

**For Immediate Release**

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Notice Concerning Acquisition of Investment Asset (RESIDIA Kumamoto-Karashima)

ITOCHU REIT Management Co., Ltd. (IRM), the asset management company to which Advance Residence Investment Corporation (ADR) entrusts the management of its assets, announced its decision today to have ADR acquire an asset located in Japan (hereafter, the “Acquisition”) as detailed below as part of ADR’s growth strategy.

## 1. Details of the Acquisition

IRM decided on the following acquisition pursuant to the target and policy of asset management as stipulated in the Articles of Incorporation of ADR, for steady increase in asset size and diversification and enhancement of the portfolio.

Name of the Asset-To-Be-Acquired <sup>(Note 1)</sup> (Assets)	RESIDIA Kumamoto-Karashima (Beneficiary Interests in Trust)
Proposed Acquisition Price <sup>(Note 2)</sup> (Price / Appraisal ratio)	4,000 million yen (96.2%)
Real Estate Appraisal Value <sup>(Note 3)</sup>	4,160 million yen
NOI Yield <sup>(Note 4)</sup>	5.1%
Yield after Depreciation <sup>(Note 5)</sup>	3.8%
Building Age <sup>(Note 6)</sup>	15.7 years
Seller	Meiwa Real Estate Co.
Broker Availability	Applicable
Scheduled Contract Date	October 26, 2022
Scheduled Acquisition Date	November 8, 2022 or a date to be separately agreed upon with the seller
Acquisition Financing (Payment Method)	Borrowings and cash on hand (Lump-sum payment on delivery)
Collateral	None

(Note 1) The name of the asset-to-be-acquired is scheduled to be changed after acquisition by ADR, and the names after the change are stated. The name of the property as of today is “vivo karashima”.

(Note 2) “Proposed Acquisition Price” refers to the purchase price written in the beneficiary transfer agreements for the asset-to-be-acquired and does not include various expenses needed for the acquisition such as taxes and public dues.

(Note 3) “Appraisal Value” of the asset-to-be-acquired is as of August 1, 2022.

(Note 4) “NOI Yield” is calculated as follows: annualized NOI written in the appraisal document at the time of the acquisition of the asset-to-be acquired and calculated using direct capitalization method / proposed acquisition price x 100. The calculated yield is rounded at the second decimal point.

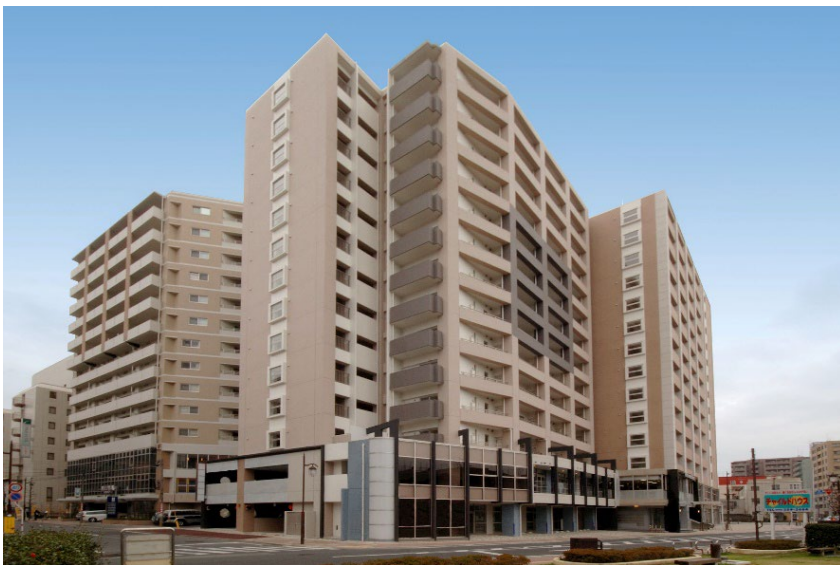
(Note 5) “Yield after Depreciation” is calculated as follows: (annualized NOI written in the appraisal document at the time of the acquisition of the asset-to-be-acquired and calculated using direct capitalization method – annual depreciation cost) / proposed acquisition price x 100. The calculated yield is rounded at the second decimal point. As is the case with the existing portfolio of ADR, the depreciation cost of the assets-to-be-acquired is calculated by ADR, using the straight-line method under certain assumptions and estimated at 51,567 thousand yen a year.

