

**For Immediate Release**

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Notice Concerning Acquisition of Investment Asset (RESIDIA Hakata-Higashi)

ITOCHU REIT Management Co., Ltd. (IRM), the asset management company to which Advance Residence Investment Corporation (ADR) entrusts the management of its assets, announced its decision today to have ADR acquire an asset located in Japan (hereafter, the “Acquisition”) as detailed below as part of ADR’s growth strategy.

## 1. Details of the Acquisition

IRM decided on the following acquisition pursuant to the target and policy of asset management as stipulated in the Articles of Incorporation of ADR, for steady increase in asset size and diversification and enhancement of the portfolio.

Name of the Asset-To-Be-Acquired <sup>(Note 1)</sup> (Assets)	RESIDIA Hakata-Higashi (Real estate)
Proposed Acquisition Price <sup>(Note 2)</sup> (Price / Appraisal ratio)	845 million yen (91.0%)
Real Estate Appraisal Value <sup>(Note 3)</sup>	929 million yen
NOI Yield <sup>(Note 4)</sup>	5.0%
Yield after Depreciation <sup>(Note 5)</sup>	4.0%
Building Age <sup>(Note 6)</sup>	15.3 years
Seller	Not disclosed
Scheduled Contract Date	June 27, 2022
Scheduled Acquisition Date	July 6, 2022 or a date to be separately agreed upon with the seller
Acquisition Financing (Payment Method)	Borrowings and cash on hand (lump-sum payment on delivery)
Collateral	None

(Note 1) The name of the asset-to-be-acquired is scheduled to be changed after acquisition by ADR, and the names after the change are stated. The name of the property as of today is “Belle Face Hakata-Higashi”.

(Note 2) “Proposed Acquisition Price” refers to the purchase price written in the real estate transaction agreements for the asset-to-be-acquired and does not include various expenses needed for the acquisition such as taxes and public dues.

(Note 3) “Appraisal Value” of the asset-to-be-acquired is as of April 1, 2022.

(Note 4) “NOI Yield” is calculated as follows: annualized NOI written in the appraisal document at the time of the acquisition of the asset-to-be acquired and calculated using direct capitalization method / proposed acquisition price x 100. The calculated yield is rounded at the second decimal point.

(Note 5) “Yield after Depreciation” is calculated as follows: (annualized NOI written in the appraisal document at the time of the acquisition of the asset-to-be-acquired and calculated using direct capitalization method – annual depreciation cost) / proposed acquisition price x 100. The calculated yield is rounded at the second decimal point. As is the case with the existing portfolio of ADR, the depreciation cost of the assets-to-be-acquired is calculated by ADR, using the straight-line method under certain assumptions and estimated at 8,120 thousand yen a year.

(Note 6) “Building Age” is the age of the building as of the date of this document and is rounded at the second decimal point.

ADR has decided to acquire all compact type for-rental residential property (1BR, 35-36sqm) in Hakata-ku, Fukuoka City, Fukuoka Prefecture at an acquisition price equivalent to 91.0% of the appraisal value and NOI yield of 5.0%.

On acquiring this property, IRM has highly rated the following properties attributes of the property:

- Good access from nearest railway station Yoshizuka Station on JR Kagoshima Main Line situated 2 minutes ride to JR Hakata Station.
- Good accessibility to Tenjin area can expect rental demand from singles and DINKs.
- The area around the nearest station has many essential and convenient facilities such as convenience stores, supermarkets, and a public hospital.

