

Advance Residence

16th Fiscal Period Results Presentation

2018.2.1 ~ 2018.7.31

Executive Summary

Marking Record Highs

Earnings Per Unit (EPU) **5,250 yen**

Dividend Per Unit (DPU) **5,499 yen**

chg. from last period **+215 yen**

chg. from initial forecast **+200 yen**

ASSET

8th Consecutive FP Rise in Rent

Period Avg. Occupancy	Rise in Rent
97.0%	0.29%
(chg. from FP15 +0.1%)	

DEBT

Lowered Rates • Extended Duration

Average Interest Rate	Average Duration
0.84%	5.0 yrs

EQUITY

Steady Rise in NAV*

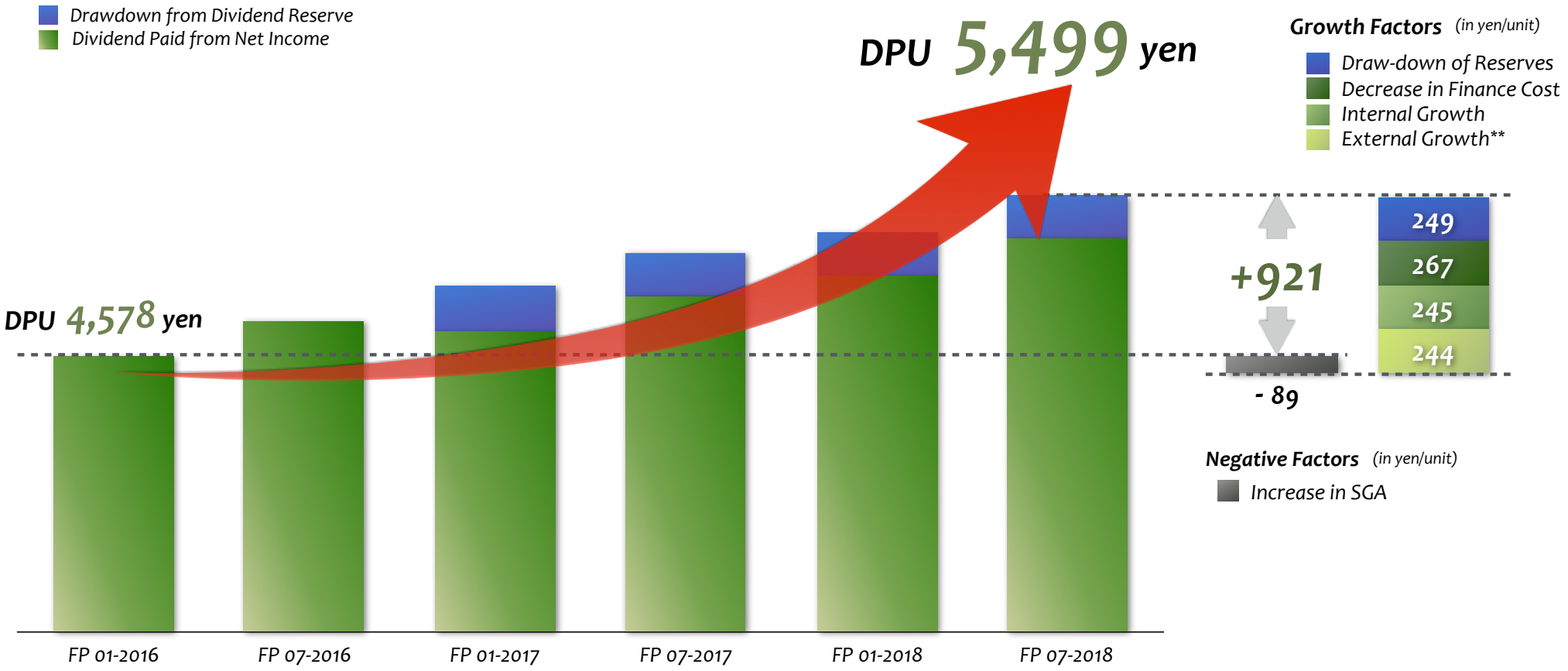
NAV/U	Reserve
248,686 yen	32.1 bn yen
(chg. from FP15 +9,183 yen)	

*NAV: Net Asset Value

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DPU Growth

DPU Avg. Annual Growth +7.6%*



* Annual average growth in DPU from **4,578** yen for FP2016/1 to **5,499** yen for FP2018/7.
** External growth figures are diluted from Sept. 2016 PO.

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Results for Fiscal Period ended Jul. 2018

