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For Immediate Release

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Notice Concerning Disposition of Investment Asset “Windsor House Hiroo”

AD Investment Management Co., Ltd. (ADIM) the asset management company to which Advance Residence Investment Corporation (ADR) entrusts the management of its assets announced its decision today to have ADR dispose an asset (hereafter, the “Disposition”) in Japan as detailed below as part of ADR’s growth strategy.

1. Details of the Disposition

ADIM decided on the following disposition pursuant to the target and policy of asset management as stipulated in the Articles of Incorporation of ADR, to increase the asset under management and build a portfolio that earns stable income through diversified investment in all regions and in all apartment unit types.

Property number	Name of the asset-to-be-disposed	Proposed disposition price	Book value ^(Note 1)	Appraisal value ^(Note 1)	Difference between disposition price and book value ^(Note 2)
P-81	Windsor House Hiroo	¥ 1,863 million	¥ 1,634 million	¥ 1,490 million	¥ 228 million

(Note 1) “Book value”, “Appraisal value” as of January 31, 2018.

(Note 2) Various transaction fees are not accounted in the calculation.

ADIM had been contemplating whether to continue to hold and operate the asset or dispose the asset. This was because the asset’s yield after depreciation^(Note 3) of 3.3% is lower than that of the portfolio’s average of 4.3% for the same area and it seemed likely that it will take a considerable time for the profitability to recover to an acceptable level. Under such circumstances, ADIM decided to dispose the asset, since it had received an offer to buy the asset-to-be-disposed at a price above the book value. With the disposal, there will be only two remaining assets with an unrealized loss (asset with an appraisal price at the end of fiscal period ending January 2018 lower than its book value) in the portfolio.

(Note 3) Yield after depreciation = (FP 2018/1 Actual NOI (annualized) - FP 2018/1 Actual Depreciation (annualized)) ÷ Book Value as of end of FP 2018/1 × 100%

2. Disposition Summary

(1) Disposition Summary

Name of property	Windsor House Hiroo
Asset-to-be-disposed	Real Estate
Proposed disposition price	¥ 1,863 million
Appraisal value	¥ 1,490 million
Buyer	Not disclosed
Scheduled agreement date	March 1, 2018
Scheduled disposition date	April 6, 2018
Payment method	Pay entire amount upon delivery

(2) Summary of Asset-To-Be-Disposed

Property number	P-81
Name of the asset-to-be-acquired	Windsor House Hiroo
Address	2-5-33,Hiroo, Shibuya-ku, Tokyo
Acquisition date	September 1, 2005 ^(Note 4)

Land	
Type of ownership	Leasehold rights
Site area	1,610.59 m ²
Zoning	First class low-rise residential area
FAR / Building coverage ratio	150% / 60%

Building	
Type of ownership	Proprietary ownership
Total floor area	3,087.30m ²
Structure / Floors	RC with flat roof, 3F/B1F
Use	Apartment
Construction completion date	June 2003

Trustee	-
Contract Term	-

Lease Conditions	
Point in time	as of January 31, 2018
Total Tenants	1
Leasable units	12 units
Leased units	12 units
Leasable floor area	2,172.91m ²
Leased floor area	2,172.91m ²
Occupancy rate (based on floor area)	100%
Monthly rent (incl. common service fees)	¥8,800 thousand
Deposits, guarantees, etc.	¥21,150 thousand

Breakdown of residential unit type	
Single	-
Compact	-
Family	-
Large	12
Dormitory	-
Other	-

Special Notation	
	<p>All of this land is owned by Tohokuji Temple.</p> <p>The buildings use right of the premises is a leasehold based on the land lease agreement.</p> <p>(1) Contract period: 30 years from February 25, 2002 to February 24, 2032</p> <p>(2) Monthly rent: 584,650 yen</p> <p>(3) Transfer agreement fee will be paid to the temple at the time of disposition.</p>

(Note 4) Date on which the asset was acquired by the former investment corporation before the merger.

