

January 29, 2019

To All Concerned Parties

Issuer of Real Estate Investment Trust Securities
4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027
Nippon Accommodations Fund Inc.
Executive Director Takashi Ikeda
(Code Number 3226)

Investment Trust Management Company
Mitsui Fudosan Accommodations Fund Management Co., Ltd.
President and CEO Tateyuki Ikura
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Notification Concerning Acquisition of Domestic Real Estate Property (Chisun Hotel Hiroshima)

This is a notification that Mitsui Fudosan Accommodations Fund Management Co., Ltd., an investment trust management company, which has been commissioned by Nippon Accommodations Fund Inc. (“NAF”) to manage its assets, decided on the acquisition of real estate properties in Japan as shown below.

1. Reason for acquisition

Based on the provisions for investments and policies on asset management provided in the Articles of Incorporation, the decision to acquire the following property was made to ensure the steady growth of assets under management, and for the diversification and further enhancement of the investment portfolio.

2. Overview for acquisition

(1) Name of property to be acquired	Chisun Hotel Hiroshima
(2) Type of property to be acquired	Real estate
(3) Planned acquisition price (Note 1)	¥1,880,000 thousand
(4) Appraised value (Note 2)	¥1,910,000 thousand
(5) Date of conclusion of sale contract	January 29, 2019
(6) Planned date of handover	May 30, 2019 (Note 3)
(7) Seller	Not disclosed (Note 4)
(8) Acquisition funds	Borrowings and own funds
(9) Method of payment	Deposit of ¥188,000 thousand upon conclusion of contract (Note 5) Remaining amount upon delivery

(Note 1) “Planned acquisition price” denotes the trading value (exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes) specified in the real estate sale contract for the property to be acquired.

(Note 2) “Appraised value” is based on the amount mentioned in the real estate appraisal report (date of value appraisal on November 30, 2018) which Daiwa Real Estate Appraisal Co., Ltd. prepared for the property to be acquired.

(Note 3) Planned date of handover may be changed to a date which the buyer and the seller agree on separately.

(Note 4) Not disclosed as the consent from the seller has not been obtained.

(Note 5) The deposit will not bear interest and will be allocated to part of payment upon settlement. It is not a deposit to allow for cancellation. Furthermore, as a measure of protection, domestic financial institution jointly guarantees the return obligation of the deposit.

3. Description of the property acquired

(1) Outline of the property acquired

Name of property to be acquired		Chisun Hotel Hiroshima
Type of property to be acquired		Real Estate
Appraisal company		Daiwa Real Estate Appraisal Co., Ltd.
Appraised value (Note 1)		¥1,910,000 thousand
Date of value appraisal (Note 1)		November 30, 2018
Location	Residence indication	14-7 Nobori-cho, Naka-ku, Hiroshima-shi, Hiroshima
Land	Building-to-land ratio (Note 2)	80%
	Floor-area ratio (Note 2)	900%
	Zoning	Commercial district
	Site area (Note 3)	724.13 m ²
	Ownership form	Proprietorship
Building	Completion date (Note 4)	November 22, 1986
	Structure / Number of stories (Note 5)	Flat-roof steel frame reinforced concrete structure / 11 stories
	Use (Note 5)	Hotel
	Gross floor area (Note 5)	4,275.59 m ²
	Ownership form	Proprietorship
	Number of guestrooms	170
	Rentable area	4,275.59 m ²
Existence of security interests		A revolving mortgage for the land and structure of the property is planned to be released by the delivery date at the responsibility and expense of the seller.
Special affairs (Note 6)		<ul style="list-style-type: none"> • Although the property presently does not satisfy the obligatory number of parking spaces, the seller has agreed, in the real estate sale contract for the property, to secure a parking lot with a sufficient number of parking spaces required within the property by the handover date at the expense and under the responsibility of the seller. • The part of the borderline between the land for the property and the adjoining land is not confirmed. • Under the fixed-building lease agreement for the property, when the lessor intends to sell the property, the lessee holds the preferential negotiation right for preemption (including negotiation by an agent) to the lessor.

