



# NEWS RELEASE

Jun 10, 2016

## 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 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.

NAF invests in properties such as the "Park Axis" series developed by the Mitsui Fudosan Group. NAF's rental apartment assets, of which 87.5% are located in Tokyo's 23 wards, are mostly newer as shown by the average building age of around 10.5 years (as of end-February 2016). The REIT has a very diverse portfolio, with an asset size exceeding 290 billion yen.

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

The occupancy rate stays high at more than 95%, 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, its upper limit of the LTV ratio is set at 55% for the foreseeable future. This suggests that its leverage is somewhat high as with the case of other residential REITs. That said, the LTV fell to about 50.2% as of end-February 2016. 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 4.3 years (as of end-February 2016), 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>

### R&I RATINGS:

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

■Contact : Investors Service Department TEL.+81-(0)3-3276-3511 E-mail. [infodept@r-i.co.jp](mailto:infodept@r-i.co.jp)

■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Mitsui Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, <http://www.r-i.co.jp>

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**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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