

# New Initiatives for Reinforcement of the Revenue Base, etc.

—Realizing long-term stable profit distribution—



T-168 RESIDIA Nihonbashi-bakurocho III



# New Initiatives for Reinforcement of the Revenue Base, etc.

Moving to the **Next Stage** for New Growth given the average building age of **16.3** years\*<sup>1</sup> for the entire portfolio

## Three Initiatives

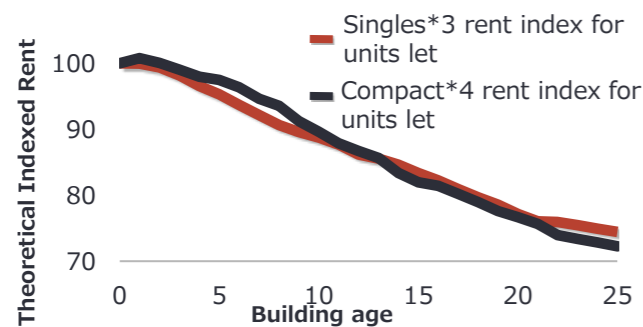
01

### Promote **expansion** of individual apartment unit renovation works

- **Raise rent levels** to improve profitability
- Prevent facilities from becoming obsolete due to aging
- Differentiate brand through “recovery of value”
- **Increase Construction cost** (depreciation)

Anticipating **rent decline** (about 1% per year) due to degradation over time

Relation between building age and rent\*<sup>2</sup>

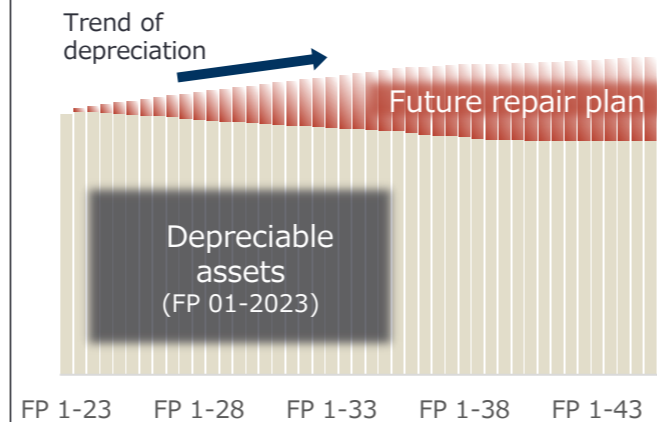


02

### The Revision of the Depreciation Method

- **Level depreciation**
- **Temporary increase** in depreciation

Assuming **an increase in depreciation** from large-scale repairs

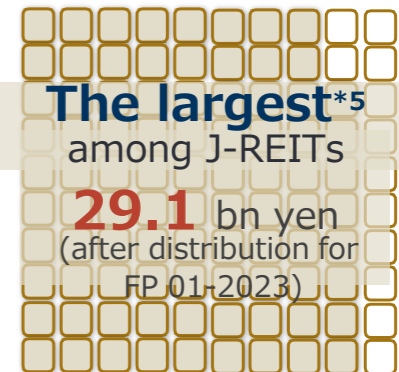


03

### Additional reversal of reserve for adjustment of temporary difference (negative goodwill)

- **Realize stable long-term profit distribution**

Reserve for adjustment of temporary difference



\*<sup>1</sup> Building age as of January 31, 2023. Average building age is weighted average of building ages of properties owned using acquisition prices.  
 \*<sup>2</sup> Figures are indexed theoretical rent categorized by year and building age using actual rents provided by At Home Co., Ltd. for the period from 2009 to 2016, of which Sumitomo Mitsui Trust Research Institute Co., Ltd. statistically processed using hedonic method.  
 \*<sup>3</sup> Denotes units that are 18m<sup>2</sup> to 30m<sup>2</sup>.  
 \*<sup>4</sup> Denotes units that are 30m<sup>2</sup> to 60m<sup>2</sup>.  
 \*<sup>5</sup> According to data compiled by the asset management company from the latest disclosures made by other J-REITs as of March 16, 2023.

