

Questions and Answers at the Fiscal Period July 2018 Earnings Presentation Advance Residence Investment Corporation

Date: From 15:30 to 16:30, Tuesday, September 11, 2018

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- The questions grouped according to topic.
- Advance Residence Investment Corporation is abbreviated as “ADR”.

Internal Growth Related Questions

Q1. The rise in rent was higher than prior periods, were there any significant changes in the market during the six months?

A1. There has not been any significant change in the market. The rental market continues to be robust with strong demand and limited supply especially in the 23 wards of Tokyo, which enabled us to set rents higher. We were also able to set higher rents on units that have undergone value enhancement works which we have been putting a lot of effort into in recent periods.

Q2. What is the rate of increase in rent when excluding effects of rent rise due to value enhancement works?

A2. The amount of increase in aggregated monthly rent was 4.5 million yen, and the rate of increase was 1.8%.

Q3. Are you thinking of shifting towards pursuing higher rents even if it will mean longer downtime (lower occupancy) in the long-term.

A3. To justify a longer downtime, significant increase in rent will be required to compensate for the loss in revenue. In the current strong market, there might be cases where that can be achieved. Whether it will be achievable will depend on the property, therefore we will consider pursuing significantly higher rents on property by property bases.

Q4. What are the factors behind the differences between the rent trends in Tokyo, Osaka and Nagoya even though the cities equally have population inflows continuing?

A4. The difference in rent trends is due to the fact that, in Tokyo, the supply of apartments are significantly lower than the population inflow. On the other hand, in Osaka and Nagoya, supply and demand seems to be more or less in balance.

External Growth Related Questions

Q5. You have told us that rents in Kansai and Nagoya area continue to be soft. Are you going to keep the properties in those area? Or will you be looking to dispose them if you can sell them at a high price and buy properties in Tokyo area where rent trends are strong?

A5. Since the profitability of those properties is not low, we are not actively planning to sell. The average NOI yield to the book value of the properties in Osaka is 6.3%, and the yield after depreciation is 4.9%. In Nagoya, the average NOI yield is 6.6%, and the yield after depreciation is 5.0%.

Q6. The appraisal cap rates keep compressing, are you going to maintain your acquisition hurdle rate?

A6. We would like maintain our hurdle rate at about 4.0% yield after depreciation which we hope to achieve with the cooperation from our sponsors.

Q7. Recent string of acquisitions have been regional properties. Is it because acquiring properties in the Tokyo 23 wards including properties of sponsors are becoming difficult? Will you be considering to increase holdings in regional cities above the current limit of 20% to gain yields?

A7. Although the acquisition market continues to be very competitive, we expect that we will be able to acquire properties from sponsors at an acceptable yield. The basic policy of ADR's portfolio is to allocate 70% or more in the Tokyo 23 wards. Currently the ratio is 71%. We would like to continue external growth in this area where we see strong rents rise, but as the prices of property is high, we would proceed deliberately.

Questions on Other Topics

Q8. Has there been any changes in rental apartment market and in the attitudes of lenders due to the recent series of apartment loan scandal?

A8. We have not seen any impact in our lender's attitudes to us. I think lenders put lending to REITs and apartment loans in to different category. I think there will be very little impact on REITs in general, there are not many cases where buyers of REIT properties to be individuals. On the other hand, there might be opportunities to acquire properties from failed transactions in which the buyer is an individual and could not secure a loan from their lenders.

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