Feb. 1, 2018 - Jul. 31, 2018

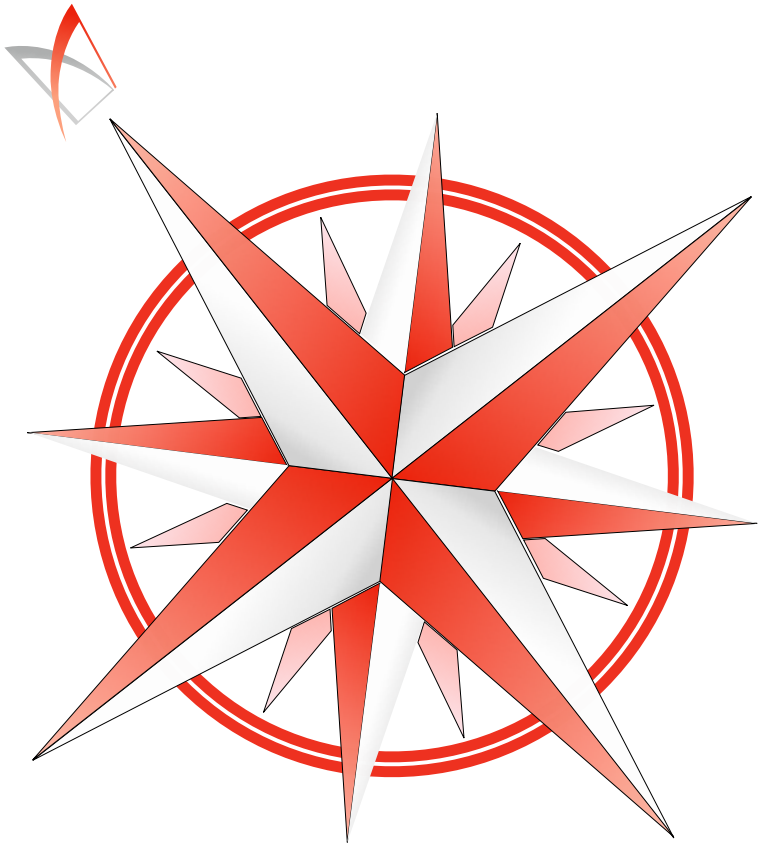
in million yen

	(1) 16th FP Forecast	(2) 16th FP Results	(2)-(1)		(3) 15th FP Results	(2)-(3)	
	Initial Forecast as of Mar. 12, 2018	Results for FPJuly 2018	Changes	Notes	Results for FP Jan. 2018	Changes	Notes
Revenue	16,162 (261 properties) Period avg. occupancy 96.6%	16,302 (263 properties) Period avg. occupancy 97.0%	+139	**Asset Acquisitions** Incrs. in revenue from acquisitions +11 **Same Store** Increases from higher occupancy & higher rent +113 Increases in other revenues +15	15,903 (261 properties) Period avg. occupancy 96.9%	-398	**Asset Acquisitions** Profit from sales of assets +135 Increase in revenue from acquisitions +103 **Same Store** Increase in rent revenue from higher occupancy & rent +56 Increase in key money revenue +104
Operating Income	8,032 (Depreciation: 2,676) (Property taxes: 861)	8,272 (Depreciation: 2,682) (Property taxes: 865)	+239	**Leasing Expenses** Increases from new acquisitions -3 Decrease in advertising expenses +25 Decreases in repairs +54 **G & A Expenses** Decrease in C. tax set. loss due to acquisition +23	8,019 (Depreciation: 2,651) (Property taxes: 859)	252	**Leasing Expenses** Decrease due to asset transactions -22 Peak-season increase in fees -70 Increase in repair costs -42 Increase in other expenses -33 **G & A Expenses** Decrease in C. tax set. loss due to disposition +11 Decrease in other expenses +10
Ordinary Income	6,818 (Funding cost*: 1,208)	7,088 (Funding cost*: 1,196)	+270	Compensation from lease cancellation +19 Decrease in funding costs +11	6,798 (Funding cost*: 1,216)	289	Compensation from lease cancellation +19 Decrease due to lower interest rate +17
Net Income	6,817	7,087	+270		6,798	289	
EPU (yen)	5,050	5,250	+200	Units issued and outstanding 1,350,000 units	5,035	215	Units issued and outstanding 1,350,000 units
Per Unit Drawdown of Reserve** (yen)	249	249	-	Reserve** after dividend: 32.1 bn yen	248	-	
Dividend per unit (yen)	5,299	5,499	+200		5,285	+214	
Total Asset LTV	49.7%	49.9%	+0.2p		49.4%	+0.5p	

* 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

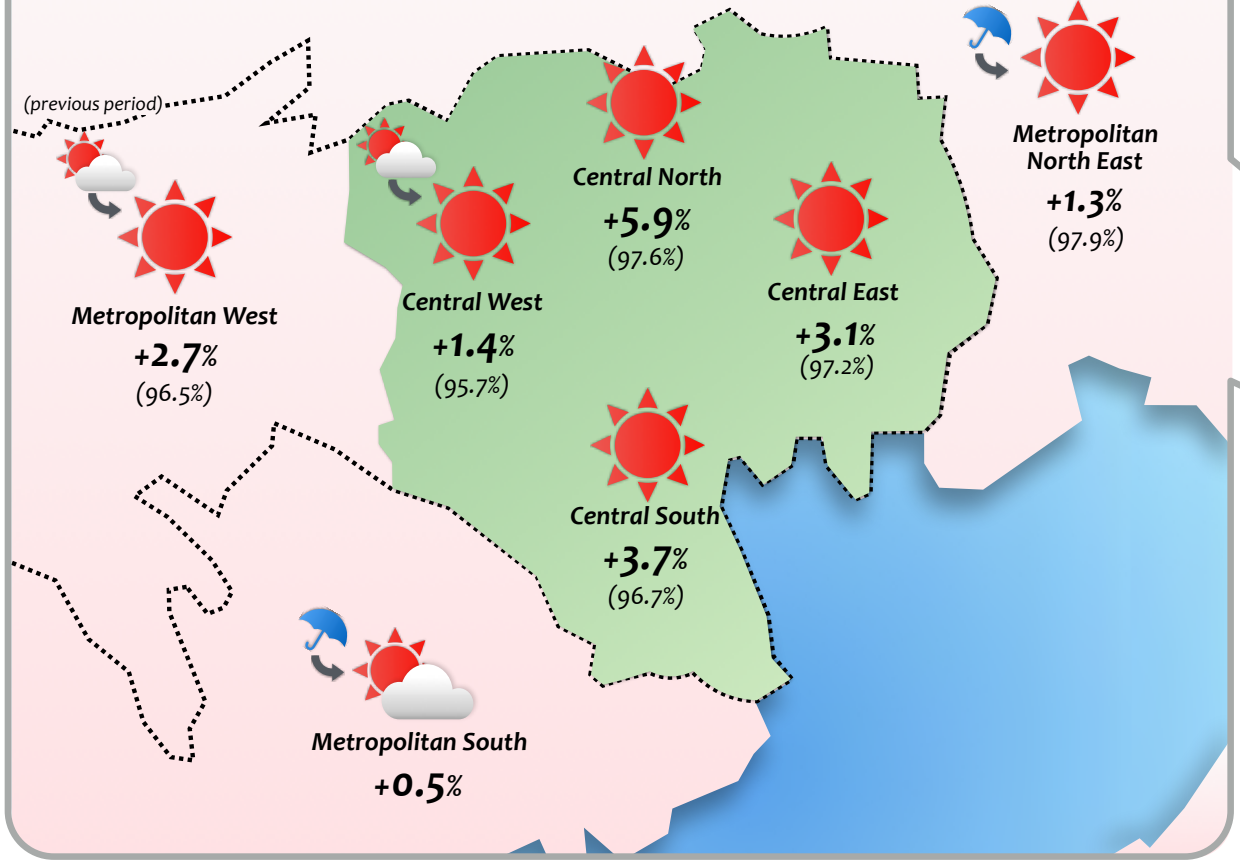


Rent Trends by Region

Rent Trends in Metropolitan Regions

23 Wards of Tokyo
+3.5% (97.0%)

Metropolitan Area
+3.3% (97.2%)

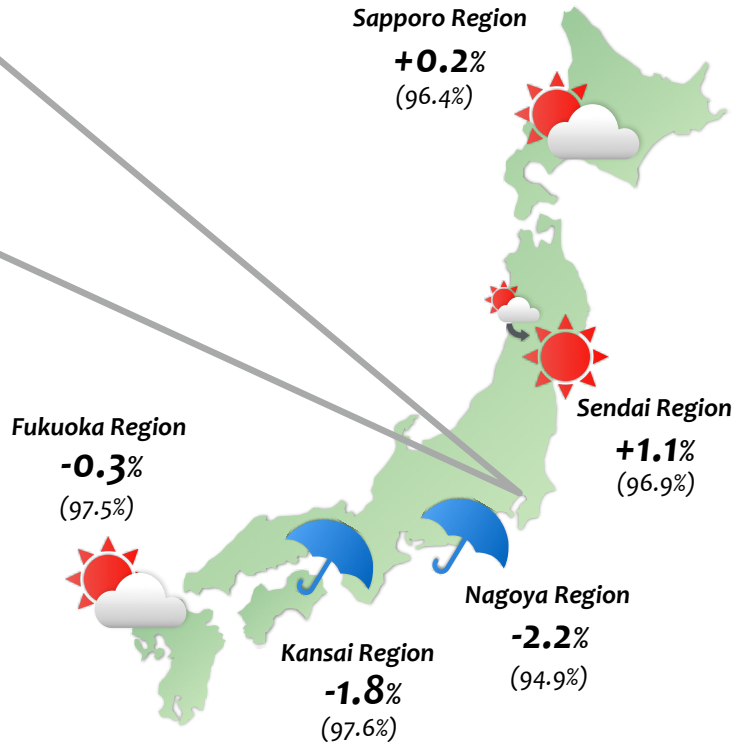


Central East (Chiyoda, Chuo, Taito, Sumida, Koto, Katsushika, Edogawa), **Central West** (Shinjuku, Shibuya, Suginami, Nakano)
Central South (Minato, Shinagawa, Meguro, Ota, Setagaya), **Central North** (Bunkyo, Toshima, Kita, Itabashi, Nerima, Arakawa, Adachi)

