14 all

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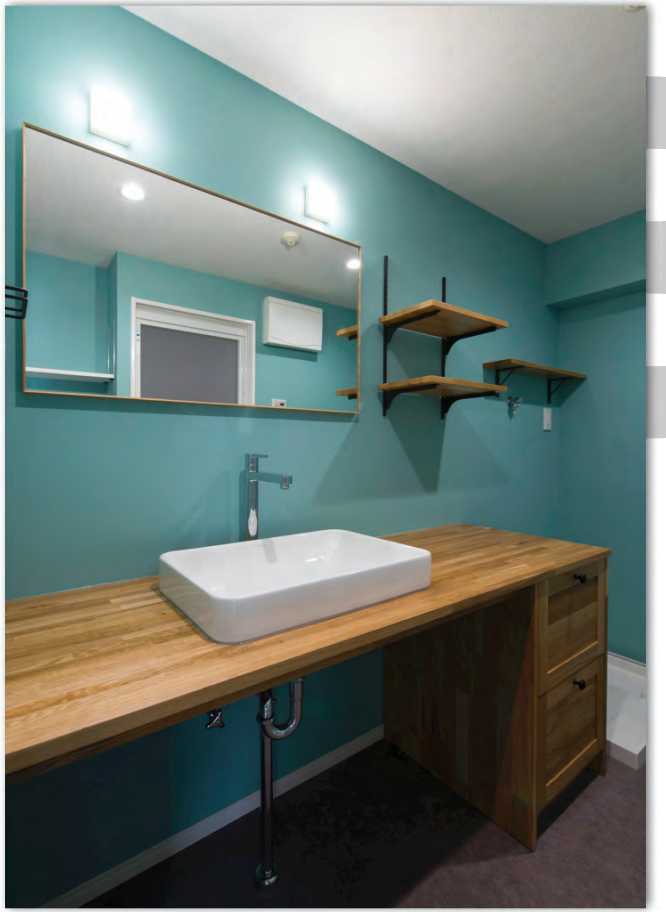
# 14th Fiscal Period Earnings Presentation

February 1, 2017 to July 31, 2017

Advance Residence Investment Corporation

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| | |
|---|---|
| TSE Ticker Code | **3269** |
| Main Sponsor | **Itochu Corporation, Itochu Property Development, Ltd.** |
| Asset Type | **Residential** |
| Fiscal Period End | **End of January & July** |
| Asset Management Company | **AD Investment Management Co., Ltd.** |

*The purpose of this material is to present you with an update on the financial performance of Advance Residence Investment Corporation (the "Corporation"). We do not intend to conduct any advertising or solicitation with respect to any units of the Corporation in connection with this material. Nothing in this material should be regarded as an offer to sell or a solicitation of an offer to buy, a recommendation to sell or buy, or a direct or indirect offer or placement of, any units of the Corporation, except for the purpose of meeting certain requirements under the European Alternative Investment Fund Managers Directive (European Directive 2011/61/EU)(the"AIFMD") as described below.*

*Disclaimer for Dutch Investors : The prospectus containing the information required under Article 23(1) and (2) of the AIFMD as implemented in the Netherlands is available at [http://www.adr-reit.com/en/financial/en/financial/sonota/].*

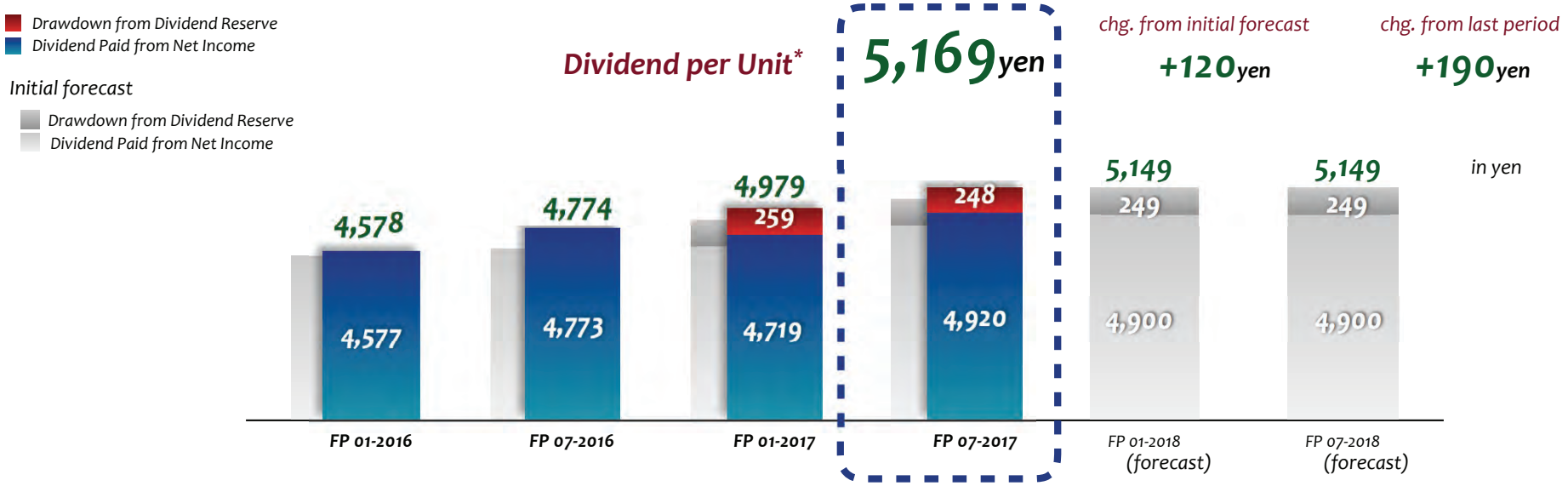
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# Executive Summary



## Record High Dividend, Record High Occupancy




### Internal Growth

| | | |
|---|---|---|
| Period Avg. Occupancy | Record High of | 97.0% |
| Continued Rent Increase | | +0.30% |

### Acquired 3 properties (5.7billion yen)

Asset Under Management 260 properties 442.7 billion yen

### Continued to Lower Financial Cost

| | |
|---|---|
| Average Interest Rate | 0.94% |

### Other Key Performance Figures

| | |
|---|---|
| Acquisition Capacity | over 30 billion yen |
| Dividend Reserve** | 32.8 billion yen |
| NAV per Unit | 237,214 yen |

* Dividend per unit might be abbreviated as DPU and earnings per share as EPU, hereafter.
** Dividend Reserve is booked under the account item called Temporary Difference Adjustment Reserve.

