

October 19, 2023

Financial Results for the Fiscal Period from March 1, 2023 to August 31, 2023

Nippon Accommodations Fund Inc. (NAF) is listed on the Tokyo Stock Exchange (J-REIT) with the securities code number 3226. (Website: <https://www.naf-r.jp/english/>)

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1. Business Results for the Fiscal Period from March 1, 2023 to August 31, 2023

(1) Operating Results *(in millions of yen, rounded down; except as noted)*

	Total revenues		Operating income		Income before income taxes	
	(%)*		(%)*		(%)*	
For the period ended						
August 31, 2023	13,049	5.7	6,256	7.2	5,893	8.6
February 28, 2023	12,344	(0.7)	5,835	1.9	5,427	2.5

	Net income	Net income per unit	Net income/ net assets	Income before income taxes/ total assets	Income before income taxes/ operating income
	(%)*	(yen)	(%)	(%)	(%)
For the period ended					
August 31, 2023	5,892	8.6	11,703	3.9	1.8
February 28, 2023	5,426	2.5	10,778	3.6	1.7

* Percent figures show changes from previous period.

(2) Distributions*(in millions of yen, rounded down; except as noted)*

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/net assets (%)
For the period ended						
August 31, 2023	10,645	5,359	–	–	91.0	3.5
February 28, 2023	10,778	5,426	–	–	100.0	3.6

(Note) For the period ended August 31, 2023, because a part of retained earnings (¥533 million) was internally reserved, the amounts of “Total distributions” and “Net income” are different.

(3) Financial Position*(in millions of yen, rounded down; except as noted)*

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
August 31, 2023	327,052	151,874	46.4	301,653
February 28, 2023	327,109	151,408	46.3	300,728

(4) Cash Flows*(in millions of yen, rounded down; except as noted)*

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
August 31, 2023	9,185	(994)	(6,425)	16,872
February 28, 2023	6,785	(609)	(6,185)	15,107

2. Forecasts for the Fiscal Period from September 1, 2023 to February 29, 2024 and Fiscal Period from March 1, 2024 to August 31, 2024

(in millions of yen, rounded down; except as noted)

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*		(%)*		(%)*		(%)*		(yen)	(yen)
For the period ending										
February 29, 2024	12,533	(4.0)	5,990	(4.2)	5,559	(5.7)	5,558	(5.7)	11,040	—
August 31, 2024	12,632	0.8	5,859	(2.2)	5,388	(3.1)	5,387	(3.1)	10,700	—

* Percent figures show changes from previous period.

Note:

The net income per unit projections for the fiscal period ending February 29, 2024 and the fiscal period ending August 31, 2024 are ¥11,040 and ¥10,700, respectively.

3. Other

1. Changes in significant accounting policies, Changes in accounting estimates and Restatement

- (1) Changes in significant accounting policies due to revisions in accounting standards and others: None
- (2) Changes other than in the above item (1): None
- (3) Changes in accounting estimates: None
- (4) Restatement: None

2. Total number of investment units issued

- (1) The total number of investment units issued (including treasury investment units) as of the period-end

As of August 31, 2023: 503,472 units

As of February 28, 2023: 503,472 units

- (2) The number of treasury investment units as of the period-end

As of August 31, 2023: - units

As of February 28, 2023: - units

Disclaimer:

The above forecasts are based on information currently available to NAF and on certain assumptions deemed to be reasonable. Actual operations may differ substantially due to a number of factors. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

35th Period (August 2023) Overview of Investment

Main Trend of NAF

NAF is a J-REIT that invests in “Accommodation Assets,” which it defines as real estate that is mainly used/may be used for residence or hotels. Based on the Act on Investment Trusts and Investment Corporations (hereinafter “Investment Trust Act”), NAF was established on October 12, 2005, and was listed on the Real Estate Investment Trust Securities Market (J-REIT Market) of the Tokyo Stock Exchange on August 4, 2006 (securities code number: 3226).

