

**For Immediate Release**

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**Summary of the Property Replacements**

Advance Residence Investment Corporation (ADR) would like to give a comprehensive summary of the significance and the effect of the executed property replacements and the announced replacements (the Replacements) during January 2015 fiscal period to the portfolio.

1. Details and Effect of the Replacement

ADR acquired 25 properties (total Acquisition price: 22.2 billion / NOI yield 5.9%) in the fiscal period ending January 2015 using its own sourcing network and through a scheme of securing the underling assets of TK property funds by acquiring the right of first refusal for the properties by investing in the equity interest of TK property funds.

At the same time, we viewed that the current property market as a perfect selling opportunity. We were able to sell six properties (total historical acquisition price of 29.3 million, average NOI yield<sup>(Note)</sup> of 4.4%) at a price above the total book value as well as the total appraisal value. We disposed properties such as Tokyo Student House Hiyoshidai which have concerns whether it can sustain profitability due to its age. We also sold properties with relatively expensive rent which have seen large decline in rents after the financial crisis and the disaster after the earthquake which we see that it will take considerable time for the rents to recover.

With the Replacement, ADR has been able to improve the quality of the portfolio, increase the NAV by enlarging the unrealized profit and lower the LTV thereby increasing the acquisition capacity. In total, ADR has achieved in improving the profitability and increasing unitholder's value which will contribute in realizing ADR's management policy of "Realization of Stable Distribution of Earnings over the Long-term"

Additionally, as stated in the management performance revision for Fiscal Period January 2015 disclosed on November 28, 2014, we expect to significantly increase the dividend for the fiscal period due to the gains on sales.

Please refer to the appendix "The Effects of Property Replacements" for details.

(Note) The "NOI Yield" for the acquisition assets are calculated using the annual NOI listed in the acquisition appraisal. The calculation is as follows; "Total annualized NOI ÷ Total acquisition price × 100". The NOI yield for the disposition assets are calculated as follows; "Total annualized actual NOI ÷ Total acquisition price × 100". The calculated yields are rounded at the second decimal point.

2. Effect of the Property Replacements on Future outlook for the fiscal period ending January 2015 and July 2015

(c) The effect of the property replacements to the management performance forecasts ending January 2015

ADR announced the revision of management performance forecast for the fiscal period ending January 2015 on November 28, 2014.

The effect of the asset replacement (acquiring 9 properties and disposing 5 properties) announced after disclosing the management performance revised on November 28, 2014, is negligible. Therefore the forecasts remain unchanged.

(For Reference)

Revised management performance forecast for the fiscal period ending January 2015 (announced on November 28, 2014)

Number of Properties: 236 properties, property replacement announce by November 28, 2014 are all included

Gain on Sales: 857 million yen from the disposition of Tokyo Student-House Hiyoshidai

	Operating revenue (millions of yen)	Operating income (millions of yen)	Ordinary income (millions of yen)	Net income (millions of yen)	Earnings per unit (yen)	Dividend per unit (yen)
<b>Initial Forecast*(A)</b>	14,545	7,380	5,811	5,811	4,470	4,500
<b>Revised Forecast (B)</b>	15,618	8,207	6,630	6,630	5,100	5,130
<b>Amount of variation (B)–(A)</b>	1,073	826	818	818	630	630
<b>Rate of variation</b>	7.4%	11.2%	14.1%	14.1%	14.1%	14.0%

\* Initial Forecast indicates the management performance forecast ending January 2015 announced on September 8, 2014, in the Tanshin preliminary financial report for fiscal period ending July 2015. The same applies hereafter.

(d) The effect of the asset replacement to the management performance forecasts ending July 2015

The effect of the asset replacement to the management performance forecasts ending July 2015 announced on September 8, 2014, in the Tanshin preliminary financial report ending July 2014 is negligible. Therefore the forecasts remain unchanged.

