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REIT Issuer

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Asset Management Company

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Acquisition of Asset (HF HAKATA-HIGASHI RESIDENCE)

HEIWA REAL ESTATE REIT, Inc. (hereinafter referred to as the “Investment Corporation”) announced today that HEIWA REAL ESTATE Asset Management CO., LTD. (hereinafter referred to as the “Asset Management Company”), the company to which the Investment Corporation entrusts its asset management operations, decided to execute the acquisition of assets. The details are as follows.

Details

1. Overview of the acquisition

(1) Property number Property name (Note1)	Re-81 HF HAKATA-HIGASHI RESIDENCE
(2) Type of specified asset	Real Estate
(3) Investment Category	Residence
(4) Investment Area	Regional Investment Area (Fukuoka City, Fukuoka)
(5) Proposed acquisition price (Note 2)	880,000 thousand yen
(6) Agreement Execution date	December 26, 2016
(7) Scheduled Acquisition date	January 23, 2017
(8) Seller	Individual
(9) Acquisition financing	Cash on hand
(10) Payment method	Lump-sum payment at time of delivery

(Note 1) The name of this property is currently Foresight Hakata-Higashi, but it is to be changed to HF HAKATA-HIGASHI RESIDENCE on May 1, 2017 after the Investment Corporation has acquired it. Accordingly, its name after the change is recorded.

(Note 2) “Proposed acquisition price” is the price described in the trust beneficial interest transaction agreement (consumption tax excluded), and does not include the amounts of settlement for fixed property tax, city planning tax, etc.

2. Reason for the transaction

Under the theme of the “Stable Growth Trajectory of HEIWA REAL ESTATE REIT, Inc.,” the Investment

Corporation is working to improve the quality of the portfolio over the medium to long term through portfolio replacement. It is also pursuing conventional external growth driven by the acquisition of properties, thereby maximizing unitholder value.

This property has good access because it is located six minutes' walk from Higashi-hie Station, which is one station away from Fukuoka-kuko Station and Hakata Station on the Kuko Line of the Fukuoka City Subway, and in a location with very good access to Fukuoka Airport and the Enokida Gateway of the Fukuoka Circle Route. In addition, it is designed to meet a high level of demand from single people, who are the residents of the property, with its high specification equipment. It is strongly competitive compared with neighboring properties. We have also decided to acquire it because its investment yield exceeds the yield of the existing portfolio (yield of the 29th fiscal period portfolio: 4.96%), among other reasons.

We will continuously aim to attain further external growth and increase the profitability and quality of the portfolio from the perspective of increasing unitholder value, thereby ensuring steady growth in the operating assets and stable earnings over the medium to long term.

3. Details of the property acquisitions

The characteristics of the property to be acquired are as per below.

Re-81 HF HAKATA-HIGASHI RESIDENCE

(1) Location	<ul style="list-style-type: none"> This property is located about six minutes' walk from Higashi-hie Station on the Kuko Line of the City Subway and has good access to a commercial district, with its nearest station just one station, or about three minutes, from Hakata Station where there are numerous offices and commercial facilities, and four stations, or about nine minutes, from Tenjin Station. For this reason, there is occupancy demand from single people who place emphasis on proximity between their home and workplace in the area where the property is located. In addition, there are also facilities for everyday living in the area, such as supermarkets.
(2) Building	<ul style="list-style-type: none"> In terms of equipment, the property takes security into consideration, being equipped with a self-locking door and a door phone with a TV monitor, in addition to other facilities such as a bathroom laundry dryer, Washlet and a toilet that is separate from the bathroom. The property is also strongly competitive compared with neighboring properties because it meets the needs of single people, who are the main residents of the property.

