

Maintaining the Momentum of Growth



9th Period

NAF Report | March 2010 – August 2010

<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.

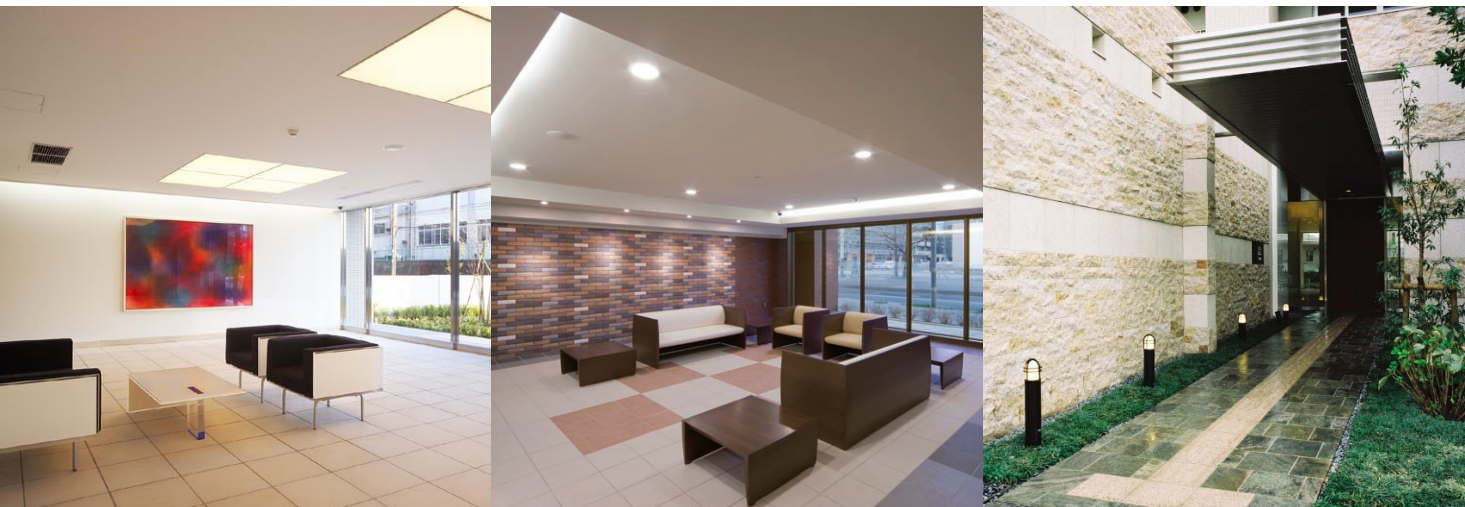
* Accommodation assets in this report are defined as rental apartments, corporate housing, dormitories/student apartments, serviced apartments and senior residences. They do not include hotel properties.

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NAF Snapshot (As of August 31, 2010)

Profitability

95.5%

An occupancy rate of 95.5 percent

5.1%

Net operating income (NOI) yield* of 5.1 percent

¥13,748

Distribution per unit of ¥13,748 for the 9th Period

Outstanding Portfolio

¥186,976 million

Portfolio of 63 superior properties with a total acquisition price of ¥186,976 million

288,353.68m² / 6,464 units

6,464 units with a total rentable area of 288,353.68m²

90.0%

90.0 percent of portfolio located in the 23 wards of Tokyo

Financial Stability

A2, AA-, A+

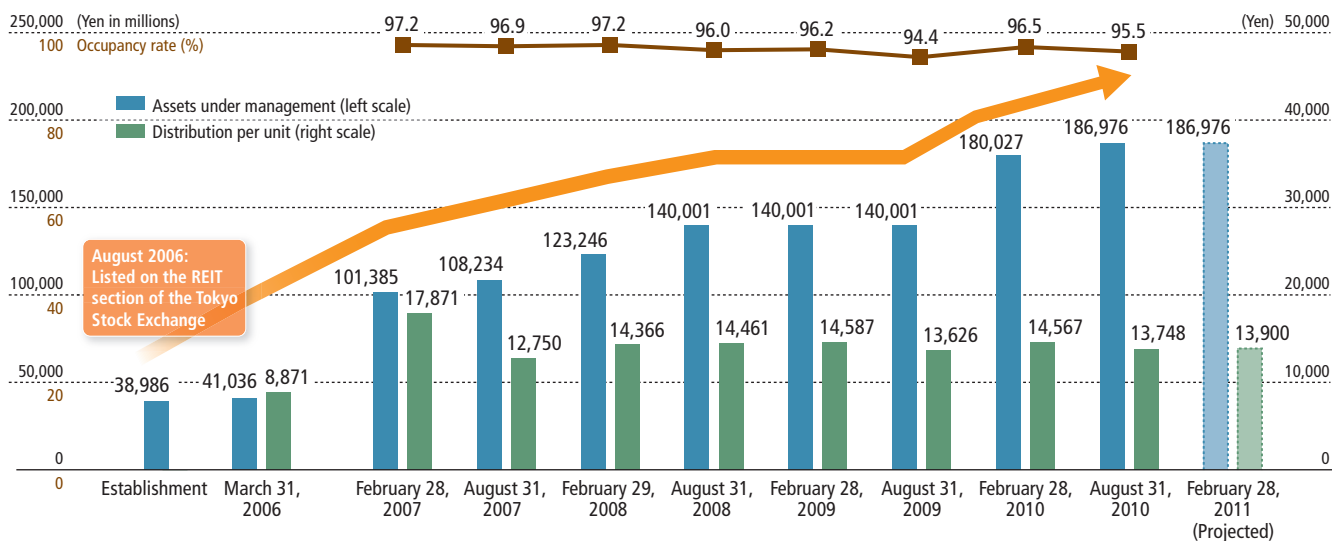
Rated A2 by Moody's; AA- by Rating and Investment Information; and A+ (Long-term) and A-1 (Short-term) by Standard & Poor's

54.6%

LTV (Loan-to-Value) ratio of 54.6 percent, long-term fixed-rate debt ratio of 78.6 percent

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

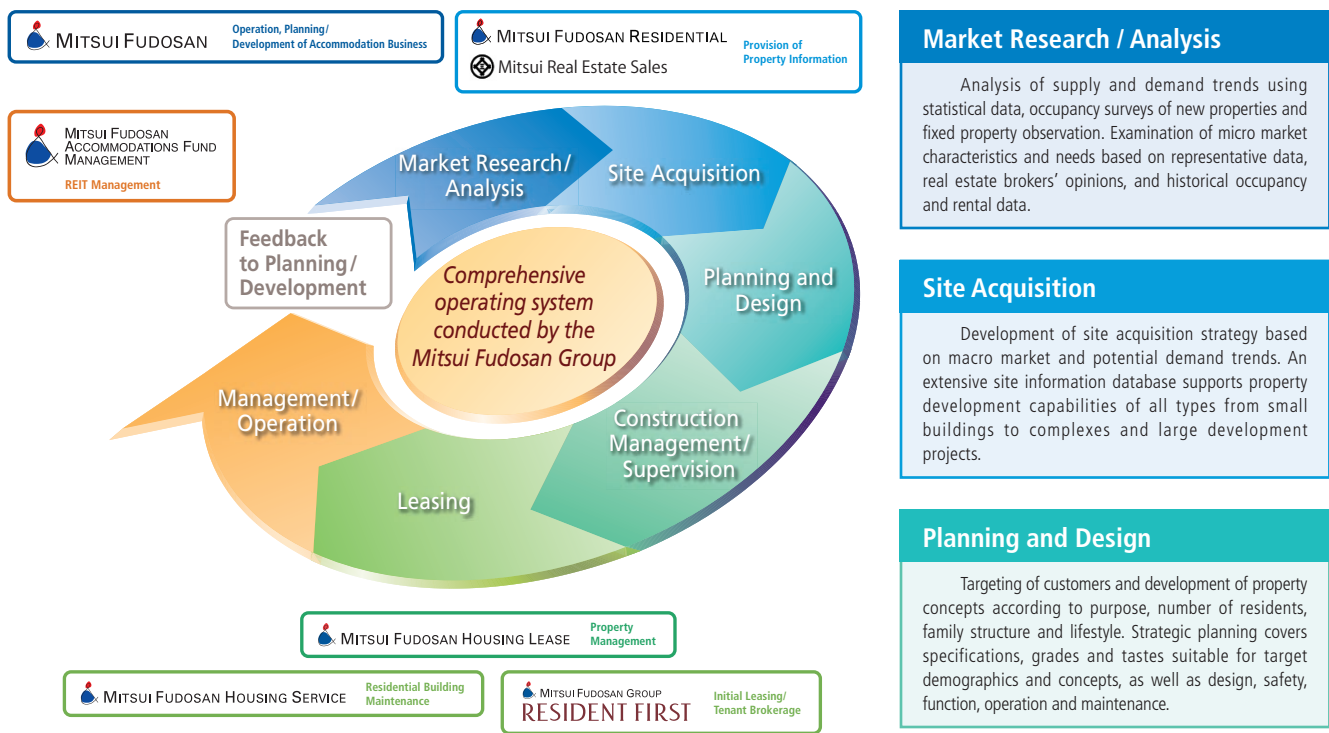
Asset Growth (Acquisition Price Basis) / Occupancy Rate / Distribution per Unit



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



Market Research / Analysis

Analysis of supply and demand trends using statistical data, occupancy surveys of new properties and fixed property observation. Examination of micro market characteristics and needs based on representative data, real estate brokers' opinions, and historical occupancy and rental data.

Site Acquisition

Development of site acquisition strategy based on macro market and potential demand trends. An extensive site information database supports property development capabilities of all types from small buildings to complexes and large development projects.

Planning and Design

Targeting of customers and development of property concepts according to purpose, number of residents, family structure and lifestyle. Strategic planning covers specifications, grades and tastes suitable for target demographics and concepts, as well as design, safety, function, operation and maintenance.

