

April 27, 2023

For Immediate Release

Advance Residence Investment Corporation
Securities Code: 3269
1-105 Kanda-Jinbocho, Chiyoda-ku, Tokyo
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Notice Concerning Disposition of Investment Asset
(RESIDIA Azabudai, RESIDIA Sakae)

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 and Reason of the Disposition

The purpose of the Disposition is to realize stable dividend payout through realization of gain on sale. The disposition price will exceed the book value, and the Disposition is expected to generate a total gain on sale of 1,808 million yen over two fiscal periods. We are considering the gain on sale will be temporarily retained as a reserve and used to increase dividends in the future.

In addition, the decision to the Disposition was made based on the judgment that the Disposition would contribute to the improvement of unitholder value after comprehensively taking the following individual reasons into consideration.

(1) RESIDIA Azabudai

As a redevelopment preparatory association has been formed in the area including RESIDIA Azabudai, there is a high possibility that the stability of revenue will be damaged during the period of the redevelopment project if the redevelopment project is implemented in the future.

(2) RESIDIA Sakae

RESIDIA Sakae has an acquisition price-based NOI yield^{Note 1} of 4.4%, which is lower than the average yield of 5.9% of ADR's properties in the Nagoya area.

RESIDIA Azabudai is planned that the beneficiary interests will be sold in twice in the form of quasi co-ownership interests in each 49% and 51% for the purpose of equalizing dividends.

About RESIDIA Sakae, although the expected disposition price is lower than the appraisal value, we have decided the disposition at this time in consideration of its future profitability, etc.

Property Name	RESIDIA Azabudai	RESIDIA Sakae
Location	3-4-9 Azabudai, Minato-ku, Tokyo	5-7-16 Sakae, Naka-ku, Nagoya City, Aichi
Type of Asset	Beneficiary Interests in Trust	Real Estate
Disposition Price	Total 3,288 million yen ^{Note2} (1) 1,611 million yen (quasi co-ownership interests 49%) (2) 1,676 million yen (quasi co-ownership interests 51%)	919 million yen
Appraisal Value ^{Note3}	2,200 million yen	951 million yen
NOI Yield ^{Note4}	2.4%	4.1%
Book Value ^{Note5}	Total 1,505 million yen (1)737 million yen (2)767 million yen	893 million yen
Difference between Disposition Price and Book Value	Total 1,782 million yen (1)873 million yen (2)909 million yen	26 million yen
Counterparty	Not disclosed	Liv co., Ltd.
Scheduled Contract Date	April 27, 2023	
Scheduled Disposition Date	(1) July 3, 2023 (quasi co-ownership interests 49%) (2) August 1, 2023 (quasi co-ownership interests 51%)	April 28, 2023
Payment Method	An amount equivalent to 10% of the expected disposition price will be received as a deposit on the scheduled contract date of the beneficiary interest transfer agreement, 39% of the expected disposition price, which is the remaining amount, on the scheduled disposition date(1), and 51% on the scheduled disposition date(2).	Full payment on delivery

Note 1. "Acquisition price-based NOI Yield" is calculated as follows: "(Average actual annual NOI in the period from July 2020 to January 2023) ÷ acquisition price × 100." The calculated yield is rounded to the second decimal place.

Note 2. It is planned that the beneficiary interests will be sold in twice in the form of quasi co-ownership interests in each.

Note 3. "Appraisal Value" is as of January 31, 2023.

Note 4. "NOI Yield" is calculated based on disposition price as follows: "(Average actual annual NOI in the period from July 2020 to January 2023) ÷ estimated disposition price × 100." The calculated yield is rounded to the second decimal place. The NOI Yields calculated based on the acquisition price are 4.9% for RESIDIA Azabudai and 4.4% for RESIDIA Sakae.

Note 5. "Book value" is the estimated price as each of the Scheduled Settlement Date.

