

April 19, 2016

## Financial Results for the Fiscal Period From September 1, 2015 to February 29, 2016

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

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### 1. Business Results for the Fiscal Period from September 1, 2015 to February 29, 2016

#### (1) Operating Results

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

	Total revenues		Operating income		Income before income taxes	
		(%)*		(%)*		(%)*
For the period ended						
<b>February 29, 2016</b>	<b>10,433</b>	<b>(0.0)</b>	<b>4,531</b>	<b>3.6</b>	<b>3,894</b>	<b>4.5</b>
August 31, 2015	10,435	3.0	4,372	(0.1)	3,725	1.1

  

	Net income		Net income per unit	Net income/ net assets	Income before income taxes/ total assets	Income before income taxes/ operating income
		(%)*	(yen)	(%)	(%)	(%)
For the period ended						
<b>February 29, 2016</b>	<b>3,893</b>	<b>4.5</b>	<b>8,035</b>	<b>2.8</b>	<b>1.3</b>	<b>37.3</b>
August 31, 2015	3,725	1.1	7,692	2.8	1.3	35.7

\* Percent figures show changes from previous period.

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

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/ net assets (%)
For the period ended						
<b>February 29, 2016</b>	<b>8,036</b>	<b>3,893</b>	—	—	<b>100.0</b>	<b>2.8</b>
August 31, 2015	7,688	3,725	—	—	100.0	2.7

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

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
<b>February 29, 2016</b>	<b>293,684</b>	<b>139,567</b>	<b>47.5</b>	<b>288,051</b>
August 31, 2015	295,644	139,398	47.2	287,703

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

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
<b>February 29, 2016</b>	<b>5,739</b>	<b>(319)</b>	<b>(5,722)</b>	<b>7,364</b>
August 31, 2015	5,922	(7,683)	1,208	7,666

## 2. Forecasts for the Fiscal Period from March 1, 2016 to August 31, 2016

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

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*		(%)*		(%)*		(%)*		(yen)	(yen)
For the period ending August 31, 2016	10,546	1.1	4,456	(1.7)	3,814	(2.1)	3,813	(2.1)	7,870	–

\* Percent figures show changes from previous period.

Note:

Projected net income per unit for the fiscal period ending August 31, 2016 is ¥7,870.

## 3. Other

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

(1) Changes due to revisions in accounting standards and others: None

(2) Changes other than in the above item (1): None

(3) Changes in accounting estimates: None

(4) Restatement: None

### 2. Total number of investment units issued

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

As of February 29, 2016: 484,522 units

As of August 31, 2015: 484,522 units

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

As of February 29, 2016: - units

As of August 31, 2015: - units

Disclaimer:

The above forecasts are based on information currently available to NAF and on certain assumptions deemed to be reasonable. Actual operations may differ substantially due to a number of factors. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

## **20th Period (February 2016) Overview of Investment**

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

No properties were acquired during the period under review, and NAF's assets under management at the end of the period under review were unchanged from the end of the previous period.

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

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. (Mitsui Fudosan Housing Lease Co., Ltd. changed its trade name to Mitsui Fudosan Residential Lease Co., Ltd. on April 1, 2016.) as master property management company (below, "Master PM") on management of NAF's rental apartments portfolio. The company and the asset management company collaborate in the management of properties NAF owns with the aim of implementing effective management and operational activities based on regional characteristics and the individual features of each property. These include efforts such as speedy management and operations by the Master PM by applying the portfolio management system, the tenant recruiting activities suited to the circumstances of individual properties, the streamlining efforts such as reduction of management cost, etc., and providing tenants the "accommodation" services by corresponding to various needs based on the results of resident questionnaires.

In order to maintain and improve the competitiveness of NAF's portfolio, operations are adequately planned and carried out at the asset management company. These include appropriate renewal work according to the property age, and work to enhance the property value at Okawabata Apartment Communities, which is one of the core properties of NAF. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities in a timely manner.

In the period under review, NAF carried out renovations in private areas at Okawabata Apartment Communities and common areas at Park Cube Nishigahara Stage. Changes implemented at other properties include reviews of contract capacity for electricity through the introduction of controllable circuit breakers, and work to change the lighting in common areas to LED lighting.