Management / Operation

Working to understand tenant needs, and using the feedback obtained in reinvestment and development. The decision to reinvest in renewal and renovation is based on appropriate investment return analysis. Value-added services take advantage of economies of scale.

Leasing

The leasing process includes individual plan evaluation; discussions on living environment, competitive landscape and other conditions; and setting rents. Other activities include creating a framework for conveying product appeal, using leasing specialists and managing a leasing agency network.

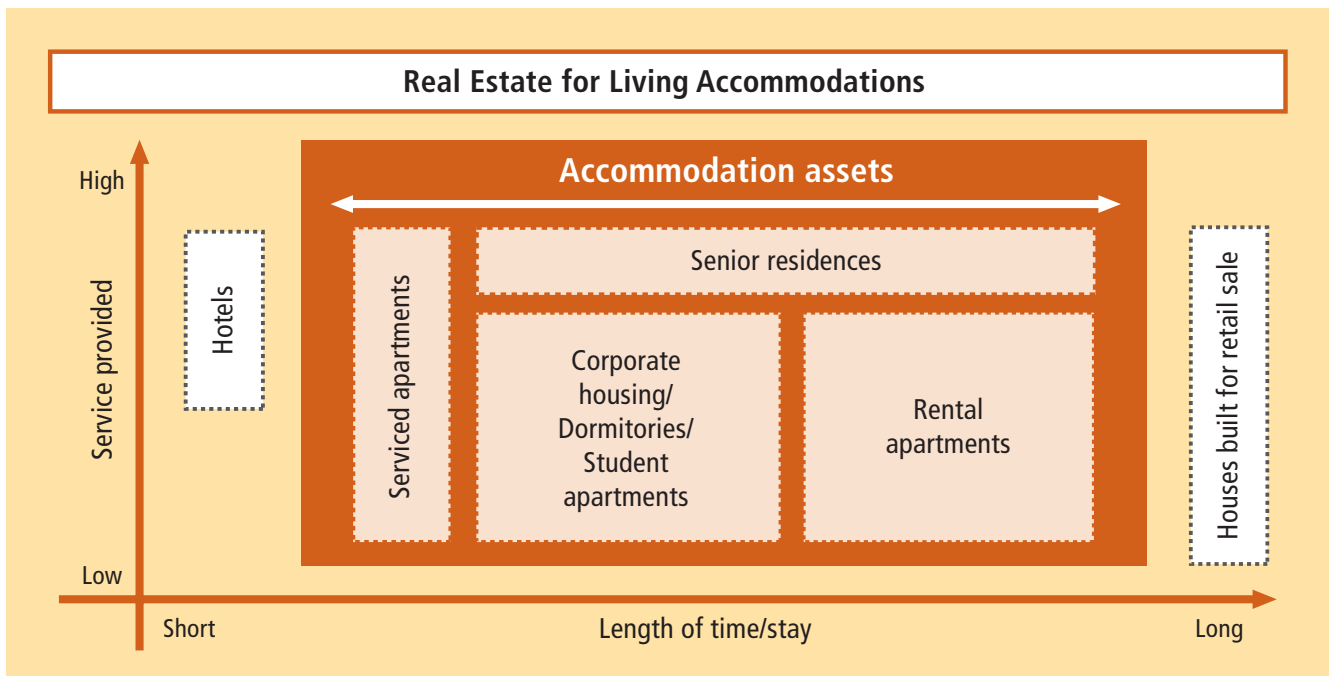
Construction Management / Supervision

Management of the design and construction process using real estate development expertise gained from tenant feedback. Quality control includes a rental apartment construction and design checklist, and frequent on-site meetings and checks by professionals in construction, structures and facilities.



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

During the six months ended August 31, 2010 (the “9th Period”), Nippon Accommodations Fund Inc. (“NAF”) continued to grow by expanding its assets under management. In addition, NAF made maximum use of the integrated value chain of Mitsui Fudosan Group companies to manage its portfolio with an emphasis on stability. As a result, NAF generated stable revenues. NAF will continue to conduct stable management of its portfolio and execute a strategy of steady growth with a focus on maximizing unitholder value.



Kosei Murakami

President and CEO of Mitsui Fudosan Accommodations Fund Management Co., Ltd.

Market Environment and 9th Period Performance

During the 9th Period, in Japan corporate earnings improved and capital expenditures and personal consumption continued to recover as the global economy moved out of recession.

Demand remained stable in the residential rental markets in the 23 wards of Tokyo and the centers of Japan’s major regional cities. The economic slowdown had limited impact on rents for single and compact units and highly competitive properties, which remained relatively firm.

In this environment, NAF acquired two new properties in the Park Cube series for a total cost of ¥6,949 million to promote the steady growth of its portfolio and to disperse and enhance its holdings in the 23 wards of Tokyo. As a result, NAF’s portfolio as of August 31, 2010 consisted of 63 properties valued at ¥186,976 million on an acquisition price basis, encompassing 6,464 units. NAF has built a stable and profitable portfolio, with approximately 90 percent of its assets located in the 23 wards of Tokyo on an area basis, approximately 80 percent consisting of single and compact units on a category basis, and an average property age of 6.6 years.

NAF utilized the value chain of Mitsui Fudosan Group companies as it conducted flexible and prompt leasing activities to maintain a high occupancy rate and leveraged the scale of its assets to reduce operating expenses. At the Okawabata Apartment Communities in particular, NAF carried out further interior renovations. As a result of the leasing activities discussed above, the occupancy rate for NAF's overall portfolio as of August 31, 2010 remained at a high level of 95.5 percent. Moreover, NAF maintained the occupancy rate above 95 percent at the end of each month during the period for the first time since its listing.

In July 2010, NAF issued No. 2 unsecured bonds in the amount of ¥7,000 million, with a term of six years. The purpose of this bond issue was to extend the average term of interest-bearing debt by repaying short-term loans and to increase the proportion of fixed-rate debt. In addition, NAF borrowed funds from banks for the acquisition of the new properties described above. Consequently, as of August 31, 2010, interest-bearing debt was ¥105,000 million, a ¥6,000 million increase from the end of the previous period, the loan-to-value (LTV) ratio was 54.6 percent, and long-term, fixed-rate

loans accounted for 78.6 percent of interest-bearing debt.

Total revenues for the 9th Period were ¥6,218 million, compared with ¥5,919 million for the previous period. Operating income was ¥2,896 million, compared with ¥3,010 million for the previous period. Net income was ¥2,147 million, compared with ¥2,275 million for the previous period. Distribution per unit totaled ¥13,748, compared with ¥14,567 for the previous period.

Future Initiatives

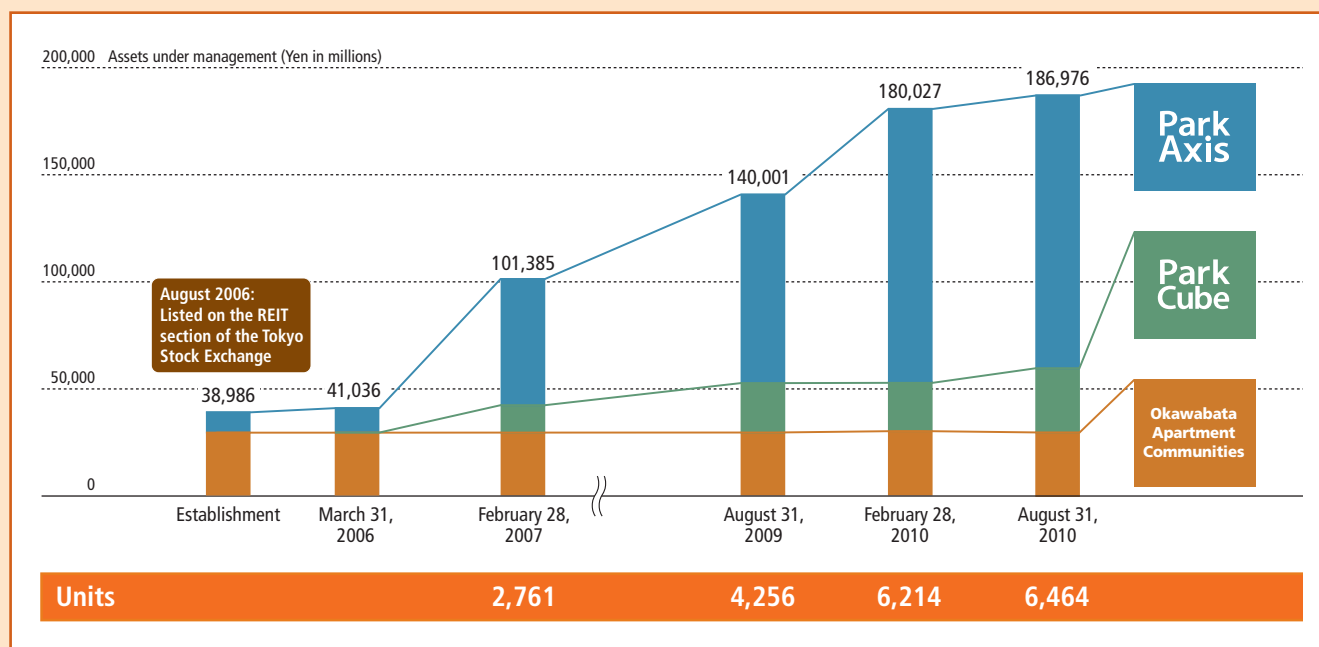
NAF manages its high-quality portfolio with an emphasis on stability, aiming for steady external and internal growth.

NAF's strategy for external growth entails the steady expansion of its highly competitive portfolio centered on properties in the high-quality Park Axis series developed by Mitsui Fudosan, complemented with acquisitions of properties with equivalent performance and quality in the Park Cube series constructed by other developers.

