

Steady Portfolio Growth

12th Period

NAF Report | September 2011 – February 2012

<http://www.naf-r.jp/english/index.html>

Profile



Nippon Accommodations Fund Inc. (“NAF”) was incorporated as an investment corporation on October 12, 2005 with an initial investment by Mitsui Fudosan Co., Ltd. (“Mitsui Fudosan”), and was listed on the Tokyo Stock Exchange on August 4, 2006 with assets of more than ¥100 billion. NAF invests in accommodation assets* located mainly in the 23 wards of Tokyo. The Investment Trust and Investment Corporation Act of Japan requires an investment corporation to be managed by an external entity. NAF’s assets are managed by Mitsui Fudosan Accommodations Fund Management Co., Ltd. (“MFAFM”), a 100 percent subsidiary of Mitsui Fudosan.

* Accommodation assets in this report are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences. They do not include hotel properties.

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NAF Snapshot (As of February 29, 2012)

Profitability

96.2%

An occupancy rate of 96.2 percent

5.4%

Net operating income (NOI) yield* of 5.4 percent

¥14,548

Distribution per unit of ¥14,548 for the 12th Period

Outstanding Portfolio

¥231,227 million

Portfolio of 87 superior properties with a total acquisition price of ¥231,227 million

374,528.89m² / 9,131 units

9,131 units with a total rentable area of 374,528.89m²

83.7%

83.7 percent of portfolio located in the 23 wards of Tokyo

Financial Stability

A2, AA-, A+

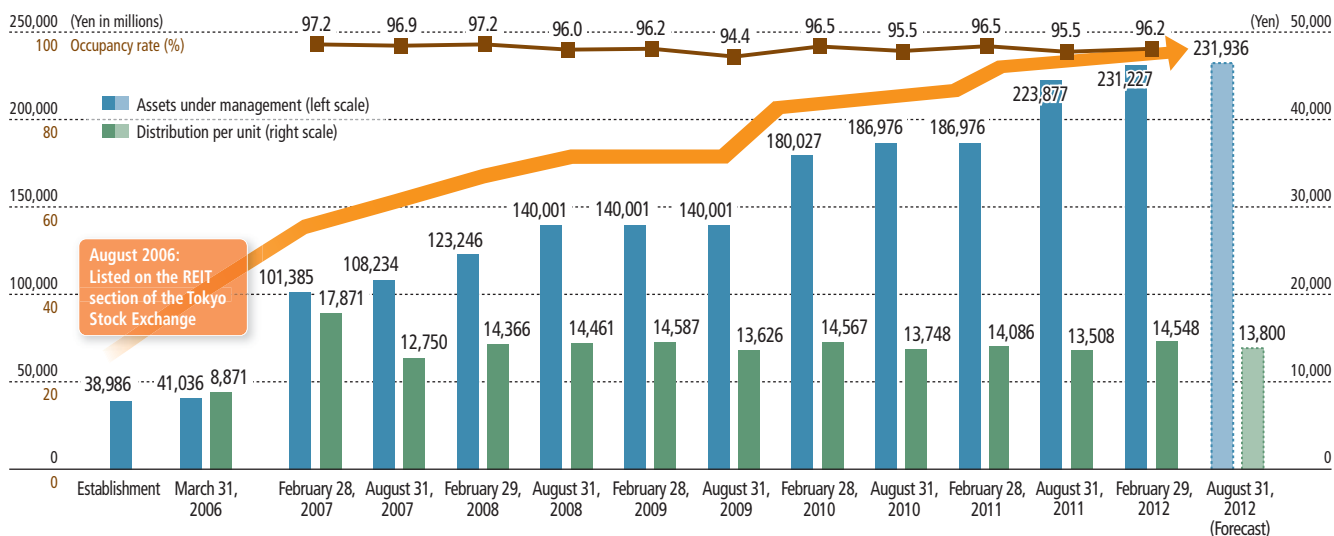
Rated A2 by Moody's; AA- by Rating and Investment Information; and A+ (Long-term) and A-1 (Short-term) by Standard & Poor's

53.1%

LTV (Loan-to-value) ratio of 53.1 percent, ratio of long-term debt of 94.4 percent

* Weighted average of annual NOI yield on the acquisition value of each property

Asset Growth (Acquisition Price Basis) / Occupancy Rate / Distribution per Unit

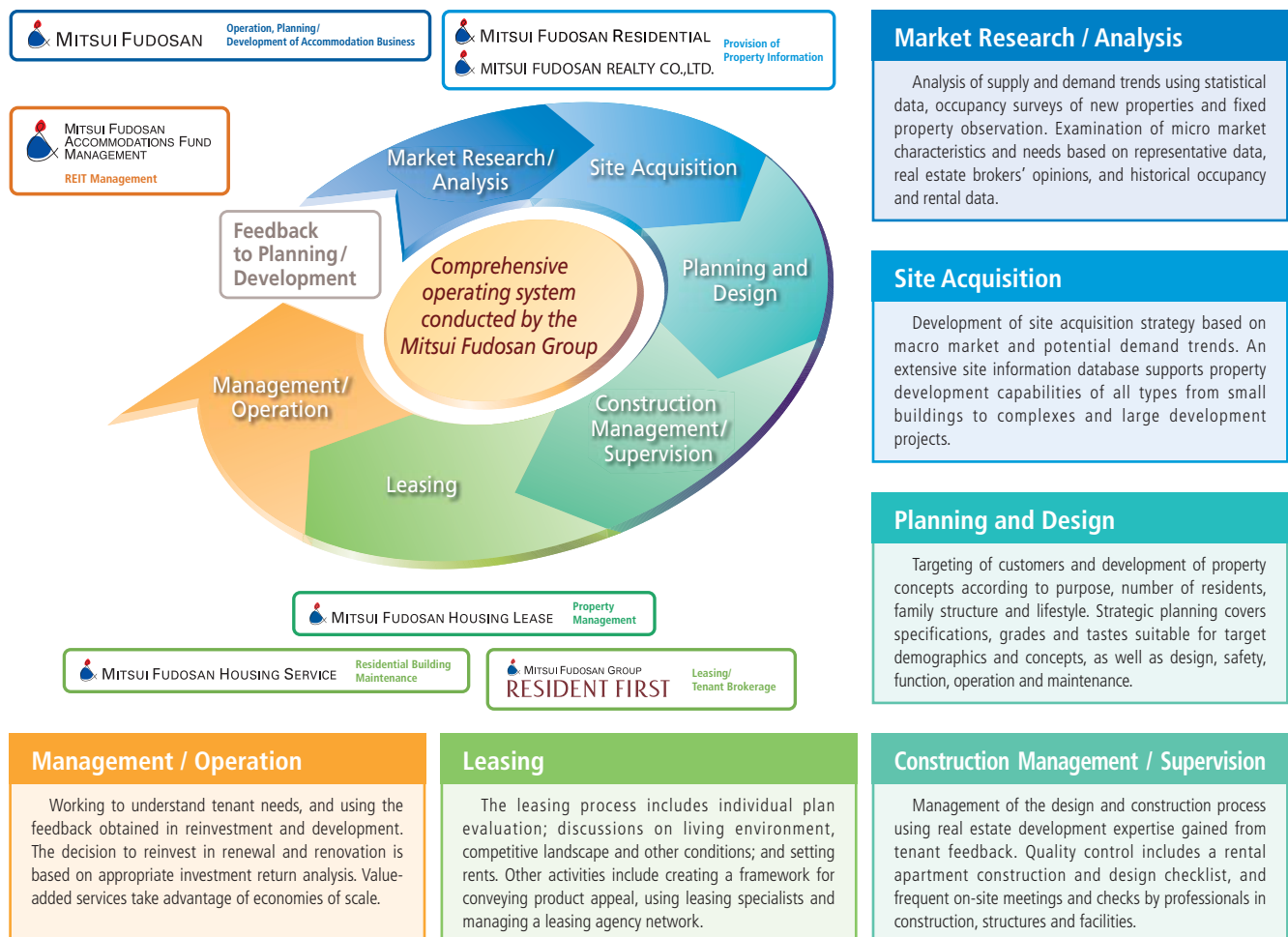


NAF's Two Core Strategies



1. Utilization of the Mitsui Fudosan Group

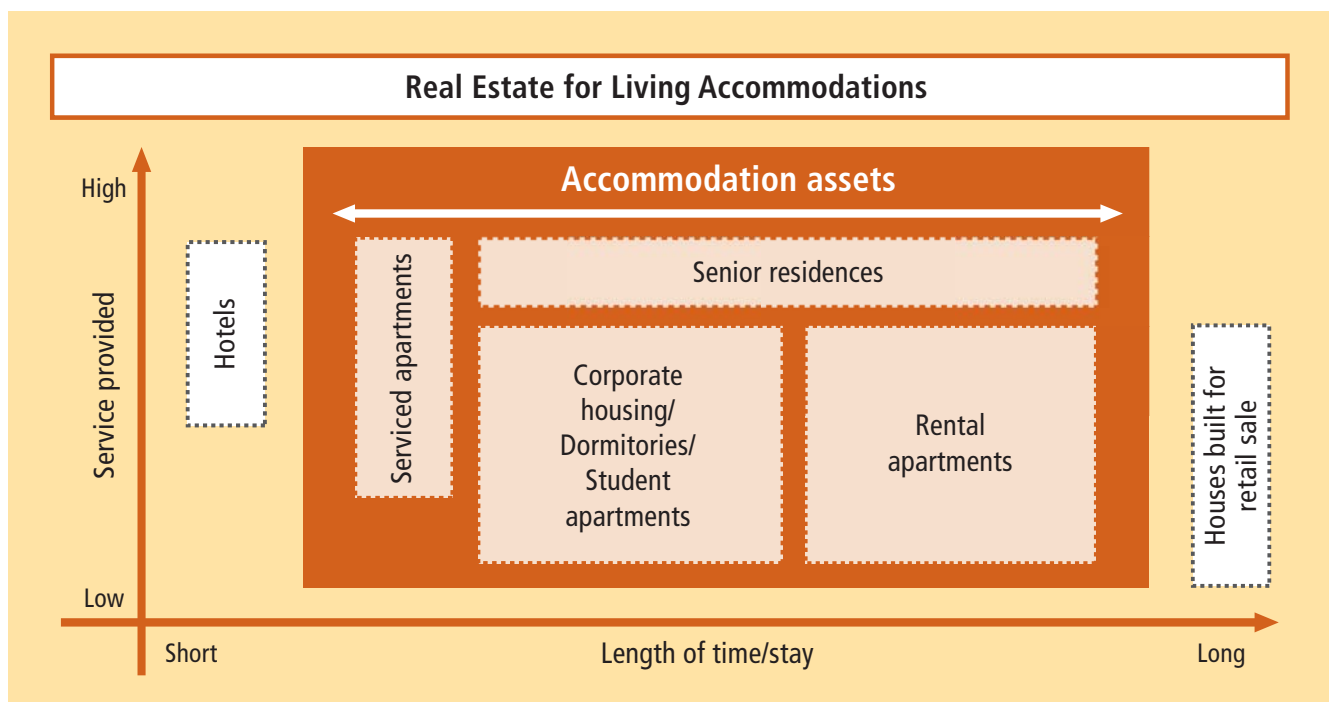
- Full and active use of the Mitsui Fudosan Group's value chain from planning and development to management and operation
- Access to investment opportunities through Mitsui Fudosan's properties and its Group's extensive real estate information network





2. Investment in Accommodation Assets

- Accommodation assets: newly developed residential properties created in response to ongoing social and lifestyle changes
- Objective: to maximize the value of accommodation assets by providing accommodations that satisfy diverse tenant needs



Real estate for living accommodations is classified in relation to two axes, "length of time/stay" and "service provided." Accommodation assets are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences.

To Our Stakeholders



Aiming to build greater unitholder value, we are steadily shaping a strong portfolio for further growth.

During the six months ended February 29, 2012 (the "12th Period"), production and supply recovered from the supply chain disruptions caused by the Great East Japan Earthquake. However, the impact of decelerating overseas economies and the strength of the yen stalled recovery slightly. While moderate economic expansion is expected to continue with the support of reconstruction demand, concerns about recession in overseas economies due to weakening recovery, exchange rate and stock price volatility, and other factors create the risk of an economic downturn.

In the residential rental market, near-term demand for rental housing is expected to remain steady in the 23 wards of Tokyo, where NAF has concentrated capital investment, as well as in the centers of other major cities. Factors behind this include the continuing influx of people from other regions and ongoing growth in the number of households because of an increase in the number of single- and two-person households. Also, the balance of supply and demand is expected to remain favorable as the number of housing starts remains low.

In this environment, NAF acquired four properties during the 12th Period. Mitsui Fudosan Housing Lease Co., Ltd., the master property management company, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., NAF's asset management company, also conducted collaborative management and other activities. As a result, the occupancy rate for NAF's overall portfolio as of February 29, 2012 remained at a high level of 96.2 percent. Distribution per unit was ¥14,548. This report presents the results and operational status of NAF for the 12th Period.

NAF will continue working to earn the trust of stakeholders, and requests their continued support and cooperation.

Nippon Accommodations Fund Inc. Management Team



From left: Michihiko Takabe, Yuji Yokoyama, Kosei Murakami, Takeo Tomita, Hiroyuki Sodeyama

Yuji Yokoyama	Executive Director
Kosei Murakami	Executive Director
Takeo Tomita (Attorney at Law)	Supervisory Director
Michihiko Takabe (Attorney at Law)	Supervisory Director
Hiroyuki Sodeyama (Certified Public Accountant, Certified Public Tax Accountant)	Supervisory Director

June 2012

Kosei Murakami

Executive Director of Nippon Accommodations Fund Inc.
President and CEO of Mitsui Fudosan
Accommodations Fund Management Co., Ltd.

12th Period Highlights

	11th Period (Actual) (Ended August 31, 2011)	12th Period (Actual) (Ended February 29, 2012)	13th Period (Forecast) (Ending August 31, 2012)
Total revenues	¥7,566 million	¥7,858 million	¥8,075 million
Operating income	¥3,421 million	¥3,613 million	¥3,558 million
Net income	¥2,630 million	¥2,833 million	¥2,757 million
Total assets	¥230,551 million	¥237,222 million	—
LTV (Loan-to-value) ratio	51.8%	53.1%	—
Distribution per unit (Yen)	¥13,508	¥14,548	¥13,800
Assets under management			
Acquisition price basis	¥223,877 million	¥231,227 million	¥231,936 million
Number of properties	83	87	88

Note: The above forecasts were announced on April 16, 2012.

New Acquisitions in the 12th Period

Park Axis Higashi Jujo



Location
Kita-ku, Tokyo

Acquisition price
¥1,700 million

Rentable area
2,893.54m²

Units
70 Residential,
1 Retail, etc.

Completed
February 2007

Park Cube Kita Matsudo



Location
Matsudo-shi, Chiba

Acquisition price
¥1,200 million

Rentable area
2,358.66m²

Units
108 Residential,
1 Retail, etc.

Completed
February 2009

Park Cube Sasazuka



Location
Shibuya-ku, Tokyo

Acquisition price
¥2,200 million

Rentable area
2,416.00m²

Units
92 Residential,
1 Retail, etc.

