



Advance Residence Investment Corporation Earnings Presentation Q&As

Fiscal Period ending January 2017 (13th period)

Date and time: March 13, 2017 (Monday) 15:30 ~ 16:30
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Questions Concerning External Growth

Q1.

Are there any sponsor developed properties which the sponsor sold to third parties?

A1.

They sale some of the properties to third parties every fiscal year. Of course, they give us the first look to confirm whether we intend to acquire before selling to a third party, but if the offer yield level is outside of our target, we will decline from acquiring the property. In that case, the property will be sold to third parties, therefore the pipeline properties listed may be sold to third parties. However, you may be rest assured in our sponsor's commitment to Advance Residence (hereafter, ADR) and that we can expect to acquire satisfactory portion of the pipeline.

Q2.

How big is the difference between ADR's bidding yield and third parties'?

A2.

Currently there are significant amount of difference.

Q3.

What is ADR's yield target in acquiring sponsor developed properties and other properties?

A3.

Taking in to account of our investors' expectations, we will maintain the level at high 4% on NOI yield basis and 4% on yield after depreciation basis.

Questions Concerning Internal Growth

Q4.

The rent gap is down 0.57 pts to 0.72% from the previous FP 07-2016 gap of 1.29%. On the other hand, the rent for the entire portfolio is up 0.13% (excluding the effect of change in contract type from rent-guarantee to pass-through). Does this mean that the market rents are declining?

A4.

We use the latest FP's actual contracted rents as a proxy for market rent in calculating the rent gap. Because the previous fiscal period, FP 07-2016 included the peak leasing season, it was easier to negotiate rents, therefore the contract rent, in other words, market rent tended to be higher. On the other hand, the current term, FP 01-2017 was an off-peak period, and contract

rents tended to decline as compared to the previous period, so this seasonality may have been one of the factors for the narrowing of the rent gap. We expect these seasonal fluctuations in the market rent to continue.

Q5

I am recently hearing from other residential REITs that the strong rental market performance is led by family-type units. What has changed? My understanding was that the single-type units are the lead performers.

A5.

There are no changes, single type and compact type continues to show strong performance in the rental market. But due to the recent increase in migration of families into Tokyo Central 7 Wards and Central Tokyo, larger compact type units and the family type units are also showing strong performance.

Q6.

What are the reasons for the fall in rent in one-third of the tenant replacement units on slide 6?

A6.

They are due to the softness we are seeing in properties located in Major Regional Cities, particularly properties in areas such as Osaka and Kobe.

Q7.

The market for condominiums for sale are reported in the media to be weak. Has ADR's leasing operation been effected by it?

A7.

We have not seen any effect so far. However, we keep a close watch on the trend of the market for condominium for sale.

Q8.

In the chart of rent trend (on slide 8 of the presentation material), even though the rents in Tokyo Central 7 Wards are recovering earlier than in other areas, they seem to be more volatile. Why is that?

A8.

Residential units in the Tokyo Central 7 Wards tend to have higher gross rent. As a consequence, they are more susceptible to the economic activity. We as a residential J-REIT, prefer to have a stable operation. Therefore, we believe that it is more desirable to have properties in the outer area of the 23wards of Tokyo rather than in the center to generate stable earnings.

Questions Concerning Finance Strategy

Q9.

Please tell me your policy on LTV going forward.

A9.

We will continue the policy of conservatively managing the LTV by keeping the total assets



LTV under 53% and the appraisal LTV under 50%.

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