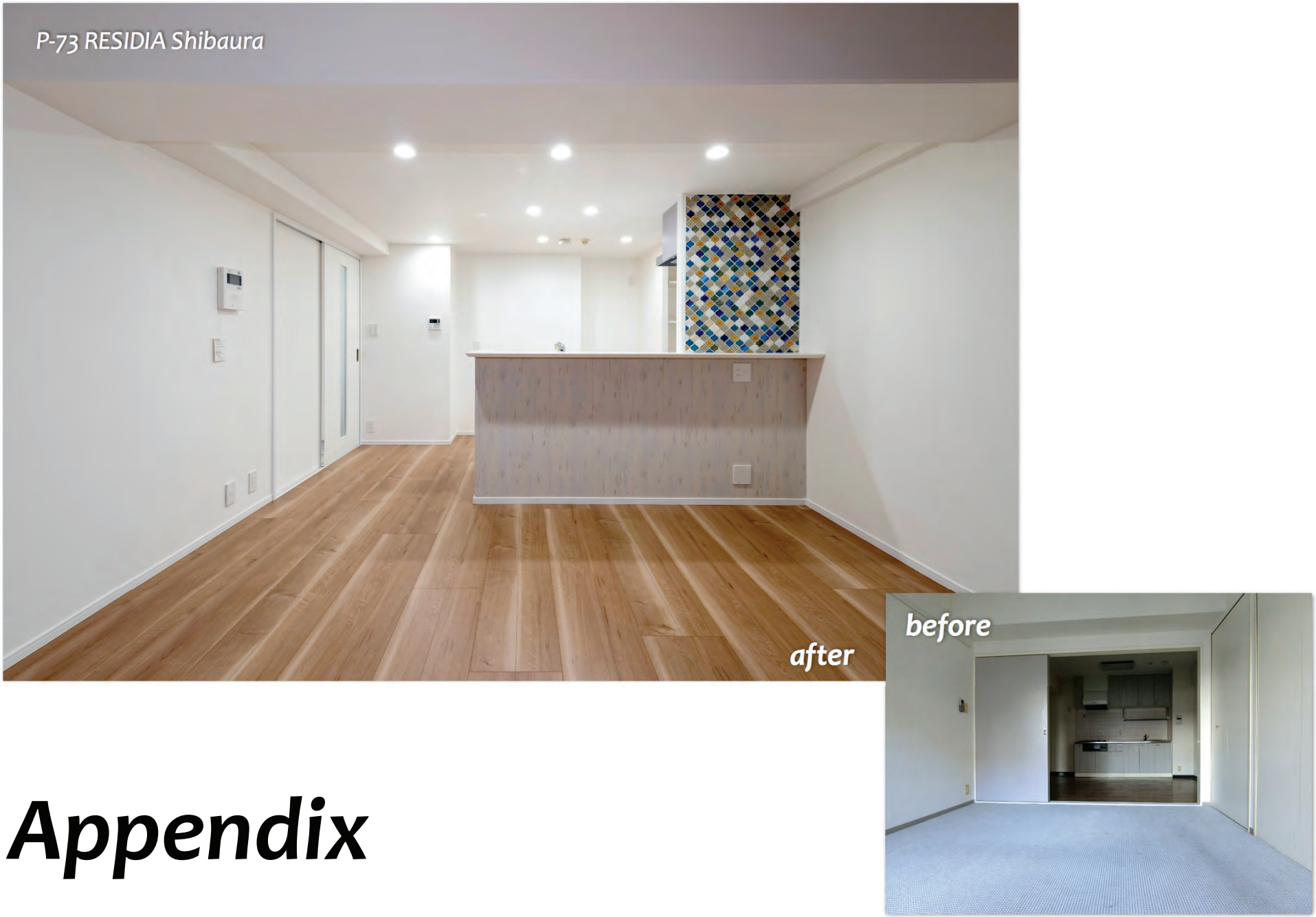

Appendix

Advance Residence's Strength

Defensive with Stable Dividend

ASSET

Holds the **Largest** AUM
Among Residential J-REITs

442.7 billion yen

DEBT

Stable Financial Foundation
Long-term × Fixed Rate
× Diversified Maturity

JCR **AA**

EQUITY

Holds the **Largest**
Reserve Among All J-REITs

32.8 billion yen

(the outstanding after FP July 2017 dividend payout)

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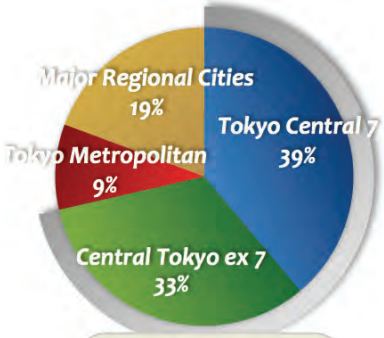
The Largest* Portfolio Among Residential J-REITs

* According to data collected by ADIM from the latest disclosures made by each residential J-REITs as of Sept. 6, 2017.

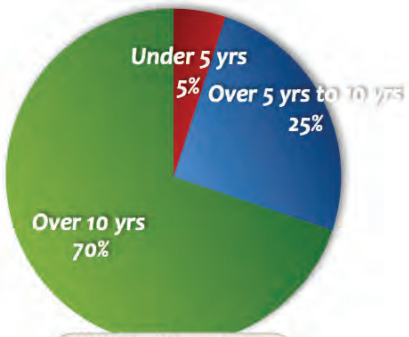
	Number of Properties	Total Leasable Area	Leasable units	Assets Under Management (Acquisition Price)
as of July 31, 2017	260 properties	781,760㎡	20,842 units	442.7 billion yen

Investment Location (by acquisition price)



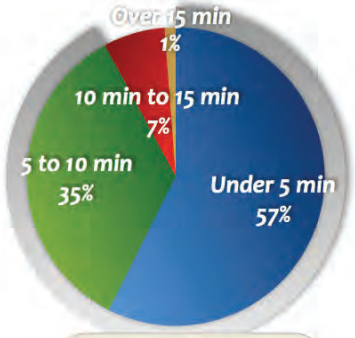
Tokyo 23 Wards 71%

Building Age (by acquisition price)



Weighted Average Age 11.3 yrs

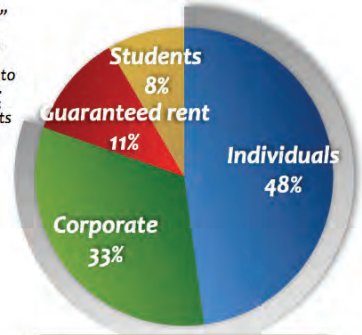
Walking Minutes to Train Station (by acquisition price)



Under 10 min 92%

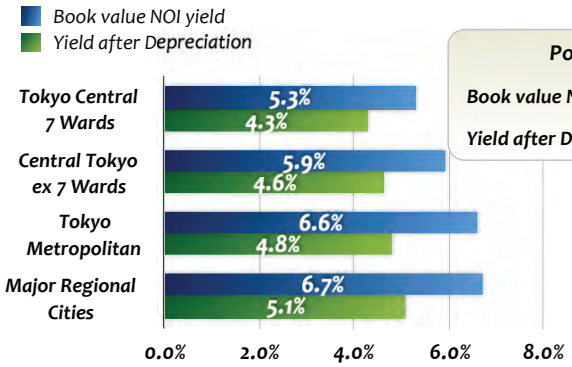
Tenant Category (by no. of units)

- "Guaranteed rent" includes pass-through contracts which the whole property is leased to one counter-party.
- "Students" shows the number of units of student dormitories and student apartments.



