

(REIT) Summary of Financial Results for Fiscal Period Ended July 2018

September 14, 2018

REIT Securities Issuer: Samty Residential Investment Corporation
("Samty Residential")

Listing: Tokyo Stock Exchange

Securities Code: 3459

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Scheduled date of submission of securities report: October 30, 2018

Scheduled date of commencement of distribution payout: October 22, 2018

Preparation of supplementary financial results briefing materials: Yes

Holding of financial results briefing session: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Status of Management and Assets for Fiscal Period Ended July 2018 (from February 1, 2018 to July 31, 2018)

(1) Management Status

(% figures are the rate of period-on-period increase (decrease))

	Operating revenue		Operating income		Ordinary income		Net income	
	mn yen	%	mn yen	%	mn yen	%	mn yen	%
Fiscal period ended July 2018	2,888	57.4	1,404	77.8	1,011	63.0	1,010	63.0
Fiscal period ended Jan. 2018	1,834	(0.3)	789	4.0	620	1.0	619	1.0

	Net income per unit	Ratio of net income to equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenue
	yen	%	%	%
Fiscal period ended July 2018	2,213	3.0	1.4	35.0
Fiscal period ended Jan. 2018	2,190	2.4	1.1	33.8

(2) Distribution Status

	Distribution per unit (including distribution in excess of earnings)	Distribution per unit (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit	Total distribution (including distribution in excess of earnings)	Total distribution (excluding distribution in excess of earnings)	Total distribution in excess of earnings	Payout ratio	Ratio of distribution to net assets
	yen	yen	yen	mn yen	mn yen	mn yen	%	%
Fiscal period ended July 2018	2,681	2,213	468	1,224	1,010	213	100.0	2.4
Fiscal period ended Jan. 2018	2,675	2,191	484	757	620	136	100.0	2.4

(Note 1) The entire amount of Total distribution in excess of earnings is refund of capital contribution to unitholders applicable to distribution reducing unitholders' capital for tax purpose.

(Note 2) The ratios of decrease in surplus, etc. from implementing distribution in excess of earnings (refund of capital contribution to unitholders applicable to distribution reducing unitholders' capital for tax purpose) in the fiscal period ended July 2018 and the fiscal period ended January 2018 are 0.005 and 0.004, respectively.

(Note 3) Payout ratio is calculated by the following formula.

Total distribution (excluding distribution in excess of earnings) ÷ Net income × 100

(3) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per unit
	mn yen	mn yen	%	yen
Fiscal period ended July 2018	87,122	41,483	47.6	90,853
Fiscal period ended Jan. 2018	55,202	26,126	47.3	92,321

(4) Status of Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	mn yen	mn yen	mn yen	mn yen
Fiscal period ended July 2018	1,660	(31,302)	30,498	2,511
Fiscal period ended Jan. 2018	1,028	(58)	(956)	1,655

2. Forecasts of Management Status for Fiscal Periods Ending January 2019 (from August 1, 2018 to January 31, 2019) and July 2019 (from February 1, 2019 to July 31, 2019)

(% figures are the rate of period-on-period increase (decrease))

	Operating revenue		Operating income		Ordinary income		Net income		Distribution per unit (including distribution in excess of earnings)	Distribution per unit (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit
	mn yen	%	mn yen	%	mn yen	%	mn yen	%	yen	yen	yen
Fiscal period ending Jan. 2019	3,079	6.6	1,464	4.3	1,135	12.2	1,134	12.2	2,700	2,250	450
Fiscal period ending July 2019	3,167	2.9	1,404	(4.1)	1,113	(1.9)	1,112	(1.9)	2,685	2,207	478

(Reference) Forecast net income per unit for fiscal period ending January 2019: 2,250 yen.

Forecast net income per unit for fiscal period ending July 2019: 2,207 yen.

* Other

(1) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

- ① Changes in accounting policies accompanying amendments to accounting standards, etc.: No
- ② Changes in accounting policies other than ①: No
- ③ Changes in accounting estimates: No
- ④ Retrospective restatement: No

(2) Total Number of Investment Units Issued and Outstanding

① Total number of investment units issued and outstanding (including own investment units) at end of period

Fiscal period ended July 2018	456,600 units
Fiscal period ended January 2018	283,000 units

② Number of own investment units at end of period

Fiscal period ended July 2018	0 units
Fiscal period ended January 2018	0 units

* Presentation of the status of implementation of audit procedures

At the time of disclosure of this summary of financial results, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act have not been completed.

* Explanation of the appropriate use of the forecast of management status, and other matters of special note

The management status outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions deemed reasonable by Samty Residential, and actual management status, etc. may differ materially due to various factors. In addition, the forecast is not a guarantee of the amount of distributions.