Completed
August 2009

Park Cube Musashi Kosugi



Location
Kawasaki-shi, Kanagawa

Acquisition price
¥2,250 million

Rentable area
3,057.36m²

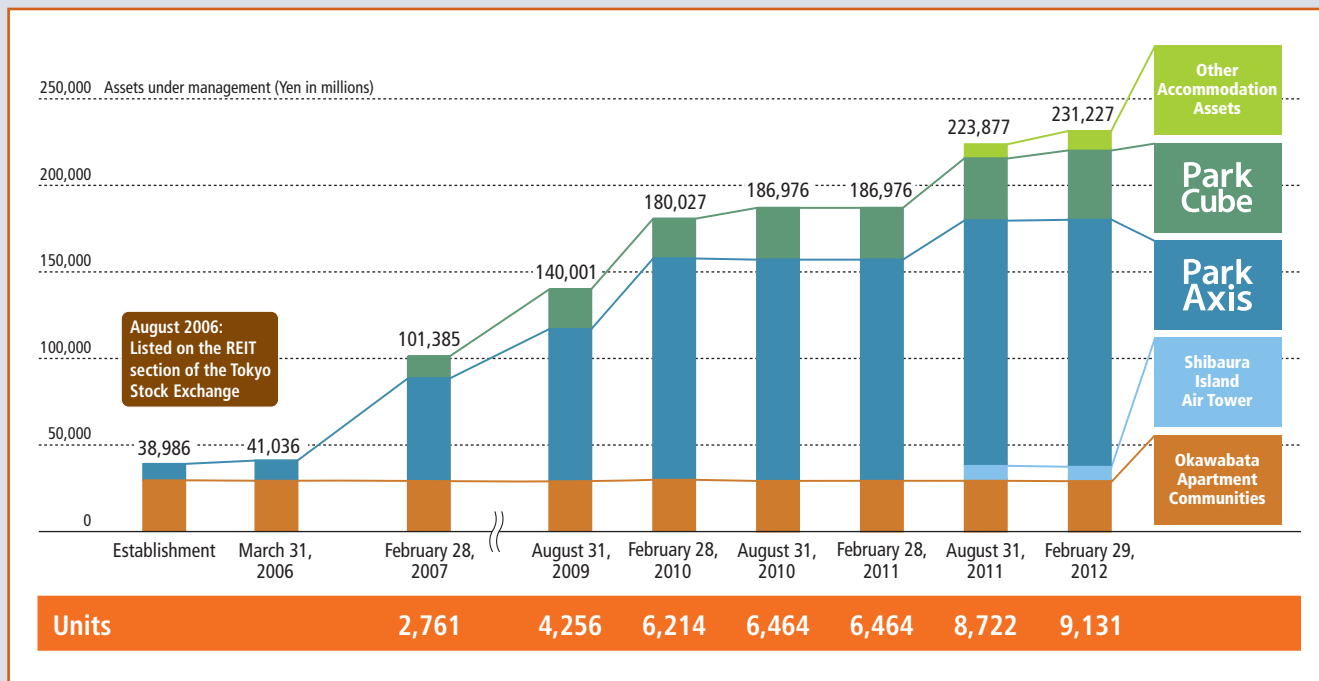
Units
136 Residential

Completed
September 2009

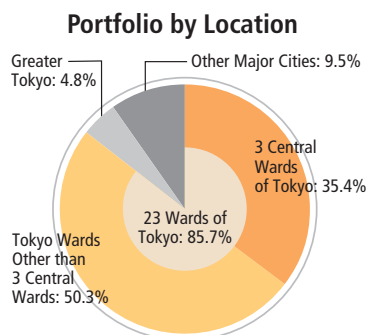
Portfolio Strategy

Steady Portfolio Expansion

NAF has steadily expanded its portfolio, primarily by acquiring properties in the Park Axis series. NAF's portfolio as of February 29, 2012, the end of the 12th Period, consisted of 87 properties valued at ¥231,227 million on an acquisition price basis.



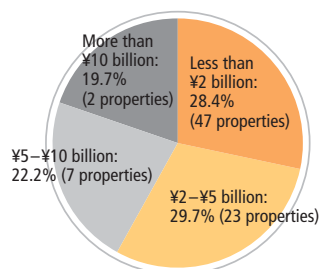
A Portfolio Mainly Composed of Large-Scale Properties in the 23 Wards of Tokyo



85.7% in the 23 wards of Tokyo

Amount excluding the Okawabata Apartment Communities

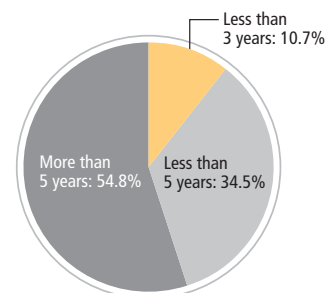
Portfolio by Acquisition Price



Average ¥2.8 billion per property

[Average ¥2.5 billion per property]

Portfolio by Property Age



Average 7.4 years

[Average 5.0 years]

Notes: 1. 3 Central Wards of Tokyo includes Chiyoda, Chuo and Minato wards; Greater Tokyo includes Tokyo (other than the 23 wards), Kanagawa, Chiba and Saitama; Other Major Cities includes Sapporo, Sendai, Nagoya, Kyoto, Osaka, Kobe, Hiroshima and Fukuoka.
2. Percentages for Portfolio by Location, Portfolio by Acquisition Price and Portfolio by Property Age are based on acquisition price for rental apartment properties. Average property age has been calculated using a weighted average based on acquisition price.

Portfolio Composition

Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating the majority of its portfolio in the 23 wards of Tokyo where demand for rental apartments is strong, NAF achieves even greater earnings stability.



Note: Portfolio as of February 29, 2012

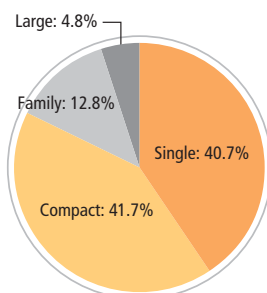
NAF aims for steady portfolio expansion centered on properties in the high-quality Park Axis series planned and developed by Mitsui Fudosan, complemented with acquisitions of properties that meet NAF's proprietary standards in the Park Cube series constructed by other developers. In addition, NAF focuses investment on single and compact apartments for which it expects high occupancy rates, as well as on large-scale and relatively new properties. Geographically, NAF invests mainly within the 23 wards of Tokyo while also acquiring carefully selected properties in major regional cities.

NAF has also begun investing in accommodation assets* other than rental apartments.

*NAF defines accommodation assets as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences.

A Balanced Mix of Properties Centered on Single and Compact Units

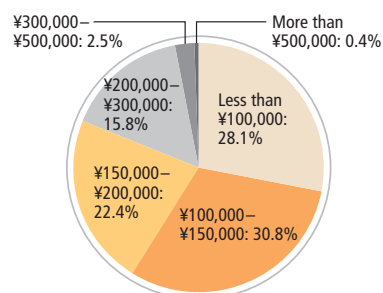
Portfolio by Category



Percentage of single and compact units: 82.4%

[87.6%]

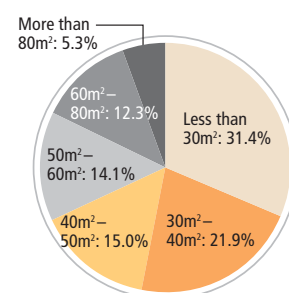
Portfolio by Monthly Rent



Average ¥148 thousand per unit

[Average ¥138 thousand per unit]

Portfolio by Unit Area



Average 43.0m² per unit

[Average 40.4m² per unit]

3. Percentages for Portfolio by Category, Portfolio by Monthly Rent and Portfolio by Unit Area are unit-based, excluding retail units.

4. Rentable units and rentable area for Shibaura Island Air Tower are calculated by multiplying NAF's equity share (31%) by the property's total rentable units (871 residential, 7 retail, etc.) and total rentable area (56,923.63m²) and rounding to the nearest unit and one-hundredth of a square meter, respectively.

5. Totals may exceed 100 percent due to rounding.

Portfolio Summary

(As of February 29, 2012)

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (sq. m.)	Rentable Units	PML (Note 2) (%)
1	Okawabata Apartment Communities	Chuo-ku, Tokyo	29,696	12.8	43,812.41	544	
	River Point Tower						4.5
	Park Side Wings						7.9
	Pier West House						7.0
2	Park Axis Gakugei Daigaku	Setagaya-ku, Tokyo	1,760	0.8	2,437.66	64	7.6
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.4	2,766.62	75	6.8
5	Park Axis Aoyama Kotto Dori	Minato-ku, Tokyo	1,730	0.7	1,537.24	40	7.0
6	Park Axis Kagurazaka Stage	Shinjuku-ku, Tokyo	1,400	0.6	1,891.05	59	7.5
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	2.2	4,704.44	99	8.7
8	Park Axis Bunkyo Stage	Bunkyo-ku, Tokyo	4,440	1.9	6,078.93	154	6.5
9	Park Axis Tsukishima	Chuo-ku, Tokyo	930	0.4	1,383.99	30	6.8
10	Park Axis Otsuka	Toshima-ku, Tokyo	1,655	0.7	2,606.37	52	6.4
11	Park Axis Minami Azabu	Minato-ku, Tokyo	3,939	1.7	3,938.14	64	7.4
12	Park Axis Shibuya	Shibuya-ku, Tokyo	1,283	0.6	1,094.28	20	7.9
13	Park Axis Nihonbashi Stage	Chuo-ku, Tokyo	7,558	3.3	10,025.40	184 Residential, 1 Retail, etc.	7.5
14	Park Axis Hamamatsucho	Minato-ku, Tokyo	2,025	0.9	2,426.45	80	7.1
15	Park Axis Hongo no Mori	Bunkyo-ku, Tokyo	2,910	1.3	3,317.94	86 Residential, 1 Retail, etc.	8.8
16	Park Axis Tameike Sanno	Minato-ku, Tokyo	2,860	1.2	2,710.69	70	8.2
17	Park Axis Roppongi Hinokicho Koen	Minato-ku, Tokyo	2,170	0.9	2,054.46	46	9.2
18	Park Axis Ochanomizu Stage	Bunkyo-ku, Tokyo	9,710	4.2	12,025.25	324	7.2
19	Park Axis Okachimachi	Taito-ku, Tokyo	1,070	0.5	1,621.73	42	6.8
20	Park Cube Hongo	Bunkyo-ku, Tokyo	1,760	0.8	2,160.12	60	8.2
21	Park Cube Kanda	Chiyoda-ku, Tokyo	2,454	1.1	3,194.59	95	8.9
22	Park Cube Ichigaya	Shinjuku-ku, Tokyo	1,949	0.8	2,288.46	53	6.8
23	Park Cube Asakusa Tawaramachi	Taito-ku, Tokyo	2,508	1.1	4,012.68	76	8.8
24	Park Cube Ueno	Taito-ku, Tokyo	2,233	1.0	3,041.61	91	7.5
28	Park Cube Ikebukuro Kanamecho	Toshima-ku, Tokyo	1,609	0.7	1,886.82	65	8.1
29	Park Axis Meguro Honcho	Meguro-ku, Tokyo	1,810	0.8	1,884.77	60	8.5
30	Park Axis Shin Itabashi	Itabashi-ku, Tokyo	3,430	1.5	4,395.99	152	7.3 East, 7.5 West
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.5	1,346.07	41	7.4
32	Park Axis Toyochō	Koto-ku, Tokyo	3,950	1.7	5,412.40	140	10.8
33	Park Axis Takinogawa	Kita-ku, Tokyo	1,820	0.8	2,924.75	48 Residential, 1 Retail, etc.	5.8
34	Park Axis Asakusabashi	Taito-ku, Tokyo	2,717	1.2	3,400.78	78 Residential, 1 Retail, etc.	8.9
38	Park Axis Nihonbashi Hamacho	Chuo-ku, Tokyo	5,540	2.4	6,999.83	118	8.1
39	Park Cube Yoyogi Tomigaya	Shibuya-ku, Tokyo	1,975	0.9	1,929.10	38	7.4
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.7	1,886.39	55	10.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	1.8	5,317.07	165 Residential, 1 Retail, etc.	8.1
43	Park Cube Gakugei Daigaku	Meguro-ku, Tokyo	910	0.4	957.88	24	6.8
44	Park Cube Oimachi	Shinagawa-ku, Tokyo	1,440	0.6	1,511.12	65	10.0
46	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.4	1,435.83	46	7.7
47	Park Axis Kinshicho	Sumida-ku, Tokyo	1,448	0.6	2,288.13	65	10.7
48	Park Axis Tatsumi Stage	Koto-ku, Tokyo	7,464	3.2	16,474.06	299 Residential, 1 Retail, etc.	10.0
51	Park Axis Kameido	Koto-ku, Tokyo	2,359	1.0	3,986.78	118	11.0
52	Park Axis Honancho	Nakano-ku, Tokyo	745	0.3	1,231.08	31	8.0
53	Park Axis Itabashi	Kita-ku, Tokyo	1,448	0.6	2,567.96	64	9.1
54	Park Axis Oshiage	Sumida-ku, Tokyo	1,193	0.5	2,121.29	57 Residential, 1 Retail, etc.	10.5
55	Park Axis Takadanobaba	Toshima-ku, Tokyo	1,222	0.5	1,463.25	36 Residential, 1 Retail, etc.	7.9
59	Park Axis Toyosu	Koto-ku, Tokyo	14,300	6.2	25,537.94	401 Residential, 2 Retail, etc.	7.8
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	0.8	2,416.29	63 Residential, 1 Retail, etc.	9.1
61	Park Axis Itabashi Honcho	Itabashi-ku, Tokyo	987	0.4	2,048.31	66	9.2

Notes: 1. Acquisition Price does not include acquisition-related expenses, property tax (to be capitalized) and consumption tax (not refundable for residential properties).
Amounts are rounded to the nearest million.