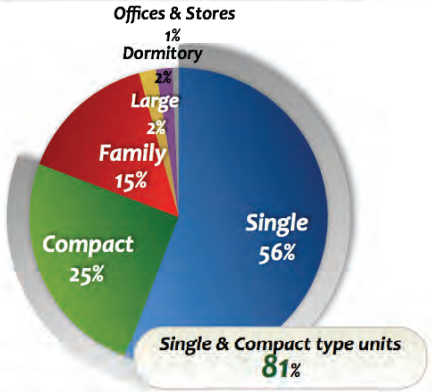
Pass-through contract tenants 80%

NOI Yields (%) **



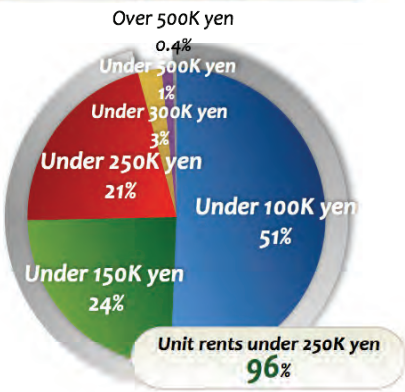
Portfolio Yield	
Book value NOI yield	5.9%
Yield after Depreciation	4.6%

Unit type (by no. of units)



Single & Compact type units 81%

Rents (by no. of units)



Unit rents under 250K yen 96%

** **Book value NOI** is calculated as "annualized NOI" ÷ "book value at the end of FP2017/7". NOI is annualize according to actual number of days of operation for each property during FP2017/7.
Yield after Depreciation is calculated as (annualized NOI - depreciation) ÷ book value as of end of FP2017/7.

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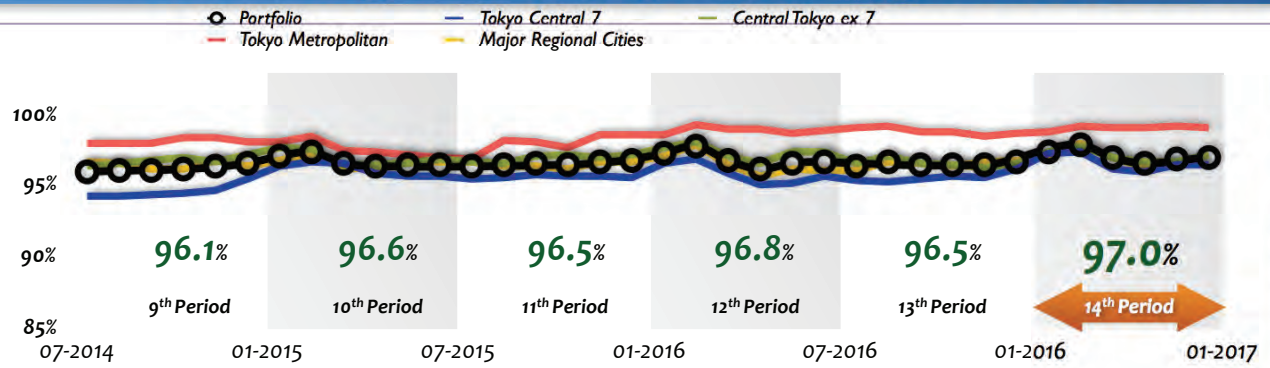
Increasing EPS by Implementing Various Measures

Assets

Occupancy

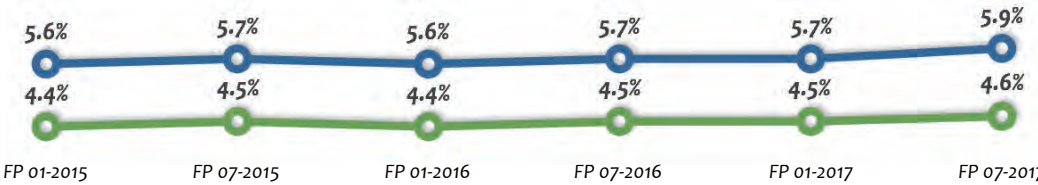


Period End Occupancy

Portfolio	96.9%
Tokyo Central 7	96.4%
Central Tokyo ex 7	97.1%
Tokyo Metropolitan	99.0%
Major Regional Cities	96.4%

Record High Occupancy Rate

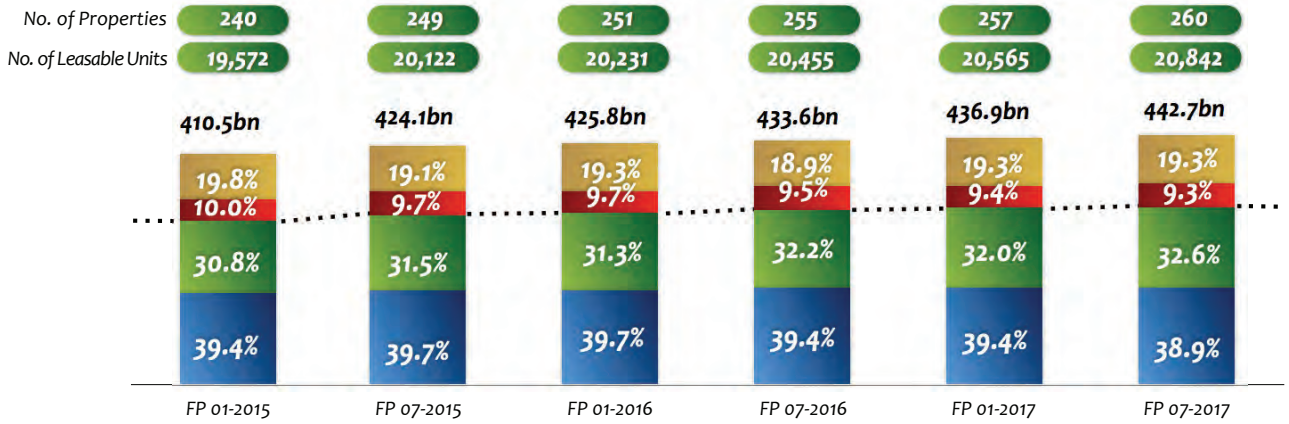
Yield



* NOI yield = annualized NOI ÷ book value. The NOI are annualized according to the number of actual days of operation for each properties during the periods.
* Yield after depreciation = (annualized NOI - depreciation) ÷ book value.

