

Jun 07, 2023

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 (REIT) that went public in 2006. NAF invests primarily in rental apartments located in Tokyo 23 wards. The sponsor is Mitsui Fudosan Co., Ltd.

NAF has been investing continuously in the rental apartments of the "Park Axis" series developed by the Mitsui Fudosan Group. The asset quality is sound, with 88.5% of NAF's rental apartments located in Tokyo 23 wards and the average age of properties standing at 16.2 years as of February 2023. The portfolio is well diversified, with the asset size reaching approximately 340 billion yen, as well as approximately 13,000 units under management.

During the fiscal period ended February 2023, the average month-end occupancy rate recovered to 97.0% and the rent change rate at tenant turnover was positive at 3.5% on average. NAF has seen improvement in tenant demand for single type units, continuing to show strong performance in the categories of family- and large-type units simultaneously, thanks to the revival of population inflow into Central Tokyo following the downturn during the COVID-19 pandemic. As there is no particular factor of concern in terms of asset management at this point, NAF will continue to generate stable cash flows, in R&I's view.

While NAF has not acquired any new property in the past year, it will likely achieve steady external growth even under the unfavorable environment for property acquisition, given the rich pipeline properties developed by sponsor.

As for "Okawabata Apartment Communities", or NAF's largest property, it is making value-enhancement investments for private areas and has realized huge rent increases. NAF also plans to conduct large-scale renovation works to maintain or improve the competitiveness of other properties, which are increasingly comprised of properties of over 15 years in age. Among the ESG initiatives, NAF is adopting LED lightings proactively and striving to obtain green building certificates.

The LTV ratio as of February 2023 was 51.5%, on a par with other REITs focusing on residential properties. The unrealized gains have increased considerably to 49.1% of the book value and the LTV ratio is low on an appraisal-value basis. NAF has been raising stable funds primarily through long-term fixed-rate loans provided by major domestic financial institutions, and the average remaining term of long-term debts is long at 4.7 years with the staggered due dates. Backed by the sponsor's strong creditworthiness, NAF is better positioned than other J-REITs in terms of funding costs.

The Rating Outlook is Stable. NAF has built up a quality portfolio by investing intensively in the sponsor's properties located in Tokyo 23 wards. The occupancy rate has recovered nearly to the pre-pandemic level and the outlook for cash flows is stable. The leverage level is controlled within NAF's own benchmark range and the funding base is solid.

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

https://www.r-i.co.jp/en/rating/about/rating_method.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.3	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 16, 2020	Jul 16, 2025	JPY 2,000

RATING: AA-, Affirmed

Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 16, 2020	Jul 16, 2030	JPY 2,000

RATING: AA-, Affirmed

Unsec. Str. Bonds No.5	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 30, 2021	Sep 28, 2029	JPY 1,000

RATING: AA-, Affirmed

Unsec. Str. Bonds No.6	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 30, 2021	Sep 30, 2031	JPY 2,000

RATING: AA-, Affirmed

Unsec. Str. Bonds No.7	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 30, 2021	Sep 30, 2036	JPY 1,000

RATING: AA-, Affirmed