**Promote Expansion of Individual  
Apartment Unit Renovation Works**



R-050 RESIDIA Rakuoku



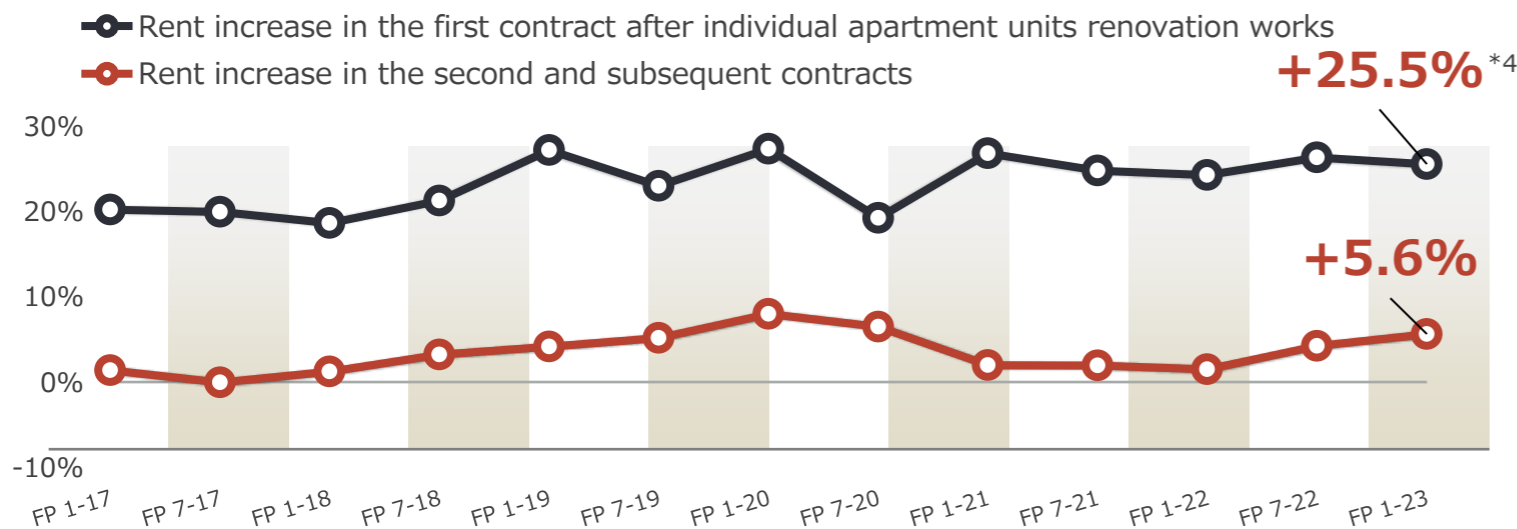
# Track Record of Individual Apartment Unit Renovation Works (Value Enhancement Investment)

Solid **insight** that realizes large investment impact based on **knowledge** accumulated over 12 years

## Track Record Since Listing

	Track record since listing	Tokyo 23 wards	By type		
			S	C	F&L
Number of renovated units	586 units	501 units	143 units	87 units	271 units
Construction costs* <sup>1</sup>	2,162 million yen	1,925 million yen	421 million yen	276 million yen	1,227 million yen
Rent increase* <sup>2</sup>	<b>20.2%</b>	20.9%	17.8%	16.7%	22.5%
Estimated payback period* <sup>3</sup>	9.2 years	8.8 years	13.4 years	11.1 years	7.6 years

## Maintained rent increase after the second contract



## Strengthen engineering operation structure

Comprehensively works on maintenance and management of investment properties

Nov. 2005  
Dedicated department established

Active investment for value creation



Aug. 2013  
Became the first J-REIT management company to be registered as first-class architect office

As of Mar. 16, 2023  
Has five first-class architects

\*1 Construction cost includes all expenses of the leased-out units (excluding taxes).

\*2 Average increase in monthly rents of the individual apartment units under lease that had renovation work done, based on their monthly rent before the renovation works and the monthly rents in the first contract after the renovation work.