Stable Yield Levels

AUM



The Largest Portfolio Among Residential J-REITs

Topping 440 bn yen
(as of July 31, 2017)

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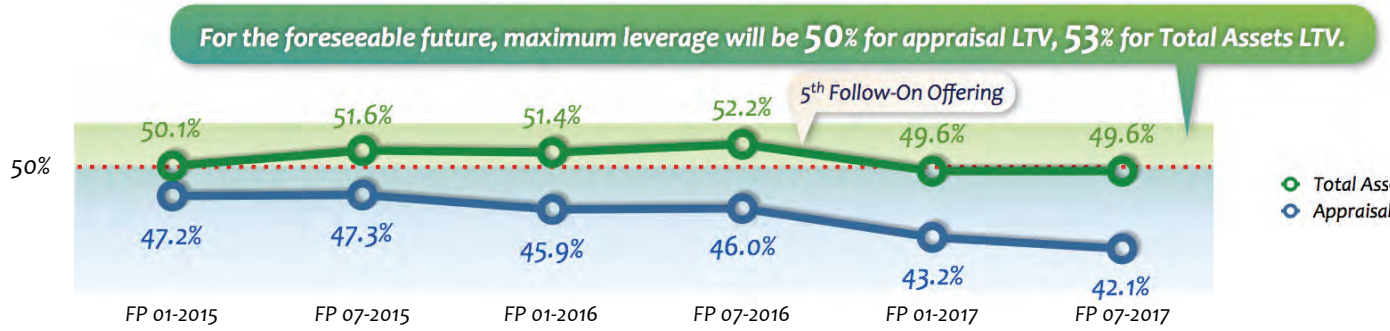
Liabilities

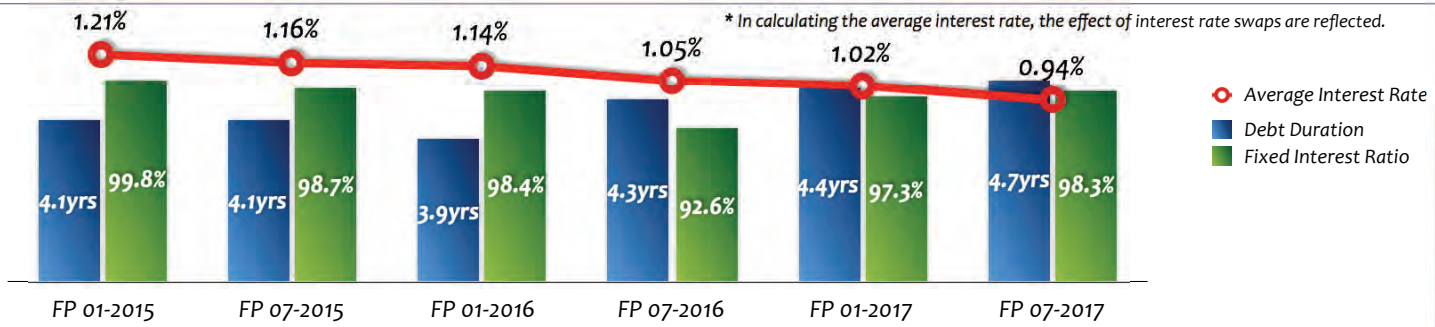
LTV



Lowered LTV Range to Maintain Flexibility in Preparation for Future Financial Volatility

Acquisition Capacity
(@ Total Assets LTV of 53%)
over
30.0 bn yen
(estimate for FP ending July 2017)

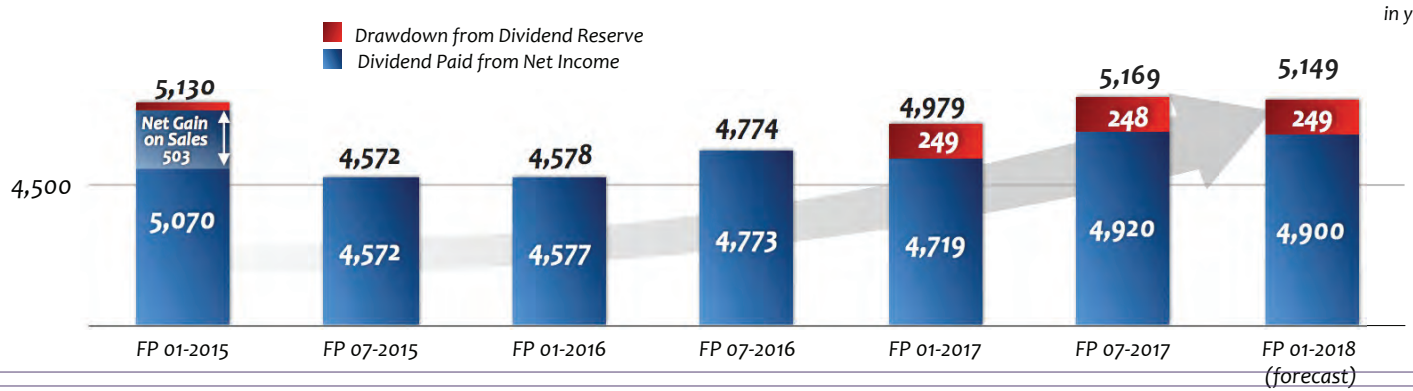
Debts



Lowered Interest Rate While Extending Duration

Equities

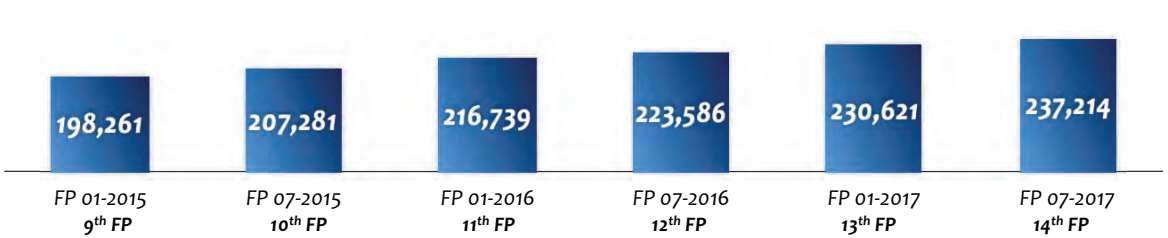
Dividends



Record High Dividend for FP July 2017

Outstanding Dividend Reserve
32.8 bn yen
(after FP Jan. 2017 dividend)

Net Asset Value



Increasing NAV per Unit

* NAV / Unit is calculated as follows. (FP end net asset + FP end unrealized gain or loss - dividend amount for the FP) ÷ FP end number of issued and outstanding units.

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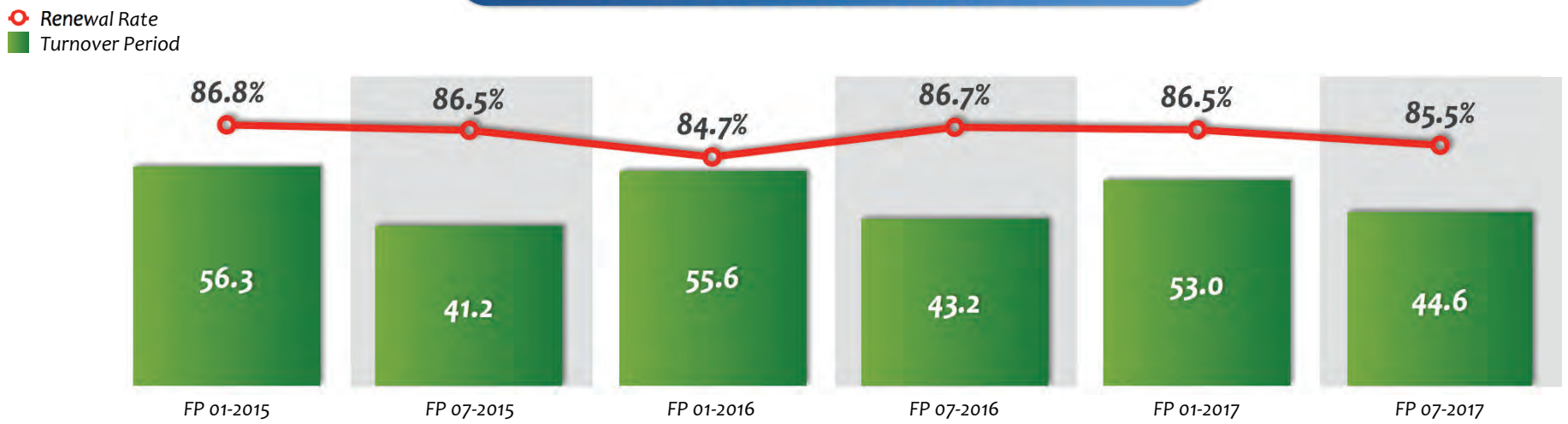
Leasing Figures