Special features of the property	The property is a hotel specialized in lodging, located a 14-minute walk from JR Hiroshima Station and close to Kanayama-cho Station on the Hiroshima Electric Railway. Access to major sightseeing spots in Hiroshima such as Peace Memorial Park and Atomic Bomb Dome is convenient by using the Hiroshima Electric Railway which goes to various locations in central Hiroshima. Furthermore, given the close proximity of the Hacchobori/Kamiya-cho area where department stores and shops as well as office buildings, etc. are concentrated, and the Nagarekawa-cho/Yagenbori area where restaurant buildings are concentrated, the property stands in a location capable of attracting business persons and tourists. The property has a total of 170 guestrooms: 143 single rooms and 27 twin rooms. A wide range of services is offered to respond mainly to the needs of business persons and also to those of foreign visitors and other leisure travelers, including a directly-operated restaurant on the first floor serving breakfast and lunch and four meeting rooms, some of which can be partitioned, on the second floor.
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Details of tenants (Note 7)	Total number of tenants	1
	Number of guestrooms	170
	Rentable area	4,275.59 m ²
	Rented area	4,275.59 m ²
	Occupancy rate	100.0%
	Deposit / Security deposit	¥76,000 thousand
	Total rental revenues	¥10,200 thousand

(Note 1) "Appraised value" and "date of value appraisal" are based on the real estate appraisal report prepared by Daiwa Real Estate Appraisal Co., Ltd. for the property to be acquired.

(Note 2) "Building-to-land ratio" is the ratio of the building's construction area to the site area as stipulated in Article 53 of the Building Standards Act, and the figure stipulated by city planning in accordance with zoning, etc. is indicated. "Floor-area ratio" is the ratio of the building's gross floor area to the site area as stipulated in Article 52 of the Building Standards Act, and the figure stipulated by city planning in accordance with zoning, etc. is indicated.

(Note 3) "Site area" denotes the land area included in the register.

(Note 4) "Completion date" of the building denotes the date included in the register.

(Note 5) "Structure / Number of stories," "uses," and "gross floor area" are based on the description in the register.

(Note 6) "Special affairs" include issues considered to be important by NAF as of today, with consideration of influence on the rights, uses, and appraisal values as well as profits of the property to be acquired.

(Note 7) Explanation on "details of tenants"

(i) "Total number of tenants" is denoted as "1" where a master lease agreement (blanket lease agreement) has been concluded with the lessee. As to the property to be acquired, a fixed-term building lease agreement has been concluded with the Seller as the lessor and SHR Hotel Lease Co., Ltd. as the lessee, and NAF shall succeed the status of the seller as a lessor on the handover date. The above "Total number of tenants" is denoted as "1" indicating the number of said lessee.

(ii) "Rentable area" denotes the total area of the building that can be rented within the properties to be acquired.

(iii) "Rented area" and "Deposit / Security deposit" are based on the fixed term building lease agreement.

(iv) "Occupancy rate" denotes the ratio of the "rented area" against the "rentable area" and the figures are rounded to one decimal place.

(v) "Total rental revenues" denotes monthly rent (fixed rent) stated in the fixed term building lease agreement.

(2) Effect on NAF's financial position in the event of inability to execute forward commitments, etc.

The property to be acquired is applicable to forward commitments (Note) by investment corporations as provided for in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. defined by the Financial Services Agency.

In the event of a violation of the terms and conditions of any sales contract related to the above property

(the “Sales Contract”) made by NAF or the seller, the counterparty may cancel the Sales Contract and claim, as a penalty, an amount equivalent to 20% of the trading value of the property whose contract was cancelled.

Note: Refers to the postdated sales contract under which payment and delivery shall be made at least one month after the conclusion of the contract, or any other contract similar thereto.

(3) Outline of investigations into the state of the building, etc.

Investigations into the state of building	Consigned investigating company	Tokio Marine & Nichido Risk Consulting Co., Ltd.
	Investigation report date	January 21, 2019
	Urgent repair cost	—
	Short-term repair cost	—
	Repair and renewal costs expected to be necessary within 12 years	¥185,308 thousand
	Replacement value	¥1,140,000 thousand
Earthquake risk diagnosis	Consigned investigating company	Tokio Marine & Nichido Risk Consulting Co., Ltd.
	Investigation report date	January 21, 2019
	PML value (Note)	6.4%

(Note) The report on earthquake risk diagnosis only states the views of the consigned investigating company and does not provide any guarantee for its contents. PML (Probable Maximum Loss) value represents the rate of probable maximum loss to be caused by earthquakes. In this case, it means the extent of damage to be caused by one of the biggest earthquakes anticipated to happen within the expected duration of service (the biggest earthquake which happens once every 475 years = 10% chance of a big earthquake happening once every 50 years) represented by the rate (%) of the estimated cost of restoration from the damage to the replacement cost.