## 2. Photos of the Asset-To-Be-Acquired



## 3. Map of the Asset-To-Be-Acquired: 6-5-21 Yoshizuka, Hakata-ku, Fukuoka City, Fukuoka Prefecture



#### 4. Summary of the Asset-To-Be-Acquired

Property Number	R-083
Name of the Asset-To-Be-Acquired	RESIDIA Hakata-Higashi
Address	6-5-21 Yoshizuka, Hakata-ku, Fukuoka City, Fukuoka
<b>Land</b>	
Type of Ownership	Proprietary ownership
Area	593.35 m <sup>2</sup>
Zoning	Commercial district
FAR / Building Coverage Ratio	400% / 90%
<b>Building</b>	
Type of Ownership	Proprietary ownership
Total Floor Space	2,423.39 m <sup>2</sup>
Structure / Floors	Reinforced concrete with flat roof / 12 floors
Use	Multi-family housing
Construction Completion Date	March 6, 2007
Building Inspector	Fukuoka City
Building Designer	Shoei Corporation
Structural Engineer	Jyugo Sekkei Co., Ltd.
Construction Contractor	Shoei Corporation
Trustee	-
Trust Contract Period	-
Property Management Company <sup>(Note 7)</sup>	ARK TRUST CO.,LTD.
Master Lessee	ITOCHU Urban Community Ltd.
Master Lease type	Pass-through
<b>Summary of Building Conditions Investigation Report</b>	
Investigator	Tokio Marine dR Co., Ltd.
Investigation Date	April 11, 2022
Emergency Repair Costs	-
Short-term Repair Costs (within 1 year)	-
Long-term Repair Costs (next 12 years)	63,916 thousand yen
Building Replacement Price	613,000 thousand yen
Earthquake PML	3.4%
<b>Lease Conditions</b>	
Point in Time	As of May 31, 2022
Total Tenants	1
Leasable Units	63
Leased Units	63
Leasable Floor Area	2,250.57 m <sup>2</sup>
Leased Area	2,250.57 m <sup>2</sup>
Occupancy Rate (based on floor area)	100%
Monthly Rent	4,364 thousand yen
Deposits, Guarantees, etc.	125 thousand yen
<b>Number of Units by Type</b>	
Single	0
Compact	63
Family	0
Large	0
Dormitory	0
Other	0
<b>Other Relevant Information</b>	
	None

(Note 7) ITOCHU Urban Community Ltd. will be entrusted with the master lease and property management for the Asset-To-Be-Acquired, with property management to be outsourced to ARK TRUST CO.,LTD. from ITOCHU Urban Community Ltd.

Please refer to “Notes and definitions on items on the tables in the press releases for asset acquisition” on ADR’s website for details on items on the above table. (<https://www.adr-reit.com/en/financial/news/>)

## 5. Appraisal Report Summary

Name of Property	RESIDIA Hakata-Higashi	Appraisal Date	April 1, 2022
Appraiser	Japan Real Estate Institute	Appraisal Value	929,000 thousand yen
Appraisal Items	Appraised Value (Thousands of yen)	Basis	
Income Capitalization Approach Value	929,000	Income capitalization approach value was appraised using both DCF method and direct capitalization method.	
Direct Capitalization Price	939,000		
Total Potential Income	57,223		
Rent Income	55,471	Estimated the rents steadily receivable over the medium to long term based on the terms of existing lease agreements and other factors.	
Other Income	1,752	Recorded income such as key money by estimating the annual average renewal rate and the average contract period.	
Total Effective Income	54,795		
Losses from Vacancies, etc.	2,428	Estimated steady levels of occupancy rates over the medium to long term based on the occupancy status and supply-demand trends of comparable properties as well as the occupancy status and future trends of the target property.	
Losses from Delinquencies	0	Recording this item was considered unnecessary given lessee situations.	
Expenses from rental business	12,566		
Maintenance and Management Fees	1,956	Estimated by referring to historical figures and the levels of comparable properties and taking into account the uniqueness of the target property.	
Utilities Costs	800	Estimated by referring to historical figures and taking into account the levels of comparable properties and the uniqueness and other factors of the target property.	
Management Commission Fees	1,859	Estimated by referring to fees under planned contract terms and taking into account fees of comparable properties and the uniqueness and other factors of the target property.	
Taxes and Public Dues	3,393	Estimated based on documents concerning taxes and public dues.	
Non-life Insurance Premium	130	Estimated by taking into account insurance premiums of insurance policies and insurance premiums of buildings comparable to the target building.	
Leasing Expenses	1,638	Fees such as administrative fees and advertising fees required for attracting new tenants are estimated by referring to contract terms and the lease terms of comparable properties and taking into account the annual average turnover rate and occupancy rate.	
Repair Costs	2,578	In addition to restoration costs based on the usual levels of such costs and the percentage to be borne by lessees, repair costs are estimated by taking into account historical figures, the levels of comparable properties, and the annual average of repair/renewal costs in the ER.	
Other Expenses	212	Based on past neighborhood association fee.	
Net Operating Income	42,229		
Earnings from Deposits	0	Not recorded in consideration of the uniqueness of the property.	
Capital Expenditures	3,728	Estimated by considering the level of capital expenditures of comparable properties, building age, the annual average repair/renewal expenses in the ER, and other factors.	
Net Cash Flow DCF Price	38,501		
Cap Rate	4.1%	Estimated by adjusting the yield spread determined by location of the target asset, building specifications, and other conditions from the base yield for each area while also considering future uncertainties and actual cap rates in deals for comparable properties.	
DCF Price	919,000		
Discount Rate	3.9%	Estimated by comprehensively considering the uniqueness of the target property, with reference to the transaction investment returns for similar properties, etc.	
Terminal Cap Rate	4.2%	Estimated by considering potential increases in capital expenditures due to the building's deterioration with age as well as the impact of property market uncertainties and aging of the building on liquidity.	
Cost Approach Value	863,000		
Land Ratio	69.3%		
Building Ratio	30.7%		
Other Matters of Consideration			
None			

