

October 19, 2021

Financial Results for the Fiscal Period from March 1, 2021 to August 31, 2021

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, 2021 to August 31, 2021

(1) Operating Results

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

	Total revenues		Operating income		Income before income taxes	
		(%)*		(%)*		(%)*
For the period ended						
August 31, 2021	11,986	3.7	5,428	3.1	4,978	2.4
February 28, 2021	11,560	0.3	5,266	(1.2)	4,862	(0.7)

	Net income		Net income per unit	Net income/net assets	Income before income taxes/total assets	Income before income taxes/operating income
		(%)*				
For the period ended						
August 31, 2021	4,978	2.4	9,887	3.3	1.5	41.5
February 28, 2021	4,861	(0.7)	9,874	3.3	1.6	42.1

* 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						
August 31, 2021	10,035	5,052	–	–	101.5	3.3
February 28, 2021	10,080	5,074	–	–	104.4	3.4

(Note 1) The payout ratio for the fiscal period ended February 28, 2021 is calculated based on the following formula due to the issuance of new units during the period.

$$\text{payout ratio} = \frac{\text{total amount of dividends (not including distribution in excess of earnings)}}{\text{net income}} \times 100$$

(Note 2) Distribution per unit for the fiscal period ended August 31, 2021 is calculated by dividing ¥5,052 million (retained earnings of ¥4,978 million plus reversal of reserves for reduction entry of ¥74 million) by the total number of investment units issued. In addition, distribution per unit for the fiscal period ended February 28, 2021 is calculated by dividing ¥5,074 million (retained earnings of ¥4,861 million plus reversal of reserves for reduction entry of ¥213 million) by the total number of investment units issued.

(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				
August 31, 2021	327,824	150,926	46.0	299,772
February 28, 2021	317,740	151,023	47.5	299,964

(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				
August 31, 2021	7,171	(20,482)	4,925	14,297
February 28, 2021	6,931	(2,739)	6,916	22,682

2. Forecasts for the Fiscal Period from September 1, 2021 to February 28, 2022 and Fiscal Period from March 1, 2022 to August 31, 2022

(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, 2022	12,132	1.2	5,671	4.5	5,212	4.7	5,211	4.7	10,350	—
August 31, 2022	12,187	0.5	5,529	(2.5)	5,066	(2.8)	5,065	(2.8)	10,060	—

* Percent figures show changes from previous period.

Note:

The net income per unit projections for the fiscal period ending February 28, 2022 and the fiscal period ending August 31, 2022 are ¥10,350 and ¥10,060, 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 August 31, 2021:	503,472 units
As of February 28, 2021:	503,472 units
- (2) The number of treasury investment units as of the period-end

As of August 31, 2021:	- units
As of February 28, 2021:	- 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.

31st Period (August 2021) Overview of Investment

Main Trend of NAF

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

Since being listed, NAF has continued to acquire properties and the assets under management at the end of the period under review consisted of 134 properties at a total acquisition price of ¥337,930 million (assets at time of listing: 27 properties at a total acquisition price of ¥101,385 million).

Investment Environment

During the six months ended August 31, 2021 (the “31st Period”), the Japanese economy showed signs of recovery, despite the continuing severe situation due to the impact of the novel coronavirus disease (COVID-19). Exports increased moderately due to the recovery of overseas economies, and corporate performance and capital investment, especially in the manufacturing industry, also recovered. However, personal consumption continued to be weak, primarily in the consumption of services, as the number of people infected with COVID-19 continued to increase. In NAF’s main investment area, the residential rental market, the number of tenant signing contracts and contract cancellations decreased significantly compared to previous years due to the thorough refrain from going out in the same period of the previous year, but in the period under review, tenant recruitment activities were generally conducted as usual even though the spread of the infections continued.

In the real estate trading market, transactions were carried out in a proactive manner as demand from investors with regard to rental apartments, where occupancy and revenue is stable, was steady.

External Growth (Acquisition and sale of properties)

During the period under review, NAF acquired seven properties in total (acquisition price of ¥19,400 million) including four properties (of which, two were additional acquisition of co-ownership) in April 2021 and three properties in June 2021.