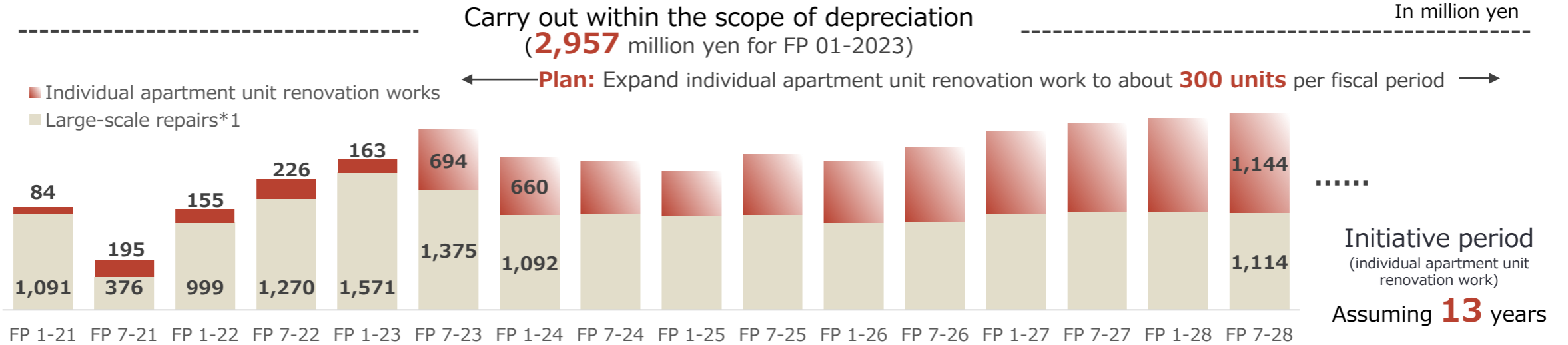
\*3 Derived by dividing the construction cost by the increased amount of the monthly rents in the first contract after the individual apartment unit renovation works. It assumes that the rent increase is maintained throughout the period.

\*4 The average increase in monthly rents of the 20 units under lease (as of FP 01-2023), out of 41 units that had renovation work done during FP 01 2023, based on their monthly rent before the renovation work and the monthly rents in the first contract after the renovation work.

# Individual Apartment Unit Renovation Works Plan

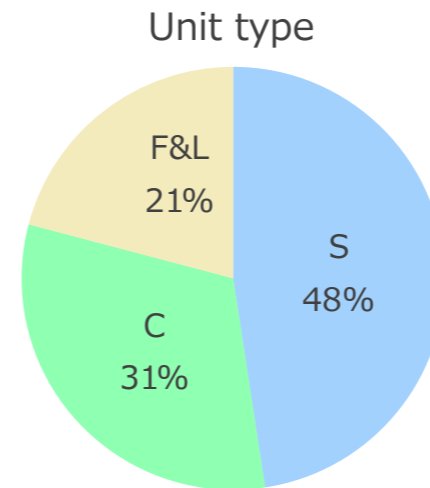
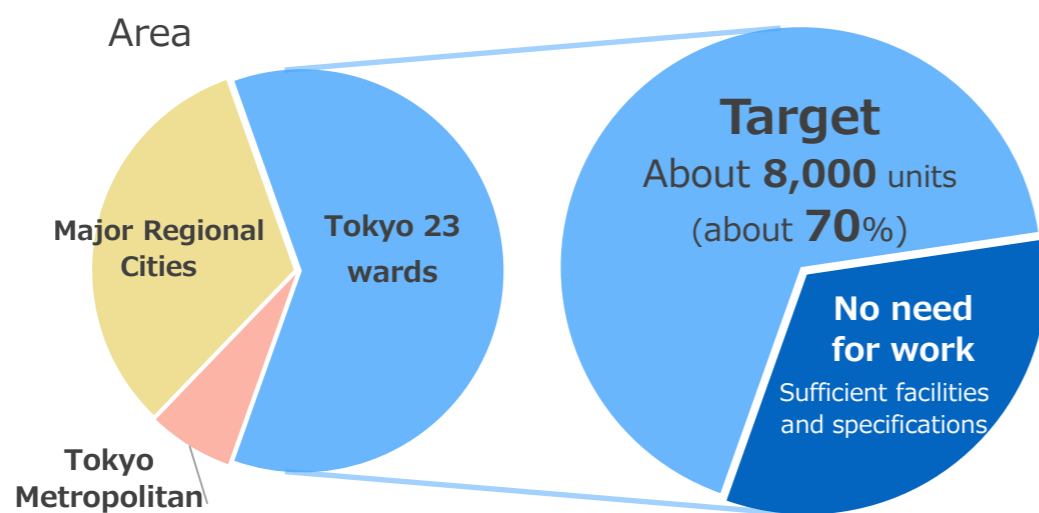
## Work Plan (on a total construction cost basis)

### Management of risk of future rent decline



## Target Residential Units\*2 (number of units)

Differentiate mainly in single type units due to becoming obsolete due to aging



## Figures in the Plan\*3

Tokyo 23 wards	
Construction costs*4 (per unit)	Over <b>3</b> mn yen
Hurdle rate (Rent increase)	<b>12.7%</b>
Payback period*5	<b>16.1</b> years

In general, about 1% of rent decline is assumed per year.

