

## Financial Results for the Fiscal Period From March 1, 2012 to August 31, 2012

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

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### 1. Business Results for the Fiscal Period from March 1, 2012 to August 31, 2012

#### (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, 2012</b>	<b>8,103</b>	<b>3.1</b>	<b>3,634</b>	<b>0.6</b>	<b>2,856</b>	<b>0.8</b>
February 29, 2012	7,857	3.9	3,613	5.6	2,833	7.7

  

	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						
<b>August 31, 2012</b>	<b>2,855</b>	<b>0.8</b>	<b>14,665</b>	<b>2.7</b>	<b>1.2</b>	<b>35.2</b>
February 29, 2012	2,832	7.7	14,548	2.7	1.2	36.1

\*Percent figures show changes from previous period

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

	Distribution per unit  (yen)	Total distributions	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, 2012</b>	<b>14,306</b>	<b>2,785</b>	–	–	<b>97.6</b>	<b>2.6</b>
February 29, 2012	14,548	2,832	–	–	100.0	2.7

Note:

For the period ended August 31, 2012, the amounts of “Total distributions” and “Net income” are different because a part of retained earnings (¥70 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				
<b>August 31, 2012</b>	<b>237,854</b>	<b>106,090</b>	<b>44.6</b>	<b>544,863</b>
February 29, 2012	237,222	106,068	44.7	544,746

**(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, 2012</b>	<b>5,604</b>	<b>(2,065)</b>	<b>(2,331)</b>	<b>6,159</b>
February 29, 2012	4,403	(7,805)	3,870	4,951

## 2. Forecasts for the Fiscal Period from September 1, 2012 to February 28, 2013

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

	Total revenues	Operating income	Income before income taxes	Net income	Distribution per unit	Distribution in excess of earnings per unit
	(%)*	(%)*	(%)*	(%)*	(yen)	(yen)
For the period ending February 28, 2013	7,905 (2.5)	3,570 (1.8)	2,804 (1.8)	2,803 (1.8)	14,400	—

\*Percent figures show changes from previous period

Notes:

1. "Distribution per unit" does not include distribution in excess of earnings per unit.
2. Projected net income per unit for the fiscal period ending February 28, 2013 is ¥14,400.

## 3. Other

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

- (1) Changes 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. Number of investment units issued

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

As of August 31, 2012:	194,711 units
As of February 29, 2012:	194,711 units

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

As of August 31, 2012:	- units
As of February 29, 2012:	- units

Note:

Net income per unit is calculated by dividing net income by the weighted average number of investment units: 194,711 units as of August 31, 2012, and 194,711 units as of February 29, 2012.

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.

### **13th Period (August 2012) Overview of Operating Results**

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

	Result of the 13th Period (August 2012) (1)	Forecast of the 13th Period	Result of the 12th Period (February 2012) (2)	Comparison with the 12th Period (1)-(2)
Number of operating days	184	184	182	2
Total revenues	8,103	8,075	7,857	245
Income before income taxes	2,856	2,757	2,833	22
Net income	2,855	2,757	2,832	22
Distribution per unit (yen)	14,306	13,800	14,548	(242)
Number of investment properties	88	88	87	1
Average occupancy rate at end of period (%)	95.8	Approx. 95	96.2	(0.4)

#### **Overview of Performance and Distribution**

In the period under review, NAF recorded total revenues of ¥8,103 million, operating income of ¥3,634 million, income before income taxes of ¥2,856 million and net income of ¥2,855 million. In addition to the above, NAF has decided to distribute the majority of the ¥2,785 million balance remaining after deduction of ¥70 million of reserve for reduction entry under Article 66-2 of the Act on Special Measures Concerning Taxation 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 ¥14,306.

#### **13th Period (August 2012) Overview of Investment**

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

During the period under review, NAF acquired 2 properties in March 2012 (total acquisition price: ¥1,700 million) and sold Park Cube Keio Hachioji in April 2012 (acquisition price in August 2006: ¥991 million, sale price: ¥1,020 million).