Property number / Property name		Re-81 HF HAKATA-HIGASHI RESIDENCE
Type of asset		Real Estate
Location (Note 1)		(Building address on real estate registry) 3-27-7 Higashi-Hie Hakata-ku, Fukuoka City, Fukuoka (Lot Number) 179 Higashi-Hie Hakata-ku, Fukuoka City, Fukuoka
Land	Form of ownership	Ownership
	Area (Note 1)	1,282.03 m ²
	Use District (Note 2)	Light-industrial area
	Building Coverage Ratio(Note 3)	60%
	Floor Area Ratio(Note 3)	200%
Building	Form of ownership	Ownership
	Use (Note 1)	Residence
	Structure/Floors (Note 1)	Reinforced concrete, flat roof, 7 floors above ground
	Total Floor Space(Note 1)	2,702.02 m ²
	Construction Completion Date (Note 1)	September 9, 2008

	Construction Client	Shoei Corporation	
	Constructor	Shoei Corporation	
	Architect	LIEMEC Corporation	
	Structural Designer	Jyugo Sekkei Co., Ltd.	
	Building Certification	JAPAN ERI Co.,Ltd	
Property Management Company		Miyoshi Asset Management Co., Ltd.	
Master Lease Company		Miyoshi Asset Management Co., Ltd.	
Master Lease Type		Pass through	
Collateral		None	
Tenant details (Note 4)			
	Total Leasable Units	78 units	
	Total Leased Units	78 units	
	Total rent income	54,564 thousand yen	
	Leasehold and security deposits	1,332 thousand yen	
	Total leased floor space	2,486.82 m ²	
	Total leasable floor space	2,486.82 m ²	
	Occupancy rates (Based on Floor Space)	100%	
NOI Yield (Note 5)		5.2%	
Outline of the engineering report		Survey Company	Tokyo Bldg.-Tech Center Co., Ltd.
		Survey Date	November 29, 2016
		Replacement Value	580,000 thousand yen
		Probable Maximum Loss (PML)	8.0%
		Long-term repairs (next 15years)	52,570 thousand yen
Overview of Real Estate Appraisal Report		Appraiser	Morii Appraisal & Investment Consulting Inc.
		Value Date	November 29, 2016
		Appraisal Value	900,000 thousand yen
Other items of special note		N/A	

(Note1) "Location (excluding indication of residential address)," "Area," "Use," "Structure/Floor" "Total Floor Space" and "Construction Completion Date" are as stated in the real estate registry.

(Note 2) "Use District" is the type of use district as listed in Article 8, Paragraph 1, Item 1 of the City Planning Act.

(Note 3) "Building Coverage Ratio" is the ratio of the building area of the building to the site area as stipulated in Article 53 of the Building Standards Act. The "Floor Area Ratio" is the ratio of the total floor space of the building to the site area as stipulated in Article 52 of the Building Standards Act.

(Note 4) Figures in "Tenant details" are as of November 30, 2016.

Furthermore, "Total rent income" is the annualized figure (multiplied by 12) of the monthly rent (including common expenses but not including fees for the usage of parking, storage rooms and such as well as consumption tax) as of November 30, 2016, based on lease agreements and sub-leasing agreements concluded between the seller and end tenants, with amounts below a thousand yen round off.

(Note 5) "NOI Yields" indicates the NOI yield calculated by using the net operating income (NOI) for the 12 months, which serves as the assumption for the value indicated by the income approach under the direct capitalization method shown in the appraisal report for the property, and is rounded to the first decimal place.

4. Overview of the acquisition

The seller of the property is an individual, but is undisclosed due to the wishes of the transferee. The seller is not a party that has a special interest relationship with the Investment Corporation or the Asset Management Company.

5. Status of previous owner, etc. of the property to be acquired

The acquisition of the property is not acquisition from any persons having a special interest in the Investment Company or the Asset Management Company.

6. Broker Profile

The broker of the property is a domestic business company, but is undisclosed due to the wishes of the broker. The broker is not a party that has a special interest relationship with the Investment Corporation or the Asset Management Company.

7. Outlook

The date of acquisition of this property will be during the (31st) fiscal period ending May 31, 2017. Accordingly, there is no change to our forecast of investment performance for the (30th) fiscal period ended November 30, 2016. We will disclose our forecast of investment performance for the (31st) fiscal period ending May 31, 2017 at the time of announcing the financial results for the (30th) fiscal period ended November 30, 2016.