	9th Period (Actual) (Ended August 31, 2010)	10th Period (Forecast) (Ending February 28, 2011)
Total revenues	¥6,218 million	¥6,171 million
Operating income	¥2,896 million	¥2,946 million
Net income	¥2,147 million	¥2,171 million
Total assets	¥192,479 million	—
LTV (Loan-to-value) ratio	54.6%	—
Distribution per unit (Yen)	¥13,748	¥13,900
Assets under management		
Acquisition price basis	¥186,976 million	¥186,976 million
Number of properties	63	63

Note: The above forecasts were announced on October 18, 2010.

Portfolio Composition



NAF will promote the steady growth of its overall portfolio based on its strategy to invest mainly within the 23 wards of Tokyo while also acquiring carefully selected properties in major regional cities that can maintain their high quality and competitiveness over the long term.

Through this approach, NAF aims to build a stronger earnings structure over the long term by further enhancing profitability and closely examining business opportunities toward a medium-term target of 10,000 units.

Regarding financial strategy, NAF's policy is to keep the LTV ratio below 60 percent. NAF will continue to emphasize long-term, fixed-rate funding considering the future risk of rising interest rates and refinancing risk. NAF will give due consideration to the issuance of new units after examining market trends and distribution levels and taking into account the demand for funds for the purpose of property acquisition as well as its financial position.

NAF is committed to earning the trust of unitholders and all stakeholders, and is therefore strengthening corporate governance while working toward more thoroughgoing legal compliance.

Outlook

During the 10th Period, NAF forecasts total revenues of ¥6,171 million, operating income of ¥2,946 million, net income of ¥2,171 million, and distribution per unit of ¥13,900. This forecast is valid as of October 2010 and assumes that NAF will not acquire or exchange any additional properties and will not issue new units during the 10th Period.

NAF will continue to invest in accommodation assets and will make use of the Mitsui Fudosan Group's pipeline

New Acquisitions in the 9th Period

Park Cube Yotsuya Sanhome

Location
Shinjuku-ku, Tokyo

Acquisition Price
¥2,749 million

Rentable Area
3,599.82m²

Units
130

Completed
February 2009



Park Cube Hatchobori

Location
Chuo-ku, Tokyo

Acquisition Price
¥4,200 million

Rentable Area
5,191.86m²

Units
118 Residential
2 Retail

Completed
March 2009



to expand its portfolio by acquiring high-quality properties. NAF also aims to maximize unitholder value through effective management and brand strategies that enhance competitiveness.

December 2010

Kosei Murakami

President and CEO of Mitsui Fudosan
Accommodations Fund Management Co., Ltd.

Nippon Accommodations Fund Inc. Management Team



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

Yuji Yokoyama	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

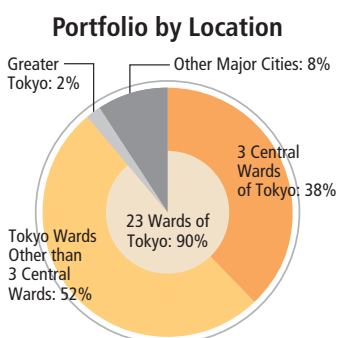
Portfolio Summary

(As of August 31, 2010)

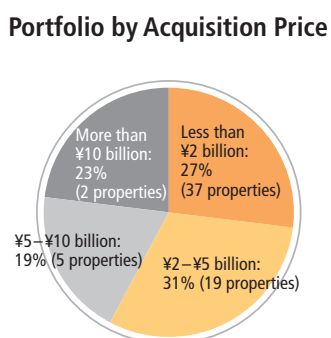
No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (sq. m.)	Rentable Units	PML (Note 2) (%)
1	Okawabata Apartment Communities	Chuo-ku, Tokyo	29,696	15.9	43,812.41	544	
	River Point Tower						4.5
	Park Side Wings						7.9
	Pier West House						7.0
2	Park Axis Gakugei Daigaku	Setagaya-ku, Tokyo	1,760	0.9	2,437.66	64	7.6
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.7	2,766.62	75	6.8
5	Park Axis Aoyama Kotto Dori	Minato-ku, Tokyo	1,730	0.9	1,537.24	40	7.0
6	Park Axis Kagurazaka Stage	Shinjuku-ku, Tokyo	1,400	0.7	1,891.05	59	7.5
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	2.7	4,704.44	99	8.7
8	Park Axis Bunkyo Stage	Bunkyo-ku, Tokyo	4,440	2.4	6,078.93	154	6.5
9	Park Axis Tsukushima	Chuo-ku, Tokyo	930	0.5	1,383.99	30	6.8
10	Park Axis Otsuka	Toshima-ku, Tokyo	1,655	0.9	2,606.37	52	6.4
11	Park Axis Minami Azabu	Minato-ku, Tokyo	3,939	2.1	3,938.14	64	7.4
12	Park Axis Shibuya	Shibuya-ku, Tokyo	1,283	0.7	1,094.28	20	7.9
13	Park Axis Nihonbashi Stage	Chuo-ku, Tokyo	7,558	4.0	10,025.40	184 Residential, 1 Retail	7.5
14	Park Axis Hamamatsucho	Minato-ku, Tokyo	2,025	1.1	2,426.45	80	7.1
15	Park Axis Hongo no Mori	Bunkyo-ku, Tokyo	2,910	1.6	3,317.94	86 Residential, 1 Retail	8.8
16	Park Axis Tameike Sanno	Minato-ku, Tokyo	2,860	1.5	2,710.69	70	8.2
17	Park Axis Roppongi Hinokicho Koen	Minato-ku, Tokyo	2,170	1.2	2,054.46	46	9.2
18	Park Axis Ochanomizu Stage	Bunkyo-ku, Tokyo	9,710	5.2	12,025.25	324	7.2
19	Park Axis Okachimachi	Taito-ku, Tokyo	1,070	0.6	1,621.73	42	6.8
20	Park Cube Hongo	Bunkyo-ku, Tokyo	1,760	0.9	2,160.12	60	8.2
21	Park Cube Kanda	Chiyoda-ku, Tokyo	2,454	1.3	3,194.59	95	8.9
22	Park Cube Ichigaya	Shinjuku-ku, Tokyo	1,794	1.0	2,127.50	51	6.8
23	Park Cube Asakusa Tawaramachi	Taito-ku, Tokyo	2,508	1.3	4,012.68	76	8.8
24	Park Cube Ueno	Taito-ku, Tokyo	2,233	1.2	3,041.61	91	7.5
28	Park Cube Ikebukuro Kanamecho	Toshima-ku, Tokyo	1,609	0.9	1,886.82	65	8.1
29	Park Axis Meguro Honcho	Meguro-ku, Tokyo	1,810	1.0	1,884.77	60	8.5
30	Park Axis Shin Itabashi	Itabashi-ku, Tokyo	3,430	1.8	4,395.99	152	7.3 East, 7.5 West
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.6	1,346.07	41	7.4
32	Park Axis Toyochō	Koto-ku, Tokyo	3,950	2.1	5,412.40	140	10.8
33	Park Axis Takinogawa	Kita-ku, Tokyo	1,820	1.0	2,924.75	48 Residential, 1 Retail	5.8
34	Park Axis Asakusabashi	Taito-ku, Tokyo	2,717	1.5	3,400.78	78 Residential, 1 Retail	8.9
38	Park Axis Nihonbashi Hamacho	Chuo-ku, Tokyo	5,540	3.0	6,999.83	118	8.1
39	Park Cube Yoyogi Tomigaya	Shibuya-ku, Tokyo	1,975	1.1	1,929.10	38	7.4

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.

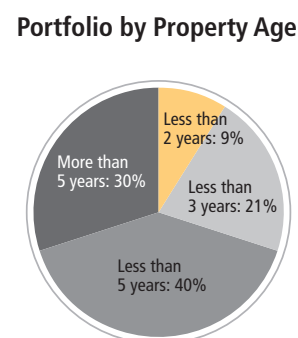
A Portfolio Mainly Composed of Large-Scale Properties in the 23 Wards of Tokyo



90% in the 23 wards of Tokyo



Average ¥3.0 billion per property



Average 6.6 years

Amount excluding the Okawabata Apartment Communities

[Average ¥2.5 billion per property]

[Average 3.8 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. Average property age has been calculated using a weighted average based on acquisition price.