The gain from transfer of Park Cube Keio Hachioji will be internally retained as a reserve by implementing a reduction entry utilizing the "Special Provisions for Taxation in the Event of Advance Acquisition of Land, etc. in 2009 and 2010" under Article 66-2 of the Act on Special Measures Concerning Taxation.

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

Mitsui Fudosan Housing Lease Co., Ltd., the master property management company (below, "Master PM"), and the asset management company collaborate in the management of properties held by NAF with the aim of implementing effective management and operation activities in accordance with regional characteristics and the individual features of each property. These include efforts such as rapid management and operations by the Master PM applying the portfolio management system, tenant recruiting activities suited to the circumstances of individual properties, the streamlining of management cost reduction efforts, interior renovations at Okawabata Apartment Communities, one of the principle properties of NAF, and provide tenant services corresponding to various needs in accordance with the results of resident questionnaires.

## Financial Strategy (Overview of funds procurement)

During the period under review, NAF borrowed ¥1,500 million as funds for the acquisition of new properties, etc. Also, while taking into account market trends and interest rate levels, NAF refinanced its existing loans. In addition, NAF repaid a total of ¥1,000 million of its short-term loans with cash reserves. As a result, total interest-bearing debt at the end of the period amounted to ¥126,500 million, while the long-term loans to total interest-bearing debt ratio was 94.1% (ratio excluding long-term loans due within one year: 79.1%). Also, LTV (loan-to-value ratio) at the end of the period was 53.2%.

A shelf-registration statement of investment corporation bonds in public offering was filed at the Kanto Local Finance Bureau in July 2011. An overview of the shelf-registration statement is given below. 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, 2011 to July 17, 2013
Purpose for funds	Acquisition of new specified assets (same meaning as defined in Article 2, Paragraph 1 of the Investment Trust and Investment Corporation Act of Japan), repayment of borrowings, repayment of tenant security deposit, payments for maintenance and renovation, and operational use

Rating of NAF as of August 31, 2012 is as follows.

Rating agency	Rating subject	Rating
Moody's Japan K.K. (Moody's)	Issuer credit rating	A 3 (Outlook for rating: Stable)
Rating and Investment Information, Inc. (R&I)	Issuer credit rating	A A - (Trend of rating: Stable)
Standard & Poor's Ratings Japan K.K. (S&P)	Long-term corporate Short-term corporate	A + (Outlook for rating: Stable) A -1

## **Significant Subsequent Events**

Not applicable.

(Reference information)

On September 26, 2012, NAF concluded an anonymous partnership agreement with Godo Kaisha ABF1 as the operator and acquired the following equity interest in the anonymous partnership on the same date.

Name of asset acquired:	(Anonymous partnership equity interest in) Godo Kaisha ABF1
Type of asset acquired:	Equity interest in anonymous partnership investing in domestic real estate in trust beneficiary interest
Real estate in trust:	Iris Nihonbashi Suitengu Iris Ginza East
Investment amount:	¥150 million (9.1% of total anonymous partnership equity interest)

## **Forecasts of Investment Performance**

The forecasts for the 14th period (from September 1, 2012 to February 28, 2013) are as follows.

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

	14th period (February 2013)
Total revenues	7,905
Income before income taxes	2,804
Net income	2,803
Distribution per unit (yen)	14,400
Distribution in excess of earnings per unit (yen)	—

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

**Number of operating days:** -From September 1, 2012 to February 28, 2013 (181 days)

**Investment assets:** -The number of properties held by NAF as of the date of this document is 88, in addition to 1 asset as an equity interest in an anonymous partnership relating to real estate. In the forecasts of investment performance, it is assumed that no subsequent transfer of properties (acquisition of new properties, transfer of properties acquired, etc.) shall occur until February 28, 2013.

-The occupancy rate at the end of the 14th period for total properties is expected to be approx. 95%.