Since being listed, NAF has continued to acquire properties and the assets under management at the end of the period under review consisted of 133 properties at a total acquisition price of ¥339,038 million (assets at time of listing: 27 properties at a total acquisition price of ¥101,385 million).

Investment Environment

During the six months ended August 31, 2023 (the “35th Period”), the Japanese economy continued to show signs of gradual recovery as restrictions on activity to prevent the spread of the novel coronavirus disease (COVID-19) were further relaxed. In addition to increased personal consumption due to improvement in the employment and income situation, despite rising prices against the backdrop of high resource prices, the weak yen and other factors, consumption from inbound tourists has also recovered almost to the level prior to the COVID-19 pandemic.

Corporate earnings have improved mainly due to easing of supply constraints and progress made in passing on increases in procurement prices to sales prices, and growth in capital investment has also reached a high level against the backdrop of labor shortages, etc.

In the residential rental market, the balance of supply and demand was favorable against the backdrop of a trend of a population influx into urban centers, mainly in the Tokyo metropolitan area, etc., and property occupancy rates were generally high.

In the real estate trading market, although interest rates have been rising globally due to inflation, monetary tightening, etc., an environment with relatively low interest rates has continued in Japan, and the acquisition environment remains challenging for NAF as demand from investors with regard to rental apartments, where occupancy and revenue are stable, was robust.

External Growth (Acquisition and sale of properties)

During the period under review, NAF sold Dormy Ashiya in August 2023 (acquisition price in March 2011: ¥928 million, sale price: ¥1,304 million).

Internal Growth (Management and operation of properties held by NAF)

In this environment, as a result of Mitsui Fudosan Residential Lease Co., Ltd., the property management company of NAF, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, properly collaborating and working on management and operation of NAF's rental apartments portfolio, the occupancy rate for rental apartments was 96.8% at the end of the period under review, and rent change before and after turnover was 4.0 % at the time of tenant turnover, increasing for three consecutive periods, with the balance of supply and demand of rental apartments continuing to recover amid the normalization of economic and social activities from the COVID-19 pandemic. In addition, NAF aims to reduce costs by utilizing the merits of outsourcing all property management tasks to the property management company while examining, whenever necessary, the adequacy of the grade of property management, cost of management and operation.

Meanwhile in the management of "Hospitality Facilities" ^(Note), NAF has concluded long-term contracts regarding fixed rents to a professional operator or business corporation in order to aim for stable rental revenue. All properties have been stably occupied in general. In addition, the asset management company regularly monitors the management and operational activities, and makes adjustments through professional dialog with the operator or business corporation as necessary. In order to maintain and improve the competitiveness of NAF's portfolio, operations, such as appropriate renewal work according to the property age, and work to enhance the property value, are systematically carried out, and in the period under review, NAF carried out large-scale repairs at Park Axis Sapporo Shokubutsuen Mae and renovations, etc. in private areas at Okawabata Apartment Communities, etc. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities, which includes changing the lighting in common areas to LED lighting, in a timely manner.

(Note) "Hospitality Facilities" is a generic term for "Accommodation Assets" that includes the four categories of "Dormitories, Corporate Housing," "Serviced Apartments," "Senior Residences," and "Hotels," excluding "Rental Apartments."

Financial Strategy (Overview of funds procurement)

NAF's basic policy is to carry out operations in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. In the period under review, NAF continued to pursue financing from various sources with diversified repayment dates and an emphasis on long-term, fixed-rate loans in its procurement of funds by taking into account market trends and interest rate levels, and refinancing existing loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥167,500 million (¥1,000 million decrease from previous period), the long-term debt ratio was 98.8%, the long-term, fixed-rate debt ratio was 94.6%, and the loan-to-value (LTV) ratio was 51.2 %. The average remaining maturity of long-term interest-bearing debt was 4.7 years and the number of financial institutions was 27. Furthermore, the weighted average interest rate at the end of the period was 0.48%.

