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HEIWA REAL ESTATE REIT, Inc.

9-1 Nihonbashi Kabuto-cho, Chuo-ku, Tokyo

Masaaki Higashihara, Executive Director

(Securities Code: 8966)

Asset Management Company

HEIWA REAL ESTATE Asset Management CO., LTD.

Takaya Ichikawa, President & Representative Director

Inquiries: Yoshio Ito, General Manager, Planning & Finance Department

TEL. +81-3-3669-8771

Notice Concerning Acquisition of Asset (HF YUSHIMA BUILDING : Additional Acquisition of the Land)

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 additional acquisition (hereinafter referred to as the “Additional Acquisition”) of the land component of HF YUSHIMA BUILDING, which is an asset under management. Details are as follows.

Details

1. Overview of the acquisition

(1) Property number/ Property name	Of-24 HF YUSHIMA BUILDING
(2) Type of specified asset	Land (Part of land leasehold : 260.15 m ²)
(3) Investment category	Office
(4) Investment area	Primary Investment Area (Bunkyo-ku, Tokyo)
(5) Proposed acquisition price (Note 1)	190,000 thousand yen
(6) Agreement execution date	May 28, 2018
(7) Scheduled acquisition date	May 28, 2018
(8) Seller	Individual
(9) Acquisition financing	Cash on hand
(10) Payment method	Lump-sum payment at time of delivery
(11) Other	The form of the Investment Corporation’s ownership of the land before the Additional Acquisition is partly land leasehold and partly ownership. The areas of the leased land and the owned land are 260.15 m ² and 140.71 m ² respectively. As a result of the Additional Acquisition, the Investment Corporation will own the entire property.

(Note 1) “Proposed acquisition price” is the price described in the purchase and sale agreement, and does not include the amounts of settlement for fixed property tax, city planning tax, etc.

2. Reason for the acquisition

On March 7, 2008, the Investment Corporation acquired the building and part of the land of HF YUSHIMA BUILDING (hereinafter referred to as the “Property”). It has now been decided to make the Additional Acquisition because acquisition of the unacquired land of 260.15 m², which was the land leasehold component of the Property, which will give the Investment Corporation whole ownership of the building and land, is expected to improve the asset value and operational efficiency of the Property and improve liquidity in the real estate market.

The appraisal value of the Property as of the end of the fiscal period ended November 30 (32nd fiscal period) was 1,420 million yen, which was 20 million yen below the book value of 1,440 million yen. However, as a result of the Additional Acquisition, the appraisal value will improve to 1,640 million yen, which compared to 1,624 million yen, which is the sum of the book value as of the end of April 2018 and the acquisition cost of the land in the Additional Acquisition, represents an unrealized gain of around 15 million yen.

The Investment Corporation 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 acquisition (Details of the entire property including the Property and the Additional Acquisition)

Property number /Property name		Of-24 HF YUSHIMA BUILDING
Type of asset		Real Estate
Location (Note 1)		(Building address on real estate registry) 3-37-4 Yushima, Bunkyo-ku, Tokyo (Lot Number) 3-6-1 Yushima, Bunkyo-ku, Tokyo (5 lots)
Land	Form of ownership	Ownership
	Area (Note 1)	400.86 m ² (area of total site; area of the Additional Acquisition: 260.15 m ²)
	Use District (Note 2)	Commercial district
	Building Coverage Ratio (Note 3)	80%
	Floor Area Ratio (Note 3)	600%
Building	Form of ownership	Ownership
	Use (Note 1)	Office(whole of the building)
	Structure/Floors (Note 1)	Steel construction Flat roof 9 floors above ground
	Total Floor Space(Note 1)	2,393.53 m ²
	Construction Completion Date (Note 1)	July 26, 1989
	Construction Client	Tokyu Land Corporation
	Constructor	Tokyu Construction Co., Ltd.
	Architect	Tokyu Sekkei
	Structural Designer	Tokyu Sekkei
	Building Certification	Bunkyo-ku, Tokyo
Property Management Company		Building Management & Strategy Inc.
Master Lease Company		-
Collateral		None
Tenant details (Note 4)		
Total number of tenants		9
Total rent income		92,466 thousand yen
Leasehold and security deposits		77,476 thousand yen
Total leased floor space		1,771.66 m ²

	Total leasable floor space	1,771.66 m ²
	Occupancy rates (Based on Floor Space)	100.0%
Overview of Real Estate Appraisal Report (Note 5)	Appraiser	EnRiX Corporation
	Value Date	April 30, 2018
	Appraisal Value	201,000 thousand yen
Other items of special note	<ul style="list-style-type: none"> • The intruder/fire prevention gates on the boundary between the Property and the adjacent land on the northwest side cross the boundaries of the Property and said land. A Memorandum concerning this crossing of the boundary has been signed. • No agreement on the classification of assets has been reached between the Investment Corporation and the leaseholder of the adjacent land on the north side with respect to the foundations and fences on the boundary between the Land and the adjacent land on the north side. 	

(Note 1) "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 April 30, 2018.

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 April 30, 2018, 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) The figures in the "Overview of Real Estate Appraisal Report" include the figures for the Additional Acquisition.

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. Broker Profile

N/A

6. Method of Settlement

Please refer to the aforementioned "1. Overview of the acquisition"

7. Schedule for the acquisition

Please refer to the aforementioned "1. Overview of the acquisition"

8. Outlook

The additional acquisition of the property will have minimal impact on the Investment Corporation's earning performance, and no change is made to the management status forecast.

