ITOCHU REIT Management Co., Ltd.

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Advance Residence Investment Corporation
Questions & Answers at the Presentation Meeting
Concerning the Results of the Fiscal Period Ended January 2025 (FP 01-2025)

Date & Time: From 11:30 to 12:10, Tuesday, March 18, 2025
Presenter: Isao Kudo,
Executive Officer,
ITOCHU REIT Management Co., Ltd.

Q1. The replacement rent increase is rising, but is this related to the longer average turnover period, as well as the rent increase measures implemented from the previous FP, which eased the collection of Key Money?

A1. While the longer average turnover period is also a factor, we consider that the main reason for this is that we have continued with this policy based on our original idea that seeking higher rent rises will lead to improved earnings in the future. Specifically, in the case of single type units in the Tokyo 23 Wards, we are offering rent rises of 4% (i.e. the Key Money is divided over the 24 months of the contract period) or more higher than the asking rent, in exchange for waiving the Key Money of one month's rent.

Q2. In the previous FP, you said that the financial costs could be absorbed with a replacement rent increase of +5%, but has the situation changed?

A2. The financial costs are increasing, and in the current situation, we estimate that we can secure earnings above the financial costs by securing a replacement rent increase (only restoration units) of around +6.5% and a renewal rent increase of around +2.0%. Other costs, such as building management fees and repair costs, are on a slight upward trend, but we are able to control them.

Q3. Regarding the direction of EPU growth in the earnings forecasts for the 30th fiscal period (FP 07-2025) and the 31st fiscal period (FP 01-2026)?

A3. In the earnings forecasts, EPU is in a situation where Internal Growth is almost offset by rising financial costs. Therefore, we will adjust costs, including higher rent rises and financial costs, in order to achieve an EPU increase of at least 1% per year. In order to achieve an EPU increase of at least 1% per year, we will aim to raise the replacement rent increase rate (only restoration units) from the actual result for the FP under review of +7.4% to a level of “over +10%”, and raise the renewal rent increase rate from the actual result for the FP under review of +2.6% to a level of “2.6% + α”.

Q4. Regarding LTV control, the LTV (total assets base) has not exceeded 50% for nearly 10 years. What is your policy going forward? (Page 28)

A4. In order to further increase EPU, we will consider a certain degree of relaxation between 50% and the upper limit of 53%.

Q5. Regarding the sale of properties, do you expect to accelerate the pace of sales before interest rates rise? Do you have a policy of prioritizing the sale of properties in Nagoya, which have particularly low performance? (Page 19)

A5. We have been selling around 0.3% to 0.4% of AUM each year, but from now on we will accelerate the pace of sales while considering the balance with EPU. The policy is to prioritize the sale of properties with relatively low yields in each area, including Nagoya, as well as properties that are not expected to grow in the future due to factors such as repair costs. However, the current situation is that the yield on the our properties is high, so we do not have a policy to sell properties unnecessarily, and the target is properties with a high probability of declining performance.

Q6. Outlook for renewal rent increase rate (Page 21)

A6. We will raise the rent increase rate for renewals by another level. Previously, we would approach tenants with a rent increase of around 3 to 4% compared to the previous rent, but now we are in a situation where we can approach tenants with a rent increase of over 5% and they will accept it. We feel that the environment is becoming more conducive to tenants agreeing to rent increases at the time of renewal due to rent rises in the surrounding area, and we plan to aim for an even higher level.

Q7. Why has the appraisal cap rate for properties held increased by 1bp since the 28th fiscal period (FP 07-2024)? (Page 25)

A7. This is because the appraisal cap rate for some properties has risen due to the passage of time since the building age, and there have been no particular changes in the market.

Q8. What is driving the rent rise for single type?

A8. We believe that the main factor is that the rise in wages for young people is starting to be reflected. In fact, we have confirmed that the average annual income of tenants at the time of application for tenancy has risen in recent years.

Q9. What is your investment policy for operational assets (operated rental residence)?

A9. We evaluate operational assets at a slightly higher cap rate than general rental residence. The number of student and senior housing is increasing slightly as a development base, but we are carefully considering student housing in particular, taking into account demand. We have also acquired a share house (Share Place Shimokitazawa) for working adults in 2023, and we will acquire properties not limited to student and senior housing if the cap rate is acceptable.

Q10. Outlook for replacement rent increase

A10. When we compare the unit rent at the time of replacement in 2024 with the unit rent from January 2025 onwards, we believe that this upward trend will continue for the time being, as the rent rise has continued to increase by another level, and we are targeting a replacement rent increase rate of +10% or more.

Q11. Background to the change in policy on the sale of properties and the return of gains on sales

A11. The reason for the change in policy is to counter the weak investment unit price. In the previous FP, the policy was to increase DPU while increasing EPU (however, the DPU growth rate was lower than the EPU growth rate), but from now on, the policy is to aim for DPU of 3,000 yen by returning the retained earnings (equivalent to 5 periods) that have already been secured, and to increase the dividend by +α depending on the status of property sales.