 2017

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

# 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 Act on Investment Trust and Investment Corporation 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 refers to "Rental Apartments" and "Hospitality Facilities".

"Hospitality Facilities" is the generic term for the four categories of dormitories/corporate housing, serviced apartments, senior residences and hotels.



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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 Snapshot

## Profitability (22nd Period)

**96.8%**

An average monthly occupancy rate of 96.8 percent

**5.3%**

Net operating income (NOI) yield\* of 5.3 percent

**¥8,428**

Distribution per unit of ¥8,428 for the 22nd Period

\*Weighted average of actual NOI yield on the acquisition price of each property

## Outstanding Portfolio (As of February 28, 2017)

**¥297,435 million**

Portfolio of 118 superior properties with a total acquisition price of ¥297,435 million

**479,614m<sup>2</sup>/  
11,709 units**

11,709 units with a total rentable area of 479,614m<sup>2</sup>

**87.6%**

87.6 percent of portfolio located in the 23 wards of Tokyo\*

\*Based on acquisition price of Rental Apartments only

## Financial Stability (As of February 28, 2017)

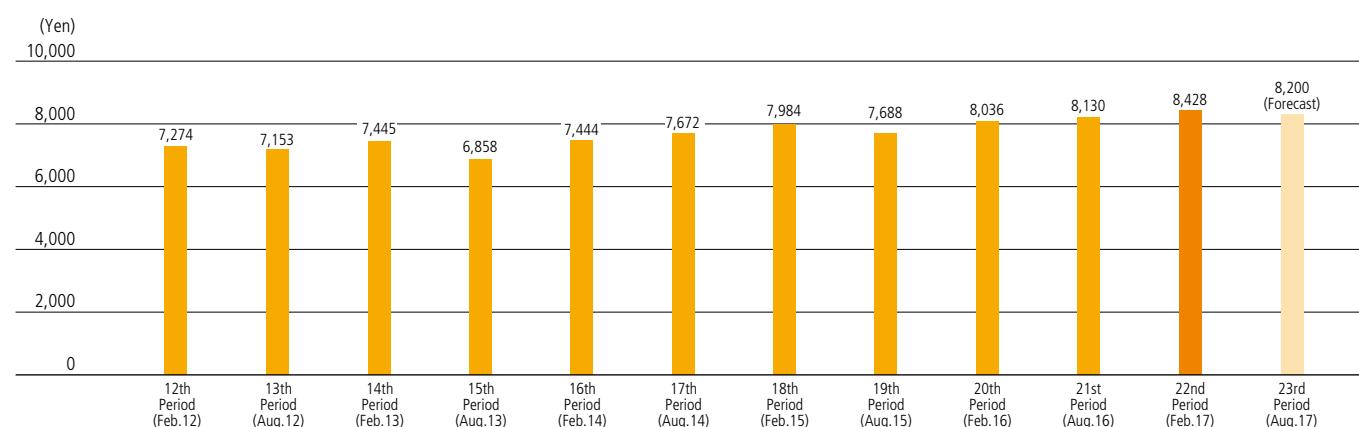
**AA-, A+, A3**

R & I; AA- (Long-term)  
S & P; A+(Long-term) and A-1 (Short-term)  
Moody's; A3

**50.1%**

LTV (Loan-to-value) ratio of 50.1 percent,  
long-term debt ratio of 95.9 percent

## Distribution per Unit



Notes: 1. NAF implemented a two-for-one split of investment units with an effective date of March 1, 2014. Distribution per unit for the period ended February 28, 2014 and earlier is adjusted for this split (actual distribution divided in half, rounded down to the nearest yen).

2. The above forecast was announced on April 18, 2017.

# NAF's Core Strategies

## Initiatives for Medium-to-Long-Term Growth

### Resolution at the General Meeting of Unitholders Regarding the Amendment to Articles of Incorporation to Enable Investment in Hotels

As Proposal 1 "Partial Amendments of the Articles of Incorporation\*" was approved at NAF's Eighth General Meeting of Unitholders on May 19, 2017, NAF is now able to invest in Real Estate-Related Assets consisting of or backed by real estate that is primarily used or may be primarily used as hotels.

\* Please refer to the press release of April 18, 2017 titled "Notification of Amendments to Articles of Incorporation and Election of Directors."

\* In response to this amendment to the articles of incorporation, the asset management company has made amendments to the asset management guidelines, as summarized below.

- 1 Our asset portfolio has grown to about ¥300 billion since NAF listed its units 10 years ago.
- 2 We have diversified our accommodation assets to address economic and social changes.
- 3 We have created an investment framework that generates sustainable external growth by changing with the times.

### Hospitality Facilities (Investment targets other than Rental Apartments)

- Dormitories, Corporate Housing
- Serviced Apartments
- Senior Residences
- Hotels

### Continuing Our Basic Policy of Investing Mainly in Rental Apartments



#### Hospitality Facilities

**Maximum of 10%**

#### Rental Apartments

**Over 90%**

(As of February 28, 2017: 96.1%)

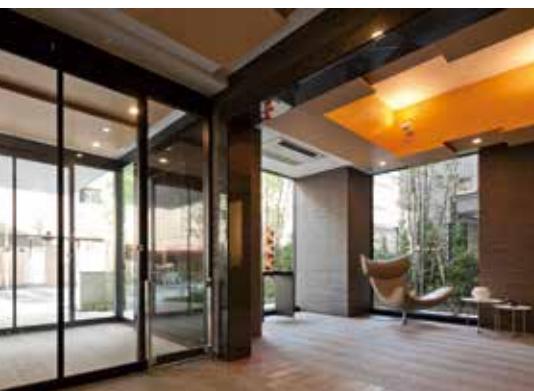


**Tokyo 23 wards**

**Over 80%**

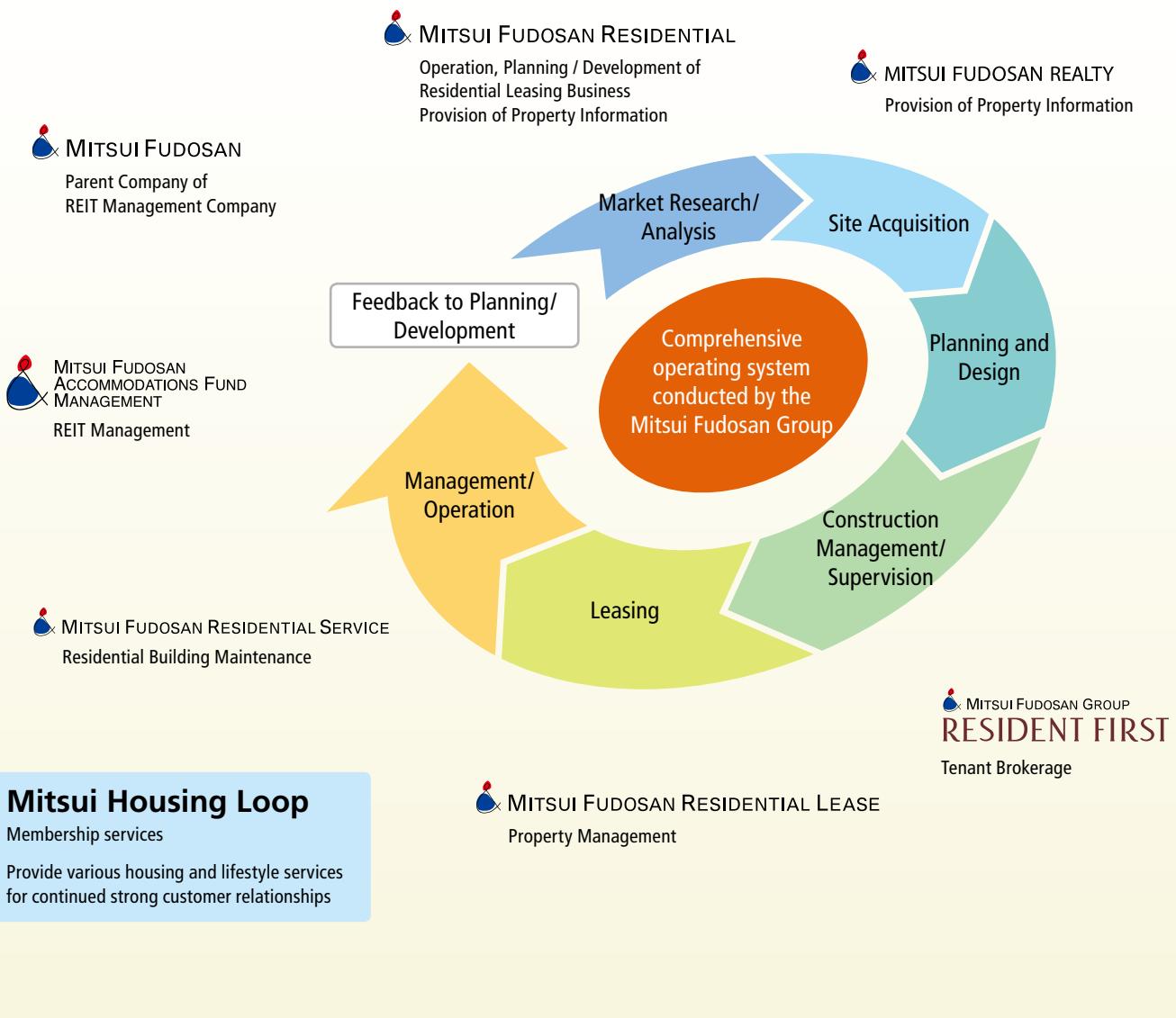
(As of February 28, 2017: 85.6%)

Each investment ratio is based on the proportion (based on acquisition price) of the combined portfolio of Rental Apartments and Hospitality Facilities.



# Leveraging the Mitsui Fudosan Group

Delivering quality portfolio and efficient operating system by leveraging the Mitsui Fudosan Group's value chain



# To Our Stakeholders



Tateyuki Ikura

## Nippon Accommodations Fund Inc. Management Team



From left: Hiroaki Saito, Takashi Ikeda,  
Tateyuki Ikura, Tsunehisa Ota,  
Mitsutoshi Masuda

Takashi Ikeda	Executive Director
Tateyuki Ikura	Executive Director
Tsunehisa Ota (Attorney at Law)	Supervisory Director
Hiroaki Saito (Real Estate Appraiser)	Supervisory Director
Mitsutoshi Masuda (Certified Public Accountant)	Supervisory Director

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

During the six months ended February 28, 2017 (the "22nd Period"), the Japanese economy is on a moderate recovery due to factors such as an improvement in corporate profits and the employment situation, although there was a pause in private consumption. Looking ahead, the economy is expected to recover, supported by the effects of the policies, while employment and income situation is improving. At the same time, attention should be given to the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with an ongoing trend of gradual increases in rents. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF's rental apartments 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.

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

Amid this environment, Mitsui Fudosan Residential Lease Co., Ltd., our property management company, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., our asset management company, conducted collaborative management and other activities, which successfully maintained NAF's average monthly occupancy rate at a high level of 96.8 percent during the 22nd Period.

As a result, distribution per unit was ¥8,428. This report presents our results and operational status for the 22nd Period.

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

June 2017

A handwritten signature in black ink that reads "Tateyuki Ikura".

Tateyuki Ikura

Executive Director of Nippon Accommodations Fund Inc.

President and CEO of Mitsui Fudosan Accommodations Fund Management Co., Ltd.

# Financial Highlights

	21st Period (Actual) (Ended August 31, 2016)	22nd Period (Actual) (Ended February 28, 2017)	23rd Period (Forecast) (Ending August 31, 2017)
Total revenues	¥10,621 million	¥10,650 million	¥10,666 million
Operating income	¥4,567 million	¥4,717 million	¥4,545 million
Net income	¥3,939 million	¥4,138 million	¥3,973 million
Total assets	¥295,463 million	¥293,446 million	—
LTV (Loan-to-value) ratio	50.4%	50.1%	—
Distribution per unit (Yen)	¥8,130	¥8,428	¥8,200
Assets under management			
Acquisition price basis	¥298,718 million	¥297,435 million	¥299,735 million
Number of properties	119	118	119

Note: The above forecast was announced on April 18, 2017.

## New Acquisitions in the 23rd Period

NAF acquired the following property in April 2017, after the end of the 22nd period.

