



October 18, 2018

## Financial Results for the Fiscal Period from March 1, 2018 to August 31, 2018

**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/>)

Executive Director: Takashi Ikeda  
 Investment Trust  
 Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd.  
 President and CEO: Tateyuki Ikura  
 Inquiries: Tetsuji Kawakami, Director and Chief Financial Officer  
 Tel: +81-3-3246-3677

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### 1. Business Results for the Fiscal Period from March 1, 2018 to August 31, 2018

#### (1) Operating Results

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

	Total revenues		Operating income		Income before income taxes	
		(%)*		(%)*		(%)*
For the period ended						
<b>August 31, 2018</b>	<b>11,047</b>	<b>1.6</b>	<b>4,935</b>	<b>(0.4)</b>	<b>4,439</b>	<b>(0.2)</b>
February 28, 2018	10,870	0.9	4,955	6.0	4,448	8.0

	Net income		Net income per unit (yen)	Net income/ net assets (%)	Income before income taxes/ total assets (%)	Income before income taxes/ operating income (%)
		(%)*				
For the period ended						
<b>August 31, 2018</b>	<b>4,438</b>	<b>(0.2)</b>	<b>9,161</b>	<b>3.2</b>	<b>1.5</b>	<b>40.2</b>
February 28, 2018	4,447	8.0	9,178	3.2	1.5	40.9

\* Percent figures show changes from previous period.

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

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/net assets (%)
For the period ended						
<b>August 31, 2018</b>	<b>9,161</b>	<b>4,438</b>	<b>0</b>	<b>0</b>	<b>100.0</b>	<b>3.2</b>
February 28, 2018	9,179	4,447	0	0	100.0	3.2

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

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
<b>August 31, 2018</b>	<b>294,692</b>	<b>140,167</b>	<b>47.6</b>	<b>289,290</b>
February 28, 2018	293,998	140,176	47.7	289,308

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

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
<b>August 31, 2018</b>	<b>6,775</b>	<b>(2,114)</b>	<b>(3,947)</b>	<b>8,380</b>
February 28, 2018	6,235	(301)	(5,116)	7,666

## 2. Forecasts for the Fiscal Period from September 1, 2018 to February 28, 2019

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

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*	(%)*	(%)*	(%)*	(%)*	(%)*	(yen)	(yen)		
For the period ending										
February 28, 2019	11,058	0.1	5,031	2.0	4,556	2.6	4,555	2.6	9,350	0

\* Percent figures show changes from previous period.

Note:

1. Projected net income per unit for the fiscal period ending February 28, 2019 is ¥9,402.
2. "Distribution per unit" is calculated on the assumption that a part of retained earnings be retained internally.

### 3. Other

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

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

#### 2. Total number of investment units issued

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

As of August 31, 2018:	484,522 units
As of February 28, 2018:	484,522 units
- (2) The number of treasury investment units as of the period-end
 

As of August 31, 2018:	- units
As of February 28, 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.

## **25th Period (August 2018) Overview of Investment**

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

During the period under review, NAF newly acquired one property (acquisition price ¥1,700 million) in March 2018.

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

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

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

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

In the period under review, NAF carried out renovations in 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 ¥147,500 million (¥500 million increase from previous period), the long-term debt ratio was 95.3%, the long-term, fixed-rate debt ratio was 92.5%, and the loan-to-value (LTV) ratio was 50.1%. The average annual current maturity of long-term interest-bearing debt was 4.2 years and the number of financial institutions was 23. Furthermore, the weighted average interest rate at the end of the period was

0.63%.

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.

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

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

Rating of NAF as of August 31, 2018 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 ¥11,047 million, operating income of ¥4,935 million, income before income taxes of ¥4,439 million and net income of ¥4,438 million. In addition to the above, NAF has decided to distribute nearly the entire amount of earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥9,161.

## **Management Policy and Issues for the 26th 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 following asset was acquired on September 3, 2018. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Cube Nishi Shinjuku	
Acquisition price:	¥2,400 million
Appraised value <sup>(Note 1)</sup> :	¥2,430 million
	(date of value appraisal: January 31, 2018)
Type of property:	Real estate
Location (residence indication):	2-6 Kita-shinjuku 1-chome, Shinjuku-ku, Tokyo
Completion date:	December 26, 2014
Structure/Number of stories:	Flat-roofed reinforced concrete structure/13 stories
Rentable units:	57 residential, 1 retail, etc.
Rentable area:	1,809.56 m <sup>2</sup>
Seller:	ITOCHU Property Development, Ltd.

