



## 8th Period

NAF Report | September 2009 – February 2010

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



An Ongoing Commitment  
to Value Creation



# Profile

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

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

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# NAF Snapshot

(As of February 28, 2010)

## Profitability

<b>96.5%</b>	An occupancy rate of 96.5 percent
<b>5.3%</b>	Net operating income (NOI) yield* of 5.3 percent
<b>¥14,567</b>	Distribution per unit of ¥14,567 for the 8th Period

## Outstanding Portfolio

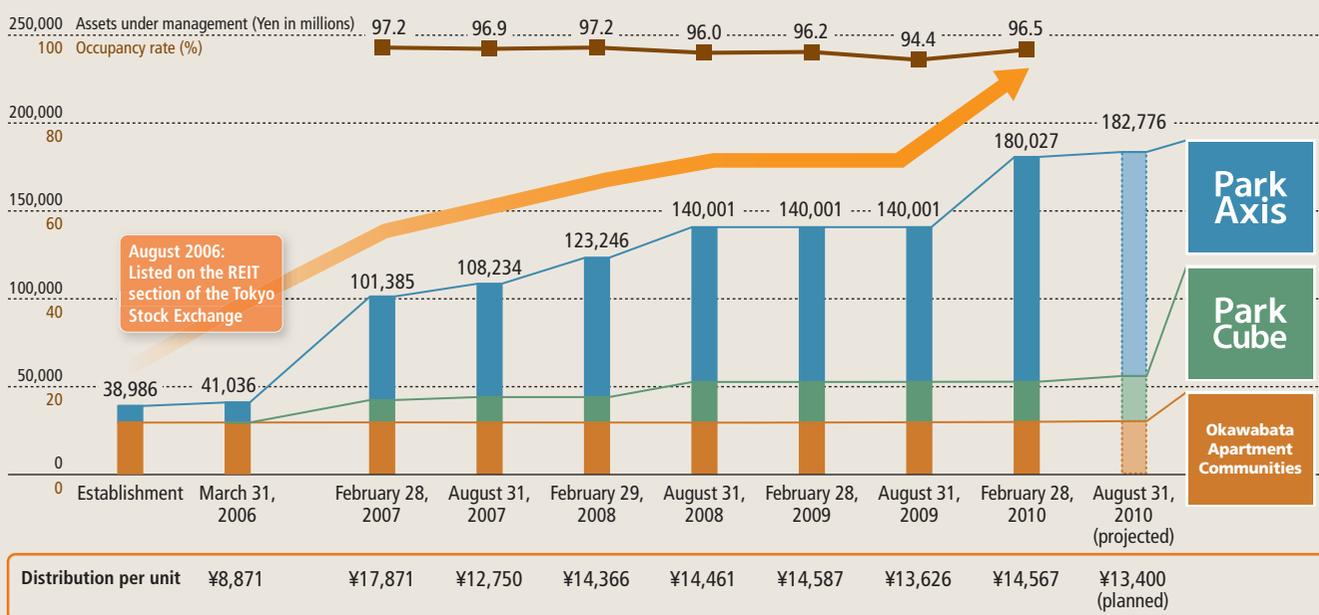
<b>¥180,027 million</b>	Portfolio of 61 superior properties with a total acquisition price of ¥180,027 million
<b>279,562.00m<sup>2</sup> / 6,214 units</b>	6,214 units with a total rentable area of 279,562.00m <sup>2</sup>
<b>89.6%</b>	89.6 percent of portfolio located in the 23 wards of Tokyo

## Financial Stability

<b>A2, AA-, A+</b>	Rated A2 by Moody's; AA- by Rating and Investment Information; and A+ (Long-term) and A-1 (Short-term) by Standard & Poor's
<b>53.1%</b>	LTV (Loan-to-Value) ratio of 53.1 percent, long-term fixed-rate debt ratio of 74.2 percent

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

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

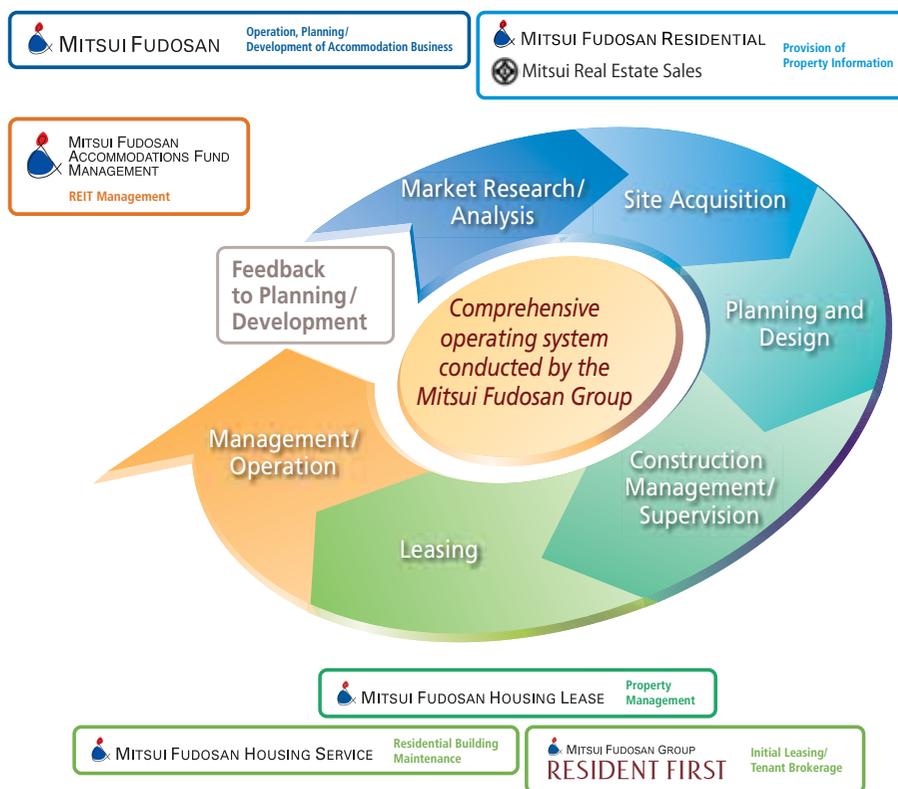


# NAF's Two Core Strategies



## 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.

### 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.

### 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.

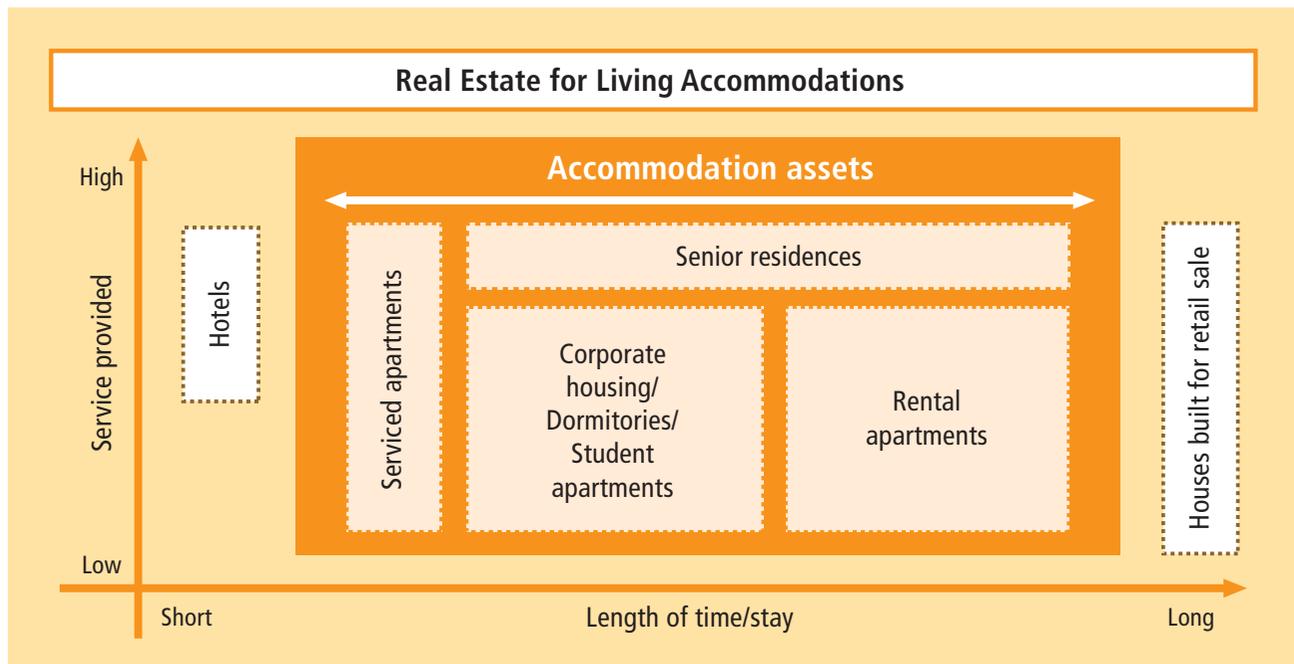
### Management / Operation

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.



