

春風や

稼働賃料

満ちるかな

Spring breeze ~
rent and room
in full bloom

Advance Residence Investment Corporation

17th Fiscal Period Results
Aug 1, 2018 ~ January 31, 2019

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Executive Summary

Results for Fiscal Period ended January 2019

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Executive Summary

DPU, EPU +73 yen from Forecast
by maintaining high occupancy

Earnings Per Unit (EPU) **5,173** yen
Dividend Per Unit (DPU) **5,422** yen

Internal Growth

Steady Rise in Occupancies & Rents

Period Avg. Occupancy

97.0%

chg. from forecast **+0.5%**

chg. from previous period **±0.0%**

Rise in Rent

0.38%

External Growth

Disciplined Acquisition

Acquired RESIDIA Kita-Nijyo East III

- Centrally located single's unit apartment
- Located adjacent to RESIDIA Kita-Nijyo East
- NOI Yield 5.5%
- Yield after Depreciation 4.2%



Finance

Credit Rating Upgrade from R&I

A⁺ → **AA⁻**
outlook: POSITIVE → outlook : STABLE





Results for Fiscal Period ended Jan. 2019

Aug. 1, 2018 - Jan. 31, 2019

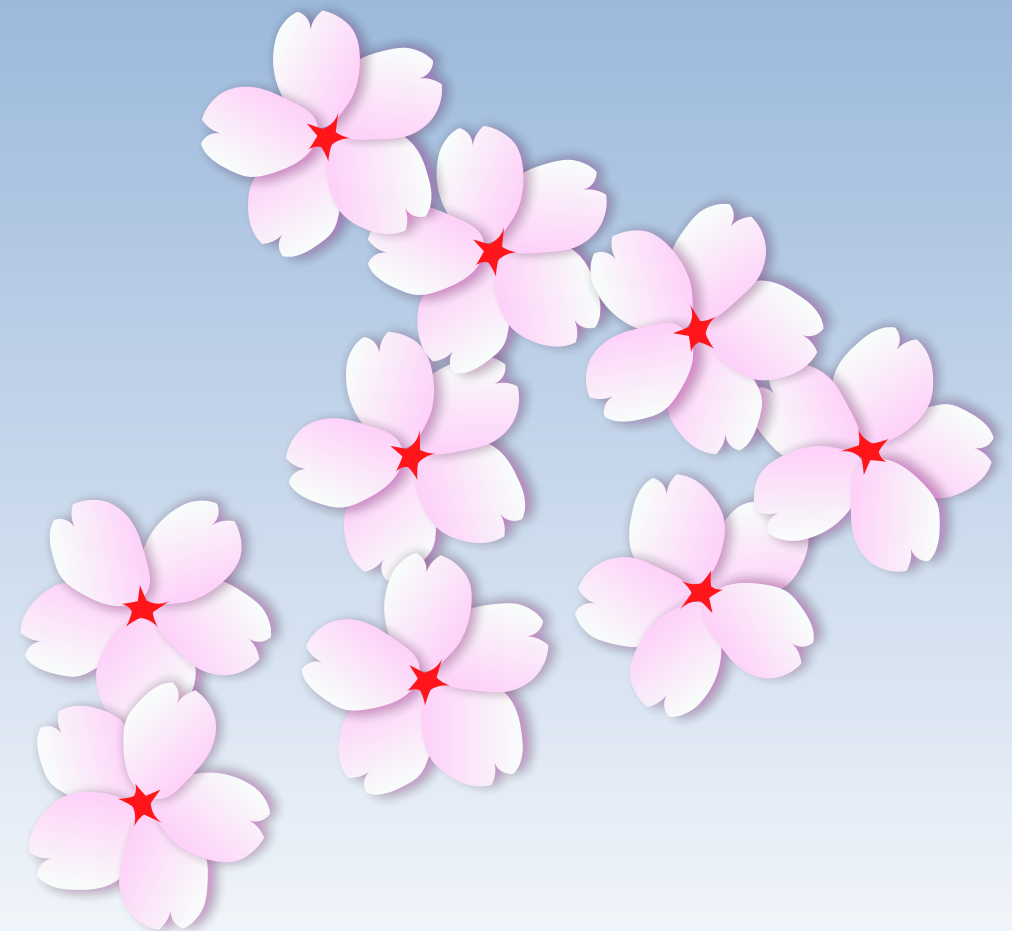
	(1) 17 th FP Forecast	(2) 17 th FP Results	(2)-(1)			(3) 16 th FP Results	(2)-(3)		in million yen
	Initial Forecast as of Sept. 10, 2018	Results for FP Jan. 2019	Changes	Notes	Chgs	Results for FP July 2018	Changes	Notes	Chgs
Revenue	16,084 (264 properties) Period avg. occupancy 96.5%	16,196 (264 properties) Period avg. occupancy 97.0%	+111	Rental Revenue Increases from higher occupancy & higher rents Other Revenue Increases in key money & other revenues	+94 +15	16,302 (263 properties) Period avg. occupancy 97.0%	-106	Asset Acquisitions No profit from sales of assets Increase in revenue from acquisition Same Store Increase from rise in rents Decrease in key money revenue	-135 +63 +49 -83
Operating Income	8,028 (Depreciation: 2,701) (Property taxes: 870)	8,117 (Depreciation: 2,705) (Property taxes: 871)	+89	Leasing Expenses Increases in repair costs Increases in utility costs G & A Expenses Decrease in Cons. tax settlement loss due to acquisition	-20 -7 +5	8,272 (Depreciation: 2,682) (Property taxes: 865)	-154	Leasing Expenses Increases in costs due to incrs in assets Off-season decreases in fees Increases in other expenses Increase in depreciation G & A Expenses Increase in consumption tax settlmt loss Increases in other expenses	-10 +62 -15 -18 -19 -40
Ordinary Income	6,885 (Funding cost*: 1,136)	6,984 (Funding cost*: 1,129)	+98	Compensation from lease cancellation Decrease in funding costs	+2 +6	7,088 (Funding cost*: 1,196)	-103	Less compensation from lease cancellation Decrease due to lower interest rate	-17 +67
Net Income	6,885	6,983	+98			7,087	-103		
EPU (yen)	5,100	5,173	+73	Units issued and outstanding 1,350,000 units		5,250	-77	Units issued and outstanding 1,350,000 units	
Per Unit Drawdown of Reserve** (yen)	249	249	-	Reserve** after dividend: 31.8 bn yen		249	-		
Dividend per unit (yen)	5,349	5,422	+73			5,499	-77		
Total Asset LTV	49.9%	49.9%	-			49.9%	-		

* Funding costs include interest payments for loans and bonds as well as other finance fees.