NAF also has secured a commitment line for the purpose of securing flexible and stable fund procurement methods. At the end of the period under review, its total maximum borrowing amount was ¥15,000 million.

With respect to financing through investment corporation bonds, NAF filed a shelf-registration statement regarding its establishment of a maximum issuance amount for investment corporation

bonds for public offering in July 2023. The remaining balance of the planned issuance amount at the end of the period is ¥100 billion.

Planned issuance amount	Up to ¥100 billion
Scheduled period of issuance	From July 25, 2023 to July 24, 2025
Purpose for funds	Acquisition of specified assets (as stated in Article 2, Paragraph 1 of the Law Concerning Investment Trusts and Investment Corporations of Japan), repayment of borrowings, redemption of investment corporation bonds, refund of leasehold and security deposits, payment for repairs and maintenance, working funds, etc.

Rating of NAF as of August 31, 2023 is as follows.

Rating agency	Rating subject	Rating
Rating and Investment Information, Inc.	Issuer credit rating	A A - (Trend of rating: Stable)
S&P Global Ratings Japan Inc.	Long-term corporate	A + (Outlook for rating: Stable)
	Short-term corporate	A -1

Overview of Performance and Distribution

In the period under review, NAF recorded total revenues of ¥13,049 million, operating income of ¥6,256 million, income before income taxes of ¥5,893 million and net income of ¥5,892 million. Part of the capital gains resulting from the sale of Dormy Ashiya is to be internally reserved as a reserve for reduction entry. In addition to the above, NAF has decided to distribute the majority of the ¥5,359 million balance remaining after deduction of ¥533 million of reserve for reduction entry from retained earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥10,645.

Management Policy and Issues for the 36th Period Onward

Looking ahead, the Japanese economy is expected to see signs of recovery as personal consumption and capital investments by companies increase. However, it is important to pay attention to the risks related to overseas economic trends that will affect Japan's economic situation, etc., such as the outlook for the price of goods, which is continuing to rise, monetary policy and fluctuating interest rates in Japan and in various major countries and regions overseas, forecasts for the economies of the U.S. and Europe and concerns about the outlook for China.

As for quality rental apartments in which NAF would invest in the 23 wards of Tokyo, where nearly 90 percent of NAF's rental apartments portfolio is located, and also in the urban areas of other major cities ^(Note), the supply is gradually increasing. On the other hand, the population trend in the 23 wards of Tokyo has shifted from a net outflow in 2021 to a net inflow of approximately 20,000 people in 2022, and this trend is still ongoing in 2023. The COVID-19 pandemic has mostly come to an end, and currently, once again, we are observing acceleration in a population influx into urban centers. Therefore, the needs of tenants to live in urban centers are expected to remain firm.

Concerning the real estate trading market, the placement of quality rental apartments as stable investment assets is not expected to change, and the acquisition environment is expected to remain challenging, but the response among investors depending on the impact of the rise in interest rates, etc. due to global monetary tightening and political and economic developments in Japan and overseas should be carefully assessed.

(Note) "Other major cities" refers to each of the urban areas of Sapporo, Sendai, Nagoya, Osaka, Kyoto, Kobe, Hiroshima and Fukuoka.

External Growth (New acquisition of properties)

NAF steadily acquires competitive properties that can respond to future changes in demand trends, leveraging our pipeline to the Mitsui Fudosan Group and enhancing information channel at the asset management company.

While concentrating on a property acquisition strategy of stable acquisition of "Rental Apartments," NAF will acquire "Hospitality Facilities," which are properties that offer stable revenue and competitiveness over the long term. NAF will keep the Hospitality Facilities' share of the portfolio (based on acquisition price) to a maximum of 10% in the near-term, and carry out operations that carefully select properties to acquire.