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# Results for Fiscal Period ended July 2017

from February 1, 2017 to July 31, 2017

Advance Residence Investment Corporation

in million yen

| | (1) 14th FP Forecast | (2) 14th FP Results | (2)-(1) | | (3) 13th FP Results | (2)-(3) | |
|---|---|---|---|---|---|---|---|
| | Initial Forecast as of March. 10, 2017 | Results for FP July 2017 | Changes | Notes | Results for FP January 2017 | Changes | Notes |
| **Revenue** | 15,755<br>(260 properties)<br>Period avg. occupancy<br>96.4% | 15,918<br>(260 properties)<br>Period avg. occupancy<br>97.0% | +162 | Same Store<br>Increases from higher occupancy +134<br>Increase in key money revenue, etc. +27 | 15,504<br>(257 properties)<br>Period avg. occupancy<br>96.5% | +414 | Asset Acquisitions<br>Incr. from 2017/1 & 2017/7 acquisition +144<br>Same Store<br>Increases from higher occupancy +133<br>Increases in key money +134 |
| **Operating Income** | 7,819<br>(Depreciation: 2,637)<br>(Property taxes: 849) | 7,968<br>(Depreciation: 2,631)<br>(Property taxes: 848) | +149 | Leasing Expenses<br>Decrease in advertising expenses +22<br>Increase in restitutions & repairs -41<br>G & A Expenses<br>Increases in management fees due to higher profits -14<br>Decrease in other expenses +19 | 7,801<br>(Depreciation: 2,593)<br>(Property taxes: 836) | +167 | Leasing Expenses<br>Increase from new acquisition -44<br>Peak-season increase in fees -140<br>Increase in repair costs & depreciation, etc. -47<br>G & A Expenses<br>Incr. in mgt. fees due to incr. in AUM -16 |
| **Ordinary Income** | 6,480<br>(Funding cost*: 1,333) | 6,642<br>(Funding cost*: 1,318) | +162 | Increase in non-operating income +4<br>Decrease in funding costs due to lower interest rate +8 | 6,371<br>(Funding cost*: 1,410) | +270 | Decrease in non-operating income -3<br>Decrease in funding costs due to refinancing of loans +107 |
| **Net Income** | 6,480 | 6,642 | +162 | | 6,371 | +270 | |
| **EPU (yen)** | 4,800 | 4,920 | +120 | Units issued and outstanding 1,350,000 units | 4,719 | +201 | Units issued and outstanding 1,350,000 units |
| **Per Unit Drawdown of Reserve** (yen)** | 249 | 248 | -1 | Reserve** after dividend: 32.8bn yen | 259 | -11 | |
| **Dividend per unit (yen)** | 5,049 | 5,169 | +120 | | 4,979 | +190 | |
| **Total Asset LTV** | 49.6% | 49.6% | - | | 49.6% | - | |

* Funding costs include interest payments for loans and bonds as well as other finance fees.
** "Reserve" means "Temporary Difference Adjustment Reserve".

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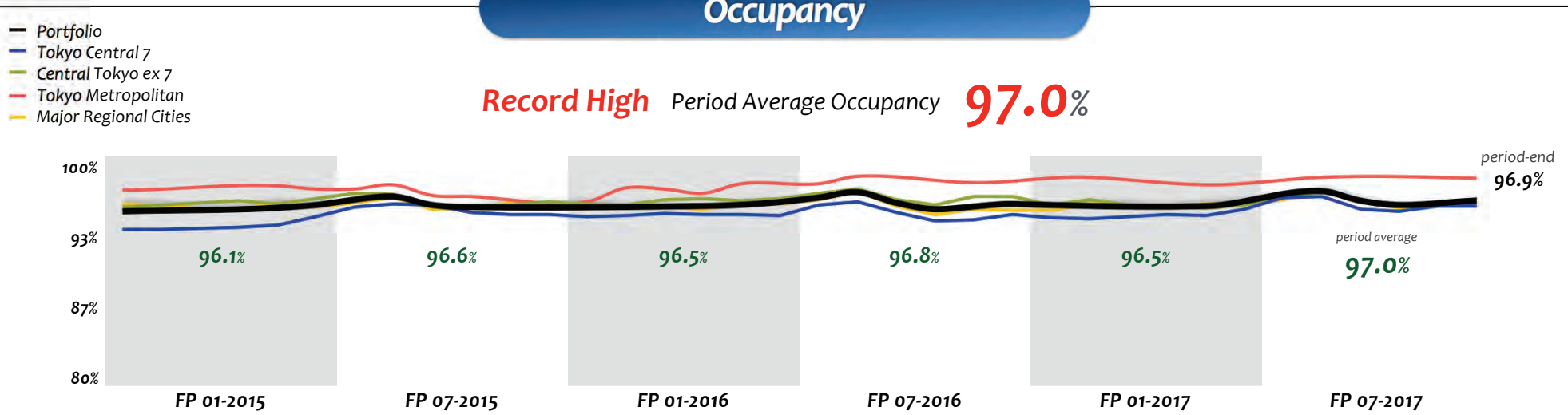

# *Internal Growth*



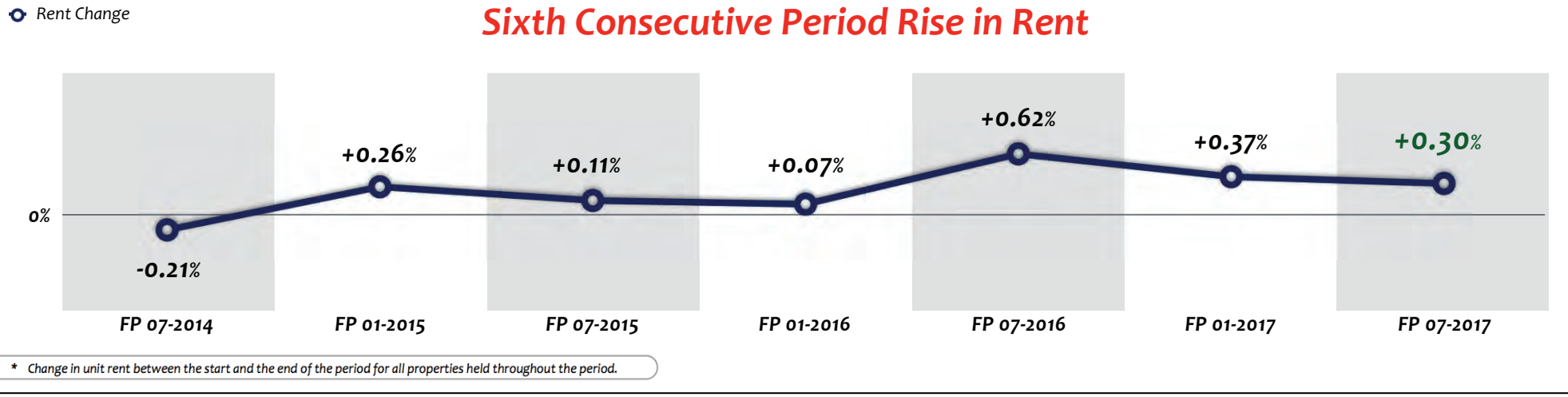
# Achieving Internal Growth in the Residential Sector



## Occupancy




## Portfolio Rent Rise*




* Change in unit rent between the start and the end of the period for all properties held throughout the period.

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# Rents to Continue Rise



## Replacements +1.54% Renewals +0.50%

### Replacements*

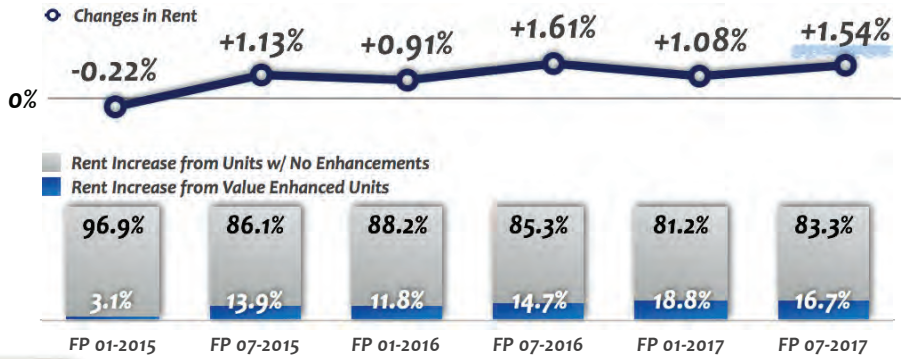
in million yen

| | No. of Units | Ratio | Old Rent | New Rent | Difference | % Change |
|---|---|---|---|---|---|---|
| Increase | 1,153 units | 51.9% | 145 | 152 | +7.1 | +4.91% |
| Unchanged | 364 units | 16.4% | 39 | 39 | - | - |
| Decrease | 706 units | 31.8% | 79 | 76 | -3.0 | -3.83% |
| Total | 2,233 units | 100.0% | 264 | 268 | +4.0 | +1.54% |

