Advance Residence Investment Corporation

Questions & Answers at the Presentation Meeting For the Results of the 9th Fiscal Period Ended January 2015

Date & Time:	15:30 - 16:30, March 13, 2015
Presenter:	Kenji Kousaka, President, AD Investment Management Co., Ltd
Note:	In the text below, "ADR" refers to Advance Residence Investment Corporation. Also, questions of a similar nature have been consolidated.

Q&As are listed in chronological order

External growth

Q1. During the fiscal period ended January 2015, ADR engaged in significant portfolio replacement activity through acquisitions and disposals. Given that, what is your policy regarding ongoing property dispositions going forward? Also, in taking on the portfolio replacement initiative, you managed to acquire properties at low prices while selling properties in the portfolio for high prices. How were you able to do that?

A1. We are not actively looking to dispose of our assets. We only dispose of them when we are offered a good deal. Going forward, we hope to do the same.

We were able to acquire properties at relatively low prices during the fiscal period ended January 2015 mainly for two reasons: first, we acquired many properties using bridge funds arranged in the past when prices were a lot more reasonable; and second, rural properties accounted for a relatively high proportion of the properties acquired. Meanwhile, many of the properties sold were located in central Tokyo's "premium area." I am not sure what kind of business model those who purchased the properties have in mind, but I think they probably have their own commercial opportunities of some sort.

Q2. What do you perceive as attainable in terms of the NOI yield and yield after depreciation with respect to properties to be acquired going forward?

With respect to the current sponsor pipeline (refer to page 12 of the earnings presentation materials), you explained that the acquisition cost for a total of 23 properties was around 36 billion to 37 billion yen. What were the yield level assumptions used to estimate those costs?

A2. We aim to achieve external growth that improves the quality of our portfolio, despite the difficult environment for acquisitions. Therefore, the yield level of our existing portfolio can be considered as our hurdle rate.

When we receive an inquiry from the sponsor on what the yield should be for the development projects intended to be sold to us, we tell them a yield of around 5% for properties in the 23 wards of Tokyo. That is the yield level assumption used to estimate the total volume.

Q3. Presumably ADR could find itself faced with increasing demands from investors on the basis of their comparing ADR with other REITs. For instance, investors could potentially urge you to buy more properties. If that were to happen, would you hold firmly to your conservative stance on the NOI yield level of the existing portfolio? Or, would you to some degree consider lowering your hurdle rate?

A3. In the residential sector, we basically think that it will be difficult to improve through operation upon the yield at the time of purchase. Therefore, we don't intend to lower our hurdle rate, but instead to continue acquiring properties at yields we deem appropriate.

Q4. Would you foresee the share of acquisitions from sponsors to increase for future property acquisitions?

Also, are there any advantages in acquiring properties through the bridge funds going forward?

A4. Up until now, we have achieved external growth without relying too much on our sponsors. Hence, the share of properties acquired from the sponsors is only around 20%. Going forward we think the share will increase because it will become more difficult to acquire properties on the open market at a reasonable price. We will also continue to acquire properties using our own sourcing routes.

Although we would like to continue in creating bridge funds should there be any opportunities to do so, with the soaring property prices, it has currently become difficult to acquire properties at a yield that will make economic sense to create one.

Q5. Given that prices are rising in the senior housing market, where do you see yourself headed with respect to properties in that sector?

A5. When acquiring properties in the senior housing sector we look for a certain yield premium over that sought in the residential sector. As such, given the current market environment, we have no interest in acquiring properties in the senior housing sector.

Measures regarding internal growth and aged properties

Q6. According to page 14 of the earnings presentation materials, rents increased for the first time since the merger this fiscal period. Could you tell me why?

A6. Rents increased partially due to our initiatives to perform daily repairs and upgrade properties, but the higher rents were mainly due to tightening supply. In other words, the limited supply of new rental housing on the market has heightened demand for REIT properties.

Q7. The average age of buildings in the portfolio is 9.3 years. What are your thoughts on that? Also, where are you going in terms of initiatives related to property repairs and upgrades against a backdrop of increasing capital expenditures?

A7. In the residential sector, generally buildings may be considered adequate for ongoing investment purposes up to the 15-year point when equipment renewals start to become necessary. However, if the properties are structurally sound, there is no reason we should dispose of the properties. I would like to show that J-REIT is the vehicle that can hold properties for a longer term, such as 30 or even 40 years. While our 9.3-year average building age is not exactly young, by properly maintaining the properties through various initiatives I would like to keep them under our management for the long term.

Meanwhile, whereas capital expenditures are increasing partially due to somewhat higher fees for repair and renovation work, we anticipate that spending related to repairs will keep edging up given the need to address issues of aging. As such, depending on location, size or type of properties, for units having rent increase potential, upgrade work will be implemented and equipment and fixtures will be replaced for units where work is needed to maintain the rent level. By doing so, we aim to build a portfolio that enables us to manage properties over the long term.

Target for Earning per unit

Q8. At the earnings presentation held in September 2014, we were told that you would be targeting EPU of between 4,700 and 4,800 yen, after having surpassed EPU of 4,500 yen. However, in today's presentation we were told that EPU growth would be at no more than around 130 yen (refer to page 25 of the earnings presentation materials), even if you pursue external growth by leveraging your currently available capacity for acquisitions. Although you may be able to achieve EPU of 4,700 yen, what steps do you intend to take in order to bring EPU up to the 4,800 yen mark going forward?

A8. Our medium- to long-term EPU target remains unchanged. That said, although we previously stated that we hoped to hit that target over a period of two to three years, it now seems likely that doing so will take a bit longer given the severity of price increases. However, our position remains unchanged in terms of aiming for EPU of between 4,700 and 4,800 yen through an adequate combination of internal and external growth.