Internal Growth (Management and operation of leasehold properties)

NAF aims to achieve solid internal growth while maintaining asset value in the long term by carrying out dynamic leasing that can flexibly respond to the balance of supply and demand in the market going forward and changes in tenants' needs as well as by maintaining and improving rent levels and occupancy rate, and reducing costs, and systematically carrying out appropriate renewal work according to the property age and work to enhance the property value, etc., through optimal management and operational activities that utilize the value chain and highly specialized knowhow of the Mitsui Fudosan Group.

Financial Strategy

In regard to borrowings, taking into account borrowing cost, NAF will conduct financing activities that emphasize on financing by long-term, fixed-rate loans and diversified repayment dates by taking measures to counter future interest rate risks and refinancing risks. With respect to the upper limit of LTV ratio, although the limit is set at around 60% in the asset management guidelines, NAF is aiming for a near-term upper limit at a level of around 55% in its external growth process.

NAF will examine the necessity of issuance of new units by paying attention to market trends and distribution amount levels, and taking into consideration the demand for funds for the purpose of property acquisition, as well as our financial position. Additionally, NAF will examine future issuances of investment corporation bonds in accordance with market trends, within the range of the remaining balance of planned issuance amount for which shelf-registration of NAF bonds has been carried out.

Significant Subsequent Events

Not applicable

(Reference information)

The following asset was acquired on September 1, 2023. The “Acquisition price” is exclusive of miscellaneous expenses for acquisition, fixed property taxes, and urban planning taxes.

Smile Hotel Nishi Akashi

Acquisition price:	¥970 million
Appraised value:	¥994 million (date of value appraisal: July 1, 2023)
Type of property:	Real estate and land lease rights
Location (registration number):	12-5 Wasaka, Akashi-shi, Hyogo (district where residence indication has not been implemented yet)
Completion date:	January 8, 2003
Structure/Number of stories:	Steel structure/10 stories
Rentable area:	2,045.00 m ²
Seller:	Hirakawamon Kanri GK

Smile Hotel Okinawa Naha

Acquisition price:	¥1,120 million
Appraised value:	¥1,240 million (date of value appraisal: July 1, 2023)
Type of property:	Real estate
Location (residence indication):	24-1 Maejima 3-chome, Naha-shi, Okinawa
Completion date:	August 27, 2007
Structure/Number of stories:	Flat-roof reinforced concrete structure/10 stories
Rentable area:	2,772.69 m ²
Seller:	Hirakawamon Kanri GK

Smile Hotel Matsuyama

Acquisition price:	¥1,010 million
Appraised value:	¥1,040 million (date of value appraisal: July 1, 2023)
Type of property:	Real estate
Location (registration number):	18-1 Katsuyama-cho, Matsuyama-shi, Ehime (district where residence indication has not been implemented yet)
Completion date:	October 19, 2007
Structure/Number of stories:	Flat-roof reinforced concrete structure/11 stories and single-story, steel structure with alloy-plated steel-sheet cladding
Rentable area:	2,144.46 m ²
Seller:	Hirakawamon Kanri GK

Forecasts of Investment Performance

The forecasts for the 36th period (from September 1, 2023 to February 29, 2024) and for the 37th period (from March 1, 2024 to August 31, 2024) are as follows. For the underlying assumptions of forecasts, please refer to “Underlying assumptions of forecasts for the 36th period (from September 1, 2023 to February 29, 2024) and the 37th period (from March 1, 2024 to August 31, 2024)” below.