Net Rent Change by Location

| | | | |
|---|---|---|---|
| Tokyo Central 7 Wards | +2.36% | Central Tokyo | +1.81% |
| Metropolitan Area | +0.40% | Major Regional Cities | +0.08% |

#### Contributions of Value Enhanced Units to Rent Rise




| Share of VE by No. of Units | FP 01-2015 | FP 07-2015 | FP 01-2016 | FP 07-2016 | FP 01-2017 | FP 07-2017 |
|---|---|---|---|---|---|---|
| | 1.2% | 2.7% | 3.7% | 3.1% | 4.2% | 3.5% |

### Renewals*

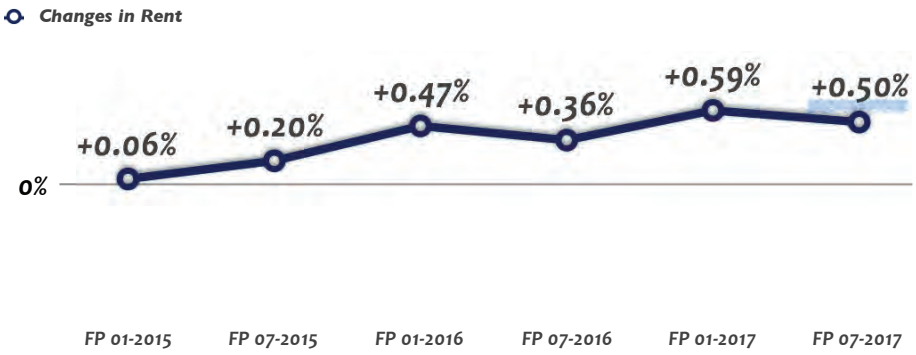
in million yen

| | No. of Units | Ratio | Old Rent | New Rent | Difference | % Change |
|---|---|---|---|---|---|---|
| Increase | 708 units | 21.4% | 89 | 90 | +1.9 | +2.20% |
| Unchanged | 2,595 units | 78.4% | 297 | 297 | - | - |
| Decrease | 5 units | 0.2% | 0.8 | 0.7 | -0.02 | -3.32% |
| Total | 3,308 units | 100.0% | 386 | 388 | +1.9 | +0.50% |

Net Rent Change by Location

| | | | |
|---|---|---|---|
| Tokyo Central 7 Wards | +0.56% | Central Tokyo | +0.61% |
| Metropolitan Area | +0.48% | Major Regional Cities | +0.27% |

#### Gradual Increase in Renewal Rents



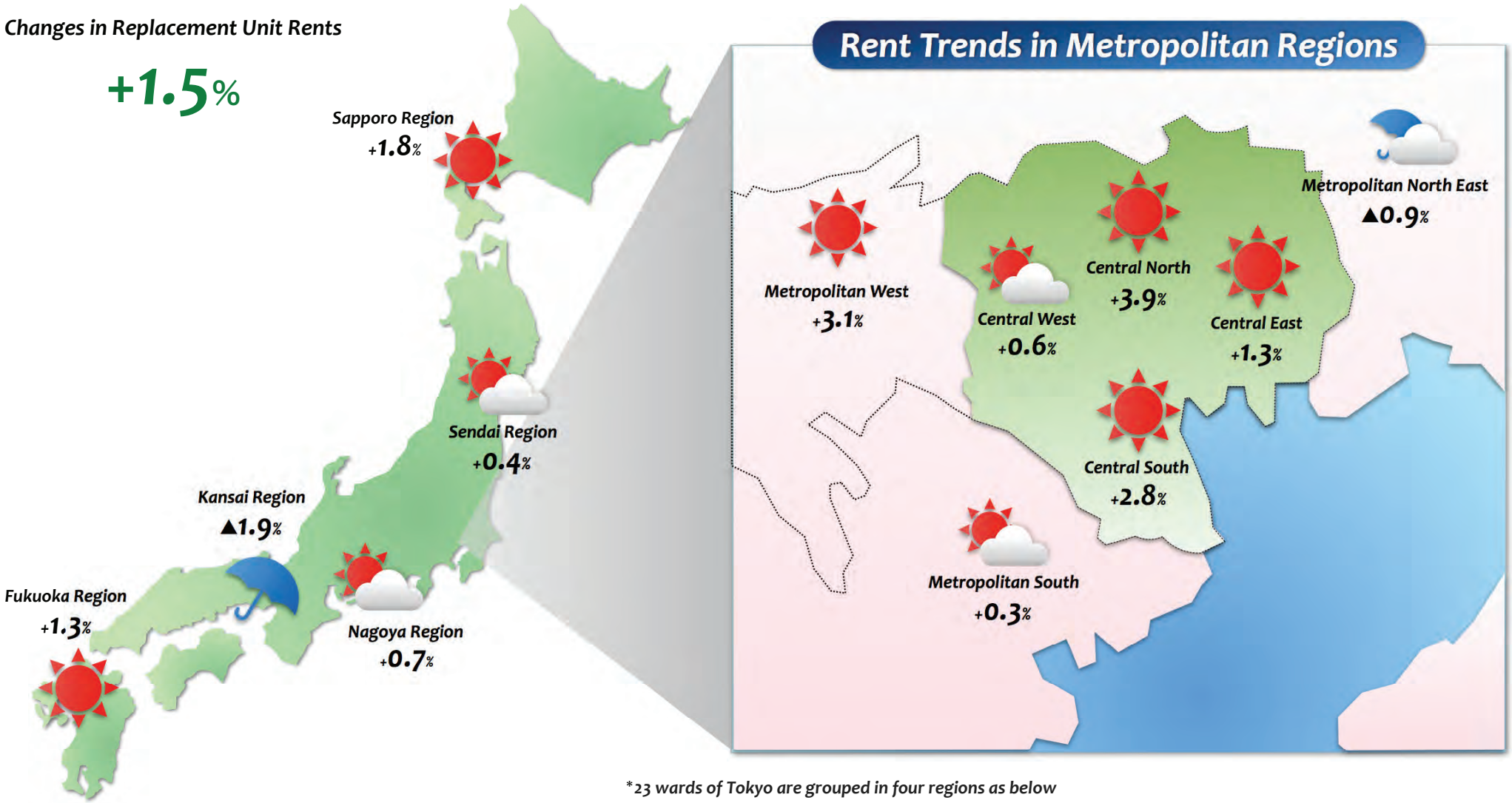

* Rent change for pass-through units that went through replacement or renewal during the period. ** Value enhancements (VU) units are units with changes in floor plan or specification upgrades.