(Note 6) “Building Age” is the age of the building as of the date of this document and is rounded at the second decimal point.

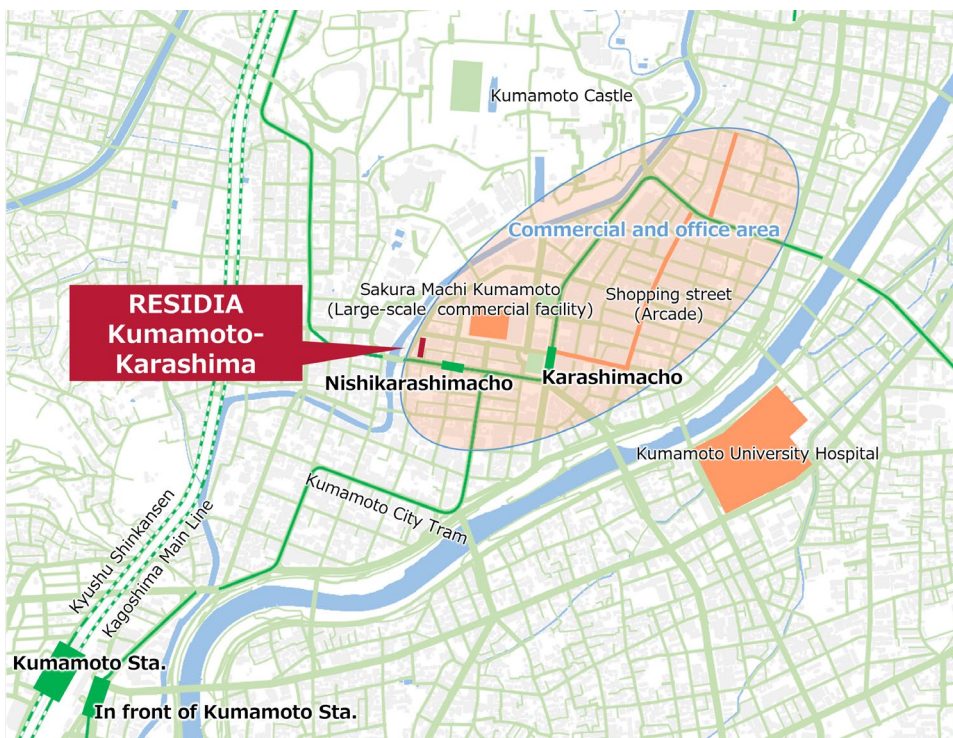
On acquiring this property, IRM has highly rated the following properties attributes of the property:

- It is located in the city center, a 1-minute walk from Nishikarashimacho on the Kumamoto City Tram (streetcar) and has good accessibility.
- It is adjacent to commercial facilities and office areas, both of which can be accessed within a 10-minute walk, and thus rental demand can be expected from singles and DINKs who work in the surrounding area.
- It is conveniently located near several shopping streets, including Sakura Machi Kumamoto, a commercial facility with a large bus terminal, Sun Road Shinshigai, and Shimodori Shopping Street.

## 2. Photos of the Asset-To-Be-Acquired



## 3. Map of the Asset-To-Be-Acquired: 4-26, Karashimacho, Chuo-ku, Kumamoto City, Kumamoto



\*The maps are partially processed from Geospatial Information Authority of Japan "Geospatial Information Authority Map Vector".

