

Jun 01, 2011

R&I Affirms AA-, Stable: Nippon Accomodations Fund Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Nippon Accomodations Fund Inc.
Issuer Rating: AA-
Rating Outlook: Stable

RATIONALE:

Nippon Accommodations Fund Inc. (NAF) is a real estate investment trust (J-REIT) that went public in August 2006. The fund invests in "accommodation assets" primarily for rental purposes, including dormitories, student apartments, serviced apartments, senior residences and corporate housing. Mitsui Fudosan Co., Ltd. serves as its sponsor.

NAF places a focus on convenient areas in Tokyo's 23 wards. It has created a quality portfolio consisting mainly of "Park Axis" brand rental apartments developed by its sponsor. The Reit raised capital through a public offering in March 2011 for the second time since the financial crisis, and has acquired 19 properties for 30.7 billion yen in total from the sponsor and the other firm using the proceeds from the public offering and borrowings. The properties purchased from the sponsor totaled 22.6 billion yen, and most of them are relatively new rental apartments with a high occupancy rate, such as Shibaura Island Air Tower, for example. From the other firm, the Reit acquired "other accommodation assets (dormitories and student apartments)" totaling 8.1 billion yen for the first time since its listing. The average NOI yield for 19 properties based on appraisal by real estate appraisers is 6.6%. This suggests that the above acquisitions have helped improving profitability of the portfolio.

As a result of the abovementioned property acquisitions, NAF's asset size has grown to 217.7 billion yen. Approximately 86.5% of its rental apartments are located in Tokyo's 23 wards, with most of them being a large building priced at 2.8 billion yen at the time of acquisition on average. The average building age of approximately 6.6 years (as of end-February 2011) shows that NAF has kept its portfolio quality at high levels even after the abovementioned acquisitions. Furthermore, apartments available for rent in the overall portfolio are well-diversified, exceeding 8500 units.

The occupancy rates of its rental apartments are high, trending at 95.3% as of end-April 2011. The unit rent fell only 0.7% during the end-August 2010 to end-February 2011 period. Given a sustained population inflow into the Tokyo Metropolitan area and a fall in new rental apartment supply, the supply-demand condition of rental apartments should continue to be favorable for the foreseeable future. NAF's competitive properties may show solid performance going forward.

The March 11 Great East Japan Earthquake has slightly damaged some of NAF's properties, but no ravages that seriously affect the investment performance have been reported. The Reit holds only one property in the Tohoku region. Since its portfolio's PML (probable maximum loss) rate for the risk of earthquake occurring in the future is low at 4%, risk is mitigated.

Although the LTV ratio had been 55% at the highest, trending at slightly high levels in recent years, the latest public offering has lowered the ratio to a little over 50%. The LTV ratio is still somewhat high, but NAF enjoys favorable access to the capital market and excels in fundraising capability. Accordingly, its financial risk is limited.

NAF's borrowings after its listing are all unsecured. NAF stably obtains long-term fixed rate loans made by major domestic financial institutions. Since the average remaining term of debts is relatively long (a little below three years), with the maturities staggered every year through 2018. NAF is also believed to be in an advantageous position compared with other Reits in terms of funding costs.

The Rating Outlook is Stable. NAF plans to continue acquiring large properties, mainly relatively new buildings developed by the sponsor in Tokyo's 23 wards where tenant demand is robust, going forward. The Reit is expected to maintain the quality of portfolio and high occupancy rate and continue with sound

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NEWS RELEASE

financial management.

The primary rating methodologies applied to this rating are provided at "Rating Methodology for J-REIT" and "Basic Methodologies for R&I's Credit Rating". The methodologies are 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/sf/about/methodology/index.html>

<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

Shelf Registration (Bonds)
ISSUE AMOUNT (mn): JPY 100,000
ISSUE PERIOD: From Jul 18, 2009 to Jul 17, 2011
RATING: AA-, Affirmed (Preliminary)

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Nov 15, 2007	Nov 14, 2014	JPY 10,000
RATING:	AA-, Affirmed		

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 30, 2010	Jul 29, 2016	JPY 7,000
RATING:	AA-, Affirmed		

A preliminary rating is assigned when a provisional credit rating is needed for an individual obligation on which final terms have not been determined. A credit rating finally assigned may differ from the preliminary rating depending on, among others, the details of the actual contract of the individual obligation.

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