Property name	Location	Acquisition price (Yen in millions)	Rentable units	Acquisition date
Park Axis Higashi Koenji	Suginami-ku, Tokyo	2,300	85	April 27, 2017

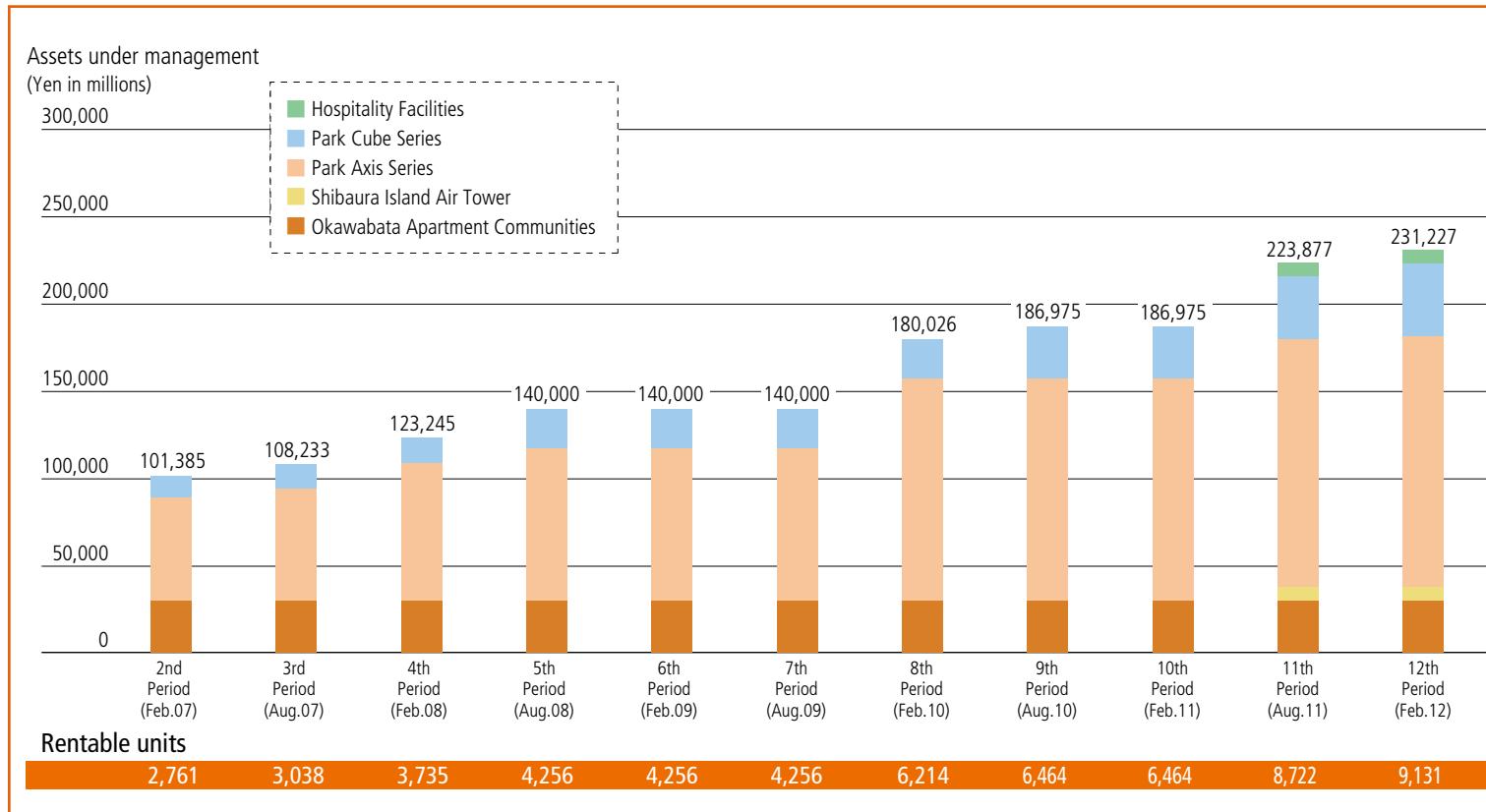


The property acquired in the 23rd period shown here is that for which its contract was concluded by the date of the announcement of financial results (April 18, 2017).

# Portfolio Strategy

NAF will continue to aim for further progress in the future by leveraging the Mitsui Fudosan Group's Value Chain and achieving steady external growth and stable earnings, through stable and careful selection of property acquisition and by establishing appropriate operational and management systems.

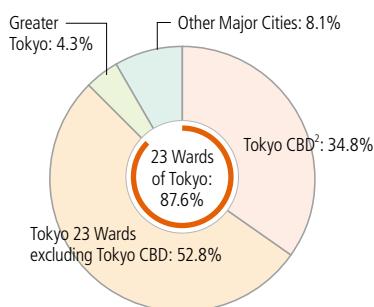
## Track Record of External Growth



## Rental Apartments Characteristics

### 1. Location

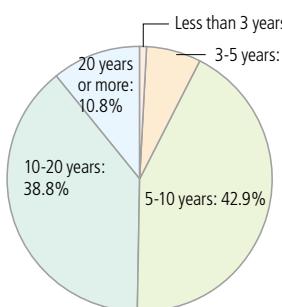
**87.6% in the 23 wards of Tokyo**



### 2. Property Age<sup>4</sup>

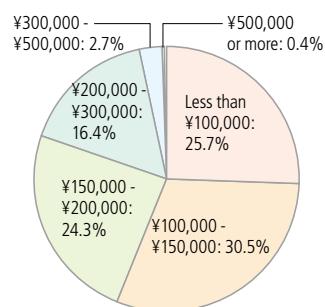
**Average 11.4 years**

[9.4 years excluding Okawabata Apartment Communities ]



### 3. Monthly Rent per Unit<sup>5</sup>

**Average ¥150 thousand per unit**



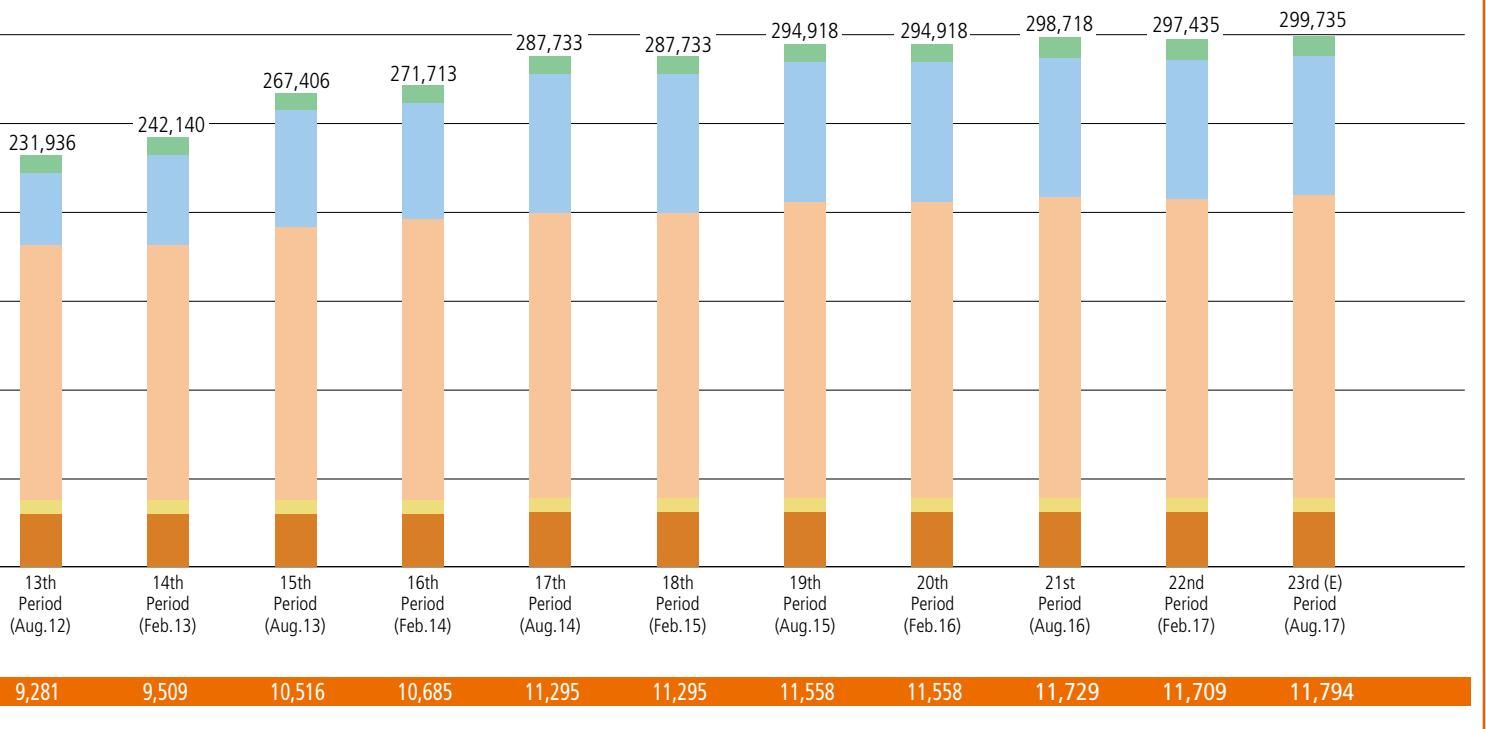
Notes: 1. The data above are calculations for Rental Apartments owned as of February 28, 2017 and do not include Hospitality Facilities.

2. Tokyo CBD (Central Business District) includes Minato, Chuo and Chiyoda wards.

3. The calculations for graphs 1 and 2 above are based on acquisition price. The calculations for graph 3 above are based on units, excluding retail units.

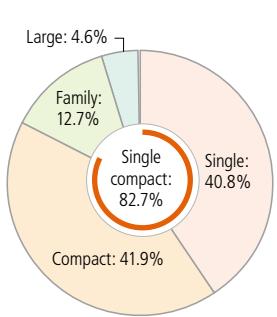
4. The calculations are based on individual property age as of February 28, 2017.

5. The calculations are based on total monthly rent (rent and common area fees) per unit as of February 28, 2017.



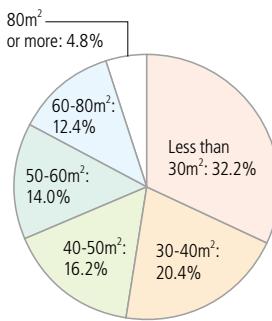
#### 4. Category<sup>3</sup>

Single and compact units: 82.7%



#### 5. Unit Area

Average 42.8m<sup>2</sup> per unit



Notes: 1. The data above are calculations for Rental Apartments owned as of February 28, 2017 and do not include Hospitality Facilities.

2. The calculations for graphs 4 and 5 above are based on units, excluding retail units.

3. The calculations are based on unit categories as of February 28, 2017.

# Sustainability Initiatives

## Sustainability Policy

Mitsui Fudosan Accommodations Fund Management Co., Ltd. ("the Company"), to which NAF entrusts asset management services, established a "Sustainability Policy" in April 2016.

The Company, in recognition of the importance of initiatives for sustainability including environmental considerations, etc. for carrying out asset management activities, strives to achieve asset management activities giving consideration to reduction of environmental load, enhancement of safety, security and comfort, as well as diversified affiliations and collaborations with various entities, in line with the "Group Environmental Policy" established by the Mitsui Fudosan Group.

## DBJ Green Building Certification

The DBJ Green Building Certification System is a system developed by the Development Bank of Japan Inc. ("DBJ") in April 2011 to recognize and support buildings with environmental and social awareness ("Green Buildings"). DBJ supports environmental initiatives by evaluating/certifying buildings that are socially and economically sought, based on comprehensive evaluation taking into account the subject building's responses to various stakeholders including disaster prevention and consideration for communities as well as its environmental performance.

## Properties with DBJ Green Building Certification

Okawabata Apartment Communities ((i)River Point Tower, (ii) Park Side Wings, (iii) Pier West House, (iv) Okawabata Parking)



Location	11-6, Tsukuda 1-chome, Chuo-ku, Tokyo; etc.	
Site area	30,291.75m <sup>2</sup>	
Completion	(i): March 1989 (iii): April 1988	(ii): July 1988, (iv): March 1989
Number of stories	(i): 40 stories with 2 underground stories (ii): 14 stories with 2 underground stories (iii): 2 stories with 1 underground story (iv): 3 underground stories	
Gross floor area	(i): 42,177.83m <sup>2</sup> (iii): 847.27m <sup>2</sup>	(ii): 15,737.63m <sup>2</sup> (iv): 32,137.93m <sup>2</sup>
Certification rank	Properties with excellent environmental & social awareness	



## Park Axis Toyosu



Location	2-39, Toyosu 1-chome, Koto-ku, Tokyo	
Site area	7,073.96m <sup>2</sup>	
Completion	March 2008	
Number of stories	20 stories with 1 underground story	
Gross floor area	34,805.76m <sup>2</sup>	
Certification rank	Properties with exceptionally high environmental & social awareness	



In April 2017, we established a new page on our website introducing sustainability initiatives.