3. Appraisal Report Summary

P-81 Windsor House Hiroo

as of January 31, 2018

Real estate appraiser	DAIWA REAL ESTATE APPRAISAL CO., LTD.	Real estate appraisal value	¥ 1,490 million
Appraisal item		Appraised value (¥'000)	Basis
Income approach value		1,490,000	It was determined that the appraised value using a DCF method by taking into account of future income fluctuation was more convincing. Therefore, a direct capitalization method was used.
Direct capitalization price		1,570,000	
Total potential profit		102,350	
Rent income		102,350	Estimated using the rent level of the existing contract, the level of new rents of comparable real estates within the same market, the market trends and taking into consideration the long-term competitiveness of the real estate.
Other income		0	
Total effective profit		98,220	
Losses from vacancies, etc.		4,130	Estimated mid to long-term stabilized vacancy rate by referring to that of comparable properties.
Bad debts losses		0	No losses was assumed due to deposits, guarantees.
Expenses from rental business		27,497	
Maintenance and management fees		5,346	Estimated by referring to the cost of comparable properties and current cost.
Utilities costs		1,498	Estimated by referring to the cost of comparable properties and current cost.
Management commission fees		2,455	Estimated by referring to the planned contract terms, assuming the PM fee on comparable properties.
Taxes and public dues		4,482	Estimated by referring to latest paid tax paid. (Tax on land is not accounted since the land is leased)
Insurance premiums		168	Estimated by referring to current cost.
Leasing expenses		2,046	Estimated by applying the estimated turnover rate to derive the number of units and parking spaces to be leased, referring to the past leasing expenses and taking in to consideration of leasing expenses of comparable properties.
Repair costs		3,583	Estimated by referring to the engineering report, costs at comparable properties and taking in to account the turnover rate and occupancy rate.
Other expenses		7,515	Estimated by referring to current cost.
Net Operating Income		70,722	
Operating profit from deposits		244	Estimated by considering both the investment and the financing aspect assessed the rate of return and multiplied the rate to the amount of assumed deposit.
Capital expenditures		3,638	Estimated by referring to the level of capital expenditures in comparable properties, age of the building and annual average of restoration expense listed on the engineering report.
Net Cash Flow		67,328	
Cap rate		4.3%	Estimated by adding a yield spread appropriate to the locality and the specific feature of the property and referring to yields of comparable properties.
DCF Price		1,450,000	
Discount rate		4.0%	Estimated by referring to yields of comparable properties and comprehensively taking account of the specific characteristics of the property.
Terminal cap rate		4.6%	Estimated by comprehensively taking into account of future changes in investment yield, investment risk analysis of the property, general forecast economic growth and real estate price and rent trends.
Other matters of consideration			
None			

4. Financial Impact on ADR in the Event of Failure to Fulfill Forward Commitment or Similar Agreement

Real estate sales transaction agreement (hereafter, “the Agreement”) for the asset-to-be-disposed might constitute a forward commitment or similar agreement ^(Note 5) by an investment corporation as stipulated in “*The Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.*” by the Financial Services Agency.

In the event of a violation of provisions in the Agreement by ADR or the buyer, the counterparty shall have the right to terminate the Agreement and claim an amount equivalent to 20% of the transaction price of the asset-to-be-disposed as penalty.

And under the Agreement there is a condition that ADR shall not be obliged to pay penalties to the transferee regarding the expiration or cancellation of this Agreement, except where ADR is at fault.

(Note 5) Refers to a postdated purchase and sales agreement under which payment and property delivery shall be made at least 1 month after the conclusion of the agreement, or any other agreement similar thereof.

5. Buyer Profile

The buyer of the property is a domestic company whose name and detail are not disclosed according to their wishes. The buyer does not constitute parties having particular vested interest in ADR or ADIM.

6. Broker Profile

ADR did not utilize a broker for the disposition.