** "Reserve" means "Temporary Difference Adjustment Reserve".



Internal Growth



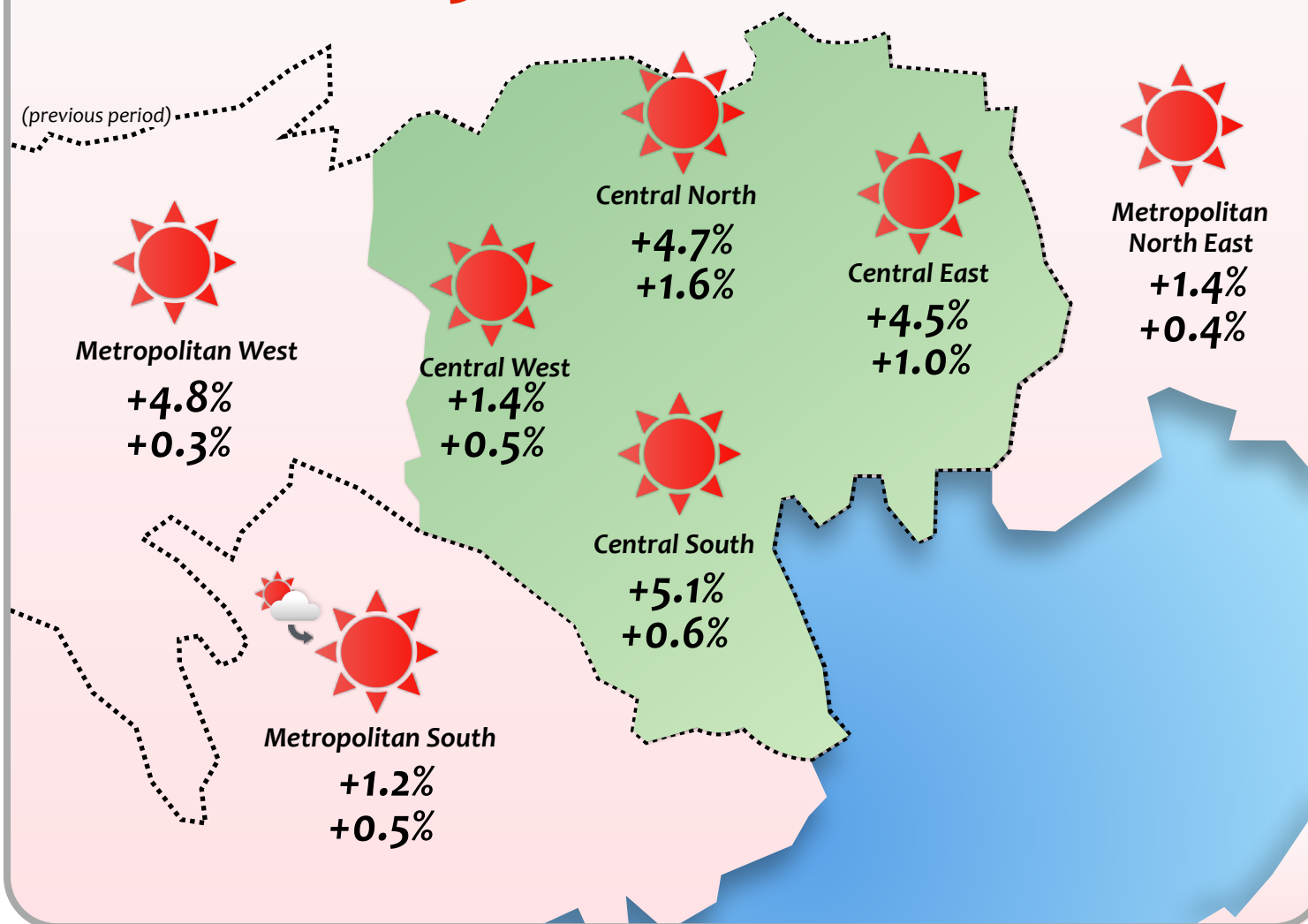
Rent Trends by Region

23 Wards of Tokyo

Replacements **+4.1%**
Renewals **+0.9%**

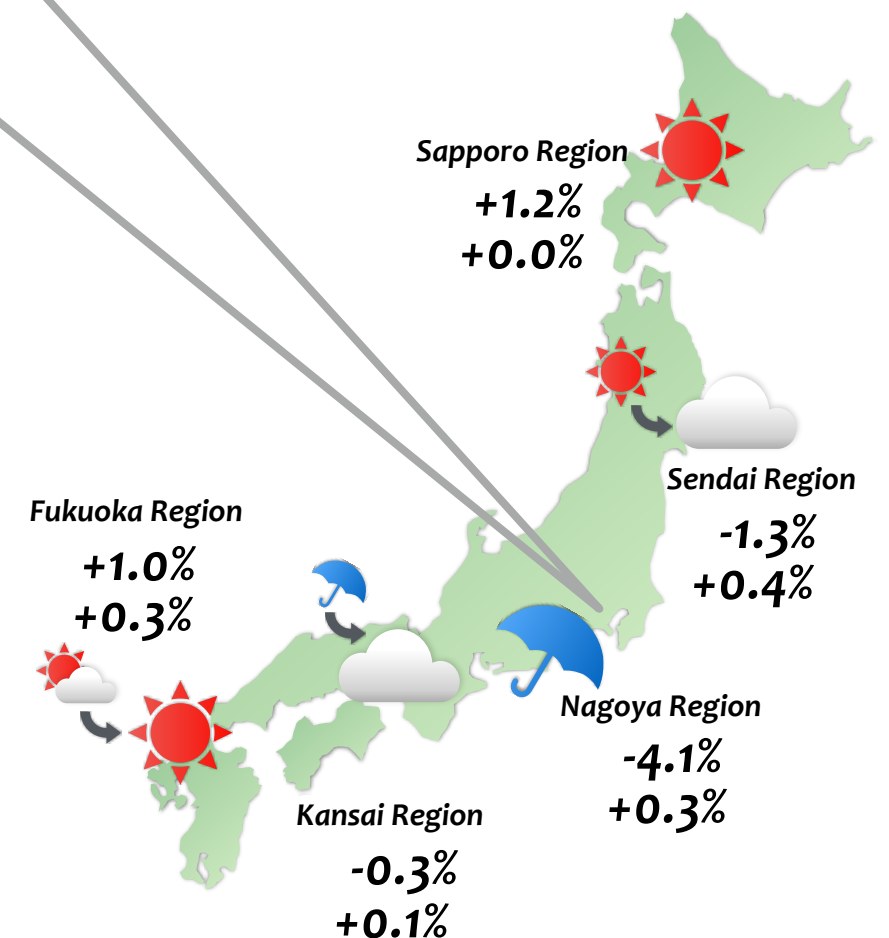
Metropolitan Area

Replacements **+4.0%**
Renewals **+0.8%**



Total Rent Changes in Replacements and Renewals

Replacements **+3.0%**
Renewals **+0.7%**



* 23 wards of Tokyo are grouped in four regions as below

Central East (Chiyoda, Chuo, Taito, Sumida, Koto, Katsushika, Edogawa), Central West (Shinjuku, Shibuya, Suginami, Nakano)

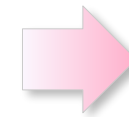
Central South (Minato, Shinagawa, Meguro, Ota, Setagaya), Central North (Bunkyo, Toshima, Kita, Itabashi, Nerima, Arakawa, Adachi)

** Changes in unit rents from the start of the FP to the end of the FP for all units held for the entire period.

Strong Rent Trend

Replacements **+3.05%**

Renewals **+0.70%**



Portfolio Total **+0.38%**

FP17 Rent Change Details

Replacements

million yen / month

	No. of Units	Ratio	Old Rent	New Rent	Difference	% Change
Increase	1,065 units	62.2%	142	150	+8.0	+5.67%
Unchanged	304 units	17.7%	31	31	-	-
Decrease	344 units	20.1%	37	35	-1.6	-4.38%
Total	1,713 units	100.0%	211	217	+6.4	+3.05%

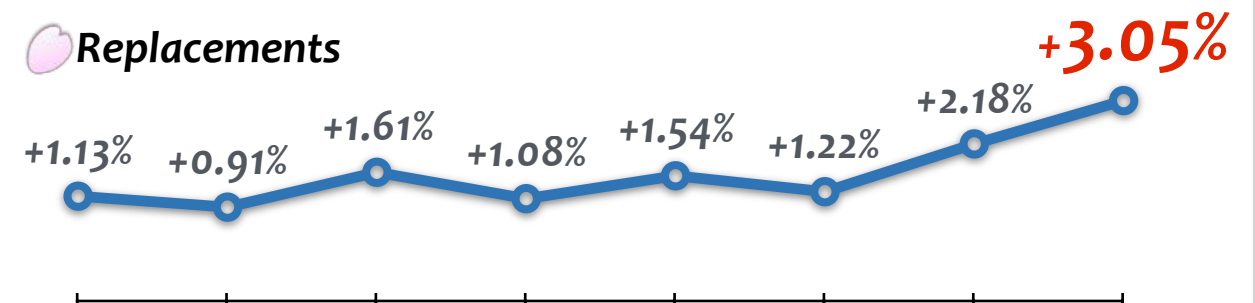
Renewals

million yen / month

	No. of Units	Ratio	Old Rent	New Rent	Difference	% Change
Increase	648 units	25.7%	90	92	+2.1	+2.41%
Unchanged	1,868 units	74.1%	219	219	-	-
Decrease	5 units	0.2%	0.6	0.5	-0.01	-2.31%
Total	2,521 units	100.0%	310	312	+2.1	+0.70%