## 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

We are Yuji Yokoyama, Executive Director of Nippon Accommodations Fund Inc. (“NAF”), and Kosei Murakami, who has assumed the position of Representative Director and CEO of Mitsui Fudosan Accommodations Fund Management Co., Ltd. as of April 2010. During the six months ended February 28, 2010 (the “8th Period”), NAF increased its assets under management by newly acquiring 18 properties after issuing new investment units through a public offering. 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. In the six months ending August 31, 2010 (the “9th Period”), we will promote our growth strategy to make steady progress in increasing unitholder value through strategic means including additional property acquisitions.



**Yuji Yokoyama**

Executive Director of Nippon Accommodations Fund Inc.

**Kosei Murakami**

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

### Market Environment and 8th Period Performance

During the 8th Period, despite steady recovery from the global economic recession, with improved corporate earnings and a pickup in exports and personal consumption, the operating environment remained challenging in the J-REIT market due to factors including concerns about downturns in overseas economies and deflation.

However, 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 issued new investment units through public offering as a J-REIT for the first time in one year and three months. NAF procured a total of ¥20,124 million through issuance of new investment units. As a result, the total value of issued investment units was ¥81,103 million, and the total number issued was 156,178.

NAF used the funds procured through the above issuance of

	<b>8th Period (Actual)</b> (Ended February 28, 2010)	<b>9th Period (Forecast)</b> (Ending August 31, 2010)
Total revenues	¥5,919 million	¥6,160 million
Operating income	¥3,010 million	¥2,882 million
Net income	¥2,275 million	¥2,092 million
Total assets	¥186,429 million	—
LTV (Loan-to-value) ratio	53.1%	—
Distribution per unit (Yen)	¥14,567	¥13,400
Assets under management		
Acquisition price basis	¥180,027 million	¥182,776 million
Number of properties	61	62

Note: The above forecasts were announced on April 16, 2010.

new investment units and ¥18,000 million in borrowings from multiple financial institutions to newly acquire 18 Park Axis properties developed by the Mitsui Fudosan Group for a total of ¥42,596 million. In addition, NAF sold Park Axis Ichigaya for ¥3,100 million in response to a purchase offer in February 2010. As a result, NAF's portfolio as of February 28, 2010 consisted of 61 properties valued at ¥180,027 million on an acquisition price basis.

We utilized the value chain of Mitsui Fudosan Group companies as we conducted flexible and prompt leasing activities to maintain a high occupancy rate and leveraged the scale of our assets to reduce operating expenses. At the Okawabata Apartment Communities in particular, we carried out further interior renovations. As a result of the leasing activities discussed above, the occupancy rate for NAF's overall portfolio as of February 28, 2010 remained at a high level of 96.5 percent.

During the 8th Period, NAF borrowed funds from banks for the acquisition of the new properties described above. Consequently, as of February 28, 2010, interest-bearing debt was ¥99,000 million, an ¥18,000 million increase from the

previous period, NAF's loan-to-value (LTV) ratio was 53.1 percent, and long-term, fixed-rate loans accounted for 74.2 percent of NAF's interest-bearing debt.

Total revenues for the 8th Period were ¥5,919 million, compared with ¥4,475 million for the previous period. Operating income was ¥3,010 million, compared with ¥2,169 million for the previous period. Net income was ¥2,275 million, compared with ¥1,546 million for the previous period. Distribution per unit totaled ¥14,567, compared with ¥13,626 for the previous period.

### Future Initiatives

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

Our strategy for external growth entails steady expansion of our portfolio through the acquisition of properties in the Park Axis and the Park Cube series. We are currently structuring our portfolio with a greater weighting on single and compact units, from which we can expect a high occupancy rate. Based on this

strategy, during the 9th Period we newly acquired one property on March 30, 2010. This step was aimed at the steady growth of our overall portfolio based on our strategy to invest mainly within the 23 wards of Tokyo and major regional cities.

After the completion of the above transaction, NAF's portfolio consists of 62 properties valued at ¥182,776 million on an acquisition price basis, encompassing 6,344 units.

We have built a stable and profitable portfolio, with approximately 90 percent of our 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 6.2 years. 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, our upper limit for the LTV ratio is 60 percent. We will continue to emphasize long-term, fixed-rate funding considering the future risk of rising interest rates and refinancing risk. We 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 our 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 9th Period, we forecast total revenues of ¥6,160 million, operating income of ¥2,882 million, net income of ¥2,092 million, and distribution per unit of ¥13,400. This forecast is valid as of April 2010 and assumes that NAF will not acquire or exchange any additional properties and will not issue new units during the 9th Period.

## New Acquisitions

### 8th Period

Name of property	Acquisition Price (Yen in millions)	Location
Park Axis Nishigahara	840	Tokyo 23 Wards
Park Axis Kinshicho	1,448	
Park Axis Tatsumi Stage	7,464	
Park Axis Kameido	2,359	
Park Axis Honancho	745	
Park Axis Itabashi	1,448	
Park Axis Oshiage	1,193	
Park Axis Takadanobaba	1,222	
Park Axis Toyosu	14,300	
Park Axis Hatchobori	1,760	
Park Axis Itabashi Honcho	987	
Park Axis Sumiyoshi	1,006	

Name of property	Acquisition Price (Yen in millions)	Location
Park Axis Naka Gofukumachi	742	Other Major Cities
Park Axis Shirakabe	1,547	
Park Axis Sendai	2,320	
Park Axis Hakata Minoshima	960	
Park Axis Takamiya Higashi	605	
Park Axis Sapporo Shokubutsuen Mae	1,650	
<b>Total</b>	<b>42,596</b>	

### 9th Period

Name of property	Acquisition Price (Yen in millions)	Location
Park Cube Yotsuya Sanhome	2,749	Tokyo 23 Wards

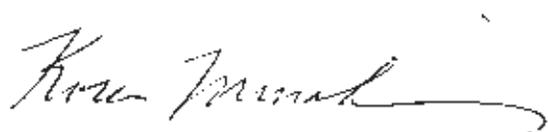
NAF will continue to invest in accommodation assets and will make use of the Mitsui Fudosan Group's pipeline to expand its portfolio by acquiring high-quality properties. We also aim to maximize unitholder value through effective management and brand strategies that enhance competitiveness.

May 2010



**Yuji Yokoyama**

Executive Director of Nippon Accommodations Fund Inc.



