

April 17, 2019

Financial Results for the Fiscal Period from September 1, 2018 to February 28, 2019

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

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1. Business Results for the Fiscal Period from September 1, 2018 to February 28, 2019

(1) Operating Results

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

	Total revenues		Operating income		Income before income taxes	
	(%)*		(%)*		(%)*	
For the period ended						
February 28, 2019	11,186	1.3	5,185	5.1	4,729	6.5
August 31, 2018	11,047	1.6	4,935	(0.4)	4,439	(0.2)

	Net income		Net income per unit	Net income/ net assets	Income before income taxes/ total assets	Income before income taxes/ operating income
	(%)*		(yen)	(%)	(%)	(%)
For the period ended						
February 28, 2019	4,728	6.5	9,759	3.4	1.6	42.3
August 31, 2018	4,438	(0.2)	9,161	3.2	1.5	40.2

* Percent figures show changes from previous period.

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

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/net assets (%)
For the period ended						
February 28, 2019	9,706	4,702	0	0	99.5	3.4
August 31, 2018	9,161	4,438	0	0	100.0	3.2

Note:

For the period ended February 28, 2019, the amounts of "Total distributions" and "Net income" are different because a part of retained earnings (¥26 million) was retained internally.

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

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
February 28, 2019	296,877	140,457	47.3	289,889
August 31, 2018	294,692	140,167	47.6	289,290

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

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
February 28, 2019	8,093	(5,564)	(2,438)	8,471
August 31, 2018	6,775	(2,114)	(3,947)	8,380

2. Forecasts for the Fiscal Period from March 1, 2019 to August 31, 2019 and Fiscal Period from September 1, 2019 to February 29, 2020

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

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*		(%)*		(%)*		(%)*		(yen)	(yen)
For the period ending										
August 31, 2019	11,345	1.4	5,126	(1.1)	4,652	(1.6)	4,651	(1.6)	9,600	0
February 29, 2020	11,357	0.1	5,248	2.4	4,773	2.6	4,772	2.6	9,850	0

* Percent figures show changes from previous period.

Note:

The net income per unit projections for the fiscal period ending August 31, 2019 and the fiscal period ending February 29, 2020 are ¥9,600 and ¥9,850, respectively.

3. Other

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

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

2. Total number of investment units issued

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

As of February 28, 2019: 484,522 units

As of August 31, 2018: 484,522 units

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

As of February 28, 2019: - units

As of August 31, 2018: - units

Disclaimer:

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

26th Period (February 2019) Overview of Investment

External Growth (Acquisition and sale of properties)

During the period under review, NAF newly acquired a total of three properties with a total acquisition price of ¥4,600 million: two properties in September 2018 and one property in January 2019. NAF sold Park Cube Ikebukuro Kanamecho in September 2018 (acquisition price in March 2007: ¥1,600 million, sale price: ¥1,600 million).

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

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. as property management company on management of NAF's rental apartments portfolio. The company and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, collaborate in the management of properties NAF owns, implementing effective management and operational activities based on regional characteristics and the individual features of each property. Specifically, NAF maintains and improves its rent levels and occupancy rate through the implementation of a leasing strategy that has been formulated for each individual property. In addition, NAF aims to reduce costs by utilizing the merits of outsourcing all property management tasks to the property management company while examining, whenever necessary, the adequacy of the grade of property management, cost of management and operation.

Meanwhile in the management of "Hospitality Facilities" ^(Note), NAF contracts out the management and operational activities to a professional operator or business corporation. The asset management company regularly monitors the management and operational activities, and makes adjustments through professional dialog with the operator or business corporation as necessary. In order to maintain and improve the competitiveness of NAF's portfolio, operations are adequately planned and carried out at the asset management company. These include appropriate renewal work according to the property age, and work to enhance the property value. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities in a timely manner.

In the period under review, NAF carried out renovations in common and private areas at Okawabata Apartment Communities. At other properties, NAF planned and implemented such works as changing the lighting in common areas to LED lighting.

(Note) "Hospitality Facilities" is a generic term for "Accommodation Assets" that includes the four categories of "Dormitories, Corporate Housing," "Serviced Apartments," "Senior Residences," and "Hotels," excluding "Rental Apartments."

Financial Strategy (Overview of funds procurement)

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

As a result, at the end of the period, total interest-bearing debt amounted to ¥149,500 million (¥2,000 million increase from previous period), the long-term debt ratio was 94.6%, the long-term, fixed-rate debt ratio was 92.0%, and the loan-to-value (LTV) ratio was 50.4%. The average annual

current maturity of long-term interest-bearing debt was 4.2 years and the number of financial institutions was 25. Furthermore, the weighted average interest rate at the end of the period was 0.61%.

NAF also has secured a commitment line for the purpose of securing flexible and stable fund procurement methods. At the end of the period under review, its total maximum borrowing amount was ¥15,000 million (it was increased by ¥5,000 million in October 2018).

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

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

Rating of NAF as of February 28, 2019 is as follows.

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

Overview of Performance and Distribution

In the period under review, NAF recorded total revenues of ¥11,186 million, operating income of ¥5,185 million, income before income taxes of ¥4,729 million and net income of ¥4,728 million. Part of the capital gains resulting from the sale of Park Cube Ikebukuro Kanamecho is to be internally reserved as a reserve for reduction entry. In addition to the above, NAF has decided to distribute the majority of the ¥4,703 million balance remaining after deduction of ¥26 million of reserve for reduction entry from retained earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥9,706.

Management Policy and Issues for the 27th Period Onward

External Growth (New acquisition of properties)

Concerning the real estate trading market, environment for property acquisitions is expected to remain difficult, for example, prime real estate prices remaining at a high level.