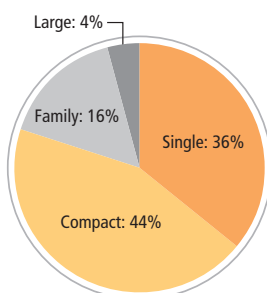
No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (sq. m.)	Rentable Units	PML (Note 2) (%)
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.9	1,886.39	55	10.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	2.2	5,317.07	165 Residential, 1 Retail	8.1
43	Park Cube Gakugei Daigaku	Meguro-ku, Tokyo	910	0.5	957.88	24	6.8
44	Park Cube Oimachi	Shinagawa-ku, Tokyo	1,440	0.8	1,511.12	65	10.0
45	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.4	1,435.83	46	7.7
47	Park Axis Kinshicho	Sumida-ku, Tokyo	1,448	0.8	2,288.13	65	10.7
48	Park Axis Tatsumi Stage	Koto-ku, Tokyo	7,464	4.0	16,474.06	299 Residential, 1 Retail	10.0
51	Park Axis Kameido	Koto-ku, Tokyo	2,359	1.3	3,986.78	118	11.0
52	Park Axis Honancho	Nakano-ku, Tokyo	745	0.4	1,231.08	31	8.0
53	Park Axis Itabashi	Kita-ku, Tokyo	1,448	0.8	2,567.96	64	9.1
54	Park Axis Oshiage	Sumida-ku, Tokyo	1,193	0.6	2,121.29	57 Residential, 1 Retail	10.5
55	Park Axis Takadanobaba	Toshima-ku, Tokyo	1,222	0.7	1,463.25	36 Residential, 1 Retail	7.9
59	Park Axis Toyosu	Koto-ku, Tokyo	14,300	7.6	25,537.94	401 Residential, 2 Retail	7.8
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	0.9	2,416.29	63 Residential, 1 Retail	9.1
61	Park Axis Itabashi Honcho	Itabashi-ku, Tokyo	987	0.5	2,048.31	66	9.2
62	Park Axis Sumiyoshi	Sumida-ku, Tokyo	1,006	0.5	1,785.72	60	11.4
63	Park Cube Yotsuya Sancho	Shinjuku-ku, Tokyo	2,749	1.5	3,599.82	130	8.7
64	Park Cube Hatchobori	Chuo-ku, Tokyo	4,200	2.2	5,191.86	118 Residential, 2 Retail	8.2
Tokyo 23 Wards Total			168,246	90.0	232,970.84	5,009 Residential, 13 Retail	
25	Park Cube Keio Hachioji	Hachioji-shi, Tokyo	991	0.5	2,814.32	52	7.1
26	Park Cube Keio Hachioji II	Hachioji-shi, Tokyo	1,130	0.6	3,082.32	47 Residential, 1 Retail	7.6
40	Park Axis Nishi Funabashi	Funabashi-shi, Chiba	1,020	0.5	2,074.35	55	7.9
Greater Tokyo Total (Note 3)			3,141	1.7	7,970.99	154 Residential, 1 Retail	
27	Park Axis Meieki Minami	Nagoya-shi, Aichi	2,440	1.3	5,565.13	169	4.1
35	Park Axis Marunouchi	Nagoya-shi, Aichi	1,920	1.0	3,821.75	98 Residential, 1 Retail	6.1
36	Park Axis Ropponmatsu	Fukuoka-shi, Fukuoka	1,515	0.8	3,473.67	111 Residential, 1 Retail	2.2
37	Park Axis Hakataeki Minami	Fukuoka-shi, Fukuoka	1,890	1.0	4,668.29	176 Residential, 1 Retail	3.1
45	Park Axis Naka Gofukumachi	Fukuoka-shi, Fukuoka	742	0.4	2,707.88	112	2.8
49	Park Axis Shirakabe	Nagoya-shi, Aichi	1,547	0.8	4,735.89	86	6.1
50	Park Axis Sendai	Sendai-shi, Miyagi	2,320	1.2	8,843.17	204	5.7
56	Park Axis Hakata Minoshima	Fukuoka-shi, Fukuoka	960	0.5	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	0.9	7,845.01	146	2.4
Other Major Cities Total			15,589	8.3	47,411.85	1,284 Residential, 3 Retail	
Grand Total			186,976	100.0	288,353.68	6,447 Residential, 17 Retail	

2. PML = Probable maximum loss

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

A Balanced Mix of Properties Centered on Single and Compact Units

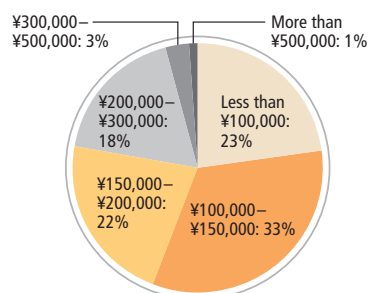
Portfolio by Category



Percentage of single and compact units: 81%

[87%]

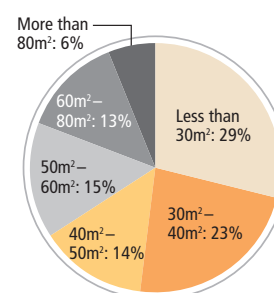
Portfolio by Monthly Rent



Average ¥154 thousand per unit

[Average ¥141 thousand per unit]

Portfolio by Unit Area



Average 44.3m² per unit

[Average 41.0m² per unit]

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

4. Totals may exceed 100 percent due to rounding.

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)
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	9th Period March 1, 2010 to August 31, 2010
Total revenues (Note 2)	¥ 6,218	¥ 5,919	¥ 4,475	\$ 73,534
Rental revenues	5,907	5,133	4,211	69,856
Other revenues related to property leasing	311	230	264	3,678
Gain on sale of investment properties	—	556	—	—
Operating expenses	3,322	2,909	2,306	39,286
Income before income taxes	2,148	2,276	1,547	25,402
Net income (a)	2,147	2,275	1,546	25,390
Funds from operations (Note 3)	3,388	2,780	2,397	40,066
Net operating income from property leasing activities (Note 3)	4,770	4,179	3,508	56,410
Total amount of cash distribution (b)	2,147	2,275	1,546	25,390
Depreciation and amortization	1,241	1,061	851	14,676
Capital expenditures	145	94	138	1,715
Total assets (c)	192,479	186,429	146,542	2,276,242
Interest-bearing debt	105,000	99,000	81,000	1,241,722
Total net assets (d)	83,250	83,378	62,525	984,508
Total number of common units issued (units) (e)	156,178	156,178	113,480	
Net assets per unit (Yen/\$) (d) / (e)	533,045	533,863	550,978	6,303.75
Distribution per unit (Yen/\$) (b) / (e)	13,748	14,567	13,626	162.58
Funds from operations per unit (Yen/\$) (Note 3)	21,692	17,799	21,123	256.53
ROA (Note 4)	1.1%	1.4%	1.1%	
(Annual rate)	(2.2%)	(2.8%)	(2.1%)	
ROE (Note 4)	2.6%	3.1%	2.5%	
(Annual rate)	(5.1%)	(6.3%)	(4.9%)	
LTV (Loan-to-value) ratio (Note 3)	54.6%	53.1%	55.3%	
Capital ratio (d) / (c)	43.3%	44.7%	42.7%	
Payout ratio (b) / (a) (Note 5)	100.0%	100.0%	99.9%	
Number of days in period	184	181	184	
Number of investment properties (Note 6)	63	61	44	
Total rentable area (m ²)	288,354	279,562	189,636	
Average occupancy rate at end of period (Note 6)	95.5%	96.5%	94.4%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥84.56 = U.S.\$1.00, the approximate exchange rate on August 31, 2010.

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 August 31, 2010: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 28, 2010: Amount for the period ÷ Actual days in the period (181) x 365 days

Annual equivalent amounts for the period ended August 31, 2009: Amount for the period ÷ Actual days in the period (184) 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 figures are 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 9th Period, the six months ended August 31, 2010, corporate earnings improved and capital expenditures and personal consumption recovered as the global economy continued to rebound from recession and signs of self-sustained recovery emerged. However, high levels of unemployment and other challenging conditions persisted for Japan's economy. Looking forward, self-sustained economic recovery is expected as overseas economies improve and economic measures take effect. At the same time, concern about a double-dip recession overseas, the high yen, loss of momentum of economic measures and other factors are raising the risk of downward pressure on the economy.

In the residential rental market, the effects of the recession have been apparent since the financial crisis in 2008, particularly among high-priced properties. However, the rise in contract cancellations and fall in rents are beginning to slow. In addition, people continued to move from other regions into the 23 wards of Tokyo, where NAF has concentrated approximately 90 percent of its portfolio investment, as well as into the centers of other major cities. The number of households also expanded because of an increase in the number of single and two-person households. As a result of these and other factors, demand for rental housing is expected to remain steady in the near term. On the supply side, the supply and demand balance is expected to remain favorable as rental apartment construction starts remain at a low level.

In the real estate investment and trading market, acquisitions by individuals and some businesses rose and private funds appeared to be acquiring properties. In the J-REIT market, there were also signs of recovery in real estate transactions. Several investment corporations resumed property acquisitions, including NAF, which offered new investment units through public offering in the fall of 2009 to help finance the acquisition of new properties. In addition, asset replacement was conducted through mergers.

During the 9th Period, NAF acquired two properties: Park Cube Yotsuya Sanchoe for ¥2,749 million in March 2010 and Park Cube Hatchobori for ¥4,200 million in June 2010. As a result, NAF's portfolio as of August 31, 2010 consisted of 63 properties valued at ¥186,976 million on an acquisition price basis.

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 at properties held by NAF 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 August 31, 2010 remained at a high level of 95.5 percent.

As a result of the above, for the 9th Period, NAF recorded total revenues of ¥6,218 million, operating income of ¥2,896 million, income before income taxes of ¥2,148 million and net income of ¥2,147 million.

Changes in Assets, Liabilities and Net Assets

Total assets as of August 31, 2010 increased ¥6,050 million from February 28, 2010 to ¥192,479 million. Total current assets decreased ¥430 million to ¥4,213 million and total investment properties increased ¥6,448 million to ¥188,128 million compared with February 28, 2010 due to NAF's acquisition of two properties (total acquisition price ¥6,949 million) during the 9th Period, in addition to normal depreciation.

To provide funding, including for new property acquisition, NAF procured short-term loans totaling ¥7,000 million from several financial institutions. Subsequently in July 2010, NAF issued No. 2 unsecured bonds totaling ¥7,000 million redeemable after six years and repaid short-term loans with the aim of extending the term for interest-bearing debt and improving the ratio of fixed-rate debt to total interest-bearing debt. As a result, interest-bearing debt as of August 31, 2010 increased ¥6,000 million from February 28, 2010 to

¥105,000 million. The ratio of long-term, fixed-rate debt to total interest-bearing debt was 78.6 percent, compared with 74.2 percent as of February 28, 2010. Excluding long-term loans due within one year, the ratio was 59.0 percent. The loan-to-value ratio, calculated as interest-bearing debt divided by total assets at the end of the period, was 54.6 percent, compared with 53.1 percent as of February 28, 2010.

Net assets totaled ¥83,250 million as of August 31, 2010. Unitholders' capital was unchanged at ¥81,103 million, and retained earnings decreased to ¥2,147 million from ¥2,275 million as of February 28, 2010.

