

Jun 08, 2017

## 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 that went public in August 2006. The REIT invests primarily in rental apartments in Tokyo's 23 wards. Mitsui Fudosan Co., Ltd. serves as a sponsor.

NAF invests in properties such as the "Park Axis" series developed by the Mitsui Fudosan Group. NAF's rental apartments, of which 87.6% are located in Tokyo's 23 wards, are mostly relatively new as shown by the average property age of 11.4 years (as of end-February 2017). The REIT has a very diverse portfolio, with an asset size of 300 billion yen.

Because of intense competition for acquisitions, the pace of portfolio expansion is slowing down. Given the sponsor's abundant pipeline, however, NAF will likely be able to continue acquiring a certain number of properties.

With partial amendments to the Articles of Incorporation in May 2017, the REIT added hotels to its investment targets, aiming to take investment opportunities more flexibly, particularly for mixed-use properties. Since there are no changes in its basic policy that rental apartments should account for 90% or more of the portfolio, the stability of the portfolio is unlikely to be affected, in R&I's view.

The average occupancy rate during the period ended February 2017 was high at 96.8%, and unit rent rates are on the rise, albeit gradually. 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 properties will keep performing well.

In the process of external growth, the upper limit of the LTV ratio will be set at 55% for the foreseeable future. This suggests that NAF's leverage is somewhat high as is the case with other residential REITs. That said, the LTV was about 50% during the last four periods, a lower level than past records. 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 4.2 years (as of February 2017), with due dates staggered. Financing costs are also low compared to those of other REITs.

The Rating Outlook is Stable. NAF has a quality portfolio mainly consisting of properties developed by the sponsor in Tokyo's 23 wards and enjoys highly stable earnings. 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**

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