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

*(in millions of yen)*

	14th period
Fixed property taxes and urban planning taxes	381
Depreciation and amortization	1,706
Interest expense and interest expenses on investment corporation bonds	765

**Interest-bearing debt:** -It is assumed that NAF's balance of interest-bearing debt that is ¥126,500 million as of the date of this document shall not fluctuate until February 28, 2013.

**Number of units issued:** -We assume 194,711 units outstanding as of the date of this document. -It is assumed that, there shall be no issuance of new units until February 28, 2013.

The forecasts are the figures calculated based on the above assumptions at the time of preparation of this information. Therefore, actual total revenues, income before income taxes, net income and distribution per unit may be subject to change due to acquisition or sale of properties in future, 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.

## **Management Policy and Issues for the 14th Period Onward**

NAF has always aimed to maximize its unitholder value through investments in accommodation properties and the utilization of the Mitsui Fudosan Group as well as the formulation and management of a high quality portfolio centered on rental residential properties located in the 23 wards of Tokyo.

From the 14th period onward, we aim to manage our portfolio stably based on the above-mentioned policies and further increase our unitholder value by achieving internal and external growth expectations.

### **External Growth (New acquisition of properties)**

We will strive to rapidly obtain the best real estate information possible by utilizing our pipeline to the Mitsui Fudosan Group and fortifying our independent information channel consisting of the asset management company. Our basic strategy will be to stably expand our portfolio based on the Park Axis Series developed by Mitsui Fudosan Co., Ltd. in addition to the Park Cube Series constructed by other developers. Moreover, we will work to steadily acquire properties considered to possess mid- to long-term competitive advantages through individual strategies such as enhancing our portfolio within the 23 wards of Tokyo and other parts of the Tokyo area, mainly with single-occupant and compact residential properties for which a high occupancy rate is expected, and carefully selecting properties for investment in the major cities of regional areas. We will also consider making investments in “Equity Interests in Anonymous Partnerships relating to Real Estate” or “Real Estate-Backed Securities” for such purposes as securing opportunities for property acquisitions.

The main part of the acquisition strategy of NAF continues to be stable acquisition of “Rental Apartments”. However, it will continue to consider making acquisitions of “Other Accommodation Assets”, including dormitories and corporate housing, as the investment market in “Other Accommodation Assets”, excluding “Rental Apartments”, appears to have matured in some categories. In the management of its portfolio, NAF has set the upper limit of the share of “Other Accommodation Assets” in the overall portfolio to around 10% (on the basis of acquisition price) for the time being (the share of “Other Accommodation Assets” in the overall portfolio was 4.2% at the end of the 13th period).

We will also continue to work towards effectuating high quality due diligence when acquiring properties in order to avoid risk.

### **Internal Growth (Management and operation of leasehold properties)**

NAF will aim to improve its rent levels and occupancy rate through the formulation and implementation of a leasing strategy that takes into account the characteristics of each individual property with the objective of maximizing rent revenues over the mid- to long-term. NAF will review the adequacy of the grade of property management and cost of management and operation as to each invested property in an appropriate timeframe and manner and reduce cost by the rational review of management cost by utilizing the merits of outsourcing all property management tasks to the Master PM. NAF will continue to aim to maintain and enhance market



competitiveness by implementing strategic renovations, primarily at Okawabata Apartment Communities.

Further, with the help of Mitsui Fudosan Co., Ltd., NAF will work to establish brand power by concentrating on the market penetration of the “Park Axis” brand, NAF’s main invested asset, and the further enhancement of name recognition on the rental housing market.

### **Financial Strategy**

NAF will continue to emphasize the continued use of long-term, fixed-rate loans taking into account measures to counter future interest rate and refinancing risks. Regarding LTV (loan-to-value ratio), the upper limit is set at around 60%. NAF will examine the issuance of new units paying attention to market trends and distribution 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 the planned issuance amount, for which shelf-registration of NAF bonds has been carried out.

*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 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.*