FP17 Rent Change Details

Replacements

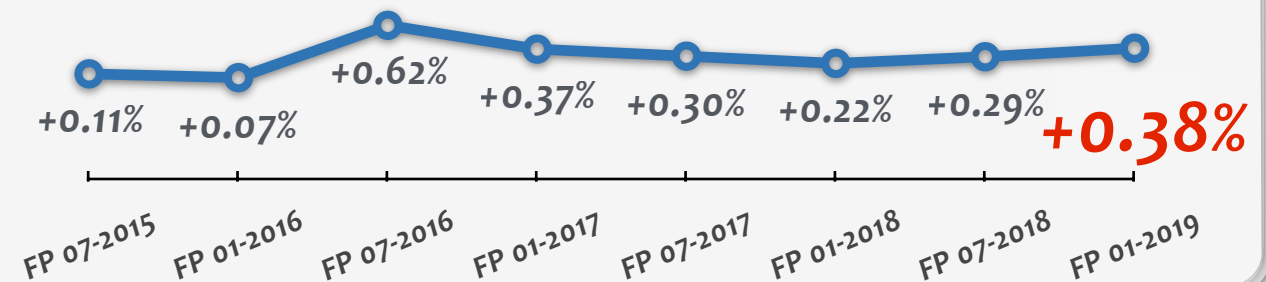


Renewals



Portfolio Total

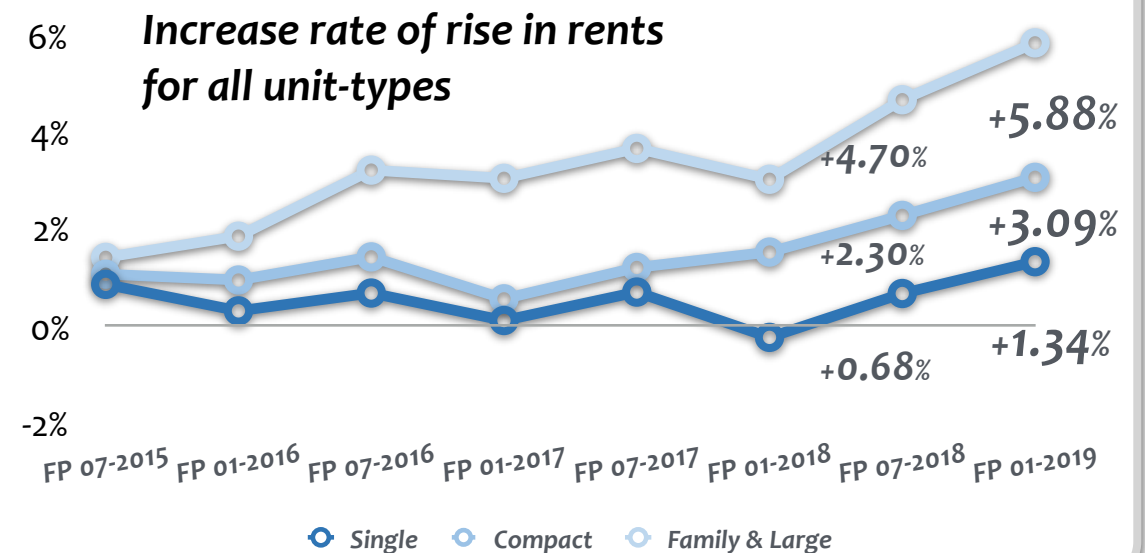
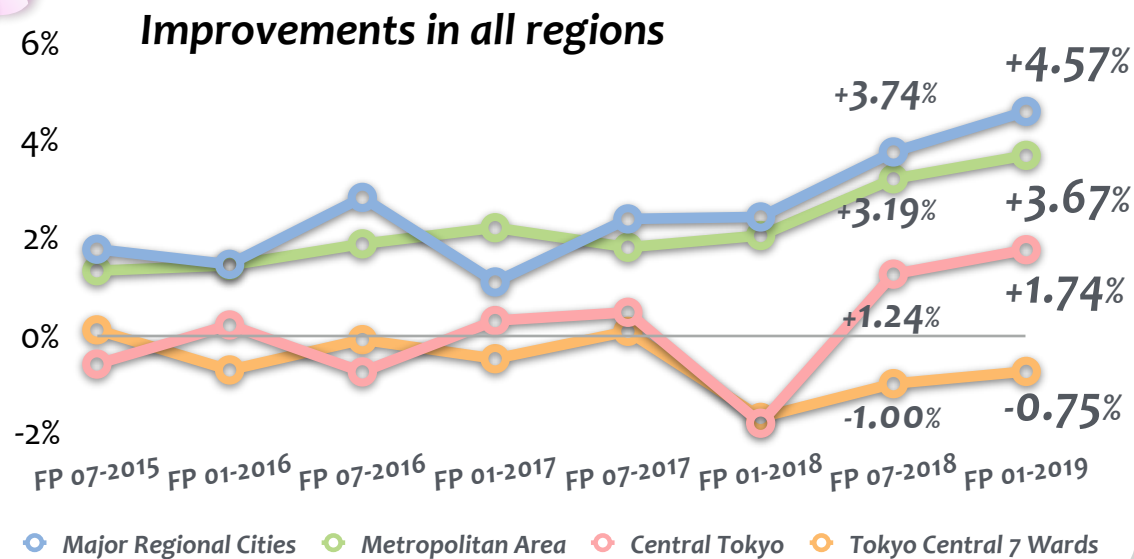
Rent Rise of **+2.37%** in 8 Fiscal Periods, Adding **+240** yen to EPU



* Rent change for pass-through units that went through replacement or renewal during the period.

Increasing Rent Rise Potential

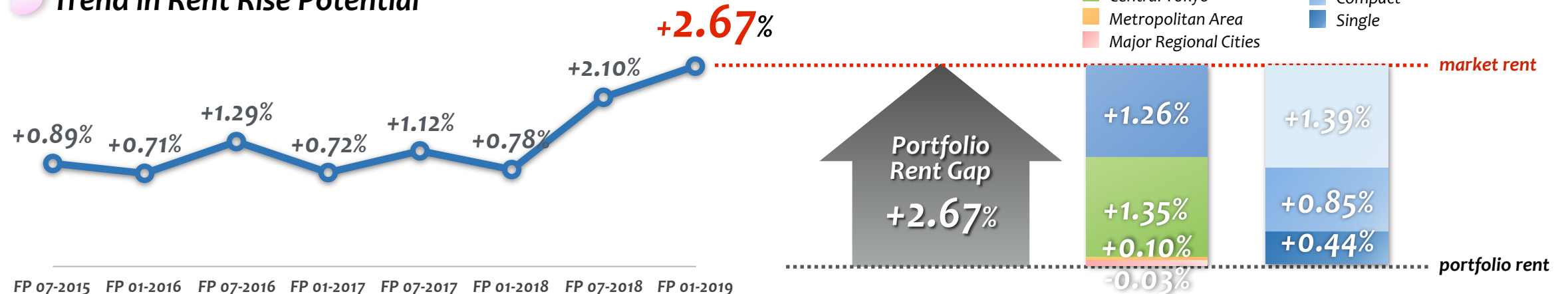
Portfolio Rent Rise *



Portfolio Rent Increase Potential *

EPU Rise of **+210~250 yen** Expected

Trend in Rent Rise Potential



* The portfolio rent increase potential is estimated by calculating the gap between the unit rent of new tenants of FP Jan. 2019 (treating the rents as approximation of market rent) and unit rent of existing tenants, aggregated for the whole portfolio for leasing contracts that are pass-throughs. The calculation is made on each property and by each unit type for properties held at the end of FP Jan. 2019.

Maintaining the Competitiveness of Properties

Value Enhancement (VE) Works

In value enhancement works, floor plans, kitchens and bathrooms and are renovated to current taste, thereby making it possible to aggressively pursue rent increases

Track Record
Since the Merger

No. of Value Enhanced Units: **316** units
No. of Units Leased-out*: **294** units
% Increase in Rents*: **15.5%**

Large-scale Repairs

Repair works are carried out at around 15 years intervals on roofings, exteriors and entrances to maintain the basic functionality of the buildings

Track Record
Since the Merger

No. of Properties: **39** properties
Total Investment: **2,463** million
Ave. Cost per Property: **63** million yen

Daily Maintenance

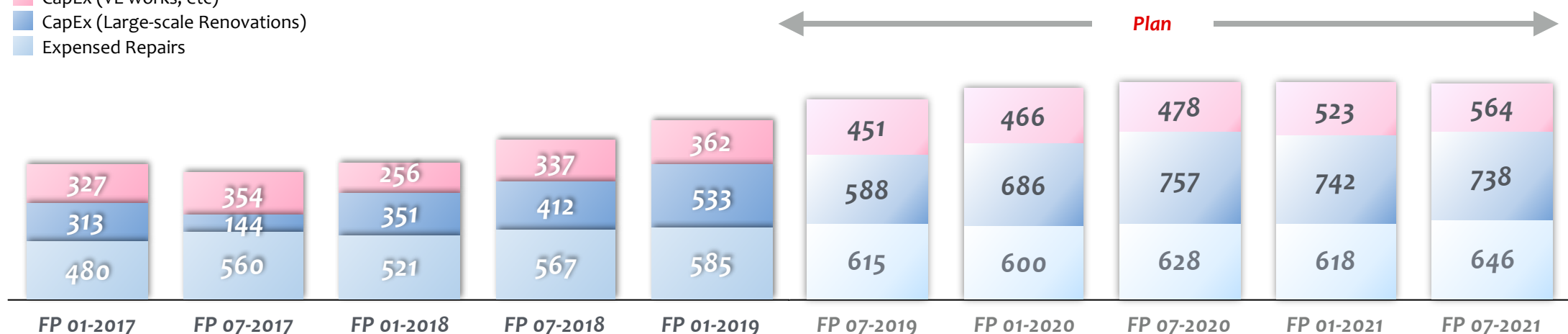
Restoration on kitchen & bathroom equipments, walls and etc. are carried out between tenant replacements

Registered as First Class Architect Office

ADIM is the first and only J-REIT asset management company to register as First Class Architect Office. Efficient management of buildings are realized by our in-house architects.

CapEx (VE works, etc)
CapEx (Large-scale Renovations)
Expensed Repairs

in million yen



* Average percentage rise in rents, comparing rents before the VE works and rents of the first lease after the VE works for the 290 leased out units (as of Feb. 28, 2019).