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

In this environment, as a result of Mitsui Fudosan Residential Lease Co., Ltd., the property management company of NAF, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, properly collaborating and working on management and operation of NAF's rental apartments portfolio, occupancy rates for rental apartments were 95.7% at the end of the period under review, and rent change before and after turnover maintained an upward trend at 2.0% at the time of tenant turnover. 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), rental revenue is stable because NAF concludes long-term contracts regarding fixed rents to a professional operator or business corporation. Regarding the circumstances of each property, despite the continuing difficult situation for hotels, dormitories and corporate housing as well as senior residences have been stably occupied in general. In addition, 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, such as appropriate renewal work according to the property age, and work to enhance the property value, are systematically carried out, and in the period under review, NAF carried out facility upgrades and renovations in private areas at Okawabata Apartment Communities, etc. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities, which includes changing the lighting in common areas to LED lighting, in a timely manner.

(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. In the period under review, NAF continued to pursue financing from various sources with diversified repayment dates and an emphasis on long-term, fixed-rate loans in its procurement of funds by taking into account market trends and interest rate levels, and refinancing existing loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥169,500 million (¥10,000 million increase from previous period), the long-term debt ratio was 97.6%, the long-term, fixed-rate debt ratio was 95.3%, and the loan-to-value (LTV) ratio was 51.7%. The average remaining maturity of long-term interest-bearing debt was 4.8 years and the number of financial institutions was 26. Furthermore, the weighted average interest rate at the end of the period was 0.52%.

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

With respect to financing through investment corporation bonds, NAF filed a shelf-registration statement regarding its establishment of a maximum issuance amount for investment corporation

bonds for public offering in July 2021. The remaining balance of the planned issuance amount at the end of the period is ¥100,000 million.

Planned issuance amount	Up to ¥100,000 million
Scheduled period of issuance	From July 25, 2021 to July 24, 2023
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 working capital, etc.

Rating of NAF as of August 31, 2021 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 ¥11,986 million, operating income of ¥5,428 million, income before income taxes of ¥4,978 million and net income of ¥4,978 million. In addition to the above, NAF has decided to distribute ¥5,052 million that is the sum of ¥74 million in reversal of reserves for reduction entry and the full amount of retained earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥10,035.

Management Policy and Issues for the 32nd Period Onward

Looking ahead, the Japanese economy is expected to continue to recover, backed by the recovery of overseas economies as vaccination progresses. However, depending on the trends in COVID-19 infections, including spread of mutated strains of the virus, there are risks of stagnation in the domestic and overseas economies, and furthermore it is necessary to give consideration to risks impacting the real estate market and financial and capital markets.

While the supply of quality rental apartments in which NAF would invest continues to be limited in the 23 wards of Tokyo, where nearly 90 percent of NAF's rental apartments portfolio is located, and in the urban areas of other major cities ^(Note), the overall supply of rental apartments is gradually increasing. On the other hand, the needs of tenants to live in urban centers are expected to remain firm, but attention must be paid to demographic changes, changing needs for housing due to diversifying working styles and etc.

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

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

External Growth (New acquisition of properties)

NAF steadily acquires competitive properties that can respond to future changes in demand trends, 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 acquire "Hospitality Facilities," which are properties that offer stable revenue and competitiveness over the long term. NAF will keep the Hospitality Facilities' share of the portfolio (based on acquisition price) to a maximum of 10% in the near-term, and carry out operations that carefully select properties to acquire.

Internal Growth (Management and operation of leasehold properties)

NAF aims to achieve solid internal growth while maintaining asset value in the long term by carrying out dynamic leasing that can flexibly respond to the balance of supply and demand in the market going forward and changes in tenants' needs as well as maintaining and improving rent levels and occupancy rate, and reducing costs, 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

Forecasts of Investment Performance

The forecasts for the 32nd period (from September 1, 2021 to February 28, 2022) and for the 33rd period (from March 1, 2022 to August 31, 2022) are as follows. For the underlying assumptions of forecasts, please refer to “Underlying assumptions of forecasts for the 32nd period (from September 1, 2021 to February 28, 2022) and the 33rd period (from March 1, 2022 to August 31, 2022)” below.