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# Changes in Replacement Unit Rents by Region



## Seeing Strong Rise in Rents Especially in 23 Wards of Tokyo




*23 wards of Tokyo are grouped in four regions as below

**Central East** (Chiyoda, Chuo, Taito, Sumida, Koto, Katsushika, Edogawa), **Central West** (Shinjuku, Shibuya, Suginami, Nakano)
**Central South** (Minato, Shinagawa, Meguro, Ota, Setagaya), **Central North** (Bunkyo, Toshima, Kita, Itabashi, Nerima, Arakawa, Adachi)

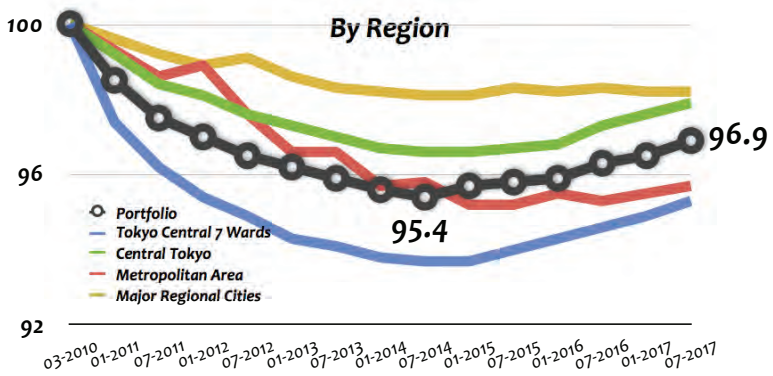
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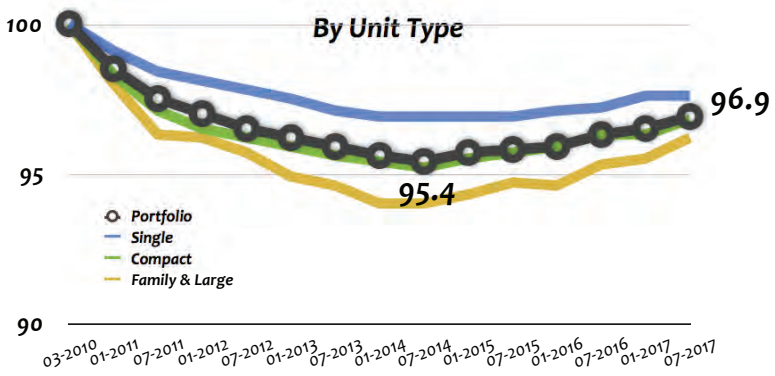
# Rent Trend & Rent Gap



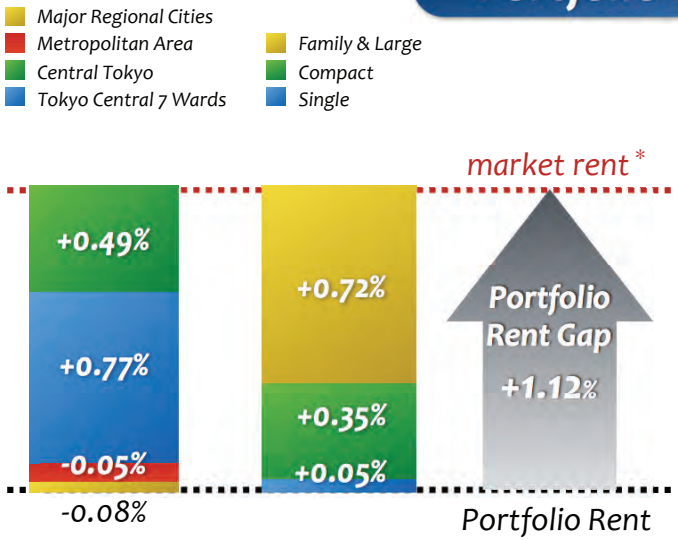
## Unit Rent Trends

### Unit Rent Rise Continues Especially in 23 Wards of Tokyo & Compact Type Units



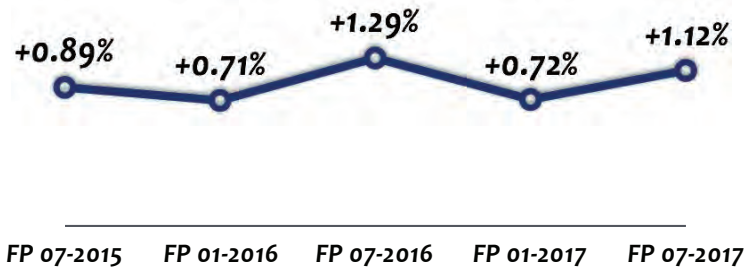




## Portfolio Rent Increase Potential *




**+1.12%**

### Trend in Rent Rise Potential




* The portfolio rent increase potential is estimated by calculating the gap between the unit rent of new tenants of FP July 2017 (treating the rents as approximation of market rent) and unit rent of existing tenants, aggregated for the whole portfolio for leasing contracts that are pass-throughs. The calculation is made on each property and by each unit type for properties held at the end of FP July 2017.

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# Maintaining the Competitiveness of Properties



## Value Enhancement (VE) Works

*In value enhancement works floor plans and kitchens are renovated to current style thereby making it possible to aggressively pursue rent increases*

**Track Record Since the Merger**

| | |
|---|---|
| **No. of Value Enhanced Units:** | **232** units |
| **No. of Units Leased-out*:** | **222** units |
| **% Increase in Rents*:** | **12.2%** |

**Increase in rents are calculated for the 212 units leased out as of Aug. 31, 2017, dividing the first contracted monthly rent after VE works by the most recent rent before the VE works.*

## Large-scale Repairs

*Repair works are carried out at around 15 years intervals on roofings, exteriors and entrances to maintain the basic functionality of the buildings*

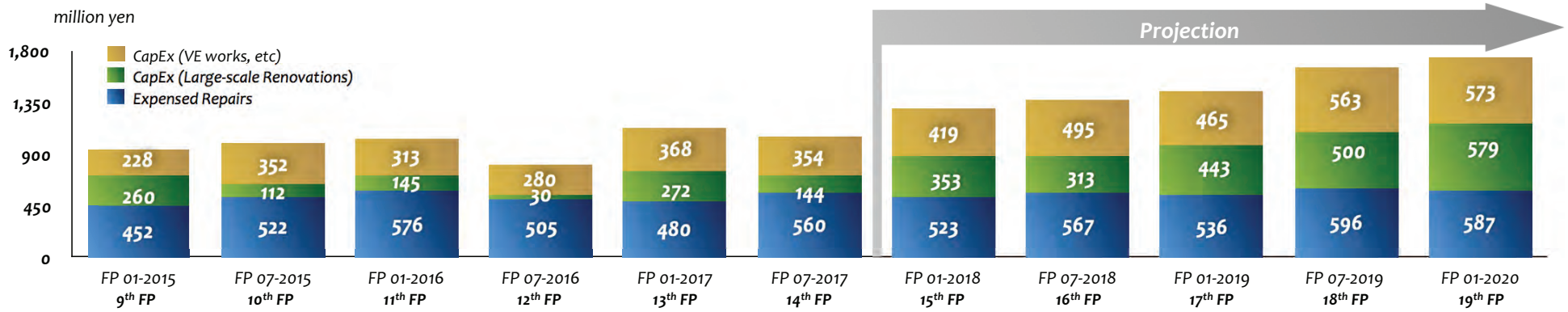
**Track Record Since the Merger**

| | |
|---|---|
| **No. of Properties:** | **26** properties |
| **Total Investment:** | **1,272** million yen |
| **Ave. Cost per Property** | **48** million yen |

## Daily Maintenance

*Restoration on kitchen & bathroom equipments, walls and etc. are carried out between tenant replacements*