**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

### Representative Properties

#### Park Axis Toyosu

<b>Location</b>	Koto-ku, Tokyo
<b>Acquisition Price</b>	¥14,300 million
<b>Rentable Area</b>	25,537.94m <sup>2</sup>
<b>Units</b>	401 Residential 2 Retail
<b>Completed</b>	March 2008



#### Park Axis Sendai

<b>Location</b>	Sendai-shi, Miyagi
<b>Acquisition Price</b>	¥2,320 million
<b>Rentable Area</b>	8,843.17m <sup>2</sup>
<b>Units</b>	204
<b>Completed</b>	March 2008



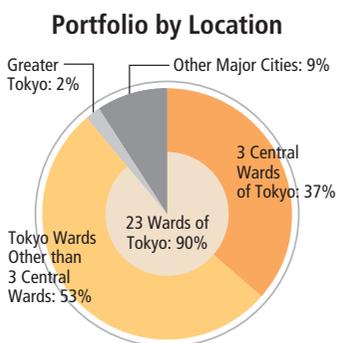
# Portfolio Summary

(As of February 28, 2010. Properties total 62 including the acquisition of Park Cube Yotsuya Sanhome (number in red) during the 9th Period.)

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	16.2	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	1.0	2,437.66	64	7.6
4	Park Axis Shibuya Jinnan	Shibuya-ku, Tokyo	3,230	1.8	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	0.8	1,891.05	59	7.5
7	Park Axis Shirokanedai	Minato-ku, Tokyo	5,140	2.8	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 Tsukishima	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	2.2	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	4.1	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	1.6	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	5.3	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	1.0	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	1.4	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	1.9	4,395.99	152	7.3 East, 7.5 West
31	Park Axis Akihabara	Chiyoda-ku, Tokyo	1,200	0.7	1,346.07	41	7.4
32	Park Axis Toyochō	Koto-ku, Tokyo	3,950	2.2	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

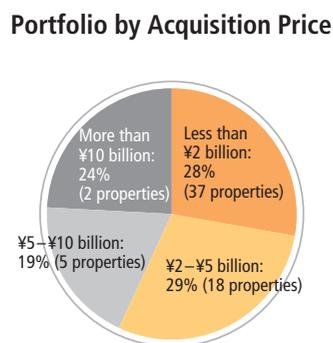
Notes: 1. Acquisition Price does not include acquisition-related expenses, property tax (to be capitalized) and consumption tax (not refundable for residential properties). Amounts are rounded to the nearest million.

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



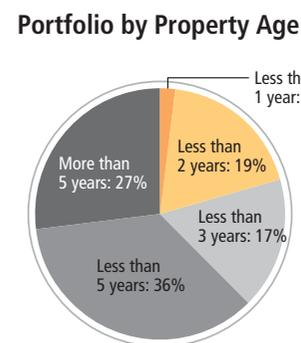
**90% in the 23 wards of Tokyo**

Amount excluding the Okawabata Apartment Communities



**Average ¥2.9 billion per property**

[ Average ¥2.5 billion per property ]



**Average 6.2 years**

[ Average 3.4 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.

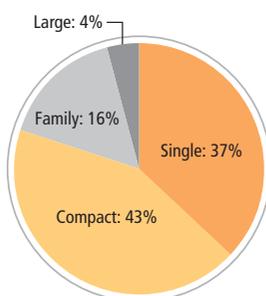
No.	Name	Location	Acquisition Price (Note 1) (Yen in millions)	Portfolio Share (%)	Rentable Area (sq. m.)	Rentable Units	PML (Note 2) (%)
41	Park Axis Monzen Nakacho	Koto-ku, Tokyo	1,700	0.9	1,886.39	55	10.1
42	Park Cube Itabashi Honcho	Itabashi-ku, Tokyo	4,170	2.3	5,317.07	165 Residential, 1 Retail	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
46	Park Axis Nishigahara	Kita-ku, Tokyo	840	0.5	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	4.1	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	0.7	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	7.8	25,537.94	401 Residential, 2 Retail	7.8
60	Park Axis Hatchobori	Chuo-ku, Tokyo	1,760	1.0	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	0.6	1,785.72	60	11.4
63	Park Cube Yotsuya Sancho	Shinjuku-ku, Tokyo	2,749	1.5	3,599.82	130	8.7
Tokyo 23 Wards Total			164,046	89.8	227,778.98	4,891 Residential, 11 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	0.6	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	1.1	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	1.3	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	8.5	47,411.85	1,284 Residential, 3 Retail	
Grand Total			182,776	100.0	283,161.82	6,329 Residential, 15 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

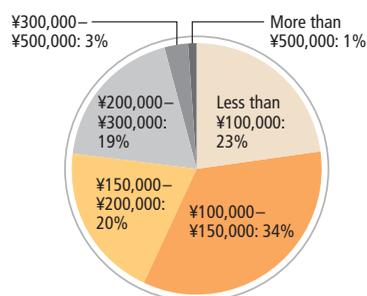
Portfolio by Category



Percentage of single and compact units: 80%

[ 87% ]

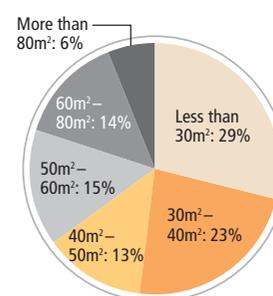
Portfolio by Monthly Rent



Average ¥154 thousand per unit

[ Average ¥141 thousand per unit ]

Portfolio by Unit Area



Average 44.3m² per unit

[ Average 40.9m² 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)
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009	8th Period September 1, 2009 to February 28, 2010
Total revenues (Note 2)	¥ 5,919	¥ 4,475	¥ 4,508	\$ 66,186
Rental revenues	5,133	4,211	4,296	57,397
Other revenues related to property leasing	230	264	212	2,572
Gain on sale of investment properties	556	—	—	6,217
Operating expenses	2,909	2,306	2,260	32,528
Income before income taxes	2,276	1,547	1,656	25,450
Net income (a)	2,275	1,546	1,655	25,439
Funds from operations (Note 3)	2,780	2,397	2,518	31,086
Net operating income from property leasing activities (Note 3)	4,179	3,508	3,614	46,729
Total amount of cash distribution (b)	2,275	1,546	1,655	25,439
Depreciation and amortization	1,061	851	862	11,864
Capital expenditures	94	138	72	1,051
Total assets (c)	186,429	146,542	146,666	2,084,636
Interest-bearing debt	99,000	81,000	81,000	1,107,011
Total net assets (d)	83,378	62,525	62,634	932,327
Total number of common units issued (units) (e)	156,178	113,480	113,480	
Net assets per unit (Yen/\$) (d) / (e)	533,863	550,978	551,939	5,969.62
Distribution per unit (Yen/\$) (b) / (e)	14,567	13,626	14,587	162.89
Funds from operations per unit (Yen/\$) (Note 3)	17,799	21,123	22,184	199.03
Return on total assets (Note 4)	1.4%	1.1%	1.1%	
(Annual rate)	(2.8%)	(2.1%)	(2.3%)	
ROE (Note 4)	3.1%	2.5%	2.6%	
(Annual rate)	(6.3%)	(4.9%)	(5.3%)	
LTV (Loan-to-value) ratio (Note 3)	53.1%	55.3%	55.2%	
Capital ratio (d) / (c)	44.7%	42.7%	42.7%	
Payout ratio (b) / (a) (Note 5)	100.0%	99.9%	99.9%	
Number of days in period	181	184	181	
Number of investment properties (Note 6)	61	44	44	
Total rentable area (m <sup>2</sup> )	279,562	189,636	189,636	
Average occupancy rate at end of period (Note 6)	96.5%	94.4%	96.2%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥89.43 = U.S.\$1.00, the approximate exchange rate on February 28, 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. Return on total assets: Income before income taxes ÷ [(Initial total assets + Total assets at end of period) ÷ 2]

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

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

Annual equivalent amounts for the period ended February 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

Annual equivalent amounts for the period ended February 28, 2009: Amount for the period ÷ Actual days in the period (181) x 365 days

Net assets and total assets used in calculating ROE and ROA 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 8th Period, the six months ended February 28, 2010, despite improved corporate earnings and recovery in exports and personal consumption as the global economy steadily recovered from recession, high levels of unemployment and other challenging conditions persisted for Japan's economy. Looking forward, employment conditions remain severe, while corporate earnings continue to improve. Under these conditions, economic recovery is expected to continue as overseas economies improve and urgent economic measures take effect. At the same time, concern about a double-dip recession overseas and the effect of deflation are factors weighing on the economy.

