

Jun 18, 2015

R&I Affirms AA-, Stable: Nippon Accommodations Fund Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Nippon Accommodations Fund Inc.
Issuer Rating: AA-, Affirmed
Rating Outlook: Stable

RATIONALE:

Nippon Accommodations Fund Inc. (NAF) is a real estate investment trust (J-REIT) that went public in August 2006. The REIT invests in "accommodation assets", which are primarily rental apartments but also include dormitories, student apartments, serviced apartments, senior residences and corporate housing. Mitsui Fudosan Co., Ltd. serves as a sponsor.

After the public offering in March 2015, NAF acquired four new properties including "Park Axis" brand rental apartments for a total of 7.1 billion yen. The asset size has expanded to 294.9 billion yen.

Because of intense competition, the pace of property acquisitions has been slowing down. Given the sponsor's abundant pipeline of properties, however, NAF will fully be able to continue acquiring a certain number of properties through careful selections.

Of NAF's rental apartment assets, 87.5% are located in Tokyo's 23 wards. Most of them are large buildings priced at 2.7 billion yen on average at the time of acquisition. The average building age of approximately 9.5 years (as of end-February 2015) shows that NAF has kept its portfolio quality at high levels. The REIT has a very diverse portfolio, with the number of rentable units exceeding 10,000.

While the occupancy rate (rental apartments only) is trending high at more than 95%, the rate of change of the unit rent turned positive in the latest term, for the first time since the collapse of Lehman Brothers. Thanks to the sustained influx of population into Tokyo's 23 wards as well as a low level of new apartment supply, the supply-demand balance of rental apartments remains favorable. R&I believes NAF's competitive properties will keep performing well.

In the process of external growth, its short-term upper limit of the LTV ratio is set at 55%. This suggests that its leverage is somewhat high as with the case of other residential REITs. After the above-mentioned public offering, however, the LTV fell to about 51%. With the appraisal value rising, unrealized gains are growing.

NAF has stable funding sources, most of which being long-term, fixed-rate loans from major domestic financial institutions. The average remaining term of long-term debts is 4.9 years (as of end-February 2015), with due dates staggered. Financing costs are also lower compared to those of other REITs.

The Rating Outlook is Stable. NAF intends to continue acquiring properties, particularly large buildings located in Tokyo's 23 wards where tenant demand is robust, with a focus on those developed by the sponsor in recent years. The REIT is thereby expected to maintain portfolio quality and the high occupancy rate. Its leverage is controlled below the target level, and the funding base is solid.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:

ISSUER: Nippon Accommodations Fund Inc. (Sec. Code: 3226)
Issuer Rating
RATING: AA-, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 30, 2010	Jul 29, 2016	JPY 7,000
RATING:	AA-, Affirmed		

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