FP16 Rent Changes & Occupancy

Changes in Rent **+2.2%**

Ave. Period Occupancy (97.0%)



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Strong Rent Trend

Replacements +2.18% **Renewals +0.51%**

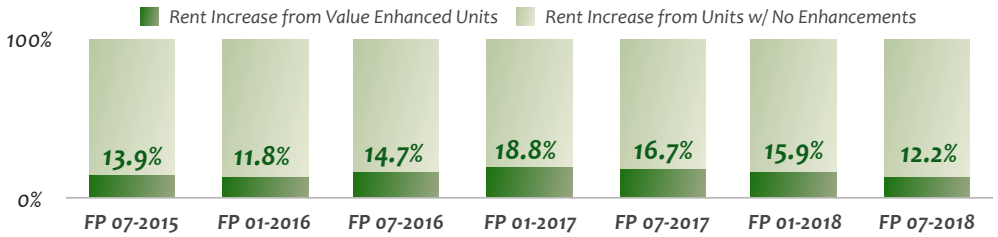
Replacements*

million yen

	No. of Units	Ratio	Old Rent	New Rent	Difference	% Change
Increase	1,206 units	56.5%	158	166	+7.8	+4.96%
Unchanged	387 units	18.1%	37	37	-	-
Decrease	543 units	25.4%	55	52	-2.3	-4.30%
Total	2,136 units	100.0%	251	256	+5.4	+2.18%



Contributions of Value Enhanced Units** to Rent Rise

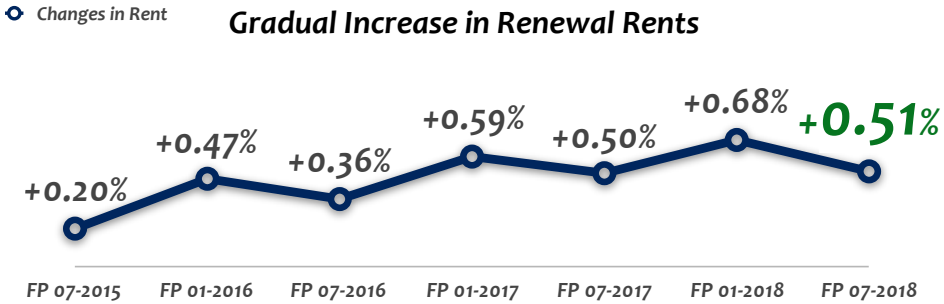


Renewals*

million yen

	No. of Units	Ratio	Old Rent	New Rent	Difference	% Change
Increase	583 units	17.3%	81	83	+2.0	+2.49%
Unchanged	2,778 units	82.6%	309	309	-	-
Decrease	4 units	0.1%	0.3	0.3	-0.01	-3.20%
Total	3,365 units	100.0%	391	393	+2.0	+0.51%

Gradual Increase in Renewal Rents



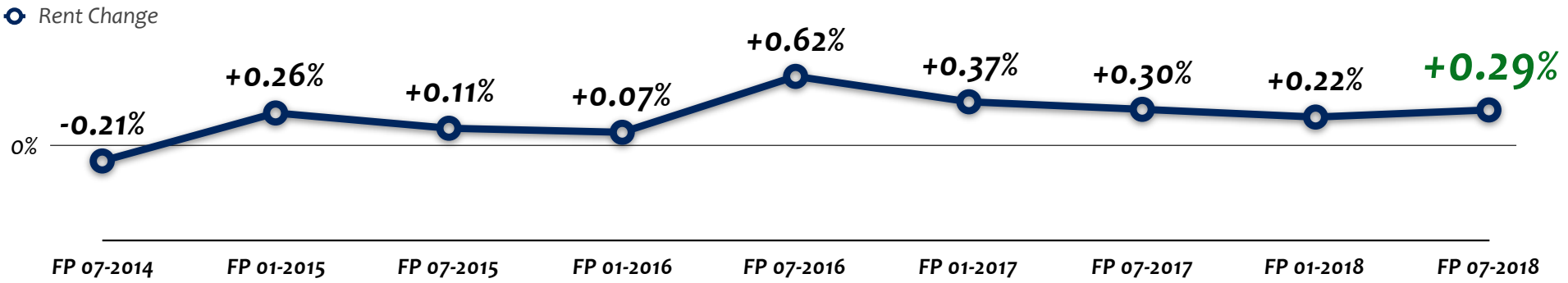
* Rent change for pass-through units that went through replacement or renewal during the period. ** Value enhanced units are units with changes in floor plan or specification upgrades.

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Increasing Internal Growth Potential

Portfolio Rent Rise *

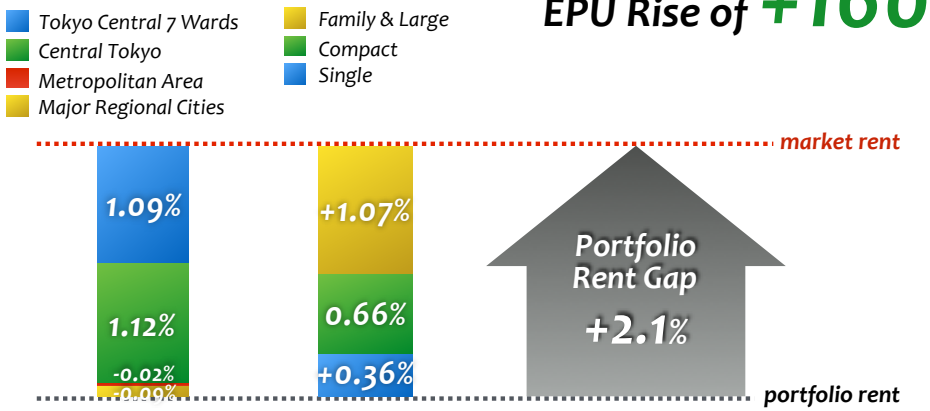
Rent Rising for Eighth Consecutive Periods



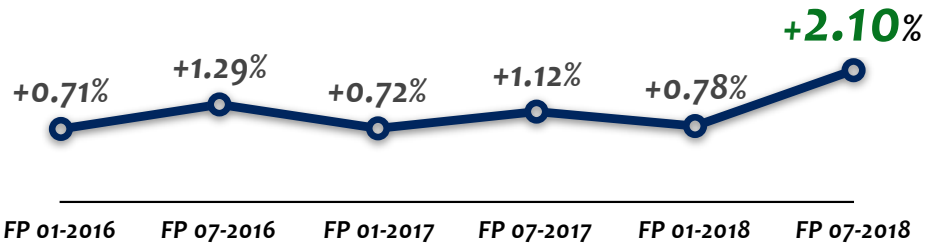
* Change in unit rent between the start and the end of the period for all properties held throughout the period.

Portfolio Rent Increase Potential *

EPU Rise of +160~200 yen Expected



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 2018 (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 2018.