## 6. Seller Profile

The seller is a Japanese stock company. Its details are not disclosed based on the seller's wishes. The seller does not fall under a party that has a particular vested interest in ADR or IRM.

## 7. Property Titleholder (for transactions with parties with special interest)

Omitted. Property is not acquired from parties with special interest.

## 8. Disclosures on IRM's Vested Interest Concerning the Asset-To-Be-Acquired

ADR is scheduled to sign a master lease agreement and delegate property management services regarding the assets-to-be-acquired to ITOCHU Urban Community Ltd. (IUC). IUC is a related party of IRM. Accordingly, the transaction approval procedures stipulated in IRM's bylaws on "Rules Regarding Related Party Transaction" will be performed.

## 9. Matters Concerning Earthquake Resistance

The validity of structural calculation document has been examined by a third-party inspector. ADR has obtained the inspection results stating that no intentional manipulations, falsifications, or other corruptions in the structural calculation document were found and that the structural calculation is deemed to have been performed in accordance with the law.

### Third-Party Inspector Profile

Trade name	Tokio Marine dR Co., Ltd.
Head Office Location	1-5-1 Otemachi, Chiyoda-ku, Tokyo
Representative	Taizo Shimakura, President and Chief Executive Officer
Capital	100 million yen
Large shareholder	Tokio Marine Holdings, Inc.
Principal business	1. Examination, research, provision of information, diagnosis, consulting, seminars, publications, and training on safety, disaster prevention, health, environment, product safety, and information management, etc. 2. Contracting of corporate and other business and administration such as in relation to safety, disaster prevention, health, environment, product safety, and information management. 3. Design, implementation, and supervision of construction work, civil engineering work, equipment work, soil contamination removal work, etc. 4. Market data gathering and analysis, risk measurement, due diligence including corporate value calculation, etc.
Relationship with ADR or IRM	None

## 10. Broker Profile

Omitted. The broker does not have special interest with ADR or IRM.

## 11. Outlook

The impact of this Acquisition on the earnings forecasts for the 24th fiscal period (from February 1 to July 31, 2022) and the 25th fiscal period (from August 1, 2022 to January 31, 2023), published in the Brief Summary of Kessan Tanshin (Financial Report) dated March 17, 2022, will be negligible, and no change will be made to the forecast.

### **About Advance Residence Investment Corporation**

Advance Residence Investment Corporation is the largest J-REIT specializing in residential properties and is managed by ITOCHU REIT Management Co., Ltd. (IRM), the asset management company of the ITOCHU Group, investing in over 270 rental apartments located mostly in central Tokyo and in other major cities throughout Japan (AUM over 460 billion yen). ADR can be expected have a stable dividend in the long-term and can be considered as a defensive J-REIT, on back of the stable income from residential assets and with the largest dividend reserve among J-REITs.

**"Advance" is the common brand name of the real estate investment corporation managed by ITOCHU REIT Management Co., Ltd.**

ADR's website: <https://www.adr-reit.com/en/>

IRM's website : <https://www.itc-rm.co.jp/en/>