9. Overview of the appraisal report

Property number/ Property name	Of-24 HF YUSHIMA BUILDING (additional acquisition)
Appraisal value	201,000 thousand yen
Appraiser	EnRiX Corporation
Value date	April 30, 2018

Other notable items regarding the appraisal as stated by the appraiser	<ul style="list-style-type: none"> • The Investment Corporation is the owner of both the building related to the appraised real estate and the adjacent land, which, together with the appraised real estate, comprises the site, and through the Acquisition, the Investment Corporation will own the property in its entirety, restoring the property's market potential and increasing its economic value. The appraisal value was, therefore, calculated based on a limited price. • The normal price of the site and leasehold was calculated and then the increase in value was calculated by deducting the normal price of the site and leasehold from the price of the land as a vacant lot. The value of the increase that will be enjoyed by the leaseholder was then added to the normal price of the site to find the limited price of the site.
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(Reference : overview of the evaluation report including the property and the additional acquisition)

Property number/ Property name	Of-24 HF YUSHIMA BUILDING (whole of the building)	
Value	1,640,000 thousand yen	
Evaluation company	EnRiX Corporation	
Value date	April 30, 2018	
	Content (1,000 yen) (Note 1)	Overview, etc.
Value	1,640,000	
Value indicated by the income approach (direct capitalization method)	1,690,000	
Effective gross income	96,868	
Potential total profits	100,824	Assessed potential total profits that are recognized to be stable over the medium to long term
Losses from vacancies, etc.	3,956	
Operating expenses	22,679	
Management fees	6,255	Assessed potential total costs that are recognized to be stable over the medium to long term
Property management fee	2,276	
Utilities expenses	5,076	
Maintenance and repair cost	382	
Tenant advertisement expenses, etc.	956	
Public charges and taxes	7,531	
Casualty insurance premiums	83	
Other expenses	120	
Net operating income (NOI)	74,189	
Interest on lump-sum payments	750	Assessed the investment yield at 1.0%
Capital expenditures	5,611	Assessment based on Engineering Report.
Net cash flow	69,328	
Capitalization rate	4.1%	Assessed the capitalization rate, taking into consideration the discount rate and the principal fluctuation risk.
Value indicated by the income approach (discounted cash flow method)	1,640,000	
Discount rate	4.0%	
Terminal capitalization rate	4.2%	

(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. The appraisal report was not prepared in accordance with Japanese Real Estate Appraisal Standards and the results may, therefore, be different from those obtained in an appraisal conducted in accordance with Japanese Real Estate Appraisal Standards.

* 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】 Portfolio list after the property acquisition

	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	0.94	
	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	HF TAMEIKE BUILDING	Minato-ku, Tokyo	I	2,700	1.63	
	Of-09	GRACE BUILDING SENGAKUJIMAE	Minato-ku, Tokyo	I	1,220	0.74	
	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-17	HATCHOBORI MF BUILDING	Chuo-ku, Tokyo	I	1,110	0.67	
	Of-18	M2 HARAJUKU	Shibuya-ku, Tokyo	I	3,418	2.07	
	Of-20	FUNABASHI FACE BUILDING	Funabashi-shi, Chiba	II	3,900	2.36	
	Of-21	ADESSO NISHIAZABU	Minato-ku, Tokyo	I	640	0.39	
	Of-23	HF IKEBUKURO BUILDING	Toshima-ku, Tokyo	I	1,314	0.79	
	Of-24	HF YUSHIMA BUILDING	Bunkyo-ku, Tokyo	I	1,624	0.98	
	Of-25	KAYABACHO HEIWA BUILDING	Chuo-ku, Tokyo	I	4,798	2.90	
	Of-27	KOBE KYUKYORYUCHI HEIWA BUILDING	Kobe-shi, Hyogo	III	2,310	1.40	
	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	0.82	
	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	
	Of-40	ARK Mori Building	Minato-ku, Tokyo	I	3,085	1.86	
	Office Subtotal					70,161	42.40
	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
		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	2.44	
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	

Property No.	Property Name	Location	Investment Area (Note 1)	Acquisition Price (Note 2) (million yen)	Investment Ratio (Note 2) (%)
Re-25	HF GINZA RESIDENCE EAST	Chuo-ku, Tokyo	I	5,940	3.59
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	0.51
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	3.94
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	1.08
Re-49	HF KAWARAMACHI NIJO RESIDENCE	Kyoto-shi, Kyoto	III	534	0.32
Re-53	HF SHIJO KAWARAMACHI RESIDENCE	Kyoto-shi, Kyoto	III	1,820	1.10
Re-54	LA RESIDENCE DE SENDAGI	Bunkyo-ku, Tokyo	I	820	0.50
Re-55	HF SENDAGI RESIDENCE	Bunkyo-ku, Tokyo	I	870	0.53
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
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

Property No.	Property Name	Location	Investment Area (Note 1)	Acquisition Price (Note 2) (million yen)	Investment Ratio (Note 2) (%)
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	1.31
Re-80	HF HIGASHI-SAPPORO RESIDENCE	Sapporo-shi, okkaido	III	1,560	0.94
Re-81	HF HAKATA-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	III	880	0.53
Re-82	HF SENDAI ITSUTSUBASHI RESIDENCE	Sendai-shi, Miyagi	III	850	0.51
Re-83	HF TABATA RESIDENCE	Kita-ku, Tokyo	I	1,100	0.66
Re-84	HF RYOGOKU RESIDENCE	Sumida-ku, Tokyo	I	1,400	0.85
Re-85	HF HACHIOJI RESIDENCE	Hachioji-shi, Tokyo	II	1,120	0.68
Residence Subtotal				95,330	57.60
Portfolio Total				165,491	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 third decimal place. Accordingly, the figures may not necessarily add up to the figures in the total columns.