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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:	290 units
No. of Units Leased-out*:	275 units
% Increase in Rents*:	15.0%

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

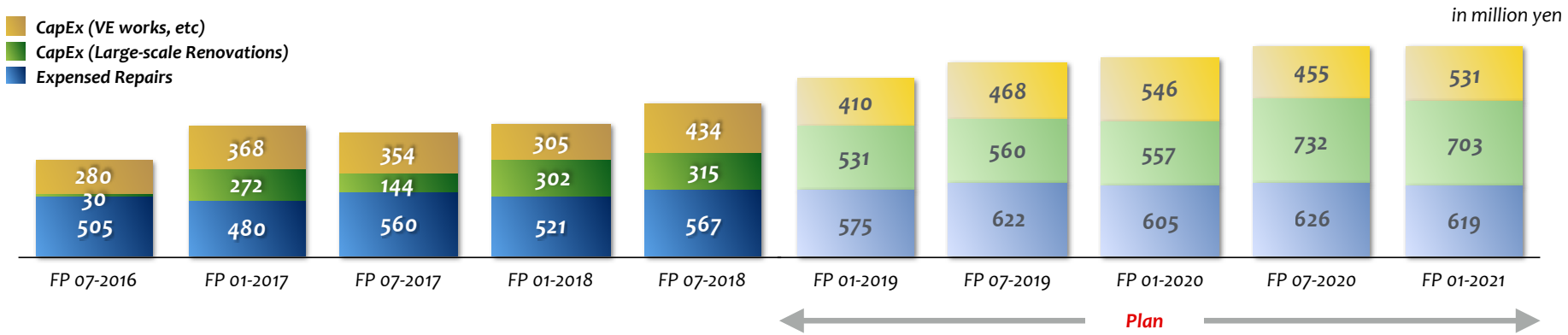
No. of Properties:	34 properties
Total Investment:	1,975 million yen
Ave. Cost per Property:	58 million yen

Daily Maintenance

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

Registered as First Class Architect Office

ADIM is the first and only J-REIT asset management company to register as First Class Architect Office. Efficient management of buildings are realized by our in-house architects.



* Average percentage rise in rents, comparing rents before the VE works and rents of the first lease after the VE works for the 275 leased out units (as of Aug. 31, 2018) .

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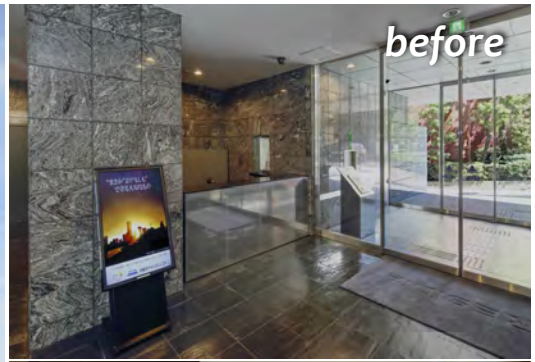
Large-Scale Repairs

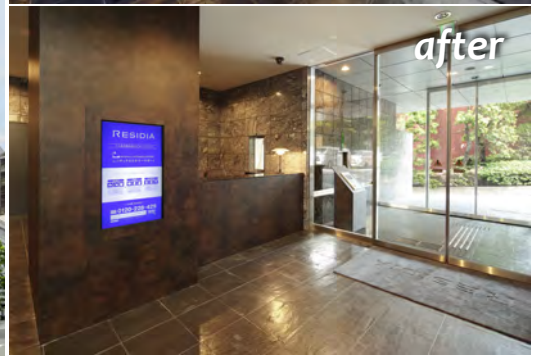
Properties Repaired during FP July 2018 **5** properties **Total Expenditure** **379** million yen

RESIDIA Nishi-Azabu 13 yrs old

Exterior wall repair - wall tile anti-peeling coating







RESIDIA Mejiro-Otomeyama 16 yrs old

Redesigned using vivid colors









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Value Enhancement Works

Examples of Works Completed During FP July 2018

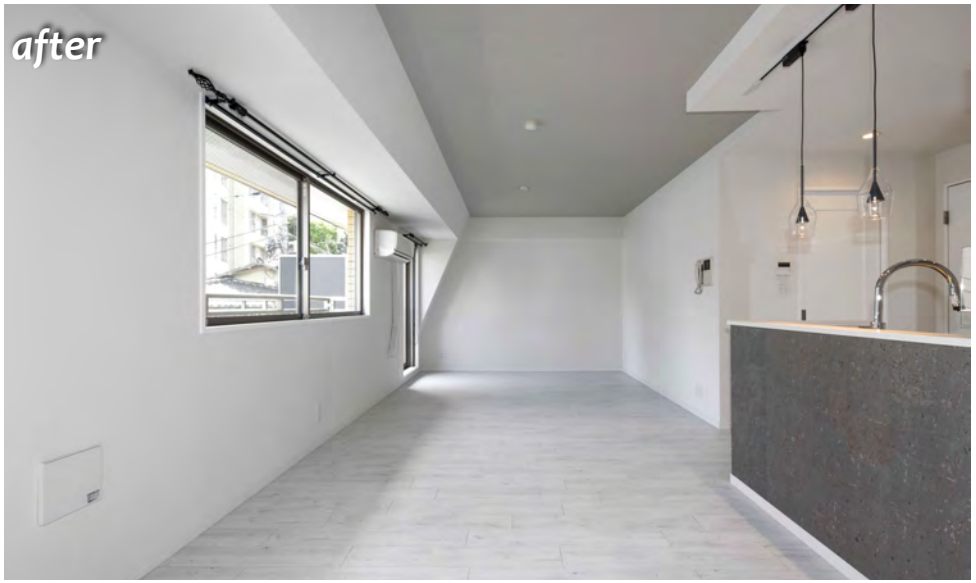
No. of Value Enhancement **39** *units in* **16** *properties*

Avg. Increase in Monthly Rent **20.2%**

RESIDIA Roppongi-Hinokichokoen 18 yrs old



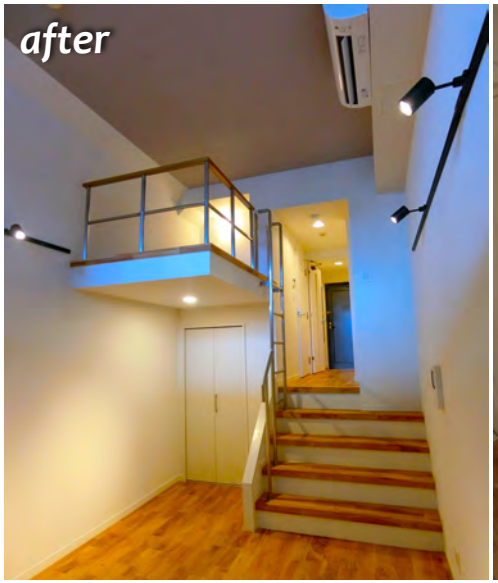
Floor Plan	1LDK+S
Construction Cost	4.9 million yen
Increase in Monthly Rent	40.8%
Projected Recuperation Period**	10 years



RESIDIA Sasazuka 18 yrs old



Floor Plan	1R + loft
Construction Cost	2.4 million yen
Increase in Monthly Rent	18.2%
Projected Recuperation Period**	12 years



