

Jun 07, 2019

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 was listed in August 2006. The REIT invests primarily in rental apartments in Tokyo 23 wards. Mitsui Fudosan Co., Ltd. serves as a sponsor.

NAF invests mainly in "Park Axis Series" properties developed by the Mitsui Fudosan Group. NAF's rental apartments, of which 87.3% are located in Tokyo 23 wards, are mostly relatively new, as shown by the average property age of 13.2 years (as of February 2019). Its portfolio is well diversified, with an asset size of more than 300 billion yen. While the environment for property acquisition remains harsh, steady external growth will likely continue, given the sponsor's rich pipeline.

In addition to rental apartments, NAF also invests in "hospitality facilities" including dormitories, corporate housing, senior residences and hotels. Risk from such facilities is limited, because it ensures stable earnings by concluding long-term fixed-rent lease contracts with leading operators, and their portfolio share is small. The proportion of investment in "hospitality facilities" is currently hovering around 5%.

The average month-end occupancy rate during the period ended February 2019 remained high, standing at 97.7%. The percentage change in rents at tenant turnover grew to 5.8% on average, suggesting that the pace of rent increases has been accelerating. Thanks to the sustained influx of population into Tokyo 23 wards and a low level of new apartment supply, the supply-demand balance of rental apartments continues to improve. NAF's properties will likely keep performing well.

The LTV ratio as of February 2019 was 50.4%, which is at the same level as those of other residential REITs. The ratio has been trending firmly at around 50% over the past eight fiscal periods. With the appraisal value rising, unrealized gains have grown to about 26% of the book value.

NAF has stable funding sources which are mainly comprised of 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 2019), with due dates staggered. Its financing costs are low compared to those of other REITs. A committed line of credit increased to 15 billion yen.

The Rating Outlook is Stable. NAF has a quality portfolio consisting primarily of properties developed by the sponsor in Tokyo 23 wards and enjoys highly stable earnings. In recent months, rent growth has been accelerating. The leverage level is managed within the target range, and the funding base is robust.

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.

https://www.r-i.co.jp/en/rating/about/rating_method.html

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>. © Rating and Investment Information, Inc.

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

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>.

© Rating and Investment Information, Inc.