Renewal Rate & Turnover



Leasing Related Income and Expenses



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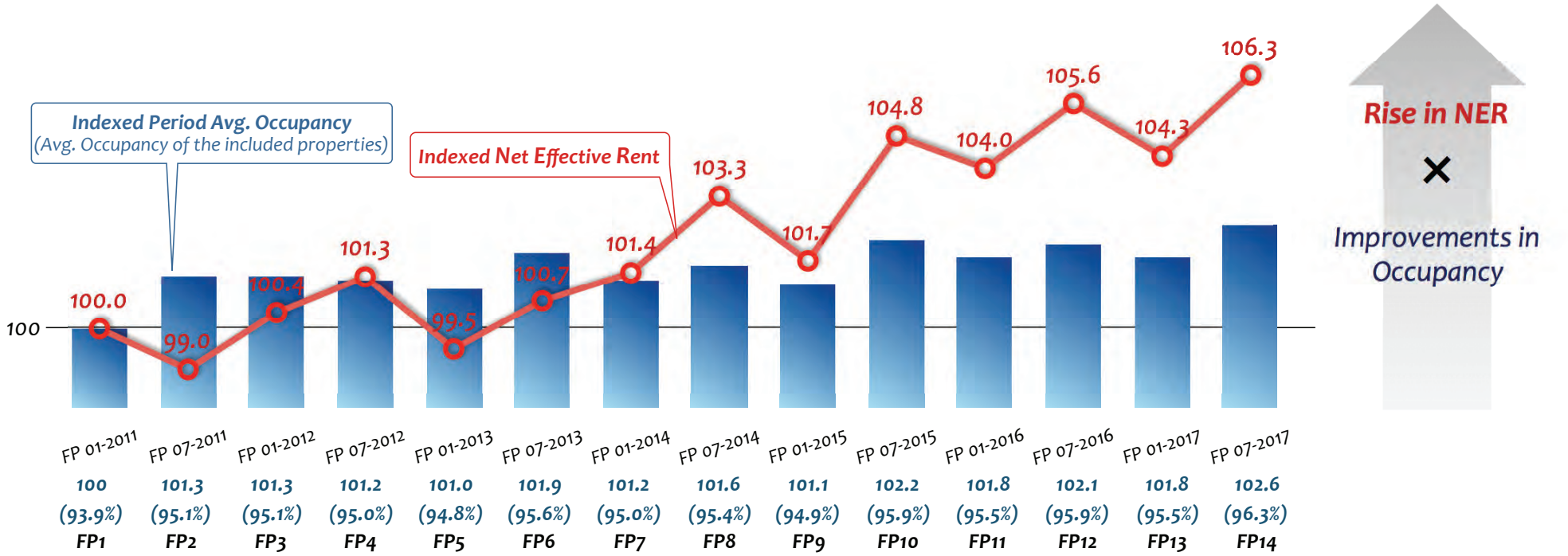
Achieving Internal Growth in the Residential Sector

Changes in Net Effective Rent (NER)

NER rose 0.7pt to the comparable peak season period an year ago

NER = Monthly Rent + (Key Money - Leasing Expense) ÷ 24 months



Achieving Internal Growth

Rise in NER

×

Improvements in Occupancy

- *Net Effective Rent Index is calculated as monthly rental of new contracts and common fees plus key Money Income divided by 24 month, minus leasing related expenses divided by 24 month and weighted averaged by each 115 properties rentable space for each fiscal period and indexed by using the FP01-2011 figure as 100.*
- *The 115 properties that are included in above charts are properties held since the start of the FP01-2011. Following properties are excluded from the calculation. 1) Properties with guaranteed rent or properties where the whole building is let to one tenant. This is because fluctuation in "key money" and 'leasing related expenses do not effect ADR's rental income from those properties. 2) Properties targeted for Expats, where there are no key money practices.*
- *Number of new contracts for each fiscal period is as follows, FP01-2011) 1,748, FP07-2011) 1,074, FP01-2012) 870, FP07-2012) 1,026, FP01-2013) 981, FP07-2013) 1,024, FP01-2014) 794, FP07-2014) 924, FP01-2015) 835, FP07-2015) 918, FP01-2016) 788, FP07-2016) 918, FP01-2017) 784, FP07-2017) 973.*

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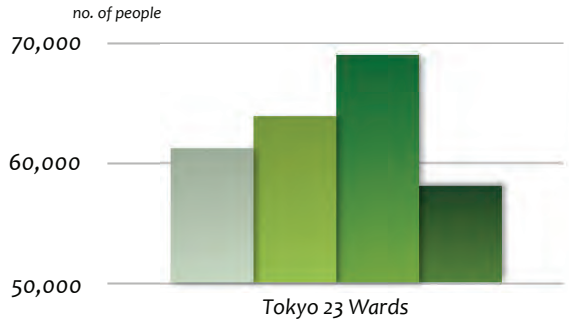
Internal Migration Statistics

