

Nippon Accommodations Fund Inc.'s ¥7 Billion Unsecured Bonds Rated 'A+'

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TOKYO (Standard & Poor's) July 23, 2010--Standard & Poor's Ratings Services today assigned its 'A+' rating to Nippon Accommodations Fund Inc.'s (NAF; A+/Negative/A-1) proposed ¥7 billion series 2 unsecured bonds, due July 29, 2016. The rating reflects NAF's strong business position, high asset quality, and moderately conservative financial profile.

NAF is a Japanese real estate investment trust (J-REIT) that specializes in residential properties. As such, NAF has a strong business position in the J-REIT market and commands high market recognition. The company's operating strategy is to invest in high quality residential properties for lease that are mainly located in the 23 wards of Tokyo, backed by the real estate management and development capabilities and brand recognition of its sponsor, Mitsui Fudosan Co. Ltd. (BBB+/Stable/A-2). As of June 30, 2010, NAF owned a portfolio of residential properties with a total purchase price of about ¥187.0 billion. The portfolio has a high average occupancy rate, indicating that the properties generate stable cash flows. Despite ongoing difficult business conditions, NAF has resumed its acquisition activities. Indeed, since November 2009, the company has been able to purchase a relatively large volume of properties by leveraging its sponsor network.

NAF maintains a moderately conservative financial profile and a high degree of financial flexibility. Nevertheless, we see some risk factors that could affect NAF's credit quality including: (1) NAF is seeing some downward pressure on rental income, especially from its expensive residential units. In addition, the company's debt-to-capital ratio has remained high for four consecutive fiscal terms through the eighth fiscal term (ended February 2010), and its financial indicators remain weak; and (2) Given current real estate market conditions, NAF is likely to actively pursue external growth. As funding conditions in the equity market have yet to fully recover, we see a

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possibility that the company may incur some delays in improving its financial profile.

Key credit factors for NAF will include changes in its profitability measures and financial indicators, including leverage ratio and interest coverage ratio.

RELATED CRITERIA AND RESEARCH

"Rating Policy For Japanese Real Estate Investment Trusts," published May 9, 2001.

RATING ASSIGNED

Nippon Accommodations Fund Inc.	Rating
Unsecured J-REIT bonds (series 2)	A+

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