Large-Scale Repairs

Examples of Repairs Completed During FP January 2019

Properties Repaired during FP Jan. 2019 **5** properties **Total Expenditure** **487** million yen

RESIDIA Tower Nogizaka 14 yrs old

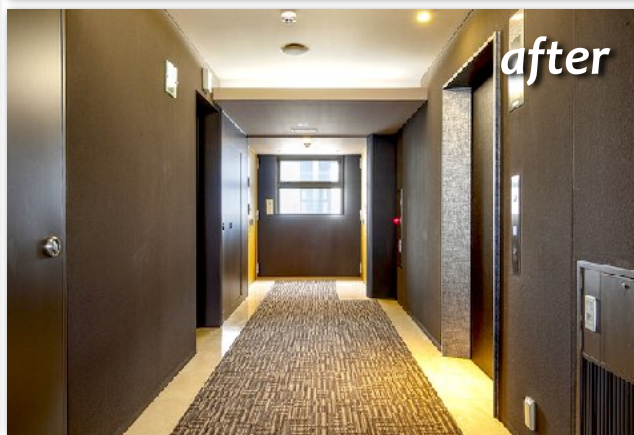
Anti-peeling coating on exterior wall tile
Added richness to the sparse looking inner hall



after



before



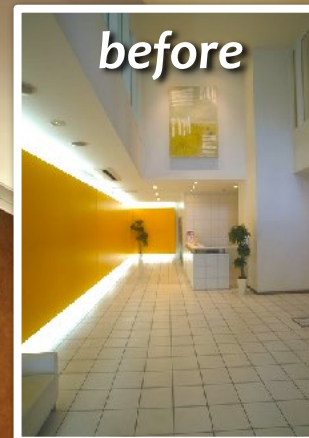
after

RESIDIA Higashi-Sakura II 13 yrs old

Entrance hall upgrade



after



before





Value Enhancement Works

Examples of Works Completed During FP January 2019

No. of Value Enhancements **26** units in **14** properties

Avg. Increase in Monthly Rent **22.2%**

RESIDIA Shinkawa II

before



Floor Plan **2LDK**
Construction Cost **3.0** million yen
Increase in Monthly Rent **+32.4%**
Projected Recuperation Period** **12** years

after

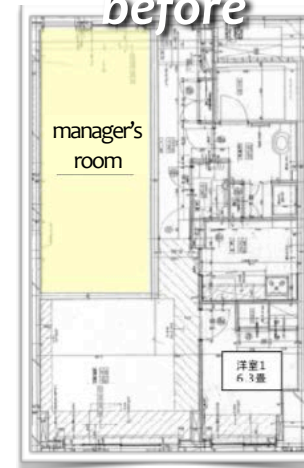


after



RESIDIA Mejiro

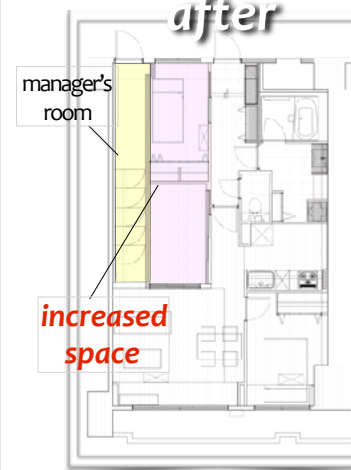
before



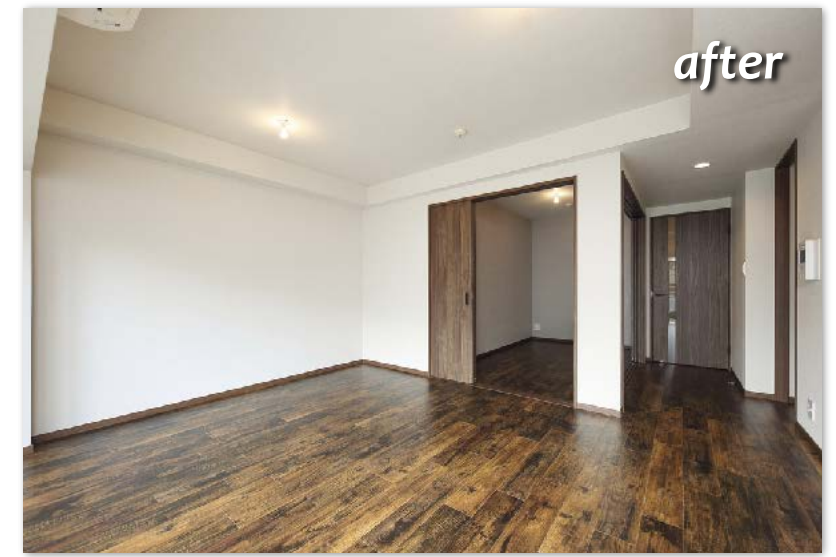
Increase rental unit's floor space by moving the wall between the rental unit and the managers room

Floor Plan (floor space) **1LDK** **55.55m²** → **3LDK** **69.25m²**
Construction Cost **5.6** million yen
Increase in Monthly Rent **+60.3%**
Projected Recuperation Period** **8** years

after



after



* Increase in monthly rents are calculated for the 24 units leased out as of August 31, 2018, dividing the newly contracted monthly rent by the previous rent.

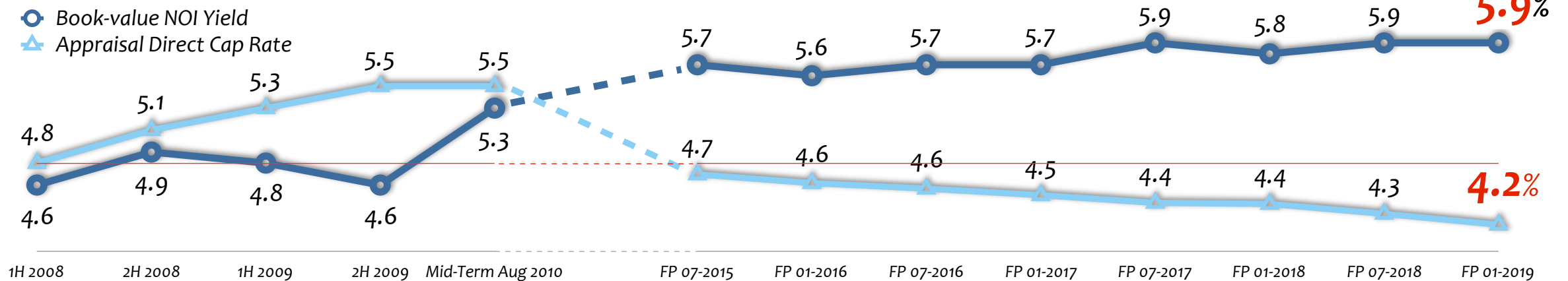
** Projected Recuperation Periods are periods projected to recuperate the value enhancement cost, which is calculated as total cost minus renovation costs and equipment replacements due to aging.



Appraisal Value

Appraisal Direct Cap Rate Trend

Cap Rate Compression Continues



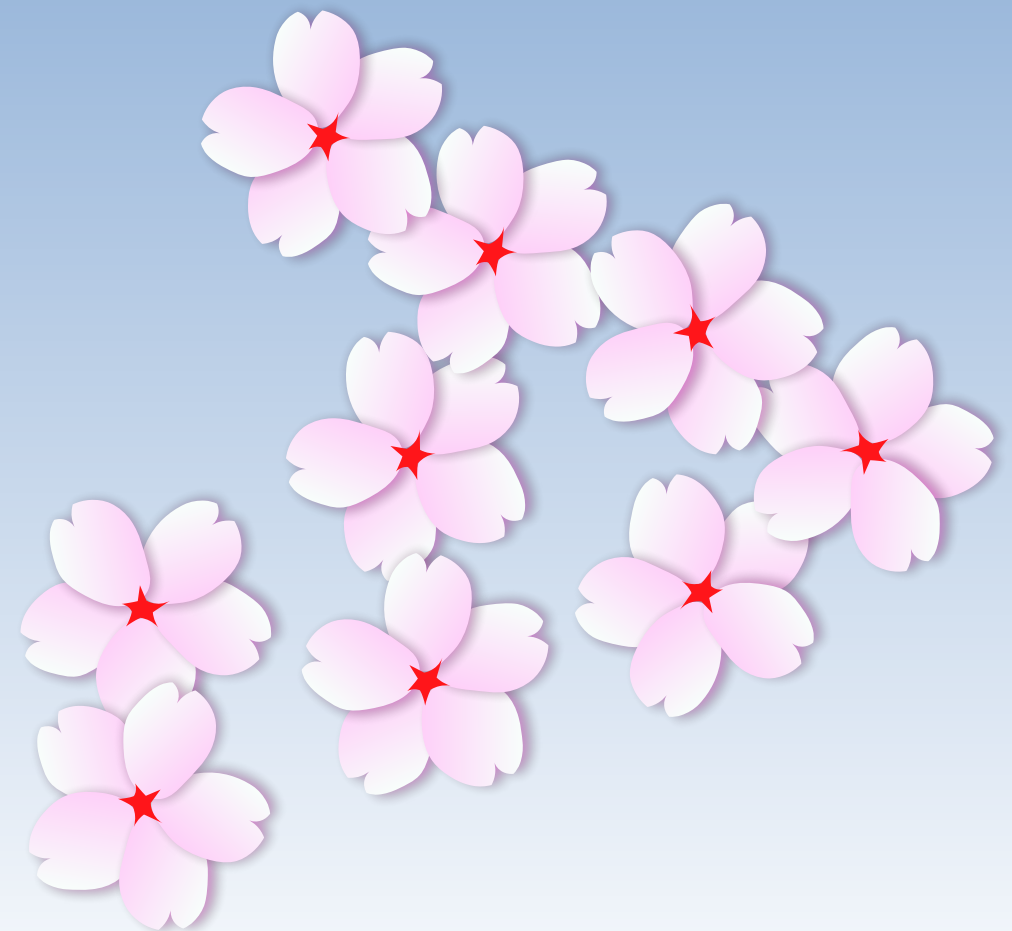
Appraisal Summary of FP Jan. 2019

Unrealized profit of **136.4** billion yen (**32.1%** of total book-value)