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 9th Period, cash distributions totaled ¥2,147,135,144, or ¥13,748 per unit.

	Yen in thousands, except per unit amounts		
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009
Retained earnings	¥2,147,193	¥2,275,058	¥1,546,304
Undistributed earnings	58	13	26
Total cash distribution	2,147,135	2,275,045	1,546,278
(Per unit)	13,748	14,567	13,626
Distribution of retained earnings	2,147,135	2,275,045	1,546,278
(Per unit)	13,748	14,567	13,626
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 August 31, 2010, NAF had issued 156,178 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

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.

Market Price of Units

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

	9th Period March 1, 2010 to August 31, 2010 (Yen)	8th Period September 1, 2009 to February 28, 2010 (Yen)	7th Period March 1, 2009 to August 31, 2009 (Yen)	6th Period September 1, 2008 to February 28, 2009 (Yen)	5th Period March 1, 2008 to August 31, 2008 (Yen)
High	¥492,500	¥526,000	¥515,000	¥538,000	¥565,000
Low	438,000	443,000	361,000	371,000	396,000

Borrowings

Borrowings by financial institution as of August 31, 2010 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	Notes
Sumitomo Mitsui Banking Corporation	¥ 5,500	0.7%	September 17, 2010	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4) Fixed rate
The Hachijuni Bank, Ltd.	1,000	0.8%	September 21, 2010			
Mitsubishi UFJ Trust and Banking Corporation	5,000	0.7%	September 27, 2010			
The 77 Bank, Ltd.	1,000	0.8%	September 30, 2010			
The Chuo Mitsui Trust and Banking Company, Limited	6,500	0.7%	September 17, 2010			
The Bank of Fukuoka, Ltd.	2,000	0.8%	November 30, 2010			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500	0.7%	September 17, 2010			
Total short-term loans	¥22,500					

Long-term loans

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity (Note 2)	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 5,000	1.4%	November 30, 2010	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4) Fixed rate
	5,500	1.6%	March 22, 2011			
	2,000	1.6%	November 29, 2013			
	4,000	1.7%	May 30, 2014			
The Chuo Mitsui Trust and Banking Company, Limited	3,000	1.4%	November 30, 2010			
	2,000	1.6%	November 29, 2013			
	2,000	1.7%	May 30, 2014			
The Sumitomo Trust and Banking Co., Ltd.	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	3,000	1.6%	February 28, 2011			
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			
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.	1,000	1.6%	April 19, 2011			
	2,000	1.6%	October 12, 2011			
	2,000	1.6%	November 29, 2013			
The Chugoku Bank, Limited	2,000	1.6%	April 19, 2011			
Shinsei Bank, Limited	1,000	1.6%	April 19, 2011			
Shinkin Central Bank	3,000	1.7%	October 12, 2012			
	3,000	1.6%	November 29, 2013			
The Bank of Fukuoka, Ltd.	2,000	1.6%	October 31, 2012			
	1,000	1.4%	July 8, 2013			
Mitsubishi UFJ Trust and Banking Corporation	3,000	1.7%	May 30, 2014			
Total long-term loans	¥65,500					
Total borrowings	¥88,000					

- Notes: 1. The 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. 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)

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

Bonds

Issue	Issue date	Balance as of August 31, 2010 (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 (March 1, 2010 to August 31, 2010)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities, Other Properties	Renovation of common use areas, etc.	From September 2010 to February 2011	¥55	¥—	¥—
	Renewal of common use area equipment, etc.	From September 2010 to February 2011	28	—	—
Okawabata Apartment Communities	Expansion of bicycle parking lot, replacement of bicycle rack	From July 2010 to October 2010	15	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥145 million in capital expenditures together with ¥255 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities	Renewal of disaster-prevention equipment	From August 2009 to June 2010	¥ 62
	Renovation of rentable areas, etc.	From March 2010 to August 2010	39
Okawabata Apartment Communities, Other Properties	Renovation of common use areas, etc.	From April 2010 to August 2010	21
Other Properties	Renewal of common use area equipment, etc., other construction	From March 2010 to August 2010	23
Total			¥145

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 August 31, 2010	As of February 28, 2010	As of August 31, 2009
Reserve balance at the beginning of the period	¥590	¥529	¥501
Amount accumulated in the current period	250	165	173
Withdrawal from reserves in the current period	136	104	145
Amount carried forward	¥704	¥590	¥529

Expenses regarding Entrustment, etc.

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

Item	Yen in millions		
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009
Asset management fees	¥440	¥433	¥317
Asset custody fees	9	7	7
Agent fees (stock transfer, accounting and administrative)	28	22	25
Directors' remuneration	8	10	10
Auditor's fees	14	14	13
Other expenses	136	177	116
Total	¥634	¥664	¥488

Related Party Transactions

(1) Transactions

None applicable

(2) Fees Paid for the Period from March 1, 2010 to August 31, 2010

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 2)
		Paid to	Amount of payment (B) (Yen in millions)	
Property management fees	¥460	Mitsui Fudosan Housing Lease Co., Ltd.	¥460	100.0%
Building management fees	225	Mitsui Fudosan Housing Lease Co., Ltd.	225	100.0%
Leasing related service fees	129	RESIDENT FIRST CO., LTD.	24	18.3%
		Mitsui Rehouse Tokyo Co., Ltd.	1	0.9%
		Mitsui Real Estate Sales Tohoku Co., Ltd.	1	0.9%
		MITSUI HOME ESTATE CO., LTD.	1	0.4%
		Mitsui Real Estate Sales Kyusyu Co., Ltd.	1	0.4%
		Mitsui Real Estate Sales Sapporo Co., Ltd.	0	0.3%
		Mitsui Rehouse Nagoya Co., Ltd.	0	0.0%

(3) Other Payments to Related Parties

Paid to	Amount of payment (Yen in millions)	Item
Accommodation First Co., Ltd.	¥4	Repair and maintenance costs

Notes: 1. "Related parties" 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. Figures indicate percentages of total price.

Financial Statements

Balance Sheets

Nippon Accommodations Fund Inc.
As of August 31, 2010 and February 28, 2010

	Yen in millions		U.S. dollars in thousands (Note 1)
	9th Period As of August 31, 2010	8th Period As of February 28, 2010	9th Period As of August 31, 2010
Assets			
Current assets:			
Cash and cash equivalents	¥ 3,339	¥ 3,637	\$ 39,487
Rent receivables	847	839	10,017
Consumption tax receivables and other current assets	27	167	319
Total current assets	4,213	4,643	49,823
Investment properties (Note 3):			
Land including trust accounts	119,559	115,052	1,413,895
Depreciable property and improvements including trust accounts	75,629	72,448	894,383
Accumulated depreciation	(7,060)	(5,819)	(83,491)
Total investment properties	188,128	181,681	2,224,787
Other assets	138	105	1,632
Total Assets	¥192,479	¥186,429	\$2,276,242
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Short-term loans (Note 4)	¥ 22,500	¥ 25,500	\$ 266,083
Long-term loans due within one year (Note 4)	20,500	12,000	242,431
Accounts payable	703	628	8,314
Rent received in advance	983	964	11,625
Accrued expenses and other liabilities	380	341	4,494
Total current liabilities	45,066	39,433	532,947
Long-term liabilities:			
Long-term loans (Note 4)	45,000	51,500	532,167
Bonds (Note 4)	17,000	10,000	201,041
Tenant security deposits	2,163	2,118	25,579
Total long-term liabilities	64,163	63,618	758,787
Total Liabilities	¥109,229	¥103,051	\$1,291,734
Net Assets			
Unitholders' capital (Note 5)	81,103	81,103	959,118
Retained earnings	2,147	2,275	25,390
Total Net Assets	¥ 83,250	¥ 83,378	\$ 984,508
Total Liabilities and Net Assets	¥192,479	¥186,429	\$2,276,242

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

Statements of Income

Nippon Accommodations Fund Inc.

March 1, 2010 to August 31, 2010, September 1, 2009 to February 28, 2010 and March 1, 2009 to August 31, 2009

	Yen in millions			U.S. dollars in thousands (Note 1)
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	9th Period March 1, 2010 to August 31, 2010
Revenues (Notes 6 and 7):				
Rental	¥5,907	¥5,133	¥4,211	\$69,856
Other revenues related to property leasing	311	230	264	3,678
Gain on sale of investment properties	—	556	—	—
Total Revenues	6,218	5,919	4,475	73,534
Operating Expenses (Note 6):				
Property management fees	707	590	473	8,361
Real estate taxes and insurance	246	176	175	2,909
Repairs and maintenance	255	207	153	3,016
Other rental expenses	239	211	166	2,826
Depreciation and amortization	1,241	1,061	851	14,676
Asset management fees	440	433	317	5,203
Other expenses	194	231	171	2,294
Total Operating Expenses	3,322	2,909	2,306	39,286
Operating Income	2,896	3,010	2,169	34,248
Interest and other income	6	3	2	71
Interest expense	(748)	(666)	(619)	(8,846)
New investment unit issue costs	—	(64)	—	—
Other expenses	(6)	(7)	(5)	(71)
Income before Income Taxes	2,148	2,276	1,547	25,402
Current and deferred income taxes (Note 8)	1	1	1	12
Net Income	¥2,147	¥2,275	¥1,546	\$25,390

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 March 1, 2009 to August 31, 2010

	Number of Units	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of February 28, 2009	113,480	¥60,979	¥ 1,655	¥62,634
Cash distribution declared	—	—	(1,655)	(1,655)
Net income	—	—	1,546	1,546
Balance as of August 31, 2009	113,480	60,979	1,546	62,525
Cash distribution declared	—	—	(1,546)	(1,546)
Issuance of new units through public offering as of November 4, 2009	42,000	19,795	—	19,795
Issuance of new units through allocation to a third party as of December 1, 2009	698	329	—	329
Net income	—	—	2,275	2,275
Balance as of February 28, 2010	156,178	81,103	2,275	83,378
Cash distribution declared	—	—	(2,275)	(2,275)
Net income	—	—	2,147	2,147
Balance as of August 31, 2010	156,178	¥81,103	¥ 2,147	¥83,250

	Number of Units	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of February 28, 2009	113,480	\$721,133	\$ 19,572	\$740,705
Cash distribution declared	—	—	(19,572)	(19,572)
Net income	—	—	18,283	18,283
Balance as of August 31, 2009	113,480	721,133	18,283	739,416
Cash distribution declared	—	—	(18,283)	(18,283)
Issuance of new units through public offering as of November 4, 2009	42,000	234,094	—	234,094
Issuance of new units through allocation to a third party as of December 1, 2009	698	3,891	—	3,891
Net income	—	—	26,904	26,904
Balance as of February 28, 2010	156,178	959,118	26,904	986,022
Cash distribution declared	—	—	(26,904)	(26,904)
Net income	—	—	25,390	25,390
Balance as of August 31, 2010	156,178	\$959,118	\$ 25,390	\$984,508

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

Statements of Cash Flows

Nippon Accommodations Fund Inc.

