

August 24, 2022

For Immediate Release

Advance Residence Investment Corporation
Securities Code : 3269
1-105 Kanda-Jinbocho, Chiyoda-ku, Tokyo
Wataru Higuchi, Executive Director

Asset Management Company:
ITOCHU REIT Management Co., Ltd.
Junichi Shoji, Representative Director,
President & CEO

Inquiries:
Isao Kudo, Executive Officer
Tel. +81-3-6821-5483

Notice Concerning Disposition of Investment Asset
(Tokyo Student-House Wako)

ITOCHU REIT Management Co., Ltd. (IRM), the asset management company to which Advance Residence Investment Corporation (ADR) entrusts the management of its assets, today announced its decision to dispose of assets (hereafter, the “Disposition”) as detailed below pursuant to the asset management targets and policies stipulated in the Articles of Incorporation of ADR, based on comprehensive consideration of matters including stable earnings and the state of the real estate market.

1. Details of the Disposition

With a building age of 32.3¹ years (the average building age of the whole portfolio is 15.8¹ years), maintaining competitiveness has been a key challenge for this operational asset (a student dormitory), and we have continued to contemplate a variety of options for the asset going forward, including further equipment upgrades, repair works, reconstruction, or disposal, bearing in mind a more efficient usage of cash and the effect on operations.

Against this background, a capital gain of 184 million yen is expected from Disposition, and the decision on Disposition was based on comprehensive consideration of factors such as future earnings forecasts and increases or decreases in asset value. We are considering retaining part of the capital gain as reserves.

Property Name	Tokyo Student-House Wako
Location	1-2-9, Chuo, Wako City, Saitama
Type of Asset	Beneficiary Interest in Trust
Disposition Price	800 million yen
Appraisal Value ²	800 million yen
NOI Yield ³	5.8%
Book Value ⁴	616 million yen
Difference between Disposition Price and Book Value	184 million yen
Counterparty	ITOCHU Property Development, Ltd.
Scheduled Contract Date	August 24, 2022
Scheduled Settlement Date	September 30, 2022
Payment Method	Full payment on delivery

Note 1. The building age is as of July 31, 2022. The average age is the weighted average of the age of the properties owned, weighted by the acquisition price.

Note 2. “Appraisal Value” is as of July 31, 2022.

Note 3. “NOI Yield” is calculated as follows based on the Disposition Price: “(Average actual annual NOI in the period from July 2019 to January 2022) ÷ estimated disposition price × 100.” The calculated yield is rounded to the second decimal place. The NOI Yield calculated based on the acquisition price is 6.8% for Tokyo Student-House Wako.

Note 4. “Book value” is the estimated price as of the Scheduled Settlement Date.

2. Summary of Disposition

Property Number	S-011
Property Name	Tokyo Student-House Wako
Address	1-2-9, Chuo, Wako City, Saitama

Land	
Type of Ownership	Beneficiary Interests in Trust
Area	1728.40 m ²
Zoning	Quasi-industrial districts
FAR/Building Coverage Ratio	200%/60%

Building	
Type of Ownership	Beneficiary Interests in Trust
Total Floor Area	3,434.07 m ²
Structure/Floors	Reinforced concrete with stainless steel sheet roof/5 floors
Use	Dormitory
Construction Completion Date	April 1990
Trustee	Mizuho Trust Banking Corporation
Trust Period	To March 31, 2023
Date of first acquisition ⁵	April 25, 2008

Lease Conditions	
Point in Time	As of July 31, 2022
Total Tenants	1
Leasable Units	127
Leased Units	127
Leasable Floor Area	1684.02 m ²
Leased Floor Area	1684.02 m ²
Occupancy Rate (based on floor area)	100%
Monthly Rent ⁶	4,363 thousand yen
Deposits, Guarantees, etc.	8,890 thousand yen

Single	-
Compact	-
Family	-
Large	-
Dormitory	127
Other	-

Other Relevant Information	
	Not applicable

Note 5. The date of acquisition by ADR prior to the merger is shown. ADR was established through the merger of the former ADR and Nippon Residential Investment Corporation, with March 1, 2010, as the date of incorporation, and was listed on the Tokyo Stock Exchange on March 2, 2010.

Note 6. The amount is revised to 3,927 thousand yen for the period from April 1, 2022, to March 31, 2023.