2. Summary of Disposition

No.	(1)	(2)
Property Number	T-047	R-071
Property Name	RESIDIA Azabudai	RESIDIA Sakae
Address	3-4-9 Azabudai, Minato-ku, Tokyo	5-7-16 Sakae, Naka-ku, Nagoya City, Aichi

Land		
Type of Ownership	Beneficiary Interests in Trust	Property ownership
Area	378.20 m ²	391.83 m ²
Zoning	Commercial district	Commercial district
FAR/Building Coverage Ratio	500%/80%	500%/80%

Building		
Type of Ownership	Beneficiary Interests in Trust	Property ownership
Total Floor Area	2,176.51 m ²	2,226.62 m ²
Structure/Floors	Reinforced concrete with flat roof/14 floors	Reinforced concrete with flat roof/12 floors
Use	Residence	Residence
Construction Completion Date	February 2006	December 2007

Trustee	Mitsubishi UFJ Trust and Banking Corporation	-
Trust Period	March 31, 2030	-

Lease Conditions		
Point in Time	As of March 31, 2023	As of March 31, 2023
Total Tenants	1	1
Leasable Units	47	77
Leased Units	45	70
Leasable Floor Area	1,732.06 m ²	1,805.98 m ²
Leased Floor Area	1,660.86 m ²	1,641.84 m ²
Occupancy Rate (based on floor area)	95.9%	90.9%
Monthly Rent	8,106 thousand yen	4,398 thousand yen
Deposits, Guarantees, etc.	9,793 thousand yen	1,314 thousand yen

Single	22	77
Compact	24	-
Family	1	-
Large	-	-
Dormitory	-	-
Other	-	-

Other Relevant Information		
	<p>A portion of the trust land (approx. 69 m²) is located within an urban planning road (Auxiliary Route 4, planned width 25m). No decision has been made on the project, and details such as the timing of the project and the area to be expropriated have not yet been determined, but if a decision is made in the future, the building may become existing noncompliance due to expropriation of land.</p> <p>In the event of the Disposition of the property, ADR plans to execute a beneficiary interest quasi co-ownership agreement with the buyer, which is a quasi co-owner of the real estate trust beneficiary interest in the property, and in the said agreement, the following items will be agreed upon. The agreement will be terminated upon the complete transfer of the said real estate trust beneficiary interests by ADR through the transfer of the remaining quasi co-ownership interest (51%) from ADR to the buyer, which is scheduled to take place on August 1, 2023.</p> <p>(1) The quasi co-owners agree not to request a division of the trust beneficiary interests for a period of five years from the date of commencement of quasi co-ownership.</p> <p>(2) The quasi co-owners agree that any decision-making with respect to the execution, termination or amendment, etc. of any material agreement concerning the property, budget decisions and increases, etc., disposition of the property and other decisions, etc., shall be made by unanimous agreement of the quasi co-owners.</p> <p>(3) A quasi co-owner may not transfer the beneficiary co-ownership interest held by it to a third party without the prior written consent of all the quasi co-owners.</p>	Not applicable