March 1, 2010 to August 31, 2010, September 1, 2009 to February 28, 2010 and March 1, 2009 to August 31, 2009

	Yen in millions			U.S. dollars in thousands (Note 1)
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	9th Period March 1, 2010 to August 31, 2010
Cash Flows from Operating Activities:				
Income before income taxes	¥ 2,148	¥ 2,276	¥ 1,547	\$ 25,402
Depreciation and amortization	1,241	1,061	851	14,676
New investment unit issue costs	—	64	—	—
Amortization of bond issue costs	5	4	4	59
Interest expense	748	666	619	8,846
(Increase) Decrease in rent receivables	(8)	(240)	30	(95)
Increase (Decrease) in accounts payable	75	195	1	887
Increase (Decrease) in rents received in advance	19	266	(10)	225
Decrease in investment properties due to sale	—	2,543	—	—
Cash payments of interest expense	(718)	(655)	(565)	(8,491)
(Increase) Decrease in consumption tax refund receivable	142	(142)	—	1,679
Other, net	11	11	(42)	130
Net Cash Provided by Operating Activities	3,663	6,049	2,435	43,318
Cash Flows from Investing Activities:				
Payments for purchases of investment properties	(7,689)	(44,022)	(183)	(90,930)
Proceeds from tenant security deposits	336	822	197	3,974
Payments for tenant security deposits	(291)	(257)	(255)	(3,441)
Other, net	(8)	(3)	(6)	(95)
Net Cash Used in Investing Activities	(7,652)	(43,460)	(247)	(90,492)
Cash Flows from Financing Activities:				
Proceeds from short-term loans	124,500	94,000	43,500	1,472,327
Repayment of short-term loans	(127,500)	(92,000)	(49,000)	(1,507,805)
Proceeds from long-term loans	3,000	20,000	5,500	35,478
Repayment of long-term loans	(1,000)	(4,000)	—	(11,826)
Proceeds from bonds	7,000	—	—	82,781
Payments for bond issue costs	(40)	—	—	(473)
Proceeds from issuance of investment units	—	20,060	—	—
Payment of distribution	(2,269)	(1,546)	(1,654)	(26,833)
Net Cash Provided by (Used in) Financing Activities	3,691	36,514	(1,654)	43,649
Net Change in Cash and Cash Equivalents	(298)	(897)	534	(3,524)
Cash and Cash Equivalents at the Beginning of the Period	3,637	4,534	4,000	43,011
Cash and Cash Equivalents at the End of the Period	¥ 3,339	¥ 3,637	¥ 4,534	\$ 39,487

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

Notes to Financial Statements

Nippon Accommodations Fund Inc.

March 1, 2010 to August 31, 2010, September 1, 2009 to February 28, 2010 and March 1, 2009 to August 31, 2009

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 August 31, 2010, NAF had ownership or beneficiary interests in 63 properties containing approximately 288,354 square meters of rentable space. As of August 31, 2010, NAF had leased approximately 275,287 square meters to tenants. The occupancy rate for the properties was approximately 95.5%.

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 August 31, 2010, which was ¥84.56 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	2-47 years
Structures	3-60 years
Machinery and equipment	7-45 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

NAF-owned 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.

When the property is purchased before January 1 of any given calendar year, these taxes for the previous year are imposed on the seller. The Company pays the seller the corresponding tax amounts for the period from the property's transfer date to December 31 of the previous year as part of the purchase prices of each property, and capitalizes these amounts as the cost of the property. Capitalized property tax for the period ended August 31, 2010 amounted to ¥29 million.

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.

Note 3 Schedule of Investment Properties

Investment properties as of August 31, 2010 and February 28, 2010 consisted of the following:

	Yen in millions					
	As of August 31, 2010			As of February 28, 2010		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 74,425	¥ —	¥ 74,425	¥ 71,631	¥ —	¥ 71,631
Land in trust	45,134	—	45,134	43,421	—	43,421
Land including trust total	119,559	—	119,559	115,052	—	115,052
Buildings and improvements	52,040	(3,545)	48,495	50,279	(2,787)	47,492
Buildings and improvements in trust	19,187	(2,538)	16,648	17,905	(2,237)	15,669
Building and improvements including those in trust total	71,226	(6,083)	65,143	68,184	(5,024)	63,160
Structures	1,131	(164)	966	1,123	(130)	993
Machinery and equipment	1,186	(169)	1,017	1,141	(116)	1,024
Tools, furniture and fixtures	689	(274)	415	670	(224)	446
Construction in process	—	—	—	0	—	0
Structures in trust	896	(135)	761	886	(120)	766
Machinery and equipment in trust	178	(44)	134	120	(35)	84
Tools, furniture and fixtures in trust	314	(190)	124	299	(169)	130
Construction in process in trust	10	—	10	25	—	25
Other investment properties total	4,403	(976)	3,426	4,263	(795)	3,468
Total	¥195,188	¥(7,060)	¥188,128	¥187,500	¥(5,819)	¥181,681

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 August 31, 2010 and February 28, 2010 ranged from 0.66% to 0.77% and from 0.62% to 0.85%, respectively. Long-term debt is at fixed rates and consists of the following:

	Yen in millions	
	As of August 31, 2010	As of February 28, 2010
Unsecured loans due 2010 to 2015 principally from banks and insurance companies with interest rates mainly ranging from 1.2% to 2.2%	¥65,500	¥63,500
1.7% unsecured bonds due 2014	10,000	10,000
1.2% unsecured bonds due 2016	7,000	—
	¥82,500	¥73,500

The annual maturities of long-term loans as of August 31, 2010 were as follows:

	Yen in millions
2010	¥ 8,000
2011	14,500
2012	12,000
2013	19,000
Thereafter	12,000

Note 5 Unitholders' Capital

	As of August 31, 2010	As of February 28, 2010	As of August 31, 2009
Total number of common units authorized	2,000,000	2,000,000	2,000,000
Total number of common units issued and outstanding	156,178	156,178	113,480

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 August 31, 2010, February 28, 2010 and August 31, 2009 were as follows:

	Yen in millions		
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥5,713	¥4,977	¥4,099
Facility charge	194	156	112
Subtotal	5,907	5,133	4,211
Other revenues related to property leasing:			
Income from leasing rights, etc.	234	179	203
Miscellaneous income	77	51	61
Subtotal	311	230	264
Total revenues from property leasing	6,218	5,363	4,475
Rental Expenses:			
Property management fees	707	590	473
Repairs and maintenance	255	207	153
Real estate taxes	233	166	166
Trust fee	9	9	9
Utilities	66	50	42
Insurance	13	10	9
Depreciation and amortization	1,241	1,061	851
Leasing-related service fees, etc.	129	122	94
Other rental expenses	35	30	21
Total rental expenses	2,688	2,245	1,818
Operating Income from Property Leasing Activities	¥3,530	¥3,118	¥2,657

Note 7 Breakdown of Gain on Sale of Investment Properties

Gain on sale of investment properties for the period ended February 28, 2010 was as follows:

	Yen in millions
Park Axis Ichigaya	
Revenues from sale of investment properties	¥3,100
Cost of investment properties	2,543
Other sales expenses	1
Gain on sale of investment properties	¥ 556

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 0.05%, 0.04% and 0.06% for the periods ended August 31, 2010, February 28, 2010 and August 31, 2009, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009
Statutory effective tax rate	39.33%	39.33%	39.33%
Deductible distributions paid	(39.31)	(39.31)	(39.30)
Others	0.03	0.03	0.04
Effective tax rate	0.05%	0.04%	0.06%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of August 31, 2010, February 28, 2010 and August 31, 2009 were as follows:

	Yen in thousands		
	As of August 31, 2010	As of February 28, 2010	As of August 31, 2009
Deferred tax assets:			
Enterprise taxes	¥ 21	¥ 19	¥ 20
Total deferred tax assets	21	19	20
Deferred tax liabilities	—	—	—
Net Deferred Tax Assets	¥ 21	¥ 19	¥ 20

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 August 31, 2010, February 28, 2010 and August 31, 2009 and net assets per unit as of August 31, 2010, February 28, 2010 and August 31, 2009 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		
	9th Period March 1, 2010 to August 31, 2010	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009
Earnings per Unit:			
Net income	¥13,748	¥16,137	¥13,626
Weighted average number of common units outstanding	156,178	140,976	113,480
	As of August 31, 2010	As of February 28, 2010	As of August 31, 2009
Net Assets per Unit	¥533,045	¥533,863	¥550,978

Note 10 Transactions with Related Parties

(March 1, 2010 – August 31, 2010)

(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 end of period (Yen in millions)
Director and/or close relative	Nobuyuki Nakai (Note 1)	Executive Director of NAF and President & CEO of MFAFM (Note 1)	Payment of asset management fee to MFAFM (Note 2)	¥27 (Notes 3 and 5)	—	—
			Payment for the provision of general administration relating to organizational management to MFAFM (Note 4)	¥0 (Note 5)	—	—

Notes: 1. Nobuyuki Nakai resigned from his position as Executive Director of NAF and President & CEO of MFAFM effective March 31, 2010.