## Works Are Scheduled with Cash Management in Mind




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# Large-Scale Repairs

Works Completed in FP July 2017



**Properties Repaired during July 2017** **3** properties　　**Total Expenditure** **135** million yen

## P-45 RESIDIA Jiyugaoka　15 years old

### Entrance renewed to a grander design









## C-17 RESIDIA Shinkawa　14 years old

### Exterior & entrance hall repainted in vibrant colors











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# Value Enhancement Works

*Examples of Works Completed During FP July 2017*



**No. of Value Enhancement** **27** units in **9** properties

**Avg. Increase in Monthly Rent** **+16.7%***

## P-73 RESIDIA Shibaura




| | |
|---|---|
| Building Age | 26 years old |
| Floor Plan | 3 BR + Kitchen/Living/Dining |
| Construction Cost | 4.2 million yen |
| Increase in Monthly Rent | +21.4% |
| Projected Recuperation Period** | 5 years |




## C-46 RESIDIA Mejiro




| | |
|---|---|
| Building Age | 19 years old |
| Floor Plan | 2 BR + Kitchen/Living/Dining |
| Construction Cost | 5.8 million yen |
| Increase in Monthly Rent | +20.0% |
| Projected Recuperation Period** | 4 years |



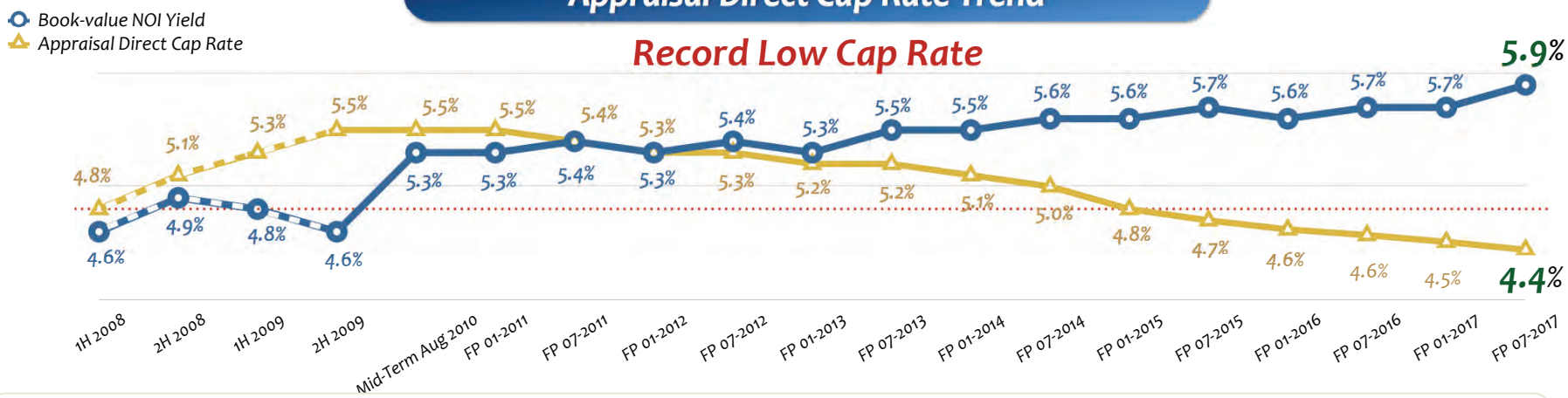

* Increase in monthly rents are calculated for the 30 units leased out as of Aug 31, 2017, dividing the newly contracted monthly rent by the previous rent.
** Projected Recuperation Periods are periods projected to recuperate the value enhancement cost, which is calculated as total cost minus renovation costs and equipment replacements due to aging.

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# Appraisal Value



## Appraisal Direct Cap Rate Trend




＊Book value NOI yield is calculated as follows. The total of actual NOI of properties at the end of each period are annualized according to the actual number of days of operation divided by the total book value at end of each periods.
＊Doted line expresses the periods that are before the merger.

## Appraisal Summary of FP July 2017

Unrealized profit of **106.4** billion yen　**25.1**% of Portfolio Book-value

| | Appraisal (in million yen) | | Appraisal NCF (in million yen) | | | | Direct Cap Rate (%) | | Actual NOI Yield (%) | Unrealized Profit and Loss (million yen) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | End of FP Jul. '17 | diff vs last FP | End of FP Jul. '17 | diff vs last FP | itemized diff ** | | End of FP Jul. '17 | diff vs last FP | FP Jul. '17 | Book Value (a) | Difference from the appraisal (b) | (b)/(a) |
| | | | | | rent rev | ER re-appraisal | | | | | | |
| Tokyo Central 7 Wards | 200,281 | +3,206 | 8,519 | +17 | +22 | -5 | 4.19% | -0.06pt | 5.3% | 164,794 | 35,486 | 21.5% |
| Central Tokyo ex. 7 Wards | 177,534 | +3,266 | 7,768 | +11 | +29 | -18 | 4.32% | -0.08pt | 5.9% | 139,057 | 38,476 | 27.7% |
| **Tokyo 23 Wards Total** | **377,815** | **+6,472** | **16,287** | **+28** | **+52** | **-23** | **4.25%** | **-0.07pt** | **5.6%** | **303,852** | **73,962** | **24.3%** |
| Tokyo Metropolitan | 48,304 | +277 | 2,366 | -0.7 | -0.1 | -0.7 | 4.86% | -0.03pt | 6.6% | 37,973 | 10,330 | 27.2% |
| Major Regional Cities | 105,055 | +231 | 5,249 | -41 | -9 | -32 | 4.95% | -0.05pt | 6.7% | 82,886 | 22,168 | 26.8% |
| **Portfolio Total** | **531,174** | **+6,980** | **23,902** | **-13** | **+42** | **-56** | **4.44%** | **-0.06pt** | **5.9%** | **424,712** | **106,461** | **25.1%** |

### Appraisal Brief

| | No. of Properties | Diff. in Value in mil. yen |
|---|---|---|
| increase | 187 | +7,684 |
| Unchanged | 51 | - |
| Decrease | 22 | -704 |
| Total | 260 | +6,980 |

**15** properties decreased in value due to increase in expense listed in the re-acquired engineering report

There is a total of unrealized loss of **770** million yen from **4** properties

＊For assets acquired during the FP July 2017, appraisal value at the time of acquisition is used as the previous appraisal value. ** The difference in appraisal NCF from last FP is items as difference in rent revenue (appraisal NOI - repairs) and difference in repair cost and capital expenditure re-appraised in the engineering report.

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# Note



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# External Growth



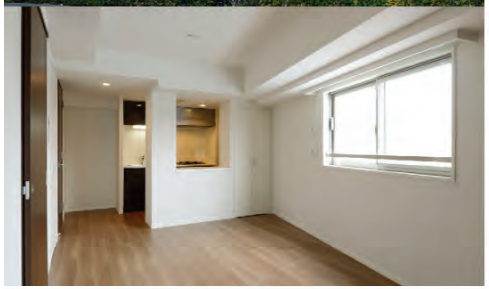



# Newly Acquired Properties



**3** properties **5.7** billion yen

**Properties Acquired from Sponsor** | **Third Party (Negotiated Transaction)**

| RESIDIA Koenji | RESIDIA Kameido | RESIDIA Senri-Fujishirodai |
|---|---|---|
|  |  |  |
|  |  |  |

| | Central Tokyo ex 7 | Central Tokyo ex 7 | Tokyo Metropolitan | Total |
|---|---|---|---|---|
| Acquisition Price | 1,380 million yen | 2,988 million yen | 1,430 million yen | **5,798 million yen** |
| NOI Yield * | **5.1%** | **4.7%** | **5.2%** ** | **4.9%** |
| Yield after Depreciation * | **4.3%** | **4.0%** | **4.3%** ** | **4.1%** |
| Leasable Units | **58** units | **129** units | **90** units | **277 units** |
| Completion | March 2015 | October 2013 | February 2017 | - |
| Building Age | **2.4** years | **3.8** years | **0.4** years | **2.6 years** |

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* NOI yield of acquired properties are calculated by dividing the annualize NOI for FP Jul. 2017 by each book values at the end of the FP. ** Calculated using the annualized NOI listed on the appraisal report and actual annualized depreciation for FP July 2017.