In the residential rental market, the effects of the recession were apparent, particularly among high-priced properties. However, a recovery in occupancy rates became apparent for residential REITs. 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 remained steady.

In the real estate investment and trading market, the rapid deterioration of the economic environment had the effect of making both buyers and sellers cautious, and the number of transactions was low. However, signs of recovery have become apparent, with the gradual return of large-scale transactions.

During the 8th Period, NAF acquired 18 properties, consisting of 13 properties with a total acquisition price of ¥22,893 million in November 2009, 2 properties with a total acquisition price of ¥15,950 million in December 2009, and 3 properties with a total acquisition price of ¥3,753 million in January 2010. In addition, in February 2010 NAF agreed to a request from a buyer to sell Park Axis Ichigaya for ¥3,100 million after careful and comprehensive consideration of issues including the effect on its overall portfolio. NAF had acquired this property in November 2005 for a total acquisition price of ¥2,570 million. As a result, NAF's portfolio as of February 28, 2010 consisted of 61 properties valued at ¥180,027 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 February 28, 2010 remained at a high level of 96.5 percent.

As a result of the above, for the 8th Period, NAF recorded total revenues of ¥5,919 million, operating income of ¥3,010 million, income before income taxes of ¥2,276 million and net income of ¥2,275 million.

### Changes in Assets, Liabilities and Net Assets

Total assets as of February 28, 2010 increased ¥39,887 million from August 31, 2009 to ¥186,429 million. Total current assets decreased ¥529 million to ¥4,643 million and total investment properties increased ¥40,418 million to ¥181,681 million compared with August 31, 2009 due to NAF's acquisition of 18 properties (total acquisition price ¥42,596 million) and sale of Park Axis Ichigaya (sale price ¥3,100 million) during the 8th Period, in addition to normal depreciation.

To fund the acquisition of the new properties, NAF issued new investment units with a total issue price of ¥20,124 million and borrowed ¥18,000 million from financial institutions during the 8th Period. As a result, interest-bearing debt as of February 28, 2010 increased ¥18,000 million from August 31, 2009 to ¥99,000 million. The ratio of long-term, fixed-rate debt to total interest-bearing debt was 74.2 percent, compared with 71.0 percent as of August 31, 2009. Excluding long-term loans due within one year, the ratio was 62.1

percent. The loan-to-value ratio, calculated as interest-bearing debt divided by total assets at the end of the period, was 53.1 percent, compared with 55.3 percent as of August 31, 2009.

Net assets totaled ¥83,378 million as of February 28, 2010. Unitholders' capital increased ¥20,124 million from August 31, 2009 to ¥81,103 million, and retained earnings increased to ¥2,275 million from ¥1,546 million as of August 31, 2009.

## 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 8th Period, cash distributions totaled ¥2,275,044,926, or ¥14,567 per unit.

	Yen in thousands, except per unit amounts		
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009
Retained earnings	¥2,275,058	¥1,546,304	¥1,655,345
Undistributed earnings	13	26	12
Total cash distribution	2,275,045	1,546,278	1,655,333
(Per unit)	14,567	13,626	14,587
Distribution of retained earnings	2,275,045	1,546,278	1,655,333
(Per unit)	14,567	13,626	14,587
Cash distribution in excess of retained earnings	—	—	—
(Per unit)	—	—	—

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

## Funding

### Balance of Paid-in Capital

NAF was established on October 12, 2005 with initial paid-in capital of ¥100 million. NAF began investing activities on November 29, 2005 after ¥21,140 million was raised through private placement. As of February 28, 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:

	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)	4th Period September 1, 2007 to February 29, 2008 (Yen)
High	¥526,000	¥515,000	¥538,000	¥565,000	¥762,000
Low	443,000	361,000	371,000	396,000	528,000

## Borrowings

Borrowings by financial institution as of February 28, 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	¥ 6,500	0.8%	March 15, 2010	Bullet payment	(Note 3)	Unsecured /unguaranteed /pari passu (Note 4)  Fixed rate
The Hachijuni Bank, Ltd.	1,000	0.8%	March 15, 2010			
Mitsubishi UFJ Trust and Banking Corporation	5,000	0.8%	March 23, 2010			
The 77 Bank, Ltd.	1,000	0.8%	March 31, 2010			
The Chuo Mitsui Trust and Banking Company, Limited	3,500	0.8%	April 1, 2010			
The Sumitomo Trust and Banking Co., Ltd.	4,500	0.8%	April 8, 2010			
The Bank of Fukuoka, Ltd.	2,000	0.8%	April 16, 2010			
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000	0.6%	March 5, 2010			
Total short-term loans	¥25,500					

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			
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	1.8%	April 12, 2010			
	1,000	1.5%	September 14, 2012			
	1,000	1.5%	May 31, 2013			
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			
<b>Total long-term loans</b>	<b>¥63,500</b>					
<b>Total borrowings</b>	<b>¥89,000</b>					

- 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
<b>Amount</b>	<b>¥11,500</b>	<b>¥12,000</b>	<b>¥19,000</b>	<b>¥9,000</b>

## Bonds

Issue	Issue date	Balance as of February 28, 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
Total		¥10,000					

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

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

## Capital Expenditures

### 1. Planned

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

Name of property	Objective	Estimated duration	Estimated amounts		
			Total amounts	Payment for the current period (September 1, 2009 to February 28, 2010)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities	Renovation of common use areas	From March 2010 to August 2010	¥39	¥—	¥—
	Expansion of bicycle parking lot, replacement of bicycle rack	From March 2010 to August 2010	15	—	—
	Renovation of disaster-prevention equipment	From August 2009 to June 2010	67	14	14

### 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥94 million in capital expenditures together with ¥207 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities	Renewal construction in rentable areas, etc.	From September 2009 to February 2010	¥63
Other Properties	Replacement of emergency lighting, etc., and other construction	From September 2009 to February 2010	32
Total			¥94

### 3. Cash Reserve for Capital Improvements

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

	Yen in millions		
	As of February 28, 2010	As of August 31, 2009	As of February 28, 2009
Reserve balance at the beginning of the period	¥529	¥501	¥556
Amount accumulated in the current period	165	173	12
Withdrawal from reserves in the current period	104	145	67
Amount carried forward	¥590	¥529	¥501

### Expenses regarding Entrustment, etc.

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

Item	Yen in millions		
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009
Asset management fees	¥433	¥317	¥324
Asset custody fees	7	7	7
Agent fees (stock transfer, accounting and administrative)	22	25	22
Directors' remuneration	10	10	10
Auditor's fees	14	13	12
Other expenses	177	116	128
Total	¥664	¥488	¥504

### Related Party Transactions

#### (1) Transactions

Category	Total 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)	
Acquisition price of real estate	¥42,596	Mitsui Fudosan Co., Ltd.	¥26,646	62.6%
		Mitsui Fudosan Residential Co., Ltd.	15,950	37.4%
Total			¥42,596	100.0%

## (2) Fees Paid for the Period from September 1, 2009 to February 28, 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	¥367	Mitsui Fudosan Housing Lease Co., Ltd.	¥367	100.0%
Building management fees	185	Mitsui Fudosan Housing Lease Co., Ltd.	185	100.0%
Leasing related service fees	122	RESIDENT FIRST CO., LTD.	25	20.6%
		Mitsui Rehouse Tokyo Co., Ltd.	1	1.1%
		MITSUI HOME ESTATE CO., LTD.	1	0.6%
		Mitsui Real Estate Sales Tohoku Co., Ltd.	0	0.4%
		Mitsui Real Estate Sales Kyusyu 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
MITSUI FUDOSAN HOUSING SERVICE Co., Ltd.	¥17	Repair and maintenance costs
Mitsui Home Remodeling Co., Ltd.	13	Repair and maintenance costs
Accommodation First Co., Ltd.	2	Repair and maintenance costs
Mitsui Designtec Co., Ltd.	2	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 February 28, 2010 and August 31, 2009