<http://www.naf-r.jp/english/profile/3-4.html>

# Portfolio Summary (As of February 28, 2017)

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m <sup>2</sup> )	Rentable Units	PML (Note2) (%)
1	Okawabata Apartment Communities	Chuo-ku, Tokyo	30,816	10.4	43,812.41	544	
	River Point Tower						1.8
	Park Side Wings						2.7
	Pier West House						2.7
	Okawabata Parking						1.7
2	Park Axis Gakugei Daigaku	Setagaya-ku, Tokyo	1,760	0.6	2,437.66	64	5.0
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.1	2,766.62	75	4.1
5	Park Axis Aoyama Kotto Dori	Minato-ku, Tokyo	1,730	0.6	1,537.24	40	4.5
6	Park Axis Kagurazaka Stage	Shinjuku-ku, Tokyo	1,400	0.5	1,891.05	59	3.0
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	1.7	4,704.44	99	4.2
8	Park Axis Bunkyo Stage	Bunkyo-ku, Tokyo	4,440	1.5	6,078.93	154	3.6
9	Park Axis Tsukishima	Chuo-ku, Tokyo	930	0.3	1,383.99	30	3.2
10	Park Axis Otsuka	Toshima-ku, Tokyo	1,655	0.6	2,606.37	52	2.4
11	Park Axis Minami Azabu	Minato-ku, Tokyo	3,939	1.3	3,938.14	64	3.0
13	Park Axis Nihonbashi Stage	Chuo-ku, Tokyo	7,557	2.5	10,025.40	184 residential, 1 retail, etc.	4.5
14	Park Axis Hamamatsucho	Minato-ku, Tokyo	2,025	0.7	2,426.45	80	3.3
15	Park Axis Hongo no Mori	Bunkyo-ku, Tokyo	2,910	1.0	3,317.94	86 residential, 1 retail, etc.	4.0
16	Park Axis Tameike Sanno	Minato-ku, Tokyo	2,860	1.0	2,710.69	70	3.5
17	Park Axis Roppongi Hinokicho Koen	Minato-ku, Tokyo	2,170	0.7	2,054.46	46	5.8
18	Park Axis Ochanomizu Stage	Bunkyo-ku, Tokyo	9,710	3.3	12,025.25	324	3.9
19	Park Axis Okachimachi	Taito-ku, Tokyo	1,070	0.4	1,621.73	42	4.0
20	Park Cube Hongo	Bunkyo-ku, Tokyo	1,760	0.6	2,160.12	60	3.9
21	Park Cube Kanda	Chiyoda-ku, Tokyo	2,454	0.8	3,194.59	95	2.4
22	Park Cube Ichigaya	Shinjuku-ku, Tokyo	1,949	0.7	2,288.46	53	2.9
23	Park Cube Asakusa Tawaramachi	Taito-ku, Tokyo	2,508	0.8	4,012.68	76	2.8
24	Park Cube Ueno	Taito-ku, Tokyo	2,233	0.8	3,041.61	91	2.8
28	Park Cube Ikebukuro Kanamecho	Toshima-ku, Tokyo	1,608	0.5	1,886.82	65	3.8
29	Park Axis Meguro Honcho	Meguro-ku, Tokyo	1,810	0.6	1,884.77	60	5.8
30	Park Axis Shin Itabashi	Itabashi-ku, Tokyo	3,430	1.2	4,395.99	152	
	East						3.4
	West						3.3
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.4	1,346.07	41	3.3
32	Park Axis Toycho	Koto-ku, Tokyo	3,950	1.3	5,412.40	140	5.8
33	Park Axis Takinogawa	Kita-ku, Tokyo	1,820	0.6	2,924.75	48 residential, 1 retail, etc.	4.0
34	Park Axis Asakusabashi	Taito-ku, Tokyo	2,717	0.9	3,400.78	78 residential, 1 retail, etc.	3.2
38	Park Axis Nihonbashi Hamacho	Chuo-ku, Tokyo	5,540	1.9	6,999.83	118	4.2
39	Park Cube Yoyogi Tomigaya	Shibuya-ku, Tokyo	1,975	0.7	1,929.10	38	5.8
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.6	1,886.39	55	5.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	1.4	5,317.07	165 residential, 1 retail, etc.	2.9
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	3.2
46	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.3	1,435.83	46	2.4
47	Park Axis Kinshicho	Sumida-ku, Tokyo	1,448	0.5	2,288.13	65	4.2
48	Park Axis Tatsumi Stage	Koto-ku, Tokyo	7,464	2.5	16,474.06	299 residential, 1 retail, etc.	5.1

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m <sup>2</sup> )	Rentable Units	PML (Note2) (%)
51	Park Axis Kameido	Koto-ku, Tokyo	2,359	0.8	3,986.78	118	5.6
52	Park Axis Honancho	Nakano-ku, Tokyo	745	0.3	1,231.08	31	3.0
53	Park Axis Itabashi	Kita-ku, Tokyo	1,448	0.5	2,567.96	64	5.3
54	Park Axis Oshiage	Sumida-ku, Tokyo	1,193	0.4	2,121.29	57 residential, 1 retail, etc.	4.9
55	Park Axis Takanobaba	Toshima-ku, Tokyo	1,222	0.4	1,463.25	36 residential, 1 retail, etc.	2.7
59	Park Axis Toyosu	Koto-ku, Tokyo	14,300	4.8	25,537.94	401 residential, 2 retail, etc.	3.9
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	0.6	2,416.29	63 residential, 1 retail, etc.	3.2
61	Park Axis Itabashi Honcho	Itabashi-ku, Tokyo	987	0.3	2,048.31	66	4.0
62	Park Axis Sumiyoshi	Sumida-ku, Tokyo	1,006	0.3	1,785.72	60	7.4
63	Park Cube Yotsuya Sanchome	Shinjuku-ku, Tokyo	2,749	0.9	3,599.82	130	5.1
64	Park Cube Hatchobori	Chuo-ku, Tokyo	4,200	1.4	5,191.86	118 residential, 2 retail, etc.	2.4
68	Park Axis Kamata Ichibankan	Ota-ku, Tokyo	1,069	0.4	1,721.28	63	6.7
70	Park Axis Taito Negishi	Taito-ku, Tokyo	672	0.2	1,283.13	40	4.2
72	Park Axis Komagome	Toshima-ku, Tokyo	1,389	0.5	1,979.51	39 residential, 1 retail, etc.	2.5
74	Park Axis Itabashi Honcho Nibankan	Itabashi-ku, Tokyo	1,859	0.6	3,661.58	99	3.1
75	Shibaura Island Air Tower (Note3)	Minato-ku, Tokyo	7,905	2.7	17,646.33	270 residential, 2 retail, etc.	
	Air Tower						1.9
	Air Terrace						7.5
84	Park Cube Higashi Shinagawa	Shinagawa-ku, Tokyo	6,060	2.0	10,636.67	201	3.5
86	Park Cube Sasazuka	Shibuya-ku, Tokyo	2,200	0.7	2,416.00	92 residential, 1 retail, etc.	3.4
88	Park Axis Higashi Jujo	Kita-ku, Tokyo	1,700	0.6	2,893.54	70 residential, 1 retail, etc.	3.1
91	Park Cube Heiwadai	Nerima-ku, Tokyo	1,204	0.4	2,656.00	34	2.8
92	Park Cube Meguro Tower	Meguro-ku, Tokyo	9,000	3.0	12,367.62	193 residential, 1 retail, etc.	2.2
93	Park Cube Nihonbashi Suitengu	Chuo-ku, Tokyo	2,711	0.9	4,235.33	77	4.4
94	Park Cube Ginza East	Chuo-ku, Tokyo	2,269	0.8	3,358.63	77	3.0
95	Park Cube Kayabacho	Chuo-ku, Tokyo	1,105	0.4	1,695.06	27 residential, 1 retail, etc.	3.2
96	Park Cube Honjo Azumabashi	Sumida-ku, Tokyo	1,252	0.4	2,241.63	45	4.6
97	Park Axis Kiyosumi Shirakawa	Koto-ku, Tokyo	696	0.2	1,159.84	36	3.7
98	Park Axis Asakusabashi Nichome	Taito-ku, Tokyo	1,079	0.4	1,569.00	48	3.4
99	Park Axis Nishi Sugamo	Kita-ku, Tokyo	1,439	0.5	2,326.32	56	3.9
100	Park Axis Ueno	Taito-ku, Tokyo	1,389	0.5	1,992.29	59	3.3
101	Park Axis Akihabara East	Taito-ku, Tokyo	1,369	0.5	1,890.20	58	3.8
103	Park Axis Kayabacho	Chuo-ku, Tokyo	1,809	0.6	2,355.07	72	3.0
104	Park Axis Kinshicho Shinsui Koen	Sumida-ku, Tokyo	1,369	0.5	2,085.62	60	7.5
105	Park Cube Kasuga Andozaka	Bunkyo-ku, Tokyo	2,670	0.9	3,581.09	68	2.7
106	Park Cube Kameido	Koto-ku, Tokyo	3,020	1.0	4,442.09	121 residential, 1 retail, etc.	5.5
108	Park Axis Shin Okachimachi East	Taito-ku, Tokyo	1,299	0.4	1,847.01	49	3.0
110	Park Axis Nihonbashi Honcho	Chuo-ku, Tokyo	1,469	0.5	1,808.12	49	2.5
111	Park Cube Nishigahara Stage	Kita-ku, Tokyo	4,110	1.4	19,693.35	357 residential, 1 retail, etc.	2.5
112	Park Cube Atagoymaya Tower	Minato-ku, Tokyo	8,650	2.9	8,389.91	165	2.4
113	Park Axis Shibaura	Minato-ku, Tokyo	1,045	0.4	1,273.60	42	5.2
114	Park Axis Asakusa Kuramae	Taito-ku, Tokyo	1,095	0.4	1,456.35	45	3.0
115	Park Axis Kamata Station Gate	Ota-ku, Tokyo	4,144	1.4	4,582.72	157 residential, 1 retail, etc.	3.2
116	Park Axis Kinshicho Residence	Sumida-ku, Tokyo	1,251	0.4	1,793.33	56	4.0
117	Park Axis Oshiage Sumida Koen	Sumida-ku, Tokyo	1,055	0.4	1,610.49	49	5.2
120	Park Axis Magome Residence	Ota-ku, Tokyo	1,450	0.5	1,621.94	55	9.6
121	Park Axis Higashi Ueno	Taito-ku, Tokyo	1,250	0.4	1,460.10	45	4.0
Tokyo 23 Wards Total			250,291	84.1	367,768.27	7,965 residential, 23 retail, etc.	

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (m <sup>2</sup> )	Rentable Units	PML (Note2) (%)
26	Park Cube Keio Hachioji II	Hachioji-shi, Tokyo	1,130	0.4	3,082.32	47 residential, 1 retail, etc.	4.0
40	Park Axis Nishi Funabashi	Funabashi-shi, Chiba	1,020	0.3	2,074.35		3.2
66	Park Axis Yokohama Idogaya	Yokohama-shi, Kanagawa	1,419	0.5	2,706.59	99 residential, 1 retail, etc.	6.3
67	Park Axis Chiba Shinmachi	Chiba-shi, Chiba	1,679	0.6	3,318.15	77 residential, 7 retail, etc.	1.9
69	Park Axis Chiba	Chiba-shi, Chiba	970	0.3	2,270.32		2.3
85	Park Cube Kita Matsudo	Matsudo-shi, Chiba	1,200	0.4	2,358.66	108 residential, 1 retail, etc.	1.6
87	Park Cube Musashi Kosugi	Kawasaki-shi, Kanagawa	2,250	0.8	3,057.36		3.3
102	Park Axis Yokohama Tanmachi Koen	Yokohama-shi, Kanagawa	1,119	0.4	1,682.46		6.3
109	Park Axis Yokohama Yamashitacho	Yokohama-shi, Kanagawa	1,539	0.5	2,325.92	70 residential, 1 retail, etc.	8.2
<b>Greater Tokyo Total</b>			<b>12,326</b>	<b>4.1</b>	<b>22,876.13</b>	<b>746 residential, 11 retail, etc.</b>	
27	Park Axis Meieki Minami	Nagoya-shi, Aichi	2,440	0.8	5,565.13		169
35	Park Axis Marunouchi	Nagoya-shi, Aichi	1,920	0.6	3,821.75	98 residential, 1 retail, etc.	2.9
36	Park Axis Ropponmatsu	Fukuoka-shi, Fukuoka	1,515	0.5	3,473.67	111 residential, 1 retail, etc.	2.5
37	Park Axis Hakataeki Minami	Fukuoka-shi, Fukuoka	1,890	0.6	4,668.29	176 residential, 1 retail, etc.	3.0
45	Park Axis Naka Gofukumachi	Fukuoka-shi, Fukuoka	742	0.2	2,707.88		112
49	Park Axis Shirakabe	Nagoya-shi, Aichi	1,547	0.5	4,735.89		86
50	Park Axis Sendai	Sendai-shi, Miyagi	2,320	0.8	8,843.17		204
56	Park Axis Hakata Minoshima	Fukuoka-shi, Fukuoka	960	0.3	3,461.85		112
57	Park Axis Takamiya Higashi	Fukuoka-shi, Fukuoka	605	0.2	2,289.21		70
58	Park Axis Sapporo Shokubutsuen Mae	Sapporo-shi, Hokkaido	1,650	0.6	7,845.01		146
65	Park Axis Shin Sapporo	Sapporo-shi, Hokkaido	827	0.3	3,729.05	84 residential, 1 retail, etc.	2.4
71	Park Axis Esaka Hiroshibacho	Suita-shi, Osaka	2,369	0.8	4,309.24		130
73	Park Axis Utsubo Koen	Osaka-shi, Osaka	2,399	0.8	4,952.45		133
107	Park Cube Kitahama	Osaka-shi, Osaka	1,970	0.7	4,683.33		138
<b>Other Major Cities Total</b>			<b>23,154</b>	<b>7.8</b>	<b>65,085.92</b>	<b>1,769 residential, 4 retail, etc.</b>	
<b>Rental Apartments Total</b>			<b>285,771</b>	<b>96.1</b>	<b>455,730.32</b>	<b>10,480 residential, 38 retail, etc.</b>	
76	Dormy Ashiya	Ashiya-shi, Hyogo	928	0.3	2,826.00		140
77	Kawaijuku Kyoto Gakushin Ryo	Kyoto-shi, Kyoto	991	0.3	2,785.40		134
78	Sundai Horikawa Ryo	Kyoto-shi, Kyoto	916	0.3	2,043.32		113
79	Dormy Rakuhoku	Kyoto-shi, Kyoto	374	0.1	1,035.00		69
80	Rikkyo University International Dormitory (RUID) Shiki	Shiki-shi, Saitama	1,478	0.5	2,293.20		126
81	Dormy Naka Itabashi	Itabashi-ku, Tokyo	1,041	0.3	1,911.00		105
82	Philosophia Nishidai	Itabashi-ku, Tokyo	1,249	0.4	2,184.00		120
83	Dormy Musashi Kosugi	Kawasaki-shi, Kanagawa	1,152	0.4	1,996.47		111
89	Artis Sendai Kakyoin	Sendai-shi, Miyagi	540	0.2	1,564.40		60
90	Artis Sendai Kimachi Dori	Sendai-shi, Miyagi	1,160	0.4	4,063.47		142
118	Medical Home Granda Sangen Jaya (Land with leasehold interest)	Setagaya-ku, Tokyo	735	0.2	—		—
119	Dormy Nishi Ogikubo	Suginami-ku, Tokyo	1,100	0.4	1,181.91		71
<b>Hospitality Facilities Total</b>			<b>11,664</b>	<b>3.9</b>	<b>23,884.17</b>	<b>1,191</b>	
<b>Grand Total</b>			<b>297,435</b>	<b>100.0</b>	<b>479,614.49</b>	<b>11,709</b>	<b>2.4</b> (Portfolio PML)

Notes: 1. Acquisition Price does not include acquisition-related expenses, property tax or consumption tax.