Hurdle rate does not take into consideration rent decline (calculated on the basis of rent of the previous contract).

\*1 Includes painting of iron parts, waterproofing, and other facility repairs.

\*2 Planned units are pass-through residential units (excluding leasing of whole buildings).

\*3 The figures in the plan are based on estimates made by the asset management company and may differ from actual implementation of work.

\*4 Construction cost is a before-tax figure.

\*5 Derived by dividing the construction cost by increased amount of the monthly rents in the first contract based on the hurdle rate. It assumes that the rent increase is maintained throughout the period.

# The Revision of the Depreciation Method



R-052 RESIDIA TOWER Sendai



# Towards Leveling of Depreciation

## The Revision of the Depreciation Method

Service lives of property at acquisition  
(including trust property)

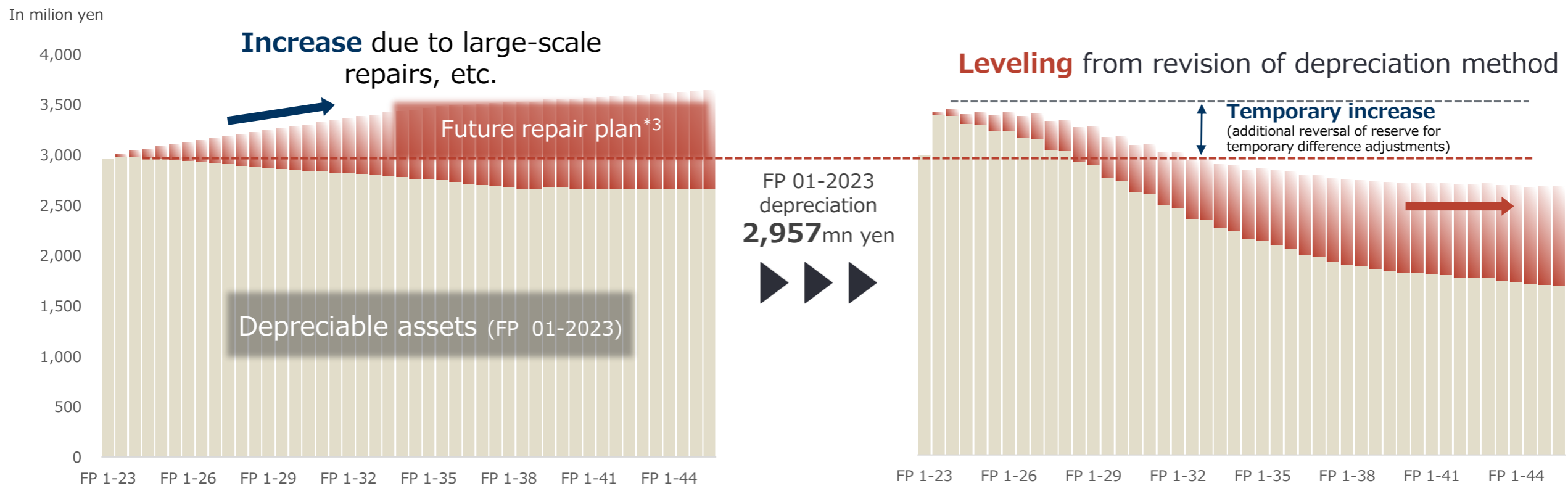
Before	After (after FP 07-2023) *1
--------	-----------------------------

buildings (frame and ancillary facilities, machinery and equipment)  
**27 to 46** years



Buildings (frame) **40~71** years  
Buildings(ancillary facilities\*2) **1~37** years  
Machinery and equipment **2~29** years

## Trend of Depreciation



\*1 This covers properties held at the end of FP 01-2023.  
 \*2 In the balance sheet, they are included in buildings.  
 \*3 Excluding individual apartment unit renovation works.