	32nd period (February 2022)	33rd period (August 2022)
Total revenues	¥12,132 million	¥12,187 million
Operating income	¥5,671 million	¥5,529 million
Income before income taxes	¥5,212 million	¥5,066 million
Net income	¥5,211 million	¥5,065 million
Distribution per unit (not including distributions in excess of earnings)	¥10,350	¥10,060
Distribution in excess of earnings per unit	¥ —	¥ —

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

Underlying assumptions of forecasts for the 32nd period (from September 1, 2021 to February 28, 2022) and the 33rd period (from March 1, 2022 to August 31, 2022)

Item	Underlying assumptions
Number of operating days:	- From September 1, 2021 to February 28, 2022 (181 days) - From March 1, 2022 to August 31, 2022 (184 days)
Investment assets/ Total revenues	- The number of properties held by NAF as of the date of this document is 134 properties. In the forecasts of investment performance, it is assumed that no transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until August 31, 2022. - The average month-end occupancy rates for total properties for the 32nd period and 33rd period are expected to be 96.5% and 96.3%, respectively. - The actual figures may change due to factors such as transfer of properties.

Item	Underlying assumptions
Operating expenses	<ul style="list-style-type: none"> - The fixed property taxes and urban planning taxes recognized as expenses are expected to be ¥629 million for the 32nd period and ¥659 million for the 33rd period. However, when an investment asset is acquired, the fixed property taxes and urban planning taxes that are settled with the previous owner according to the number of days the asset is owned are not recognized as expenses because they are included in the acquisition price. - The amounts recognized for the repairs and maintenance expenses and outsourcing expenses of buildings are the required amounts forecast for the number of operating days. However, because repairs and maintenance expenses and outsourcing expenses may arise suddenly due to some unexpected cause (building damage, etc.), amounts usually vary depending on the year, some expenses arise occasionally, etc., the repair and maintenance expenses and outsourcing expenses for the number of operation days may be different from the amounts forecast. - We calculate depreciation and amortization expenses (including ancillary expenses upon initial acquisition) using the straight-line method, and the expenses are expected to be ¥2,048 million for the 32nd period and ¥2,004 million for the 33rd period.
Interest-bearing debt/ Non-operating expenses	<ul style="list-style-type: none"> - It is assumed that NAF's balance of interest-bearing debt, which is ¥171,500 million as of the date of this document, shall not change until August 31, 2022. In addition, it is assumed that loans that become due during the period will be fully refinanced. - Interest expense and interest expenses on investment corporation bonds, etc. are expected to be ¥453 million for the 32nd period and ¥457 million for the 33rd period. - Amortization of costs related to the issuance of new units, etc. is expected to be ¥5 million for the 32nd period and ¥5 million for the 33rd period.
Number of units issued	<ul style="list-style-type: none"> - We assume 503,472 units outstanding as of the date of this document. In the forecasts of investment performance, it is assumed that there shall be no issuance of new units until August 31, 2022.
Distribution per unit (not including distributions in excess of earnings)	<ul style="list-style-type: none"> - Distribution (distribution per unit) is calculated assuming it will be in accordance with the Distribution Policy set forth in the Articles of Incorporation of NAF. - The actual amount may change due to factors such as fluctuations in rent revenues owing to changes in tenants, transfer of properties, interest rate fluctuations, and additional issuance of investment units.

Item	Underlying assumptions
Distribution in excess of earnings per unit	- There is no distribution in excess of earnings planned as of the date of this document.
Other	<ul style="list-style-type: none"> - NAF has assumed no enforcement of such revisions to laws and regulations, tax systems, accounting standards, regulations of the Tokyo Stock Exchange and rules of The Investment Trusts Association, Japan, etc. that may affect the above forecasts. - NAF's forecasts assume no unforeseen significant changes in general economic trends or conditions in the real estate market.

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.