3. Summary of Appraisal Report

(1) T-047 RESIDIA Azabudai

As of January 31, 2023

Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	Appraised value	2,200,000 thousand yen
Appraisal item	Appraised value (Thousand yen)	Basis	
Income Capitalization Approach Value	2,200,000	Estimated the income value of the subject property by relating the income value obtained by the DCF method to the income value obtained by the direct capitalization method.	
Direct Capitalization Price	2,250,000		
Total Potential Income	101,863		
Rent Income	99,908	Calculated the standardized estimated rental income and common area fee income of the subject property based on the rent level of the current contract, the new rent level of similar properties in the same demand/supply zone and its trend, and taking into account the subject property's competitiveness in the medium to long term.	
Other Income	1,954	Parking lot income is the amount appraised based on the rent level of the current contract, surrounding lease cases, and their trends, etc. Key money, etc.: Allocation of the amount appraised based on the tenant turnover rate and vacancy rate. Regarding renewal fees, the amount was allocated after appraising the renewal rate and taking into account the PM fee. Other incidental income is recorded based on the actual results.	
Total Effective Income	97,267		
Losses from Vacancies, etc.	4,596	Based on the actual vacancy rate of the subject property and the standard vacancy rate of similar properties and taking into account the competitiveness of the subject property, etc., appraised and recorded the vacancy rate against the rental income, common service fee income and parking lot income that are deemed stable in the medium to long term.	
Losses from Delinquencies	0		
Expenses from Rental Business	19,481		
Maintenance and Management Fees	2,489	The current contract amount was recorded based on the judgment that it is appropriate.	
Utilities Costs	1,131	Appraised and calculated based on the level of utilities charges of similar properties and the actual amount of utilities charges in the past years.	
Management Commission Fees	2,889	The current fee rate was allocated after verifying the standard PM fee based on the level of similar properties.	
Taxes and Public Dues	6,043	Land: Appraised based on the actual amount for FY2022, taking into account the burden level. Building: Appraised based on the actual amount for FY2022.	
Non-life Insurance Premiums	113	The current contract amount was judged to be appropriate and was recorded after verifying the level of casualty insurance premiums of similar properties.	
Leasing Expenses	2,864	For the rental units, allocated the replacement portion when the assumed replacement rate is applied, taking into account the tenant solicitation costs, etc. assessed based on the level of similar properties, with reference to the actual amount for the previous fiscal year.	
Repair Costs	2,748	The repair cost was allocated by verifying the level of repair cost of similar properties with reference to the building investigation report. In addition, tenant replacement costs were assessed and recorded by considering the replacement rate and vacancy rate.	
Other Expenses	1,200	Allocated based on actual results.	
Net Operating Income(NOI)	77,786		
Earnings from Deposits	76	Allocation of the amount calculated by multiplying the estimated amount of security deposits by the investment yield, comprehensively considering both the investment and procurement aspects of the actual operation of lump-sum payments.	
Capital Expenditures	3,528	Calculated based on the amount of capital expenditure, which was assessed by verifying the level of renewal costs of similar properties and referring to the building survey report.	
Net Cash Flow	74,334		
Cap Rate	3.3%	Appraised by adding the risk of fluctuation of income and principal to the discount rate.	
DCF Price	2,180,000		
Discount Rate	3.1%	Appraised by comparing the discount rates of similar real estate transactions, yields on other financial instruments, etc.	
Terminal Cap Rate	3.5%	Appraised by considering the marketability of the subject property at the end of the holding period, etc. against the cap rate.	
Other Matters for Consideration			
None			