Population Inflow to Central Tokyo and Major Regional Cities Continues

Migration Statistics of Major Cities in Japan

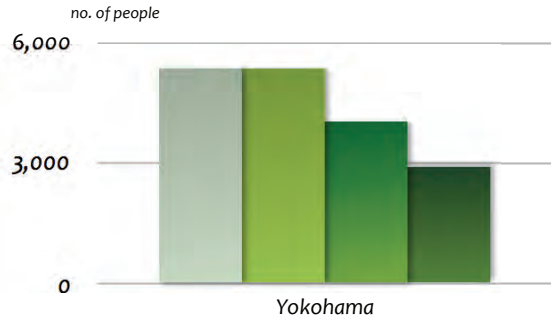
Tokyo 23 Wards

ADR's Investment Ratio 71%



Tokyo Metropolitan Area City

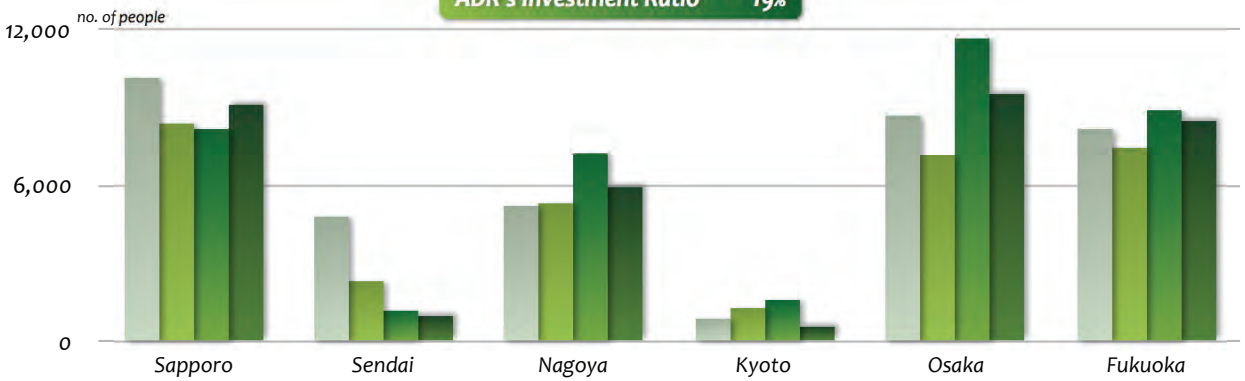
ADR's Investment Ratio 9%





Major Regional Cities

ADR's Investment Ratio 19%



Net Inflow is Pre-dominantly Younger Generation

Tokyo's Population Inflow by Age Group

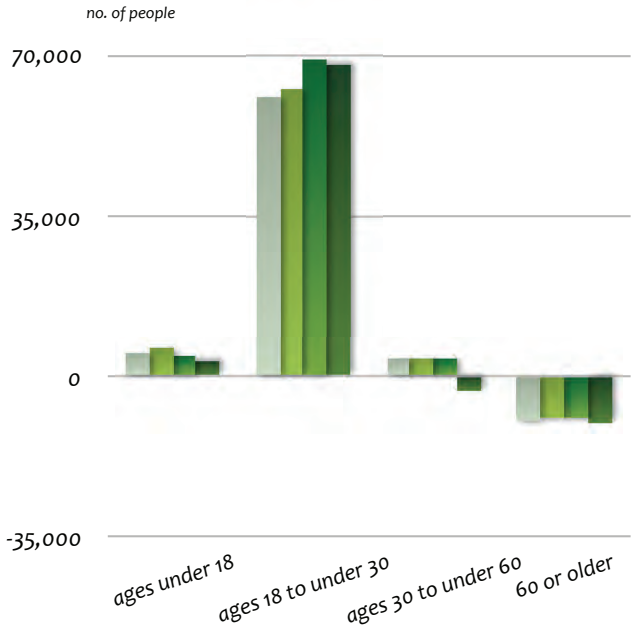
Tokyo Prefecture

ADR's Investment Ratio* 48%

* The ratio is for number of single and compact type units in Tokyo 23 wards.

Residential Needs of Younger Generation

Single & Compact Type Units



Source: "2016 Report on Internal Migration in Japan" Statistics Bureau, Ministry of Internal Affairs and Communications; "2016 Report on Internal Migration" Statistics Division

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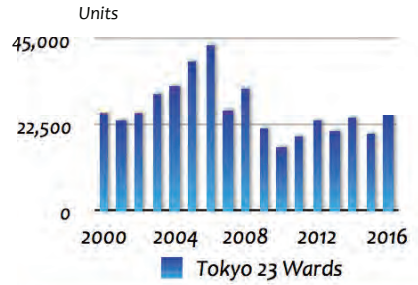
Housing Starts

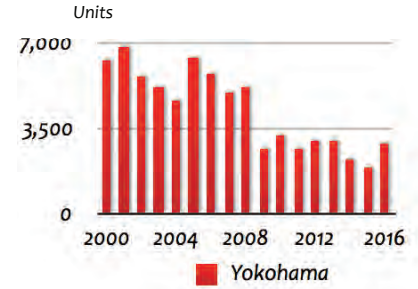
Limited Rise in Housing Starts

Tokyo 23 Wards



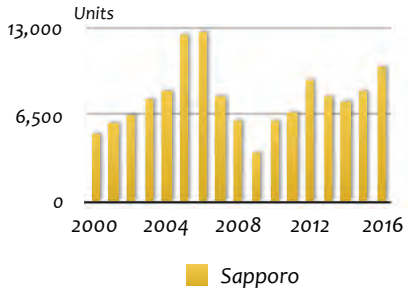
ADR's Investment Ratio in the Region
71%

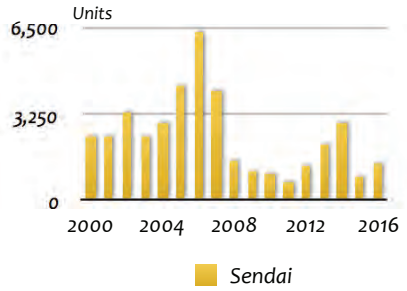
Tokyo Metropolitan Area

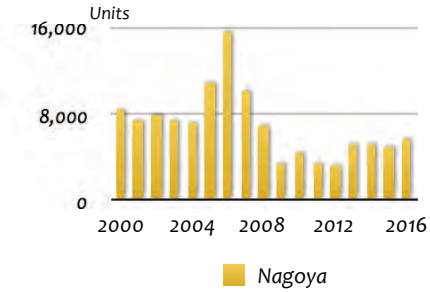


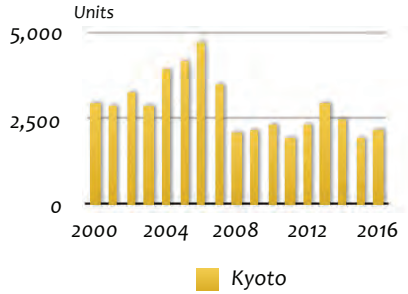
ADR's Investment Ratio in the Region
9%

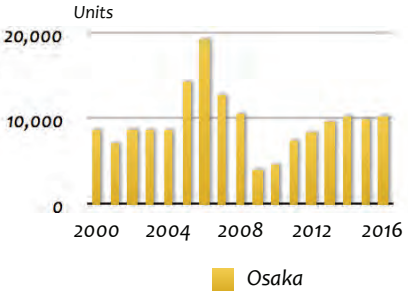
Major Regional Cities

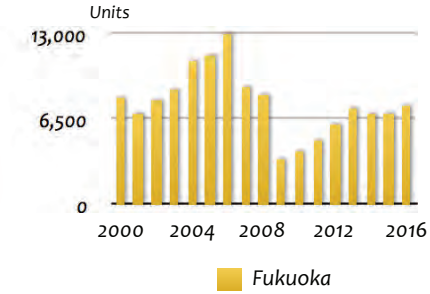












ADR's Investment Ratio in the Region
19%

Source: Ministry of Land, Infrastructure, Transportation and Tourism, Policy Bureau, Information Policy Division, Construction Statistics Office "Housing Starts" (RC and SRC Construction Rented Collective Housing) (2016)

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Portfolio Diversification Policy

Investment Regions*1	Investment ratio*2
Tokyo 23 Wards	70 ～ 100%
Tokyo Central 7 Wards	
Central Tokyo ex 7 Wards	
Other Regions	0～ 30%
Tokyo Metropolitan (ex. Tokyo 23 Wards)	
Major Regional Cities	

Unit types	Investment ratio*3
Single	～ 50%
Compact	20 ～ 40%
Family	20 ～ 40%
Large	～ 10%

■ In addition to the above, we invest in the following unit type.