# Preparing for Future External Growth



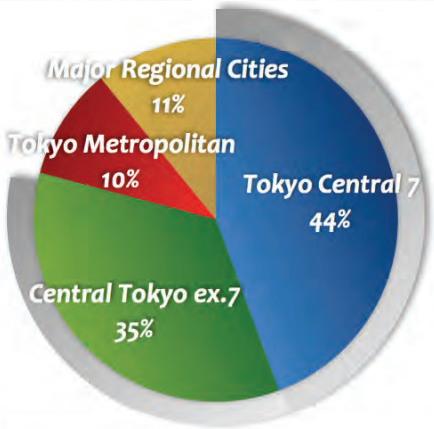
## Sponsor Pipeline 31 properties 51.0 billion yen

### Properties Developed by Itochu Group

**Developments mostly in the Tokyo 23 Wards**

| | No. of Properties | No. of Units | Expected Size |
|---|---|---|---|
| Tokyo Central 7 | 14 properties | 743 units | 22.6 bn yen |
| Central Tokyo ex.7 | 11 properties | 667 units | 17.7 bn yen |
| Tokyo Metropolitan | 2 properties | 439 units | 5.1 bn yen |
| Major Regional Cities | 4 properties | 372 units | 5.5 bn yen |
| Total | 31properties | 2,221 units | 51.0 bn yen |

*of which are land plots waiting for building permits* 5 properties 7.7 bn yen
as of Jul. 2017

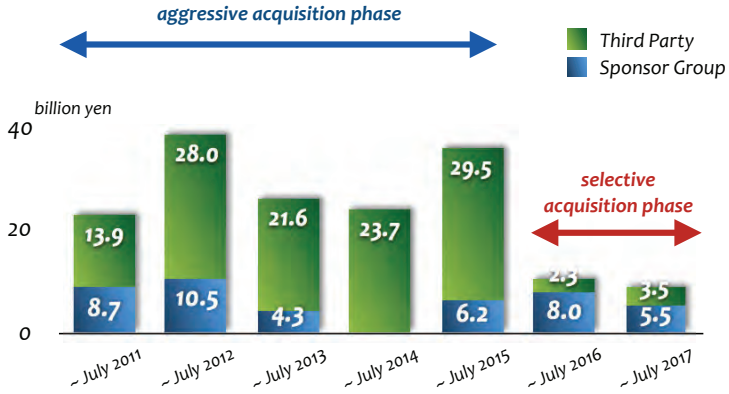


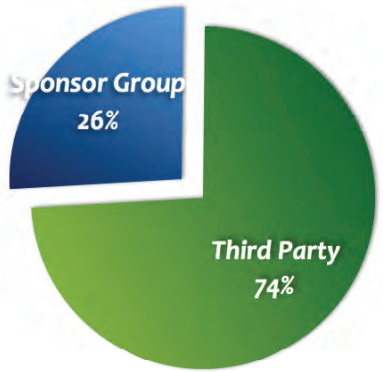



**Steady Stream of Completions by Sponsors**

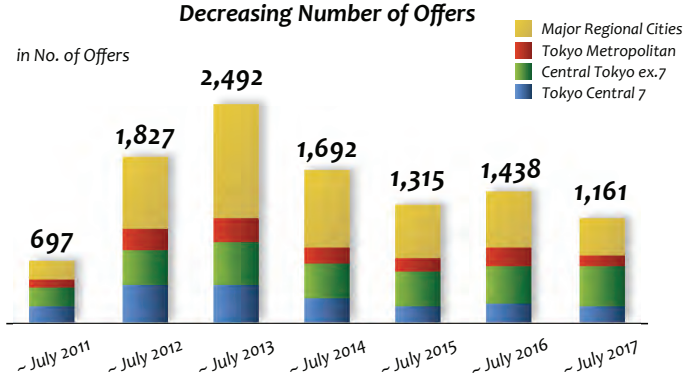



### Sourcing Track Record




**Decreasing Number of Offers**




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# Finances






# Building a Stable Financial Base



## Key Figures on Debts

JCR **AA** (Stable) R&I **A+** (Stable)

| | FP Jan. 2017 | FP July 2017 | | change |
|---|---|---|---|---|
| Loans | 190.2 bn yen | 188.8 bn yen | (84.6%) | -1.4 bn yen |
| Bonds | 33.5 bn yen | 34.5 bn yen | (15.4%) | +1.0 bn |
| Total | 223.7 bn yen | 223.3 bn yen | (100.0%) | -4 bn yen |

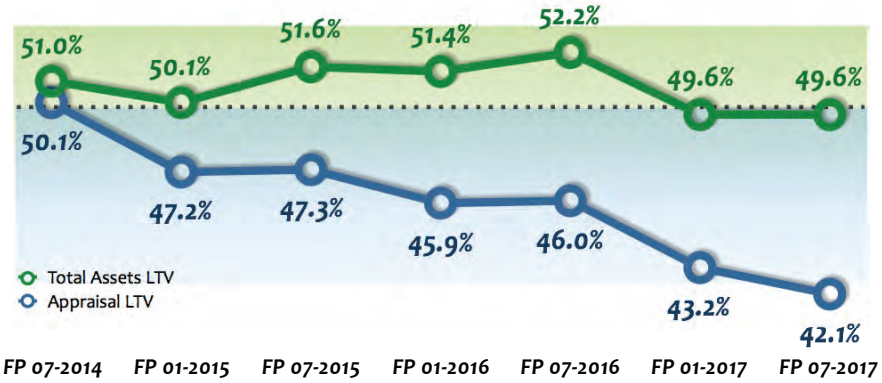
## FP July 2017 Debt Financing

*Lowered Financing Cost While Financing in Longer Debts*

| | Repayment | Procurement |
|---|---|---|
| Total | 22.9 bn yen | 22.5 bn yen |
| Avg. Interest Rate | 1.30% | 0.46% |
| Avg. Initial Duration | 5.4 yrs | 8.3 yrs |

## LTV Management

*Maximum leverage will be 50% for Appraisal LTV, 53% for Total Assets LTV*




## FP July 2017 Financing Topics

1. **Bond Issuance**

| Total | Average Duration | Average Interest Rate |
|---|---|---|
| 5.0 billion yen | 8.2 years | 0.37% |

2. **Invited Two New Lenders** (Scheduled to newly join in Sept. 2017)

JAPAN POST INSURANCE Co., Ltd.