2. PML = Probable maximum loss

No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (sq. m.)	Rentable Units	PML (Note 2) (%)
62	Park Axis Sumiyoshi	Sumida-ku, Tokyo	1,006	0.4	1,785.72	60	11.4
63	Park Cube Yotsuya Sanchome	Shinjuku-ku, Tokyo	2,749	1.2	3,599.82	130	8.7
64	Park Cube Hatchobori	Chuo-ku, Tokyo	4,200	1.8	5,191.86	118 Residential, 2 Retail, etc.	8.2
68	Park Axis Kamata Ichibankan	Ota-ku, Tokyo	1,069	0.5	1,721.28	63	9.5
70	Park Axis Taito Negishi	Taito-ku, Tokyo	672	0.3	1,283.13	40	10.5
72	Park Axis Komagome	Toshima-ku, Tokyo	1,389	0.6	1,979.51	39 Residential, 1 Retail, etc.	8.5
74	Park Axis Itabashi Honcho Nibankan	Itabashi-ku, Tokyo	1,859	0.8	3,661.58	99	7.7
75	Shibaura Island Air Tower (Note 4)	Minato-ku, Tokyo	7,905	3.4	17,646.33	270 Residential, 2 Retail, etc.	
	Air Tower						2.3
	Air Terrace						8.7
84	Park Cube Higashi Shinagawa	Shinagawa-ku, Tokyo	6,060	2.6	10,636.67	201	9.8
86	Park Cube Sasazuka	Shibuya-ku, Tokyo	2,200	1.0	2,416.00	92 Residential, 1 Retail, etc.	9.5
88	Park Axis Higashi Jujo	Kita-ku, Tokyo	1,700	0.7	2,893.54	70 Residential, 1 Retail, etc.	6.8
Tokyo 23 Wards Total			191,255	82.7	275,369.84	5,885 Residential, 18 Retail, etc.	
25	Park Cube Keio Hachioji	Hachioji-shi, Tokyo	991	0.4	2,814.32	52	7.1
26	Park Cube Keio Hachioji II	Hachioji-shi, Tokyo	1,130	0.5	3,082.32	47 Residential, 1 Retail, etc.	7.6
40	Park Axis Nishi Funabashi	Funabashi-shi, Chiba	1,020	0.4	2,074.35	55	7.9
66	Park Axis Yokohama Idogaya	Yokohama-shi, Kanagawa	1,419	0.6	2,706.59	99 Residential, 1 Retail, etc.	11.4
67	Park Axis Chiba Shinmachi	Chiba-shi, Chiba	1,679	0.7	3,318.15	77 Residential, 7 Retail, etc.	11.1
69	Park Axis Chiba	Chiba-shi, Chiba	970	0.4	2,270.32	91	7.8
85	Park Cube Kita Matsudo	Matsudo-shi, Chiba	1,200	0.5	2,358.66	108 Residential, 1 Retail, etc.	9.2
87	Park Cube Musashi Kosugi	Kawasaki-shi, Kanagawa	2,250	1.0	3,057.36	136	9.6
Greater Tokyo Total (Note 3)			10,659	4.6	21,682.07	665 Residential, 10 Retail, etc.	
27	Park Axis Meieki Minami	Nagoya-shi, Aichi	2,440	1.1	5,565.13	169	4.1
35	Park Axis Marunouchi	Nagoya-shi, Aichi	1,920	0.8	3,821.75	98 Residential, 1 Retail, etc.	6.1
36	Park Axis Ropponmatsu	Fukuoka-shi, Fukuoka	1,515	0.7	3,473.67	111 Residential, 1 Retail, etc.	2.2
37	Park Axis Hakataeki Minami	Fukuoka-shi, Fukuoka	1,890	0.8	4,668.29	176 Residential, 1 Retail, etc.	3.1
45	Park Axis Naka Gofukumachi	Fukuoka-shi, Fukuoka	742	0.3	2,707.88	112	2.8
49	Park Axis Shirakabe	Nagoya-shi, Aichi	1,547	0.7	4,735.89	86	6.1
50	Park Axis Sendai	Sendai-shi, Miyagi	2,320	1.0	8,843.17	204	5.7
56	Park Axis Hakata Minoshima	Fukuoka-shi, Fukuoka	960	0.4	3,461.85	112	2.9
57	Park Axis Takamiya Higashi	Fukuoka-shi, Fukuoka	605	0.3	2,289.21	70	2.3
58	Park Axis Sapporo Shokubutsuen Mae	Sapporo-shi, Hokkaido	1,650	0.7	7,845.01	146	2.4
65	Park Axis Shin Sapporo	Sapporo-shi, Hokkaido	827	0.4	3,729.05	84 Residential, 1 Retail, etc.	2.5
71	Park Axis Esaka Hiroshibacho	Suita-shi, Osaka	2,369	1.0	4,309.24	130	11.2
73	Park Axis Utsubo Koen	Osaka-shi, Osaka	2,399	1.0	4,952.45	133	13.1
Other Major Cities Total			21,184	9.2	60,402.59	1,631 Residential, 4 Retail, etc.	
Rental Apartments Total			223,098	96.5	357,454.50	8,181 Residential, 32 Retail, etc.	
76	Dormy Ashiya	Ashiya-shi, Hyogo	928	0.4	2,826.00	140	10.0
77	Kawaijuku Kyoto Gakushin Ryo	Kyoto-shi, Kyoto	991	0.4	2,785.40	134	5.5
78	Sundai Horikawa Ryo	Kyoto-shi, Kyoto	916	0.4	2,043.32	113	6.9
79	Dormitory Rakuoku	Kyoto-shi, Kyoto	374	0.2	1,035.00	69	6.5
80	Rikkyo University International Dormitory (RUID) Shiki	Shiki-shi, Saitama	1,478	0.6	2,293.20	126	5.4
81	Dormy Naka Itabashi	Itabashi-ku, Tokyo	1,041	0.5	1,911.00	105	7.1
82	Philosophia Nishidai	Itabashi-ku, Tokyo	1,249	0.5	2,184.00	120	8.3
83	Dormy Musashi Kosugi	Kawasaki-shi, Kanagawa	1,152	0.5	1,996.47	111	8.3
Other Accommodation Assets Total			8,129	3.5	17,074.39	918	
Grand Total			231,227	100.0	374,528.89	9,131	3.7 (Portfolio PML)

3. Greater Tokyo includes Tokyo (other than the 23 wards), Kanagawa, Chiba and Saitama.

4. Rentable units and rentable area for Shibaura Island Air Tower are calculated by multiplying NAF's equity share (31%) by the property's total rentable units (871 residential, 7 retail, etc.) and total rentable area (56,923.63m²) and rounding to the nearest unit and one-hundredth of a square meter, respectively.

5. Numbers in red indicate properties acquired during the 12th Period.

Management's Discussion and Analysis

Summary of Selected Financial Data

	Yen in millions (Except per unit data or where otherwise indicated)			U.S. dollars in thousands (Note 1) (Except per unit data)
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011	12th Period September 1, 2011 to February 29, 2012
Total revenues (Note 2)	¥ 7,858	¥ 7,566	¥ 6,180	\$ 97,397
Rental revenues	7,580	7,176	5,948	93,951
Other revenues related to property leasing	278	390	232	3,446
Operating expenses	4,245	4,145	3,236	52,615
Income before income taxes	2,834	2,631	2,201	35,126
Net income (a)	2,833	2,630	2,200	35,114
Funds from operations (Note 3)	4,532	4,217	3,451	56,173
Net operating income from property leasing activities (Note 3)	6,113	5,764	4,839	75,768
Total amount of cash distribution (b)	2,833	2,630	2,200	35,114
Depreciation and amortization	1,700	1,587	1,252	21,071
Capital expenditures	114	125	76	1,413
Total assets (c)	237,222	230,551	192,360	2,940,283
Interest-bearing debt	126,000	119,500	105,000	1,561,725
Total net assets (d)	106,068	105,865	83,303	1,314,675
Total number of common units issued (units) (e)	194,711	194,711	156,178	
Net assets per unit (Yen/\$) (d) / (e)	544,746	543,705	533,383	6,751.93
Distribution per unit (Yen/\$) (b) / (e)	14,548	13,508	14,086	180.32
Funds from operations per unit (Yen/\$) (Note 3)	23,276	21,658	22,099	288.50
ROA (Note 4)	1.2%	1.2%	1.1%	
(Annual rate)	(2.4%)	(2.5%)	(2.3%)	
ROE (Note 4)	2.7%	2.8%	2.6%	
(Annual rate)	(5.4%)	(5.5%)	(5.3%)	
LTV (Loan-to-value) ratio (Note 3)	53.1%	51.8%	54.6%	
Capital ratio (d) / (c)	44.7%	45.9%	43.3%	
Payout ratio (b) / (a) (Note 5)	100.0%	100.0%	100.0%	
Number of days in period	182	184	181	
Number of investment properties (Note 6)	87	83	63	
Total rentable area (m ²)	374,529	363,803	288,354	
Average occupancy rate at end of period (Note 6)	96.2%	95.5%	96.5%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥80.68 = U.S.\$1.00, the approximate exchange rate on February 29, 2012.

2. "Total revenues" do not include consumption tax.

3. Funds from operations: Net income + Depreciation and amortization – Gain on sale of investment properties

Net operating income from property leasing activities: (Revenues from property leasing – Rental expenses) + Depreciation and amortization

Funds from operations per unit: (Net income + Depreciation and amortization – Gain on sale of investment properties) ÷ Total number of units issued and outstanding at end of period

LTV ratio: Interest-bearing debt ÷ Total assets

4. ROA: Income before income taxes ÷ ((Initial total assets + Total assets at end of period) ÷ 2)

ROE: Net income ÷ ((Initial net assets + Net assets at end of period) ÷ 2)

The figures in parentheses are annualized based on the number of actual days in each period.

Annual equivalent amounts for the period ended February 29, 2012: Amount for the period ÷ Actual days in the period (182) x 365 days

Annual equivalent amounts for the period ended August 31, 2011: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 28, 2011: Amount for the period ÷ Actual days in the period (181) x 365 days

Net assets and total assets used in calculating ROA and ROE are the respective beginning-of-period and period-end averages.

5. "Payout ratio" is calculated to one decimal place only.

6. "Number of investment properties" means properties generally perceived to be one residential building.

"Average occupancy rate at end of period" is the ratio of gross leased area to total rentable area at the end of the period.

Overview

Investment Environment and Operating Performance

During the six months ended February 29, 2012 (the "12th Period"), production and supply in Japan rebounded following the delay that resulted from supply chain disruptions caused by the Great East Japan Earthquake. However, economic recovery in Japan seemed to be somewhat at a standstill with the impact of a slowdown in overseas economies and the appreciation of the yen. Looking forward, gradual economic expansion is expected to continue, supported by demand related to post-disaster reconstruction, but the risk of an economic downturn exists due to concerns about a slowdown in overseas economies where the momentum of recovery is weakening, exchange rate and stock price movements, and other factors.

In the residential rental market, although rents continue to decline at high-rent properties such as housing for foreigners, rent levels are stabilizing at properties operated by NAF. Moreover, near-term demand is expected to remain steady in the 23 wards of Tokyo, where NAF has concentrated its portfolio investment, as well as in the centers of other major cities. Contributing factors include the continuing influx of people from other regions and growth in the number of households because of an increase in single- and two-person households.

In the real estate investment and trading market, housing starts are at a low level, so the balance of supply and demand is likely to remain favorable in the near term. Property acquisitions by private funds and J-REITs are increasing, with continued recovery expected in real estate transactions.

During the 12th Period, NAF acquired 4 new properties in total: 3 properties in September 2011 (total acquisition price: ¥5,650 million) and 1 property in January 2012 (acquisition price: ¥1,700 million). As a result, NAF's asset portfolio as of February 29, 2012 consisted of 87 properties valued at ¥231,227 million on an acquisition price basis.

For "Rental Apartments" in NAF's portfolio, Mitsui Fudosan Housing Lease Co., Ltd., the master property management company (hereinafter "Master PM"), and Mitsui Fudosan Accommodations Fund Management Co., Ltd. (hereinafter "MFAFM"), NAF's asset management company, collaborate with the aim of implementing effective management and operations in accordance with regional characteristics and the individual features of each property. Activities include rapid management and operations by the Master PM applying the portfolio management system, tenant recruiting suited to the circumstances of individual properties, streamlining of management cost reduction efforts, interior renovations at Okawabata Apartment Communities, one of NAF's principal properties, and provision of tenant services that meet various needs in accordance with the results of resident questionnaires. As a result of these activities, the occupancy rate for NAF's overall portfolio as of February 29, 2012 remained at a high level of 96.2 percent.

As a result of the above, for the 12th Period, NAF recorded total revenues of ¥7,858 million, operating income of ¥3,613 million, income before income taxes of ¥2,834 million and net income of ¥2,833 million.

Changes in Assets, Liabilities and Net Assets

Total assets as of February 29, 2012 increased ¥6,671 million from August 31, 2011 to ¥237,222 million. Total current assets increased ¥473 million to ¥6,015 million and total investment properties net of accumulated depreciation increased ¥6,203 million to ¥230,642 million compared with August 31, 2011 due to NAF's acquisition of 4 new properties (total acquisition price ¥7,350 million) during the 12th Period.

To fund the acquisition of the new properties, during the 12th Period NAF borrowed ¥7,500 million from multiple financial institutions. Also, while taking into account market trends and interest rate levels, NAF raised the ratio of long-term loans to total interest-bearing debt and refinanced existing loans. As a result, interest-bearing debt as of February 29, 2012 increased ¥6,500 million from August 31, 2011 to ¥126,000 million. The ratio of long-term debt to total interest-bearing debt was 94.4 percent, compared with 90.4 percent as of August 31, 2011. Excluding long-term loans due within one year, the ratio was 80.6 percent. The loan-to-value ratio, calculated as interest-bearing debt divided by total assets at the end of the period, was 53.1 percent, compared with 51.8 percent as of August 31, 2011.

Net assets totaled ¥106,068 million as of February 29, 2012. Unitholders' capital was unchanged at ¥103,235 million, and retained earnings increased to ¥2,833 million from ¥2,630 million as of August 31, 2011.

Distributions to Unitholders

NAF determines the amount of cash distributions such that they exceed 90 percent of NAF's retained earnings available for dividends as set forth in Article 67-15 of the Special Taxation Measures Law of Japan. For the 12th Period, cash distributions totaled ¥2,832,655,628, or ¥14,548 per unit.

	Yen in thousands, except per unit amounts		
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011
Retained earnings	¥2,832,747	¥2,630,177	¥2,199,961
Undistributed earnings	92	21	38
Total cash distribution	2,832,656	2,630,156	2,199,923
(Per unit)	14,548	13,508	14,086
Distribution of retained earnings	2,832,656	2,630,156	2,199,923
(Per unit)	14,548	13,508	14,086
Cash distribution in excess of retained earnings	—	—	—
(Per unit)	—	—	—

Note: The above cash distributions were paid after the close of the period.

Funding

Balance of Paid-in Capital

NAF was established on October 12, 2005 with initial paid-in capital of ¥100 million. NAF began investing activities on November 29, 2005 after ¥21,140 million was raised through private placement. As of February 29, 2012, NAF had issued 194,711 investment units out of 2,000,000 total authorized units. NAF's investment units were listed on the J-REIT section of the Tokyo Stock Exchange in August 2006 upon the completion of a public offering. As the Investment Trust and Investment Corporation Act of Japan does not contain any provision for the issue of more than one class of units, NAF's investment units comprise the sole class of units authorized and issued by NAF.

Issue date	Remarks	Units outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(Units)		(Yen in millions)		
October 12, 2005	Initial capital (private)	200	200	¥ 100	¥ 100	Note 1
November 29, 2005	Private placement	42,280	42,480	21,140	21,240	Note 2
August 3, 2006	Public offering	67,200	109,680	37,612	58,852	Note 3
September 4, 2006	Third party allocation	3,800	113,480	2,127	60,979	Note 4
November 4, 2009	Public offering	42,000	155,480	19,795	80,774	Note 5
December 1, 2009	Third party allocation	698	156,178	329	81,103	Note 6
March 1, 2011	Public offering	37,500	193,678	21,539	102,642	Note 7
March 28, 2011	Third party allocation	1,033	194,711	593	103,235	Note 8

Notes: 1. NAF was established with initial capital of ¥500,000 per unit.

2. Follow-on private offering at ¥500,000 per unit to raise funds for acquisition of investment properties.

3. Public offering of new units for ¥580,000 per unit (excluding underwriting fee: ¥559,700) to fund property acquisition.

4. Additional issue of new units (third party allocation) for ¥559,700 per unit undertaken pursuant to the public offering in Note 3.

5. Public offering of new units for ¥487,910 per unit (excluding underwriting fee: ¥471,311) to fund property acquisition.

6. Additional issue of new units (third party allocation) for ¥471,311 per unit undertaken pursuant to the public offering in Note 5.

7. Public offering of new units for ¥593,872 per unit (excluding underwriting fee: ¥574,380) to fund property acquisition.

8. Additional issue of new units (third party allocation) for ¥574,380 per unit undertaken pursuant to the public offering in Note 7.

Market Price of Units

High/Low (closing price) of units on the Tokyo Stock Exchange:

	12th Period September 1, 2011 to February 29, 2012 (Yen)	11th Period March 1, 2011 to August 31, 2011 (Yen)	10th Period September 1, 2010 to February 28, 2011 (Yen)	9th Period March 1, 2010 to August 31, 2010 (Yen)	8th Period September 1, 2009 to February 28, 2010 (Yen)
High	¥590,000	¥619,000	¥639,000	¥492,500	¥526,000
Low	477,000	533,000	464,500	438,000	443,000

Borrowings

Borrowings by financial institution as of February 29, 2012 are shown below.