### **Financial Strategy (Overview of funds procurement)**

One of NAF's basic policies is to carry out operations, while paying attention to risk factors and market trends, in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. Based on this policy, during the period under review, while taking into account market trends and interest rate levels, NAF refinanced its existing loans and repaid ¥2,000 million of its loans. As a result, at the end of the period, total interest-bearing debt amounted to ¥147,500 million, the long-term debt ratio was 96.6%, the fixed-rate debt ratio was 96.6%, the LTV (loan-to-value) ratio was 50.2%. The average annual current maturity of long-term interest-bearing debt was 4.3 years and the number of financial institutions was 21. Furthermore, the weighted average interest rate at the end of the period was 0.84%.

NAF has also established a commitment line with a total maximum borrowing amount of ¥10,000 million, for the purpose of securing flexible and stable fund procurement methods.

With respect to financing through investment corporation bonds, NAF filed a shelf-registration

statement regarding its establishment of a maximum issuance amount for investment corporation bonds for public offering in July 2015. The remaining balance of the planned issuance amount at the end of the period is ¥100,000 million.

Planned issuance amount	Up to ¥100,000 million
Scheduled period of issuance	From July 18, 2015 to July 17, 2017
Purpose for funds	Acquisition of specified new assets (as defined in Article 2, Paragraph 1 of the Act on Investment Trusts and Investment Corporations), repayment of borrowings, redemption of investment corporation bonds, repayment of tenant security deposits, payment for maintenance and renovations, and operational use

Rating of NAF as of February 29, 2016 is as follows.

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

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

In the period under review, NAF recorded total revenues of ¥10,433 million, operating income of ¥4,531 million, income before income taxes of ¥3,894 million and net income of ¥3,893 million. In addition to the above, NAF has decided to distribute nearly the entire amount of earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥8,036.

### **Management Policy and Issues for the 21st Period Onward**

NAF has always aimed to maximize its unitholder value through investments in "Accommodation Assets" and utilization of the Mitsui Fudosan Group as well as formulation and management of a high quality portfolio centered on "Rental Apartments" located in the 23 wards of Tokyo. From the 21st period onward, we aim to manage our portfolio stably based on the above-mentioned policies and further maximize the unitholder value by achieving internal and external growth expectations.

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

We will strive to obtain the best real estate information possible by utilizing our pipeline to the Mitsui Fudosan Group and fortifying the asset management company's unique information channel. Our basic strategy will be to stably expand our portfolio based on the acquisition of Park Axis Series developed by the Mitsui Fudosan Group in addition to Park Cube Series constructed by companies outside the Mitsui Fudosan Group. Moreover, we will work to steadily acquire

properties considered to possess mid- to long-term competitive advantages through NAF's individual strategies such as enhancing our portfolio within the 23 wards of Tokyo and other parts of the Tokyo area, mainly with single-occupant and compact residential properties for which a high occupancy rate is expected, and carefully selecting properties for investment in major cities of regional areas. We will also consider making investments in "Equity Interests in Anonymous Partnerships relating to Real Estate" or "Real Estate-Backed Securities" (including obtaining first refusal rights) for such purposes as securing opportunities of property acquisitions.

The main part of NAF's acquisition strategy continues to be stable acquisition of "Rental Apartments". However, we will continue making acquisitions of "Dormitories" and "Student Apartments", "Corporate Housing" and "Senior Residences", as the investment market in "Other Accommodation Assets" appears to have matured. In the management of its portfolio, NAF has set the upper limit of the share of "Other Accommodation Assets" in the overall portfolio to around 10% on an acquisition price basis for the time being. The share of "Other Accommodation Assets" in the overall portfolio was 3.6% at the end of the 20th period.

We will also continue to work towards achieving high quality due diligence at acquiring properties in order to avoid risks.

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

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

Further, NAF will collaborate with the Mitsui Fudosan Group to establish brand power by concentrating on the "Park Axis" brand, NAF's main investment asset to penetrate the market and further enhance brand recognition in the rental housing market.