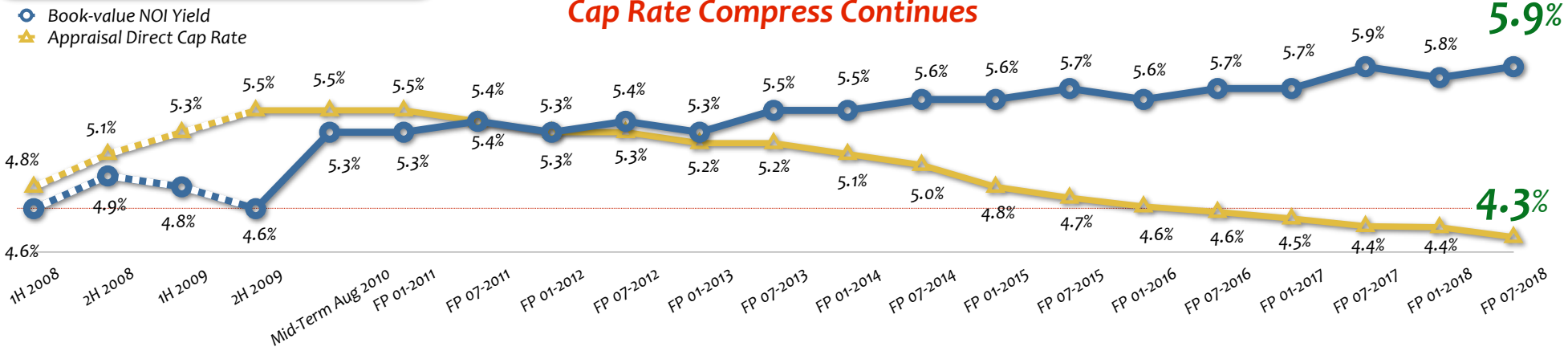


* Increase in monthly rents are calculated for the 24 units leased out as of August 31, 2018, dividing the newly contracted monthly rent by the previous rent.
** Projected Recuperation Periods are periods projected to recuperate the value enhancement cost, which is calculated as total cost minus renovation costs and equipment replacements due to aging.

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Appraisal Value

Appraisal Direct Cap Rate Trend



Appraisal Summary of FP July 2018

Unrealized profit of **122.6** billion yen (**28.8**% of total book-value)

million yen

	Appraisal (in million yen)		Appraisal NCF (in million yen)				Direct Cap Rate (%)		Unrealized Profit and Loss (million yen)		
	End of FP July '18	diff vs last FP	End of FP July '18	diff vs last FP	itemized diff: rent rev	itemized diff: ER re-appraisal	End of FP July '18	diff vs last FP	Book Value (a)	Diff. from the appraisal (b)	(b)/(a)
Tokyo Central 7 Wards	204,282	+5,113	8,460	+33	+47	-14	4.08%	-0.09pt	161,657	42,624	26.4%
Central Tokyo ex. 7 Wards	187,850	+3,955	8,055	+9	+25	-15	4.22%	-0.09pt	143,431	44,418	31.0%
Tokyo 23 Wards Total	**392,132**	**+9,068**	**16,515**	**+42**	**+72**	**-29**	**4.15%**	**-0.09pt**	**305,088**	**87,043**	**28.5%**
Tokyo Metropolitan	48,970	-44	2,343	-41	0	-41	4.74%	-0.09pt	37,974	10,995	29.0%
Major Regional Cities	107,786	+1,279	5,277	-32	-6	-26	4.84%	-0.09pt	83,198	24,587	29.6%
Portfolio Total	**548,888**	**+10,303**	**24,136**	**-30**	**+66**	**-97**	**4.34%**	**-0.09pt**	**426,261**	**122,626**	**28.8%**

Increase in **86**% of properties

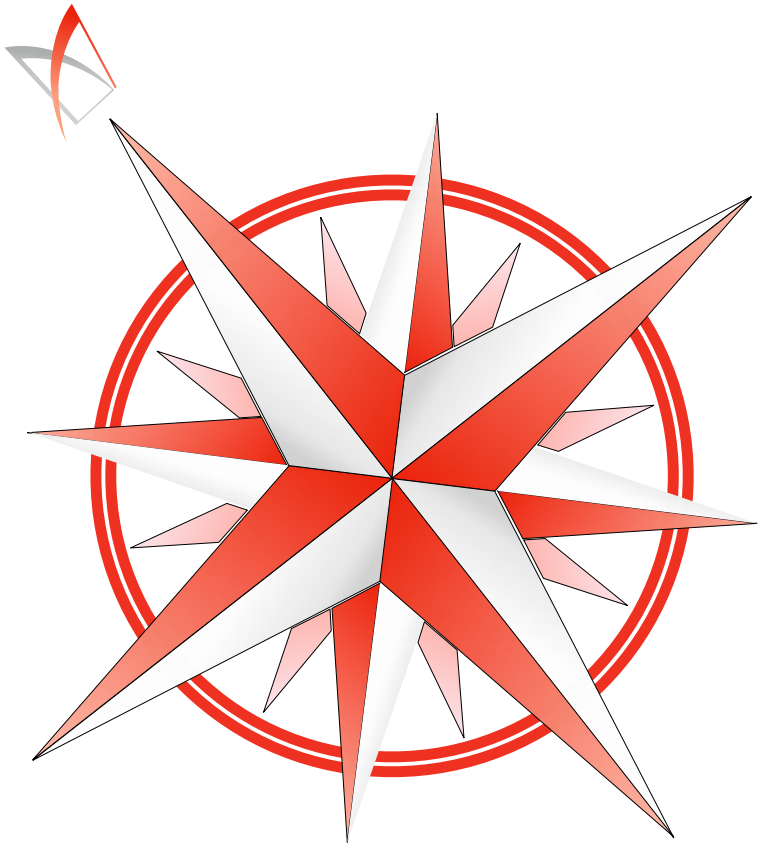
	No. of Properties	chg. from previous FP
Increase	226	+11,200
Unchange	26	-
Decrease	11	-897
Total	263	+10,303

Decrease is mostly due to Increase in cost of repairs listed in the re-appraised engineering report.

* For assets acquired during the FP July 2018, 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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External Growth



Improving Profitability by Replacements

Acquisitions

RESIDIA Kamata V



RESIDIA Kamata IV



RESIDIA Funabashi IV



RESIDIA Hijiyama-Koen



RESIDIA Kita-Nijyo-East III



	Sourced from sponsor		Sourced from third-parties			
	RESIDIA Kamata V	RESIDIA Kamata IV	RESIDIA Funabashi IV	RESIDIA Hijiyama-Koen	RESIDIA Kita-Nijyo-East III	Total /Average
Acquisition Price	2,283 million yen	3,268 million yen	567 million yen	663 million yen	420 million yen	**7,201 million yen**
Acq. Price / Appraisal Price	93.6%	94.5%	95.7%	93.8%	100.0%	**94.5%**
NOI Yield *	4.7%	4.7%	5.1%	6.1%	5.5%	**4.9%**
Yield after Depreciation *	4.1%	4.0%	4.2%	4.9%	4.2%	**4.2%**
Building Age**	5.1 year	4.1 year	9.5 year	21.4 year	10.8 year	**6.8 year**

Dispositions

RESIDIA Minami-Aoyama



Windsor House Hiroo



Total /Average	
2,573 million yen	Disposition Price
130.2%	Dis. Price / Appraisal Price
4.2%	NOI Yield *
3.1%	Yield after Depreciation *
14.3 year	Building Age**

* Calculated using the annualized NOI and depreciation listed on the appraisal report and acquisition price for acquisitions, actual NOI, depreciation and book value for FP2018/7 for dispositions. ** The listed building ages are as of acquisition / disposition dates.

