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Press Release

## Structured Finance Ratings & Research

For immediate release

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### *S&P: Nippon Accommodations Fund Inc. Assigned 'A+/A-1' Ratings; Outlook Stable*

**Tokyo, Dec. 25, 2006** – Standard & Poor's Ratings Services today assigned its 'A+' long-term and 'A-1' short-term corporate credit ratings to Nippon Accommodations Fund Inc. (NAF). The outlook on the long-term corporate credit rating is stable.

The ratings reflect NAF's strong business position and highly conservative financial profile and policy. The company's real estate portfolio generates stable cash flows as it is comprised of 27 residential homes 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 sponsor's real estate development capabilities, real estate expertise, and brand recognition. NAF has high financial flexibility and a conservative capital structure. However, these strengths are partly offset by concern regarding property concentration risk in NAF's portfolio.

The ratings also take into account the unique structure of Japanese real estate investment trusts (J-REITs) compared with REITs rated by Standard & Poor's in other global markets, which restricts management from pursuing certain high-risk activities, such as ground-up development, to safeguard investors.

NAF was established in October 2005 and was listed on the Tokyo Stock Exchange in August 2006. Currently, 40 J-REITs are listed, of which seven are J-REITs that specialize in residential properties. In terms of portfolio size based on purchase price, NAF ranks third among the seven J-REITS that focus on residential properties. The sponsor of NAF's asset manager, Mitsui Fudosan Accommodations Fund Management, is Mitsui Fudosan Co. Ltd. (BBB/Positive/A-2), which has a 5.8% investment in NAF. Having only one sponsor has not limited the company's ability to grow, as the sponsor has a proven track record in developing residential properties. Moreover, 13% of NAF's current portfolio consists of properties developed by third parties.

NAF's current real estate portfolio, featuring 27 properties located mainly in the 23 wards of Tokyo, consists of 2,758 leasing units and has a total purchase price of ¥101.4 billion as of December 2006. The portfolio is diversified in terms of unit type, comprising single, family-type, and large leasing units, with a focus on comparatively high-demand compact units. The 27 properties include high-quality, competitive properties located in high-demand and convenient residential areas, such as the Okawabata Apartment communities located in a large-scale complex in the River City 21 development area (Tsukuda, Chuo ward), Park Axis Ochanomizu Stage (Yushima, Bunkyo ward), Park Axis Nihonbashi Stage (Kakigaracho, Nihonbashi, Chuo ward), and Park Axis Shirokanedai (Shirokanedai, Minato ward).

As part of its strategy, NAF limits its investments to residential properties. In general, Standard & Poor's considers residential properties to have more stable cash flows compared with other property types. This is due, in general, to high tenant diversification, relative ease in finding new tenants, and small fluctuations in rents during economic cycles. NAF's investment area is the metropolitan area of Tokyo and major ordinance-designated cities, with the company aiming to keep allocating more than 80% of its portfolio investments to properties located in the 23 wards of Tokyo. Currently, properties located within the 23 wards make up about 95% of the portfolio, which is in line with its investment policy. Standard & Poor's does not regard asset concentration in Tokyo as a credit concern, given that Tokyo has the largest and most liquid real estate market in Japan, and given that there should be solid demand for leasing among the increasing number of households in the capital.

The probable maximum loss (PML) of each property within the portfolio ranges from 4.9% to 12.0%, meaning that the aggregate portfolio risk from earthquakes is somewhat limited. The weighted average property age is about six years, which is low. Moreover, the weighted average property age drops to about 1.5 years if the Okawabata Apartment communities, completed in 1988 and 1989, are excluded, since the majority of the other properties are very new. All of the properties are well-maintained and in good locations, equipped with facilities that meet the needs of present-day tenants. The portfolio's average occupancy rate, based on end-tenants, was high at 97.1% as of Nov. 30, 2006, and cash flows are stable.

The portfolio has asset concentration risk, with the Okawabata Apartment communities comprising 29.3% of the total portfolio value. However, this risk is mitigated by such factors as good tenant diversification at the property, high occupancy rate, stable cash flows, and high competitiveness in the submarket. Asset concentration risk is expected to decline modestly over time, as NAF acquires more properties.

NAF is aiming to enlarge its portfolio by ¥300 billion in portfolio size, or by 10,000 residential units, by 2010-2011, which represents an annual growth rate of about 25%, mirroring the general pace of growth among other J-REITs. However, the company is not focused solely on expanding the size of its portfolio, taking into consideration the overheating of the real estate market. NAF will use its sponsor network to expand further into major ordinance-designated cities in the future, as well as into Tokyo.

NAF's 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. NAF recorded a debt-to-capital ratio (interest-bearing debt/(interest-bearing debt + unitholders' capital) according to Standard and Poor’s definition) of about 49% at the end of its first six-month fiscal period (ended Feb. 28, 2006), which then fell to about 40% on Sept. 30, 2006, following the company's listing on the stock market in August 2006. NAF's financial profile is comparatively solid, and its debt repayment schedule is diversified through 2013. EBITDA interest coverage is expected to remain at a modest level between 6x and 7x. In addition, the ratio of funds from operations (FFO) to total debt is expected to remain between 6% and 10%. The profitability of the portfolio is somewhat low compared with J-REITs that focus on other property types, and average ROA for the first and second business terms is expected to be about 4.2%.

NAF currently has ample liquidity, with long- and short-term credit available to meet the company's near-term debt maturities, as well as to expand its portfolio. NAF's financial flexibility is considered high, reflecting its established relationships with nine major financial institutions, from which it borrows on an unsecured basis.

NAF's portfolio of high-quality assets should generate stable income despite the aforesaid asset concentration. 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 range mentioned above.

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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