	Appraisal (in million yen)		Appraisal NCF (in million yen)				Direct Cap Rate (%)		Unrealized Profit and Loss (million yen)		
	End of FP Jan. '19	diff vs last FP	End of FP Jan. '19	diff vs last FP	Itemized diff**		End of FP Jan. '19	diff vs last FP	Book Value (a)	Diff. from the appraisal (b)	(b)/(a)
					rent rev	ER re-appraisal					
Tokyo Central 7 Wards	209,728	+5,446	8,490	+30	+52	-22	3.98%	-0.1pt	161,364	48,363	30.0%
Central Tokyo ex. 7 Wards	192,477	+4,627	8,059	+4	+31	-27	4.13%	-0.1pt	142,725	49,751	34.9%
Tokyo 23 Wards Total	402,205	+10,073	16,549	+34	+83	-49	4.05%	-0.1pt	304,090	98,114	32.3%
Tokyo Metropolitan	49,560	+590	2,335	-8	-7	0	4.65%	-0.1pt	37,730	11,829	31.4%
Major Regional Cities	109,796	+1,590	5,268	-31	-14	-16	4.74%	-0.1pt	83,303	26,492	31.8%
Portfolio Total	561,561	+12,253	24,152	-4	+61	-66	4.24%	-0.1pt	425,124	136,436	32.1%

* For assets acquired during the FP Jan. 2019, appraisal value at the time of acquisition is used as the previous appraisal value. ** In the "Itemized Diff", difference from the previous FP in appraisal NOI minus repair costs are listed in "rent rev" and differences in repair costs and capital expenditures due to engineering report re-appraisal are listed in "ER re-appraisal".

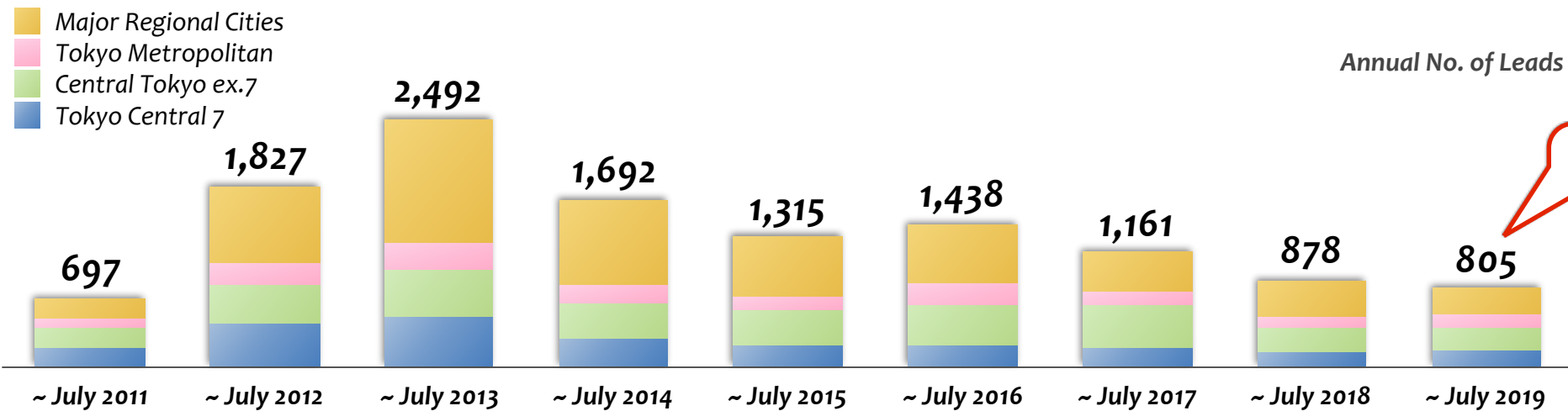
External Growth



External Growth Policy

Acquisition Leads

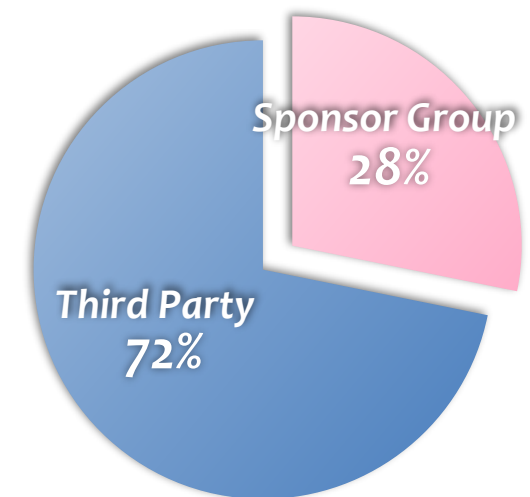
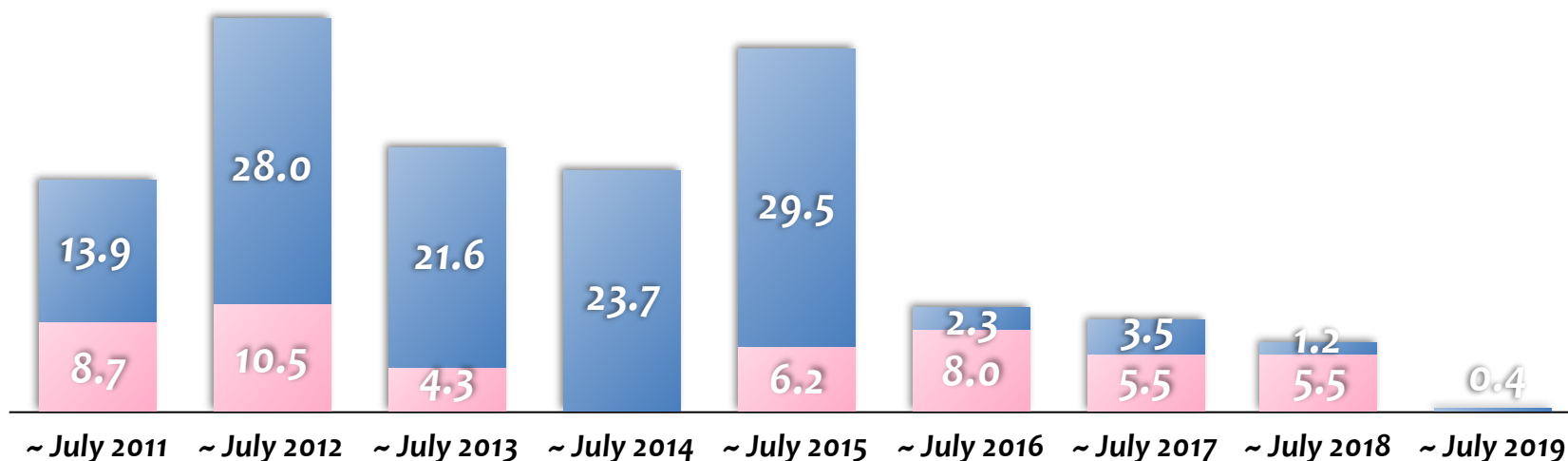
Number of Leads in Last Six Month Approaches Annual



Sourcing Track Record

Maintain Discerning Acquisition Policy

billion yen



Assets in the Pipeline

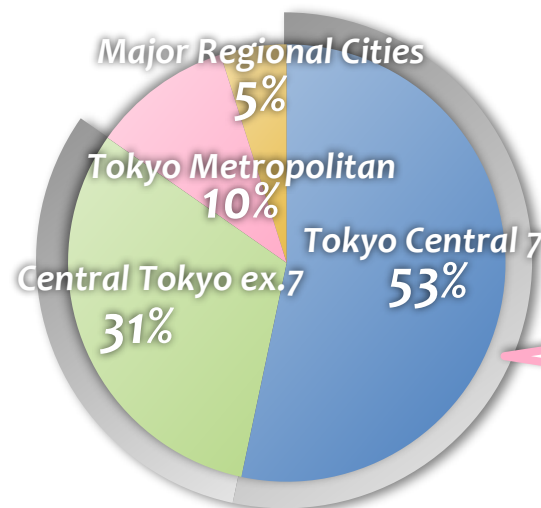
as of Jan. 2019

Sponsor Pipeline **30** properties **49.0** billion yen (of which **35.6** billion yen is completed)

