

April 19, 2021

Financial Results for the Fiscal Period from September 1, 2020 to February 28, 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/>)

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Scheduled Filing Date of Securities Report: May 31, 2021

Scheduled Commencement Date of Cash Distribution Payment: May 17, 2021

1. Business Results for the Fiscal Period from September 1, 2020 to February 28, 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						
February 28, 2021	11,560	0.3	5,266	(1.2)	4,862	(0.7)
August 31, 2020	11,520	1.0	5,332	0.5	4,898	0.7

	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, 2021	4,861	(0.7)	9,874	3.3	1.6	42.1
August 31, 2020	4,897	0.7	10,108	3.5	1.6	42.5

* 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, 2021	10,080	5,074	—	—	104.4	3.4
August 31, 2020	10,108	4,897	—	—	100.0	3.5

(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 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				
February 28, 2021	317,740	151,023	47.5	299,964
August 31, 2020	305,840	141,213	46.2	291,448

(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, 2021	6,931	(2,739)	6,916	22,682
August 31, 2020	6,790	(7,062)	(895)	11,574

2. Forecasts for the Fiscal Period from March 1, 2021 to August 31, 2021 and Fiscal Period from September 1, 2021 to February 28, 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										
August 31, 2021	11,875	2.7	5,289	0.4	4,835	(0.5)	4,834	(0.6)	9,750	—
February 28, 2022	11,906	0.3	5,449	3.0	4,995	3.3	4,994	3.3	9,920	—

* Percent figures show changes from previous period.

Note 1:

The net income per unit projections for the fiscal period ending August 31, 2021 and the fiscal period ending February 28, 2022 are ¥9,602 and ¥9,920, respectively.

Note 2:

Distribution per unit for the fiscal period ending August 31, 2021 has been calculated assuming that ¥4,908 million that is the sum of ¥74 million in reversal of reserves for reduction entry and ¥4,834 million in net income will be distributed.

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, 2021: 503,472 units

As of August 31, 2020: 484,522 units

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

As of February 28, 2021: - units

As of August 31, 2020: - 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.

30th Period (February 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 129 properties at a total acquisition price of ¥318,441 million (assets at time of listing: 27 properties at a total acquisition price of ¥101,385 million).

Investment Environment

During the six months ended February 28, 2021 (the “30th Period”), the Japanese economy showed signs of recovery despite the situation continuing to be difficult due to the impact of novel coronavirus disease (COVID-19). Amid the recovery of exports due to the economies of major trade partners improving, production activities, primarily in the manufacturing industry, steadily recovered as well. Corporate earnings, primarily in the manufacturing industry, also recovered. Furthermore, despite personal consumption also recovering as a result of various policies, there was weakness, primarily in the consumption of services, such as travel and eating out, due to the declaration of a state of emergency applicable to 11 prefectures due to the infection disease spreading again in January, 2021.

In NAF's main investment area, the residential rental market, despite the expected impact, such as the number of contracts concluded decreasing significantly due to the stagnation of tenant recruiting activities because of the spread of infection, in the previous period, tenant recruiting activities in the period under review has generally returned to normal. However, there are signs that the balance of supply and demand of rental apartments will change in central Tokyo, which has been extremely tight thus far, as tenants' needs are diversifying due to lifestyle changes that came about because of the spread of infection.

In the real estate trading market, transactions by investors in Japan and overseas 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 newly acquired 35% co-ownership of Park Axis Toyochō Shinsui Koen in October 2020 (acquisition price of ¥2,233 million).

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 improved from 96.0% at the end of the previous period (the 29th Period) to 96.8% at the end of the period under review, and rent change before and after turnover maintained an upward trend at 3.2% 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 difficult situation continuing due to reduced demand 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 renovations in private areas at Okawabata Apartment Communities. 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. During the period under review, NAF procured ¥9,800 million in funds by issuing a total of 18,950 investment units by public offering and third-party allocation, and newly borrowed ¥2,000 million in funds from financial institutions in order to appropriate funds for the acquisition of new properties. In addition, NAF pursued 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 ¥159,500 million (¥2,000 million increase from previous period), the long-term debt ratio was 98.1%, the long-term, fixed-rate debt ratio was 95.6%, and the loan-to-value (LTV) ratio was 50.2%. The average annual current maturity of long-term interest-bearing debt was 4.6 years and the number of financial institutions was 26. Furthermore, the weighted average interest rate at the end of the period was 0.54%.

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 2019. The remaining balance of the planned issuance amount at the end of the period is ¥96,000 million.

Planned issuance amount	Up to ¥100,000 million
Scheduled period of issuance	From July 25, 2019 to July 24, 2021
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, 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 ¥11,560 million, operating income of ¥5,266 million, income before income taxes of ¥4,862 million and net income of ¥4,861 million. In addition to the above, NAF has decided to distribute ¥5,074 million that is the sum of ¥213 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 ¥10,080.

Management Policy and Issues for the 31st Period Onward

Looking ahead, the uncertain situation is expected to continue for the Japanese economy due to the impacts of COVID-19. Furthermore, it is necessary to give consideration to risks impacting the real estate market and financial and capital markets due to economic stagnation in Japan and overseas due to the lengthening of the impact.

While the supply of quality rental apartments in which NAF would invest is generally 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), it is necessary to pay attention to factors such as the possibility that the influx of people from other regions will decrease due to the impact of COVID-19, and changes in needs for residences due to the spread of working from home and teleworking as well as the diversification of working styles.