#### 4. Summary of the Asset-To-Be-Acquired

Property Number	R-086
Name of the Asset-To-Be-Acquired	RESIDIA Kumamoto-Karashima
Address	4-26, Karashimacho, Chuo-ku, Kumamoto City, Kumamoto
<b>Land</b>	
Type of Ownership	Beneficiary Interests in Trust
Area	2,051.46 m <sup>2</sup>
Zoning	Commercial district
FAR / Building Coverage Ratio	600% / 80%
<b>Building</b>	
Type of Ownership	Beneficiary Interests in Trust
Total Floor Space	14,988.83 m <sup>2</sup>
Structure / Floors	Reinforced concrete with flat roof / 14 floors and 1 basement story
Use	Stores, Multi-family housing, parking lots
Construction Completion Date	February 28, 2007
Building Inspector	Kumamoto City
Building Designer	Tatara First-Class Architect Office Co.
Structural Engineer	Yurino Kozo K.K. First-Class Architect Office
Construction Contractor	Tatara Co.
Trustee	Mitsubishi UFJ Trust and Banking Corporation (Planned)
Trust Contract Period	From November 8, 2022 to November 30, 2032 (Planned)
Property Management Company <sup>(Note7)</sup>	Meiwa Real Estate Management Co. (Planned)
Master Lessee	ITOCHU Urban Community Ltd. (Planned)
Master Lease type	Pass-through
<b>Summary of Building Conditions Investigation Report</b>	
Investigator	Tokio Marine dR Co., Ltd.
Investigation Date	August 4, 2022
Emergency Repair Costs	-
Short-term Repair Costs (within 1 year)	-
Long-term Repair Costs (next 12 years)	376,123 thousand yen
Building Replacement Price	3,763,000 thousand yen
Earthquake PML	9.5%
<b>Lease Conditions</b>	
Point in Time	As of September 30, 2022
Total Tenants	1
Leasable Units	308
Leased Units	291
Leasable Floor Area	11,545.32 m <sup>2</sup>
Leased Area	10,883.70 m <sup>2</sup>
Occupancy Rate (based on floor area)	94.3%
Monthly Rent	20,017 thousand yen
Deposits, Guarantees, etc.	11,205 thousand yen
<b>Number of Units by Type</b>	
Single	108
Compact	168
Family	24
Large	0
Dormitory	0
Other	8
<b>Other Relevant Information</b>	
	None

(Note 7) ITOCHU Urban Community Ltd. will be entrusted with the master lease and property management for the Asset-To-Be-Acquired, with property management to be outsourced to Meiwa Real Estate Management Co. from ITOCHU Urban Community Ltd.

Please refer to “Notes and definitions on items on the tables in the press releases for asset acquisition” on ADR’s website for details on items on the above table. (<https://www.adr-reit.com/en/ir/news/>)

## 5. Appraisal Report Summary

Name of Property	RESIDIA Kumamoto-Karashima	Appraisal Date	August 1, 2022
Appraiser	Japan Real Estate Institute	Appraisal Value	4,160,000 thousand yen
Appraisal Items	Appraised Value (Thousands of yen)	Basis	
Income Capitalization Approach Value	4,160,000	Income capitalization approach value was appraised using both DCF method and direct capitalization method.	
Direct Capitalization Price	4,190,000		
Total Potential Income	284,499		
Rent Income	261,906	Estimated the rents steadily receivable over the medium to long term based on the terms of existing lease agreements and other factors.	
Other Income	22,593	Recorded income such as key money and renewal fee by estimating the annual average renewal rate and the average contract period.	
Total Effective Income	273,641		
Losses from Vacancies, etc.	10,858	Estimated steady levels of occupancy rates over the medium to long term based on the occupancy status and supply-demand trends of comparable properties as well as the occupancy status and future trends of the target property.	
Losses from Delinquencies	0	Recording this item was considered unnecessary given lessee situations.	
Expenses from rental business	71,593		
Maintenance and Management Fees	10,038	Estimated by referring to historical figures and the levels of comparable properties and taking into account the uniqueness of the target property.	
Utilities Costs	5,400	Estimated by referring to historical figures and taking into account the levels of comparable properties and the uniqueness and other factors of the target property.	
Management Commission Fees	8,821	Estimated by referring to fees under planned contract terms and taking into account fees of comparable properties and the uniqueness and other factors of the target property.	
Taxes and Public Dues	22,714	Estimated based on documents concerning taxes and public dues.	
Non-life Insurance Premium	718	Estimated by taking into account insurance premiums of insurance policies and insurance premiums of buildings comparable to the target building.	
Leasing Expenses	6,707	Fees such as administrative fees required for attracting new tenants are estimated by referring to contract terms and the lease terms of comparable properties and taking into account the annual average turnover rate and occupancy rate.	
Repair Costs	14,517	In addition to restoration costs based on the usual levels of such costs and the percentage to be borne by lessees, repair costs are estimated by taking into account historical figures, the levels of comparable properties, and the annual average of repair/renewal costs in the ER.	
Other Expenses	2,678	Based on actual internet usage fees and furniture and appliance rental fees.	
Net Operating Income	202,048		
Earnings from Deposits	107	The number of months of deposit over the medium to long term was estimated. The amount was then multiplied by the occupancy rate, and then multiplied by the assumed investment yield of 1.0%.	
Capital Expenditures	21,941	Estimated by considering the level of capital expenditures of comparable properties, building age, the annual average repair/renewal expenses in the ER, and other factors.	
Net Cash Flow DCF Price	180,214		
Cap Rate	4.3%	Estimated by adjusting the yield spread determined by location of the target asset, building specifications, and other conditions from the base yield for each area while also considering future uncertainties and actual cap rates in deals for comparable properties.	
DCF Price	4,130,000		
Discount Rate	4.1%	Estimated by comprehensively considering the uniqueness of the target property, with reference to the transaction investment returns for similar properties, etc.	
Terminal Cap Rate	4.4%	Estimated by considering potential increases in capital expenditures due to the building's deterioration with age as well as the impact of property market uncertainties and aging of the building on liquidity.	
Cost Approach Value	4,070,000		
Land Ratio	57.0%		
Building Ratio	43.0%		
Other Matters of Consideration			
None			

