Nippon Accommodations Fund Series 1 J-REIT Bonds Assigned 'A+' Rating

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TOKYO (Standard & Poor's) Nov. 7, 2007--Standard & Poor's Ratings Services today assigned its 'A+' rating to Nippon Accommodations Fund Inc.'s (NAF) proposed series 1 senior unsecured bonds, due November 2014. At the same time, Standard & Poor's affirmed its 'A+' long-term and 'A-1' short-term corporate credit ratings on NAF. The outlook on the long-term corporate credit rating remains stable.

The rating reflects NAF's strong business position and moderately conservative financial profile. The company's real estate portfolio generates stable cash flow as it is comprised of residential properties that are in good locations, have a low average property age, and have good leasing conditions. NAF's operating strategy is to specialize in very high quality residential properties located mainly within the 23 wards of Tokyo, backed by the real estate development capabilities, real estate expertise, and brand recognition of the sponsor, Mitsui Fudosan Co. Ltd. (BBB+/Stable/A-2). NAF has a conservative capital structure and high financial flexibility. These strengths are partly offset by concerns regarding property concentration risk in NAF's portfolio.

NAF is a J-REIT that went public on the Tokyo Stock Exchange in August 2006. As of the end of August 2007, NAF owned 30 properties and 3,035 leasing units within the 23 wards of Tokyo, worth approximately ¥108.2 billion, based on purchase price. The portfolio is diversified in terms of unit type, comprising single, family-type, and large leasing units, with a focus on

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comparatively high-demand compact units. In September 2007, NAF acquired seven properties, including Park Axis Toyocho (¥3.95 billion; located in Koto Ward) and Park Axis Asakusabashi (approximately ¥2.72 billion; located in Taito Ward) for a total of ¥15 billion. As a result, the number of properties in NAF's portfolio increased to 37, worth approximately ¥123.2 billion, as of end of October 2007.

The portfolio has asset concentration risk, with the Okawabata Apartment communities comprising 24.1% of the total portfolio value. This risk is mitigated by such factors as tenant diversification at the property, high occupancy rates, stable cash flows, and high competitiveness in the submarket. NAF is aiming to enlarge its portfolio by ¥300 billion, or 10,000 residential units, by 2010 to 2011. However, the company is not focused solely on expanding the size of its portfolio, taking into consideration the overheating of the real estate market. The growth rate of NAF's portfolio has been moderate.

NAF's debt-to-capital ratio (interest bearing debt including Hoshokin liabilities/(interest bearing debt + unitholders' capital); Standard & Poor's definition) as of end of August 2007 was 44.2%. Management expects to maintain the company's debt-to-capital ratio (interest bearing debt/total assets) at an average of 40% to 50%, or at a maximum of 60%, which is a relatively conservative level. To fund future property acquisitions, NAF anticipates a strategy of timely equity issues aimed at stabilizing its leverage.

The outlook is stable. NAF's portfolio of high-quality assets should generate stable income despite its asset concentration risk. With the support of its sponsor, NAF is expected to maintain the high quality of its assets and a relatively conservative financial profile as its portfolio grows. Although NAF's debt-to-capital ratio may fluctuate as it pursues acquisitions of properties, it is expected to remain within the aforementioned range.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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