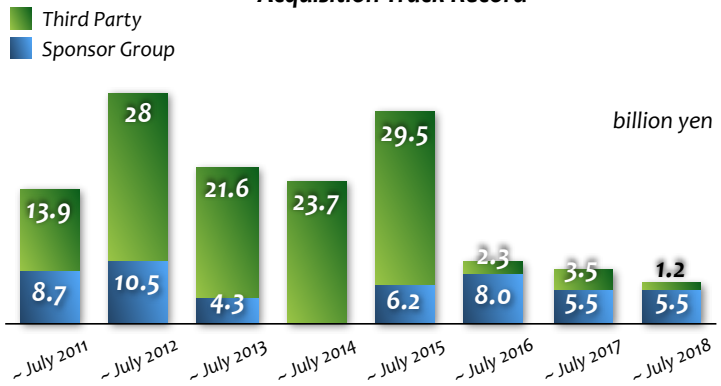
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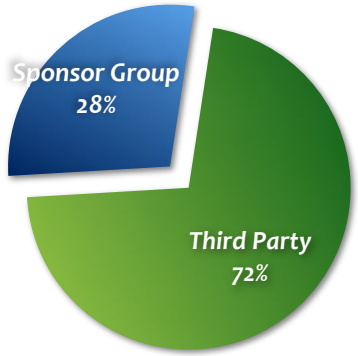
External Growth Policy

Sourcing Track Record

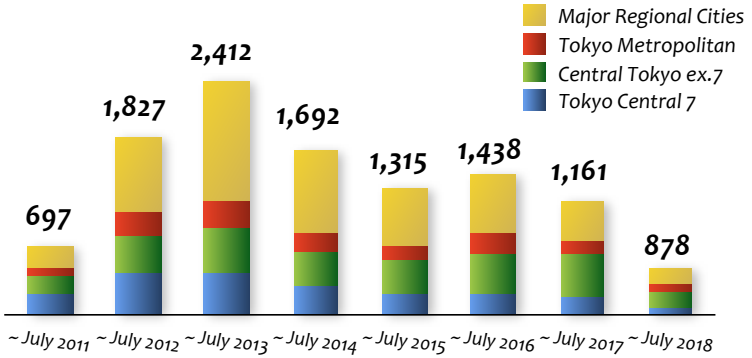
Maintain Discerning Acquisition Policy

Acquisition Track Record





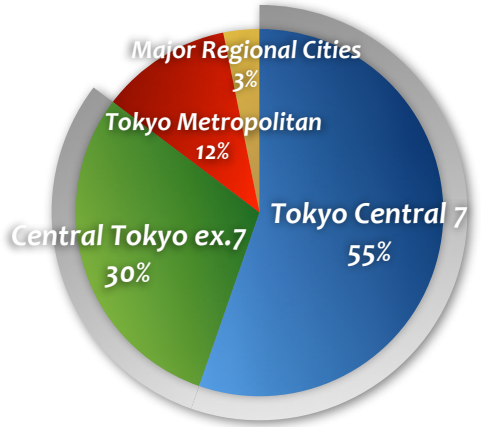
Decreasing Number of Offers



Properties Developed by Itochu Group

Sponsor Pipeline **26** properties **44.1** billion yen (of which **30.5** billion yen is completed)

	No. of Properties	No. of Units	Expected Size
Tokyo Central 7	14 properties	879 units	24.4 bn yen
Central Tokyo ex.7	9 properties	387 units	13.2 bn yen
Tokyo Metropolitan	2 properties	439 units	5.1 bn yen
Major Regional Cities	1 properties	91 units	1.4 bn yen
Total	26properties	1,796 units	44.1 bn yen

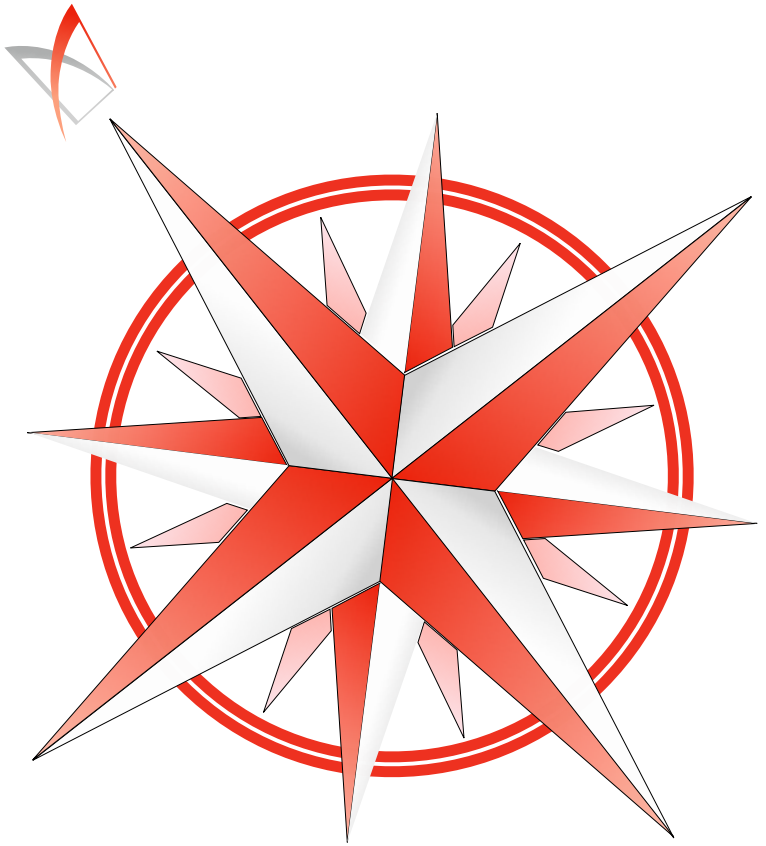


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Memo

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Finance



Building a Stable Financial Base

Key Figures on Debts

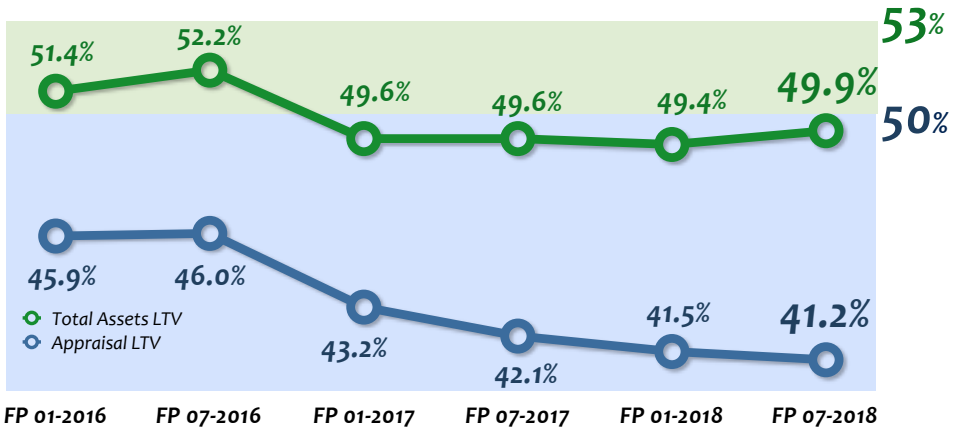
JCR **AA** (Stable)　　R&I **A+** (Positive)