(For Reference)

Management performance forecasts ending July 2015 announced on September 8, 2014 in the Tanshin preliminary financial report for the fiscal period ending July 2014

Number of Properties: 222 properties (221 properties held at the end of July 2014 plus Residia Shin-Osaka which the acquisition was announced by September 8, 2014)

Operating revenue (millions of yen)	Operating income (millions of yen)	Ordinary income (millions of yen)	Net income (millions of yen)	Earnings per unit (yen)	Dividend per unit (yen)
14,646	7,358	5,812	5,811	4,470	4,500

ADR will announce management performance forecasts for fiscal period ending July 2015 and January 2016 after reviewing forecast assumptions in March 2015, when announcing the results for the fiscal period result ending January 2015.



<Attachments>

The Effect of the Asset Replacement

- \* The original Japanese version of this material is released today to the Kabuto Club (the press club of the Tokyo Stock Exchange), the Ministry of Land, Infrastructure, Transport and Tourism Press Club, and the Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications.
- \* URL: <http://www.adr-reit.com/en/>

*[Provisional Translation Only]*

*English translation of the original Japanese document is provided solely for information purposes.*

*Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.*

# **The Effects of the Property Replacements**

# Executive Summary

- Improving Net income
- Increasing NAV per unit due to unrealized profit and loss enlargement

- Decreasing LTV (expanding acquisition capacity)
- Dividend Increase due to capital gains

## Acquisitions

25 properties 22.2 billion yen <sup>(Note1)</sup>

Recently Built and High yield profitability

Ex. RESIDIA Shin-Osaka



Annualized NOI <sup>(Note2)</sup> **1.32** bn yen  
 NOI Yield **5.9** %  
 Building age <sup>(Note3)</sup> **7.3** yrs

## Dispositions

6 properties 29.3 billion yen <sup>(Note1)</sup>

Old building or Relatively Low Yield

Ex. Tokyo Student-House Hiyoshidai



Expected capital gains of 857 mn yen (659yen/unit)

Annualized NOI <sup>(Note2)</sup> **1.24** bn yen  
 NOI Yield **4.4** %  
 Building age <sup>(Note3)</sup> **17.4** yrs

### Initial Forecast (FP ending Jan.2015)

### After Property Replacment (FP ending Jan.2015)

Dividend Forecast per unit

**4,500** yen

**5,130** yen

(+ **14%**)

NAV per unit <sup>(Note4)</sup>

**182,657** yen

**187,236** yen

(+ **2.5%**)

Appraisal LTV <sup>(Note5)</sup>

**50.3** %

**48.7** %

( $\Delta$  **1.6**pt)

(Acquisition Capacity: **25.4** bn yen)

(Acquisition Capacity: **40.7** bn yen)

Portfolio	As of July 31, 2014	Property Replacement		After the Property Replacements
		Acquisition	Dispositon	
No. of properties	221	+ 25	- 6	240 (+ 19)
Asset under management (Note1)	417.6 bn yen	+ 22.2 bn yen	- 293 bn yen	410.5 bn yen (△ 71bn yen)
NOI Yield (Note6)	5.6%	+ 5.9%	- 4.4%	5.7 % (+ 0.1pt)
Yield after depreciation (Note7)	4.4%	+ 4.8%	- 3.5%	4.5 % (+ 0.1pt)
Unrealized profit and loss (Note4)	35.2 bn yen	+ Profit : 23 bn yen	- Loss : △40 bn yen	41.6 bn yen (+ 63 bn yen)
Building age (Note8)	9.4年	+ 7.3yrs	- 17.4yrs	9.2 yrs (△ 0.2yrs)