Properties Developed by Itochu Group

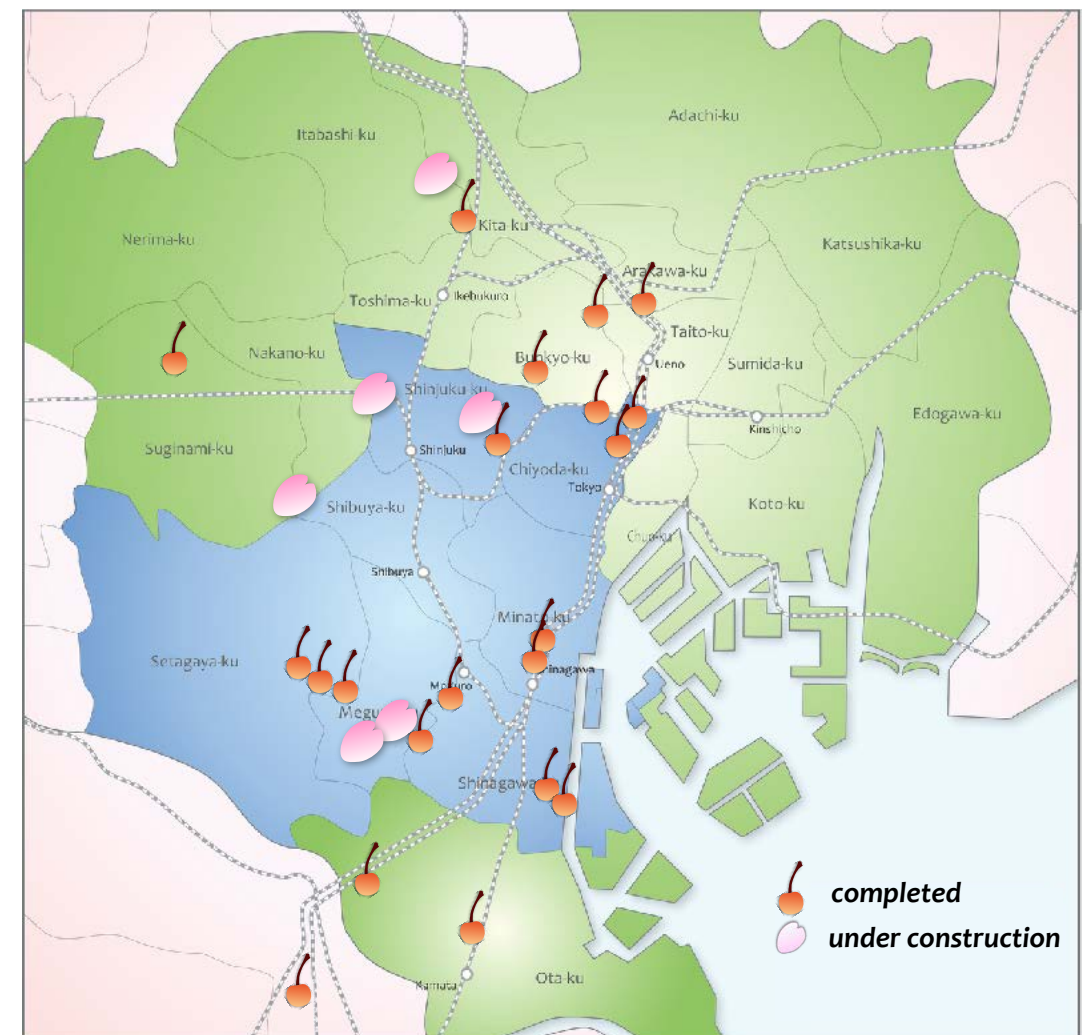
Pipeline for ADR

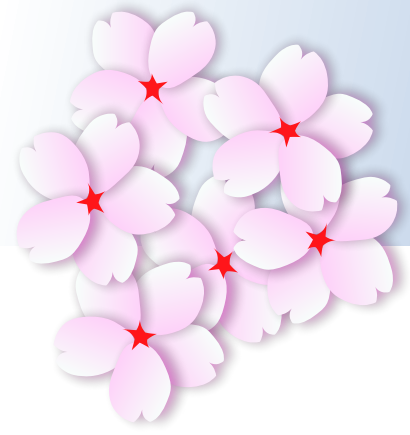
	No. of Properties	No. of Units	Expected Size	Completed
Tokyo Central 7	15 properties	935 units	26.1 bn yen	18.6 bn yen
Central Tokyo ex.7	11 properties	472 units	15.3 bn yen	11.8 bn yen
Tokyo Metropolitan	2 properties	439 units	5.1 bn yen	5.1 bn yen
Major Regional Cities	2 properties	185 units	2.4 bn yen	-
Total	30 properties	2,031 units	49.0 bn yen	



Tokyo 23 Wards
84%

Locations

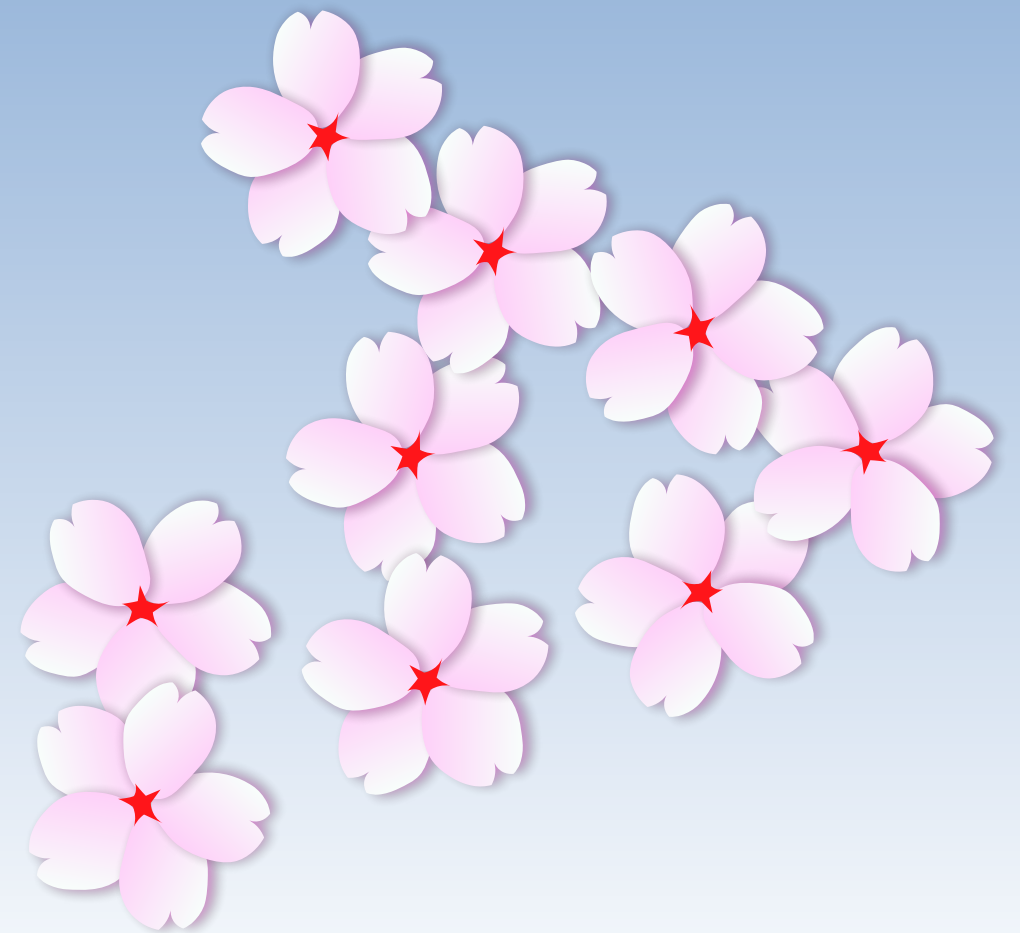




Memo



Finance



Building a Stable Financial Base

Key Figures on Debts

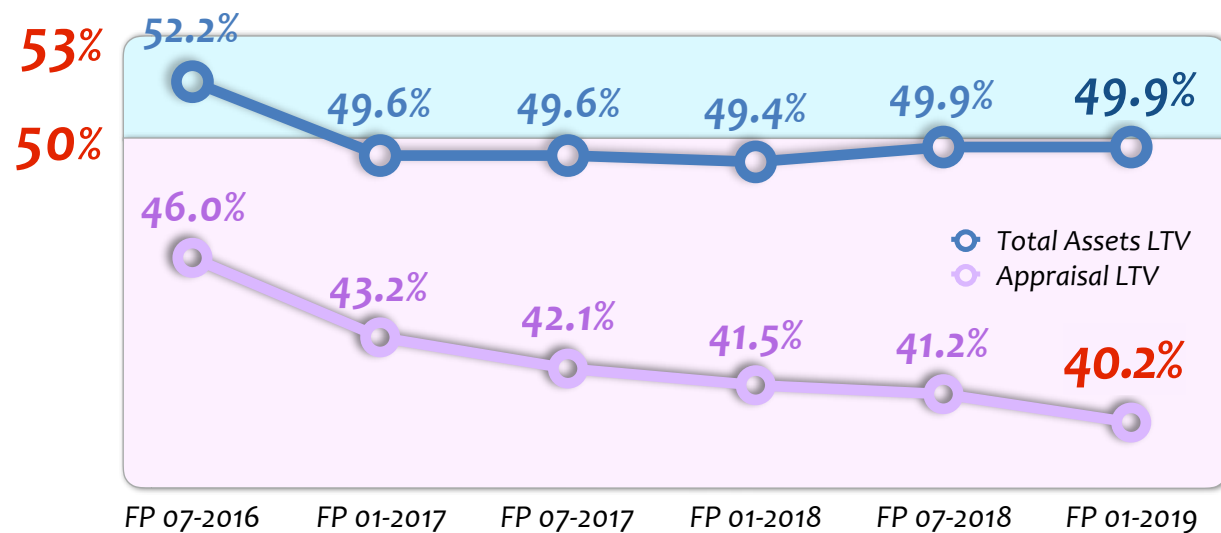
JCR **AA** (Stable) R&I **AA-** (Stable)