Profile of third-party investigative body

Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Address	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo
Representative	Taizo Shimakura, President and Chief Executive Officer
Description of principal operations	Research, study, provision of information, assessment, consulting, holding of seminars, publishing, provision of training, etc. on security, disaster prevention, sanitation, environment, product safety and information management, etc.
Capital	¥100 million
Relationship with NAF or the investment trust management company	None

4. Outline of seller

The sellers are a domestic business corporation and several individuals, but information is not disclosed as consent has not been obtained. There are no capital, personal or business relationships to report between the sellers and NAF, the investment trust management company, or any related parties or associated companies of NAF or the investment trust management company. Moreover, the sellers do not fall under the category of related parties of NAF or the investment trust management company.

5. Situation of the acquirer of the property

The property to be acquired is not an acquisition from a party classified as having a relationship of special interest with NAF or the investment trust management company, therefore the situation of the acquirer is not stated.

6. Outline of brokerage

(1) Outline of broker

Name	Mitsui Fudosan Realty Co., Ltd.
Address	3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo
Representative	Yasuhiko Yamashiro, President and Chief Executive Officer
Description of principal operations	Real estate brokerage services for individuals, real estate brokerage services for business corporations, parking lot business, insurance agency services, etc.
Capital	¥20,000 million
Date of establishment	July 15, 1969
Relationship with NAF or the investment trust management company	There are no capital, personnel or business relationships to report between the broker and NAF, the investment trust management company, or any related parties or associated companies of NAF or the investment trust management company. The broker does not fall under the category of a related party of NAF. Moreover, the broker is a subsidiary of Mitsui Fudosan Co., Ltd., the parent company of the investment trust management company.

(2) Amount of brokerage fee

¥56,460 thousand (Excluding consumption taxes and local consumption taxes)

7. Transactions with related parties and the like

Since Mitsui Fudosan Realty Co., Ltd., the broker, corresponds to related parties and the like (see Note), the conclusion of the general brokerage agreement has been carried out through deliberation and approval by the compliance committee and deliberation and decision by the investment committee of the investment trust management company, in accordance with NAF's self-established rules on asset management relevant to transactions with related parties and the like.

(Note) "Related parties and the like" means related parties and the like of an investment trust management company which has concluded an asset management contract with NAF, as determined in the Order for Enforcement of the Act on Investment Trust and Investment Corporation, Article 123.

8. Earthquake resistance matters

NAF outsourced the inspection and verification of the details of earthquake-resistant structures of the property to be acquired and, for the building of the property to be acquired, obtained confirmation that the structure of the building ensures earthquake resistance as per the Building Standards Act.

In addition, NAF entrusts earthquake risk diagnosis to the third-party investigating company to review drawings using structural design drawings, structural calculation sheets, etc. and the like during the course of due diligence upon acquisition of properties, besides building certification investigations performed by an inspection and certification agency.

9. Outlook for management after acquisition of the property

The acquisition will have no impact on NAF's financial results for the period ending February 28, 2019 (26th Period: September 1, 2018 to February 28, 2019) as the acquisition is planned for May 30, 2019.

The outlook for NAF's financial results for the period ending August 31, 2019 (27th Period: March 1, 2019 to August 31, 2019) after the acquisition will be disclosed at the time when the financial results for the period ending February 28, 2019 are announced (scheduled for the middle of April 2019) with due consideration of the status of operations for the entire portfolio.