3. Summary of Appraisal Report

Tokyo Student-House Wako

As of July 31, 2022

Appraiser	Japan Real Estate Institute	Appraised value	800,000 thousand yen
Appraisal item		Appraised value (thousand yen)	Basis
Income Capitalization Approach Value		800,000	Income capitalization approach value was appraised using both the DCF method and direct capitalization method.
Direct Capitalization Price		805,000	
Total Potential Income		52,366	
Rent Income		52,364	Rental income was recorded based on the master lease agreement, as it is judged to be continuously renewed, taking into account the rent level for the last occupant, occupancy rates in previous years, building items, etc., location conditions, vacancy risk, and maintenance and management costs, in addition to the level of achievable rent in the surrounding area.
Other Income		2	Recognize utility pole installation fees.
Total Effective Income		52,366	
Losses from Vacancies, etc.		0	Not recorded because a master lease agreement has been executed.
Losses from Delinquencies		0	
Expenses from Rental Business		6,009	
Maintenance and Management Fees		0	Not recorded because a master lease agreement has been executed.
Utilities Costs		0	Not recorded because a master lease agreement has been executed.
Management Commission Fees		0	Not recorded because a master lease agreement has been executed.
Taxes and Public Dues		3,935	Land: Recorded based on data related to taxes and public dues, taking into account the details of burden adjustment measures, etc. Building, depreciable asset: Recorded based on materials related to taxes and public dues.
Non-life Insurance Premiums		156	The insurance premium rates of similar buildings are taken into account.
Leasing Expenses		0	Not recorded because a master lease agreement has been executed.
Repair Costs		1,918	Restoration expenses are not recorded because they are borne by the lessee. In assessing repair and maintenance expenses, the annual average of repair and renewal expenses in the building survey report, etc., as well as actual repair and maintenance expenses in previous years and the level of repair expenses for similar properties are taken into consideration.
Other Expenses		0	There are no other special expenses that should be recorded as expenses.
Net Operating Income		46,357	
Earnings from Deposits		0	Not recorded because a master lease agreement has been executed.
Capital Expenditures		4,475	Appraised, taking into account the level of capital expenditure for similar properties, the building age, and the annual average amount of repair and renewal expenses in the engineering report, etc.
Net Cash Flow		41,882	
Cap Rate		5.2%	Appraised by adding/subtracting the spread attributable to the subject property's location, building conditions, and other conditions to the standard yield, and by taking into account the future uncertainty and transaction yields of similar properties, etc.
DCF Price		794,000	
Discount Rate		5.0%	Appraised, while comprehensively taking into account the individual characteristics of the subject property, with reference to the investment yields, etc. of similar properties.
Terminal Cap Rate		5.3%	Appraised, with reference to the investment cap rate, etc. of similar properties, while comprehensively taking into account the future trend of investment cap rates, riskiness of the subject property, general forecasts of future economic growth rates, and trends in real estate prices and rents, etc.
Cost Approach Value		552,000	
Land Ratio		78.3%	
Building Ratio		21.7%	
Other Matters for Consideration			
None			

4. Financial Impact on ADR in the Event of Failure to Fulfill Forward Commitment, etc.

Financial Impact on ADR in the Event of Failure to Fulfill Forward Commitment or Similar Agreement

The real estate sales transaction agreement (hereafter, “the Agreement”) for the asset to be disposed of constitutes a forward commitment or similar agreement⁷ by an investment corporation as stipulated in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. of the Financial Services Agency.

In the event of a violation of provisions in the Agreement by ADR or the buyer, the counterparty shall have the right to terminate the Agreement and claim an amount equivalent to 20% of the transaction price of the asset to be disposed of as a penalty.

However, ADR shall not be obliged to pay penalties to the transferee regarding the expiration or cancellation of this Agreement, except where ADR is at fault.

Note 7. Refers to a postdated purchase and sales agreement under which payment and property delivery shall be made at least one month after the conclusion of the agreement, or any other agreement similar thereto.

5. Buyer Profile

Trade Name	ITOCHU Property Development, Ltd.
Location	2-9-11 Akasaka, Minato-ku, Tokyo
Representative	Norio Matsu, President
Principal business	Apartment and house construction and sales, real estate operation, management, and consulting, etc.
Capital	10,225 million yen
Date of establishment	December 1, 1997
Total assets	-
Shareholders' equity	-
Total capital	-
Large shareholders	ITOCHU Corporation
Relationship with ADR or IRM	
Equity relations	The buyer is a stock company holding 20.0% of the outstanding shares of IRM. It is also a support line company of ADR.
Personnel relations	As of today, one of IRM officers/employees is a part-time director of the buyer.
Business relations	Amount of specified asset transactions during the fiscal period ended July 2022 is as follows. Purchases: 2,388,000,000 yen / Sales: 0 yen
Related parties' status	The buyer is not a related party of ADR.

6. Property Titleholder (for transactions with parties with special interest)

Omitted. Property not acquired from parties with special interest. The procedures required in accordance with the provisions of the asset management company's bylaws, “Related-Party Transaction Rules,” have been performed for the related-party transaction outlined in “5. Buyer Profile” above.

7. Future Outlook

The effect of the Disposition on the management performance forecasts for the fiscal period ending January 2023 is negligible. Therefore, the forecasts remain unchanged.

About Advance Residence Investment Corporation

Advance Residence Investment Corporation is the largest J-REIT specializing in residential properties and is managed by ITOCHU REIT Management Co., Ltd. (IRM), the asset management company of the ITOCHU Group, investing in over 270 rental apartments located mostly in central Tokyo and in other major cities throughout Japan (AUM over 460 billion yen). ADR can be expected have a stable dividend in the long-term and can be considered as a defensive J-REIT, on back of the stable income from residential assets and with the largest dividend reserve among J-REITs.

"Advance" is the common brand name of the real estate investment corporation managed by ITOCHU REIT Management Co., Ltd.

ADR's website: <https://www.adr-reit.com/en/>

IRM's website : <https://www.itc-rm.co.jp/en/>