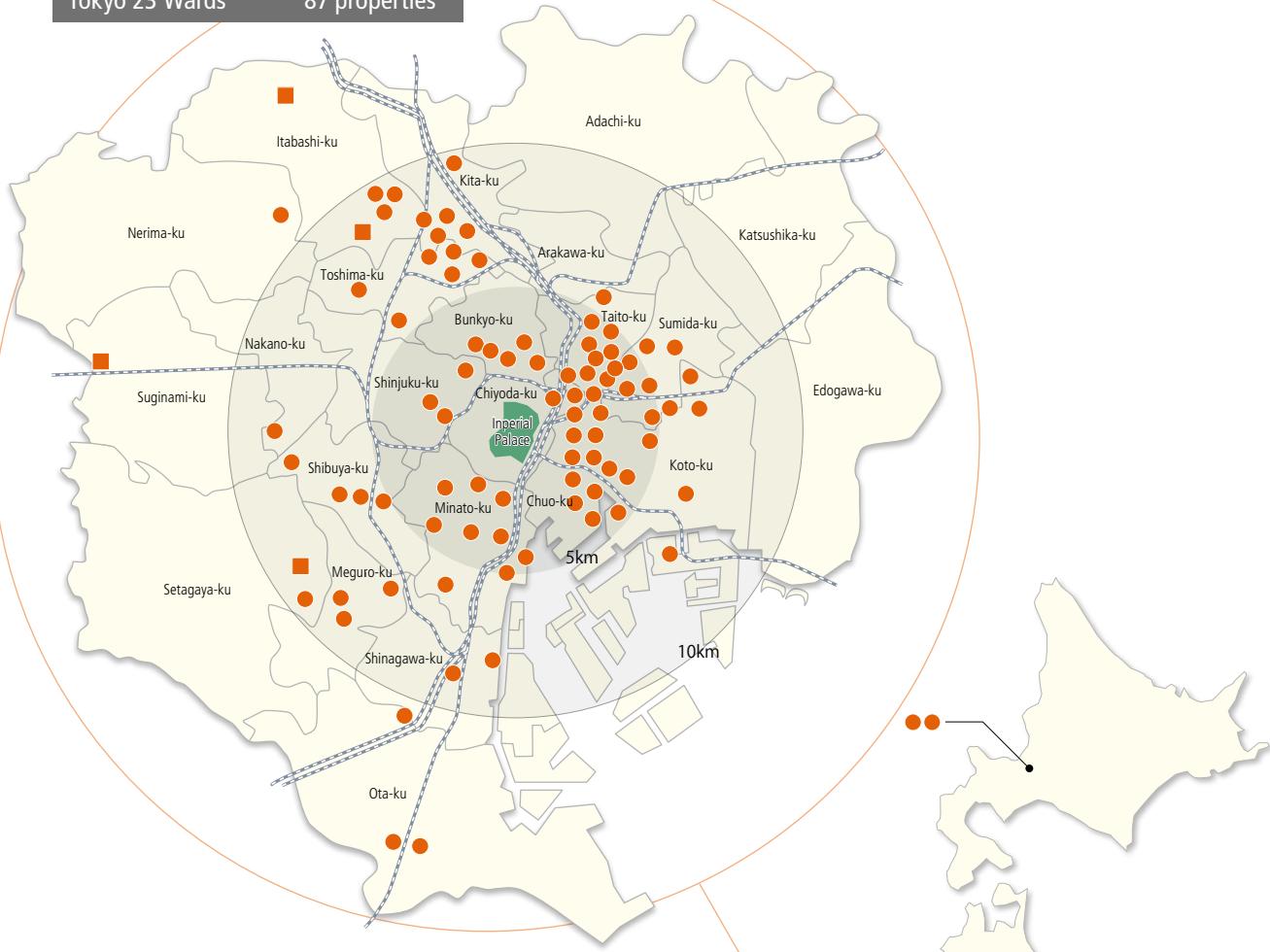
2. PML = Probable maximum loss

Portfolio PML is the PML for all NAF's portfolio, 117 properties excluding Medical Home Granda Sangen Jaya (Land with leasehold interest).

3. 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 (56,923.63m<sup>2</sup>) and rounded to the nearest unit and one-hundredth of a square meter, respectively.

Tokyo 23 Wards

87 properties



● Rental apartments

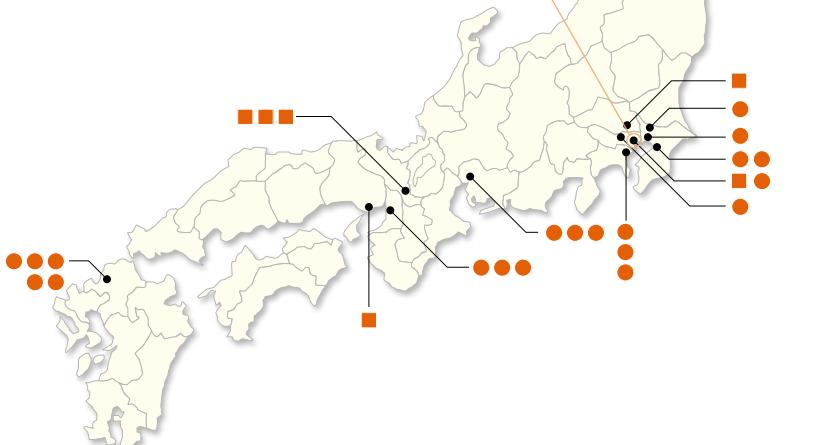
■ Hospitality Facilities

Greater Tokyo

11 properties

Other Major Cities

20 properties



Portfolio as of February 28, 2017

# 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)
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016	22nd Period September 1, 2016 to February 28, 2017
Total revenues (Note 2)	¥ 10,650	¥ 10,621	¥ 10,433	\$ 94,616
Rental revenues	10,210	10,148	10,052	90,707
Other revenues related to property leasing	382	473	380	3,393
Gain on sale of investment properties	58	—	—	515
Operating expenses	5,932	6,053	5,901	52,700
Income before income taxes	4,139	3,940	3,894	36,771
Net income (a)	4,138	3,939	3,893	36,762
Funds from operations (Note 3)	6,137	6,005	5,967	54,522
Net operating income from property leasing activities (Note 3)	7,854	7,745	7,723	69,776
Total amount of cash distribution (b)	4,083	3,939	3,893	36,273
Depreciation and amortization	2,056	2,066	2,073	18,265
Capital expenditures	231	175	240	2,052
Total assets (c)	293,446	295,463	293,684	2,607,018
Interest-bearing debt	147,000	149,000	147,500	1,305,970
Total net assets (d)	139,812	139,612	139,567	1,242,110
Total number of common units issued (Units) (e)	484,522	484,522	484,522	
Net assets per unit (Yen/\$) (d) / (e)	288,557	288,145	288,051	2,563.58
Distribution per unit (Yen/\$) (b) / (e)	8,428	8,130	8,036	74.87
Funds from operations per unit (Yen/\$) (Note 3)	12,666	12,394	12,315	112.52
ROA (Note 4)	1.4%	1.3%	1.3%	
(Annual rate)	(2.8%)	(2.7%)	(2.7%)	
ROE (Note 4)	3.0%	2.8%	2.8%	
(Annual rate)	(6.0%)	(5.6%)	(5.6%)	
LTV (Loan-to-value) ratio (Note 3)	50.1%	50.4%	50.2%	
Capital ratio (d) / (c)	47.6%	47.3%	47.5%	
Payout ratio (b) / (a) (Note 5)	98.7%	100.0%	100.0%	
Number of days in the period	181	184	182	
Number of investment properties (Note 6)	118	119	116	
Total rentable area (m <sup>2</sup> )	479,614	480,708	476,444	
The occupancy rate at the end of the period (Note 6)	97.5%	96.5%	97.0%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112.56 = U.S.\$1.00, the approximate exchange rate as of February 28, 2017.

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. 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 February 28, 2017: Amount for the period ÷ Actual days in the period (181) x 365 days

Annual equivalent amounts for the period ended August 31, 2016: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 29, 2016: Amount for the period ÷ Actual days in the period (182) x 365 days

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

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

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

"The 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 February 28, 2017 (the "22nd Period"), the Japanese economy is on a moderate recovery due to factors such as an improvement in corporate profits and the employment situation, although there was a pause in private consumption. Looking ahead, the economy is expected to recover, supported by effects of the policies, while employment and income situation is improving. At the same time, attention should be given to the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

In the J-REIT market, three new J-REITs listed their shares while capital increases through public offerings by existing listed J-REITs were brisk. From the beginning of the current fiscal period, the Tokyo Stock Exchange REIT index was continuing a downward trend. This trend turned upward around the time of the US Presidential Election. However, the trend began softening since the start of the calendar year, and the index finished on 1,817.36 points at the end of the period (February 28, 2017).

In the residential rental market, occupancy rates remained high at rental apartments held by J-REITs, with an ongoing trend of gradual increases in rents. Moreover, stable demand is expected in the 23 wards of Tokyo, where nearly 90 percent of NAF's rental apartments 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.

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

No properties were acquired during the period under review.

NAF sold Park Axis Shibuya in December 2016 (acquisition price in August 2006: ¥1,282 million, sale price: ¥1,270 million).

As a result, NAF's portfolio as of February 28, 2017 consisted of 118 properties valued at ¥297,435 million on an acquisition price basis.

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. as property management company (below, "PM") on management of NAF's rental apartments portfolio. The company 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 PM by applying the portfolio management system, the tenant recruiting activities suited to the circumstances of individual properties, the streamlining efforts such as reduction of management cost, etc., and providing tenants the "accommodation" services by corresponding 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 the property age, and work to enhance the property value at 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 period under review, NAF carried out renovations in common areas and private areas at Okawabata Apartment Communities. Changes implemented at other properties include reviews of contract capacity for electricity through the introduction of controllable circuit breakers, and work to change the lighting in common areas to LED lighting.

As a result of these activities, the occupancy rate for NAF's overall portfolio as of February 28, 2017 remained at a high level of 97.5 percent.

Consequently, for the 22nd Period, total revenues were ¥10,650 million, operating income was ¥4,717 million, income before income taxes was ¥4,139 million and net income was ¥4,138 million.

## **Changes in Assets, Liabilities and Net Assets**

Total assets as of February 28, 2017 decreased from August 31, 2016 by ¥2,016 million to ¥293,446 million. Total current assets increased by ¥981 million to ¥9,499 million and total investment properties net of accumulated depreciation compared with August 31, 2016 decreased by ¥2,996 million to ¥282,235 million as a result of NAF's sale of Park Axis Shibuya during the 22nd Period, in addition to normal depreciation.

One of NAF's basic policies is to carry out operations, while paying attention to risk factors and market trends, in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. Based on this policy, during the period under review, while taking into account market trends and interest rate levels, NAF pursued financing from various sources with diversified repayment dates and an emphasis on long-term, fixed-rate loans in its procurement of funds and repaid ¥2,000 million of its loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥147,000 million, the long-term debt ratio was 95.9 percent, the long-term, fixed-rate debt ratio was 94.9 percent, and the loan-to-value (LTV) ratio was 50.1 percent. The average annual current maturity of long-term interest-bearing debt was 4.2 years and the number of financial institutions was 22. Furthermore, the weighted average interest rate at the end of the period was 0.76 percent.

NAF has also established a commitment line with a total maximum borrowing amount of ¥10,000 million, for the purpose of securing flexible and stable fund procurement methods.

Net assets totaled ¥139,812 million as of February 28, 2017. Unitholders' capital was unchanged at ¥135,603 million, and retained earnings increased to ¥4,208 million from ¥4,009 million as of August 31, 2016.