Short-term loans

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity (Note 2)	Repayment method	Use of funds (Note 3)	Notes
Sumitomo Mitsui Banking Corporation	¥1,000	0.4%	March 19, 2012	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)
The Hachijuni Bank, Ltd.	1,000	0.3%	March 6, 2012			
Mitsubishi UFJ Trust and Banking Corporation	1,500	0.4%	April 2, 2012			
The 77 Bank, Ltd.	1,000	0.3%	March 7, 2012			
Mizuho Corporate Bank, Ltd.	1,500	0.4% (Note 5)	May 31, 2012			
Shinkin Central Bank	1,000	0.5%	March 30, 2012			
Total short-term loans	¥7,000					

Long-term loans (Note 7)

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 2,000	1.6%	November 29, 2013	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)
	4,000	1.7%	May 30, 2014			
	5,000	0.7% (Note 5)	November 30, 2015			
	5,500	0.5% (Note 5)	August 31, 2012			
	5,000	1.2%	August 13, 2018			
The Chuo Mitsui Trust and Banking Company, Limited (Note 8)	2,000	1.6%	November 29, 2013			
	2,000	1.7%	May 30, 2014			
	3,000	0.7% (Note 5)	November 30, 2015			
	3,500	1.0%	August 14, 2017			
The Sumitomo Trust and Banking Co., Ltd. (Note 8)	3,000	1.8%	November 30, 2012			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000	1.6%	March 5, 2015			
Nippon Life Insurance Company	2,000	1.3%	February 28, 2017			
	1,000	1.5%	February 28, 2018			
Development Bank of Japan Inc.	3,000	2.1%	April 11, 2012			
	3,000	2.2%	April 11, 2013			
	5,000	2.1%	August 6, 2013			
	5,000	1.2%	October 18, 2017			
	2,000	1.0%	December 21, 2018			
The Hachijuni Bank, Ltd.	1,000	1.5%	September 14, 2012			
	1,000	1.5%	May 31, 2013			
	1,000	1.2%	April 11, 2014			
Mizuho Corporate Bank, Ltd.	2,000	1.6%	November 29, 2013			
	1,000	1.5%	April 19, 2018			
	2,000	0.8%	October 12, 2016			
	3,000	0.9%	October 31, 2017			
The Chugoku Bank, Limited	2,000	1.0%	April 1, 2016			
	2,000	1.0%	April 20, 2015			
Shinsei Bank, Limited	1,000	1.0%	April 20, 2015			
Shinkin Central Bank	3,000	1.7%	October 12, 2012			
	3,000	1.6%	November 29, 2013			
	1,500	0.9%	April 1, 2015			
The Bank of Fukuoka, Ltd.	2,000	1.6%	October 31, 2012			
	1,000	1.4%	July 8, 2013			
	2,000	0.9%	February 20, 2017			
Mitsubishi UFJ Trust and Banking Corporation	3,000	1.7%	May 30, 2014			
	3,000	1.2%	April 25, 2017			
	6,000	0.5% (Note 6)	September 3, 2018			
The Norinchukin Bank	1,500	0.9%	April 1, 2015			
Resona Bank, Limited	2,000	1.2%	April 3, 2017			
Total long-term loans	¥102,000					
Total borrowings	¥109,000					

Notes: 1. "Interest rate" is presented by loan from each lending institution and is rounded to the nearest tenth. The weighted average interest rate is presented for the outstanding balance of short-term borrowings if the institution has provided more than one short-term loan.

2. The earliest maturity of short-term borrowings is presented if the institution has provided more than one short-term loan.

3. Use of the proceeds of debt financing included purchase of property or real estate trust beneficiary interests, refinancing of other borrowings, and operating expenses.

4. The loan agreements between NAF and each financial institution stipulate that the above borrowings from all financial institutions rank pari passu to each other.

5. From February 29, 2012 to March 29, 2012.

6. From February 1, 2012 to February 29, 2012.

7. The expected annual maturities of long-term borrowings within five years (excluding maturities within one year) of the balance sheet date are as follows.

(Yen in millions)

Amount	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
	¥19,000	¥10,000	¥16,000	¥8,000

8. On April 1, 2012, The Sumitomo Trust and Banking Co., Ltd. merged by absorption with The Chuo Mitsui Trust and Banking Company, Limited and changed its corporate name to Sumitomo Mitsui Trust Bank, Limited.

Bonds

Issue	Issue date	Balance as of February 29, 2012 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No. 1 unsecured bonds	November 15, 2007	¥10,000	1.7%	November 14, 2014	Bullet payment	Note 1	Note 2
No. 2 unsecured bonds	July 30, 2010	7,000	1.2%	July 29, 2016			
Total		¥17,000					

Notes: 1. Use of proceeds includes repayment of borrowings.

2. This bond is only issued to rank pari passu with other bonds issued.

Capital Expenditures

1. Planned

NAF is planning the following capital expenditures for the renovation of its properties. The amounts below include repairs and maintenance costs that will be expensed as incurred. Moreover, in addition to a steady program of expenditures for construction, repair and renovation of facilities, a program of renewal construction is being implemented in order to increase competitive power in the market as well as to increase the level of tenant satisfaction.

Name of property	Objective	Estimated duration	Estimated amounts		
			Total amounts	Payment for the current period (September 1, 2011 to February 29, 2012)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities	Replacement of electronic locks for units, etc.	From February 2012 to September 2012	¥172	¥ —	¥ —
	Renovation of common use areas, etc.	From March 2012 to August 2012	30	—	—
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc.	From March 2012 to August 2012	11	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥114 million in capital expenditures together with ¥267 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities	Renovation of rentable areas, etc.	From September 2011 to February 2012	¥ 56
Park Axis Nihonbashi Stage, Other Properties	Renovation of common use areas, etc.	From September 2011 to February 2012	34
Okawabata Apartment Communities, Other Properties	Renewal of common use area equipment, etc., other construction	From September 2011 to February 2012	25
Total			¥114

3. Cash Reserve for Capital Improvements

NAF accumulates a cash reserve from cash flows to prepare for large-scale mid-term to long-term capital improvements and repairs and maintenance that will be conducted in accordance with NAF's business plan for each property.

	Yen in millions		
	As of February 29, 2012	As of August 31, 2011	As of February 28, 2011
Reserve balance at the beginning of the period	¥919	¥650	¥704
Amount accumulated in the current period	165	385	23
Withdrawal from reserves in the current period	118	116	77
Amount carried forward	¥965	¥919	¥650

Expenses regarding Entrustment, etc.

The following table sets forth the breakdown of entrustment fees, etc. paid by NAF.

Item	Yen in millions		
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011
Asset management fees	¥563	¥537	¥441
Asset custody fees	11	9	9
Agent fees (stock transfer, accounting and administrative)	28	31	26
Directors' remuneration	10	9	8
Auditor's fees	12	14	13
Other expenses	177	157	146
Total	¥801	¥756	¥644

Related Party Transactions

(1) Transactions

None applicable

(2) Fees Paid for the Period from September 1, 2011 to February 29, 2012

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 5)
		Paid to	Amount of payment (B) (Yen in millions)	
Property management fees	¥513	Mitsui Fudosan Housing Lease Co., Ltd.	¥513	100.0%
Building management fees	298	Mitsui Fudosan Housing Lease Co., Ltd.	298	100.0%
Operation management fees	5	Mitsui Fudosan Co., Ltd.	5	100.0%
Leasing related service fees	141	RESIDENT FIRST CO., LTD.	27	19.1%
		Mitsui Rehouse Tokyo Co., Ltd. (Note 2)	2	1.2%
		MITSUI HOME ESTATE CO., LTD.	1	0.7%
		Mitsui Real Estate Sales Tohoku Co., Ltd. (Note 3)	1	0.6%
		Mitsui Real Estate Sales Sapporo Co., Ltd. (Note 3)	0	0.2%
		Mitsui Real Estate Sales Kyusyu Co., Ltd. (Note 3)	0	0.1%
		Mitsui Rehouse Kansai Co., Ltd. (Note 2)	0	0.1%

(3) Other Payments to Related Parties

Paid to	Amount of payment (Yen in millions)	Item
Accommodation First Co., Ltd.	¥15	Repair and maintenance costs
Mitsui Home Remodeling Co., Ltd. (Note 4)	7	Repair and maintenance costs
Mitsui Fudosan Housing Service Co., Ltd.	2	Repair and maintenance costs

Notes: 1. "Related party" means parties defined in the government ordinance regarding the Investment Trust and Investment Corporation Act of Japan, principally, parties related to an asset management company.

2. On April 1, 2012, Mitsui Real Estate Sales Co., Ltd. merged by absorption with Mitsui Rehouse Tokyo Co., Ltd., Mitsui Rehouse Kansai Co., Ltd. and three other companies, and changed its corporate name to Mitsui Fudosan Realty Co., Ltd.

3. On April 1, 2012, Mitsui Real Estate Sales Tohoku Co., Ltd., Mitsui Real Estate Sales Sapporo Co., Ltd. and Mitsui Real Estate Sales Kyusyu Co., Ltd. changed their respective corporate names to Mitsui Fudosan Realty Tohoku Co., Ltd., Mitsui Fudosan Realty Sapporo Co., Ltd. and Mitsui Fudosan Realty Kyusyu Co., Ltd.

4. On April 1, 2012, Mitsui Home Remodeling Co., Ltd. changed its corporate name to Mitsui Fudosan Reform Co., Ltd.

5. Figures indicate percentages of total price.

Financial Statements

Balance Sheets

Nippon Accommodations Fund Inc.
As of February 29, 2012 and August 31, 2011

	Yen in millions		U.S. dollars in thousands (Note 1)
	12th Period As of February 29, 2012	11th Period As of August 31, 2011	12th Period As of February 29, 2012
Assets			
Current assets:			
Cash and cash equivalents	¥ 4,952	¥ 4,483	\$ 61,378
Rent receivables	1,050	959	13,014
Consumption tax receivables and other current assets	13	100	161
Total current assets	6,015	5,542	74,554
Investment properties (Note 3):			
Land including trust accounts	138,014	133,536	1,710,635
Depreciable property and improvements including trust accounts	104,226	100,801	1,291,844
Accumulated depreciation	(11,598)	(9,898)	(143,753)
Total investment properties	230,642	224,439	2,858,726
Other assets	565	570	7,003
Total Assets	¥237,222	¥230,551	\$2,940,283
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Short-term loans (Note 4)	¥ 7,000	¥ 11,500	\$ 86,763
Long-term loans due within one year (Note 4)	17,500	10,500	216,906
Accounts payable	698	897	8,651
Rent received in advance	1,279	1,219	15,853
Accrued expenses and other liabilities	372	365	4,611
Total current liabilities	26,849	24,481	332,784
Long-term liabilities:			
Long-term loans (Note 4)	84,500	80,500	1,047,348
Bonds (Note 4)	17,000	17,000	210,709
Tenant security deposits	2,805	2,705	34,767
Total long-term liabilities	104,305	100,205	1,292,824
Total Liabilities	¥131,154	¥124,686	\$1,625,607
Net Assets			
Unitholders' capital (Note 5)	103,235	103,235	1,279,561
Retained earnings	2,833	2,630	35,114
Total Net Assets	¥106,068	¥105,865	\$1,314,675
Total Liabilities and Net Assets	¥237,222	¥230,551	\$2,940,283

The accompanying notes to financial statements are an integral part of these statements.

Statements of Income

Nippon Accommodations Fund Inc.

September 1, 2011 to February 29, 2012, March 1, 2011 to August 31, 2011 and September 1, 2010 to February 28, 2011

	Yen in millions			U.S. dollars in thousands (Note 1)
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011	12th Period September 1, 2011 to February 29, 2012
Revenues (Note 6):				
Rental	¥7,580	¥7,176	¥5,948	\$93,951
Other revenues related to property leasing	278	390	232	3,446
Total Revenues	7,858	7,566	6,180	97,397
Operating Expenses (Note 6):				
Property management fees	849	844	674	10,523
Real estate taxes and insurance	292	292	245	3,619
Repairs and maintenance	267	335	189	3,309
Other rental expenses	336	331	233	4,165
Depreciation and amortization	1,700	1,587	1,252	21,071
Asset management fees	563	537	441	6,978
Other expenses	238	219	202	2,950
Total Operating Expenses	4,245	4,145	3,236	52,615
Operating Income	3,613	3,421	2,944	44,782
Interest and other income	7	7	4	87
Interest expense	(777)	(735)	(738)	(9,631)
New investment unit issue costs	—	(49)	—	—
Other expenses	(9)	(13)	(9)	(112)
Income before Income Taxes	2,834	2,631	2,201	35,126
Current and deferred income taxes (Note 8)	1	1	1	12
Net Income	¥2,833	¥2,630	¥2,200	\$35,114

The accompanying notes to financial statements are an integral part of these statements.

Statements of Changes in Net Assets

Nippon Accommodations Fund Inc.

For the period from September 1, 2010 to February 29, 2012

	Number of Units	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of September 1, 2010	156,178	¥ 81,103	¥ 2,147	¥ 83,250
Cash distribution declared	—	—	(2,147)	(2,147)
Net income	—	—	2,200	2,200
Balance as of February 28, 2011	156,178	81,103	2,200	83,303
Cash distribution declared	—	—	(2,200)	(2,200)
Issuance of new units through public offering as of March 1, 2011	37,500	21,539	—	21,539
Issuance of new units through allocation to a third party as of March 28, 2011	1,033	593	—	593
Net income	—	—	2,630	2,630
Balance as of August 31, 2011	194,711	103,235	2,630	105,865
Cash distribution declared	—	—	(2,630)	(2,630)
Net income	—	—	2,833	2,833
Balance as of February 29, 2012	194,711	¥103,235	¥ 2,833	¥106,068

	Number of Units	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of September 1, 2010	156,178	\$1,005,243	\$ 26,611	\$1,031,854
Cash distribution declared	—	—	(26,611)	(26,611)
Net income	—	—	27,268	27,268
Balance as of February 28, 2011	156,178	1,005,243	27,268	1,032,511
Cash distribution declared	—	—	(27,268)	(27,268)
Issuance of new units through public offering as of March 1, 2011	37,500	266,968	—	266,968
Issuance of new units through allocation to a third party as of March 28, 2011	1,033	7,350	—	7,350
Net income	—	—	32,598	32,598
Balance as of August 31, 2011	194,711	1,279,561	32,598	1,312,159
Cash distribution declared	—	—	(32,598)	(32,598)
Net income	—	—	35,114	35,114
Balance as of February 29, 2012	194,711	\$1,279,561	\$ 35,114	\$1,314,675

The accompanying notes to financial statements are an integral part of these statements.

Statements of Cash Flows

Nippon Accommodations Fund Inc.