7. Related-Party Transactions

Omitted. The disposition was not to parties having particular vested interest.

8. Future Outlook

Although the effect of the disposition on the management performance forecasts for fiscal periods ending July 2018 and January 2019 are negligible, they are currently being assessed and will be disclosed as soon as they are determined.

<Attachments>

[Supplementary Materials]

1. Supplementary Materials on Asset-To-Be-Disposed
2. Replacement of Properties Since the Merger to Date (Including to-be-acquired and to-be-disposed assets)(“Since the Merger” means since March 1, 2010, hereafter)

* 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.

[Supplementary Materials]

1. Supplementary Materials on Asset-To-Be-Disposed

Property	Building Age (as of date of document)	NOI Yield ^(Note1)	Yield after depreciation ^(Note2)	Reason for the Disposition
Windsor House Hiroo	14.7 year	4.3 %	3.3 %	<ul style="list-style-type: none"> The yield after depreciation is lower than the average yield of the area. Recovery in revenue is difficult to expect. Appraisal price is lower than its book value.

(Note1) NOI Yield = Total current NOI ÷ Book Value as of end of FP 2018/1 × 100%

(Note2) Yield after depreciation = (FP 2018/1 Actual NOI (annualized) - FP 2018/1 Actual Depreciation (annualized)) ÷ Book Value as of end of FP 2018/1 × 100%

2. Replacements of Properties Since the Merger to Date (including to-be-acquired and to-be-disposed assets)

Summary of Replacements of Properties since the Merger to Date

	Acquired assets	Disposed assets
Number of properties	118	45
Total historical acquisition price	¥172,607 million	¥72,085 million
Total transaction value (a)	¥172,607 million	¥66,766 million
Appraisal (b)	¥185,855 million	¥63,921 million ^(note 1)
Ratio (a) ÷ (b) × 100%	92.9%	104.5 %
Weighted average NOI yield	5.8% ^(note 2)	4.6 % ^(note 3)
Weighted average building age ^(Note 4)	4.8 year	13.3 year

(Note 1) “Appraisal” is the sum of the last appraisal value of each properties at the time of sale.

(Note 2) Weighted average NOI yield of acquisitions = Total annual NOI as entered on the appraisal of acquisitions ÷ Total of the acquisition prices × 100

(Note 3) Weighted average NOI yield of dispositions = Total actual annual NOI ÷ Total of the historical acquisition prices × 100

(Note 4) Weighted average building age is acquisition price weighted average as of the time of acquisition and disposition.

Increase / Decrease in No. of Units as the Result of Replacement of Trades

	Singles	Compacts	Families	Large	Dormitories	Others	Total
Tokyo Central 7 Wards	847	6	-46	-180	0	-1	626
Tokyo 23 Wards Exclusive of Central 7 Wards	2,154	716	435	11	0	14	3,330
Tokyo 23 Wards	3,001	722	389	-169	0	13	3,956
Tokyo Metropolitan Area	440	10	-105	0	-748	-4	-407
Major Regional Cities	1,806	1,144	323	63	0	1	3,337
Other Regions	2,246	1,154	218	63	-748	-3	2,930
Total	5,247	1,876	607	-102	-748	10	6,886

Status of the Portfolio after the Replacements

Asset size (based on acquisition price)	446,4 billion yen
No. of properties	261 properties
No. of leasable units	21,122 units
Total leasable floor area	786,663.63 m ²

Area Diversification	Acquisition Price	Share of Investment
P (Tokyo Central 7 Wards)	169.5 billion yen	38.0 %
C (Tokyo 23 Wards Exclusive of Central 7 Wards)	149.6 billion yen	33.5 %
Tokyo 23 Wards	319,2 billion yen	71.5 %
S (Tokyo Metropolitan Area)	40.9 billion yen	9.2 %
R (Major Regional Cities)	86.2 billion yen	19.3 %
Other Regions	127.2 billion yen	28.5 %
Total	446.4 billion yen	100.0 %