

Questions and Answers at Advance Residence Investment Corporation 's Fiscal Period July 2019 Earnings Presentation

Date: From 15:30 to 16:00, Monday, September 30, 2019

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- Advance Residence Investment Corporation is abbreviated as “ADR”.

Internal Growth Related Questions

Q1. You have told us that closing the rent gap by rising rents could contribute to the rise of 72 yen per annum in dividend but how should we understand this?

A1. As shown on slide 13, the rent gap is 4.01% in this fiscal period and tenant turnover is 4.3 years. Although it is a separate question whether we could execute as such, for the gap to close, the rent must rise by 1% annually. This is about 72 yen rise in dividend per year.

Q2. What are the factors that support the rise in rents?

A2. Strong market rents indicate that situations in supply and demand for rental apartments are both favorable. On the supply side, if the condominiums' current high prices are maintained, the supply of rental apartments will not increase.

On the demand side, we are seeing a rise in double income households who prefer to live close to the place of work, therefore, live within the area encircled by the JR Yamanote Line. In addition, those who are refraining from purchasing due to the high price of condominiums are choosing to rent apartments.

Furthermore, the tenant's budget is increasing because companies have increased housing assistance to attract staffs. If the current economic environment continues and the price of condominiums does not collapse significantly, this momentum is likely to continue.

Q3. A very strong rise in rents is seen in central Tokyo area. Will rent rises continue for a while? Also, will rent rises in regional areas catch up with those of Tokyo's?

A3. Rent rises in central Tokyo area will continue. Since Tokyo is the center of Japanese economy, population inflows will continue and rents are expected to rise more strongly than other regions.

Rent rises in Fukuoka and the Kansai area are expected to continue if the economy does not collapse significantly.

On the other hand, in Sendai area, we think the current level of rent will be maintained

due to the inflow of population accompanying reconstruction has calmed down.

The market of rental apartments in Nagoya will continue to be severe due to the continuing significant supply of rental apartments in the region.

Q4. Is there a difference in the rate of rent rises by building age?

A4. There is almost no difference by building age. The rent rise difference is mostly affected by location, nearer to the center of Tokyo, the higher the rate of rent rise regardless of building age. The rate is also higher for the larger units such as compact and family types.

Real Estate Market Related Questions

Q5. Will you continue to dispose properties in your portfolio? What is your basic disposition policy?

A5. We have almost no candidate properties to sell. Since the merger, we have actively sold high-end properties and acquired mainly single and compact types. In addition, we have sold properties with low occupancy rates and yields.

That said, even in this favorable environment, we own few properties with unrealized losses on properties with low yields, these properties are candidates.

Q6. What is your target yield for future acquisition? Will you acquire a property that can expect a rent rise even if the yield is somewhat low?

A6. We focus on stabilized yield. If the yield is low even with a rise in rent, it will not be acquired. Regardless of the unit type and area, we will invest in properties which we can expect the rent to rise enough for the stabilized yields to reach our target.

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