8. Overview of the appraisal report

Property number/ Property name	Re-81 HF HAKATA-HIGASHI RESIDENCE	
Appraisal value	900,000 thousand yen	
Appraiser	Morii Appraisal & Investment Consulting Inc.	
Value date	November 29, 2016	
Item	Content (1,000 yen) (Note 1)	Overview, etc.
Value	900,000	Estimate combining the indicated value by DCF method and direct capitalization method
Value indicated by the income approach (direct capitalization method)	912,000	
Effective gross income	58,848	
Potential total profits	61,874	Estimate based on the proper level of rent that is expected to be received consistently over the medium and long term
Losses from vacancies, etc.	3,026	Estimate based on the standard vacancy rate and the individuality of the target real estate
Operating expenses	12,673	
Management fees	3,310	Estimate based on expenses at similar properties
Property Management fee	1,145	Estimate based on expenses at similar properties
Utilities expenses	812	Estimate based on expenses at similar properties
Maintenance and repair cost	1,051	30% of standardized amount, based on conclusion that the ER estimate is appropriate
Tenant advertisement expenses, etc.	1,813	Expenses for new tenants for a month and a half are estimated based on tenant advertisement expenses, etc. in similar real estate.
Public charges and taxes	4,219	Estimate based on variation rate, depreciation and other items
Casualty insurance premiums	89	Recognize an amount that reflects the insurance premium rate at similar properties and other factors
Other expenses	234	Residents' association membership fees
Net operating income (NOI)	46,175	
Interest on lump-sum payments	43	Estimated by multiplying deposits for full occupancy less a suitable amount for vacancies by the investment return of 1.0%
Capital expenditures	2,453	70% of standardized amount, based on conclusion that the ER estimate is appropriate.

	Net cash flow (NCF)	43,765	
	Capitalization rate	4.8%	Assessment made by incorporation the discount rate of earnings and the volatility risk of the principal.
	Value indicated by the income approach (discounted cash flow method)	888,000	
	Discount rate	4.6%	Assessment made after taking into account the risk factors associated with regional and individual characteristics of the target real estate and comprehensively considering market trends, etc. based on investor surveys and the sales market.
	Terminal capitalization rate	5.0%	Assessment the discrepancy rate of the capitalization rate by taking into account the sales risk as well as uncertainties surrounding projected volatility of net earnings in the future as well as the deterioration of the building in the future.
	Value indicated by the cost approach using the cost accounting method	716,000	
	Percentage of land	51.8%	
	Percentage of building	48.2%	
	Other notable items regarding the appraisal as stated by the appraiser	—	

(Note 1) The balance above is based on that in the appraisal report and is not that of the Investment Corporation or the Asset Management Company.

* Distribution: Kabuto Club, Ministry of Land, Infrastructure, Transport and Tourism Press Club, and Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications

* Investment Corporation Website: <http://www.heiwa-re.co.jp/english/>

【Attachment】

(Attachment 1) Photo of the acquired assets and map

(Attachment 2) Portfolio list after the property transaction

【Attachment】

(Attachment 1) Photo of the acquired assets and map

Re-81 HF HAKATA-HIGASHI RESIDENCE



(MAP)



