



# NEWS RELEASE

No.2006-C-957  
Dec 25, 2006

## R&I Assigns AA Stable: Nippon Accommodations Fund.

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

**ISSUER:** Nippon Accommodations Fund. (Sec. Code: 3226)  
Issuer Rating

**R&I RATING: AA (Newly Assigned)**  
RATING OUTLOOK: Stable

### **RATIONALE:**

Listed on the stock exchange in August 2006, Nippon Accommodations Fund (NAF) is a real estate investment trust (J-REIT) with assets comprising 27 properties with a value of 101.4 billion yen (on an acquisition basis). The fund invests in accommodation assets chiefly for rental purposes including student dormitories, condominiums for students, serviced apartments, retirement residences, and corporate housing. NAF's sponsor is Mitsui Fudosan Co., Ltd.

NAF's entire portfolio consists of residential properties, 95% of which are located in metropolitan Tokyo's 23 wards, with 68% of these in the six central wards in the heart of the city. The average acquisition price per property is 3.8 billion yen and the weighted average age at acquisition value is about six years.

The trust specializes in residential properties but promotes diversity in the types of accommodation it invests in through a well-balanced mix of single, compact, family and large-size residences which cater to different customer segments. Residential properties in general are high in asset liquidity and tenant replaceability, so rent levels are less exposed to the impact of economic trends. Therefore, R&I believes the stability of the cash flow of properties of this nature to be relatively high.

Notable characteristics of NAF's investment assets are: they are located in areas that are particularly popular even within central Tokyo, they are relatively large in scale and, being relatively new, they have facilities and specifications comparable to modern condominiums on the market. The largest of its properties, Okawabata Rental Building, is somewhat advanced in age but in addition to its superior residential environment and its highly prestigious reputation, the building itself has been appropriately maintained and improved over the years, so it has kept its competitiveness. Reflecting the portfolio's high quality, the occupancy rate of NAF's properties runs at about 97%, even in the absence of any buildings with rent-guaranteed master leases. The number of tenants at approximately 2800 is well-spread and this factor contributes to stable occupancy.

In principle, NAF plans to invest mainly in a condominium brand known as the Park Axis Series developed by Mitsui Fudosan. In this way, the fund is expected to receive an ongoing supply of properties which are quality-controlled by the sponsor, so there is very little likelihood of a decline in the quality of the portfolio with the acquisition of further properties. In addition, the sponsor purchases new properties on the basis of their occupancy potential, so the burden of leasing risk on new acquisitions will be limited.

The fund plans to commission all property management to Mitsui Fudosan Housing Lease. R&I believes that the strategy of commissioning the comprehensive management of properties to a company with an outstanding track record is effective in establishing efficient management systems in residential REITs where the number of units and tenants is large. It also believes that the Mitsui brand power, with its well-established reputation in condominiums, will be an advantage in attracting tenants.

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Structured Finance Rating Division TEL. 03-3276-3406-3428 FAX. 03-3276-3429 EMAIL sfdept@r-i.co.jp Homepage <http://www.r-i.co.jp>

Ratings are statements of R&I's opinion shown in certain symbols regarding an Issuer's general capacity (credit quality) to repay its financial obligation and individual debts (bonds and loans, etc.) and it is not a statement of recommendations to buy, hold, or sell any securities. Information has been obtained by R&I from sources believed to be reliable, however, its accuracy, adequacy, or completeness is not guaranteed. Therefore, R&I is not responsible for any errors or omissions or the result obtained from the use of the rating. As a general rule, R&I provides the rating services for a rating fee paid by the Issuer.

©Rating and Investment Information, Inc.



# NEWS RELEASE

Although NAF itself does not have a long history, Mitsui Fudosan has already demonstrated success in establishing and managing the Nippon Building Fund (NBF, specializing in office buildings), the largest real estate investment fund in the industry. R&I believes that the experience and know-how gained through the management of NBF can also be applied to the management of NAF.

As a rule, NAF aims to keep its debt within the range of about 40-50% of its total assets in ordinary times. At present, it is at about 40%. In the future, however, there is a possibility that this ratio will rise with the acquisition of new properties but the fund will probably adhere to the 40-50% range overall through investment activities and capital increases that reflect an awareness of leverage levels.

Based on the company's business plans and other factors, R&I did projections on the medium-term transition of its own loan-to-value ratio (debt plus deposits and guarantees excluding reserves divided by R&I's appraisal of the total value of the trust's properties) and according to these projections, its loan-to-value (LTV) ratio as R&I defines is expected to be maintained at a favorable level in the 40 percentiles on the whole and in the mid 50 percentiles at the highest.

With long-term loans accounting for about 70% of all NAF's loans and all of its loans on fixed interest rates with terms of four to seven years, the fund has mitigated interest rate rise concerns by making significant headway in converting its loans to long-term fixed-interest rates in the brief period since its listing as a REIT. All of its loans are unsecured and unguaranteed, and funding sources and repayment dates are appropriately spread, so NAF has a stable funding structure.

## R&I RATINGS:

ISSUER: Nippon Accommodations Fund. (Sec. Code: 3226)  
ISSUER RATING: AA (Newly Assigned)  
RATING OUTLOOK: Stable

Issuer Rating is R&I's opinion regarding an issuer's overall capacity to repay its entire financial obligation, and it will be assigned to all issuers. The rating of individual obligations (i.e. bonds and loans etc.) includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.