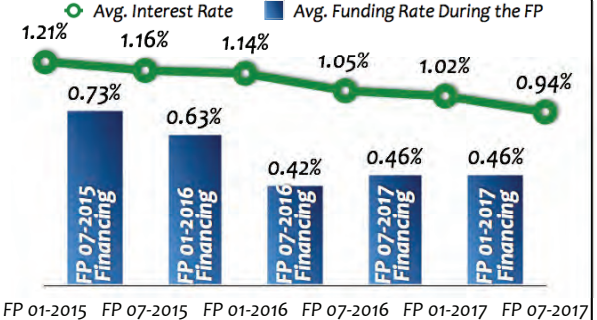
Shinkin Central Bank

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# Duration Extended, Ratio of Fixed Interest Debts Increased and Maturity Diversified While Financing Cost Lowered

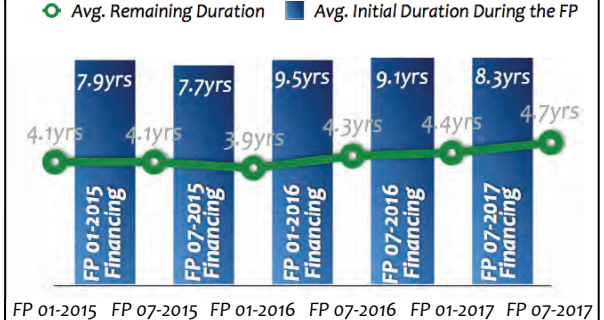


## Lowering Interest Rate



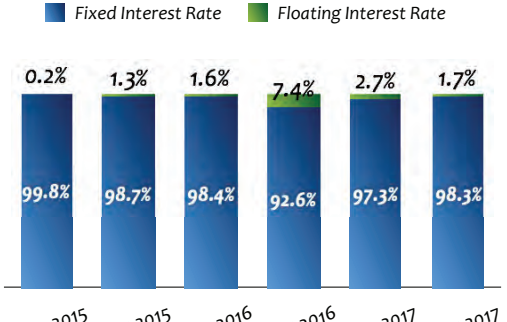

* In Calculating the average interest rate for financing during the periods, amount outstanding and interest rate applicable at the end of each period is used.

## Extending Duration




* In Calculating the average debt duration for financing during the periods, amount outstanding at the end of each period is used to calculate the weighted average.
* In calculating the years to maturity, amortization is not counted.

## Fixing Interest Rate

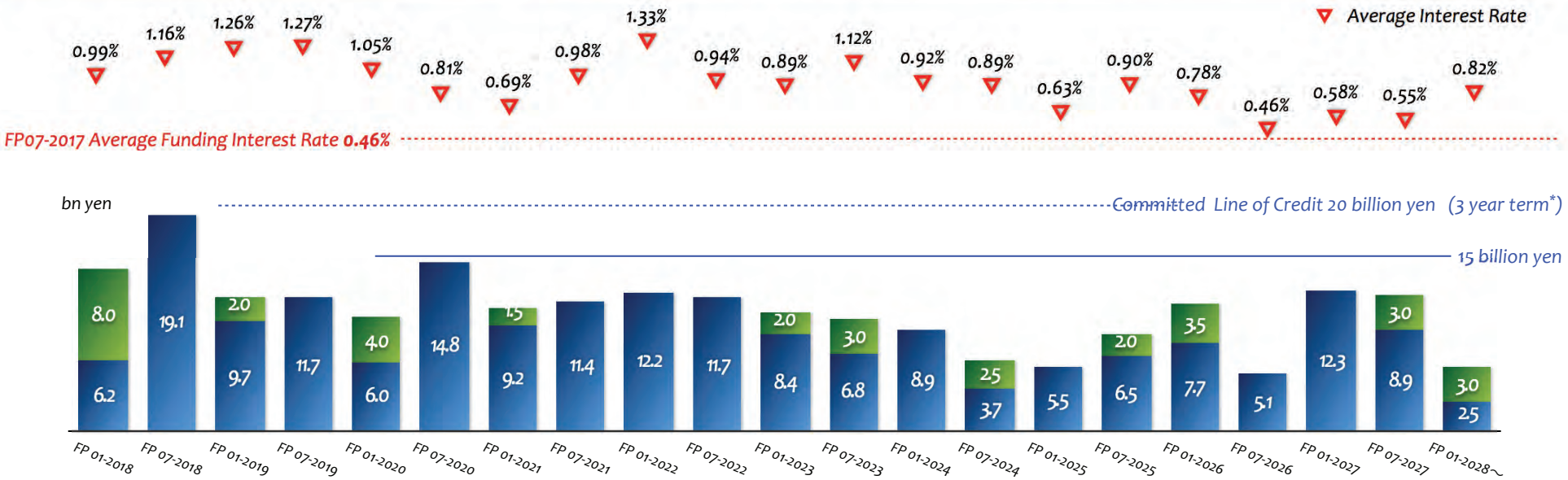



* Short-term loans are excluded.

## Diversifying Duration, Setting Up a Committed Line of Credit

Rounded down to the nearest 100 million yen

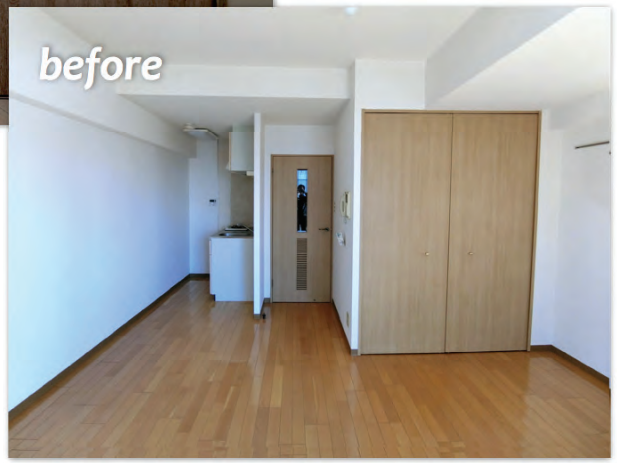
as of end of FP 07-2017




* Contract expiration of loan drawdown is April 2020. However the contract is renewed every year to maintain the remaining drawdown term to 2 to 3 years.

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# Management Policies & Earnings Guidance

# Drawdown of Reserve



## Maximum 50 years (100 Fiscal Period) Drawdown

Temporary Difference Adjustment Reserve
(Dividend Reserve; initial reserve outstanding 33.5 billion yen)

**32.8** billion yen
(after FP July 2017 dividend payout)

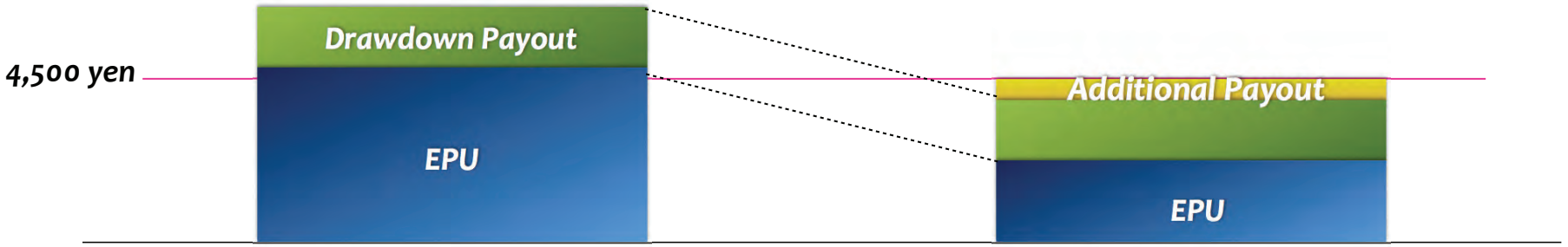
Responding to the 2015 Tax Revision*
Starting FP Jan. 2017 Drawdown Payout of At Least

**335** million yen per FP

→ **248** yen per units or more per FP
@ 1,350,000 units (as of FP Jan. 2017)

## Measures to Ensure Stable Dividends

Increase drawdown to Ensure a Dividend of at Least **4,500** yen per unit




Retained earnings of negative goodwill (booked as temporary difference adjustment reserve) that resulted from merger must be drawdown within 50 years in a predetermined method.
The actual dividends will be decided by the ADR's board based on a comprehensive consideration of such factors as increase/decrease in portfolio rent and occupancy, level of cash reserves, level of LTV, debt costs.