Unit types	Investment ratio*3
Dormitory	up to 20%

*Note

1. Of the Tokyo 23 Wards, Chiyoda, Shibuya, Shinjuku, Meguro, Setagaya and Shinagawa wards are classified as Tokyo Central 7 Wards and the remaining wards are classified as Central Tokyo. Other Regions are Tokyo Metropolitan Area (Tokyo Metropolis excluding the Tokyo 23 Wards, prefectures of Kanagawa, Saitama and Chiba) and Major Regional Cities.
2. Investment ratios are calculated based on acquisition price.
3. Investment ratios are calculated based on leasable area.

Unit-type Definition

Number of Bedrooms	～30㎡	～40㎡	～50㎡	～60㎡	～70㎡	～80㎡	～90㎡	over 90㎡
Studio	S	S	C	C	L	L	L	L
1 Bedroom	S	C	C	C	L	L	L	L
2 Bedroom	-	C	C	F	F	F	F	L
3 Bedroom	-	-	F	F	F	F	F	L
4 Bedroom ～	-	-	-	-	F	F	F	L

Floor plan

Studio	1R, 1K, STUDIO
1Bedroom	1DK, 1LDK
2Bedroom	2DK, 2LDK, 1LDK+S
3Bedroom	3DK, 3LDK, 2LDK+S
4Bedroom ～	4DK, 4LDK, 3LDK+S, or units with more rooms

Unit types

S	= Single Type Units	mostly for singles
C	= Compact Type Units	mostly for singles, couples or small families
F	= Family Type Units	mostly for families
L	= Large Type Units	mostly for foreign executives

Dormitory Type Units The units share common bathrooms and laundry spaces within in the property

Life & Senior House Kohoku 2, College Court Tanashi and Cocofump Hiyoshi are categorized as Dormitory type due to their characteristics

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Building a High Quality Portfolio

as of July 31, 2017

Acquisitions and Dispositions Since the Merger

	Acquisitions	Dispositions
No. of Properties	115	43
Total Value (Acquisition Price)	166.3 bn yen	69.6 bn yen
Weighted Average NOI Yield	5.8%*1	4.6%*2
Weighted Average Building Age*3	4.8 yrs	13.3 yrs

Acquisition Focused on Single-type Units

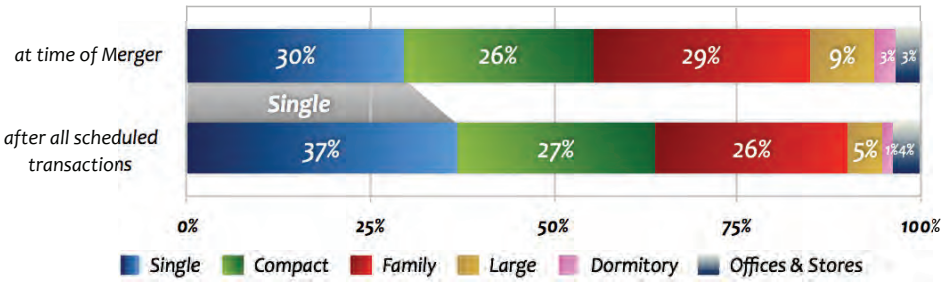
in number of residential units

	Single	Compact	Family	Large	Dormitory	Others	Total
Tokyo Central 7 Wards	+858	+8	-43	-166	0	-1	+651
Central Tokyo ex 7	+1,920	+692	+434	+12	0	+13	+3,071
Tokyo 23 Wards	+2,773	+700	+391	-154	0	+12	+3,722
Tokyo Metropolitan	+440	+10	-105	0	-748	-4	-407
Major Regional Cities	+1,806	+1,099	+323	+63	0	0	+3,291
Other Regions	+2,246	+1,109	+218	+63	-748	-4	+2,884
Total	+5,019	+1,809	+609	-94	-748	+8	+6,606

Improving Yield and Reducing Average Age

	at the time of merger	after the transactions
Book Value NOI Yield	5.2%	5.9%*4
Building Age	13.8yrs*5	11.3yrs

Unit type Investment Ratio (by leasable area)



Balanced and Diversified Acquisition Sources

Transactions since the Merger	The Sponsor Group*6*7	Bridge Funds*8	Third party and Others	Total
No. of Properties	25	42	48	115
Total Acquisition Value (bn yen)	43.4	52.4	70.5	166.3
Share of Sources	26.1%	31.5%	42.4%	100%

The figures in this slide are all based on data as of July 31, 2017.

*1 Weighted average NOI yield of acquisitions
= Total annual NOI as entered on the appraisal of acquisitions ÷ Total of the acquisition prices × 100%
*2 Weighted average NOI yield of dispositions = Total actual annual NOI ÷ Total of the historical acquisition prices × 100
*3 Weighted average building age is acquisition price weighted average as of the time of acquisition or disposition.
*4 The following figures are used to calculated the Book Value NOI Yield. Annualized NOI ÷ FP2017/7 end book value, where the NOI is annualized using the actual days in operation during the FP2017/7.
*5 Weighted Average age of buildings held at the time of merger as of July 31, 2017.
*6 The **Sponsor Group** applies to Itochu Corporation, who is the parent company of ADR's asset management company, and its subsidiaries.
*7 The assets acquired from the **Sponsor Group** includes 19 properties developed by the **Sponsor Group** and 6 properties which were not developed but warehoused according to Advance Residence's request. The 19 properties' acquisition price total is 34.2 billion yen. The 6 properties' acquisition price total is 9.1 billion yen.
*8 Bridge Funds are property funds which are often TK and where ADR has a right of first refusal on the assets under management.

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Senior Housing Market

Investment Policy

Risk Premium Consideration

Considering operational risks and possibility of issues arising from operator collecting upfront lump-sum payment from tenants, certain amount of risk premium must be accounted.

With the recent rise in price, reasonably priced properties are currently non-existent.

Preference Towards RSHSS

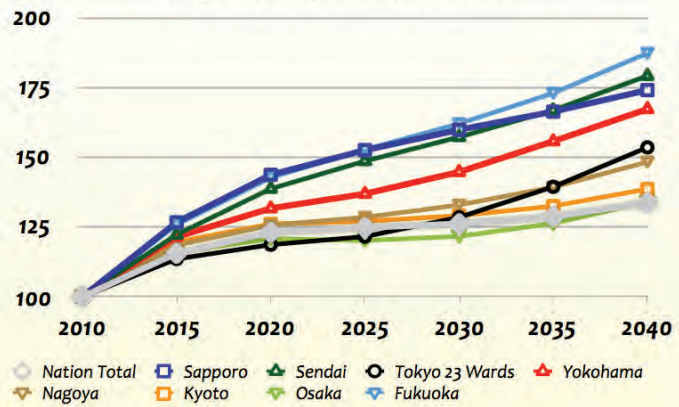
Between private nursing home and Registered Senior Housing with Supportive Services (RSHSS), RSHSS are the preferred type of asset.