(Attachment 2) Portfolio list after the property transaction

	Property No.	Property Name	Location	Investment Area (Note 1)	Acquisition Price (Note 2) (million yen)	Investment Ratio (Note 2) (%)	
Office	Of-01	HF GOTANDA BUILDING	Shinagawa-ku, Tokyo	I	1,290	0.78	
	Of-05	SUITENGU HEIWA BUILDING	Chuo-ku, Tokyo	I	1,550	0.93	
	Of-06	HF MONZENNAKACHO BUILDING	Koto-ku, Tokyo	I	2,500	1.51	
	Of-07	HF HAMAMATSUCHO BUILDING	Minato-ku, Tokyo	I	1,530	0.92	
	Of-08	KOKUSAI TAMEIKE BUILDING	Minato-ku, Tokyo	I	2,700	1.63	
	Of-09	GRACE BUILDING SENGAKUJIMAE	Minato-ku, Tokyo	I	1,220	0.74	
	Of-10	HF SHIN-YOKOHAMA BUILDING	Yokohama-shi, Kanagawa	II	1,550	0.93	
	Of-11	NIHONBASHI DAIICHI BUILDING	Chuo-ku, Tokyo	I	2,150	1.30	
	Of-12	HF HATCHOBORI BUILDING	Chuo-ku, Tokyo	I	3,092	1.87	
	Of-16	ANWA TSUKASAXHO BUILDING	Chiyoda-ku, Tokyo	I	1,385	0.84	
	Of-17	HATCHOBORI MF BUILDING	Chuo-ku, Tokyo	I	1,110	0.67	
	Of-18	M2 HARAJUKU	Shibuya-ku, Tokyo	I	3,418	2.06	
	Of-20	FUNABASHI FACE BUILDING	Funabashi-shi, Chiba	II	3,900	2.35	
	Of-21	ADESSO NISHIAZABU	Minato-ku, Tokyo	I	640	0.39	
	Of-22	HF TORANOMON BUILDING	Minato-ku, Tokyo	I	1,675	1.01	
	Of-23	HF IKEBUKURO BUILDING	Toshima-ku, Tokyo	I	1,314	0.79	
	Of-24	HF YUSHIMA BUILDING	Bunkyo-ku, Tokyo	I	1,434	0.86	
	Of-25	KAYABACHO HEIWA BUILDING	Chuo-ku, Tokyo	I	4,798	2.89	
	Of-26	HIROKOJI AQUA PLACE	Nagoya-shi, Aichi	III	2,930	1.77	
	Of-27	KOBE KYUKYORYUCHI HEIWA BUILDING	Kobe-shi, Hyogo	III	2,310	1.39	
	Of-28	MITA HEIWA BUILDING (leasehold land)	Minato-ku, Tokyo	I	2,230	1.35	
	Of-29	SAKAE MINAMI BUILDING	Nagoya-shi, Aichi	III	1,580	0.95	
	Of-30	HF SAKURADORI BUILDING	Nagoya-shi, Aichi	III	4,900	2.96	
	Of-31	HF NIHONBASHI HAMACHO BUILDING	Chuo-ku, Tokyo	I	1,900	1.15	
	Of-32	HF SENDAI HONCHO BUILDING	Sendai-shi, Miyagi	III	2,700	1.63	
	Of-33	HF UENO BUILDING	Taito-ku, Tokyo	I	3,400	2.05	
	Of-34	KOJIMACHI HF BUILDING	Chiyoda-ku, Tokyo	I	1,350	0.81	
	Of-35	HF KUDAN MINAMI BUILDING	Chiyoda-ku, Tokyo	I	2,720	1.64	
	Of-36	HF KANDA OGAWAMACHI BUILDING	Chiyoda-ku, Tokyo	I	3,150	1.90	
	Of-37	NISSO 5 BUILDING	Yokohama-shi, Kanagawa	II	3,100	1.87	
	Of-38	ACROSS SHINKAWA BUILDING	Chuo-ku, Tokyo	I	3,250	1.96	
	Of-39	SENJU MILDIX II BANKAN	Adachi-ku, Tokyo	I	1,650	1.00	
	Office Subtotal					74,426	44.89
	Residence	Re-03	HF ICHIKAWA RESIDENCE	Ichikawa-shi, Chiba	II	430	0.26
		Re-05	HF MEGURO RESIDENCE	Meguro-ku, Tokyo	I	660	0.40
		Re-09	HF KASAI RESIDENCE	Edogawa-ku, Tokyo	I	650	0.39
		Re-11	HF WAKABAYASHI-KOEN RESIDENCE	Setagaya-ku, Tokyo	I	3,610	2.18
		Re-12	HF HIMONYA RESIDENCE	Meguro-ku, Tokyo	I	1,560	0.94
		Re-14	HF MINAMIAZABU RESIDENCE	Minato-ku, Tokyo	I	1,370	0.83