September 1, 2011 to February 29, 2012, March 1, 2011 to August 31, 2011 and September 1, 2010 to February 28, 2011

	Yen in millions			U.S. dollars in thousands (Note 1)
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011	12th Period September 1, 2011 to February 29, 2012
Cash Flows from Operating Activities:				
Income before income taxes	¥ 2,834	¥ 2,631	¥ 2,201	\$ 35,126
Depreciation and amortization	1,700	1,587	1,252	21,071
New investment unit issue costs	—	49	—	—
Amortization of bond issue costs	7	7	7	87
Interest expense	777	735	738	9,631
(Increase) Decrease in rent receivables	(91)	(85)	(27)	(1,128)
Increase (Decrease) in accounts payable	(198)	375	(182)	(2,454)
Increase (Decrease) in rents received in advance	60	212	25	744
Cash payments of interest expense	(778)	(728)	(757)	(9,643)
(Increase) Decrease in consumption tax refund receivable	68	(68)	—	843
Other, net	25	85	(86)	310
Net Cash Provided by Operating Activities	4,404	4,800	3,171	54,586
Cash Flows from Investing Activities:				
Payments for purchases of investment properties	(7,903)	(38,970)	(179)	(97,955)
Payments for security deposits paid to lessors	—	(448)	—	—
Proceeds from tenant security deposits	345	892	247	4,276
Payments for tenant security deposits	(245)	(346)	(251)	(3,037)
Other, net	(3)	(8)	(2)	(37)
Net Cash Used in Investing Activities	(7,806)	(38,880)	(185)	(96,753)
Cash Flows from Financing Activities:				
Proceeds from short-term loans	31,500	101,000	99,000	390,431
Repayment of short-term loans	(36,000)	(107,000)	(104,000)	(446,207)
Proceeds from long-term loans	13,000	30,000	16,000	161,130
Repayment of long-term loans	(2,000)	(9,500)	(11,000)	(24,789)
Proceeds from issuance of investment units	—	22,084	—	—
Payment of distribution	(2,629)	(2,199)	(2,147)	(32,586)
Net Cash Provided by (Used in) Financing Activities	3,871	34,385	(2,147)	47,980
Net Change in Cash and Cash Equivalents	469	305	839	5,813
Cash and Cash Equivalents at the Beginning of the Period	4,483	4,178	3,339	55,565
Cash and Cash Equivalents at the End of the Period	¥ 4,952	¥ 4,483	¥ 4,178	\$ 61,378

The accompanying notes to financial statements are an integral part of these statements.

Notes to Financial Statements

Nippon Accommodations Fund Inc.

September 1, 2011 to February 29, 2012, March 1, 2011 to August 31, 2011 and September 1, 2010 to February 28, 2011

Note 1 Organization and Basis of Presentation

Organization

Nippon Accommodations Fund Inc. (hereinafter "NAF") was formed on October 12, 2005 as an investment corporation under the Investment Trust and Investment Corporation Act of Japan with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (hereinafter "MFAFM") acting as a sponsor. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on November 11, 2005 and NAF started acquisition of properties on November 30, 2005.

NAF is an externally managed real estate fund, formed as an investment corporation. MFAFM, as NAF's asset management company, is engaged in acquiring, managing, leasing, and renovating accommodation assets. MFAFM is a 100% subsidiary of Mitsui Fudosan Co., Ltd.

On August 3, 2006, NAF had raised approximately ¥40,000 million through an initial public offering of investment units. Those investment units are listed on the J-REIT section of the Tokyo Stock Exchange.

As of February 29, 2012, NAF had ownership or beneficiary interests in 87 properties containing approximately 374,529 square meters of rentable space. As of February 29, 2012, NAF had leased approximately 360,347 square meters to tenants. The occupancy rate for the properties was approximately 96.2%.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust and Investment Corporation Act of Japan and the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English from the financial statements of NAF prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. NAF does not prepare consolidated financial statements, as NAF has no subsidiaries.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the approximate exchange rate on February 29, 2012, which was ¥80.68 to U.S. \$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, or could in future be, converted into U.S. dollars at this or any other rate of exchange.

Note 2 Summary of Significant Accounting Policies

Cash and Cash Equivalents

NAF considers all highly liquid investments with original maturity of three months or less to be cash and cash equivalents.

Investment Properties

Investment properties are recorded at cost, which includes the allocated purchase price and related costs and expenses for acquisition of the properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straight-line method over the estimated useful lives. The estimated useful lives of the principal investment properties (including assets held in trust) are as follows:

Buildings and improvements	2-63 years
Structures	3-60 years
Machinery and equipment	5-45 years
Tools, furniture and fixtures	2-15 years

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of a property, are expensed as incurred.

Deferred Assets

New unit issue costs are charged to income when incurred.

Bond issue costs are amortized over the period of the bonds under the straight-line method.

Income Taxes

Income taxes are accounted for on the basis of income for financial statement purposes. The tax effect of temporary differences between the amounts of assets and liabilities for financial statements and for income tax purposes is recognized as deferred taxes.

Real Estate Taxes

Properties are subject to taxes including property tax, city planning tax and depreciable asset tax. Taxes for each fiscal period are charged to income on an accrual basis.

The owner of properties is registered in a record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record, as of January 1, based on the assessment made by the local government.

Even when a property is purchased on a date other than January 1 of any given calendar year, these taxes for that year are imposed on the seller. The buyer pays the seller the corresponding tax amounts for the period from the property's transfer date to December 31 of that year as part of the purchase prices of each property, and capitalizes these amounts as the cost of the property. Those taxes capitalized by NAF for the periods ended February 29, 2012 and August 31, 2011 amounted to ¥10 million and ¥126 million, respectively.

Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate

For trust beneficiary interests in real estate, all assets and liabilities associated with assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheet and income statement accounts.

(Additional Information)

Effective from accounting changes and corrections of prior period errors made after August 31, 2011, NAF adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

Note 3 Schedule of Investment Properties

Investment properties as of February 29, 2012 and August 31, 2011 consisted of the following:

	Yen in millions					
	As of February 29, 2012			As of August 31, 2011		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 87,977	¥ —	¥ 87,977	¥ 84,823	¥ —	¥ 84,823
Land in trust	50,036	—	50,036	48,713	—	48,713
Land including trust total	138,014	—	138,014	133,536	—	133,536
Buildings and improvements	67,214	(6,282)	60,932	64,984	(5,285)	59,699
Buildings and improvements in trust	31,261	(3,693)	27,568	30,263	(3,234)	27,029
Building and improvements including those in trust total	98,475	(9,975)	88,500	95,248	(8,520)	86,728
Structures	1,363	(283)	1,080	1,333	(241)	1,093
Machinery and equipment	1,555	(361)	1,194	1,517	(291)	1,226
Tools, furniture and fixtures	913	(461)	452	900	(392)	508
Structures in trust	1,069	(187)	883	1,060	(167)	893
Machinery and equipment in trust	503	(101)	401	408	(71)	336
Tools, furniture and fixtures in trust	339	(230)	109	326	(216)	110
Construction in process in trust	9	—	9	9	—	9
Other investment properties total	5,751	(1,623)	4,128	5,553	(1,379)	4,175
Total	¥242,240	¥(11,598)	¥230,642	¥234,337	¥(9,898)	¥224,439

Note 4 Short-Term Loans and Long-Term Debt

Short-term loans consist of short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are fixed rates and as of February 29, 2012 and August 31, 2011 ranged from 0.3% to 0.5% and from 0.4% to 0.5%, respectively.

Long-term debt consists of the following:

	Yen in millions	
	As of February 29, 2012	As of August 31, 2011
Unsecured loans due 2012 to 2018 principally from banks and insurance companies with interest rates mainly ranging from 0.5% to 2.2%	¥102,000	¥ 91,000
1.7% unsecured bonds due 2014	10,000	10,000
1.2% unsecured bonds due 2016	7,000	7,000
	¥119,000	¥108,000

The annual maturities of long-term debt as of February 29, 2012 were as follows:

	Yen in millions
Due after one to two years	¥19,000
Due after two to three years	10,000
Due after three to four years	16,000
Due after four to five years	8,000
Due after five years	31,500

Note 5 Unitholders' Capital

	As of February 29, 2012	As of August 31, 2011	As of February 28, 2011
Total number of common units authorized	2,000,000	2,000,000	2,000,000
Total number of common units issued and outstanding	194,711	194,711	156,178

NAF shall maintain minimum net assets of at least ¥50 million as required by the Investment Trust and Investment Corporation Act of Japan.

Note 6 Rental Revenues and Expenses

Rental revenues and expenses for the periods ended February 29, 2012, August 31, 2011 and February 28, 2011 were as follows:

	Yen in millions		
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥7,322	¥6,936	¥5,752
Facility charge	258	240	196
Subtotal	7,580	7,176	5,948
Other revenues related to property leasing:			
Income from leasing rights, etc.	194	286	163
Miscellaneous income	84	104	69
Subtotal	278	390	232
Total revenues from property leasing	7,858	7,566	6,180
Rental Expenses:			
Property management fees	849	844	674
Repairs and maintenance	267	335	189
Real estate taxes	275	275	233
Trust fees	10	10	9
Utilities	94	76	68
Insurance	17	16	12
Depreciation and amortization	1,700	1,587	1,252
Leasing-related service fees, etc.	141	155	127
Other rental expenses	91	91	28
Total rental expenses	3,444	3,389	2,592
Operating Income from Property Leasing Activities	¥4,414	¥4,177	¥3,588

Note 7 Leases

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of February 29, 2012 and August 31, 2011, future minimum rental revenues under the non-cancelable operating lease were as follows:

	Yen in millions	
	As of February 29, 2012	As of August 31, 2011
Due within one year	¥ 631	¥ 631
Due after one year	4,997	5,312
Total	¥5,628	¥5,943

Note 8 Income Taxes

NAF is subject to income taxes in Japan. The effective tax rates on NAF's income based on applicable Japanese tax law were 0.04%, 0.04% and 0.04% for the periods ended February 29, 2012, August 31, 2011 and February 28, 2011, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011
Statutory effective tax rate	39.33%	39.33%	39.33%
Deductible distributions paid	(39.31)	(39.31)	(39.31)
Others	0.02	0.02	0.03
Effective tax rate	0.04%	0.04%	0.04%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of February 29, 2012, August 31, 2011 and February 28, 2011 were as follows:

	Yen in thousands		
	As of February 29, 2012	As of August 31, 2011	As of February 28, 2011
Deferred tax assets:			
Enterprise taxes	¥22	¥19	¥18
Total deferred tax assets	22	19	18
Deferred tax liabilities	—	—	—
Net Deferred Tax Assets	¥22	¥19	¥18

NAF was established as an investment corporation under the Investment Trust and Investment Corporation Act of Japan, and as long as an investment corporation distributes to its unitholders at least 90% of earnings available for dividends for a period and other requirements prescribed in Japanese tax regulations are met, the investment corporation is allowed to deduct the total amount of distributions paid in calculating its taxable income under Japanese tax regulations.

Note 9 Per Unit Information

Information about earnings per unit for the periods ended February 29, 2012, August 31, 2011 and February 28, 2011 and net assets per unit as of February 29, 2012, August 31, 2011 and February 28, 2011 was as follows.

The computation of earnings per unit is based on the weighted average number of common units outstanding during the period. The computation of net assets per unit is based on the number of common units outstanding at each period end.

	Yen		
	12th Period September 1, 2011 to February 29, 2012	11th Period March 1, 2011 to August 31, 2011	10th Period September 1, 2010 to February 28, 2011
Earnings per Unit:			
Net income	¥14,548	¥13,518	¥14,085
Weighted average number of common units outstanding	194,711	194,559	156,178
	As of February 29, 2012	As of August 31, 2011	As of February 28, 2011
Net Assets per Unit	¥544,746	¥543,705	¥533,383

Note 10 Transactions with Related Parties

(September 1, 2011 – February 29, 2012)

- (1) Parent Company and Major Corporate Unitholders: None applicable
 (2) Affiliates: None applicable
 (3) Sister Companies: None applicable
 (4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of period (Yen in millions)
Director and/or close relative	Kosei Murakami	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fee to MFAFM (Note 1)	¥636 (Notes 2 and 4)	Accounts payable	¥591 (Note 4)
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 3)	¥1 (Note 4)	Accounts payable	¥0 (Note 4)

- Notes: 1. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.
 2. The amount of asset management fees includes ¥74 million for management related to acquisition of properties included in the book value of each investment property, etc.
 3. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
 4. Consumption taxes are not included in transaction amounts. Consumption taxes are included in the balance at the end of the period.

(March 1, 2011 – August 31, 2011)

- (1) Parent Company and Major Corporate Unitholders: None applicable
 (2) Affiliates: None applicable
 (3) Sister Companies: None applicable
 (4) Directors and Major Individual Unitholders

Classification	Name	Principal business or occupation	Nature of transaction	Amount of transaction (Yen in millions)	Account	Balance at the end of period (Yen in millions)
Director and/or close relative	Kosei Murakami (Note 1)	Executive Director of NAF and President & CEO of MFAFM (Note 1)	Payment of asset management fee to MFAFM (Note 2)	¥599 (Notes 3 and 5)	Accounts payable	¥627 (Note 5)
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 4)	¥6 (Note 5)	—	—

- Notes: 1. Kosei Murakami became an executive director of NAF on May 20, 2011.
 2. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is subject to the conditions set forth in the by-laws of NAF.
 3. The amount of asset management fees includes ¥62 million for management related to acquisition of properties included in the book value of each investment property, etc.
 4. Kosei Murakami entered into this transaction as a representative of MFAFM, and this amount is set forth in the "General Administration Agreement relating to Organizational Management" concluded between NAF and MFAFM.
 5. "Amount of transaction" is transaction amounts after Kosei Murakami became an executive director of NAF, but does not include consumption taxes.
 "Balance at the end of period" includes consumption taxes.

Note 11 Financial Instruments

(September 1, 2011 – February 29, 2012)

1. Status of Financial Instruments

(1) Policy for Financial Instruments

NAF raises funds for acquisition of assets and other uses through bank loans, issuance of bonds and new unit issues.

NAF may enter into derivative transactions solely for the purpose of hedging interest rate risk. Currently, NAF is not engaged in any derivative transactions. NAF strives for efficiency in its funding plans and has an operating policy of minimizing surplus funds.

(2) Financial Instruments, Their Risks and Risk Management System

Funds from loans and bonds are primarily used for acquiring assets and to repay interest-bearing debt. NAF manages associated liquidity and interest rate fluctuation risk in ways such as diversifying its credit sources and maturities, and by mainly using fixed-rate loans.

(3) Supplemental Explanation regarding Fair Values of Financial Instruments

The fair value of financial instruments is based on their observable market value, if available. When there is no observable market value available, fair value is based on a price that is reasonably estimated. Since various factors are reflected in estimating the fair value, different assumptions and factors could result in a different value.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of February 29, 2012 are as follows. The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2, below).

	Yen in millions		
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 4,952	¥ 4,952	¥ —
Total	¥ 4,952	¥ 4,952	¥ —
Liabilities			
(1) Short-term loans	¥ 7,000	¥ 7,000	¥ —
(2) Long-term loans due within one year	17,500	17,683	183
(3) Bonds	17,000	17,333	333
(4) Long-term loans	84,500	85,748	1,248
Total	¥126,000	¥127,763	¥1,763

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

Liabilities:

(1) Short-term loans

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

(2) Long-term loans due within one year and (4) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates over short time periods.

(3) Bonds

Fair values of bonds are based on observable market value.

2. Financial instruments for which it is very difficult to estimate the fair value

Yen in millions	
Book value	
Tenant security deposits	¥2,805

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after February 29, 2012

Yen in millions	
Due within one year	
Cash and cash equivalents	¥4,952

4. Repayment schedule for loans and bonds due after February 29, 2012

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥ 7,000	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	10,000	—	7,000	—
Long-term loans	17,500	19,000	10,000	16,000	8,000	31,500
Total	¥24,500	¥19,000	¥20,000	¥16,000	¥15,000	¥31,500

(March 1, 2011 – August 31, 2011)

1. Status of Financial Instruments

Same as above.

2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of August 31, 2011 are as follows. The financial instruments for which it is very difficult to estimate the fair value are excluded from the following table (See Note 2, below).