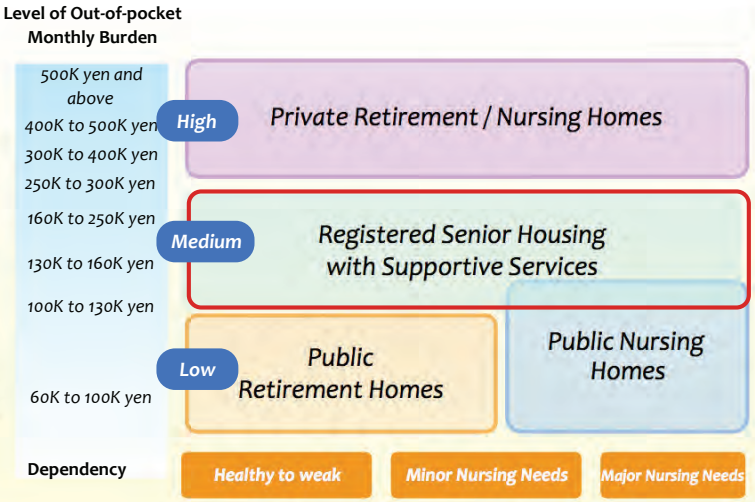
They are easier to convert to regular rental multifamily residence and are more stable to operate having an affordable move-in fee (2 month deposit) and a relatively low rent burden.

Growing Senior Housing Market

Population trend of 65 years or older

(Indexed using 2010 figure as 100)





Senior Housing Holdings

S-29 Cocofump Hiyoshi

FP 07-2016 Actual NOI Yield **6.8%**



	Advantages	Specifics
Location	Residential area	8 min walk from Yokohama Subway Green line, Hiyoshi-Honcho Station
Feature	Facilities to provide medical	Day service, home nursing, pharmacy, nursing office, medical
Rent Contract	Low upfront payment,	Pay only 2 mth. deposit upfront
Size	Larger than minimum 500 million yen	Acquisition price: 1,050 million yen
Operator	Part of TSE 1st Sect. listed Group	Gakken Cocofump Corporation*

S-22 Life & Senior House Kohoku 2

FP 07-2017 Actual NOI Yield **7.6%**



Area	Tokyo Metropolitan
Location	Yokohama, Kanagawa
Acquisition price	1,670 million yen
No. of rentable units	78 units
Operator	Seikatsu Kagaku Un-Ei Co.,Ltd.

* **Gakken Cocofump Corporation** *is a leading operator of Registered Senior Housing with Supportive Services (RSHSS), operating* **90** *RSHSS as of Sept. 6, 2017.*

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Dormitories and Student Apartments

as of July 31, 2017

No. of properties	Actual NOI yield*	Occupancy (Residential portion)	No of rentable units	Total of acquisition price	Investment ratio of portfolio
19 properties	6.3%	100% * due to guaranteed rent contracts	1,709 units	18,099 million yen	4.1%

* Actual NOI yield = FP July 2016 actual annualized NOI ÷ book value × 100%.

Dormitories

No. of dormitories serving breakfast and dinner: 2 properties

S-11 TOKYO Student-House Wako



Actual NOI yield 7.1%

Location	Wako, Saitama
No of units	127 units
Completion Date	Apr. 1990

S-23 College Court Tanashi



Actual NOI yield 7.9%

Location	Nishi-Tokyo, Tokyo
No of units	91 units
Completion Date	Feb. 2010

Student apartments

Student apartments are normal apartments but where the new tenants are on the whole exclusively students. 17 properties

P-3 RESIDIA Nakameguro



Actual NOI yield 6.1%

Location	Meguro-ku, Tokyo
No of units	88 units
Completion	Feb. 2005

P-85 RESIDIA Komazawa



Actual NOI yield 6.3%

Location	Setagaya-ku, Tokyo
No of units	59 units
Completion	Oct. 2008

C-28 RESIDIA Oji



Actual NOI yield 6.2%

Location	Kita-ku, Tokyo
No of units	61 units
Completion	Feb. 2005

C-50 RESIDIA Shin-Itabashi



Actual NOI yield 6.5%

Location	Itabashi-ku, Tokyo
No of units	67 units
Completion	Aug. 2009

C-66 RESIDIA Takashimadaira



Actual NOI yield 5.5%

Location	Itabashi-ku, Tokyo
No of units	45 units
Completion	Feb. 2007

C-67 RESIDIA Shimurasakaue



Actual NOI yield 5.3%

Location	Itabashi-ku, Tokyo
No of units	44 units
Completion	Feb. 2007

C-68 RESIDIA Shimurasakaue II



Actual NOI yield 5.6%

Location	Itabashi-ku, Tokyo
No of units	94 units
Completion	Mar. 2007

C-69 RESIDIA Shimurasakaue III



Actual NOI yield 5.7%

Location	Itabashi-ku, Tokyo
No of units	36 units
Completion	Mar. 2007

C-74 RESIDIA Nerima



Actual NOI yield 5.7%

Location	Nerima-ku, Tokyo
No of units	34 units
Completion	Mar. 2005

C-77 RESIDIA Ogikubo II



Actual NOI yield 5.1%

Location	Suginami-ku, Tokyo
No of units	36 units
Completion	Mar. 2007

S-15 RESIDIA Okurayama



Actual NOI yield 6.1%

Location	Yokohama, Kanagawa
No of units	64 units
Completion	Mar. 1998

S-30 RESIDIA Sagamihara



Actual NOI yield 6.5%

Location	Sagamihara, Kanagawa
No of units	111 units
Completion	May 2004

R-2 RESIDIA Imadegawa



Actual NOI yield 6.7%

Location	Kyoto, Kyoto
No of units	154 units
Completion	Feb. 1999

R-8 RESIDIA Kobe Port Island



Actual NOI yield 6.1%

Location	Kobe, Hyogo
No of units	404 units
Completion	Mar. 2007/Feb. 2008

R-38 RESIDIA Hirosedori



Actual NOI yield 8.2%

Location	Sendai, Miyagi
No of units	63 units
Completion	Feb. 2010

R-60 RESIDIA Okayama-Ekimae



Actual NOI yield 6.6%

Location	Okayama, Okayama
No of units	108 units
Completion	Mar. 2004

R-61 RESIDIA Kyoto-Okazaki



Actual NOI yield 6.0%

Location	Kyoto, Kyoto
No of units	23 units
Completion	Mar. 2005

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Measures to Reduce Rent Declines Caused by Aging

Rents Decline due to Aging

- Supply of new properties
- Equipments become obsolete
- Quality decline due to wearing
- Change in tenants' needs