Assumptions Underlying Forecasts of Management Status for Fiscal Period Ending January 2019 and for Fiscal Period Ending July 2019

Item	Assumption
Fiscal period	<ul style="list-style-type: none"> Fiscal period ending January 2019 (from August 1, 2018 to January 31, 2019) (184 days) Fiscal period ending July 2019 (from February 1, 2019 to July 31, 2019) (181 days)
Managed assets	<ul style="list-style-type: none"> It is assumed that Samty Residential will continue to own the real estate or the trust beneficiary interests in real estate for a total of 93 properties including the 92 properties it owns as of today and S-RESIDENCE Matsudo which is scheduled to be acquired on November 26, 2018 through the end of the fiscal period ending July 2019, and that no other property will be newly acquired. In practice, changes may arise due to acquisitions of new properties other than the property to be acquired or dispositions of owned properties, etc.
Operating revenue	<ul style="list-style-type: none"> Real estate rent revenue is calculated on the basis of historical data (or the past results disclosed by the previous owners, etc. for the periods for which Samty Residential does not have past results) and by taking into account the status of leasing. As for S-RESIDENCE Matsudo which is scheduled to be acquired on November 26, 2018 (the "Property to be Acquired"), rent is scheduled to be guaranteed by Samty Co., Ltd., the seller, from the acquisition to July 31, 2019, and operating revenue is calculated based on the content of the said rent guarantee. Operating revenue is based on the assumption that there will be no accrual of gain or loss on the sale of real estate or other properties.
Operating expenses	<ul style="list-style-type: none"> Expenses related to the rent business, which are the principal operating expenses, are calculated on the basis of past results of Samty Residential (or the past results disclosed by the previous owners, etc. for the periods for which Samty Residential does not have past results), taking into account the fluctuation factors of expenses. Real estate rent income (excluding gain on sales of real estate properties) after deducting expenses related to the rent business (including depreciation) is assumed to be 1,866 million yen for the period ending January 2019 and 1,824 million yen for the period ending July 2019. The property taxes and city planning taxes, etc. to be recorded as expenses are assumed to be 113 million yen for the period ending January 2019 and 198 million yen for the period ending July 2019. Since the property taxes and city planning taxes, etc. for the 33 properties acquired in February and March 2018, the 10 properties acquired in August 2018 and the Property to be Acquired in November 2018 will be settled at the time of acquisition by prorating for the period with the seller and including in the acquisition costs, the amount will not be recorded as expenses. As for the property taxes and city planning taxes, etc. for the said 44 properties, 84 million yen is assumed to be recorded as expenses from the fiscal period ending July 2019. Depreciation is calculated using the straight line method and is assumed to be 677 million yen for the period ending January 2019 and 689 million yen for the period ending July 2019. Repair expenses for buildings are assumed to be 95 million yen for the period ending January 2019 and 108 million yen for the period ending July 2019, based on the medium- to long-term repair plans prepared by the asset management company. However, the amounts could differ significantly from the assumed figures, as increased or additional repair expenses may arise due to unpredictable factors.
Non-operating expenses	<ul style="list-style-type: none"> Approximately 26 million yen is expected as expenses for issuance of new investment units and secondary offering of investment units. It will be depreciated over three years based on the straight line method, thus 12 million yen in the fiscal period ending January 2019 and 13 million yen in the fiscal period ending July 2019 are assumed as expenses for issuance of new investment units including the abovementioned amount. Expenses for issuance of investment corporation bonds of 6 million yen is expected in the fiscal period ending January 2019 and 5 million yen in the fiscal period ending July 2019. Interest expenses and other borrowing related expenses are assumed to be 310 million yen for the period ending January 2019 and 272 million yen for the period ending July 2019.
Interest-bearing liabilities	<ul style="list-style-type: none"> Calculated under the assumption that refinancing of the entire amount of interest-bearing liabilities maturing during the fiscal period ending January 2019 and the fiscal period ending July 2019 are conducted, total interest-bearing liabilities is assumed to be 48,900 million yen at the end of the fiscal period ending January 2019 and 48,900 million yen at the end of the fiscal period ending July 2019.
Investment units	<ul style="list-style-type: none"> The total number of investment units issued and outstanding is assumed to be 504,100 units, which is the figure as of today. In addition to the above, it is assumed that there will be no change in the number of investment units due to issuance of new investment units, etc. through the end of the fiscal period ending January 2019 and through the end of the fiscal period ending July 2019.
Distribution per unit (excluding distribution in excess of earnings)	<ul style="list-style-type: none"> Distribution per unit (excluding distribution in excess of earnings) is calculated on the assumption that the amount of earnings is distributed pursuant to the cash distribution method stipulated in Samty Residential's Articles of Incorporation. There is the possibility that the distribution per unit (excluding distribution in excess of earnings) may vary due to various factors, including changes of managed assets, variation in real estate rental revenue in accordance with changes of tenants, and occurrence of unpredicted repairs.