2. Nobuyuki Nakai 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 asset management fee is the management fee related to the March 30, 2010 acquisition of Park Cube Yotsuya Sanhome included in its book value.

4. Nobuyuki Nakai 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. Consumption taxes are not included in transaction amounts.

(September 1, 2009 – February 28, 2010)

(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 end of period (Yen in millions)
Director and/or close relative	Nobuyuki Nakai	Executive Director of NAF and President & CEO of MFAFM	Payment of asset management fees to MFAFM (Note 1)	¥646 (Notes 2 and 4)	Accounts payable	¥455 (Note 4)
			Payment for the provision of general administration services relating to organizational management to MFAFM (Note 3)	¥1 (Note 4)	Accounts payable	¥0 (Note 4)

Notes: 1. Nobuyuki Nakai 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 ¥213 million for management related to acquisition of properties included in the book value of each investment property, etc.

3. Nobuyuki Nakai 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.

Note 11 Financial Instruments

Effective from the period ended August 31, 2010, NAF adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 issued on March 10, 2008). This standard and guidance require companies to disclose fair value and certain other information of financial instruments as follows.

(March 1, 2010 - August 31, 2010)

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 August 31, 2010 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	¥ 3,339	¥ 3,339	¥ —
Total	¥ 3,339	¥ 3,339	¥ —
Liabilities			
(1) Short-term loans	¥ 22,500	¥ 22,500	¥ —
(2) Long-term loans due within one year	20,500	20,646	146
(3) Bonds	17,000	17,322	322
(4) Long-term loans	45,000	46,065	1,065
Total	¥105,000	¥106,533	¥1,533

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 these 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.

(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	¥2,163

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, 2010

Yen in millions	
Due within one year	
Cash and cash equivalents	¥3,339

4. Repayment schedule for loans and bonds due after August 31, 2010

	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	¥22,500	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	—	—	—	—	10,000	7,000
Long-term loans	20,500	5,000	19,000	19,000	2,000	—
Total	¥43,000	¥5,000	¥19,000	¥19,000	¥12,000	¥7,000

Note 12 Investment and Rental Properties

Effective from the period ended August 31, 2010, NAF adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20 issued on November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23 issued on November 28, 2008). This standard and guidance require companies to disclose fair value and certain other information of investment and rental property as follows.

(March 1, 2010 - August 31, 2010)

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 February 28, 2010	Change during the 9th Period	As of August 31, 2010	As of August 31, 2010
¥181,656	¥6,463	¥188,119	¥177,572

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 9th Period," the main factor increasing book value was the acquisition of Park Cube Yotsuya Sanhome and Park Cube Hatchobori for ¥7,372 million. The main factor decreasing book value was depreciation.

3. "Fair value as of August 31, 2010" 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, 2010 is disclosed in Note 6 (Rental Revenues and Expenses).

Note 13 Significant Subsequent Events

None applicable

Independent Auditors' Report



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

We have audited the accompanying balance sheets of Nippon Accommodations Fund Inc. (a Japanese Real Estate Investment Trust) as of August 31, 2010, and February 28, 2010, and the related statements of income, changes in net assets and cash flows for each of the periods from March 1, 2010 to August 31, 2010, from September 1, 2009 to February 28, 2010, and from March 1, 2009 to August 31, 2009, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nippon Accommodations Fund Inc. as of August 31, 2010, and February 28, 2010, and the results of their operations and their cash flows for each of the periods from March 1, 2010 to August 31, 2010, from September 1, 2009 to February 28, 2010, and from March 1, 2009 to August 31, 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended August 31, 2010 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

Tokyo, Japan
November 24, 2010

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

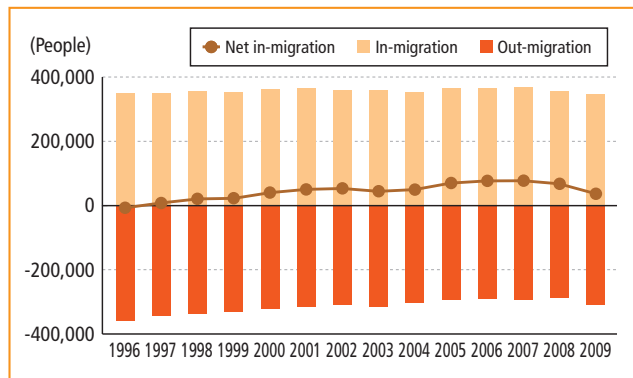
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Rental Apartment Investment Characteristics

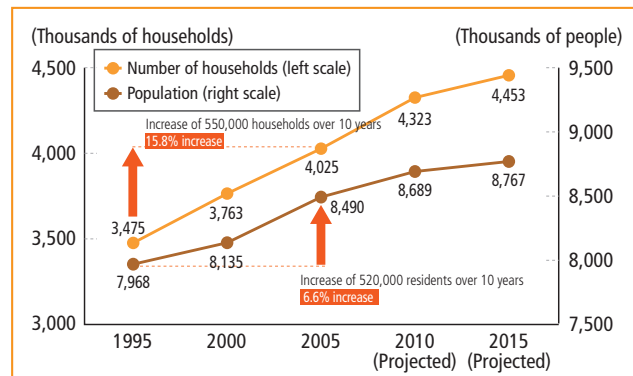
Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating investment in the 23 wards of Tokyo where demand for rental housing is high and developing a portfolio with high market competitiveness and asset value, NAF will stably increase earnings.

1. Net Migration into Tokyo (23 Wards)



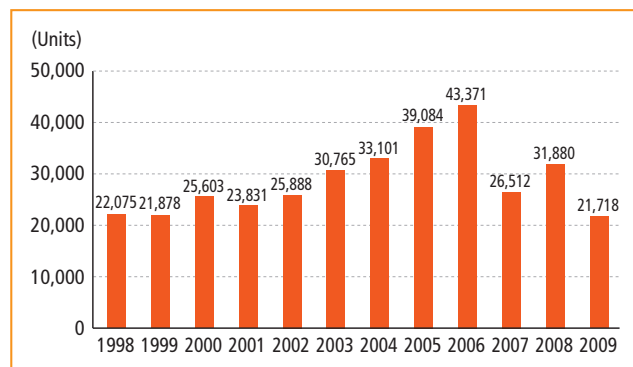
Sources: "Migration in Tokyo Derived from the Basic Register of Residents," Statistics Division, Tokyo Metropolitan Government Bureau of General Affairs

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



Sources: Population censuses conducted in 1995, 2000 and 2005 by the Statistics Bureau, Ministry of Internal Affairs and Communications
For number of households from 2006, "Household Projections for Tokyo," March 2009, Tokyo Metropolitan Government, Statistics Division Bureau of General Affairs
For population from 2006, "Population Projections by Municipality" (as of December 2008), National Institute of Population and Social Security Research

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 550 thousand over the decade from 1995 to 2005. This 15.8 percent increase was more than double the 6.6 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 in 2009 stalled at about the same level as 1999.

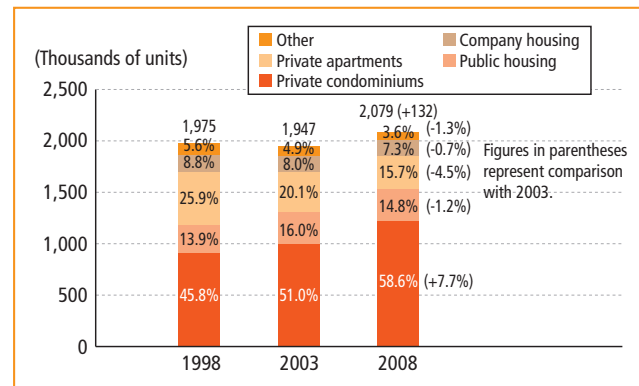
Rental housing stock volume for the 23 wards of Tokyo is shown in Graph 4. Stock increased by 132 thousand units to 2,079 thousand in 2008 from 1,947 thousand in 2003 with the increase in demand due to the population influx into Tokyo. However, the overall increase was moderate compared with the concurrent 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 non-wooden residential units over 30m² 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.

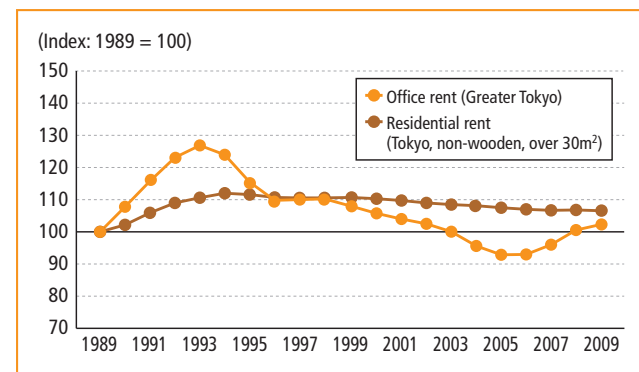
In addition, rental housing enables a more diversified portfolio in terms of number of properties and tenants due to its relatively small scale in comparison to office buildings and other properties. Investment in rental housing of this nature is perfectly matched with NAF's core strategy of securing 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.