Gradual decline in Competitiveness

Measures taken to prevent or reduce rent declines

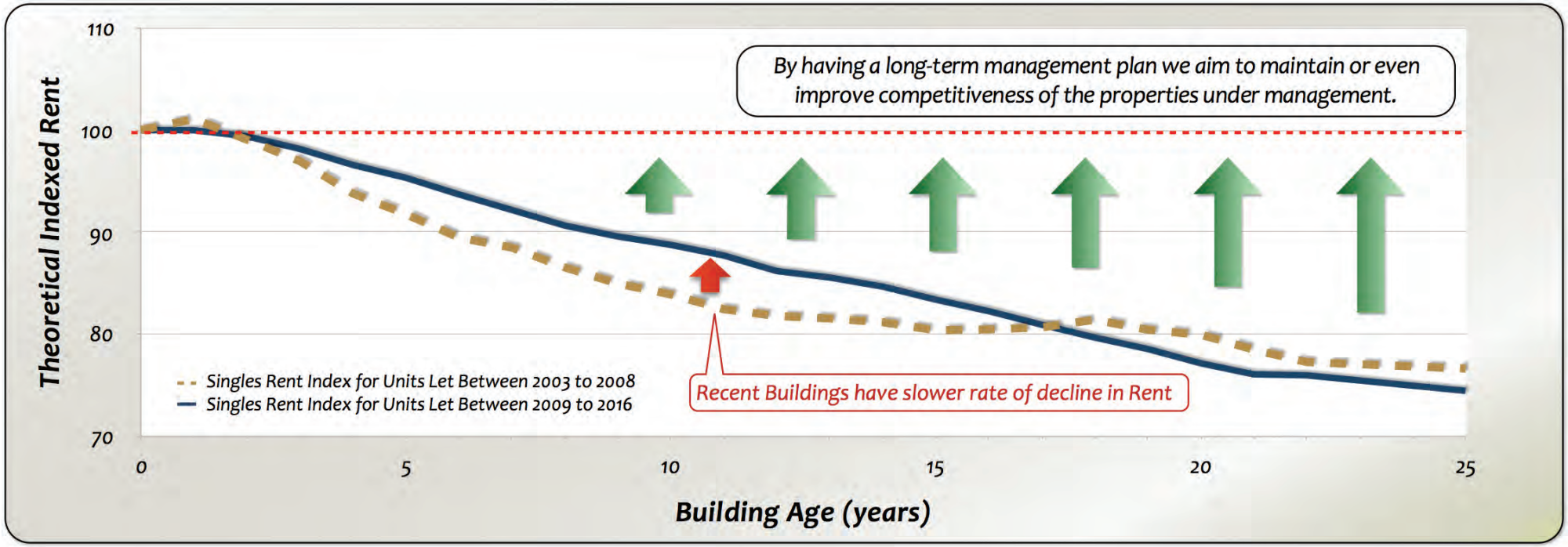
Building Maintenance

- Daily Cleaning
- Equipment Maintenance
- Daily Repairs

Timely Capital Expenditures

- Large-scale renovations of common areas and exteriors
- Renovations of individual apartment units

Providing living environment matching the tenants' needs



* Figures are indexed theoretical rent categorized by year and building age using actual rents provided by At Home Co., Ltd., of which Sumitomo Mitsui Trust Research Institute Co., Ltd. statistically processed using hedonic method.
* Analysis was conducted on rent data from single-type units (18m² to 30m²) of apartments in 23 wards of Tokyo.

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Renovation Examples in ADR's Properties

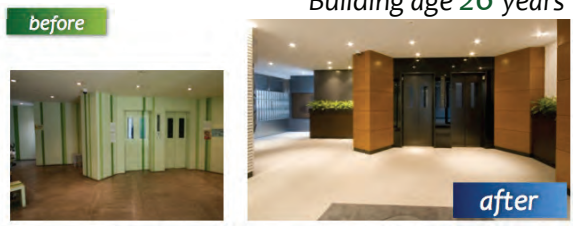
By taking proper measures competitiveness can be maintained

Examples of Measures Taken

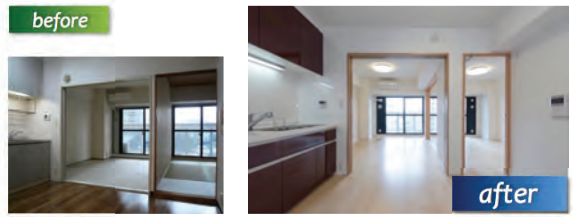
P-73 RESIDIA Shibaura

Building age 26 years

Common area renovation
Cost:128million yen



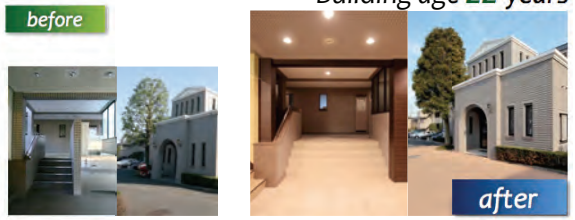
Individual apartment unit upgrading renovations
Cost: 3,877 thousand yen/unit



S-19 RESIDIA Kichijoji

Building age 22 years

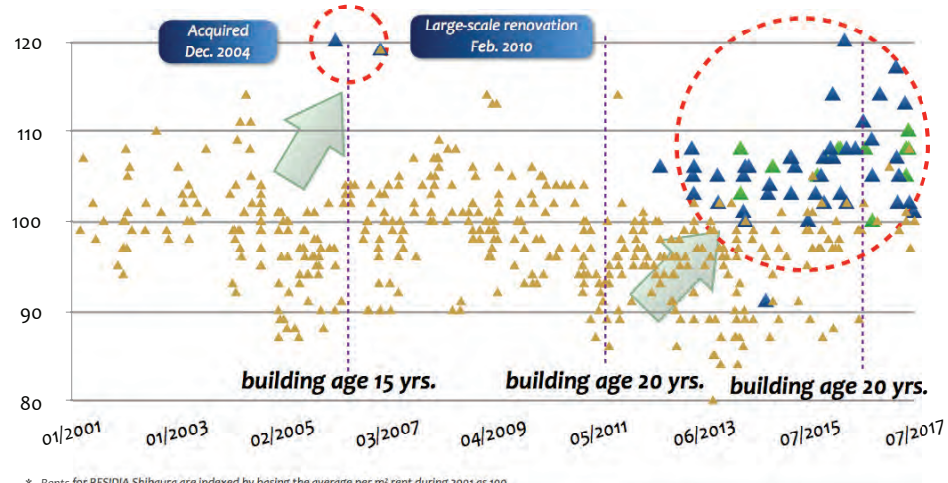
Common area renovation
Cost: 32million yen



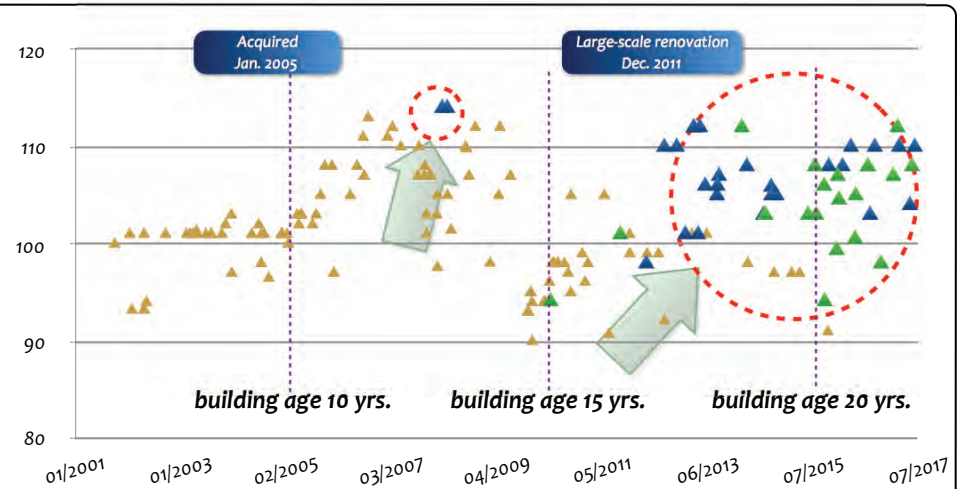
Individual apartment unit upgrading renovations
Cost; 3,715 thousand yen/unit



Impact of the measures taken



* Rents for RESIDIA Shibaura are indexed by basing the average per m² rent during 2001 as 100.



* Rents for RESIDIA Kichijoji are indexed by basing the average per m² rent during 2001 as 100.

▲ Units w/ standard restoration work ▲ Units went under VE works ▲ Units having t/o more than twice after VE works

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