Item	Assumption
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> • Distribution in excess of earnings per unit is calculated pursuant to the cash distribution method stipulated in Samty Residential's Articles of Incorporation as well as the asset management company's internal regulations. • As of today, Samty Residential believes that no significant deterioration is likely to take place for the current external economic environment, the real estate market conditions and Samty Residential's financial conditions. • Samty Residential anticipates that there will be ample opportunities, etc. to acquire new properties as investments that should contribute to increasing portfolio earnings power in the fiscal periods ending January 2019 and July 2019, although part of the real estate transaction market appears to be overheated. Accordingly, it is highly necessary to reserve certain amounts of funds to make it possible to respond to such opportunities flexibly. On the other hand, in consideration of such factors as Samty Residential's financial conditions and the prospect of its ability to refinance interest-bearing liabilities, Samty Residential considers itself not to be in a position in the said fiscal periods to allocate funds preferentially for reinforcing its financial base through such measures as reducing interest-bearing liabilities. While depreciation for a total of 93 properties including acquired assets (92 properties) and the Property to be Acquired (1 property) is anticipated to be 677 million yen in the fiscal period ending January 2019 and 689 million yen in the fiscal period ending July 2019, the six-month average of the sum total of the estimated urgent repair expenses, estimated short-term repair expenses and estimated long-term repair expenses for the said 93 properties described in the building condition survey reports will be only 95 million yen (estimated amounts of 96 million yen for the fiscal period ending January 2019, and of 95 million yen for the fiscal period ending July 2019). Accordingly, Samty Residential expects to have residual free cash flow even after making certain reserves from the cash and deposits on hand equivalent to the depreciation amount at the end of each of the said fiscal periods as reserves for capital expenditures (CAPEX) to maintain the building functions, etc., as funds equivalent to the estimated amount of working capital, etc. and as reserves in preparation for investments that should contribute to increasing portfolio earnings power as stated above. • Considering the above, Samty Residential believes as of today that it is appropriate to implement distribution in excess of earnings for the fiscal periods ending January 2019 and July 2019 and anticipates 227 million yen and 241 million yen as total distribution in excess of earnings for each fiscal period (Note). In this case, the payout ratio for each period is anticipated to be 75.1% and 75.1%, and total distribution in excess of earnings is anticipated to be equivalent to 33.5% and 35.0% for each period of depreciation expected to accrue in each of the said fiscal periods. <p>(Note) Distribution in excess of earnings shall be implemented only when the total continuous appraisal value of the real estate properties owned by Samty Residential at the end of each fiscal periods (refers to the appraisal value indicated in the real estate appraisal reports (or the investigated value indicated in the valuation reports (appraised value at end of period)) obtained for the real estate properties owned by Samty Residential with the fiscal period end as the date of value; the same follows hereafter) is greater than the total adjusted book value of the owned real estate properties (refers to the book value of the respective owned real estate properties at the end of the fiscal period of Samty Residential, after deducting the amount equivalent to the incidental expenses upon acquisition of the owned real estate properties; the same follows hereafter) plus total reserves for the planned construction work amount (capital expenditures) of the repair and renewal expenses scheduled for the next fiscal period as well as other planned reserves (Please refer to B. Implementation Method in < (Reference) Samty Residential's Basic Policy and Implementation Method for Distributions in Excess of Earnings > below.). If these requirements are not satisfied, therefore, Samty Residential will not implement distribution in excess of earnings for the 7th fiscal period ending January 2019 and 8th fiscal period ending July 2019 despite the above forecast. Moreover, if any significant deterioration or other changes newly occur in the external economic environment, the real estate market conditions or Samty Residential's financial conditions, etc. or if any major changes, etc. in Samty Residential's financial conditions (including, but not limited to, LTV level and conflicts with financial covenants established for Samty Residential's borrowings) occur as a result of new borrowing of funds or issuance of investment corporation bonds in accompanying acquisition of new assets (including to-be-acquired assets), the policy as of today to implement distribution in excess of earnings for the 7th fiscal period ending January 2019 as part of the cash management may be changed and, despite the above forecast, distribution in excess of earnings may not be implemented for the 7th fiscal period ending January 2019 and 8th fiscal period ending July 2019.</p> <p>In addition, Samty Residential, in pursuant to the cash management policy, has a policy to determine every fiscal period whether to implement distribution in excess of earnings with target payout ratio (the ratio of total cash distribution, including distribution in excess of earnings, to net income and depreciation combined) of around 70% and up to the amount equivalent to 35% of depreciation in the fiscal period. Samty Residential believes as of today that it is appropriate to implement distribution in excess of earnings for the 7th fiscal period ending January 2019 and the 8th fiscal period ending July 2019 with payout ratio of 75.1% and 75.1%, respectively, and amount equivalent to 33.5% and 35.0% of depreciation for each. However, such an amount or percentage may be reviewed if there newly arises a major change in the revenue and expense structure of the portfolio due to significant additions of new assets, etc. or important changes take place in the financial environment and the real estate investment trust market conditions, etc. As a result, the amount of distribution in excess of earnings for the 7th fiscal period ending January 2019 and 8th fiscal period ending July 2019 as anticipated above may be changed.</p>
Other	<ul style="list-style-type: none"> • It is assumed that there will be no revision to laws and regulations, tax system, accounting standards, regulations applying to publicly listed companies and rules of The Investment Trusts Association, Japan, etc. that will impact the aforementioned forecast figures. • It is also assumed that there will be no unexpected material changes in general economic trends and real estate market conditions, etc.