## **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 22nd Period, NAF distributed the majority of the balance of retained earnings, excluding a ¥55 million provision of reserve for reduction entry pursuant to Article 66-2 of the Act on Special Measures Concerning Taxation. As a result, cash distributions totaled ¥4,083,551,416 or ¥8,428 per unit.

	Yen in thousands, except per unit amounts		
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Retained earnings	¥4,138,710	¥3,939,329	¥3,893,706
Reserve for reduction entry	55,000	—	—
Undistributed earnings	158	165	87
Total cash distribution	4,083,551	3,939,163	3,893,618
(Per unit)	8,428	8,130	8,036
Distribution of retained earnings	4,083,551	3,939,163	3,893,618
(Per unit)	8,428	8,130	8,036
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 February 28, 2017, NAF had issued 484,522 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 issuance 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
March 2, 2015	Public offering	22,000	483,422	9,444	135,131	Note 12
March 24, 2015	Third-party allocation	1,100	484,522	472	135,603	Note 13

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.
12. Public offering of new units for ¥443,868 per unit (excluding underwriting fee: ¥429,300) to fund property acquisition.
13. Additional issue of new units (third-party allocation) for ¥429,300 per unit undertaken pursuant to the public offering in Note 12.

## Market Price of Units

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

	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016	19th Period March 1, 2015 to August 31, 2015	18th Period September 1, 2014 to February 28, 2015
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
High	¥511,000	¥488,000	¥448,000	¥481,000	¥500,000
Low	439,000	408,000	364,000	396,500	370,000

## Borrowings

Borrowings from financial institution as of February 28, 2017 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.	¥2,000	0.1%	March 31, 2017	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
Shinkin Central Bank	2,000	0.1%	March 31, 2017			
Mizuho Bank, Ltd.	2,000	0.1%	March 31, 2017			
Total short-term loans	¥6,000					

**Long-term loans (Note 6)**

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 5,000	1.2%	August 13, 2018	Bullet payment       	(Note 3)       	Unsecured/ unguaranteed/ pari passu (Note 4)
	5,500	0.9%	February 28, 2020			
	3,000	0.7%	May 28, 2021			
	2,000	0.5%	May 31, 2019			
	4,000	0.3%	September 28, 2018			
	2,000	0.5%	November 30, 2021			
	1,500	0.2% (Note 5)	July 31, 2029			
Sumitomo Mitsui Trust Bank, Limited	3,500	1.0%	August 14, 2017			
	2,000	0.4%	September 30, 2020			
NIPPON LIFE INSURANCE COMPANY	1,000	1.5%	February 28, 2018			
	2,000	0.9%	November 30, 2022			
	3,000	1.0%	May 31, 2024			
	1,000	0.5%	November 30, 2021			
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			
	2,000	0.2%	December 30, 2027			
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			
	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	0.6%	July 31, 2023			
	2,000	0.2%	May 29, 2026			
Shinsei Bank, Limited	1,000	1.2%	January 19, 2023			
	1,000	0.7%	May 28, 2021			
	1,000	1.0%	May 28, 2024			
Shinkin Central Bank	3,000	0.6%	October 12, 2018			
	2,000	0.4%	January 29, 2027			
The Bank of Fukuoka, Ltd.	2,000	0.6%	April 27, 2018			
	1,000	0.8%	January 8, 2020			
	2,500	0.6%	April 28, 2020			
	2,000	0.4%	February 26, 2027			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Mitsubishi UFJ Trust and Banking Corporation	¥ 3,000	1.2%	April 25, 2017	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	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			
	2,000	0.5%	October 1, 2021			
	3,000	0.6%	October 3, 2022			
The Norinchukin Bank	3,000	0.7%	November 30, 2020			
	2,000	0.4%	December 30, 2021			
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			
The Yamaguchi Bank, Ltd.	1,000	1.3%	June 14, 2023			
	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			
	1,000	0.4%	June 30, 2021			
	1,000	0.1%	July 30, 2021			
MITSUI LIFE INSURANCE COMPANY LIMITED	1,000	1.0%	March 28, 2024			
The Ashikaga Bank, Ltd.	2,000	0.3%	June 30, 2019			
DAIDO LIFE INSURANCE COMPANY	1,000	0.6%	June 30, 2021			
TAIYO LIFE INSURANCE COMPANY	2,000	0.6%	December 30, 2024			
The Iyo Bank, Ltd.	1,000	0.1%	March 31, 2022			
Total long-term loans	¥141,000					
Total loans	¥147,000					

- 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 loans if the institution has provided more than one short-term loan.
  2. The earliest maturity of short-term loans 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 loans, and operating expenses.
  4. The loan agreements between NAF and each financial institution stipulate that the above loans from all financial institutions rank pari passu to each other.
  5. The interest rate is applied from February 28, 2017 to March 30, 2017.
  6. The expected annual maturities of long-term loans within five years (excluding maturities within one year) of the balance sheet date are as follows.

(Yen in millions)

Amount	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
	¥17,000	¥18,000	¥17,500	¥20,000

## Bonds

None applicable

## 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 planning of expenditures for construction, repair and renovation of facilities, a plan 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 (September 1, 2016 to February 28, 2017)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc.	From March 2017 to August 2017	¥241	¥—	¥—
Okawabata Apartment Communities, Other Properties	Renovation of common use areas, etc.	From March 2017 to August 2017	57	—	—

### 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥231 million in capital expenditures together with ¥420 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities	Renovation of rentable areas, etc.	From September 2016 to February 2017	¥ 71
Okawabata Apartment Communities, Other Properties	Renovation of common use areas, etc.	From September 2016 to February 2017	35
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc., other construction	From September 2016 to February 2017	124
Total			¥231

### 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 February 28, 2017	As of August 31, 2016	As of February 29, 2016
Reserve balance at the beginning of the period	¥2,293	¥2,139	¥1,979
Amount accumulated in the current period	512	332	425
Withdrawal from reserves in the current period	238	179	265
Amount carried forward	¥2,567	¥2,293	¥2,139

## Expenses regarding Entrustment, etc.

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

	Yen in millions		
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Asset management fees	¥ 788	¥ 766	¥ 754
Asset custody fees	14	14	14
Agent fees (stock transfer, accounting and administrative)	30	30	30
Directors' remuneration	7	7	7
Auditor's fees	12	12	12
Other expenses	285	279	298
Total	¥1,138	¥1,111	¥1,117

## Related Party Transactions

### 1. Transactions

None applicable

### 2. Fees Paid for the Period from September 1, 2016 to February 28, 2017

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	¥702	Mitsui Fudosan Residential Lease Co., Ltd.	¥702	100.0%
Building management fees	380	Mitsui Fudosan Residential Lease Co., Ltd.	376	98.8%
		Mitsui Fudosan Realty Co., Ltd.	4	1.2%
Operation management fees	4	Mitsui Fudosan Investment Advisors, Inc.	4	100.0%
		RESIDENT FIRST CO., LTD.	18	11.3%
		Mitsui Home Estate Co., Ltd.	0	0.6%
Leasing-related service fees, etc.	160	Mitsui Fudosan Realty Co., Ltd.	0	0.2%
		Mitsui Fudosan Realty Kyushu Co., Ltd.	0	0.2%
		Mitsui Fudosan Realty Sapporo Co., Ltd.	0	0.0%

### 3. Other Payments to Related Parties (Note 1)

Paid to	Amount of payment (Yen in millions)	Item
Mitsui Fudosan Reform Co., Ltd.	¥10	Repair and maintenance costs
Accommodation First Co., Ltd.	4	Repair and maintenance costs
MITSUI Designtec Co., Ltd.	2	Repair and maintenance costs
Mitsui Fudosan Facilities 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.

# Financial Statements

## Balance Sheets

### Nippon Accommodations Fund Inc.

As of February 28, 2017 and August 31, 2016

	Yen in millions		U.S. dollars in thousands (Note 1)
	22nd Period As of February 28, 2017	21st Period As of August 31, 2016	22nd Period As of February 28, 2017
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 12)	¥ 8,050	¥ 7,092	\$ 71,517
Rent receivables	1,404	1,369	12,473
Other current assets	44	56	390
Total current assets	9,499	8,517	84,390
Investment properties (Note 3):			
Land including trust accounts	179,714	180,736	1,596,606
Depreciable property and improvements including trust accounts	133,669	133,695	1,187,535
Accumulated depreciation	(31,148)	(29,200)	(276,723)
Total investment properties	282,235	285,232	2,507,418
Other assets	1,711	1,713	15,200
<b>Total Assets</b>	¥ 293,446	¥ 295,463	\$ 2,607,018
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Current liabilities:			
Short-term loans (Note 4, 12)	¥ 6,000	¥ 7,000	\$ 53,304
Long-term loans due within one year (Note 4, 12)	18,500	14,500	164,356
Accounts payable	1,007	1,254	8,946
Rent received in advance	1,723	1,705	15,307
Accrued expenses and other liabilities	302	293	2,683
Total current liabilities	27,533	24,752	244,607
Long-term liabilities:			
Long-term loans (Note 4, 12)	122,500	127,500	1,088,308
Tenant security deposits (Note 12)	3,600	3,597	31,982
Total long-term liabilities	126,100	131,097	1,120,291
<b>Total Liabilities</b>	¥ 153,634	¥ 155,850	\$ 1,364,907
<b>Net Assets</b>			
Unitholders' capital (Note 5)	¥ 135,603	¥ 135,603	\$ 1,204,717
Retained earnings	4,208	4,009	37,384
<b>Total Net Assets</b>	¥ 139,812	¥ 139,612	\$ 1,242,110
<b>Total Liabilities and Net Assets</b>	¥ 293,446	¥ 295,463	\$ 2,607,018

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

## Statements of Income

### Nippon Accommodations Fund Inc.

September 1, 2016 to February 28, 2017, March 1, 2016 to August 31, 2016 and September 1, 2015 to February 29, 2016

	Yen in millions			U.S. dollars in thousands (Note 1)
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016	22nd Period September 1, 2016 to February 28, 2017
<b>Revenues (Note 6):</b>				
Rental	¥ 10,210	¥ 10,148	¥ 10,052	\$ 90,707
Other revenues related to property leasing	382	473	380	3,393
Gain on sale of investment properties (Note 7)	58	—	—	515
Total revenues	10,650	10,621	10,433	94,616
<b>Operating Expenses (Note 6):</b>				
Property management fees	1,133	1,126	1,102	10,065
Real estate taxes and insurance	596	597	587	5,294
Repairs and maintenance	420	505	418	3,731
Other rental expenses	587	646	602	5,214
Depreciation and amortization	2,056	2,066	2,073	18,265
Asset management fees	788	766	754	7,000
Other expenses	350	345	363	3,109
Total operating expenses	5,932	6,053	5,901	52,700
<b>Operating Income</b>	4,717	4,567	4,531	41,906
Interest and other income	4	6	5	35
Interest expense	(572)	(619)	(628)	(5,081)
Other expenses	(9)	(14)	(15)	(79)
<b>Income before Income Taxes</b>	4,139	3,940	3,894	36,771
Current and deferred income taxes (Note 9)	0	0	0	0
<b>Net Income</b>	¥ 4,138	¥ 3,939	¥ 3,893	\$ 36,762

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 September 1, 2015 to February 28, 2017

		Yen in millions		
	Number of Units (Note 5)	Unitholders' Capital	Retained Earnings	Total
Balance as of September 1, 2015	484,522	¥ 135,603	¥ 3,795	¥ 139,398
Cash distribution	—	—	(3,725)	(3,725)
Net income	—	—	3,893	3,893
Balance as of February 29, 2016	484,522	135,603	3,963	139,567
Cash distribution	—	—	(3,893)	(3,893)
Net income	—	—	3,939	3,939
Balance as of August 31, 2016	484,522	135,603	4,009	139,612
Cash distribution	—	—	(3,939)	(3,939)
Net income	—	—	4,138	4,138
Balance as of February 28, 2017	484,522	¥ 135,603	¥ 4,208	¥ 139,812

		U.S. dollars in thousands (Note 1)		
	Number of Units (Note 5)	Unitholders' Capital	Retained Earnings	Total
Balance as of August 31, 2016	484,522	\$1,204,717	\$ 35,616	\$1,240,334
Cash distribution	—	—	(34,994)	(34,994)
Net income	—	—	36,762	36,762
Balance as of February 28, 2017	484,522	\$1,204,717	\$ 37,384	\$1,242,110

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

## Statements of Cash Flows

### Nippon Accommodations Fund Inc.

September 1, 2016 to February 28, 2017, March 1, 2016 to August 31, 2016 and September 1, 2015 to February 29, 2016

	Yen in millions			U.S. dollars in thousands (Note 1)
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016	
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes	¥ 4,139	¥ 3,940	¥ 3,894	\$ 36,771
Depreciation and amortization	2,056	2,066	2,073	18,265
Amortization of investment unit issuance expenses	4	4	4	35
Amortization of bond issue costs	—	2	3	—
Interest expense	572	619	628	5,081
(Increase) Decrease in rent receivables	(35)	31	(60)	(310)
Increase (Decrease) in accounts payable	(246)	281	(215)	(2,185)
Increase (Decrease) in rents received in advance	17	1	23	151
Decrease in investment properties due to sales	1,210	—	—	10,749
Cash payments of interest expense	(586)	(619)	(640)	(5,206)
Other, net	36	(8)	28	319
Net Cash Provided by Operating Activities	7,170	6,318	5,739	63,699
<b>Cash Flows from Investing Activities:</b>				
Payments for purchases of investment properties	(272)	(4,220)	(304)	(2,416)
Purchase of intangible assets	—	(0)	(0)	—
Proceeds from tenant security deposits	344	426	322	3,056
Payments for tenant security deposits	(340)	(389)	(334)	(3,020)
Other, net	(3)	(11)	(3)	(26)
Net Cash Used in Investing Activities	(272)	(4,196)	(319)	(2,416)
<b>Cash Flows from Financing Activities:</b>				
Proceeds from short-term loans	40,000	42,000	30,000	355,366
Repayment of short-term loans	(41,000)	(40,000)	(30,000)	(364,250)
Proceeds from long-term loans	5,000	6,500	—	44,420
Repayment of long-term loans	(6,000)	—	(2,000)	(53,304)
Redemption of bonds	—	(7,000)	—	—
Payment of distribution	(3,939)	(3,894)	(3,722)	(34,994)
Net Cash Used in Financing Activities	(5,939)	(2,394)	(5,722)	(52,762)
Net Change in Cash and Cash Equivalents	958	(272)	(301)	8,511
Cash and Cash Equivalents at the Beginning of the Period	7,092	7,364	7,666	63,006
Cash and Cash Equivalents at the End of the Period	¥ 8,050	¥ 7,092	¥ 7,364	\$ 71,517

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

# Notes to Financial Statements

Nippon Accommodations Fund Inc.  
September 1, 2016 to February 28, 2017 , March 1, 2016 to August 31, 2016, and September 1, 2015 to February 29, 2016

## 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 February 28, 2017, NAF had ownership and beneficiary interests in 118 properties containing approximately 479,614 square meters of rentable space. As of February 28, 2017, NAF had leased approximately 467,863 square meters to tenants. The occupancy rate for the properties was approximately 97.5%.