	Yen in millions		U.S. dollars in thousands (Note 1)
	8th Period As of February 28, 2010	7th Period As of August 31, 2009	8th Period As of February 28, 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	¥ 3,637	¥ 4,534	\$ 40,669
Rent receivables	839	598	9,382
Consumption tax receivables and other current assets	167	40	1,867
Total current assets	4,643	5,172	51,918
Investment properties (Note 3):			
Land including trust accounts	115,052	96,020	1,286,503
Depreciable property and improvements including trust accounts	72,448	50,118	810,108
Accumulated depreciation	(5,819)	(4,875)	(65,068)
Total investment properties	181,681	141,263	2,031,544
Other assets	105	107	1,174
<b>Total Assets</b>	<b>¥186,429</b>	<b>¥146,542</b>	<b>\$2,084,636</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Current liabilities:			
Short-term loans (Note 4)	¥ 25,500	¥ 23,500	\$ 285,139
Long-term loans due within one year (Note 4)	12,000	5,000	134,183
Accounts payable	628	433	7,022
Rent received in advance	964	698	10,779
Accrued expenses and other liabilities	341	333	3,813
Total current liabilities	39,433	29,964	440,937
Long-term liabilities:			
Long-term loans (Note 4)	51,500	42,500	575,869
Bonds (Note 4)	10,000	10,000	111,819
Tenant security deposits	2,118	1,553	23,683
Total long-term liabilities	63,618	54,053	711,372
<b>Total Liabilities</b>	<b>¥103,051</b>	<b>¥ 84,017</b>	<b>\$1,152,309</b>
<b>Net Assets</b>			
Unitholders' capital (Note 5)	81,103	60,979	906,888
Retained earnings	2,275	1,546	25,439
<b>Total Net Assets</b>	<b>¥ 83,378</b>	<b>¥ 62,525</b>	<b>\$ 932,327</b>
<b>Total Liabilities and Net Assets</b>	<b>¥186,429</b>	<b>¥146,542</b>	<b>\$2,084,636</b>

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

## Statements of Income

Nippon Accommodations Fund Inc.

September 1, 2009 to February 28, 2010, March 1, 2009 to August 31, 2009 and September 1, 2008 to February 28, 2009

	Yen in millions			U.S. dollars in thousands (Note 1)
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009	8th Period September 1, 2009 to February 28, 2010
<b>Revenues (Notes 6 and 7):</b>				
Rental	¥5,133	¥4,211	¥4,296	\$57,397
Other revenues related to property leasing	230	264	212	2,572
Gain on sale of investment properties	556	—	—	6,217
<b>Total Revenues</b>	<b>5,919</b>	<b>4,475</b>	<b>4,508</b>	<b>66,186</b>
<b>Operating Expenses (Note 6):</b>				
Property management fees	590	473	458	6,597
Real estate taxes and insurance	176	175	148	1,968
Repairs and maintenance	207	153	127	2,315
Other rental expenses	211	166	162	2,359
Depreciation and amortization	1,061	851	862	11,864
Asset management fees	433	317	324	4,842
Other expenses	231	171	179	2,583
<b>Total Operating Expenses</b>	<b>2,909</b>	<b>2,306</b>	<b>2,260</b>	<b>32,528</b>
<b>Operating Income</b>	<b>3,010</b>	<b>2,169</b>	<b>2,248</b>	<b>33,658</b>
Interest and other income	3	2	4	34
Interest expense	(666)	(619)	(592)	(7,447)
New investment unit issue costs	(64)	—	—	(716)
Other expenses	(7)	(5)	(4)	(78)
<b>Income before Income Taxes</b>	<b>2,276</b>	<b>1,547</b>	<b>1,656</b>	<b>25,450</b>
Current and deferred income taxes (Note 8)	1	1	1	11
<b>Net Income</b>	<b>¥2,275</b>	<b>¥1,546</b>	<b>¥1,655</b>	<b>\$25,439</b>

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

## Statements of Changes in Net Assets

Nippon Accommodations Fund Inc.

For the period from September 1, 2008 to February 28, 2010

	Number of Units	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of August 31, 2008	113,480	¥60,979	¥ 1,641	¥62,620
Cash distribution declared	—	—	(1,641)	(1,641)
Net income	—	—	1,655	1,655
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

	Number of Units	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of August 31, 2008	113,480	\$681,863	\$ 18,350	\$700,212
Cash distribution declared	—	—	(18,350)	(18,350)
Net income	—	—	18,506	18,506
Balance as of February 28, 2009	113,480	681,863	18,506	700,369
Cash distribution declared	—	—	(18,506)	(18,506)
Net income	—	—	17,287	17,287
Balance as of August 31, 2009	113,480	681,863	17,287	699,150
Cash distribution declared	—	—	(17,287)	(17,287)
Issuance of new units through public offering as of November 4, 2009	42,000	221,346	—	221,346
Issuance of new units through allocation to a third party as of December 1, 2009	698	3,679	—	3,679
Net income	—	—	25,439	25,439
Balance as of February 28, 2010	156,178	\$906,888	\$ 25,439	\$932,327

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

## Statements of Cash Flows

Nippon Accommodations Fund Inc.

September 1, 2009 to February 28, 2010, March 1, 2009 to August 31, 2009 and September 1, 2008 to February 28, 2009

	Yen in millions			U.S. dollars in thousands (Note 1)
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009	8th Period September 1, 2009 to February 28, 2010
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes	¥ 2,276	¥ 1,547	¥ 1,656	\$ 25,450
Depreciation and amortization	1,061	851	862	11,864
New investment unit issue costs	64	—	—	716
Amortization of bond issue costs	4	4	4	45
Interest expense	666	619	592	7,447
(Increase) Decrease in rent receivables	(240)	30	30	(2,684)
Increase (Decrease) in accounts payable	195	1	(2)	2,180
Increase (Decrease) in rents received in advance	266	(10)	(3)	2,974
Decrease in investment properties due to sale	2,543	—	—	28,436
Cash payments of interest expense	(655)	(565)	(578)	(7,324)
(Increase) Decrease in consumption tax refund receivable	(142)	—	9	(1,588)
Other, net	11	(42)	6	123
<b>Net Cash Provided by Operating Activities</b>	<b>6,049</b>	<b>2,435</b>	<b>2,576</b>	<b>67,639</b>
<b>Cash Flows from Investing Activities:</b>				
Payments for purchases of investment properties	(44,022)	(183)	(90)	(492,251)
Proceeds from tenant security deposits	822	197	163	9,192
Payments for tenant security deposits	(257)	(255)	(196)	(2,874)
Other, net	(3)	(6)	(2)	(34)
<b>Net Cash Used in Investing Activities</b>	<b>(43,460)</b>	<b>(247)</b>	<b>(125)</b>	<b>(485,967)</b>
<b>Cash Flows from Financing Activities:</b>				
Proceeds from short-term loans	94,000	43,500	55,000	1,051,101
Repayment of short-term loans	(92,000)	(49,000)	(55,000)	(1,028,738)
Proceeds from long-term loans	20,000	5,500	—	223,639
Repayment of long-term loans	(4,000)	—	—	(44,728)
Proceeds from issuance of investment units	20,060	—	—	224,310
Payment of distribution	(1,546)	(1,654)	(1,640)	(17,287)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>36,514</b>	<b>(1,654)</b>	<b>(1,640)</b>	<b>408,297</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(897)</b>	<b>534</b>	<b>811</b>	<b>(10,030)</b>
Cash and Cash Equivalents at the Beginning of the Period	4,534	4,000	3,189	50,699
Cash and Cash Equivalents at the End of the Period	¥ 3,637	¥ 4,534	¥ 4,000	\$ 40,669

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

# Notes to Financial Statements

Nippon Accommodations Fund Inc.