Property No.	Property Name	Location	Investment Area (Note 1)	Acquisition Price (Note 2) (million yen)	Investment Ratio (Note 2) (%)
Re-15	HF AZABUJUBAN RESIDENCE	Minato-ku, Tokyo	I	1,260	0.76
Re-16	HF GAKUGEIDAIGAKU RESIDENCE	Meguro-ku, Tokyo	I	1,000	0.60
Re-17	HF HIGASHIKANDA RESIDENCE	Chiyoda-ku, Tokyo	I	1,100	0.66
Re-18	HF HIGASHINIHONBASHI RESIDENCE	Chuo-ku, Tokyo	I	1,210	0.73
Re-19	HF NERIMA RESIDENCE	Nerima-ku, Tokyo	I	690	0.42
Re-20	HF SHIROKANETAKANAWA RESIDENCE	Minato-ku, Tokyo	I	4,030	2.43
Re-21	HF MEIDAIMAE RESIDENCE	Setagaya-ku, Tokyo	I	1,070	0.65
Re-22	HF NIHONBASHI RESIDENCE	Chuo-ku, Tokyo	I	1,130	0.68
Re-23	HF KAMISHAKUJII RESIDENCE	Nerima-ku, Tokyo	I	950	0.57
Re-24	HF KINSHICHO RESIDENCE	Sumida-ku, Tokyo	I	1,100	0.66
Re-25	HF GINZA RESIDENCE EAST	Chuo-ku, Tokyo	I	5,940	3.58
Re-26	HF SHIN-YOKOHAMA RESIDENCE	Yokohama-shi, Kanagawa	II	3,350	2.02
Re-29	HF HAKUSAN RESIDENCE	Bunkyo-ku, Tokyo	I	2,350	1.42
Re-30	HF MAGOME RESIDENCE	Ota-ku, Tokyo	I	1,630	0.98
Re-31	HF GAKUGEIDAIGAKU RESIDENCE II	Meguro-ku, Tokyo	I	1,650	1.00
Re-33	HF KAMEIDO RESIDENCE	Koto-ku, Tokyo	I	1,050	0.63
Re-34	HF TANASHI RESIDENCE	Nishitokyo-shi, Tokyo	II	911	0.55
Re-35	HF SHIBA-KOEN RESIDENCE	Minato-ku, Tokyo	I	836	0.50
Re-36	HF MITA RESIDENCE	Minato-ku, Tokyo	I	1,080	0.65
Re-37	HF TAKANAWA RESIDENCE	Minato-ku, Tokyo	I	749	0.45
Re-38	LA RESIDENCE DE SHIROKANEDAI	Minato-ku, Tokyo	I	730	0.44
Re-39	HF GINZA RESIDENCE EAST II	Chuo-ku, Tokyo	I	1,460	0.88
Re-40	HF HATCHOBORI RESIDENCE II	Chuo-ku, Tokyo	I	1,890	1.14
Re-41	HF HATCHOBORI RESIDENCE III	Chuo-ku, Tokyo	I	793	0.48
Re-42	HF GINZA RESIDENCE	Chuo-ku, Tokyo	I	944	0.57
Re-43	HF KOMAZAWA-KOEN RESIDENCE TOWER	Setagaya-ku, Tokyo	I	6,520	3.93
Re-44	HF UMEDA RESIDENCE TOWER	Osaka-shi, Osaka	III	1,920	1.16
Re-45	HF NAKANOSHIMA RESIDENCE	Osaka-shi, Osaka	III	453	0.27
Re-46	HF AWAZA RESIDENCE	Osaka-shi, Osaka	III	577	0.35
Re-47	HF MARUNOUCHI RESIDENCE	Nagoya-shi, Aichi	III	624	0.38
Re-48	HF HIRAO RESIDENCE	Fukuoka-shi, Fukuoka	III	1,780	1.07
Re-49	HF KAWARAMACHI NIJO RESIDENCE	Kyoto-shi, Kyoto	III	534	0.32
Re-52	HF TENJINHIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	III	502	0.30
Re-53	HF SHIJOY KAWARAMACHI RESIDENCE	Kyoto-shi, Kyoto	III	1,820	1.10
Re-54	LA RESIDENCE DE SENDAGI	Bunkyo-ku, Tokyo	I	820	0.49
Re-55	HF SENDAGI RESIDENCE	Bunkyo-ku, Tokyo	I	870	0.52
Re-56	HF KOMAZAWA-KOEN RESIDENCE	Setagaya-ku, Tokyo	I	615	0.37
Re-57	HF MUSASHIKOYAMA RESIDENCE	Shinagawa-ku, Tokyo	I	842	0.51
Re-58	HF KOKUBUNJI RESIDENCE	Kokubunji-shi, Tokyo	II	839	0.51
Re-59	HF HISAYAODORI RESIDENCE	Nagoya-shi, Aichi	III	1,080	0.65