### **Financial Strategy**

NAF will emphasize the continued use of long-term, fixed-rate loans by taking measures to counter future interest rate and refinancing risks. With respect to the upper limit of LTV (loan-to-value) ratio, although the limit is set at around 60% in the asset management guidelines, NAF is aiming for a near-term upper limit at a level of around 55% in its external growth process. NAF will examine the necessity of issuance of new units by paying attention to market trends and distribution amount levels, and taking into consideration the demand for funds for the purpose of property acquisition, as well as our financial position. Additionally, NAF will examine future issuances of investment corporation bonds in accordance with market trends, within the range of the remaining balance of planned issuance amount for which shelf-registration of NAF bonds has been carried out.

## **Significant Subsequent Events**

Not applicable

### **(Reference information)**

The following asset was acquired on March 30, 2016. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

#### **Dormy Nishi Ogikubo**

Acquisition price:	¥1,100 million
Appraised value:	¥1,140 million (date of value appraisal: March 1, 2016)
Type of property:	Real estate
Location (residence indication):	5-16, Nishiogi-kita 4-chome, Suginami-ku, Tokyo
Completion date:	March 21, 1992
Structure/Number of stories:	Flat-roofed reinforced concrete structure/5 stories with 1 underground story
Rentable units:	71
Rentable area:	1,181.91 m <sup>2</sup>
Seller:	Not disclosed as the consent from the seller has not been obtained.

The following assets were acquired on April 7, 2016. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

#### **Park Axis Magome Residence**

Acquisition price:	¥1,450 million
Appraised value:	¥1,460 million (date of value appraisal: February 29, 2016)
Type of property:	Real estate
Location (residence indication):	5-16, Minami-magome 1-chome, Ota-ku, Tokyo
Completion date:	August 29, 2014
Structure/Number of stories:	Flat-roofed reinforced concrete structure/5 stories
Rentable units:	55
Rentable area:	1,621.94 m <sup>2</sup>
Seller:	Mitsui Fudosan Residential Co., Ltd.

Park Axis Higashi Ueno

Acquisition price: ¥1,250 million

Appraised value: ¥1,270 million

(date of value appraisal: February 29, 2016)

Type of property: Real estate

Location (residence indication): 27-3, Higashi-ueno 6-chome, Taito-ku, Tokyo

Completion date: January 30, 2015

Structure/Number of stories: Flat-roofed reinforced concrete structure/13 stories

Rentable units: 45

Rentable area: 1,460.10 m<sup>2</sup>

Seller: Mitsui Fudosan Residential Co., Ltd.



## **Forecasts of Investment Performance**

The forecasts for the 21st period (from March 1, 2016 to August 31, 2016) are as follows.

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

	21st period (August 2016)
Total revenues	10,546
Operating income	4,456
Income before income taxes	3,814
Net income	3,813
Distribution per unit (not including distributions in excess of earnings) (yen)	7,870
Distribution in excess of earnings per unit (yen)	—

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

**Number of operating days:** -From March 1, 2016 to August 31, 2016 (184 days)

**Investment assets:** -The number of properties held by NAF as of the date of this document is 119. In the forecasts of investment performance, it is assumed that no subsequent transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until August 31, 2016.

-The average month-end occupancy rate during the 21st period for total properties is expected to be 96.0%.

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

*(in millions of yen)*

	21st period
Fixed property taxes and urban planning taxes	585
Depreciation and amortization	2,067
Interest expense and interest expenses on investment corporation bonds	638
Amortization of investment unit issuance expenses	4

**Interest-bearing debt:** - It is assumed that NAF's balance of interest-bearing debt that is ¥151,000 million as of the date of this document shall not change until August 31, 2016.

**Number of units issued:** - We assume 484,522 units outstanding as of the date of this document.  
- It is assumed that, there shall be no issuance of new units until August 31, 2016.

The forecasts are the figures calculated based on the above assumptions at the time of preparation of this information. Therefore, actual total revenues, operating income, income before income taxes, net income and distribution per unit may change due to future acquisitions or sale of investment assets, fluctuation in the real estate market or other changes in the environment in which NAF operates. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

*Disclaimer:*

*This financial report has been prepared in accordance with Japanese accounting standards and Japanese laws. Figures have been rounded down to eliminate amounts of less than one million yen.*

*Please note that this English translation, a summary of the Japanese original document, is provided solely for informational purposes. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.*