

Jan 14, 2015

R&I Affirms A-, Stable: Heiwa Real Estate REIT, Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Heiwa Real Estate REIT, Inc.
Issuer Rating: A-, Affirmed
Rating Outlook: Stable

RATIONALE:

Heiwa Real Estate REIT, Inc. (HFR) is a real estate investment trust (REIT) that invests in small and mid-sized office buildings and residential properties located mainly in the Tokyo area. In October 2009, Heiwa Real Estate Co., Ltd. acquired a 100% stake in HFR's asset management company (currently named Heiwa Real Estate Asset Management Co., Ltd.) and became a sole sponsor of the REIT.

In December 2014, HFR issued new investment units through a public offering for the third consecutive year, and acquired three office buildings in Tokyo and one residential building in Sendai City for a total of 9.1 billion yen. Despite the harsh acquisition environment, the yields of the newly acquired properties exceeded those of existing properties, and this pushed up the profitability of HFR's portfolio.

With an asset size of more than 150 billion yen, HFR has continuously achieved external growth, supported by Heiwa Real Estate. HFR's current portfolio consists of 44.5% office buildings, 52.9% residential properties and 2.7% hotels, and 71.7% of the total properties are located in Tokyo's 23 wards.

The occupancy rate of existing properties has been high and is now rising further. As of November 2014, the occupancy rate of office buildings and residential properties stood at 96.9% and 97.3% respectively. A relatively diversified tenant mix would contribute to the stability of occupancy as well.

HFR's LTV ratio was 44% and the LTV ratio based on appraisal value was 48% (as of May 2014), suggesting conservative leverage. These ratios appear to have been slightly lowered after the acquisition of the above-mentioned properties. Unrealized losses are expected to be eliminated since the appraisal value of the existing buildings improved and the newly added buildings were acquired at prices below their appraisal value.

Funding conditions continue to ameliorate. Its debts are all unsecured. Average remaining term to maturity is as long as 3.6 years, and maturity dates are well staggered. While strengthening the relationships with major financial institutions, HFR achieved a reduction of borrowing costs. In March 2014, it established commitment line agreements of a total loan limit of 6 billion yen with three mega-banks.

The Rating Outlook is Stable. Underpinned by the sponsor's strong support, the REIT continues with prudent management by acquiring properties steadily and maintaining high occupancy rates, among others. The LTV ratios are kept at conservative levels. R&I also positively views its funding base that has been further enhanced.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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ISSUER: Heiwa Real Estate REIT, Inc. (Sec. Code: 8966)

RATING: Issuer Rating
A-, Affirmed

RATING OUTLOOK: Stable

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