(2) R-071 RESIDIA Sakae

As of January 31, 2023

Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	Appraised value	951,000 thousand yen
Appraisal item	Appraised value (Thousand yen)	Basis	
Income Capitalization Approach Value	951,000	Estimated the income value of the subject property by relating the income value obtained by the DCF method to the income value obtained by the direct capitalization method.	
Direct Capitalization Price	961,000		
Total Potential Income	61,251		
Rent Income	57,708	Calculated the standardized estimated rental income and common area fee income of the subject property based on the rent level of the current contract, the new rent level of similar properties in the same demand/supply zone and its trend and taking into account the subject property's competitiveness in the medium to long term.	
Other Income	3,542	Parking lot income is the amount appraised based on the rent level of the current contract, surrounding lease cases, and their trends, etc. Key money, etc.: Allocation of the amount appraised based on the tenant turnover rate and vacancy rate. Regarding renewal fees, the amount was allocated after appraising the renewal rate and taking into account the PM fee. Other incidental income is recorded based on the actual results.	
Total Effective Income	56,751		
Losses from Vacancies, etc.	4,499	Based on the actual vacancy rate of the subject property and the standard vacancy rate of similar properties, and taking into account the competitiveness of the subject property, etc., appraised and recorded the vacancy rate against the rental income, common service fee income and parking lot income that are deemed stable in the medium to long term.	
Losses from Delinquencies	0		
Expenses from Rental Business	14,523		
Maintenance and Management Fees	1,932	The current contract amount was recorded based on the judgment that it is appropriate.	
Utilities Costs	918	Appraised and calculated based on the level of utilities charges of similar properties and the actual amount of utilities charges in the past years.	
Management Commission Fees	1,684	The current fee rate was allocated after verifying the standard PM fee based on the level of similar properties.	
Taxes and Public Dues	4,186	Land: Appraised based on the actual amount for FY2022, considering the burden level. Building: Appraised based on the actual amount for FY2022.	
Non-life Insurance Premiums	122	The current contract amount was judged to be appropriate and was recorded after verifying the level of casualty insurance premiums of similar properties.	
Leasing Expenses	1,502	For the rental units, allocated the replacement portion when the assumed replacement rate is applied, considering the tenant solicitation costs, etc. assessed based on the level of similar properties, with reference to the actual amount for the previous fiscal year.	
Repair Costs	2,275	The repair cost was allocated by verifying the level of repair cost of similar properties with reference to the building investigation report. In addition, tenant replacement costs were assessed and recorded by considering the replacement rate and vacancy rate.	
Other Expenses	1,902	Allocated based on actual results.	
Net Operating Income	42,228		
Earnings from Deposits	41	Allocation of the amount calculated by multiplying the estimated amount of security deposits by the investment yield, comprehensively considering both the investment and procurement aspects of the actual operation of lump-sum payments.	
Capital Expenditures	2,884	Calculated based on the amount of capital expenditure, which was assessed by verifying the level of renewal costs of similar properties and referring to the building survey report.	
Net Cash Flow	39,385		
Cap Rate	4.1%	Appraised by adding the risk of fluctuation of income and principal to the discount rate.	
DCF Price	946,000		
Discount Rate	3.9%	Appraised by comparing the discount rates of similar real estate transactions, yields on other financial instruments, etc.	
Terminal Cap Rate	4.3%	Appraised by considering the marketability of the subject property at the end of the holding period, etc. against the cap rate.	
Other Matters for Consideration			
None			

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

The real estate sales transaction agreement (hereafter, the “Agreement”) for the sold property constitutes a forward commitment, etc.^{Note6} by an investment corporation defined in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. published by the Financial Services Agency.

The Agreement provides that if ADR or the buyer violates a provision of the Agreement, the counterparty has the right to terminate the Agreement and claim an amount equivalent to 20% of the transaction price of the sold property as penalty.

However, ADR is not obliged to pay penalties to the buyer for the expiration or cancellation of the Agreement except where ADR is at fault.

Note 6. Refers to a postdated transfer 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. Counterparty Profile

(1) RESIDIA Azabudai

The counterparty for RESIDIA Azabudai is a domestic company whose details are not disclosed according to its wishes. It does not constitute a party with any particular vested interest in ADR or IRM.

(2) RESIDIA Sakae

Trade Name	Liv co., Ltd.	
Location	7-18-18 Roppongi, Minato-ku, Tokyo, Japan	
Representative	Representative Director Tsunenori Fukumoto	
Principal business	Buying, selling, leasing and brokerage of real estate, non-life insurance agency services, life insurance solicitation services, building design and construction supervision, contracting of construction work, etc.	
Capital	90million yen	
Data of establishment	February 21, 2003	
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

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

Omitted. Property not acquired from parties with special interest.

7. Future Outlook

The effect of the Disposition on the management performance forecasts for the fiscal period July 2023 (26th Fiscal Period: February 1, 2023 to July 31, 2023) and the fiscal period January 2024 (27th Fiscal Period: August 1, 2023 to January 31, 2024) is minor. 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 470 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/>

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