September 1, 2009 to February 28, 2010, March 1, 2009 to August 31, 2009 and September 1, 2008 to February 28, 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 February 28, 2010, NAF had ownership or beneficiary interests in 61 properties containing approximately 279,562 square meters of rentable space. As of February 28, 2010, NAF had leased approximately 269,692 square meters to tenants. The occupancy rate for the properties was approximately 96.5%.

### 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 February 28, 2010, which was ¥89.43 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 February 28, 2010 amounted to ¥10 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 February 28, 2010 and August 31, 2009 consisted of the following:

	Yen in millions					
	As of February 28, 2010			As of August 31, 2009		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 71,631	¥ —	¥ 71,631	¥ 52,599	¥ —	¥ 52,599
Land in trust	43,421	—	43,421	43,421	—	43,421
Land including trust total	115,052	—	115,052	96,020	—	96,020
Buildings and improvements	50,279	(2,787)	47,492	29,366	(2,275)	27,092
Buildings and improvements in trust	17,905	(2,237)	15,669	17,811	(1,953)	15,858
Building and improvements including those in trust total	68,184	(5,024)	63,160	47,178	(4,228)	42,949
Structures	1,123	(130)	993	661	(106)	555
Machinery and equipment	1,141	(116)	1,024	513	(78)	434
Tools, furniture and fixtures	670	(224)	446	453	(181)	272
Construction in process	0	—	0	—	—	—
Structures in trust	886	(120)	766	886	(105)	781
Machinery and equipment in trust	120	(35)	84	120	(29)	91
Tools, furniture and fixtures in trust	299	(169)	130	296	(148)	147
Construction in process in trust	25	—	25	12	—	12
Other investment properties total	4,263	(795)	3,468	2,940	(647)	2,293
Total	¥187,500	¥(5,819)	¥181,681	¥146,138	¥(4,875)	¥141,263

### Note 4 Short-Term Loans and Long-Term Debt

Short-term loans consist of short-term borrowings under loan agreements. The annual interest rates on short-term loans outstanding are fixed rates and as of February 28, 2010 and August 31, 2009 ranged from 0.62% to 0.85% and from 0.82% to 1.23%, respectively. Long-term debt is at fixed rates and consists of the following:

	Yen in millions	
	As of February 28, 2010	As of August 31, 2009
Unsecured loans due 2010 to 2014 principally from banks and insurance companies with interest rates mainly ranging from 1.4% to 2.2%	¥63,500	¥47,500
1.7% unsecured bonds due 2014	10,000	10,000
	¥73,500	¥57,500

The annual maturities of long-term loans as of February 28, 2010 were as follows:

	Yen in millions
2010	¥ 9,000
2011	14,500
2012	12,000
2013	19,000
Thereafter	9,000

**Note 5 Unitholders' Capital**

	As of February 28, 2010	As of August 31, 2009	As of February 28, 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	113,480	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 February 28, 2010, August 31, 2009, and February 28, 2009 were as follows:

	Yen in millions		
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥4,977	¥4,099	¥4,179
Facility charge	156	112	117
Subtotal	5,133	4,211	4,296
Other revenues related to property leasing:			
Income from leasing rights, etc.	179	203	164
Miscellaneous income	51	61	48
Subtotal	230	264	212
Total revenues from property leasing	5,363	4,475	4,508
Rental Expenses:			
Property management fees	590	473	458
Repairs and maintenance	207	153	127
Real estate taxes	166	166	138
Trust fee	9	9	9
Utilities	50	42	47
Insurance	10	9	9
Depreciation and amortization	1,061	851	862
Leasing-related service fees, etc.	122	94	84
Other rental expenses	30	21	22
Total rental expenses	2,245	1,818	1,756
Operating Income from Property Leasing Activities	¥3,118	¥2,657	¥2,752

**Note 7 Breakdown of Gain on Sale of Investment Properties**

On February 24, 2010 NAF sold the property set forth below:

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

	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009
Statutory effective tax rate	39.33%	39.33%	39.39%
Deductible distributions paid	(39.31)	(39.30)	(39.37)
Others	0.03	0.04	0.04
Effective tax rate	0.04%	0.06%	0.06%

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

	Yen in thousands		
	As of February 28, 2010	As of August 31, 2009	As of February 28, 2009
Deferred tax assets:			
Enterprise taxes	¥ 19	¥ 20	¥ 20
Total deferred tax assets	19	20	20
Deferred tax liabilities	—	—	—
Net Deferred Tax Assets	¥ 19	¥ 20	¥ 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 February 28, 2010, August 31, 2009 and February 28, 2009 and net assets per unit as of February 28, 2010, August 31, 2009 and February 28, 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		
	8th Period September 1, 2009 to February 28, 2010	7th Period March 1, 2009 to August 31, 2009	6th Period September 1, 2008 to February 28, 2009
Earnings per Unit:			
Net income	¥16,137	¥13,626	¥14,587
Weighted average number of common units outstanding	140,976	113,480	113,480
	As of February 28, 2010	As of August 31, 2009	As of February 28, 2009
Net Assets per Unit	¥533,863	¥550,978	¥551,939

**Note 10 Transactions with Related Parties**

(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.

(March 1, 2009 – August 31, 2009)

- (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)	¥317 (Notes 2 and 4)	Accounts payable	¥333 (Note 4)
			Payment for the provision of general administration services relating to organizational management to MFAFM (Note 3)	¥6 (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 does not include fees 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 Significant Subsequent Events**

None applicable

# Independent Auditors' Report



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

We have audited the accompanying balance sheets of Nippon Accomodations Fund Inc. (a Japanese Real Estate Investment Trust) as of February 28, 2010, and August 31, 2009, and the related statements of income, changes in net assets and cash flows for each of the periods from September 1, 2009 to February 28, 2010, from March 1, 2009 to August 31, 2009, and from September 1, 2008 to February 28, 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 Accomodations Fund Inc. as of February 28, 2010, and August 31, 2009, and the results of their operations and their cash flows for each of the periods from September 1, 2009 to February 28, 2010, from March 1, 2009 to August 31, 2009, and from September 1, 2008 to February 28, 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 February 28, 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 & Co.*

Tokyo, Japan  
May 26, 2010

KPMG AZSA & Co., an 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, a Swiss cooperative.

# Facts and Figures

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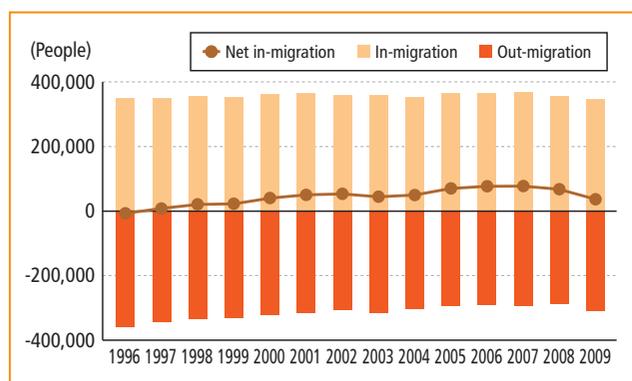
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# Rental Apartment Investment Characteristics

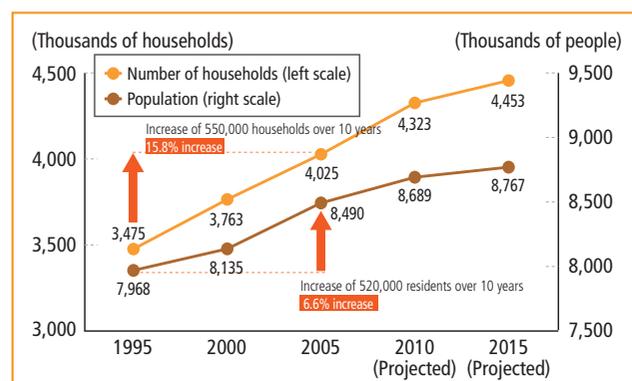
Rental apartments have a lower earnings fluctuation risk than real estate leased for other uses. By concentrating investment in the 23 wards of Tokyo where demand for rental housing is high and developing a portfolio with high market competitiveness and asset value, NAF will stably increase earnings.