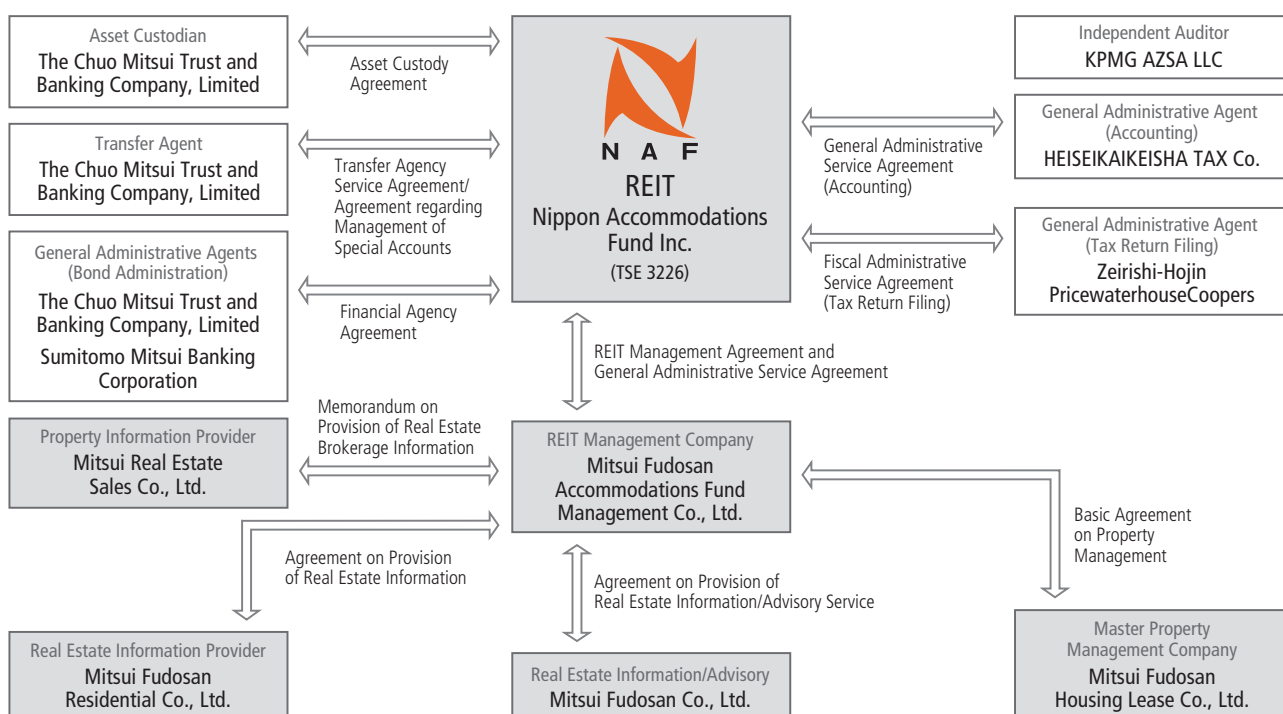
Real Estate Investment Trust (“REIT”) Structure

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 Real Estate Sales 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.

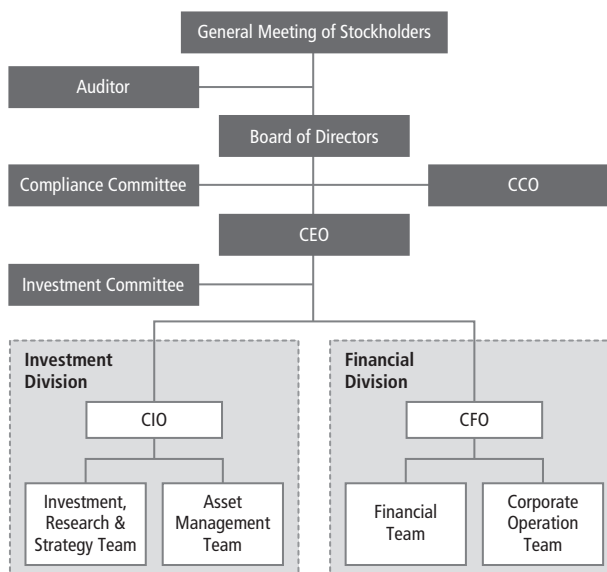
Compliance Initiatives

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

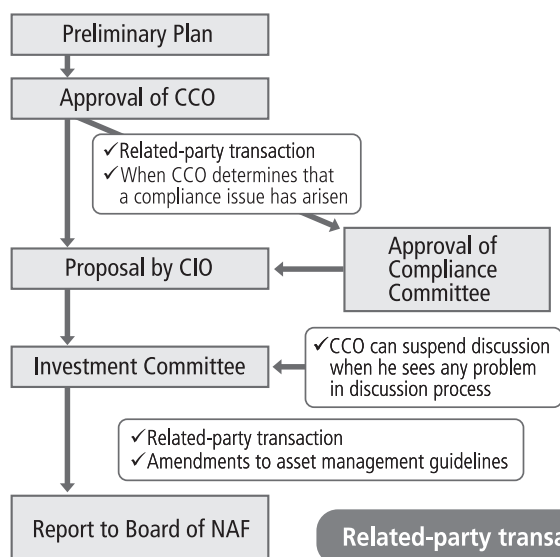
NAF itself is responsible for complying with the Investment Trust and Investment Corporation Act of Japan and related laws and regulations in managing risks. In addition, the REIT Management Company has established appropriate internal rules. In conjunction with appropriate organizational systems, NAF 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.

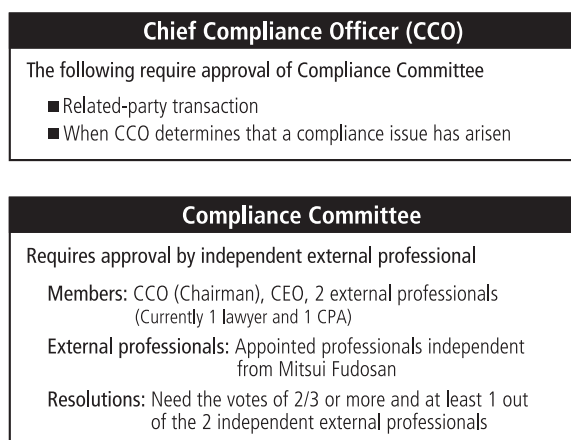
Moreover, supervisory directors can obtain as needed reports on operations and financial condition from the REIT Management Company and from NAF's asset custodian, The Chuo Mitsui Trust and Banking Company, Limited. Independent supervisory directors can also conduct required investigations.

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 Real Estate Sales Co., Ltd.	Mitsui Real Estate Sales 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 Real Estate Sales 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	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.

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	The Chuo Mitsui Trust and Banking Company, Limited 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
Business office of the transfer agent	Stock Transfer Agency Department of The Chuo Mitsui Trust and Banking Company, 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 August 31, 2010)

Name	Number of Units Held	Percentage of Total*
Japan Trustee Services Bank, Ltd. (Trust Account)	27,607	17.67%
The Nomura Trust and Banking Co., Ltd. (Investment Account)	19,862	12.71%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	9,632	6.16%
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,078	5.81%
Mitsui Fudosan Co., Ltd.	6,600	4.22%
State Street Bank and Trust Company	4,926	3.15%
AIG EDISON-GA NON DIMA	3,935	2.51%
The Chuo Mitsui Trust and Banking Company, Limited	3,600	2.30%
Sumitomo Mitsui Banking Corporation	3,590	2.29%
American Life Insurance Company GA-L	3,147	2.01%

*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 August 31, 2010)

	Individuals and others	Financial institutions	Other domestic corporations	Overseas corporations and individuals	Securities companies	Total
Number of unitholders	7,235 (95.45%)	85 (1.12%)	129 (1.70%)	115 (1.52%)	16 (0.21%)	7,580 (100%)
Number of units held	18,425 (11.80%)	104,929 (67.18%)	11,670 (7.47%)	19,893 (12.74%)	1,261 (0.81%)	156,178 (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 November 26, 2010 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from March 1, 2010, to August 31, 2010, 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.

The contents of this document do not constitute an offer to sell or solicitation of an offer to buy or sell any securities of Nippon Accommodations Fund Inc. or otherwise, nor is it advice or the recommendation of Nippon Accommodations Fund Inc. to enter into any transaction.

English terms for Japanese legal, accounting, tax and business concepts used herein may not be precisely identical to the concept of the equivalent Japanese terms. If there exist any discrepancies in the meaning or interpretation with respect to any and all terms herein including, without limitation, financial statements, between the original Japanese documents and English statements contained herein, the original Japanese documents will always govern the meaning and interpretation. None of Nippon Accommodations Fund Inc., Mitsui Fudosan Accommodations Fund

Management Co., Ltd. or any of their respective directors, officers, employees, partners, unitholders, agents, parent company or affiliates will be responsible or liable for the completeness, appropriateness or accuracy of English translations contained in this document. No person has been authorized to give any information or make any representations other than as contained in this document in relation to the matters set out in this document, and if given or made, such information or representation must not be relied upon as having been authorized by Nippon Accommodations Fund Inc., Mitsui Fudosan Accommodations Fund Management Co., Ltd. or any of their respective directors, officers, employees, partners, unitholders, agents, parent company or affiliates.

The financial statements of Nippon Accommodations Fund Inc. have been prepared in accordance with generally accepted accounting principles in Japan (Japanese GAAP), which may materially differ in certain respects from generally accepted accounting principles in other jurisdictions.

This document contains forward-looking statements and information. We base these statements on our beliefs as well as our assumptions based solely on certain limited information currently available to us. Because these statements reflect our current views concerning future events, these statements involve known and unknown risks, uncertainties and assumptions. Our future performance could materially differ from those set out in these forward-looking statements. We do not undertake and will not undertake to release revisions of forward-looking statements to reflect future events or circumstances or of any other statements or information contained herein.



Nippon Accommodations Fund Inc.

1-1, Nihonbashi-Muromachi 2-chome,

Chuo-ku, Tokyo 103-0022, Japan

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



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