## 6. Seller Profile

Trade Name	Meiwa Real Estate Co.
Location	4-35 Karashimacho, Chuo-ku, Kumamoto City, Kumamoto
Representative	Representative Director Einosuke Kawaguchi
Principal business	Real estate sales, exchange, planning, development, leasing, brokerage, and related consulting, etc.
Capital	71,600 thousand yen
Data of establishment	April 1, 1986
Total assets	Not disclosed
Shareholders' equity	Not disclosed
Total capital	Not disclosed
Large shareholders	Not disclosed
Relationship with ADR or IRM	
Equity relations	None
Personnel relations	None
Business relations	None
Related parties' status	None

## 7. Property Titleholder (for transactions with parties with special interest)

Omitted. Property is not acquired from parties with special interest.

## 8. Disclosures on IRM's Vested Interest Concerning the Asset-To-Be-Acquired

ADR is scheduled to sign a master lease agreement and delegate property management services regarding the assets-to-be-acquired to ITOCHU Urban Community Ltd which is a related party of IRM. Accordingly, the transaction approval procedures stipulated in IRM's bylaws on "Rules Regarding Related Party Transaction" will be performed. The property management of the property is scheduled to be re-commissioned to Meiwa Real Estate Management Co.

## 9. Matters Concerning Earthquake Resistance

The validity of structural calculation document has been examined by a third-party inspector. ADR has obtained the inspection results stating that no intentional manipulations, falsifications, or other corruptions in the structural calculation document were found and that the structural calculation is deemed to have been performed in accordance with the law.

### Third-Party Inspector Profile

Trade name	Tokio Marine dR Co., Ltd.
Head Office Location	1-5-1 Otemachi, Chiyoda-ku, Tokyo
Representative	Taizo Shimakura, President and Chief Executive Officer
Capital	100 million yen
Large shareholder	Tokio Marine Holdings, Inc.
Principal business	1. Examination, research, provision of information, diagnosis, consulting, seminars, publications, and training on safety, disaster prevention, health, environment, product safety, and information management, etc. 2. Contracting of corporate and other business and administration such as in relation to safety, disaster prevention, health, environment, product safety, and information management. 3. Design, implementation, and supervision of construction work, civil engineering work, equipment work, soil contamination removal work, etc. 4. Market data gathering and analysis, risk measurement, due diligence including corporate value calculation, etc.
Relationship with ADR or IRM	None

## 10. Broker Profile

Omitted. The broker does not have special interest with ADR or IRM.

## 11. Outlook

The impact of this Acquisition on the earnings forecasts for the 25th fiscal period (from August 1, 2022 to January 31, 2023) and the 26th fiscal period (from February 1 to July 31, 2023), published in the Brief Summary of Kessan Tanshin (Financial Report) dated September 14, 2022, will be negligible, and no change will be made to the forecast.

### 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/>