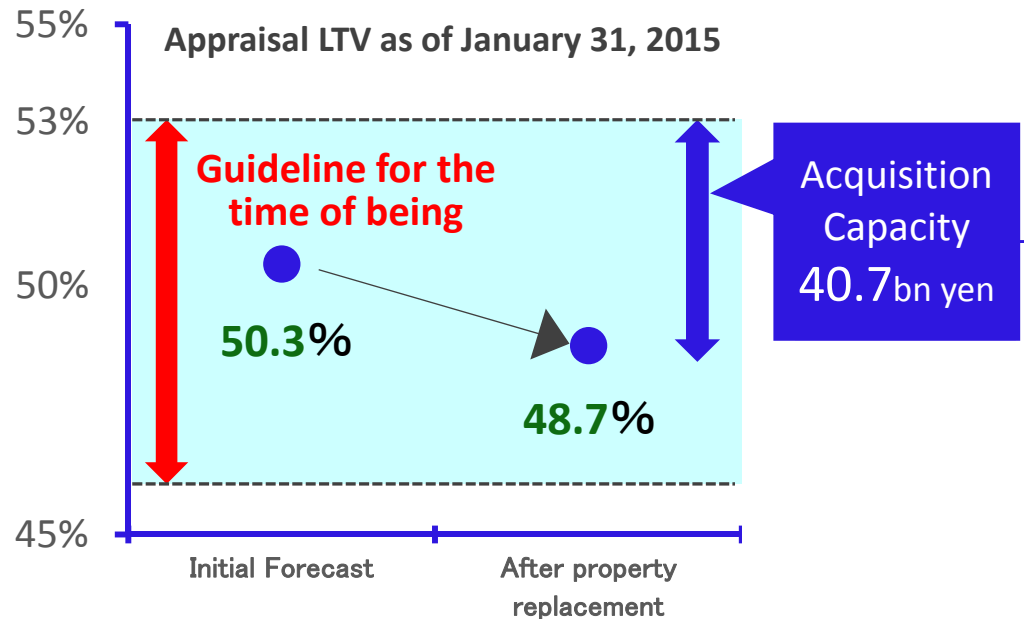
FP ending Jan.2015 Forecast	Initial Forecast	Revised Forecast Announced Nov.28 2014	After Property Replacements
Earnings per unit	4,470 yen	5,100 yen	5,100 yen* (+ 630円)
Dividend per unit	4,500 yen	5,130 yen	5,130 yen* (+ 630円)
NAV per unit (Note4)	182,657 yen	183,081 yen	187,236 yen (+ 4,579円)
Appraisal LTV (Note5)	50.3 %	51.3 %	48.7 % (△ 1.6pt)

※EPU and DPU after property replacement includes one off profit on sales (857 million yen / 659 yen per unit) , therefore they do not represent stabilized figures.

## Aiming to improve EPS managing Acquisition capacity

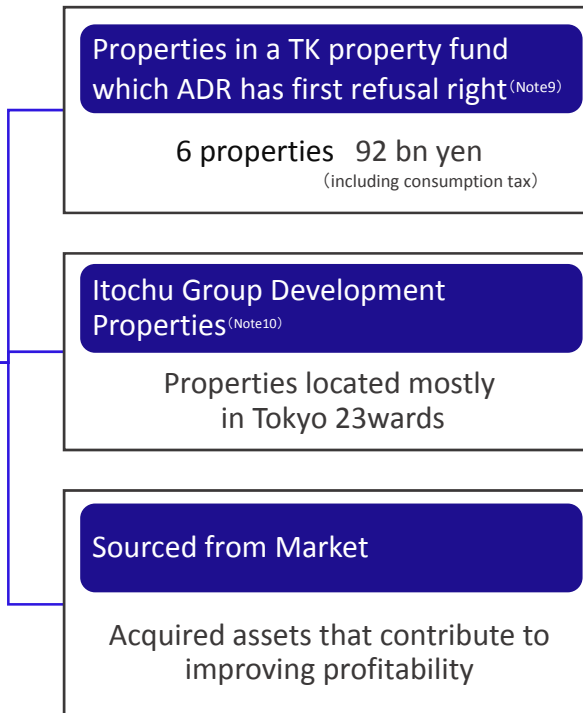
### LTV's Guideline

For the time of being, appraisal LTV will be managed from the latter 40% to 53%



### Policy for managing Acquisition Capacity

Asset acquisition contributing in raising the investor's value



※Monetary amounts are rounded down. Other figures are rounded at the second decimal place.