	FP July 2018	FP January 2019	change
Loans	196.9 bn yen	196.9 bn yen (87.2%)	-
Bonds	29.0 bn yen	29.0 bn yen (12.8%)	-
Total	225.9 bn yen	225.9 bn yen (100.0%)	-

FP Jan. 2019 Debt Financing

	Repayment	Procurement
Total	13.7 bn yen	13.7 bn yen
Avg. Interest Rate	1.10%	0.52%
Avg. Initial Duration	5.3 yrs	7.7 yrs

LTV Management



Maximum Leverage

Appraisal LTV **50%** Total Assets LTV **53%**

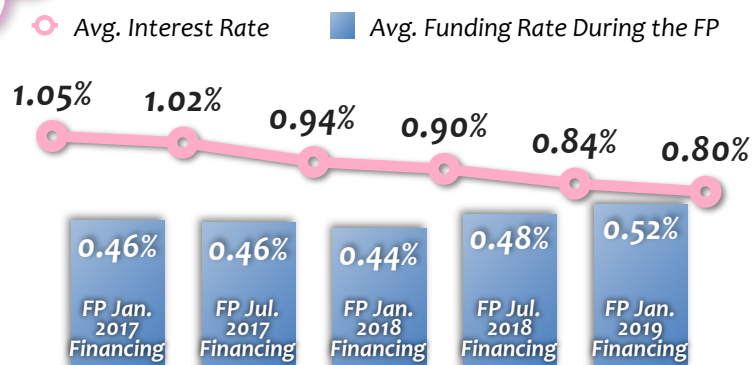
Acquisition Capacity

30.0 billion yen
at Total Asset LTV of **53%**



Aiming for Long-term Stability

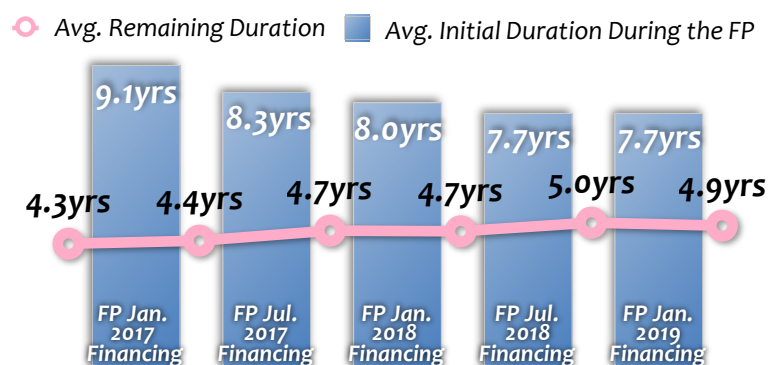
Lowering Interest Rate



FP 07-2016 FP 01-2017 FP 07-2017 FP 01-2018 FP 07-2018 FP 01-2019

* In Calculating the average interest rate for financing during the periods, amount outstanding and interest rate applicable at the end of each period is used.

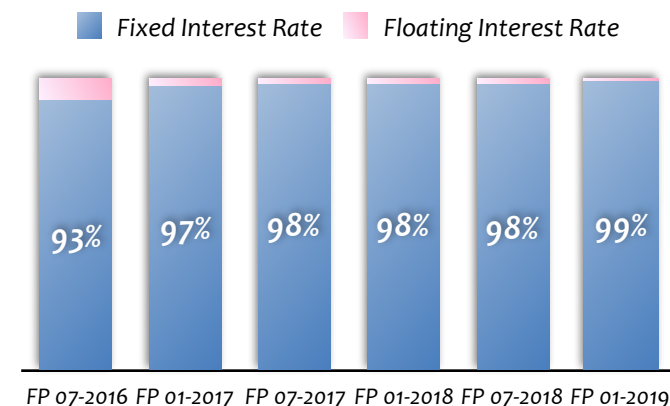
Extending Duration



FP 07-2016 FP 01-2017 FP 07-2017 FP 01-2018 FP 07-2018 FP 01-2019

* In Calculating the average debt duration for financing during the periods, amount outstanding at the end of each period is used to calculate the weighted average.

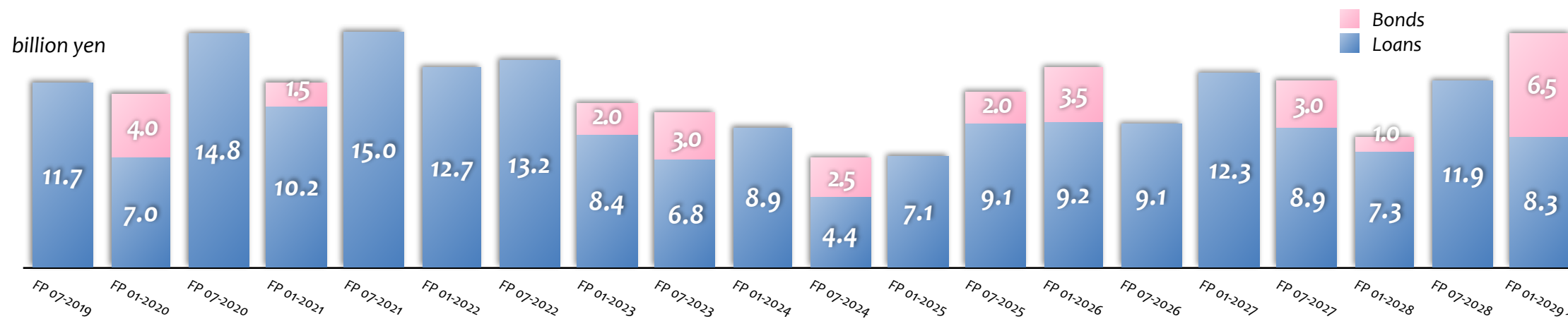
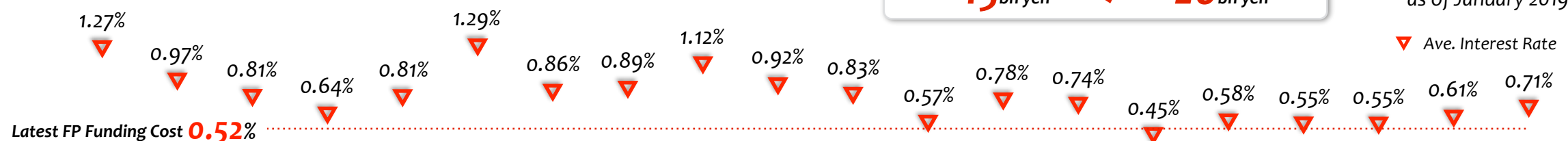
Fixing Interest Rate



