

**Rating Action: Moody's changes Nippon Accommodation Fund's rating outlook to positive; affirms A3 rating**

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Tokyo, December 15, 2015 -- Moody's Japan K.K. has changed to positive from stable the outlook for Nippon Accommodations Fund Inc.'s (NAF) A3 ratings.

At the same time, Moody's has affirmed NAF's A3 long-term senior unsecured rating and A3 issuer rating.

**RATINGS RATIONALE**

The positive rating outlook reflects NAF's improved level of cash flow stability -- a result of its steadily expanding and diversified portfolio -- as well as its strengthened level of financial management, with good access to the capital market, and improved liquidity.

The positive rating outlook also reflects Moody's expectation that NAF will continue to adopt a conservative approach in its fiscal management and in maintaining financial stability, through collaboration with its sponsor, Mitsui Fudosan Co., Ltd. (issuer rating: A3 positive).

NAF's net debt/EBITDA was approximately 11.0x in August 2015.

Moody's will assess, on an ongoing basis, the effects on NAF's debt and leverage of any new property purchases.

At end-August 2015, its investment portfolio was valued at approximately JPY294.9 billion, up from approximately JPY223.9 billion at end-August 2011.

Accordingly, NAF is very close to achieving its mid-term milestone of JPY300 billion in assets.

NAF has a well-diversified portfolio with 11,558 units, up from 8,722 at end-August 2011, and maintains a high average occupancy rate of 96%.

Moody's expects it to continue generating stable cash flow.

NAF's average remaining debt term improved to 4.6 years in August 2015 from 3.1 years in August 2011, and the company thereby enhanced its stability in refinancing. In addition, long-term-debt/total-debt was approximately 97% at end-August 2015, while fixed-interest debt/long-term debt was around 100%.

NAF's liquidity coverage ratio at end-August 2015 was above 150%, indicating a very high level of liquidity.

Furthermore, its strong relationships with its lenders, backed by its sponsor, also strengthen its liquidity profile. In addition, NAF has continued to level the tenors of its debt maturities, thus increasing its financial flexibility.

A decrease in leverage, increase in rents and growth in its portfolio could lead to upward rating pressure. For example, if net debt/EBITDA decreases below 10.0x with good prospect of remaining at these lower level, and debt/gross assets remains around 50%, then NAF's rating could be upgraded.

On the other hand, factors that could lead to a downgrade include: (1) a deterioration in portfolio cash flows, and (2) a higher level of financial leverage. For example, NAF's rating would be downgraded if net debt/EBITDA and debt/gross assets increase above 12.0x and 55%, respectively.

In October 2015, it had emerged that some foundation piles for a condominium building in the city of Yokohama were faulty. These condominiums had been sold by Mitsui Fudosan Residential Co., Ltd.(unrated), a fully-owned subsidiary of Mitsui Fudosan.

On 16 November 2015, NAF announced that it had also received confirmation from the seller of one of NAF's properties that data on one pile had been falsified.

At the same time, NAF was notified by the seller that the building was judged to be safe as the pile in question had

been installed at a sufficient depth.

Therefore, Moody's believes that it is unlikely that this incident will significantly and negatively affect NAF's credit profile. But, we will continue to monitor the impact of these incidents.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms (Japanese) published in October 2010. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

Nippon Accommodations Fund Inc., headquartered in Tokyo, is a J-REIT which listed in August 2006. At end-August 2015, its investment portfolio consisted of 116 residential properties with 11,558 units and valued at approximately JPY294.9 billion. Its operating revenue for the fiscal half-year ended August 2015 totaled JPY10.4 billion.

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