	Yen in millions		
	Book value	Fair value	Difference
Assets			
(1) Cash and cash equivalents	¥ 4,483	¥ 4,483	¥ —
Total	¥ 4,483	¥ 4,483	¥ —
Liabilities			
(1) Short-term loans	¥ 11,500	¥ 11,500	¥ —
(2) Long-term loans due within one year	10,500	10,561	61
(3) Bonds	17,000	17,343	343
(4) Long-term loans	80,500	81,712	1,212
Total	¥119,500	¥121,115	¥1,615

Notes: 1. Methods to estimate fair value of financial instruments

Assets:

(1) Cash and cash equivalents

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

Liabilities:

(1) Short-term loans

Book values of these instruments are used to determine their fair values, as the book values are considered to approximate fair values because these instruments are settled within a short-term period.

(2) Long-term loans due within one year and (4) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new loans were entered into. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates over short time periods.

(3) Bonds

Fair values of bonds are based on observable market value.

2. Financial instruments for which it is very difficult to estimate the fair value

Yen in millions	
Book value	
Tenant security deposits	¥2,705

Security deposits from tenants are not subject to fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

3. Redemption schedule for monetary claims with maturity dates after August 31, 2011

Yen in millions	
Due within one year	
Cash and cash equivalents	¥4,483

4. Repayment schedule for loans and bonds due after August 31, 2011

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans	¥11,500	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	10,000	7,000	—
Long-term loans	10,500	19,000	19,000	8,000	10,000	24,500
Total	¥22,000	¥19,000	¥19,000	¥18,000	¥17,000	¥24,500

Note 12 Investment and Rental Properties

(September 1, 2011 – February 29, 2012)

NAF owns rental properties (including land) located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties are as follows.

Yen in millions			
Book value			Fair value
As of September 1, 2011	Change during the 12th Period	As of February 29, 2012	As of February 29, 2012
¥224,430	¥6,203	¥230,633	¥221,831

Notes: 1. "Book value" shown here is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding construction in process.

2. In "Change during the 12th Period," the main factor increasing book value was the acquisition of properties for ¥7,612 million. The main factor decreasing book value was depreciation.

3. "Fair value as of February 29, 2012" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended February 29, 2012 is disclosed in Note 6 (Rental Revenues and Expenses).

(March 1, 2011 – August 31, 2011)

NAF owns rental properties (including land) located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties are as follows.

Yen in millions			
Book value			Fair value
As of March 1, 2011	Change during the 11th Period	As of August 31, 2011	As of August 31, 2011
¥187,047	¥37,383	¥224,430	¥213,736

Notes: 1. "Book value" shown here is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding construction in process.

2. In "Change during the 11th Period," the main factor increasing book value was the acquisition of properties for ¥38,816 million. The main factor decreasing book value was depreciation.

3. "Fair value as of August 31, 2011" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended August 31, 2011 is disclosed in Note 6 (Rental Revenues and Expenses).

Note 13 Segment Information

(September 1, 2011 – February 29, 2012)

1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

2. Related Information

(1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

(2) Information by Geographic Areas

1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

(3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥7,543	Real estate leasing business

(March 1, 2011 – August 31, 2011)

1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

2. Related Information

(1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

(2) Information by Geographic Areas

1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

(3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Housing Lease Co., Ltd.	¥6,792	Real estate leasing business

Note 14 Significant Subsequent Events

None applicable

Independent Auditor's Report



To the Board of Directors of
Nippon Accommodations Fund Inc.:

We have audited the accompanying financial statements of Nippon Accommodations Fund Inc. (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at February 29, 2012 and August 31, 2011, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended February 29, 2012, August 31, 2011 and February 28, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Accommodations Fund Inc. as at February 29, 2012 and August 31, 2011, and their financial performance and cash flows for each of the six months ended February 29, 2012, August 31, 2011 and February 28, 2011, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended February 29, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

KPMG AZSA LLC

May 28, 2012
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Facts and Figures

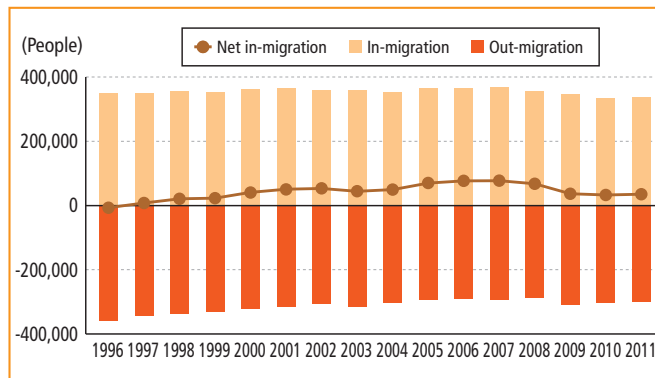
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Rental Apartment Investment Characteristics

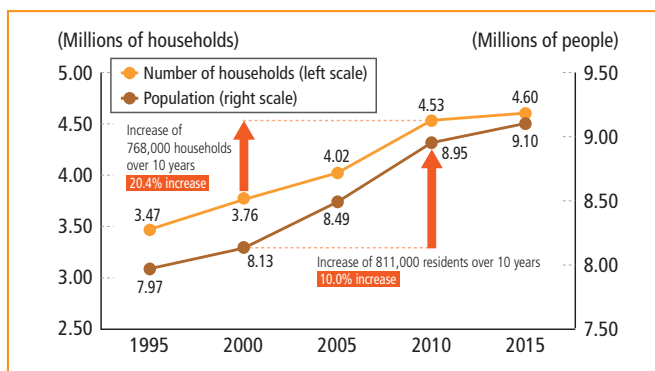
Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating investment in the 23 wards of Tokyo where demand for rental housing is high and developing a portfolio with high market competitiveness and asset value, NAF will stably increase earnings.

1. Net Migration into Tokyo (23 Wards)



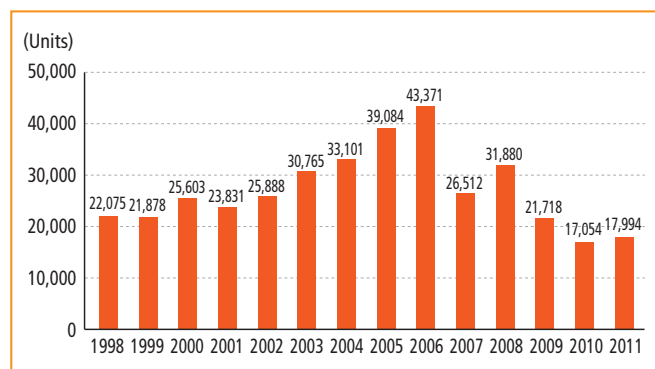
Source: "Report on Internal Migration in Japan," Statistics Bureau, Ministry of Internal Affairs and Communications

2. Projected Number of Households and Population (Tokyo 23 Wards)



Sources: "Household Projections for Tokyo," Statistics Division of General Affairs, Tokyo Metropolitan Government "Tokyo Vision 2020," Headquarters of the Governor of Tokyo
Population Censuses conducted by the Statistics Bureau, Ministry of Internal Affairs and Communications

3. Rental Apartment Construction Starts (Tokyo 23 Wards)



Source: "Housing Construction Statistics," Information Security, Research and Statistics Division, Policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism

Residential Rental Market Trends in the 23 Wards of Tokyo

Population and Number of Households

In the 23 wards of Tokyo, where most of NAF's assets under management are located, the population influx is continuing, reflecting an increasing desire in recent years to live closer to work and the progressive concentration of economic activities in Tokyo. Graph 1 shows migration trends in the 23 wards of Tokyo as well as net in-migration. In-migration has continued to exceed out-migration since 1996, indicating stable demand for residential rental housing in highly convenient areas.

Moreover, the number of households is increasing at a greater rate than the population as households divide into smaller units, among other factors. Graph 2 shows the projected number of households and population for the 23 wards of Tokyo. The number of households increased by 768 thousand over the decade from 2000 to 2010. This 20.4 percent increase was more than double the 10.0 percent increase in population during the same period. This difference implies growth in the number of single and two-person households, a trend that is projected to continue through 2015.

Due to the above factors, MFAFM projects solid demand from the growing number of single and two-person households for single and compact (rentable area under 60m² with two or fewer bedrooms) apartments, which comprise the majority of NAF's portfolio.

Rental Housing Stock

Graph 3 shows the number of rental apartment construction starts in the 23 wards of Tokyo. Construction starts increased more or less steadily until 2006, but decreased significantly following changes in the building authorization procedure resulting from revisions in 2007 to the Building Standards Law (Law No. 201 of 1950 as amended). The number of construction starts since 2009 has been less than half the peak of 2006.

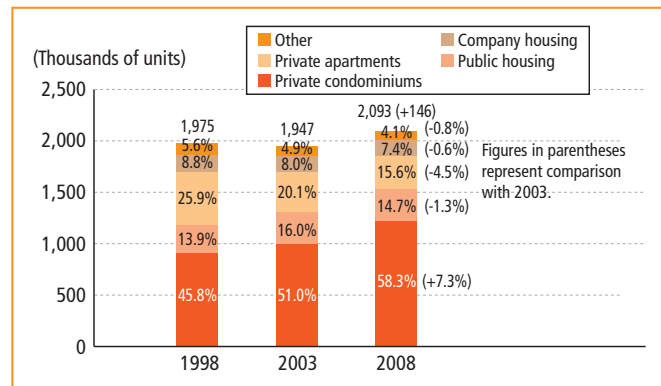
Rental housing stock volume for the 23 wards of Tokyo is shown in Graph 4. Stock increased by 146 thousand units to 2,093 thousand in 2008 from 1,947 thousand in 2003 with the increase in demand due to the population influx into Tokyo. However, the overall increase was moderate compared with the concurrent increases in population and number of households. On closer analysis, the ratio of company housing, private apartments and public housing decreased, whereas the ratio of private condominiums increased in response to the needs of potential occupants.

Stability of Residential Rent

Graph 5 shows relative rents for residential units in the 23 wards of Tokyo and offices in Greater Tokyo, with 1989 levels set as 100. Residential rent has remained relatively stable in comparison to office rent. Rental housing is a necessary expense in the same way as clothing and food. Therefore, residential rent is considered stable because it is generally unaffected by fluctuations in economic conditions and asset value, with relatively low risk of change.

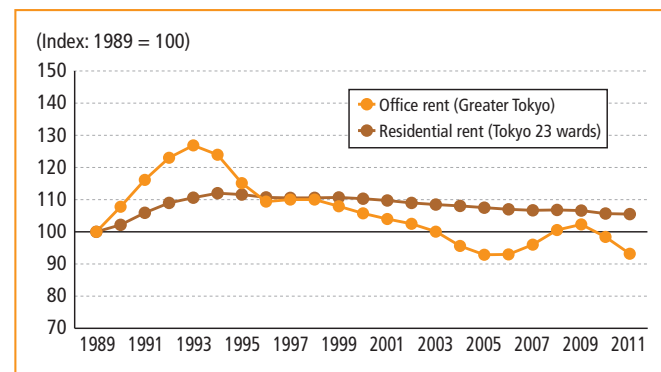
In addition, rental housing enables a more diversified portfolio in terms of number of properties and tenants due to its relatively small scale in comparison to office buildings and other properties. Investment in rental housing of this nature is perfectly matched with NAF's core strategy of securing stable revenues. Furthermore, new properties are scarce, comprising a limited share of rental housing stock. Such properties, which make up the majority of NAF's investment portfolio, ensure market competitiveness and asset value.

4. Rental Housing Stock Volume and Composition (Tokyo 23 Wards)



Source: "Housing and Land Survey," Statistics Bureau, Ministry of Internal Affairs and Communications

5. Residential and Office Rents



Source: "Annual Report: Consumer Price Index," Cabinet Office, Ministry of Internal Affairs and Communications, and "Service Price Index for the Private Sector," Bank of Japan

Common Practices in Japan's Rental Apartment Market

Contract Validity Period

Leases in Japan are generally two-year contracts, which can be renewed by paying an extension fee (usually one month's rent).

Security Deposit

The tenant must pay a security deposit in advance to the landlord to insure against future unpaid rent and/or damages. Generally, it is equal to two months' rent and is typically refunded when moving out (a cleaning and/or repair fee may be deducted prior to refund).

Key Money

The tenant pays key money to the landlord prior to signing a lease contract. It is equivalent to two months' rent and is not refunded.

Commission Fee

A commission fee is paid to the leasing agent; by regulation, it cannot exceed one month's rent.

Guarantor/Joint Surety

A guarantor is required when signing a lease contract. The guarantor must have an income sufficient to cover the rent if the tenant cannot pay and/or the cost of repairs to the apartment if the tenant causes any damage.

Corporate Structure and Governance

Nippon Accommodations Fund Inc. has structured systems for compliance and risk management and operates fairly and transparently with the aim of increasing investor value.

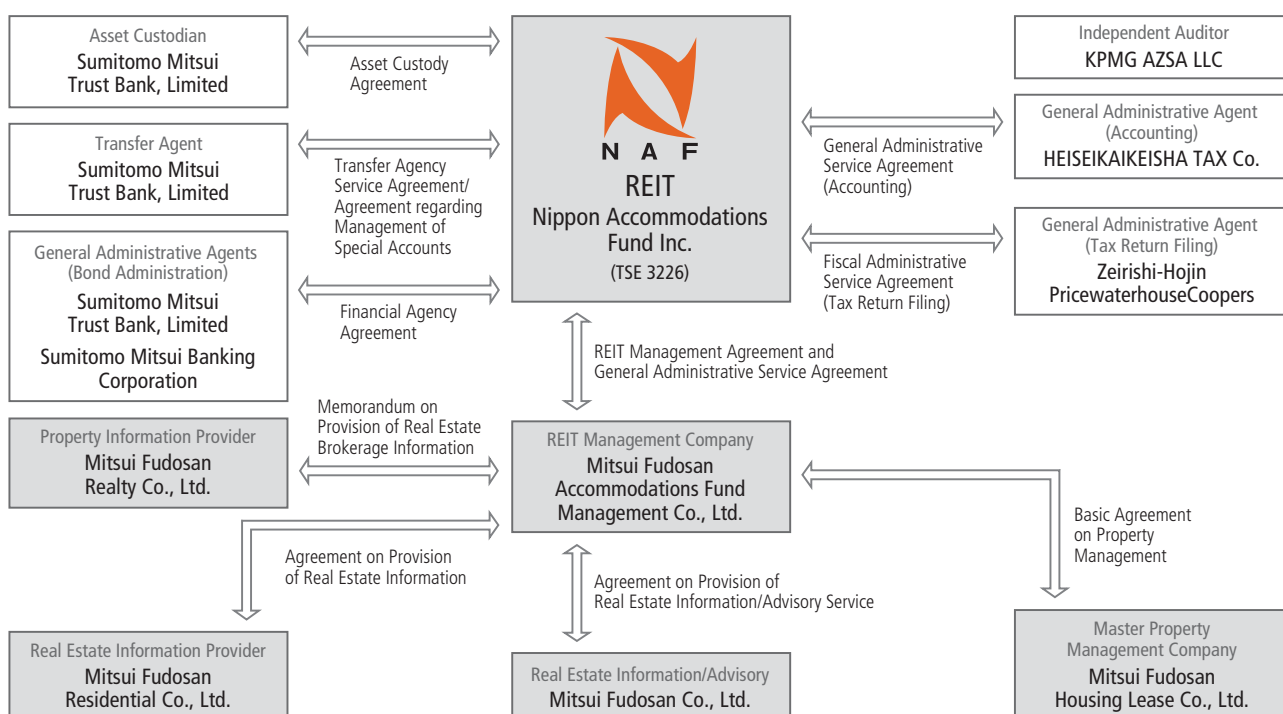
Real Estate Investment Trust (“REIT”) Structure

Nippon Accommodations Fund Inc. (“NAF”) is an investment corporation established with the objective of investing in assets, primarily Designated Assets as defined under the Investment Trust and Investment Corporation Act of Japan. NAF was established on October 12, 2005, with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (the “REIT Management Company” or “MFAFM”) as its asset management company.