	FP Jan 2018	FP July 2018		change
Loans	193.9 bn yen	196.9 bn yen	(87.2%)	+3.0 bn yen
Bonds	27.5 bn yen	29.0 bn yen	(12.8%)	+1.5 bn yen
Total	221.4 bn yen	225.9 bn yen	(100.0%)	+4.5 bn yen

FP July 2018 Debt Financing

	Repayment	Procurement
Total	21.1 bn yen	25.6 bn yen
Avg. Interest Rate	1.09%	0.48%
Avg. Initial Duration	5.2 yrs	7.7 yrs

LTV Management



Maximum Leverage

Appraisal LTV **50%**　　Total Assets LTV **53%**

Acquisition Capacity of around

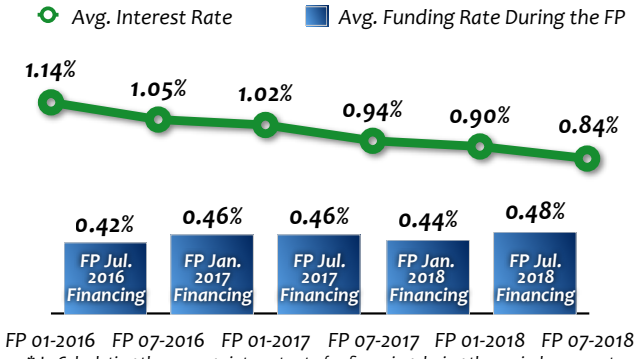
30.0 billion yen

at Total Asset LTV of 53%

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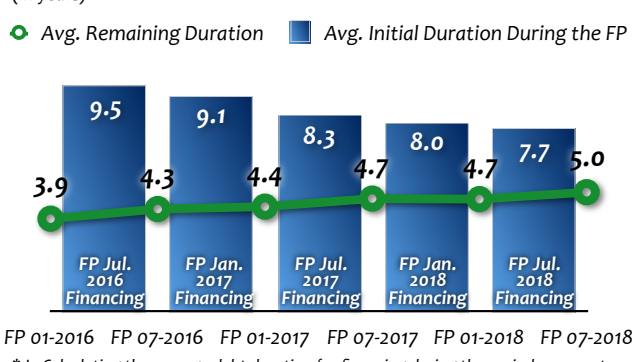
Biased to Long-term Stability

Lowering Interest Rate



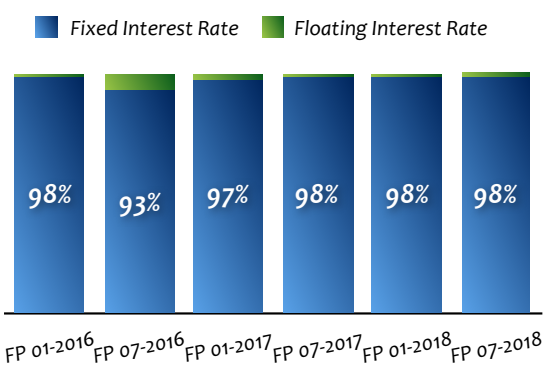
* In Calculating the average interest rate for financing during the periods, amount outstanding and interest rate applicable at the end of each period is used.

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.

Fixing Interest Rate

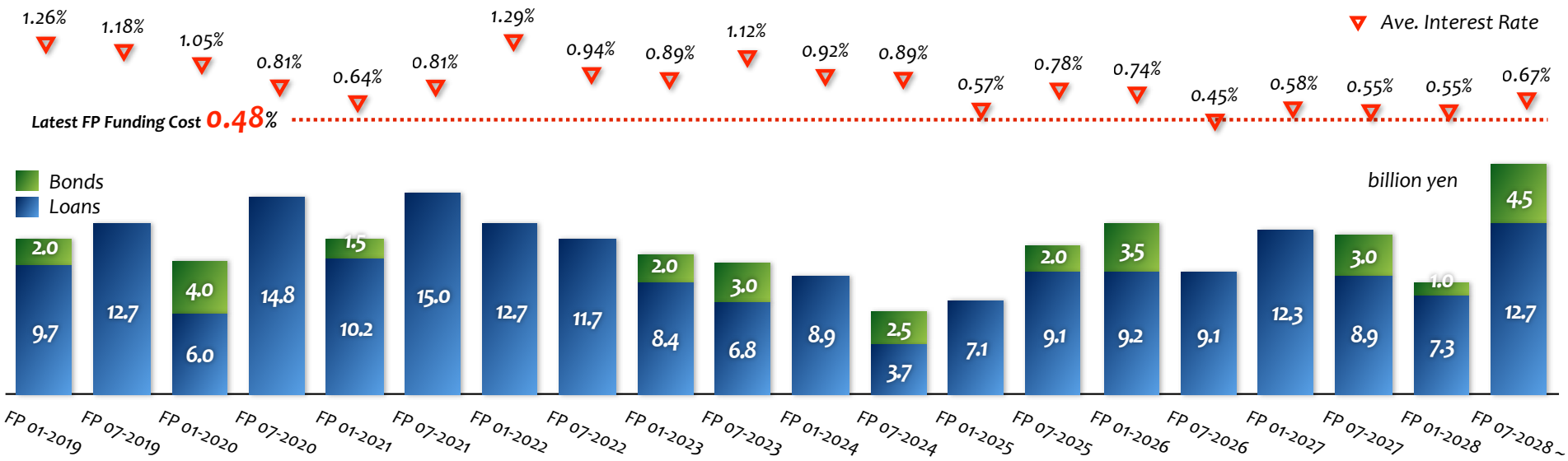


* Short-term loans are excluded.

Diversifying Duration

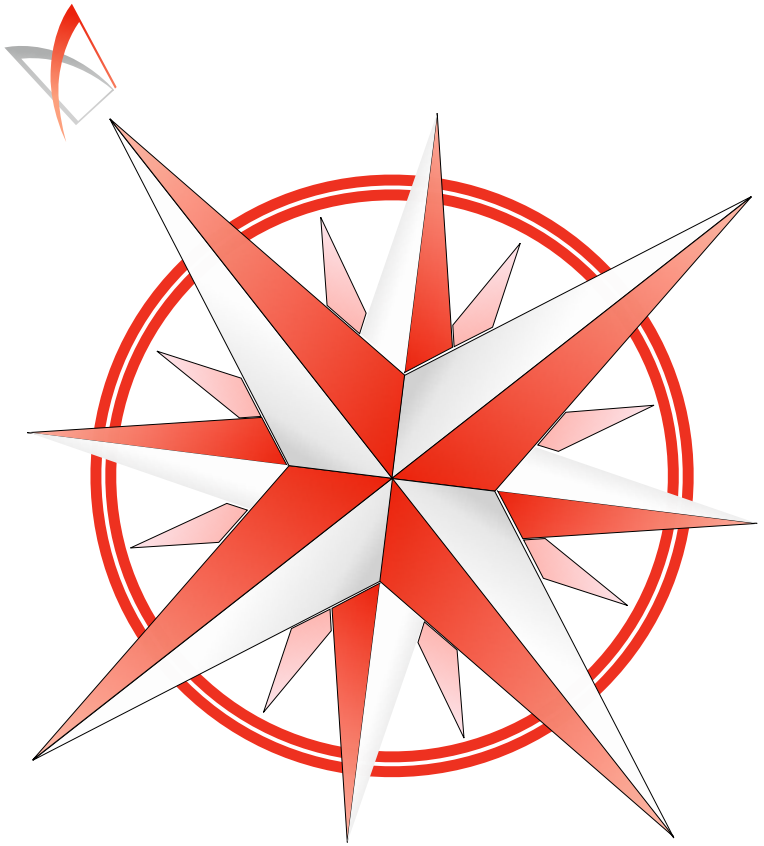
Max. repayment per FP 15 bn yen < **Committed line of credit** 20 bn yen

