



Advance Residence Investment Corporation

Questions & Answers at the Presentation Meeting For the Results of the Fiscal Period Ended July 2014

Date & Time: 15:30 - 16:10, September 10, 2014

Presenter: Kenji Kousaka, President, AD Investment Management Co., Ltd

Q&As are listed in chronological order

- Q1. What is your main scenario in acquiring one of the bridge funds listed on page 13 of the presentation material, G. K. RISING₃ which the expiration date for the right of first refusal is November 30, 2014? Would you fund the acquisition through debt by using the acquisition capacity or through asset replacement?
- A1. If the disposition of assets can be executed by the time of expiration, I would like to consider the option of acquiring the properties using the proceeds from the disposition, if not, the acquisition as you have mentioned, will be financed with the use of debt, utilizing the acquisition capacity of approximately 25 billion yen.
- Q2. You have mentioned at the last presentation meeting six month ago, that you would like to hear the opinions of investors on the usage of the dividend reserve in deciding what to do when the EPS consistently tops 4500yen. What are your thoughts on the usage of the dividend reserve at the moment?
- A2. In the last one and half years, I have received comments on the subject from many investors. The impression I got was that the majority of the investors' opinion was for using the reserve for future unforeseen events and limit or stop using it to supplement the dividend. But, we would like to decide on the matter and announce our final decision in due course.
- Q3. Do you expect the rents to rise due to the upgrade works or will it rise naturally due to inflation?
- A3. Due to strong demand and tightening supply, we are getting better leasing terms even on units which have not received any upgrades. We think during the fiscal period which ends on July 2015 will be the time to raise rents in earnest due to the fact that the period includes the peak leasing months of March and April.
- Q4. On page 13 of the presentation material, you have listed examples of sponsor developed properties. What do you expect the cap rates to be when you acquire them?
- A4. Due to the fact that the sponsors' main business is in real estate development, the price in which we will be able to acquire their property will not diverge greatly from the market cap rate at the time of acquisition.

- Q5. The average NOI yield of the pipeline bridge fund properties are above your current portfolio's yield. Will the current portfolio's yield continue to be your acquisition hurdle rate?
- A5. Since our AUM has grown to over 420 billion yen which is more than 1.5 times larger than the second largest residential J-REIT fund, we are in no hurry to expand further in this heated real estate market. We intend to wait till the market cools to the point where we are able to acquire assets at a reasonable price.
- In any case, we have over ten staffs working in the acquisition department at the asset management company. By fully utilizing the staffs' knowhow and ability I hope to continue growing through our independent sourcing network.
- Q6. Even though I expect that your sponsors will continue to develop properties, do you expect the speed of your external growth to slow down after you acquire the existing properties in the bridge funds?
- A6. There are 19 properties worth about 20 billion yen in the bridge funds and we have listed 23 properties of about 35 billion yen which the sponsors are developing, totaling above 50 billion yen. Since we have been acquiring around 20 to 25 billion yen per annum since the merger, there are about two years' worth of asset in the pipeline. Even though we cannot guarantee that we will be able to acquire all of the sponsor developed properties, I do not think that there will be a need to slowdown.

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