The following asset was acquired on September 27, 2018. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Axis Kanayama WEST	
Acquisition price:	¥1,770 million
Appraised value:	¥1,840 million
	(date of value appraisal: August 31, 2018)
Type of property <sup>(Note 2)</sup> :	Real estate
Location (residence indication):	4-3 Masaki 2-chome, Naka-ku, Nagoya-shi, Aichi
Completion date:	February 17, 2006
Structure/Number of stories:	Flat-roofed reinforced concrete structure/14 stories
Rentable units:	63
Rentable area:	4,795.13 m <sup>2</sup>
Seller:	Not disclosed as the consent from the seller has not been obtained.

The following asset was sold on September 27, 2018. The “Sales price” is exclusive of miscellaneous expenses, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Cube Ikebukuro Kanamecho	
Sales price:	¥1,620 million
Appraised value:	¥1,620 million
	(date of value appraisal: February 28, 2018)
Type of property <sup>(Note 3)</sup> :	Real estate

Location (residence indication): 27-9 Nishi-ikebukuro 5-chome, Toshima-ku, Tokyo  
 Completion date: March 23, 2007  
 Structure/Number of stories: Flat-roofed reinforced concrete structure/14 stories  
 Rentable units: 65  
 Rentable area: 1,886.82 m<sup>2</sup>  
 Buyer: Not disclosed as the consent from the buyer has not been obtained.

(Note 1)

*The outline of real estate appraisal reports (obtained from JLL Morii Valuation & Advisory K.K.) as of August 31, 2018, which is the 25th period closing date, is as follows.*

*(in millions of yen, except as noted)*

Name of property	Appraised value	Income capitalization method					Cost method	Appraisal company
		Value calculated by direct capitalization method	Direct cap rate	Value calculated by DCF method	Discount rate	Terminal cap rate	Cost method value	
Park Cube Nishi Shinjuku	2,480	2,520	4.1%	2,440	3.9%	4.3%	1,250	JLL Morii Valuation & Advisory K.K.

*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 25th period closing date.*

(Note 2)

*NAF terminated the trust as of the acquisition date after acquiring trust beneficiary interests of which trust property is the property acquired.*

(Note 3)

*NAF sold trust beneficiary interests of which trust property is the property sold after entrusting the property sold to the trustee as of the handover date.*



## **Forecasts of Investment Performance**

The forecasts for the 26th period (from September 1, 2018 to February 28, 2019) are as follows.

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

	26th period (February 2019)
Total revenues	11,058
Operating income	5,031
Income before income taxes	4,556
Net income	4,555
Distribution per unit (not including distributions in excess of earnings) (yen)	9,350
Distribution in excess of earnings per unit (yen)	—

### **Notes: Underlying assumptions of forecasts**

**Number of operating days:** - From September 1, 2018 to February 28, 2019 (181 days)

**Investment assets:** - The number of properties held by NAF as of the date of this document is 123. In the forecasts of investment performance, it is assumed that no subsequent transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until February 28, 2019.

- From Park Cube Ikebukuro Kanamecho, which was sold on September 27, 2018, approx. ¥46 million in gain on sale of investment properties is anticipated.

- The average month-end occupancy rate during the 26th period for total properties is expected to be 97.3%.

**Expenses:** - The following expenses are assumed.

(in millions of yen)

	26th period
Fixed property taxes and urban planning taxes	596
Depreciation and amortization	2,004
Interest expense, etc.	475

**Interest-bearing debt:** - It is assumed that NAF's balance of interest-bearing debt that is ¥150,500 million as of the date of this document shall not change until February 28, 2019.

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

- It is assumed that there shall be no issuance of new units until February 28, 2019.

**Distribution per unit:** -Regarding the gain from transfer of Park Cube Ikebukuro Kanamecho, in order to strengthen its financial position, NAF plans to internally retain approx. ¥25 million by implementing a reduction entry utilizing the "Special Provisions for Taxation in the Event of Advance Acquisition of Land, etc. in 2009 and 2010."

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.*