10. Summary of appraisal report

Appraised value	¥1,910,000 thousand
Appraisal company	Daiwa Real Estate Appraisal Co., Ltd.
Date of value appraisal	November 30, 2018

(Unit: Thousands of yen)

Item	Details	Summary, etc.
Value of earnings	1,910,000	Calculated the value of earnings through the income approach, judging the appropriateness of the value of earnings found by the discounted cash flow method has been verified with the value of earnings found by the direct capitalization method.
Value calculated by the direct capitalization method [(4)+(5)]	1,910,000	
(1) Operating revenues [(a)-(b)]	122,400	
(a) Potential gross revenue	122,400	Appraised based on the contract rent after taking into account the rent-paying capacity and medium- to long-term competitiveness of the subject hotel.
(b) Vacancy loss, etc.	0	Not posted as tenancy is recognized to be stable over the medium to long term considering the individual characteristics including the tenant attribute and contract terms.
(2) Operating expenses [(c)+(d)+(e)+(f)+(g)+(h)+(i)+(j)]	15,843	
(c) Maintenance expenses	0	Not posted assuming the expenses will be borne by the lessee.
(d) Utilities expenses	0	Not posted assuming the expenses will be borne by the lessee.
(e) Repair expenses	1,936	Posted based on the engineering report.
(f) Property management fees	1,800	Posted based on the level of PM fees of similar real estate.
(g) Tenant soliciting fees, etc.	0	Tenant soliciting fees for tenant replacement not posted, assuming a long-term tenancy.
(h) Taxes and public dues	11,591	Appraised based on the actual amount in fiscal 2018, etc.
(i) Property insurance fees	276	The amount is posted assuming the estimate to be appropriate.
(j) Other expenses	240	Posted based on the estimate for facility maintenance inspection expenses.
(3) Net operating income [(1)-(2)]	106,556	
(k) Earnings from temporary deposits	760	Appraised assuming an investment yield of 1.0% after comprehensively taking into account the management status, etc. of temporary deposits.
(l) Capital expenditures	13,506	Posted based on the engineering report.
(4) Net income [(3)+(k)-(l)]	93,810	
(5) Cap rate	4.9%	Appraised making reference to the cap rate of similar real estate, etc. after taking into account the recent market trends for hotel assets.
Value calculated by discounted cash flow method	1,910,000	
Discount rate	4.7%	Appraised using the comparison with discount rates of transactions of similar real estate and yields of other financial instruments, etc.
Terminal cap rate	5.1%	Appraised taking into account the marketability, etc. of the subject real estate at the end of the holding period subject to the cap rate.
Cost method value	1,800,000	
Land ratio	88.5%	
Building ratio	11.5%	

Other items considered by the appraisal company in making the appraisal	—
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* NAF's website: <https://www.naf-r.jp/english/>

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

<Attached Documents>

1. Portfolio status after the purchase of the property to be acquired
2. Photos of the property to be acquired and map of the area

<Attached Document 1> Portfolio status after the Acquisition

Total Planned Acquisition Price	¥308,222 million
Number of Investment Properties	125 properties
Total Rentable Units (including retail units)	12,356 units

Proportion of Investment in Assets

	Planned Acquisition Price (Note 1)	Portfolio Share (Note 2)
Rental Apartments	¥292,333 million	94.8%
Hospitality Facilities	¥15,889 million	5.2%
Grand Total	¥308,222 million	100.0%

Proportion of "Rental Apartments" by Area

	Planned Acquisition Price (Note 1)	Portfolio Share (Note 3)
Tokyo 23 Wards	¥255,083 million	87.3%
Greater Tokyo (Note 4)	¥12,326 million	4.2%
Other Major Cities (Note 5)	¥24,924 million	8.5%
Total of "Rental Apartments"	¥292,333 million	100.0%

The above table includes the property acquired which was announced in "Notification Concerning Acquisition of Domestic Real Estate Property (Dormy Odawara)" dated January 29, 2019.

(Note 1) "Planned Acquisition Price" excludes miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes and local consumption taxes.

(Note 2) The figure indicates the percentage of asset category to the total planned acquisition price.

(Note 3) The figure indicates the percentage of Rental Apartments by area to the total planned acquisition price

(Note 4) "Greater Tokyo" indicates Tokyo metropolis (excluding Tokyo 23 wards), and the 3 prefectures of Kanagawa, Saitama and Chiba.

(Note 5) "Other Major Cities" indicates major cities across Japan and their surrounding areas, excluding the Tokyo area.

(Note 6) Please refer to NAF's website for the latest portfolio list:
<https://www.naf-r.jp/english/portfolio/6-2.html>

<Attached Document 2> Photos of the property to be acquired and map of the area