# Additional Reversal of Negative Goodwill

(Reserve for Temporary Difference Adjustments)



R-056 RESIDIA Sendai-Honcho

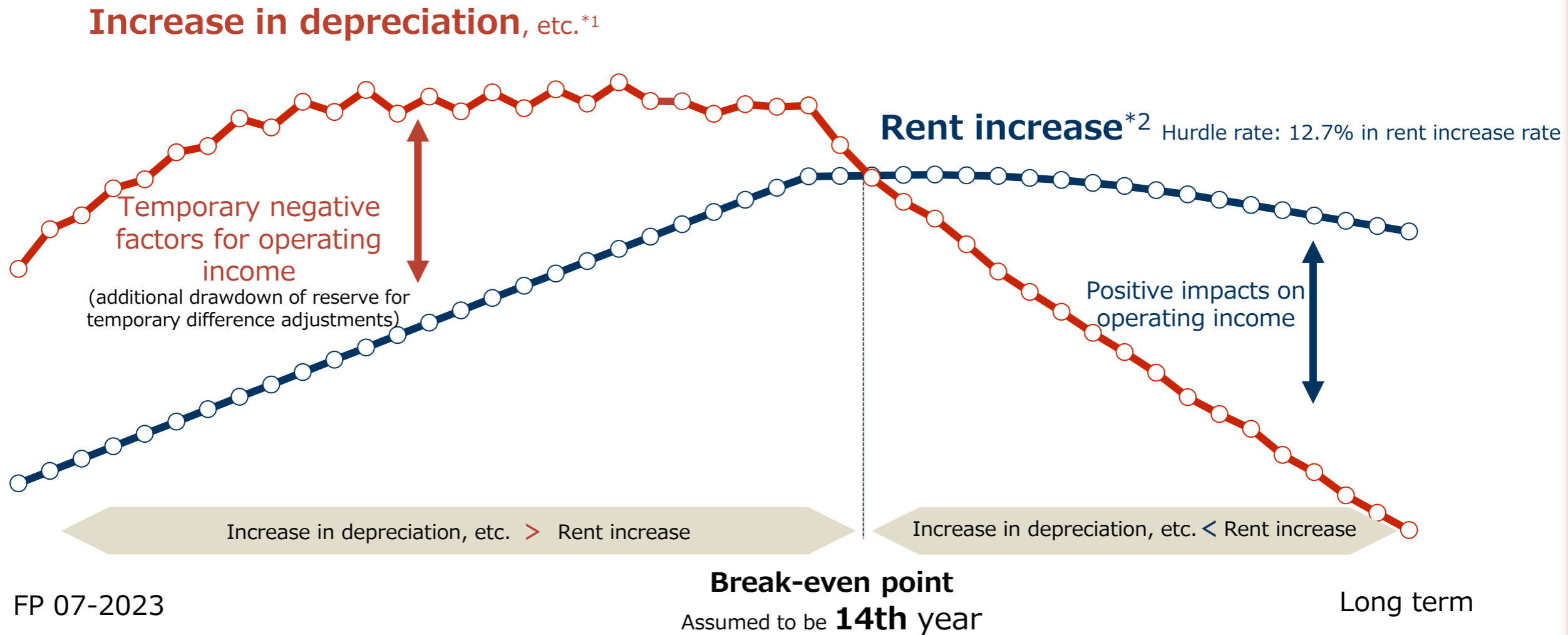




# Break-even Point of New Initiatives

It temporarily creates negative factors for operating income, but contributes positively in the long term

## Conceptual Drawing of Rent Increase and Depreciation Increase, etc.



\*1 Increase in depreciation, etc. denotes the amount equivalent to the cost of individual apartment unit renovation works and the temporary increase in depreciation due to the revision of the depreciation method (the amount that exceeds depreciation for FP 1-2023 \*Limited to properties owned for the full period of FP 1-2023).

\*2 Rent increase denotes the amount equivalent to cash flow calculated by subtracting the previous rent from the new rent. Units considered are those that underwent individual apartment unit renovation works.