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

(Reference information)

The following asset was acquired on April 5, 2021. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Cube Oimachi Residence

Acquisition price:	¥1,742 million
Appraised value (Notes 1, 2):	¥1,960 million
	(date of value appraisal: October 31, 2020)
Type of property:	Real estate (30% of co-ownership)
Location (residence indication):	22-16 Oi 1-chome, Shinagawa-ku, Tokyo
Completion date:	January 10, 2018
Structure/Number of stories:	Flat-roof reinforced concrete structure/15 stories
Rentable units (total):	170 residential, 1 retail, etc.
Rentable area (total):	4,271.17 m ²
Seller:	Mitsui Fudosan Residential Co., Ltd.

Park Axis Toyochō Shinsui Koen

Acquisition price:	¥4,147 million
Appraised value (Notes 1, 3):	¥4,391 million
	(date of value appraisal: October 31, 2020)
Type of property:	Real estate (65% of co-ownership)
Location (residence indication):	34-4 Minamisuna 2-chome, Koto-ku, Tokyo
Completion date:	August 29, 2014
Structure/Number of stories:	Flat-roof reinforced concrete structure/14 stories
Rentable units (total):	190 residential, 2 retail, etc.
Rentable area (total):	7,254.57 m ²
Seller:	Mitsui Fudosan Residential Co., Ltd.

Park Axis Ofuna

Acquisition price: ¥2,100 million
Appraised value ^(Note 1): ¥2,320 million
(date of value appraisal: October 31, 2020)
Type of property: Real estate
Location (residence indication): 9-29 Kasama 1-chome, Sakae-ku, Yokohama-shi, Kanagawa
Completion date: January 12, 2010
Structure/Number of stories: Flat-roofed steel reinforced concrete structure/6 stories
Rentable units: 73
Rentable area: 4,752.68 m²
Seller: Mitsui Fudosan Residential Co., Ltd.

Campus terrace Waseda

Acquisition price: ¥1,810 million
Appraised value ^(Note 1): ¥1,870 million
(date of value appraisal: October 31, 2020)
Type of property: Real estate
Location (residence indication): 39-13 Sekiguchi 1-chome, Bunkyo-ku, Tokyo
Completion date: January 31, 2020
Structure/Number of stories: Flat-roofed steel reinforced concrete structure/7 stories
Rentable area: 1,747.51 m²
Seller: Mitsui Fudosan Residential Co., Ltd.

Note 1: The outline of real estate appraisal reports (obtained from Daiwa Real Estate Appraisal Co., Ltd. Japan Real Estate Institute and JLL Morii Valuation & Advisory K.K.) as of February 28, 2021, which is the 30th 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 Oimachi Residence (Note 2)	1,960	1,950	3.7%	1,890	3.5%	3.9%	1,380	Daiwa Real Estate Appraisal Co., Ltd.
Park Axis Toyochō Shinsui Koen (Note 3)	4,511	4,472	3.9%	4,361	3.6%	4.1%	4,108	Japan Real Estate Institute
Park Axis Ofuna	2,370	2,400	4.8%	2,330	4.6%	5.0%	1,610	JLL Morii Valuation & Advisory K.K.
Campus terrace Waseda	1,910	1,940	4.0%	1,870	3.8%	4.2%	1,190	JLL Morii Valuation & Advisory K.K.

These properties are 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 30th period closing date.

Note 2: The figures “Appraised value,” “Value calculated by direct capitalization method,” “Value calculated by DCF method,” and “Cost method value” that pertain to Park Cube Oimachi Residence describe amounts that are equivalent to 30% ownership acquired on April 5, 2021 presented above.

Note 3: The figures “Appraised value,” “Value calculated by direct capitalization method,” “Value calculated by DCF method,” and “Cost method value” that pertain to Park Axis Toyochō Shinsui Koen describe amounts that are equivalent to 65% ownership acquired on April 5, 2021 presented above.

Forecasts of Investment Performance

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

	31st period (August 2021)	32nd period (February 2022)
Total revenues	¥11,875 million	¥11,906 million
Operating income	¥5,289 million	¥5,449 million
Income before income taxes	¥4,835 million	¥4,995 million
Net income	¥4,834 million	¥4,994 million
Distribution per unit (not including distributions in excess of earnings)	¥9,750	¥9,920
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 31st period (from March 1, 2021 to August 31, 2021) and the 32nd period (from September 1, 2021 to February 28, 2022)

Item	Underlying assumptions
Number of operating days:	- From March 1, 2021 to August 31, 2021 (184 days) - From September 1, 2021 to February 28, 2022 (181 days)
Investment assets/ Total revenues	- The number of properties held by NAF as of the date of this document is 131 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 February 28, 2022. - The average month-end occupancy rates for total properties for the 31st period and 32nd period are expected to be 96.1% and 96.2%, 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 ¥631 million for the 31st period and ¥631 million for the 32nd 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 ¥2,034 million for the 31st period and ¥2,008 million for the 32nd 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 ¥159,500 million as of the date of this document, shall not change until February 28, 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 ¥448 million for the 31st period and ¥448 million for the 32nd period. - Amortization of costs related to the issuance of new units, etc. is expected to be ¥5 million for the 31st period and ¥5 million for the 32nd 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 February 28, 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. - Reversal of internal reserves (reserve for reduction entry) is expected to be ¥74 million for the 31st period. - 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.