- (Note1) Based on the acquisition price. Disposition amount uses appraisal price of February 2010 for properties held by Nippon Residential Investment Corporation before the merger.
- (Note2) The “Annualized NOI” for the Acquisition is a total sum of annual NOI listed in the appraisal at the time of acquisition.  
The “Annualized NOI” for the Disposition is a total sum of annualized actual NOI of the disposal properties for the fiscal period ending July 2014.
- (Note3) Building age is a average age at the time of acquisition or disposition weighted by the properties historical acquisition price.
- (Note4)  $NAV \text{ per Unit} = (\text{FP end net asset} + \text{FP end unrealized gain or loss} - \text{dividend amount for the FP}) \div \text{FP end number of issued and outstanding units}$ .  
The unrealized gain or loss for the existing portfolio at the end of July 2014 is calculated as follows.  $(\text{FP end appraisal value} - \text{FP end book value})$   
The unrealized gain or loss for the to-be-acquired asset from the end of July 2014 is calculated as follows.  $(\text{appraisal value at acquisition} - \text{acquisition price})$   
There is unrealized profit if the figure is positive. There is unrealized loss if the figure is negative.
- (Note5)  $\text{Appraisal LTV} = (\text{Outstanding amount of loans at the fiscal period end} + \text{Outstanding amount of bonds}) \div \text{Total a}$   
Acquisition capacity is a maximum of asset that ADR can acquire at Appraisal LTV of 53%, using only debts. 53% is the upper limit of the guideline LTV of upper 40% to 53% which ADR would like to maintain for the time being.
- (Note6) The NOI yield of the to-be-acquired assets are calculated by dividing the annualized appraisal NOI at acquisition, by the acquisition price. The NOI for the existing portfolio at the end of July 2014 is calculated by dividing the total annualized actual NOI of each property by the total fiscal-end book value.
- (Note7) The yield after depreciation of the to-be-acquired assets are calculated by dividing the annualized appraisal NOI at acquisition minus depreciation, by the acquisition price. Depreciation of the to-be-acquired assets are calculated using same straight-line method as the portfolio. The yield after depreciation for the existing portfolio at the end of July 2014 is calculated by dividing the total annualized actual NOI minus depreciation of each property by the total fiscal-end book value. Depreciation of the to-be-acquired assets are calculated using same straight-line method as the portfolio.
- (Note8) Building age as of July 31, 2014 is acquisition price weighted average as of the time of July 31, 2014.  
Building age after Property Replacements is a weighted average age of the buildings as of July 31, 2014, weighted according to historical acquisition price.
- (Note9) ADR hold an equity interest in G.K. RISING4 as of today. Please refer to the press release “Notice Concerning Acquisition of Investment Assets (Silent Partnership Equity Interests)” dated June 26, 2013, for details.
- (Note10) “Itochu Group development properties” are rental apartment property under development by Itochu Corporation and Itochu Property Development Ltd. as of August 7, 2014. ADR is under no obligation to acquire the properties.



## ■ Press Release related to the Property Replacement

(1) Notice Concerning Acquisition of Investment Asset (RESIDIA Shin-Osaka)	announced on Apr.25 2014
(2) Notice Concerning Acquisition of Investment Asset <<RESIDIA Machiya>>	announced on Sep.24 2014
(3) Notice Concerning Acquisition of Investment Asset <<RESIDIA Ueno-Ikenohata>>	announced on Nov.7 2014
(4) Notice Concerning Acquisition of Investment Assets <<RESIDIA Nerima and 12 other properties>>	announced on Nov.28 2014
(5) Notice Concerning Acquisition of Investment Assets <<RESIDIA Takanawa-Katsurazaka and 8 other properties>>	announced on Dec.15 2014
(6) Notice Concerning Disposition of Investment Asset <<Tokyo Student-House Hiyoshidai>>	announced on Nov.28 2014
(7) Notice Concerning Disposition of Investment Assets<<Motoazabu Place and 4 other properties>>	announced on Dec.25 2014
(8) Notice Concerning The Revision of Management Performance Forecast and Dividend for the Fiscal Period Ending January 2015 (the Ninth FP)	announced on Nov.28 2014
(9) Notice Concerning Early Repayment of Loans	announced on Dec.25 2014

- \* This material contain forward looking statements on future operating results, plans, business objectives and strategies of the company.
- \* Forward looking statements provide current expectations of future events based on number of assumptions and include statement that do not directly relate to any historical or current facts. Forward looking statements are not guarantees of future performance and the company's actual results may differ significantly from the results discussed in the forward--looking statements.
- \* This material is based on Japanese GAAP unless otherwise stated.
- \* This material was not created for the purpose of soliciting investment in the company. Investments should be based on your own judgment and responsibility.