# Additional Reversal of reserve for temporary difference adjustments

(Negative goodwill)

Additionally reverse the portion of temporary negative impact on operating income caused by the initiative

## Change in Reversal Policy

**Previous policy**

**A. Regular reversal of 335 million yen or more every fiscal period\*1**  
(started in FP 1-2017)

**29.17** billion yen until **44th** year  
(after distribution for FP 1-2023)

**Continue**  
(fixed-amount)

**Add**  
(variable-amount)

**New policy**

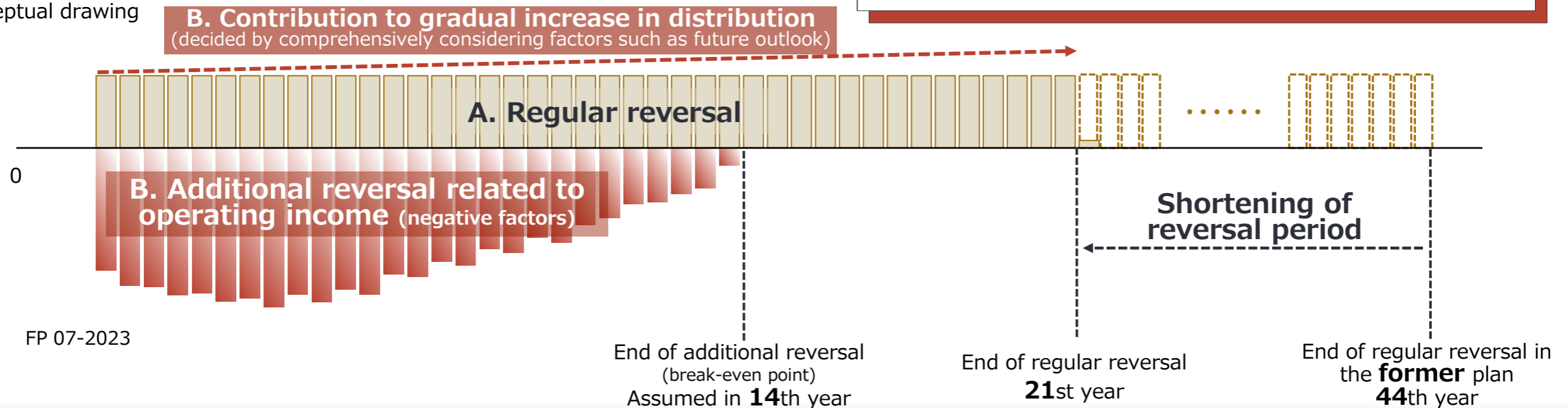
**Previous policy**  
Assumed to be by **21st** year

**Additional reversal**

**B. Reversal related to negative impact on operating income, etc. (offset)**

- Negative impact on income from promotion of expansion of individual apartment unit renovation works
- Temporary increase in depreciation due to the revision of the depreciation method.
- Contribution to gradually increasing distribution

Conceptual drawing



\*1 A tax law revision stipulated to draw down the surplus from gains on negative goodwill from a merger (reserve for temporary difference adjustments) by equal amounts or more, over a period of 50 years at the longest, in accordance with the prescribed reversal method.



\*2 If dividend is below 5,000 yen per unit when the 50-year equal amount is reversed and distributed, additional drawdown will be made to maintain the level of dividend per unit at 5,000 yen or more as a rule. When there is a temporary gain or loss such as loss or gain on property sale, ADR may stabilize dividends by retaining the gains from the sale or its reversal or additional reversal of reserve for temporary difference adjustments.

