R&I

NEWS RELEASE

Mar 08, 2017

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 diversified real estate investment trust (REIT) that invests in small and midsized offices and residences located mainly in the Tokyo metropolitan 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 the sole sponsor of the REIT.

The asset size is 166.6 billion yen on an acquisition price basis. Although the pace of asset expansion is slowing due to a severe acquisition environment, HFR is working to improve portfolio through asset replacement. The breakdown of the portfolio by property type shows that offices represent 45% and residences 55%. Nearly 70% of the properties are located in Tokyo 23 wards.

HFR aims to increase the asset size to 200 billion yen over the medium term. Gaining the sponsor's cooperation, the REIT intends to achieve steady external growth without getting involved in excessive competition.

The average occupancy rate for the term ended November 2016 was 97.3%, a record high level since its listing. The occupancy rate for offices was more than 98%, and upward rent revisions at lease renewals increased. The occupancy rate for residences was stable at above 96%. The relatively diversified tenant mix will likely help maintain stable occupancy levels.

The LTV ratio is kept sound, standing at 43.4% as of November 2016. The appraisal value-based LTV ratio continues falling thanks to a rise in the appraisal value of properties owned. The REIT thus has high debt financing capacity.

The average remaining term to maturity of debts is long at about 4 years, and maturity dates are staggered. With favorable relationships with major financial institutions, borrowing costs have been successfully reduced and will highly likely continue declining. Given an available committed line of credit totaling 6 billion yen as well as cash and deposits, liquidity is sufficient.

The Rating Outlook is Stable. Profitability is continuously improving through appropriate management of existing properties and asset replacement, among others. HFR aims to strengthen the funding base while keeping the LTV ratio at a conservative level, which is also a positive factor. Although the portfolio is stable, further improving and expanding its quality and size of the portfolio will be an issue to be addressed over the medium and long term, in R&I's view.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is 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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NEWS RELEASE

R&I RATINGS:

ISSUER:	**Heiwa Real Estate REIT, Inc. (Sec. Code: 8966)**
	Issuer Rating
RATING:	**A-, Affirmed**
RATING OUTLOOK:	**Stable**

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