## 1. Net Migration into Tokyo (23 Wards)



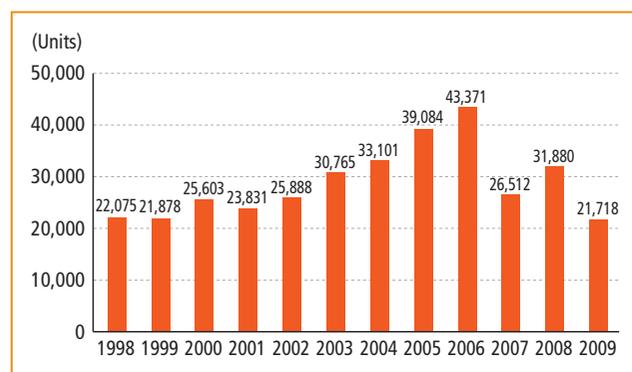
Sources: "Households and Population in Tokyo in Accordance with the Basic Register of Residents," Statistics Division, Tokyo Metropolitan Government Bureau of General Affairs, and "Report on Internal Migration in Japan," Statistics Bureau, Ministry of Internal Affairs and Communications

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



Sources: 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 60m<sup>2</sup> 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.

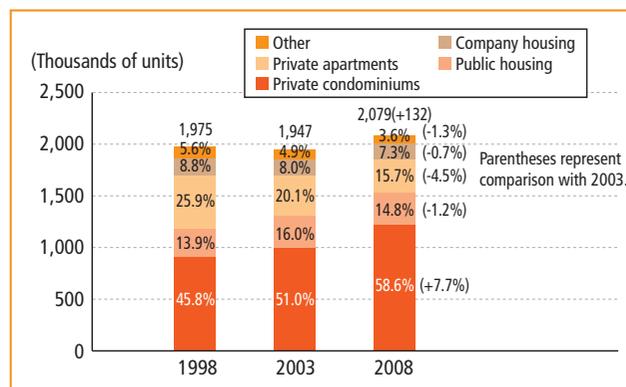
Rental housing stock volume for the 23 wards of Tokyo is shown in Graph 4. Stock increased by 132 thousand units to 2,079 thousand in 2008 from 1,947 thousand in 2003 with the increase in demand due to the population influx into Tokyo. However, the overall increase was moderate compared with the concurrent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

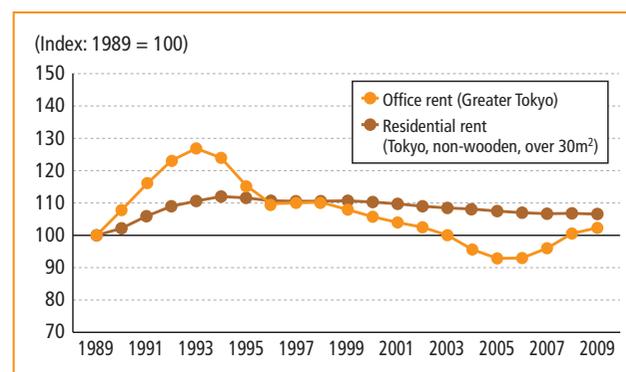
Graph 5 shows relative rents for non-wooden residential units over 30m<sup>2</sup> in the 23 wards of Tokyo and offices in Greater Tokyo, with 1989 levels set as 100. Residential rent has remained relatively stable in comparison to office rent. Rental housing is a necessary expense in the same way as 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)



### 5. Residential and Office Rents



## 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.

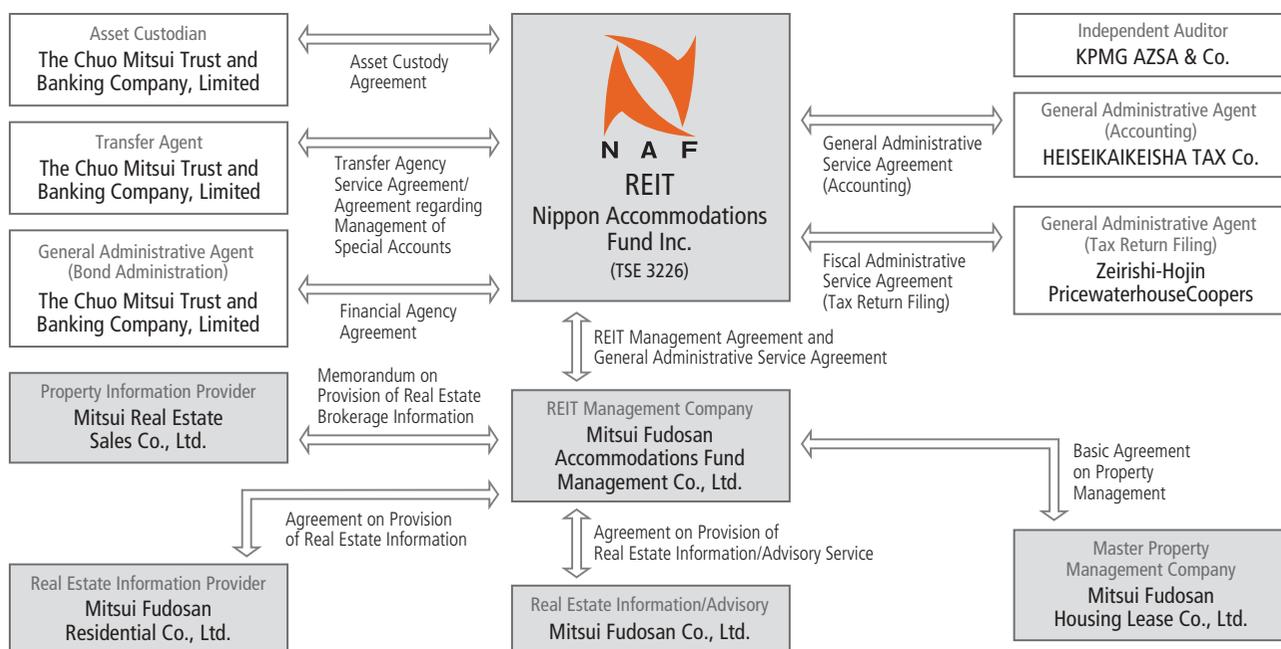
## Real Estate Investment Trust (“REIT”) Structure

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 & Co.

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.

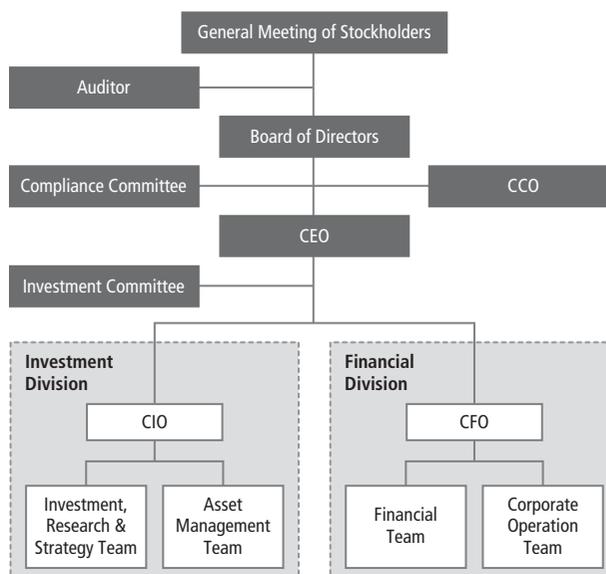
## Compliance Initiatives

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.