	36th period (February 2024)	37th period (August 2024)
Total revenues	¥12,533 million	¥12,632 million
Operating income	¥5,990 million	¥5,859 million
Income before income taxes	¥5,559 million	¥5,388 million
Net income	¥5,558 million	¥5,387 million
Distribution per unit (not including distributions in excess of earnings)	¥11,040	¥10,700
Distribution in excess of earnings per unit	¥ —	¥ —

(Note) The above forecasted figures are calculated based on certain assumptions at the time of preparation of this information. Therefore, actual total revenues, operating income, income before income taxes, net income and distribution per unit may change due to future acquisition or sale of investment assets, fluctuation in the real estate market or other changes in the environment in which NAF operates. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

Underlying assumptions of forecasts for the 36th period (from September 1, 2023 to February 29, 2024) and the 37th period (from March 1, 2024 to August 31, 2024)

Item	Underlying assumptions
Number of operating days:	- From September 1, 2023 to February 29, 2024 (182 days) - From March 1, 2024 to August 31, 2024 (184 days)
Investment assets/ Total revenues	- The number of properties held by NAF as of the date of this document is 136 properties. In the forecasts of investment performance, it is assumed that no transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until August 31, 2024. - The average month-end occupancy rates for total properties for the 36th period and 37th period are expected to be 97.2% and 97.0%, respectively. - The actual figures may change due to factors such as transfer of properties.

Item	Underlying assumptions
Operating expenses	<ul style="list-style-type: none"> - The fixed property taxes and urban planning taxes recognized as expenses are expected to be ¥668 million for the 36th period and ¥674 million for the 37th period. However, when an investment asset is acquired, the fixed property taxes and urban planning taxes that are settled with the previous owner according to the number of days the asset is owned are not recognized as expenses because they are included in the acquisition price. - The amounts recognized for the repairs and maintenance expenses and outsourcing expenses of buildings are the required amounts forecast for the number of operating days. However, because repairs and maintenance expenses and outsourcing expenses may arise suddenly due to some unexpected cause (building damage, etc.), amounts usually vary depending on the year, some expenses arise occasionally, etc., the repair and maintenance expenses and outsourcing expenses for the number of operation days may be different from the amounts forecast. - We calculate depreciation and amortization expenses (including ancillary expenses upon initial acquisition) using the straight-line method, and the expenses are expected to be ¥1,905 million for the 36th period and ¥1,903 million for the 37th period.
Interest-bearing debt/ Non-operating expenses	<ul style="list-style-type: none"> - It is assumed that NAF's balance of interest-bearing debt, which is ¥167,500 million as of the date of this document, shall not change until August 31, 2024. In addition, it is assumed that loans that become due during the period will be fully refinanced. - Interest expense and interest expenses on investment corporation bonds, etc. are expected to be ¥428 million for the 36th period and ¥470 million for the 37th period. - Amortization of costs related to the issuance of new units, etc. is expected to be ¥2 million for the 36th period.
Number of units issued	<ul style="list-style-type: none"> - We assume 503,472 units outstanding as of the date of this document. In the forecasts of investment performance, it is assumed that there shall be no issuance of new units until August 31, 2024.
Distribution per unit (not including distributions in excess of earnings)	<ul style="list-style-type: none"> - Distribution (distribution per unit) is calculated assuming it will be in accordance with the Distribution Policy set forth in the Articles of Incorporation of NAF. - The actual amount may change due to factors such as fluctuations in rent revenues owing to changes in tenants, transfer of properties, interest rate fluctuations, and additional issuance of investment units.

Item	Underlying assumptions
Distribution in excess of earnings per unit	- There is no distribution in excess of earnings planned as of the date of this document.
Other	<ul style="list-style-type: none"> - NAF has assumed no enforcement of such revisions to laws and regulations, tax systems, accounting standards, regulations of the Tokyo Stock Exchange and rules of The Investment Trusts Association, Japan, etc. that may affect the above forecasts. - NAF's forecasts assume no unforeseen significant changes in general economic trends or conditions in the real estate market.

Disclaimer:

This financial report has been prepared in accordance with Japanese accounting standards and Japanese laws. Figures have been rounded down to eliminate amounts of less than one million yen.

Please note that this English translation, a summary of the Japanese original document, is provided solely for informational purposes. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.