



Questions and Answers at the Fiscal Period July 2017 Earnings Presentation Advance Residence Investment Corporation

Date: From 15:30 to 16:30, Friday, September 8, 2017
Presenter: Kenji Kousaka, President and Representative Director, AD Investment Management Co., Ltd.

- ▶ *The questions grouped according to the type of topic.*
- ▶ *Advance Residence Investment Corporation is abbreviated as “ADR”.*

Internal Growth Related Questions

Q1. Even though, the average occupancy rate for the 14th FP was very high at 97.0%, is it reasonable to say that the appropriate level of occupancy going forward would be closer to 96% as in your initial earnings guidance where it was assumed to be around 96.5%?

A1. The average occupancy rate of 97.0% in the 14th FP was stronger than expected. It will be hard to assume that we can maintain this level. Judging from our past experiences, we think it will be around mid 96%. Therefore, yes, I think, the occupancy rate assumed in the earnings guidance is appropriate.

Q2. As the occupancy rate rises, I would expect the changes in rent will be more effected by the changes in rent for renewals than at tenant replacement. If that is the case what will be the impact on the leasing business revenue?

A2. Although it is true that the rise in rent at tenant replacements is more likely to contribute to revenue than the rise in rent at renewals, if occupancy rate is maintain at around the level as in the past, we can expect a rise in rent both in tenant replacements and renewals and can expect both to contribute to revenue increase.

As indicated in the earnings presentation material p.30, the renewal rate is maintained at around the mid-80% level, and there are no signs that the rent increase negotiations at renewals are having a negative effect on the renewal rate.

Q3. Will the trend of rising capital expenditure continue as the properties age? Also how will it affect your decision on the dividend floor raise?

A3. Capital expenditure will increase with the aging of the properties. However, with the depreciation per period of about 2,600 million yen, we will be able to manage the expenditure within the available cash flow and proper scheduling. Regarding the decision not to raise the floor of the dividend, I would like to gain a bit more visibility on the capital expenditure and the accompanying increases in depreciation before we decide to raise the floor.

External Growth Related Questions

Q4. I think the current real estate market provides an excellent opportunity to sell, please tell us about your current disposal policy.

A4. Our disposal policy has not changed. As of the end of the 14th term, there are a total of 4 properties with unrealized losses. We consider those properties as potential candidate for disposal. However, it will be more desirable to execute the disposal as part of an asset replacement, for example, selling the properties around the same time when we acquire properties from the sponsor.

Questions on Other Topics

Q5. Majority of the increase in population of Tokyo is expected to come from foreign residents. What percentage of your current tenants are foreigners, and do you have any plans on how to meet the expected increase in demand from foreigners.

A5. The current percentage of foreign tenants is low at around 3% of our pass-through properties. We would like to first figure out which area will be most appropriate to invest to meet the demand by studying the future inflow trends of foreigners.

Q6. There was an announcement on September 6, 2017, regarding a proposal to revise part of the Articles of Incorporation of the investment corporation to allow ADR to invest in properties that are used for lodging business. What is the objective of the revision?

A6. We are not thinking of investing in properties used solely as inns or hotels. We just wanted some flexibility in our future investment activities. This revision will allow ADR to invest in properties where for example include units that are used for lodging business or in cases where the operator of our service apartment business might start using the units for lodging business.

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