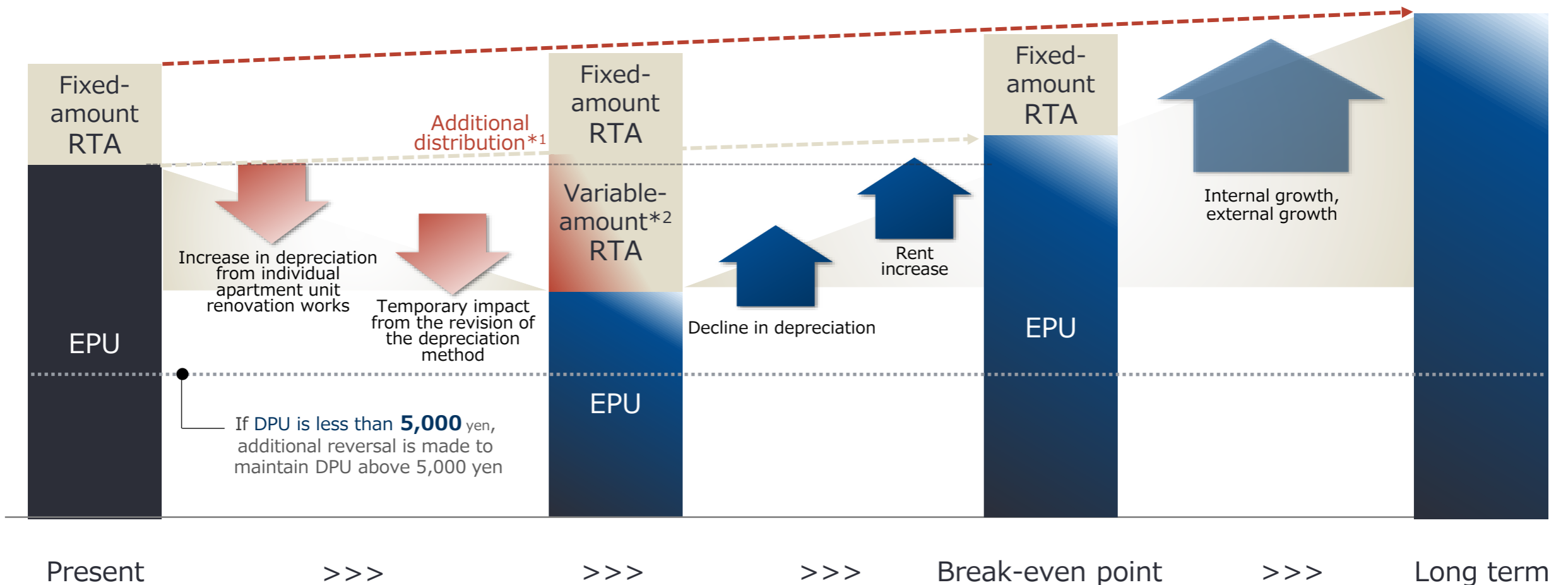


# Distribution Strategy for Realization of Stable Dividends

To realize gradual increase in distribution\*<sup>1</sup> by utilizing RTA

## Changes in Distribution from Individual Apartment Unit Renovation Works and the Revision of the Depreciation Method

 Distribution with reserve for temporary difference adjustments (RTA)  
 Distribution from earnings per unit (EPU)



\*1 The amount of the final dividend is decided based on approval by ADR's board of directors by comprehensively taking into account factors such as the performance at that time (excluding the level of retained earnings brought forward), financial conditions, cash reserves, and future outlook.

\*2 The amount of variable RTA is assumed to be equivalent to temporary income such as the impact of individual apartment unit renovation works and the revision of the depreciation method.