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

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

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

Internal Growth (Management and operation of leasehold properties)

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

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

Financial Strategy

In regard to borrowings, taking into account borrowing cost, NAF will conduct financing activities that emphasize on financing by long-term, fixed-rate loans and diversified repayment dates by taking measures to counter future interest rate risks and refinancing risks. With respect to the upper limit of LTV ratio, although the limit is set at around 60% in the asset management guidelines, NAF is aiming for a near-term upper limit at a level of around 55% in its external growth process.

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

Significant Subsequent Events

Not applicable

(Reference information)

The sales contract for the following asset was concluded on March 20, 2019. On March 28, 2019, (1) 45% co-ownership has been acquired, and (2) 55% co-ownership is planned to be acquired on April 19, 2019. The "Acquisition price" is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Axis Oshiage Terrace

Acquisition price:	(1) ¥1,174.5 million (45% of co-ownership) (2) ¥1,435.5 million (55% of co-ownership) Total ¥2,610 million
Appraised value:	¥2,750 million (date of value appraisal: January 31, 2019)
Type of property:	Real estate
Location (residence indication):	39-12 Mukojima 3-chome, Sumida-ku, Tokyo
Completion date:	December 27, 2016
Structure/Number of stories:	Flat-roofed reinforced concrete structure/9 stories
Rentable units:	80
Rentable area:	2,498.08 m ²
Sellers:	(1) Marubeni Corporation (2) Mitsui Fudosan Residential Co., Ltd.

The sales contract for the following asset was concluded on March 20, 2019. The planned acquisition date is April 19, 2019. The "Acquisition price" is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Axis Ikegami

Acquisition price:	¥1,260 million
Appraised value:	¥1,300 million (date of value appraisal: January 31, 2019)
Type of property:	Real estate
Location (residence indication):	17-8, Ikegami 7-chome, Ota-ku, Tokyo
Completion date:	March 6, 2015
Structure/Number of stories:	Flat-roofed reinforced concrete structure/5 stories
Rentable units:	45
Rentable area:	1,391.34 m ²
Seller:	Mitsui Fudosan Residential Co., Ltd.

The sales contract for the following asset was concluded on January 29, 2019. The planned acquisition date is May 30, 2019. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Chisun Hotel Hiroshima

Acquisition price: ¥1,880 million
 Appraised value^(Note): ¥1,910 million
 (date of value appraisal: November 30, 2018)
 Type of property: Real estate
 Location (residence indication): 14-7 Nobori-cho, Naka-ku, Hiroshima-shi, Hiroshima
 Completion date: November 22, 1986
 Structure/Number of stories: Flat-roofed steel reinforced concrete structure/11 stories
 Rentable area: 4,275.59 m²
 Seller: Not disclosed as the consent from the seller has not been obtained.

(Note)

The outline of real estate appraisal reports (obtained from DAIWA REAL ESTATE APPRAISAL CO., LTD.) as of February 28, 2019, which is the 26th period closing date, is as follows.

(in millions of yen, except as noted)

Appraised value	Income capitalization method					Cost method
	Value calculated by direct capitalization method	Direct cap rate	Value calculated by DCF method	Discount rate	Terminal cap rate	Cost method value
1,910	1,910	4.9%	1,910	4.7%	5.1%	1,840

This property is applicable to forward commitments (refers to the postdated sales contract under which payment and delivery shall be made at least one month after the conclusion of the contract, or any other contract similar thereto) by investment corporations as provided for in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators etc., defined by the Financial Services Agency. In the case of properties applicable to forward commitments, if the closing date of the accounting period falls in the period between the conclusion of the sales contract and the date of payment and delivery, it is specified in the internal rules of the asset management company to disclose the continually conducted appraised value as of the 26th period closing date.

Forecasts of Investment Performance

The forecasts for the 27th period (from March 1, 2019 to August 31, 2019) and for the 28th period (from September 1, 2019 to February 29, 2020) are as follows.

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

	27th period (August 2019)	28th period (February 2020)
+Total revenues	11,345	11,357
Operating income	5,126	5,248
Income before income taxes	4,652	4,773
Net income	4,651	4,772
Distribution per unit (not including distributions in excess of earnings) (yen)	9,600	9,850
Distribution in excess of earnings per unit (yen)	—	—

Notes: Underlying assumptions of forecasts

- Number of operating days:** - From March 1, 2019 to August 31, 2019 (184 days)
- From September 1, 2019 to February 29, 2020 (182 days)
- Investment assets:** - In the forecasts of investment performance, it is assumed that the number of properties is 127 properties, comprising the 125 properties owned by NAF as of the date of this document as well as the following properties that NAF plans to acquire.
- <To be acquired on April 19, 2019>
Park Axis Ikegami, and Park Axis Oshiage Terrace (55% of co-ownership)
 - <To be acquired on May 30, 2019>
Chisun Hotel Hiroshima
- In the forecasts of investment performance, it is assumed that, after the acquisition of above property to be acquired, no subsequent transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until February 29, 2020.
- The average month-end occupancy rates for total properties for the 27th period and 28th period are expected to be 97.3% and 97.6%, respectively.
- Expenses:** - The following expenses are assumed.

(in millions of yen)

	27th period	28th period
Fixed property taxes and urban planning taxes	605	605
Depreciation and amortization	2,022	2,012
Interest expense, etc.	474	474

- Interest-bearing debt:** - It is assumed that NAF will procure a total amount of ¥5,000 million in the 27th period to be used as funds for property acquisition.
- It is assumed that NAF's balance of interest-bearing debt after the above procurement that is ¥154,500 million shall not change until February 29, 2020.
- Number of units issued:** - We assume 484,522 units outstanding as of the date of this document.
- It is assumed that there shall be no issuance of new units until February 29, 2020.
- Distribution per unit:** -

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

Disclaimer:

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

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