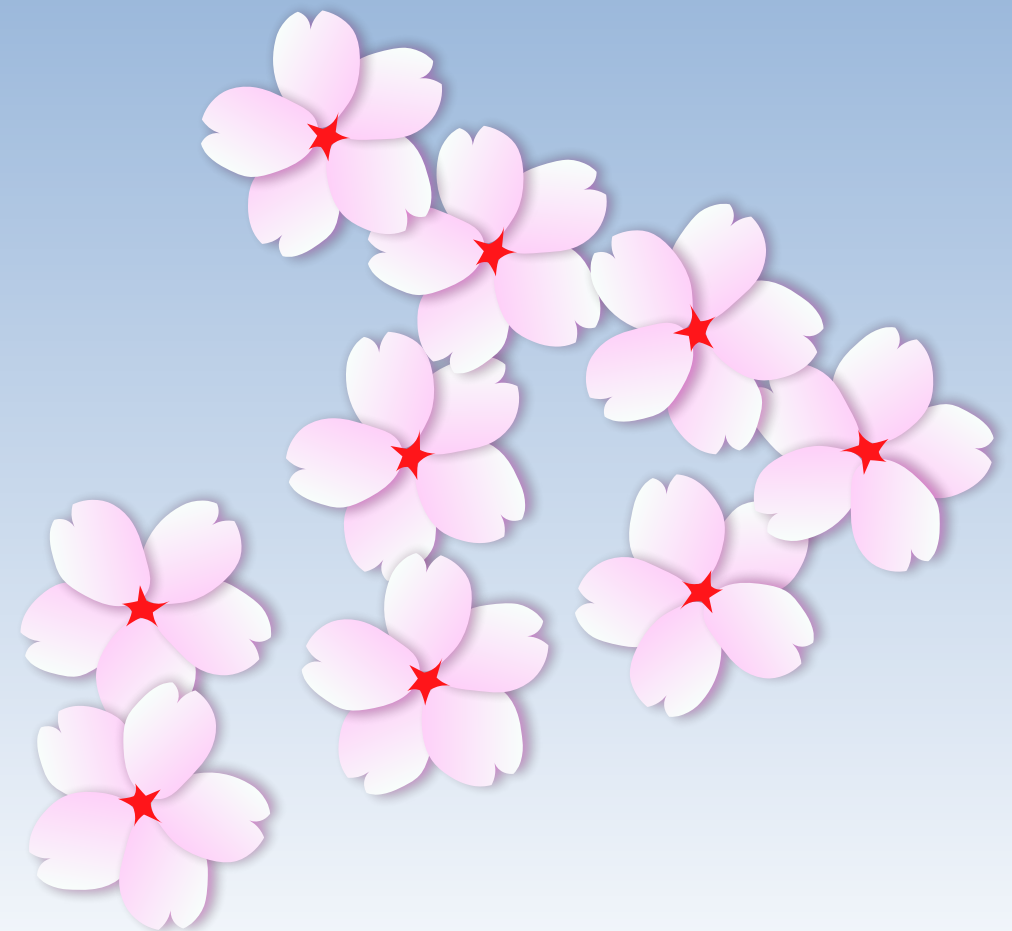
FP 07-2016 FP 01-2017 FP 07-2017 FP 01-2018 FP 07-2018 FP 01-2019

* Short-term loans are excluded.

Diversifying Duration



Guidance and DPU Target



Earnings Guidance

	(1) 17 th FP Results	(2) 18 th FP Forecast	(2)-(1)			(3) 19 th FP Forecast	(3)-(2)		in million yen
	Results for FP Jan. 2019	Forecast for FP Jul. 2019 (announced Mar. 12, 2019)	Changes	Notes		Forecast for FP Jan. 2020 (announced Mar. 12, 2019)	Changes	Notes	
Revenue	16,196 (264 properties) Period avg. occupancy 97.0%	16,237 (264 properties) Period avg. occupancy 96.6%	+41	Same Store Decrease due to lower occupancy assumption -62 Increase due to rent rise +24 Peak season increase in key money & renewal fee income +79		16,151 (264 properties) Period avg. occupancy 96.5%	-86	Same Store Decrease due to lower occupancy assumption -15 Increase due to rent rise +22 Off-peak decrease in key money & renewal fee income -93	
Operating Income	8,117 (Depreciation: 2,705) (Property taxes: 871)	8,019 (Depreciation: 2,713) (Property taxes: 877)	-98	Leasing Expenses Peak season increase in fees -116 Increase in repair costs -9 Increase in other costs -15 G & A Expenses Decrease in mgmt. fees +18 Cons. tax settlement increase -10 Increase in other expenses -6		7,947 (Depreciation: 2,726) (Property taxes: 884)	-71	Leasing Expenses Off-peak decrease in fees +90 Increase in depreciation -13 G & A Expenses Cons. tax settlement increase -37 Decrease in other expenses -24	
Ordinary Income	6,985 (Funding cost*: 1,129)	6,926 (Funding cost*: 1,090)	-58	Decrease in interest payment +40		6,885 (Funding cost*: 1,051)	-40	Decrease in interest payment +38 Increase in other non-op expenses -7	
Net Income	6,983	6,925	-58			6,885	-40		
EPU (yen)	5,173	5,130	-43	Units issued and outstanding 1,350,000 units		5,100	-30	Units issued and outstanding 1,350,000 units	
Per Unit Drawdown of Reserve** (yen)	249	249	-	Reserve** after dividend: 31.5 bn yen		249	-	Reserve** after dividend: 31.1 bn yen	
Dividend per unit (yen)	5,422	5,379	-43			5,349	-30		
Total Asset LTV	49.9%	50.0%	+0.1p			50.1%	+0.1p		

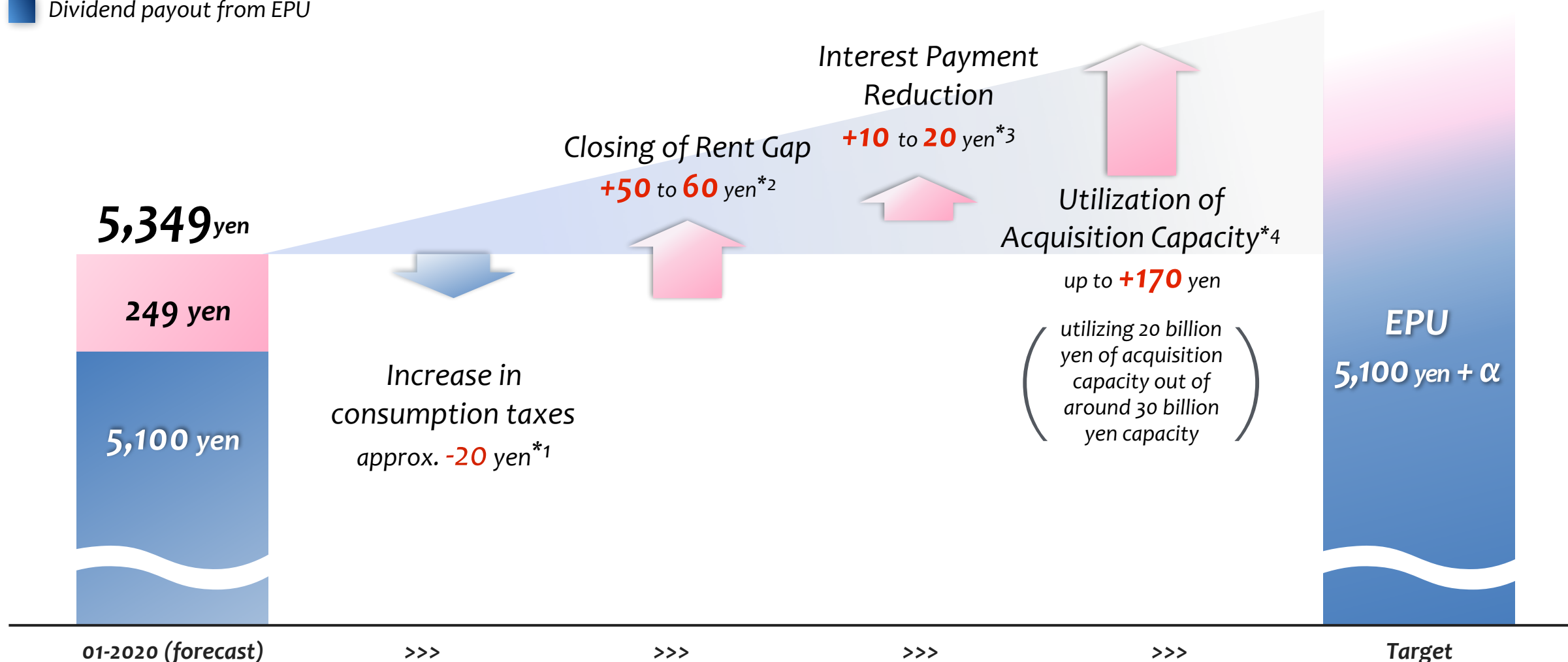
* Funding costs include interest payments for loans and bonds as well as other finance fees.
 ** "Reserve" means "Temporary Difference Adjustment Reserve".

1 to 2 Year DPU Target

Total DPU growth of **~220 yen**

- Dividend payout from drawdown of reserve
- Dividend payout from EPU

DPU **5,500 yen ~**



Assumptions are that the issued and outstanding amount of 1,350,000 ADR units will be unchanged, and that the amount of effects of various events on EPU and DPU are estimated using assumptions listed below.

^{*1} Consumption tax rate is assumed to be raised from 8% to 10%. Restoration works expected to be executed by 07-2020 are included in the calculation of depreciation projection.

^{*2} Assumption of EPU/DPU growth from the effect of the closing the rent gap is made referring to rent gap, turnover figure, lease contract term leasing costs of FP01-2019 within the time horizon of FP 01-2021.

^{*3} Interest payment reduction is based on the assumption that debts maturing by FP01-2021 will be refinanced with an average interest rate of 0.8%.

^{*4} The estimate is made using forecast figures of total assets and outstanding interest bearing debts for FP01-2019. Also the estimate is based on around two year worth of acquisition of 20.0 billion yen and assumed funding cost.