### 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 February 28, 2017, which was ¥112.56 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 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 straightline 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	2-60 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

Investment unit issuance expenses are amortized over the period of three years under the straight-line method.

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. Capitalized property tax for the period ended August 31, 2016 amounted to ¥6 million. No property tax was capitalized for the period ended February 28, 2017.

## 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 February 28, 2017 and August 31, 2016 consisted of the following:

	Yen in millions					
	As of February 28, 2017			As of August 31, 2016		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 122,930	¥ —	¥ 122,930	¥ 122,922	¥ —	¥ 122,922
Land in trust	56,784	—	56,784	57,813	—	57,813
Land including trust total	179,714	—	179,714	180,736	—	180,736
Buildings and improvements	91,076	(18,652)	72,423	91,001	(17,321)	73,680
Buildings and improvements in trust	35,844	(8,532)	27,311	36,010	(8,116)	27,893
Buildings and improvements including those in trust total	126,920	(27,185)	99,735	127,012	(25,437)	101,574
Structures	1,628	(748)	880	1,628	(702)	925
Machinery and equipment	1,946	(1,182)	763	1,882	(1,094)	787
Tools, furniture and fixtures	1,090	(937)	152	1,083	(912)	170
Construction in process	1	—	1	1	—	1
Structures in trust	1,119	(353)	766	1,122	(337)	785
Machinery and equipment in trust	556	(423)	132	556	(394)	161
Tools, furniture and fixtures in trust	398	(317)	80	401	(319)	81
Construction in process in trust	7	—	7	7	—	7
Other investment properties total	6,748	(3,963)	2,785	6,683	(3,762)	2,921
Total	¥ 313,384	¥ (31,148)	¥ 282,235	¥ 314,432	¥ (29,200)	¥ 285,232

#### Note 4 | Short-Term Loans and Long-Term Debt

The annual interest rate on short-term loans as of February 28, 2017 was 0.1% and the rate as of August 31, 2016 was 0.1%. Long-term debt consists of the following:

	Yen in millions	
	As of February 28, 2017	As of August 31, 2016
Unsecured loans due 2017 to 2029 principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 1.5%	¥141,000	¥142,000
	¥141,000	¥142,000

The annual maturities of long-term debt as of February 28, 2017 were as follows:

	Yen in millions
Due after one to two years	¥17,000
Due after two to three years	18,000
Due after three to four years	17,500
Due after four to five years	20,000
Due after five years	50,000

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 February 28, 2017.

#### Note 5 | Unitholders' Capital

	As of February 28, 2017	As of August 31, 2016	As of February 29, 2016
Total number of common units authorized	4,000,000	4,000,000	4,000,000
Total number of common units issued and outstanding	484,522	484,522	484,522

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 February 28, 2017, August 31, 2016 and February 29, 2016 were as follows:

	Yen in millions		
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥ 9,738	¥ 9,674	¥ 9,581
Facility charge	471	473	471
Subtotal	10,210	10,148	10,052
Other revenues related to property leasing:			
Income from leasing rights, etc.	269	339	254
Miscellaneous income	112	134	126
Subtotal	382	473	380
Total revenues from property leasing	10,592	10,621	10,433
Rental Expenses:			
Property management fees	1,133	1,126	1,102
Repairs and maintenance	420	505	418
Real estate taxes	583	583	574
Trust fees	11	10	11
Utilities	115	118	134
Insurance	13	13	13
Depreciation and amortization	2,056	2,066	2,073
Leasing-related service fees, etc.	160	186	163
Other rental expenses	300	330	293
Total rental expenses	4,794	4,942	4,784
Operating income from property leasing activities	¥ 5,797	¥ 5,679	¥ 5,649

## Note 7 | Breakdown of Gain on Sale of Investment Properties

Gain on sale of investment properties for the periods ended February 28, 2017, August 31, 2016 and February 29, 2016 were as follows:

	Yen in millions		
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Park Axis Shibuya			
Revenues from sale of investment properties	¥ 1,270	¥ —	¥ —
Cost of investment properties sold	1,210	—	—
Other sales expenses	0	—	—
Gain on sale of investment properties	¥ 58	¥ —	¥ —

## Note 8 | Leases

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of February 28, 2017 and August 31, 2016, future minimum rental revenues under the non-cancelable operating leases were as follows:

	Yen in millions	
	As of February 28, 2017	As of August 31, 2016
Due within one year	¥ 834	¥ 834
Due after one year	1,894	2,210
Total	¥2,729	¥3,045

## Note 9 | 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 0.02%, 0.02% and 0.02% for the periods ended February 28, 2017, August 31, 2016 and February 29, 2016, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Statutory effective tax rate	31.74%	32.31%	32.31%
Deductible distributions paid	(31.31)	(32.30)	(32.31)
Others	(0.41)	0.01	0.02
Effective tax rate	0.02%	0.02%	0.02%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of February 28, 2017, August 31, 2016 and February 29, 2016 were as follows:

	Yen in thousands		
	As of February 28, 2017	As of August 31, 2016	As of February 29, 2016
Deferred tax assets:			
Enterprise taxes	¥13	¥15	¥9
Total deferred tax assets	13	15	9
Net deferred tax assets	¥13	¥15	¥9

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 10 | Per Unit Information

Information about earnings per unit for the periods ended February 28, 2017, August 31, 2016 and February 29, 2016 and net assets per unit as of February 28, 2017, August 31, 2016 and February 29, 2016 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		
	22nd Period September 1, 2016 to February 28, 2017	21st Period March 1, 2016 to August 31, 2016	20th Period September 1, 2015 to February 29, 2016
Earnings per Unit:			
Net income	¥8,541	¥8,130	¥8,035
Weighted average number of common units outstanding	484,522	484,522	484,522
	As of February 28, 2017	As of August 31, 2016	As of February 29, 2016
Net Assets per Unit	¥288,557	¥288,145	¥288,051

**Note 11 Transactions with Related Parties**

(September 1, 2016 – February 28, 2017)

- (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	Tateyuki Ikura	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥788 (Note 2)	Accounts payable	¥837
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥0	—	¥—

- Notes:
1. Tateyuki Ikura 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. No fees for management related to acquisition of properties included in the book value of each investment property, etc. were required to be disclosed as asset management fees.
  3. Tateyuki Ikura 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.

(March 1, 2016 – August 31, 2016)

- (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	Tateyuki Ikura	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥790 (Note 2)	Accounts payable	¥827
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥0	—	¥—

- Notes:
1. Tateyuki Ikura 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 ¥24 million of management fees related to acquisition of properties included in the book value of each investment property, etc.
  3. Tateyuki Ikura 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, 2015 – February 29, 2016)

- (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	Tateyuki Ikura	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥754 (Note 2)	Accounts payable	¥814
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥0	—	—

- Notes:
1. Tateyuki Ikura 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. No fees for management related to acquisition of properties included in the book value of each investment property, etc. were required to be disclosed as asset management fees.
  3. Tateyuki Ikura 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 12 | Financial Instruments

(September 1, 2016 – February 28, 2017)

### 1. Status of Financial Instruments

#### (1) Policy for Financial Instruments

NAF procures 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 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 February 28, 2017 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
<b>Assets</b>			
(1) Cash and cash equivalents	¥ 8,050	¥ 8,050	¥ —
Total	¥ 8,050	¥ 8,050	¥ —
<b>Liabilities</b>			
(1) Short-term loans	¥ 6,000	¥ 6,000	¥ —
(2) Long-term loans due within one year	18,500	18,637	137
(3) Long-term loans	122,500	125,459	2,959
Total	¥ 147,000	¥ 150,097	¥ 3,097

Notes:

- Methods to estimate fair value of financial instruments

Assets:

- 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:

- 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.

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

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

	Yen in millions
	Book value
Tenant security deposits	¥3,600

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.

- Redemption schedule for monetary claims with maturity dates after February 28, 2017

	Yen in millions
	Due within one year
Cash and cash equivalents	¥8,050

- Repayment schedule for loans after February 28, 2017

	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	¥ 6,000	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans	18,500	17,000	18,000	17,500	20,000	50,000
Total	¥ 24,500	¥ 17,000	¥ 18,000	¥ 17,500	¥ 20,000	¥ 50,000

(March 1, 2016 – August 31, 2016)

## 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 August 31, 2016 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
<b>Assets</b>			
(1) Cash and cash equivalents	¥ 7,092	¥ 7,092	¥ —
Total	¥ 7,092	¥ 7,092	¥ —
<b>Liabilities</b>			
(1) Short-term loans	¥ 7,000	¥ 7,000	¥ —
(2) Long-term loans due within one year	14,500	14,611	111
(3) Long-term loans	127,500	131,371	3,871
Total	¥ 149,000	¥ 152,982	¥ 3,982

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) Long-term loans due within one year and (3) 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	¥3,597

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, 2016

	Yen in millions
	Due within one year
Cash and cash equivalents	¥7,092

4. Repayment schedule for loans after August 31, 2016

	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	¥ 7,000	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans	14,500	18,000	17,500	18,000	19,000	55,000
Total	¥ 21,500	¥ 18,000	¥ 17,500	¥ 18,000	¥ 19,000	¥ 55,000

## Note 13 | Investment and Rental Properties

(September 1, 2016 – February 28, 2017)

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, 2016	Change during the 22nd Period	As of February 28, 2017	As of February 28, 2017
¥285,839	¥(2,996)	¥282,842	¥328,981

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 22nd Period," the main factors decreasing book value were ¥1,210 million for the sale of Park Axis Shibuya and depreciation.

3. "Fair value as of February 28, 2017" 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, 2017 is disclosed in Note 6, Rental Revenues and Expenses.

(March 1, 2016 – August 31, 2016)

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, 2016	Change during the 21st Period	As of August 31, 2016	As of August 31, 2016
¥283,751	¥2,087	¥285,839	¥327,704

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 21st Period," the main factor for the increase in book value was the acquisition of properties for ¥3,966 million. The main factor for the decrease in book value was depreciation.

3. "Fair value as of August 31, 2016" 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, 2016 is disclosed in Note 6, Rental Revenues and Expenses.

## Note 14 | Segment Information

(September 1, 2016 – February 28, 2017)

### 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 Residential Lease Co., Ltd.	¥10,120	Real estate leasing business

(March 1, 2016 – August 31, 2016)

## 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 Residential Lease Co., Ltd. (Note)	¥10,156	Real estate leasing business

Note: On April 1, 2016, Mitsui Fudosan Housing Lease Co., Ltd. changed its corporate name to Mitsui Fudosan Residential Lease Co., Ltd.

(September 1, 2015 – February 29, 2016)

## 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.	¥9,992	Real estate leasing business

## Note 15 | Significant Subsequent Events

None applicable

# Independent Auditor's Report



## 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 February 28, 2017 and August 31, 2016, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended February 28, 2017, August 31, 2016 and February 29, 2016, 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 judgement, 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 February 28, 2017 and August 31, 2016, and its financial performance and cash flows for each of the six months ended February 28, 2017, August 31, 2016 and February 29, 2016 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 February 28, 2017 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.

A handwritten signature in black ink that reads "KPMG AZSA LLC".

May 30, 2017  
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.