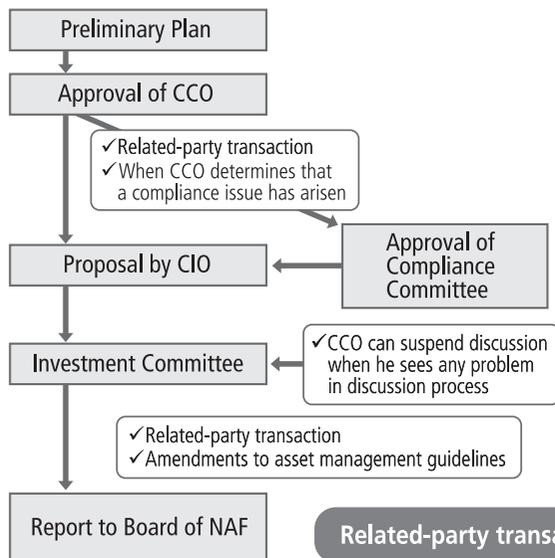
NAF’s Board of Directors convenes as needed at least once every three months, and resolves important matters and reports on the status of business execution in accordance with laws, regulations and internal rules for such Board of Directors. Independent supervisory directors supervise business execution.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

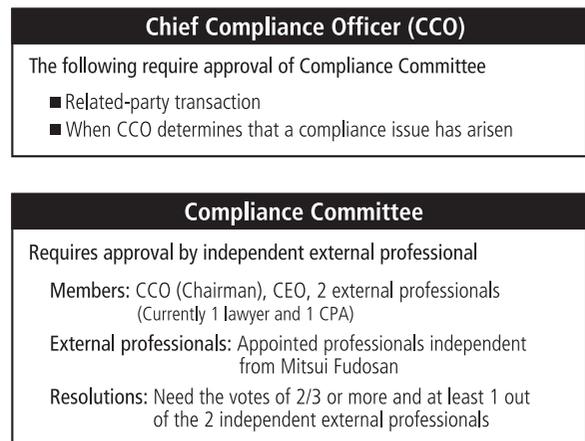
One of NAF’s executive directors has obtained approval from the regulator in accordance with the Investment Trust and Investment Corporation Act of Japan to serve concurrently as the President and CEO of the REIT Management Company, or MFAFM.

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.

\* Incorporated as a wholly owned residential sales subsidiary through a corporate split from Mitsui Fudosan Co., Ltd. in October 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. Nobuyuki Nakai, President & CEO of MFAFM, is concurrently an executive director of 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, approximately 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"> <li>1. Current residential environment in the relevant region and its mid-to-long-term forecast</li> <li>2. Demand and supply for rental housing and housing sales in the relevant region</li> <li>3. Rental housing competition trends in the relevant region</li> <li>4. Markets rents in the relevant region, including current rents and their mid-to-long-term forecast</li> <li>5. Discount rate and rate of return</li> </ol>
	Tenant survey	<ol style="list-style-type: none"> <li>1. Tenant creditworthiness and rent income amount</li> <li>2. Tenant information including tenant household status or industry, number or purpose of use</li> </ol>
	Survey of earnings and related issues	<ol style="list-style-type: none"> <li>1. Current property management costs and potential for cost reductions</li> <li>2. Development of proposals for increasing value through change in management manner or renovation</li> <li>3. Development of mid-to-long-term plan for repair and renovation expenses</li> <li>4. Development of property cash flow projections</li> <li>5. Verification that property is consistent with portfolio strategy</li> </ol>
Physical condition studies	Location	<ol style="list-style-type: none"> <li>1. Street conditions, access to major transportation</li> <li>2. Convenience and access to public facilities</li> <li>3. Status of borders between adjacent tracts and cross-border issues</li> <li>4. Living conditions including view, light, ambient noise and airflow</li> <li>5. Presence of unpleasant facilities</li> <li>6. Future development plans in the surrounding area</li> </ol>
	Construction, equipment and specifications	<ol style="list-style-type: none"> <li>1. Building structure, age and construction company of property and other related matters</li> <li>2. Layout, ceiling height, interior specifications (including ceiling, walls and floors), materials used for the interior and exterior, status of maintenance (or deterioration) of facilities including sanitary facilities, ventilation facilities, electrical facilities, elevators and parking</li> <li>3. Need for immediate repairs</li> </ol>
	Building management	<ol style="list-style-type: none"> <li>1. Status of compliance with related regulations including the Building Standards Law, the City Planning Law and the National Land Use Planning Law</li> <li>2. Actual management status</li> <li>3. Quality of the property management company and contract terms</li> </ol>

	Antiseismic resistance and probable maximum loss (PML)	<ol style="list-style-type: none"> <li>1. Antiseismic resistance that meets the New Earthquake Resistance Standards or equivalent resistance</li> <li>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.</li> <li>3. In principle, earthquake PML shall be below 15 percent. For buildings 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.</li> </ol>
	Environmental, soil and other issues	<ol style="list-style-type: none"> <li>1. Investigation of whether the building contains hazardous materials</li> <li>2. Investigation of land use records and soil contamination</li> </ol>
Legal investigation	Rights and related issues	<ol style="list-style-type: none"> <li>1. Issues regarding ownership interests and mortgage</li> <li>2. Lease contract terms</li> <li>3. Any documentation related to confirmation of border or agreement regarding cross-border issues</li> <li>4. Permission for occupancy of roads under the Traffic Law</li> <li>5. Compliance with laws and regulations related to environmental preservation, including the Nature Conservation Law and the Urban Green Space Conservation Law</li> </ol> <p>Investigation shall be conducted as to whether the previous owner had obtained the enforceable real right. 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"> <li>1. (If the concerned right is leasehold) the perfection of such leasehold and the absence of any right which supersedes such leasehold.</li> <li>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</li> <li>3. Measures to be taken to ensure the maintenance of deposits; reserve rules or measures based on long-term renovation plan</li> <li>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.</li> <li>5. Status of compartment of compartmentalized ownership.</li> <li>6. Security arrangements established prior to involvement of NAF and assumption of any encumbrances or obligations in connection thereto.</li> <li>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, including agreement regarding first refusal.</li> <li>8. Characteristics of owners of site (or leasehold originator), compartmentalized ownership holders, co-owners or other relevant parties (for example, corporations or individuals).</li> <li>9. Terms of trust agreement in case the relevant rights are beneficial interests in real estate trust.</li> </ol>

## 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 others in the region in which properties are located.

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. The upper limit for NAF's LTV ratio is currently set at 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 <a href="http://www.naf-r.jp/english/index.html">http://www.naf-r.jp/english/index.html</a>
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 & Co. AZSA Center Building 1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Investor relations	For further information, please contact the REIT Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd. 1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-0022, Japan +81-3-3246-3677

# Status of Unitholders

## Major Unitholders

(As of February 28, 2010)

Name	Number of Units Held	Percentage of Total*
Japan Trustee Services Bank, Ltd. (Trust Account)	21,049	13.47%
NCT Trust and Banking Corporation (Investment Account)	12,491	7.99%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	10,317	6.60%
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,672	6.19%
The Nomura Trust and Banking Co., Ltd. (Investment Account)	9,174	5.87%
Mitsui Fudosan Co., Ltd.	6,600	4.22%
State Street Bank and Trust Company	5,371	3.43%
AIG EDISON-GA NON DIMA	3,827	2.45%
The Chuo Mitsui Trust and Banking Company, Limited	3,600	2.30%
Sumitomo Mitsui Banking Corporation	3,590	2.29%

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

## Composition and Distribution of Unitholders

(As of February 28, 2010)

	Individuals and others	Financial institutions	Other domestic corporations	Overseas corporations and individuals	Securities companies	Total
Number of unitholders	8,530 (95.59%)	78 (0.87%)	171 (1.92%)	122 (1.37%)	22 (0.25%)	8,923 (100%)
Number of units held	23,262 (14.89%)	98,523 (63.08%)	12,071 (7.73%)	20,922 (13.40%)	1,400 (0.90%)	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 May 27, 2010 pursuant to the Financial Instruments and Exchange Law of Japan, and the Financial Statements and Performance Information Report for the period from September 1, 2009, to February 28, 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.



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