# Note

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---



# Note

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---



# Organizational Structure

as of Mar. 16, 2023



**ITOCHU REIT**  
Management Co., Ltd.

Location: 17F Jimbocho Mitsui Bldg., 1-105 Kanda-Jimbocho, Chiyoda-ku, Tokyo

Company Representative: Junichi Shoji, Representative Director and President

Amount of Capital: 300 million yen

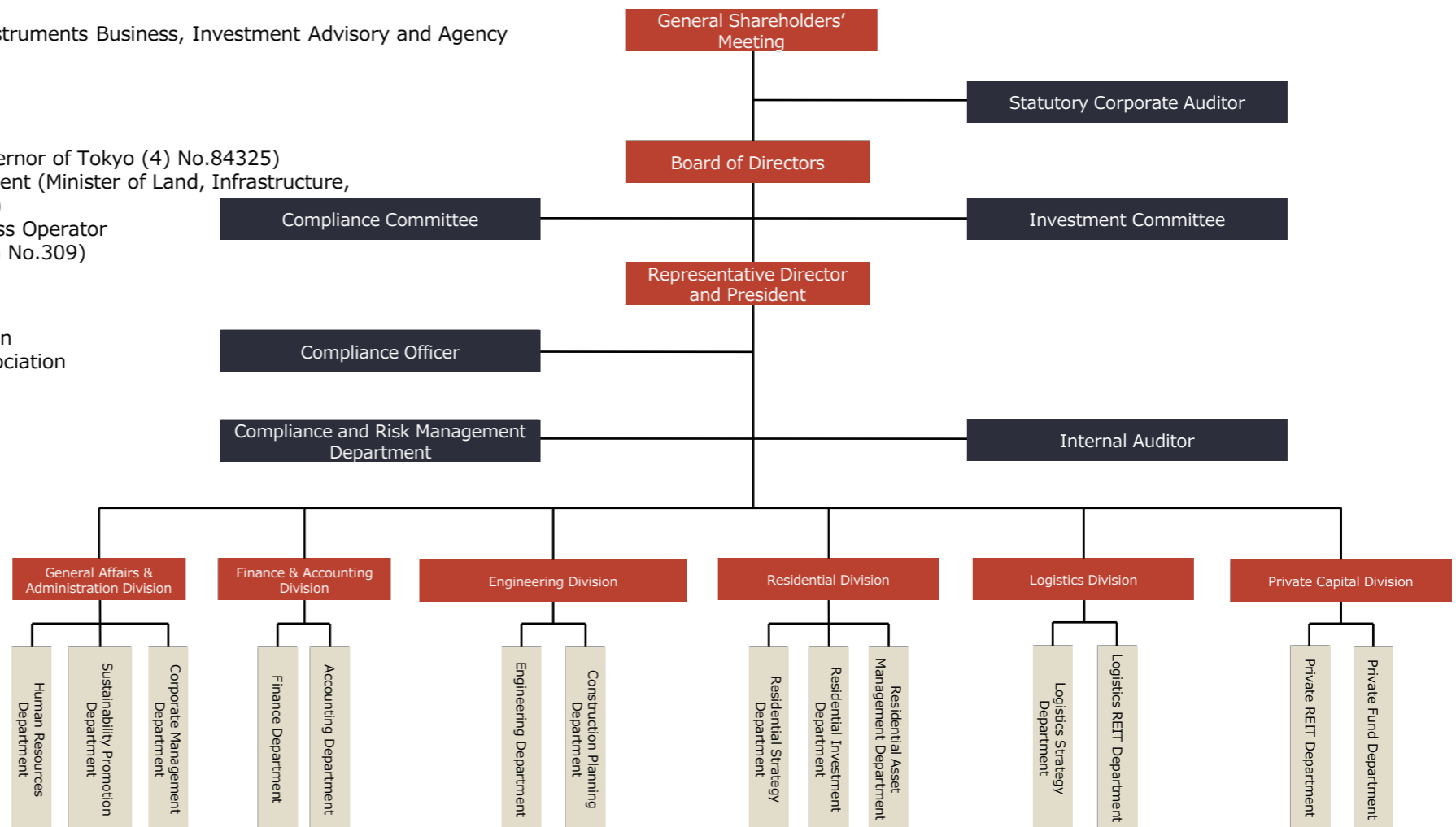
Type of Business: Asset Management, Type II Financial Instruments Business, Investment Advisory and Agency Business

Number of Employees: 100

Registrations and Licenses: Real Estate Brokerage License (The Governor of Tokyo (4) No.84325)  
Discretionary Real Estate Transaction Agent (Minister of Land, Infrastructure, Transport and Tourism Approval, No.37)  
Registered Financial Instruments Business Operator (Kanto Local Finance Bureau registration No.309)  
Registered First-Class-Architect Office (The Governor of Tokyo No. 58856)

Member Associations: The Investment Trusts Association, Japan  
Type II Financial Instruments Firms Association  
Japan Investment Advisers Association

ITOCHU REIT Management Co., Ltd. official website  
<https://www.itc-rm.co.jp/en/>



## Major Initiatives By the Asset Management Co.

- ✓ Registered as first-class architect office
- ✓ Constantly hiring new graduates every year (16 new hires in the past 9 years)
- ✓ Acquisition of Resilience Certification
- ✓ Certified as Excellent Health Management Corporation 2023 (Small and Medium Enterprise Division)
- ✓ SDG's event for internal use



# Disclaimer

*This material contains forward-looking statements on future operating results, plans, business objectives and strategies of the company.*

*Forward-looking statements provide current expectations of future events based on number of assumptions and include statements that do not directly relate to any historical or current facts. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements.*

*Although the financial figures in the material are based on Japanese GAAP, the material does not necessarily follow any official rules or regulations on financial disclosures.*

*This material was not created for the purpose of soliciting investment in the company. Investments should be based on your own judgment and responsibility.*

*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 [<https://www.adr-reit.com/en/ir/news/archives/category/sonota>].*

*Any reproduction or use of this material other than for its intended purpose is prohibited without prior permission.*



***Advance Residence Investment Corporation***

***Inquiries***

***Investor Relations  
ITOCHU REIT Management Co., Ltd.***

***Tel: +81-3-6821-5483  
E-mail: [adr\\_ir@itc-rm.co.jp](mailto:adr_ir@itc-rm.co.jp)***