# 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

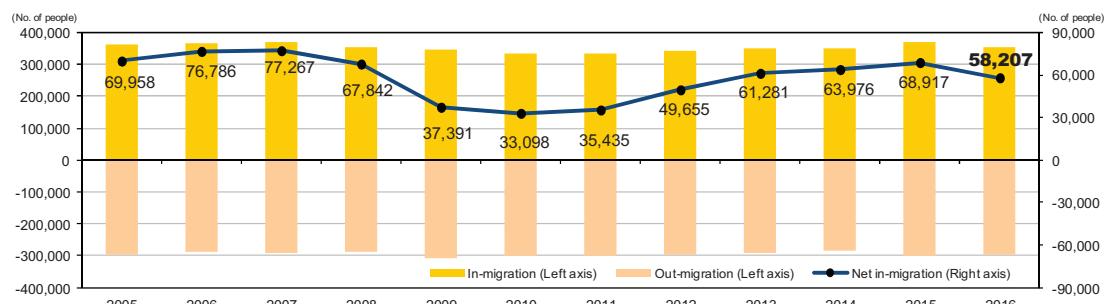
In the 23 wards of Tokyo, where most of NAF's assets under management are located, the population influx is continuing, reflecting an increasing desire to live closer to work and the progressive concentration of economic activities in Tokyo. Graph 1 shows migration trends in the 23 wards of Tokyo as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

NAF projects solid demand from the growing number of single and two-person households for single and compact (rentable area under 60m<sup>2</sup> with two or fewer bedrooms) apartments, which comprise the majority of NAF's portfolio.

### Rental Housing Stock

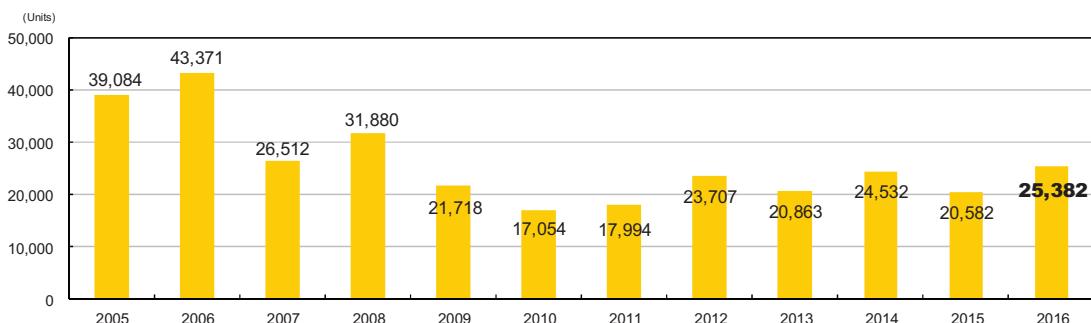
Graph 2 shows the number of rental apartment construction starts in the 23 wards of Tokyo. Construction starts increased more or less steadily until 2006, but decreased significantly following changes in the building authorization procedure resulting from revisions in 2007 to the Building Standards Law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

#### 1. Population Change in the 23 Wards of Tokyo



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

#### 2. Construction-Starts for Rental Apartments in the 23 Wards of Tokyo



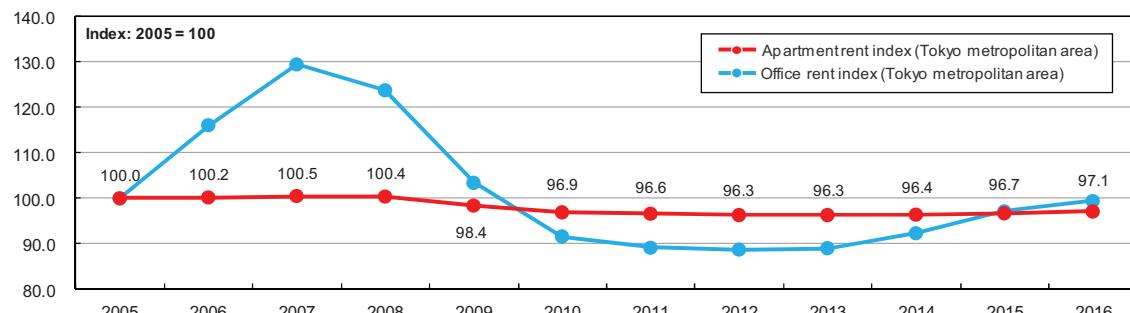
Source: Ministry of Land, Infrastructure, Transport and Tourism (SRC and RC)

## Stability of Apartment Rent

Graph 3 shows relative rents for apartments and offices in Tokyo metropolitan area, with 2005 levels set as 100. Apartment 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, apartment 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. Rent Fluctuation: Apartments / Offices



Source: Japan Real Estate Institute

## 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 one or 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.

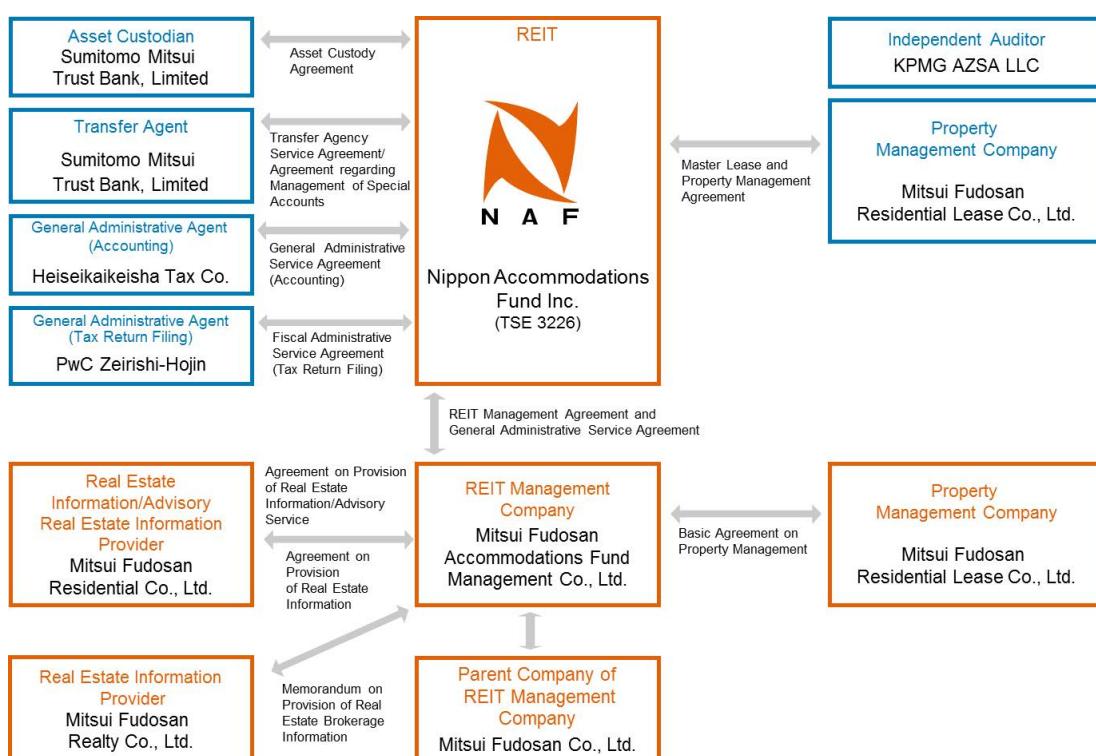
## Real Estate Investment Trust ("REIT") Structure

Nippon Accommodations Fund Inc. ("NAF") is an investment corporation established with the objective of investing in assets, primarily Designated Assets as defined under the Act on Investment Trusts and Investment Corporations. 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 Act on Investment Trusts and Investment Corporations. 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 is a 100 percent subsidiary of Mitsui Fudosan Co., Ltd., and 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 and an Agreement on Provision of Real Estate Information with Mitsui Fudosan Residential Co., Ltd. provide information regarding real estate owned or developed by Mitsui Fudosan Residential's Rental Apartment Development Department, and other management advisory information. A Memorandum on Provision of Real Estate Brokerage Information with Mitsui Fudosan Realty Co., Ltd. provides access to certain real estate property information. A Basic Agreement on Property Management with Mitsui Fudosan Residential Lease Co., Ltd., the 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 Act on Investment Trusts and Investment Corporations 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 Act on Investment Trusts and Investment Corporations 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.

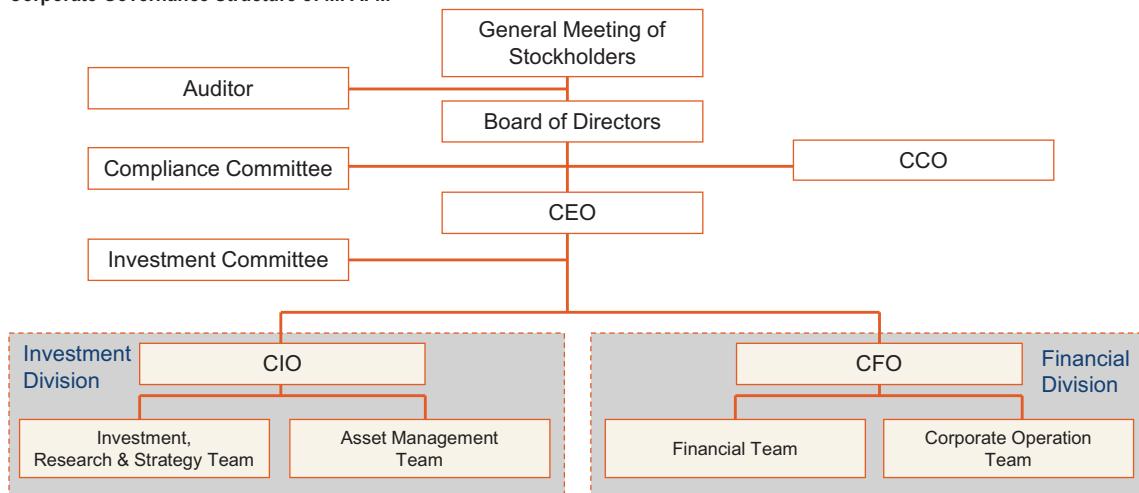
## Compliance Initiatives

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

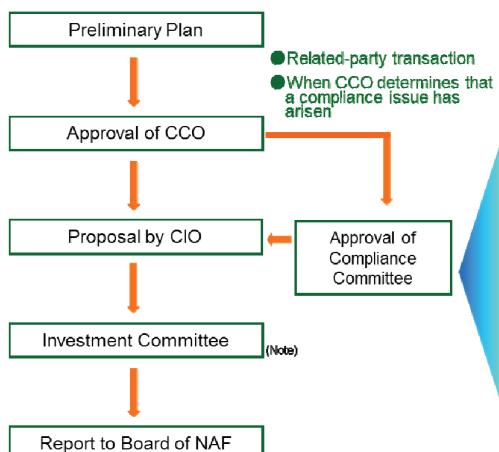
NAF itself is responsible for complying with the Act on Investment Trusts and Investment Corporations and related laws and regulations in managing risks. In addition, the REIT Management Company has established appropriate internal rules. In conjunction with appropriate organizational systems, NAF is 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 Acquisitions/Sale Decision Making Process



### Compliance Checking System

#### Confirmation by Chief Compliance Officer (CCO)

The following require approval of the Compliance Committee

- Related-party transactions\*
- When CCO determines that a compliance issue has arisen

\*Property acquisition price from sponsor-related parties is below appraisal value

#### The Compliance Committee

Requires approval by independent external professionals

Members: CCO (Chairman), CEO, 2 external professionals  
(Currently 1 lawyer and 1 CPA)

External professionals: Appoint professionals independent from  
sponsor-related parties

Resolution: Requires 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

Note: When NAF acquires or disposes of assets in transactions with related parties as defined by the Act on Investment Trusts and Investment Corporations, the REIT Management Company must obtain consent from NAF based on the approval of NAF's Board of Directors prior to the deliberations of the Investment Committee. However, such consent is not required for property or other real estate acquisitions stipulated by Article 245-2-1 of the Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations as having immaterial impact on NAF's assets because the acquisition cost represents less than 10 percent of the book value of NAF's investment properties.

## 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 Act on Investment Trusts and Investment Corporations 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 Act on Investment Trusts and

Investment Corporations 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)	<p>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.</p> <p>In addition, pursuant to Article 117 of the Act on Investment Trusts and Investment Corporations, 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).</p>
Real estate information/advisory service provider (Note)	Mitsui Fudosan Residential Co., Ltd.	Mitsui Fudosan Residential 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 Residential on February 23, 2006.
Real estate information provider		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.
Property management company	Mitsui Fudosan Residential Lease Co., Ltd.	In principle, MFAFM will entrust to Mitsui Fudosan Residential Lease as 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 Residential Lease dated March 31, 2006.

Note: On February 23, 2006, NAF and Mitsui Fudosan Co., Ltd. concluded an Agreement on Provision of Real Estate Information/Advisory Service. Mitsui Fudosan Residential Co., Ltd. assumed Mitsui Fudosan's rights and responsibilities in the residential leasing business by way of a company split on October 1, 2015. In conjunction with the assumption of these rights, the rights and responsibilities under this agreement and subsequent amendments thereto transferred to Mitsui Fudosan Residential as of October 1, 2015.

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

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MFAFM, as a REIT management company provided for in the Act on Investment Trusts and Investment Corporations, 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 5 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 shall be 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 shall be 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 shall be 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 shall be paid at or before the end of the next month after the month of the sales date.