NAF has entrusted management of all of its assets to the REIT Management Company, which is the asset management company required under the Investment Trust and Investment Corporation Act of Japan. Operating in accordance with the REIT Management Agreement concluded on October 13, 2005 (as amended), the REIT Management Company manages NAF’s assets according to NAF’s asset management and administration policies and the asset management guidelines embodied in the internal regulations of the REIT Management Company. The asset management guidelines take current investment conditions into account and follow NAF’s basic operating principle of taking a medium-to-long-term perspective in managing assets to secure stable earnings and steadily increase assets under management.

These guidelines may change in the future in response to changes in the external investment environment and the status of NAF’s assets under management.

In addition, the REIT Management Company has concluded contracts with other companies in the Mitsui Fudosan Group to promote smooth, effective management of NAF’s assets. An Agreement on Provision of Real Estate Information/Advisory Service with Mitsui Fudosan Co., Ltd. provides information regarding real estate owned or developed by Mitsui Fudosan’s Accommodations Business Division, and other management advisory information. Each of (i) a Memorandum on Provision of Real Estate Brokerage Information with Mitsui Fudosan Realty Co., Ltd. and (ii) an Agreement on Provision of Real Estate Information with Mitsui Fudosan Residential Co., Ltd. provides access to certain real estate property information. A Basic Agreement on Property Management with Mitsui Fudosan Housing Lease Co., Ltd., the master property management company to which NAF has entrusted property management services of all its properties, is fundamental to NAF’s policy of outsourcing such property management services required in managing real estate.



Corporate Structure

General Meeting of Unitholders

In accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation, NAF convenes a General Meeting of Unitholders within the 23 wards of Tokyo, generally once every two years. The General Meeting of Unitholders adopts or vetoes ordinary resolutions on the basis of a simple majority of the voting rights of unitholders in attendance. Decisions on substantive resolutions such as changes in the Articles of Incorporation require the attendance of unitholders holding at least a simple majority of total units issued and outstanding, and a vote of two-thirds majority of the voting rights of such unitholders. The asset management policies and standards are stipulated by NAF's Articles of Incorporation.

Executive Directors, Supervisory Directors, Independent Auditor and the Board of Directors

NAF's Articles of Incorporation stipulate that NAF must have one or more executive directors, and two or more supervisory directors (but always equal to the number of executive directors plus at least one additional supervisory director). NAF's independent auditor is KPMG AZSA LLC.

NAF's executive directors are responsible for business execution. In addition, they have authority for all judicial and extrajudicial proceedings related to the operations of NAF.

Supervisory directors are responsible for supervising business execution by the executive directors.

The Board of Directors acts in accordance with the Investment Trust and Investment Corporation Act of Japan and NAF's Articles of Incorporation and other internal rules in exercising their responsibility to supervise the performance of the executive directors. In accordance with the current Articles of Incorporation, the Board of Directors passes or vetoes resolutions on the basis of a simple majority of executive and supervisory directors on the Board who are in attendance and are able to vote. Executive and supervisory directors having special interest in a resolution are prohibited from participating in related decisions.

The independent auditors are elected at the General Meeting of Unitholders. They audit financial and accounting documents including NAF's financial statements. In addition, they are charged with reporting to supervisory directors any unlawful acts or material violations of laws, regulations or NAF's Articles of Incorporation that executive directors may commit in the course of their duties. The independent auditors also perform other duties as required by laws and regulations.

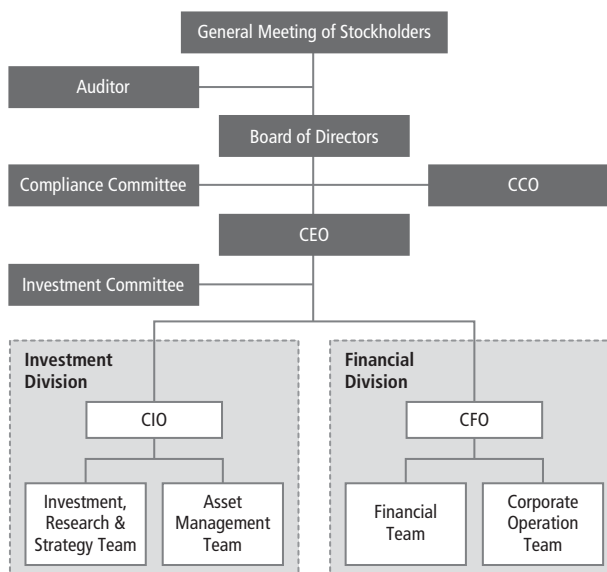
Compliance Initiatives

The REIT Management Company, MFAFM, assumes full responsibility for compliance in order to structure an appropriate asset management system for NAF. A Chief Compliance Officer (CCO) of MFAFM has been appointed to supervise compliance with laws, regulations and internal rules on the part of the REIT Management Company.

The CCO is responsible for internal audits at the REIT Management Company. The Chief Executive Officer (CEO) may also appoint other employees of MFAFM to participate as needed in internal audits, based on the recommendations of the CCO.

MFAFM's entire organization and all personnel within it are subject to internal audits. As a rule, internal audits are conducted on a regular basis in accordance with the compliance program, but the CEO may initiate extraordinary audits.

Corporate Governance Structure of MFAFM



Investment Risk Management System

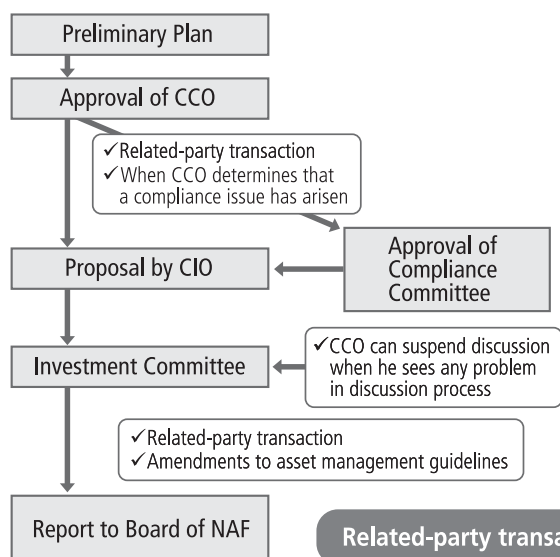
NAF itself is responsible for complying with the Investment Trust and Investment Corporation Act of Japan and related laws and regulations in managing risks. In addition, the REIT Management Company has established appropriate internal rules. In conjunction with appropriate organizational systems, NAF is providing education and implementing other measures to enhance the culture of compliance among officers and employees of MFAFM.

NAF's Board of Directors convenes as needed at least once every three months, and resolves important matters and reports on the status of business execution in accordance with laws, regulations and internal rules for such Board of Directors. Independent supervisory directors supervise business execution.

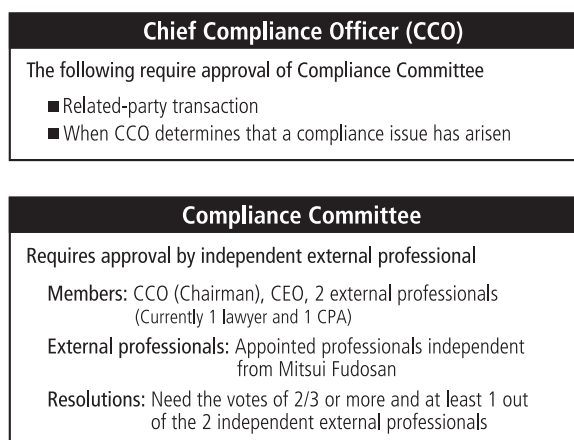
Moreover, supervisory directors can obtain as needed reports on operations and financial condition from the REIT Management Company and from NAF's asset custodian, Sumitomo Mitsui Trust Bank, Limited. Independent supervisory directors can also conduct required investigations.

The REIT Management Company formulates and revises an annual management plan that is the blueprint for management and administration policies that comply with the asset management guidelines. This annual plan and compliance with the asset management guidelines serve to eliminate or minimize risk. In addition, the REIT Management Company has established internal risk management regulations and a department that focuses on managing each type of risk appropriately.

Investment Policy & Acquisition/Sale Decision Process



Compliance Checking System



Related-party transactions require approval by independent external professional

Restrictions on Related-Party Transactions

Laws and regulations prohibit the REIT Management Company from conducting specified transactions with related parties. In the case of a transaction with a potential conflict of interest between an entity specified under the Investment Trust and Investment Corporation Act of Japan and its ordinances and its asset management company, in principle the REIT Management Company must prepare a brief describing the transaction and deliver it to NAF and other entities specified by

the Investment Trust and Investment Corporation Act of Japan and its ordinances.

With the objective of enhancing returns for NAF's unitholders, the REIT Management Company's internal regulations specify rules for handling related-party transactions. The REIT Management Company has established standards and procedures for related-party transactions and executes appropriate asset management for NAF by eliminating conflicts of interest.

Primary Related Corporations

Overview of the Roles of Primary Related Corporations

The following outlines the contractual relationship between NAF and its REIT management company, and the contractual relationship between NAF's REIT management company and primary related corporations.

Role	Name	Overview of Relevant Operations
REIT management company and general administrative agent	Mitsui Fudosan Accommodations Fund Management Co., Ltd. (MFAFM)	MFAFM serves as the company entrusted with asset management as required under the Investment Trust and Investment Corporation Act of Japan (Article 198, Paragraph 1) and under a REIT Management Agreement entered into between MFAFM and NAF on October 13, 2005 (as amended). Under this agreement, MFAFM undertakes asset management of NAF in accordance with the asset management guidelines of MFAFM and the Articles of Incorporation of NAF. Under the above agreement, MFAFM is entrusted with (1) management of assets owned by NAF; (2) fund procurement to be conducted by NAF; (3) reporting on the condition of assets owned by NAF; (4) formulating management plans for assets of NAF; and (5) any other matters related to the above items listed in (1) through (4) that NAF may require. In addition, pursuant to Article 117 of the Investment Trust and Investment Corporation Act of Japan, MFAFM undertakes management of (1) the Board of Directors; (2) the General Meeting of Unitholders; and (3) any other matters related to the above items listed in (1) and (2) that NAF may require, as General Administrative Agent based on a General Administrative Service Agreement dated March 1, 2006. The matters entrusted to the Transfer Agent pursuant to the Agreement between NAF and the Transfer Agent are not included in the above matters set forth in (1) and (2).
Real estate information/ advisory service provider	Mitsui Fudosan Co., Ltd.	Mitsui Fudosan provides real estate sales information, real estate management information, and other services to MFAFM under an Agreement on Provision of Real Estate Information/Advisory Service that MFAFM entered into with Mitsui Fudosan on February 23, 2006.
Real estate information provider	Mitsui Fudosan Residential Co., Ltd.	Mitsui Fudosan Residential provides real estate sales information to MFAFM under an Agreement on Provision of Real Estate Information that MFAFM entered into with Mitsui Fudosan Residential on September 26, 2007.
Property information provider	Mitsui Fudosan Realty Co., Ltd.	Mitsui Fudosan Realty provides real estate brokerage information and other services to MFAFM under a Memorandum on Provision of Real Estate Brokerage Information that MFAFM entered into with Mitsui Fudosan Realty on March 31, 2006.
Master property management company	Mitsui Fudosan Housing Lease Co., Ltd.	In principle, MFAFM will entrust to Mitsui Fudosan Housing Lease as master property management company, all property management services required for real estate of NAF, under a Basic Agreement on Property Management between MFAFM and Mitsui Fudosan Housing Lease dated March 31, 2006.

Mitsui Fudosan Accommodations Fund Management Co., Ltd. REIT Management Company and General Administrative Agent

MFAFM, as a REIT management company provided for in the Investment Trust and Investment Corporation Act of Japan, performs management of NAF's assets and undertakes management of the institutions of NAF.

MFAFM has no capital relationship with NAF.

Operation

- Undertakes asset management of NAF pursuant to a REIT Management Agreement based on an entrustment from NAF in accordance with the Articles of Incorporation of NAF and the Investment Objects and Policies set forth therein.
- Undertakes management of the general affairs of the general meeting of unitholders and the Board of Directors of NAF as General Administrative Agent based on an entrustment from NAF and pursuant to a General Administrative Service Agreement.

Fees for the Asset Management Operation

NAF pays asset management fees to MFAFM, in accordance with the REIT Management Agreement concluded with MFAFM. These fees comprise items 1 to 4 below, with the method of calculation and payment dates as follows.

Management Fees 1

The amount equivalent to 5% of the amount of the revenue arising from Real Estate, etc. as calculated on each closing date (excluding revenues from the sale of Real Estate, etc. and other Managed Assets) will be payable. Management Fees 1 are paid without delay after definite settlement of accounts.

Management Fees 2

The amount equivalent to 5% of income before income tax prior to deduction of Management Fees 1 and 2 as calculated on each closing date will be payable. Management Fees 2 are paid without delay after definite settlement of accounts.

Management Fees 3

In the event that Real Estate, etc. is newly acquired, compensation equivalent to 1% (0.5% if it is acquired from Related Parties) of the total amount of the acquisition price of said Real Estate, etc. (excluding consumption tax, local consumption tax, and acquisition costs) will be payable. Management Fees 3 are paid at or before the end of the next month after the month of the acquisition date.

Management Fees 4

In the event that Real Estate, etc. is sold, compensation equivalent to 1% (0.5% if it is sold to Related Parties) of the total amount of the sales price of said Real Estate, etc. (excluding consumption tax, local consumption tax) will be payable. Management Fees 4 are paid at or before the end of the next month after the month of the sales date.

Mitsui Fudosan Co., Ltd. Real Estate Information and Advisory Service Provider

Pursuant to an Agreement on Provision of Real Estate Information/Advisory Service, Mitsui Fudosan provides to MFAFM a diverse array of support services that employ the information and expertise of Mitsui Fudosan in the area of real estate management and administration.

In order to receive such services, MFAFM provides Mitsui Fudosan with acquisition guidelines included in asset management guidelines.

Provision of Information on Real Estate and Other Assets Owned or Developed by Mitsui Fudosan

In case Mitsui Fudosan initiates selling activities of real estate or real estate-related assets which it owns or is developing under its Accommodations Business Division, and is consistent with MFAFM's asset management guidelines, Mitsui Fudosan notifies MFAFM, in principle, before or at the same time as it notifies any third party of such sales, unless such notification cannot be made due to lack of consent of third parties or for any other unavoidable reasons.

When MFAFM receives such notification and provides written notification that it will consider the purchase of such real estate or assets, Mitsui Fudosan deals with NAF as a prospective purchaser on a pari passu basis with regard to any third party interested in purchasing such estate or other assets.

Provision of Third-Party Real Estate Sales Information

Regardless of whether Mitsui Fudosan has originated or is brokering the sale, Mitsui Fudosan's Accommodations Business Division in principle notifies MFAFM of information concerning available real estate or real estate-related assets owned by third parties, when such real estate or assets are consistent with MFAFM's asset management guidelines, unless such notification cannot be made due to lack of consent of third parties or for any other unavoidable reasons, or Mitsui Fudosan itself intends to acquire such real estate or assets with the objective of development or ownership.