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# Earnings Guidance for FP Jan. 2018 & July 2018



in million yen

| | (1) 14th FP Results | (2) 15th FP Forecast | (2)-(1) | | | (3) 16th FP Forecast | (3)-(2) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Results for FP July 2017 | Forecast for FP January 2017 (announced Sept. 6, 2017) | Changes | Notes | | Forecast for FP July 2018 (announced Sept. 6, 2017) | Changes | Notes | |
| **Revenue** | 15,918<br>(260 properties)<br>Period avg. occupancy<br>97.0% | 15,742<br>(260 properties)<br>Period avg. occupancy<br>96.5% | -176 | **Newly Acquired Assets**<br>Increases from FP2017/7 acquisitions<br>**Same Store**<br>Lower off-peak occupancy<br>Off-peak decrease in key money | +79<br><br>-108<br>-148 | 15,868<br>(260 properties)<br>Period avg. occupancy<br>96.6% | +126 | **Same Store**<br>Peak season increase in key money | +126 |
| **Operating Income** | 7,968<br>(Depreciation: 2,631)<br>(Property taxes: 848) | 7,839<br>(Depreciation: 2,648)<br>(Property taxes: 859) | -129 | **Leasing Expenses**<br>Increases from FP2017/7 acquisitions<br>Off-peak decrease<br>Depreciation & property tax incrs.<br>**G & A Expenses**<br>Incr. from expense of bi-annual GUM & other expenses | -12<br>+106<br>-22<br><br>-25 | 7,811<br>(Depreciation: 2,661)<br>(Property taxes: 865) | -28 | **Leasing Expenses**<br>Peak season increase in fees<br>Depreciation & property tax incrs.<br>**GA Expenses**<br>Cons. tax settlement increase, etc | -110<br>-19<br><br>-25 |
| **Ordinary Income** | 6,642<br>(Funding cost*: 1,318) | 6,615<br>(Funding cost*: 1,216) | -27 | Decrease in compensation income<br>Decrease in interest pay't from refinancing & debt reduction | -8<br>+110 | 6,615<br>(Funding cost*: 1,190) | - | Decrease in interest pay't from refinancing & debt reduction | +28 |
| **Net Income** | 6,642 | 6,615 | -27 | | | 6,615 | - | | |
| **EPU (yen)** | 4,920 | 4,900 | -20 | Units issued and outstanding<br>1,350,000 units | | 4,900 | - | Units issued and outstanding<br>1,350,000 units | |
| **Per Unit Drawdown of Reserve** (yen)** | 248 | 249 | +1 | Reserve after dividend: 32.5bn yen | | 249 | - | Reserve after dividend: 32.1bn yen | |
| **Dividend per unit (yen)** | 5,169 | 5,149 | -20 | | | 5,149 | - | | |
| **Total Asset LTV** | 49.6% | 49.4% | -0.2pt | | | 49.4% | - | | |

* Funding costs include interest payments for loans and bonds as well as other finance fees.
** "Reserve" means "Temporary Difference Adjustment Reserve".

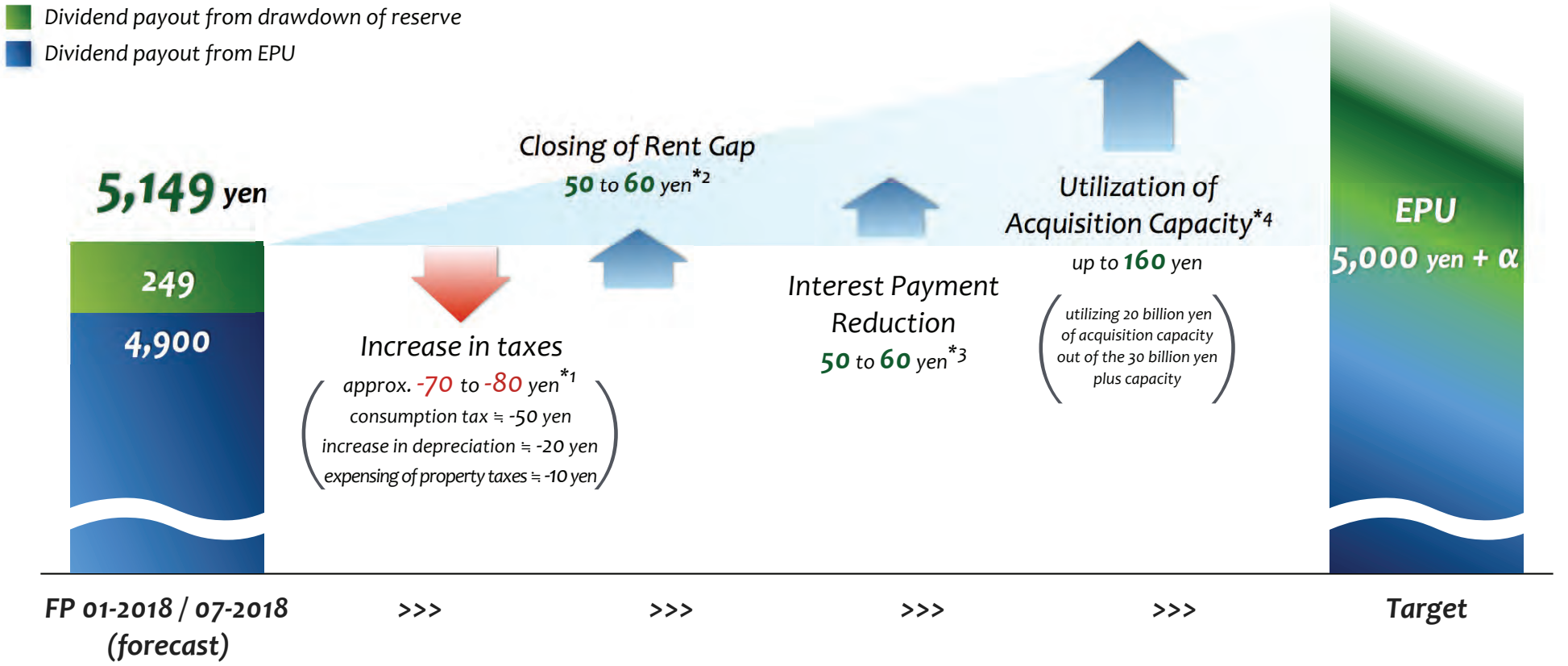
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# 1 to 2 Year DPU Target



## Total DPU growth of +200 yen

DPU 5,300 yen ~




Assumptions are that the issued and outstanding amount of 1,350,000 ADR units will be unchanged, and that the amount of effects of various events on EPU and DPU are estimated using assumptions such as the ones below.

*1 Used the assumptions in the earnings guideline disclosed in the FP07-2017 Tanshin (Japanese Preliminary Fiscal Report) . Consumption tax rate is assumed to be raised from 8% to 10%. Restoration works expected to be executed by 07-2019 are included in the calculation of depreciation projection.

*2 Assumption of EPU/DPU growth from the effect of the closing the rent gap is made referring to rent gap, turnover figure, lease contract term leasing costs of FP07-2017 within the time horizon of FP 07-2020.

*3 Interest payment reduction is based on the assumption that debts maturing by FP07-2019 will be refinanced with an average interest rate of 0.8%.

*4 The estimate is made using forecast figures of total assets and outstanding interest bearing debts for FP07-2018. Also the estimate is based on around two year worth of acquisition and assumed funding cost.

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