#### **Management Fees 5**

In a merger with other investment corporation, if the Asset Management Company researches and evaluates assets etc. that such other investment corporation owns and conducts other businesses related thereto and such merger comes into effect, the Company shall pay the amount provided for in the asset management agreement, up to the amount equivalent to that obtained by multiplying the appraised price of Real Estate and Real Estate-Backed Securities at the time of the merger that such other investment corporation owns at such time by zero point five percent (0.5%). Management Fee 5 shall be paid within three months from the effective date of the merger.

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

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

### **Disclosure of Asset Management Guidelines**

MFAFM provides Mitsui Fudosan Residential with investment policies and investment standards included in asset management guidelines.

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

If Mitsui Fudosan Residential sells real estate or real estate-related assets it owns or develops under its Rental Apartment Development Department, it provides MFAFM with the information on such sales.

When MFAFM receives such information and provides written notification that it will consider the purchase of such real estate or assets, Mitsui Fudosan Residential 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**

Mitsui Fudosan Residential 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.

### **Provision of Real Estate Management Information**

Mitsui Fudosan Residential provides MFAFM with real estate management information (qualitative view and quantitative data regarding the operating environment of the real estate leasing market) supervised by its Rental Apartment Development Department if it is available for provision to MFAFM.

### **Provision of Advisory Services**

Mitsui Fudosan Residential 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 (excluding investment advice). This technical advice includes the following.

- (a) Provision of technical advice and examination support for the preparation and implementation of daily maintenance plans and long-term repair plans for buildings and facilities (including approximate costing)
- (b) Provision of technical advice and examination support for the preparation and implementation of plans for small repairs, renovations, periodic inspections and response to facility and equipment recalls (including detailed costing of contract amounts)
- (c) Provision of technical advice, examination support and other assistance for the preparation and implementation of large-scale renovations (including approximate costing and detailed costing)

### **Operation Fees**

MFAFM will provide compensation with Mitsui Fudosan Residential 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 in Assets

NAF invests mainly in Rental Apartments, and currently limits investment in Hospitality Facilities to a maximum of 10 percent of the total portfolio value on an acquisition price basis.

### 2. Investment Areas

NAF emphasizes Greater Tokyo (see Note 1, below), mainly the 23 wards of Tokyo, and Other Major Cities (see Note 2, below) in investing in Rental Apartments, while it focuses on major cities throughout Japan and their suburbs in investing in Hospitality Facilities. NAF invests in accommodation assets located in areas where there is substantial demand, depending on the characteristics of each

asset.

By region, at least 80 percent of NAF's assets, including Rental Apartments and Hospitality Facilities, are located in the 23 wards of Tokyo on an acquisition price basis. NAF studies regional characteristics and tenant needs to invest in properties with suitable building plans and characteristics.

(Note 1) "Greater Tokyo" refers to Tokyo, Kanagawa, Chiba and Saitama.

(Note 2) "Other Major Cities" refers to each of the urban areas of Sapporo, Sendai, Nagoya, Osaka, Kyoto, Kobe, Hiroshima and Fukuoka cities.

### 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 be at least ¥1 billion. However, NAF may invest in properties 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 after taking into account property characteristics.
Building structure	Building structures shall be reinforced concrete, steel reinforced concrete, steel (excluding light-gauge steel), and a combination of these structures. However, NAF may invest in wooden buildings (fireproof buildings only) if NAF deems it appropriate in the light of the characteristics of the use of buildings.
Earthquake resistance standards	Buildings shall conform to or have antiseismic resistance equivalent to the New Earthquake Resistance Standards, which have been in force since the 1981 revision to the Building Standards Law.
PML value (probable maximum loss)	In principle, 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.
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 during the period from the time when building confirmation is obtained until the time of their completion, although incomplete, that are expected to carry minimum risk in respect to completion, delivery and leasing.

### 4. Due Diligence Standards

The REIT Management Company selects assets to invest in only after due diligence covering economic feasibility, physical condition and legal status.

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. The REIT Management Company also conducts due diligence on Hospitality Facilities covering issues similar to those described in the table below.

Item	Issues Investigated
Economic feasibility studies	Market survey 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"> <li>1. Tenant creditworthiness and rent income amount</li> <li>2. Purpose of use and confirmation that tenants are not members of anti-social forces</li> </ol>
	Survey of earnings and related issues	<ol style="list-style-type: none"> <li>1. Current property management costs</li> <li>2. Development of medium-to-long-term plan for repair and renovation expenses</li> <li>3. Development of cash flow projections</li> <li>4. Verification that property is consistent with portfolio strategy</li> </ol>
Physical condition studies	Location	<ol style="list-style-type: none"> <li>1. Street conditions, access to major transportation</li> <li>2. Convenience and access to public facilities</li> <li>3. Primarily visual confirmation of status of borders between adjacent tracts and cross-border issues</li> <li>4. Living conditions including view, light, ambient noise and airflow</li> <li>5. Presence of unpleasant facilities</li> <li>6. Future development plans in the surrounding area</li> </ol>
	Construction, equipment, and specifications	<ol style="list-style-type: none"> <li>1. Building structure, age and construction company of property and other related matters</li> <li>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</li> <li>3. Need for immediate repairs</li> </ol>
	Building management	<ol style="list-style-type: none"> <li>1. Status of compliance with related regulations</li> <li>2. Actual management status</li> <li>3. Quality of the property management company and contract terms</li> </ol>
	Antiseismic resistance and PML	<ol style="list-style-type: none"> <li>1. Antiseismic resistance that meets the New Earthquake Resistance Standards or equivalent resistance</li> <li>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</li> <li>3. Earthquake PML</li> </ol>
	Environmental, soil and other issues	<ol style="list-style-type: none"> <li>1. Investigation of whether the building contains hazardous materials</li> <li>2. Investigation of land use records and soil contamination</li> </ol>
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"> <li>1. Issues regarding ownership interests and mortgage</li> <li>2. Lease contract terms (including confirmation of area of rental units)</li> <li>3. Any documentation related to confirmation of border or agreement regarding cross-border issues</li> <li>4. Permission for occupancy of roads under the Traffic Law</li> <li>5. Compliance with laws and regulations related to environmental preservation</li> <li>6. Existence of factors impeding the enforceability of the previous owner's rights</li> </ol> <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"> <li>1. (If the concerned right is leasehold) the perfection of such leasehold and the absence of any right which supersedes such leasehold</li> <li>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</li> <li>3. Measures to be taken to ensure the maintenance of deposits; reserve rules or measures based on long-term renovation plan</li> <li>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</li> <li>5. Status of compartment of compartmentalized ownership</li> <li>6. Security arrangements established prior to involvement of NAF and assumption of any encumbrances or obligations in connection thereto</li> <li>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</li> <li>8. Characteristics of the lessor, the land lease right holder, compartmentalized ownership holders, co-owners or other relevant parties (for example, corporations or individuals)</li> <li>9. Terms of trust agreement in case the relevant rights are beneficial interests in real estate trust</li> </ol>

## 5. Points to Consider upon Acquisition of Senior Residences

### a. Advice from outside specialists

When NAF acquires any asset classified as healthcare facilities (see note below) upon its acquisition of any senior residence, it shall receive the necessary advice on analyses of external environments and business plans and other relevant issues from outside specialists of a consultancy, etc. with a thorough understanding of the business characteristics of healthcare facilities based on their experience in investment activities, financing activities, due diligence activities, real-estate appraisal activities or operating activities involving healthcare facilities, or any other relevant experience.

(Note) "Healthcare facilities" refers to "Senior residences offering services" as stipulated in Article 5 of the Act on Securement of Stable Supply of Elderly Persons' Housing, as well as "fee-based homes for the elderly" as stipulated in Article 29 of the Act on Social Welfare for the Elderly and "Long-term daily care for dementia patients in communal living situations" established pursuant to Article 5-2, Paragraph 6 of the said act.

### b. Considerations for users

In the acquisition of healthcare facilities, NAF shall pay its utmost attention to the following matters when managing its assets so that users of those facilities will not have any concerns about usage fees, terms and conditions of the contract and other relevant matters.

#### (i) Publication of NAF's scheme

NAF shall make its best efforts to encourage operators of facilities to ensure that their users fully understand NAF's scheme (for example, i) the owner of the facility is NAF and the services of the facility are provided by the operator; ii) NAF intends to own the facility under management for a long period in principle) and ensure that the REIT Management Company will announce such scheme to users as necessary.

#### (ii) Confirmation of proper operation of healthcare facilities

To ensure the user's sense of security, NAF shall make its best efforts to confirm whether the status, usage fees, terms and conditions of contracts and other relevant matters related to the facilities conform to relevant laws and regulations, and whether the facilities appropriately respond to notifications from local governments, etc.

#### (iii) Securing proper operation of healthcare facilities

To ensure the user's sense of security, NAF shall make its best efforts to cause the operators to make representations in lease contracts or alternative agreements or memorandum of understanding, etc. between NAF and the operators, that they will conform to the relevant laws and regulations applicable to healthcare facilities under NAF's management with respect to usage fees, terms and conditions of contracts and other relevant matters, and operate the facilities in compliance with administrative guidance.

## Policies for Portfolio Management and Operation

### 1. Yearly Management Plans

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

The REIT Management Company acts in accordance with the 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 in the case of significant changes in the operating environment.

### 2. Monitoring of the Property Management Company

#### a. Rental Apartments

The REIT Management Company periodically monitors whether Mitsui Fudosan Residential Lease Co., Ltd., the property management company selected by the REIT Management Company, meets the following requirements.

- An organizational structure that can execute property management operations according to the management and operation specifications of the REIT Management Company

- The capability to accomplish smooth new tenant recruitment

- A reasonable compensation level for property management operations compared to the market level

Depending on the results of monitoring, the REIT Management Company may require improvements or may change the property management company.

#### b. Hospitality Facilities

The REIT Management Company periodically monitors the status of management and operation of Hospitality Facilities conducted by their operators or business corporations according to their asset characteristics. Depending on the results of monitoring, the REIT Management Company seeks to consult and coordinate with the relevant operators or business corporations, including making requests for improvements, in order to ensure sound management and operation.

### 3. Property and Casualty Insurance Coverage

The REIT Management Company 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.

The REIT Management Company 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 PML for specific buildings is projected above 20 percent or when the acquisition of such property causes portfolio PML to rise above 15 percent, the REIT Management Company considers the impact from an earthquake, insurance premiums and any other relevant issues to determine whether or not to purchase earthquake insurance.

#### 4. 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 current and future rental and sales markets 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 (LTV) ratio

The policy is to keep the ratio of interest-bearing debt to NAF's total assets at or below 60 percent, although issues including the acquisition of assets may cause the LTV ratio to temporarily exceed 60 percent.

### 4. Derivatives

According to Article 29, Paragraph 2 of 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.

NAF discloses information in accordance with the Act on

Investment Trusts and Investment Corporations, 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.

## Sustainability Policy

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MFAFM, as the asset management company for NAF, in recognition of the importance of initiatives for sustainability including environmental considerations, etc. for carrying out asset management activities, strives to achieve asset management activities giving consideration to reduction of environmental load, enhancement of safety, security and comfort, as well as diversified affiliations and collaborations with various entities, in line with the "Group Environmental Policy" established by the Mitsui Fudosan Group.

## Corporate Data

Corporate office	4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan +81-3-3246-3677 <a href="http://www.naf-r.jp/english/">http://www.naf-r.jp/english/</a>
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 February 28, 2017)

Name	Number of units held	Percentage of total*
Japan Trustee Services Bank, Ltd. (Trust Account)	121,953	25.16
The Master Trust Bank of Japan, Ltd. (Trust Account)	54,465	11.24
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	31,502	6.50
The Nomura Trust and Banking Co., Ltd. (Investment Account)	17,340	3.57
Mitsui Fudosan Residential Co., Ltd.	15,600	3.21
The Chugoku Bank, Limited	9,576	1.97
Trust & Custody Services Bank, Ltd. (Money Trust Tax Account)	7,759	1.60
State Street Bank and Trust Company 505012	7,015	1.44
State Street Bank - West Pension Fund Clients - Exempt 505233	6,516	1.34
MetLife Insurance	5,916	1.22
<b>Total</b>	<b>277,642</b>	<b>57.30</b>

\* 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 February 28, 2017)

	Individuals	Trust banks (investment trusts, etc.)	Regional banks	Other financial institutions	Other institutions	Overseas investors	Securities companies	Total
Number of units held	25,673	251,965	75,105	35,571	22,156	69,846	4,206	484,522
Number of unitholders	5,518	18	56	77	124	201	14	6,008

#### Disclaimer

This document was prepared solely for the convenience of and reference by overseas investors and does not correspond to the original Japanese documents. The information provided in this document does not constitute the disclosure or asset management reports required under the Financial Instruments and Exchange Act or Act on Investment Trusts and Investment Corporations.

This English document contains selected information including a partial translation of the Securities Report (*Yuka shoken hokokusho*) filed on May 31, 2017 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from September 1, 2016 to February 28, 2017 of Nippon Accommodations Fund Inc. prepared pursuant to the Act on Investment Trusts and Investment Corporations. This document should not be deemed a summary of the above mentioned Securities Report and the Financial Statements and Performance Information Report. Nippon Accommodations Fund Inc. has exercised due care in providing the information in this document, but does not guarantee its accuracy or completeness.

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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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