



Moody's assigns A1 to Nippon Accommodations Fund

Tokyo, December 4, 2006 -- Moody's Investors Service has assigned an issuer rating of A1 to Nippon Accommodations Fund Inc. (NAF). The rating outlook is stable.

The rating reflects NAF's [1] stable cash flow based on its diversified residential property portfolio, [2] strong capability in property acquisition and management, utilizing the network of its asset management company's sponsor, and [3] reasonably conservative financial policy.

NAF's portfolio currently comprises 27 properties worth JPY 101.4 billion on an acquisition price basis. NAF focuses on investment in and management of residential properties that are located in Tokyo, with the portfolio well diversified among all residential property types: single, compact, family and large. Geographically, Tokyo 23 wards currently represent 95% of the portfolio.

The portfolio is dominated by relatively new properties, as those built less than three years ago occupy approximately 70% of the portfolio, and the average age of the properties is about six years. NAF plans to keep its policy to invest in newly built properties, which may partially offset increases in the average age of the portfolio through its growth phase.

NAF's portfolio is somewhat biased to the top property, Okawabata Apartment Communities, which represents 30% of the total; however, this property is competitive in attracting tenants, and Moody's considers that the concentration risk will be reduced by NAF's future portfolio expansion. In addition, the portfolio has extremely high tenant diversification with 2,800 tenants in total. The portfolio cash flow is highly unlikely to be affected by the performance of a single tenant of the property.

Taking into consideration the sufficient demand in the residential rental market, Moody's views that a portfolio consisting of residential properties is less sensitive to economic fluctuation and can generally generate more stable cash flow than one composed mainly of office properties. The rating incorporates this view.

To achieve its external growth target of Yen 300 billion on an asset value basis, NAF plans to make the most of the network of Mitsui Fudosan Co., Ltd., the parent company of Mitsui Fudosan Accommodations Fund Management Co., Ltd. (MAFM), NAF's asset management company. Moody's rating assumes that NAF will maintain its reasonably strict investment standard to secure a high-quality portfolio through its growth phase.

In its efforts to utilize the asset management expertise of the parent company group, MAFM has taken in from its parent employees with experience and expertise in real estate management and has centralized property management services in its parent company group.

On the financial side, NAF intends to control its leverage ratio (total interest bearing debts / total assets) generally from 40% to 50%, and basically not higher than 55%. Although NAF lacks experience in controlling leverage, Moody's has confirmed that the company intends to sustain this reasonably conservative financial policy through its growth phase, and has reflected this policy in the rating.

NAF has already conducted a solid level of liability management, having relationships with nine financial institutions; its borrowings are all unsecured, with no guarantees, and are mainly long-term. Most of its outstanding borrowings bear fixed interest rates. It intends to further diversify its debt maturities and financial channels, including bond issuance. To enhance financial stability, Moody's considers it critical for NAF to introduce measures to address liquidity risk, such as committed line facilities.

Nippon Accommodations Fund Inc., listed in August 2006, is a Japanese real estate investment trust focusing on the investment in and management of residential properties. Its asset management company, Mitsui Fudosan Accommodations Fund Management Co., Ltd., is wholly owned by Mitsui Fudosan Co., Ltd.

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