Provision of Real Estate Management Information

Mitsui Fudosan will provide in writing upon request by MFAFM and at least once per calendar year real estate management information (see note below) drawn from information that its Accommodations Business Division supervises if MFAFM deems such information necessary for its business and Mitsui Fudosan agrees to such provision.

Note: "Real estate management information" means the following information.

- (a) Information regarding medium-to-long-term trends relevant to the operating environment of the real estate leasing market in Japan including economic trends, population dynamics, and trends in housing stock
- (b) Trends in new supply of residential properties for lease (including property summaries, level of rent and initial leasing conditions), recent lease contracts entered for specific residential properties, area marketing surveys, financial data for other real estate investment corporations, income and expense data for specific properties, and real estate leasing market trends including vacancy rate and rent trends
- (c) Other information related to items (a) or (b) above that MFAFM requests, as needed

Provision of Advisory Services

MFAFM has entrusted the following activities to Mitsui Fudosan.

- (a) Support services for the acquisition of real estate or real estate-related assets (including due diligence prior to such acquisition, review of relevant building plans and conditions of construction)
- (b) Advice regarding the management and administration of real estate or real estate-related assets which NAF owns or is considering acquiring

Such advice includes, but is not limited to (i) advice and support in connection with the management and administration of the long-term maintenance plan for buildings and facilities and deliberations on and preparation of related budgets and plans; (ii) advice and support in connection with the investigation or review of the plan and estimated costs for maintenance and renovation to be conducted in connection with real estate or real estate-related assets; and (iii) advice and support in connection with large-scale repair projects to be executed in respect of real estate or real estate-related assets.

Operation Fees

MFAFM will provide the compensation as separately discussed and agreed with Mitsui Fudosan under this agreement.

Portfolio Policy

Portfolio Structure Policies

Set forth below are the portfolio structure policies and investment standards for individual properties for the REIT Management Company and its internal regulations that serve as asset management guidelines.

1. Investment Areas

NAF emphasizes Greater Tokyo and other major cities in Japan in investing in accommodation assets. By region, at least 80 percent of NAF's assets are located in the 23 wards of Tokyo.

When considering individual investments, NAF studies regional characteristics and tenant needs. NAF then deploys this information to invest in properties with suitable residential plans and characteristics.

2. Investment Standards

The REIT Management Company identifies potential investments and decides whether or not to invest in assets on the basis of the asset management guidelines summarized in the table below.

Item	Standard
Investment amount	In principle, the value of each property must exceed ¥1 billion. However, NAF may invest in properties at or below ¥1 billion after taking into account property characteristics and earning potential and certain relevant matters.
Ownership interests	In principle, NAF shall hold ownership interests of a whole property. However, NAF may invest in compartmentalized ownership upon consideration of the specific property. NAF may also invest in leaseholds, including fixed-term leaseholds, on the basis of consideration of earning potential, the stability of the leasehold rights and other relevant matters.
Building structure	In principle, building structures shall be reinforced concrete (RC) or steel reinforced concrete (SRC). Earthquake resistance shall conform to or substantially satisfy the New Earthquake Resistance Standards (in compliance with the 1981 revision to the Building Standards Law (Law No. 201 of 1950), as amended, the "Building Standards Law").
Properties under development	In principle, NAF shall acquire properties that are already producing stable rental income at the time of acquisition, and shall not invest in land with a view to NAF's own construction of the building thereon. However, NAF may consider contracts to acquire uncompleted buildings that, although incomplete, are expected to carry minimum risk in respect to completion, delivery and subsequent leasing.

3. Due Diligence Standards

NAF selects assets to invest in only after due diligence covering economic feasibility, physical condition and legal status in accordance with the asset management guidelines. Due diligence includes real estate appraisals and building inspection reports from third-party specialists.

Based on the results of such due diligence, the REIT Management Company in principle undertakes investigation of the items listed below in order to make investment decisions as a result of comprehensive review.

Item	Issues Investigated	
Economic feasibility studies	Market survey	<ol style="list-style-type: none"> 1. Current residential environment in the relevant region 2. Demand and supply for rental housing in the relevant region 3. Rental housing competition trends in the relevant region 4. Markets rents in the relevant region 5. Discount rate and rate of return
	Tenant survey	<ol style="list-style-type: none"> 1. Tenant creditworthiness and rent income amount 2. Purpose of use and confirmation that tenants are not members of anti-social forces
	Survey of earnings and related issues	<ol style="list-style-type: none"> 1. Current property management costs 2. Development of mid-to-long-term plan for repair and renovation expenses 3. Development of cash flow projections 4. Verification that property is consistent with portfolio strategy
Physical condition studies	Location	<ol style="list-style-type: none"> 1. Street conditions, access to major transportation 2. Convenience and access to public facilities 3. Primarily visual confirmation of status of borders between adjacent tracts and cross-border issues 4. Living conditions including view, light, ambient noise and airflow 5. Presence of unpleasant facilities 6. Future development plans in the surrounding area
	Construction, equipment and specifications	<ol style="list-style-type: none"> 1. Building structure, age and construction company of property and other related matters 2. Layout, ceiling height, interior specifications (including ceiling, walls and floors), materials used for the interior and exterior, maintenance of facilities including sanitary facilities, ventilation facilities, electrical facilities, elevators and parking 3. Need for immediate repairs
	Building management	<ol style="list-style-type: none"> 1. Status of compliance with related regulations such as the Building Standards Law, the City Planning Law, asbestos-related laws and regulations, the Law concerning the Promotion of Expansion of Public Lands and the National Land Use Planning Law 2. Actual management status 3. Quality of the property management company and contract terms

	Antiseismic resistance and probable maximum loss (PML)	<ol style="list-style-type: none"> 1. Antiseismic resistance that meets the New Earthquake Resistance Standards (the new earthquake resistance standards for buildings, etc., based on the 1981 revision to the Building Standards Law) or equivalent resistance 2. Checks of the construction company, architectural firm, construction engineering company, and institution that inspected construction; confirmation of authenticity of the structural fabrication calculation sheets 3. In principle, earthquake PML shall be below 15 percent. In deciding whether or not to purchase a building for which PML is at or above 20 percent, consideration of additional antiseismic reinforcing work, additional earthquake insurance and other relevant matters must be considered.
	Environmental, soil and other issues	<ol style="list-style-type: none"> 1. Investigation of whether the building contains hazardous materials 2. Investigation of land use records and soil contamination
Legal investigation	Rights and related issues	<p>Investigation shall be conducted as to whether the previous owner had obtained the enforceable real right.</p> <ol style="list-style-type: none"> 1. Issues regarding ownership interests and mortgage 2. Lease contract terms (including confirmation of area of rental units) 3. Any documentation related to confirmation of border or agreement regarding cross-border issues 4. Permission for occupancy of roads under the Traffic Law 5. Compliance with laws and regulations related to environmental preservation, such as the Nature Conservation Law and the Urban Green Space Conservation Law <p>In case of complicated relation of rights, the following matters, among others, shall be investigated (the complicated relation of rights include relationship between NAF and others if NAF does not hold the title to property or jointly holds the title).</p> <ol style="list-style-type: none"> 1. (If the concerned right is leasehold) the perfection of such leasehold and the absence of any right which supersedes such leasehold 2. The registration status of the relevant right of site; the limitation on separate transfer of such right of site from the building thereon and the registration status of such limitation; share of such right 3. Measures to be taken to ensure the maintenance of deposits; reserve rules or measures based on long-term renovation plan 4. Existence of agreement on prohibition from division of co-ownership property and registration status of such agreement; appropriate treatments in case of request for division of co-ownership property or sales of co-ownership share; (possible) claims against or from other co-owners 5. Status of compartment of compartmentalized ownership 6. Security arrangements established prior to involvement of NAF and assumption of any encumbrances or obligations in connection thereto 7. Terms of special agreement with the owner of site (or leasehold originator), other compartmentalized ownership holders, other co-owners and any other relevant parties 8. Characteristics of owners of site (or leasehold originator), compartmentalized ownership holders, co-owners or other relevant parties (for example, corporations or individuals) 9. Terms of trust agreement in case the relevant rights are beneficial interests in real estate trust

Policies for Portfolio Management and Operation

1. Basic Management Policies

The REIT Management Company prepares a yearly management plan for NAF's assets under its management for each fiscal period. This management plan covers issues such as handling of the assets and projected capital expenditures for properties, including plans for large-scale renovation, and is subject to Investment Committee approval.

The REIT Management Company acts in accordance with this yearly management plan in undertaking management and operation of the assets in cooperation with the property management company. The REIT Management Company is also responsible for implementing appropriate changes and revisions to the yearly management plan if necessitated by significant changes in the operating environment.

2. Selection and Monitoring of the Property Management Company

The property management company is responsible for proposal and implementation of various measures for day-to-day, on-site management of tenants and properties. Such functions of the property management company are particularly important to the management of accommodation assets in general and rental housing in particular. Naturally, the property management company should have specialized expertise in the business of

property management, and its operations must be organized and efficient so that it can provide consistent, high-quality services across a widely dispersed array of properties and tenants.

For "Rental Apartments" in NAF's portfolio, NAF has selected Mitsui Fudosan Housing Lease Co., Ltd. to provide these services as its master property management company. In principle, NAF intends to entrust property management for assets to be owned by NAF in the future to Mitsui Fudosan Housing Lease, on the condition that it meets the following requirements.

1. An organizational structure that can execute property management operations according to the management and operation specifications of the REIT Management Company
2. The capability to accomplish smooth new tenant recruitment
3. A reasonable compensation level for property management operations compared to the market level

In addition, the REIT Management Company will periodically monitor whether the selected property management company is maintaining its capabilities at the level dictated by the standards for selection. As a result of monitoring, the REIT Management Company may require improvements or may change the property management company.

3. Policies for Property and Casualty Insurance Coverage

NAF maintains property and casualty insurance coverage, to the extent that is deemed appropriate, to address damage to property due to disasters such as fires and accidents or claims for compensatory damages from third parties. Asset characteristics determine such coverage.

NAF comprehensively determines earthquake insurance coverage according to cost effectiveness and the projected impact of an earthquake on each building and on the portfolio as a whole. When earthquake PML for specific buildings is projected above 20 percent or when the acquisition of such property causes portfolio PML to rise above 15 percent, NAF comprehensively considers the impact from an earthquake, insurance premiums and any other relevant issues to determine whether or not to purchase earthquake insurance.

4. Basic Policies for Renovation Plans and Capital Expenditures

The renovation plans are strategic and require renovation and capital expenditures in addition to routine expenses incurred by small repairs in order to maintain and improve the market competitiveness of properties and tenant satisfaction over the medium-to-long term.

NAF determines and revises, for each property, an annual renovation plan in yearly management plans that are based on the established 12-year medium-term renovation plans.

NAF funds a reserve for renovation according to considerations of depreciation expenses and renovation plans based on mid-to-long-term portfolio management. In principle, NAF keeps capital expenditures within the scope of the overall portfolio renovation plan.

Divestiture Policy

In principle, NAF aims to secure stable operating revenue from assets under management through ownership over the mid-to-long term, and does not engage in short-term divestiture.

However, NAF decides to sell specific assets after consideration of the overall portfolio impact based on evaluation of trends affecting the future

rental market in a given area, actual or projected increases or decreases in asset values, risk of asset impairment, obsolescence and associated costs, and other relevant factors.

Financial Policies

1. Issue of New Units

NAF may flexibly issue additional units through an offering with the objective of financing acquisition of assets, renovation and other capital requirements for operation, or to repay debt, including lease deposits, security deposits, loans and bonds that NAF may have issued.

2. Debt Financing

NAF may issue bonds or take on loans, including call market funding, with the objective of financing acquisition of assets; renovation expenses; dividend payments; working capital; or debt repayment, including lease deposits, security deposits, loans and bonds that NAF may have issued. NAF only borrows capital from qualified institutional investors as defined under the relevant laws and regulations in Japan. In addition, NAF may not take on loans or issue bonds that exceed ¥1 trillion, respectively, nor may the total of loans and bonds exceed ¥1 trillion. According to NAF's current Articles of Incorporation, NAF may use its assets under management as collateral for loans and bonds.

3. Loan-to-Value Ratio

The ratio of interest-bearing debt to NAF's total assets is known as the loan-to-value (LTV) ratio. The REIT Management Company determines the upper limit of NAF's LTV ratio as part of its mid-to-long-term asset management plans and its yearly management plans. NAF's policy is to keep the LTV ratio below 60 percent, although issues including the acquisition of assets may cause the LTV ratio to temporarily exceed 60 percent.

4. Derivatives

According to NAF's current Articles of Incorporation, NAF limits transactions involving financial derivatives to those with the objective of hedging risks including the risk of change in the interest rates associated with debts.

Information Disclosure Policy

NAF defines itself as an open, transparent investment corporation, and has a disclosure policy for public awareness. Moreover, NAF works to maintain an environment that encourages timely and accurate disclosure of unbiased information to all investors. In keeping with its name, NAF's fundamental policy is to accommodate investors in disclosing information.

NAF discloses information in accordance with the Investment Trust and Investment Corporation Act of Japan, the Financial Instruments and Exchange Law of Japan, and the rules of the Tokyo Stock Exchange and the Investment Trusts Association, Japan. Moreover, NAF energetically discloses of its own accord information that it believes is relevant to investment decisions.

Corporate Data

Corporate office	1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-0022, Japan +81-3-3246-3677 http://www.naf-r.jp/english/index.html
Date of incorporation	October 12, 2005
Fiscal period	Six months ending February 28 (February 29 in leap years) and August 31
Unit listing	Tokyo Stock Exchange (Securities Code: 3226)
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Business office of the transfer agent	Stock Transfer Agency Department of Sumitomo Mitsui Trust Bank, Limited 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan
Independent auditor	KPMG AZSA LLC AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor relations	For further information, please contact the REIT Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd. 1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-0022, Japan +81-3-3246-3677

Status of Unitholders

Major Unitholders

(As of February 29, 2012)

Name	Number of Units Held	Percentage of Total*
Japan Trustee Services Bank, Ltd. (Trust Account)	41,380	21.25%
The Nomura Trust and Banking Co., Ltd. (Investment Account)	18,125	9.30%
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,017	5.65%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	9,864	5.06%
Mitsui Fudosan Co., Ltd.	6,600	3.38%
NOMURA BANK (Luxembourg) S.A.	4,100	2.10%
The Chuo Mitsui Trust and Banking Company, Limited	3,600	1.84%
Sumitomo Mitsui Banking Corporation	3,590	1.84%
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	3,498	1.79%
American Life Insurance Company GA Company JPY	3,497	1.79%

*Number of units held as a percentage of total units issued and outstanding, rounded down to the nearest hundredth.

Composition and Distribution of Unitholders

(As of February 29, 2012)

	Individuals and others	Financial institutions	Other domestic corporations	Overseas corporations and individuals	Securities companies	Total
Number of unitholders	6,511 (93.80%)	116 (1.67%)	135 (1.95%)	157 (2.26%)	22 (0.32%)	6,941 (100%)
Number of units held	16,735 (8.59%)	133,125 (68.37%)	9,795 (5.03%)	32,489 (16.69%)	2,567 (1.32%)	194,711 (100%)

Disclaimer

This document was prepared solely for the convenience of and reference by overseas investors and does not correspond to the original Japanese documents.

This English document contains selected information including a partial translation of the Securities Report (*Yuka shoken hokokusho*) filed on May 29, 2012 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from September 1, 2011 to February 29, 2012, of Nippon Accommodations Fund Inc. prepared pursuant to the Investment Trust and Investment Corporation Act of Japan. This document should not be deemed a summary of the above mentioned Securities Report and the Financial Statements and Performance Information Report.

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