Property No.	Property Name	Location	Investment Area (Note 1)	Acquisition Price (Note 2) (million yen)	Investment Ratio (Note 2) (%)
Re-60	HF KARASUMA KURAMAGUCHI RESIDENCE	Kyoto-shi, Kyoto	III	572	0.35
Re-61	HF NISHI-SHINJUKU RESIDENCE WEST	Shinjuku-ku, Tokyo	I	1,990	1.20
Re-62	HF NISHI-SHINJUKU RESIDENCE EAST	Shinjuku-ku, Tokyo	I	1,170	0.71
Re-63	HF HIGASHI-SHINJUKU RESIDENCE	Shinjuku-ku, Tokyo	I	1,360	0.82
Re-64	HF HIGASHI-SHINSAIBASHI RESIDENCE	Osaka-shi, Osaka	III	566	0.34
Re-65	HF KITA-YOBANCHO RESIDENCE	Sendai-shi, Miyagi	III	809	0.49
Re-66	HF ATAGOBASHI RESIDENCE	Sendai-shi, Miyagi	III	684	0.41
Re-67	HF KYUDAIBYOIN-MAE RESIDENCE	Fukuoka-shi, Fukuoka	III	426	0.26
Re-68	HF ASAKUSABASHI RESIDENCE	Taito-ku, Tokyo	I	771	0.47
Re-69	HF ICHIBANCHO RESIDENCE	Sendai-shi, Miyagi	III	834	0.50
Re-70	HF HIGASHI-NAKANO RESIDENCE	Nakano-ku, Tokyo	I	942	0.57
Re-72	HF WASEDA RESIDENCE	Shinjuku-ku, Tokyo	I	2,090	1.26
Re-73	HF WASEDA RESIDENCE II	Shinjuku-ku, Tokyo	I	872	0.53
Re-74	HF WAKAMATSU KAWATA RESIDENCE	Shinjuku-ku, Tokyo	I	1,158	0.70
Re-75	HF SENDAI RESIDENCE EAST	Sendai-shi, Miyagi	III	1,638	0.99
Re-76	HF NISHIKOEN RESIDENCE	Sendai-shi, Miyagi	III	1,310	0.79
Re-77	HF BANSUI-DORI RESIDENCE	Sendai-shi, Miyagi	III	790	0.48
Re-78	HF KANNAI RESIDENCE	Yokohama-shi, Kanagawa	II	1,800	1.09
Re-79	HF MEIEKI-KITA RESIDENCE	Nagoya-shi, Aichi	III	2,160	1.30
Re-80	HF HIGASHI-SAPPORO RESIDENCE	Sapporo-shi, Hokkaido	III	1,560	0.94
Re-81	HF HAKATA-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	III	880	0.53
Residence Subtotal				91,362	55.11
Portfolio Total				165,788	100.00

(Note 1) The Investment Area column entries are in accordance with the following basis:

Investment in the Primary Investment Area (Tokyo 23 Wards) is entered as “I,” investment in the Secondary Investment Area (Tokyo (other than the Primary Investment Area), and major urban areas of Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture) is entered as “II,” and investment in the Regional Investment Area (major urban areas of government-ordinance-designated cities other than the Primary and Secondary Investment Area) is entered as III.”

(Note 2) Figures for the acquisition price are rounded off to the nearest specified unit, and figures for the investment ratio are rounded to the second decimal place. Accordingly, the figures may not necessarily add up to the figures in the total columns.