as of July 2018



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Guidance and DPU Target



Earnings Guidance

	(1) 16th FP Results	(2) 17th FP Forecast	(2)-(1)			(3) 18th FP Forecast	(3)-(2)		
	Results for FP July 2018	Forecast for FP Jan. 2019 (announced Sept. 10, 2018)	Changes	Notes		Forecast for FP Jul. 2019 (announced Sept.10, 2018)	Changes	Notes	
Revenue	16,302 (263 properties) Period avg. occupancy 97.0%	16,084 (264 properties) Period avg. occupancy 96.5%	-218	Newly Acquired Assets No profit from sales Increase in revenue due to asset replacement Same Store Decrease due to lower occupancy assumption Off-peak decrease in key money & renewal	-135 +62 -42 -103	16,226 (264properties) Period avg. occupancy 96.6%	142	Same Store Increase in revenue due higher occupancy and rent level Peak season increase in key money Other increase in revenue	 +42 +93 +7
Operating Income	8,272 (Depreciation: 2,682) (Property taxes: 865)	8,028 (Depreciation: 2,701) (Property taxes: 870)	-243	Leasing Expenses Increase in expenses from incr. in AUM Off-peak decrease in fees Increase in depreciation and other cost G & A Expenses Cons. tax settlement increase Increase in other expenses	 -15 +75 -20 -24 -41	8,009 (Depreciation: 2,712) (Property taxes: 877)	-18	Leasing Expenses Peak season increase in expenses Increase in repair cost Increase in depreciation and other cost G & A Expenses Decrease in other expenses	 -110 -58 -19 +26
Ordinary Income	7,088 (Funding cost*: 1,196)	6,885 (Funding cost*: 1,136)	-202	No one time profit Decrease in interest pay't from refinancing	-19 +60	6,885 (Funding cost*: 1,117)	-	Decrease in interest pay't from refinancing	19
Net Income	7,087	6,885	-202			6,885	-		
EPU (yen)	5,250	5,100	-150	Units issued and outstanding 1,350,000 units		5,100	-	Units issued and outstanding 1,350,000 units	
Per Unit Drawdown of Reserve** (yen)	249	249	-	Reserve** after dividend: 31.8 bn yen		249	-	Reserve** after dividend: 31.5 bn yen	
Dividend per unit (yen)	5,499	5,349	-150			5,349	-		
Total Asset LTV	49.9%	49.9%	-			50.0%	+0.1p		

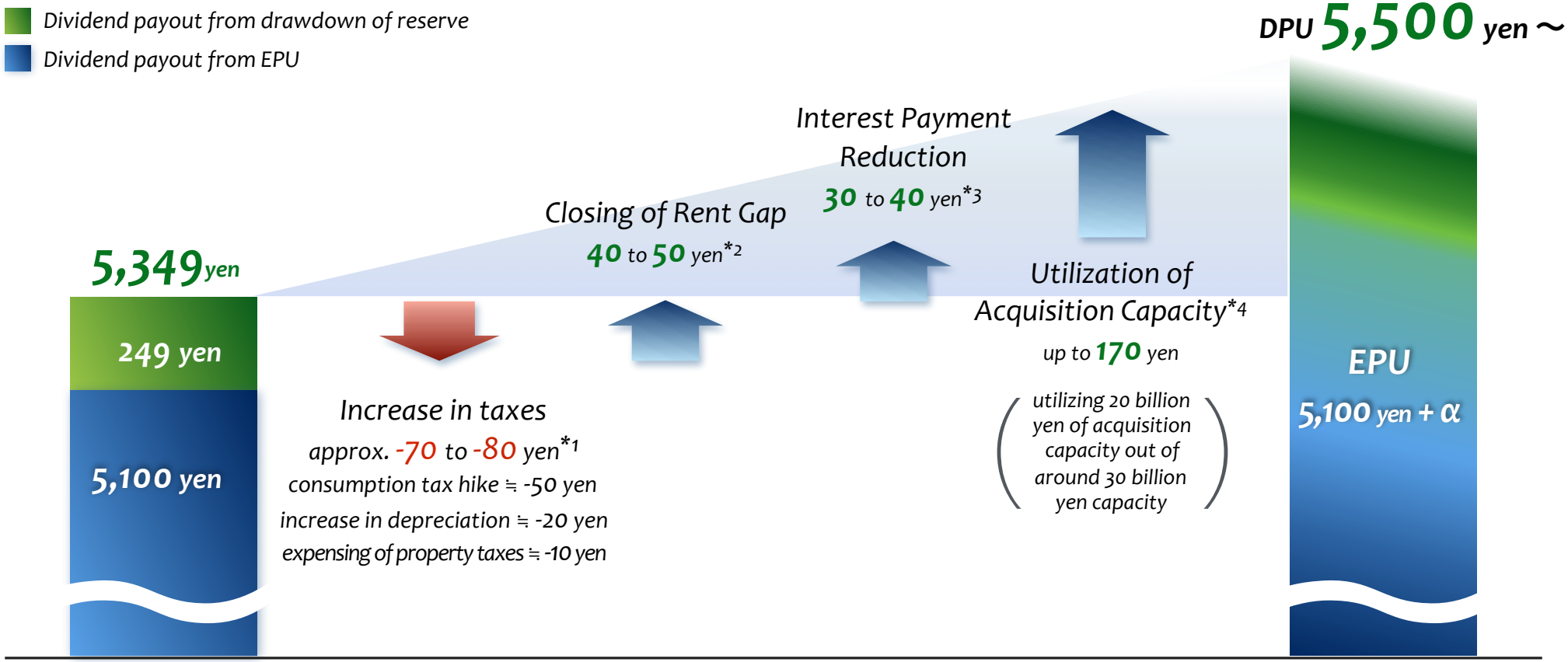
in million yen

* 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 ~180 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 listed below.

*1 Consumption tax rate is assumed to be raised from 8% to 10%. Restoration works expected to be executed by 07-2020 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 FP07-2018 within the time horizon of FP 07-2020.

*3 Interest payment reduction is based on the assumption that debts maturing by FP07-2020 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 FP07-2019. Also the estimate is based on around two year worth of acquisition of 20.0 billion yen and assumed funding cost.

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