

Additional Documentation for Press Release

Portfolio Replacement and Investor Return

May 8, 2018



HEIWA REAL ESTATE REIT, Inc.



Asset Management Company

HEIWA REAL ESTATE Asset Management CO., LTD.

Financial Instruments Business Agent
Reg. No. 316, Director-General, Kanto Finance Bureau (Financial Instruments and Exchange Act)
Member, The Investment Trusts Association, Japan



● Accounting and distribution policy of gains or losses on sales of properties

HF SHIN-YOKOHAMA BUILDING
Gain/ loss on transfer: -143 million yen
Already recorded as an extraordinary loss in the 32 nd fiscal period (November 2017).

HF TORANOMON BUILDING	HF TENJIN-HIGASHI RESIDENCE	HIROKOJI AQUA PLACE
Gain/ loss on transfer: +99 million yen (approx.)		+2,700 million yen (approx.)
The amount of gain on transfer will be used as a measure for investor return every period from the 33 rd fiscal period (May 2018).		

- The unrealized gain of this property increased significantly associated with the improvement of the real estate market conditions.
- Ensure the expansion of NAV and the future distribution source by selling the property at a price that is much higher than the appraisal value and internally reserving the expanded gain on sales.
- Because there is an application deadline for the internal reserve tool, we have been aiming for strategic utilization combined with asset sales.

Property to be transferred –HIROKOJI AQUA PLACE

Location	Nagoya city, Aichi
Occupancy Rates*	100%
Book value(A)**	2,666 million yen
Appraisal value(B)***	4,870 million yen
Unrealized Gain(B-A)	2,204 million yen
Transfer value(C)	5,520 million yen
Realized Gain (C-A)****	2,853 million yen (vs unrealized gain ratio before disposition+29.4%)
Transfer date	May 31, 2018

* At the end of March, 2018
 ** "Book value" is estimated amount as of May 31, 2018.
 Furthermore, amounts below a thousand yen have been rounded off.
 *** As of the end of 32nd Fiscal Period.
 **** "Realized gain" is estimated amount before deducting transfer related costs.

Tool that enables internal reserve and its application deadline

Net Income

Net Income (A)

Gain on sales (B)

Tool that enables internal reserve (C)

Tax loss carried forward *

Due date
May 2020

Advanced depreciation **

Due date
May 2020

Elimination of discordance between tax and accounting treatments ***

Due date
-

Taxable Income (A) + (B) - (C) = 0

Even if the conduit requirements (distribute more than 90% of distributable profit) are not met, it is possible to internally reserve the entire amount of the gain on sales of real estate after avoiding corporate income tax.

Tax loss carried forward*

4.45 billion yen as of the end of November 2017 (the 32nd fiscal period)

Advanced depreciation**

Based on the "special provisions for the advance acquisition of land, etc. in 2009 and 2010 stipulated in Article 66-2 of the Act on Special Measures Concerning Taxation, we will internally reserve the gain on sales of lands as a reserve for deferred gain, with 60% of the gain on sales as the upper limit.

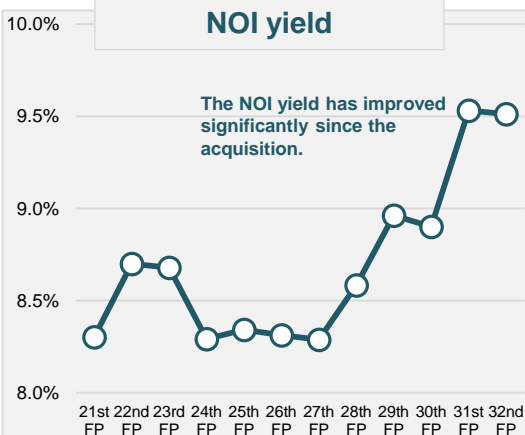
Elimination of discordance between tax and accounting treatments***

Taxable income will decline associated with the elimination of differences between tax and accounting treatments arising from the mergers in the past.



NOI yield

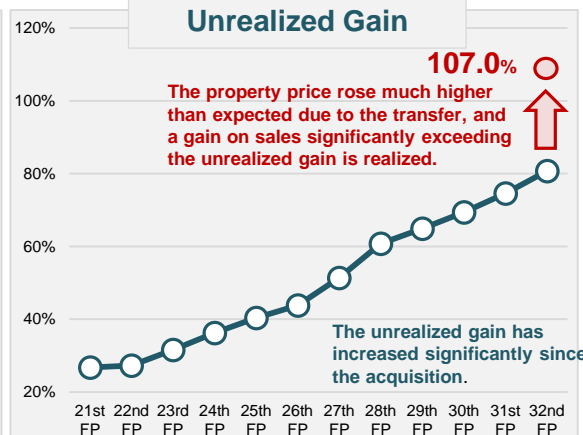
The NOI yield has improved significantly since the acquisition.



Unrealized Gain

The property price rose much higher than expected due to the transfer, and a gain on sales significantly exceeding the unrealized gain is realized.

107.0%



The unrealized gain has increased significantly since the acquisition.

Internal reserve
Total

4.7 billion yen

33rd FP: Total Gain/ Loss
2.8 billion yen

RTA

1.9 billion yen (32nd FP)

Cash Total

17.2
billion yen

Balance of Free Cash (32nd FP)

8.75 billion yen

Transfer Value (HIROKOJI AQUA PLACE)

5.52 billion yen

Partial Utilization of Security Deposit

2.93 billion yen

Investor Return

Forecast DPU
(33rd FP 34th FP)
2,300yen/unit

Return to investors/Make it a source to pay distributions by continuously adding it to profit per unit even from the 35th fiscal period.

Acquisition of
new properties

We will actively achieve external growth by utilizing the sponsor pipeline, in addition to the existing portfolio replacement.

Buyback

We will give priority to external growth as the allocation destination of funds but acquire our own investment units if we still have sufficient excess funds and have determined that the acquisition will be effective.

Repayment of
loans

We plan to make a prepayment of about 3.0 billion yen on May 31, 2018.

We aim to control LTV and reduce borrowing costs.

Internal reserve

We will prepare for the following by internally reserving some funds.

- Unexpected repairs
- Funds to repay borrowings
- Other unforeseen circumstances

- Distribution Policy until the Cruising Level is Reached

- The assumed cruising distribution (Note) is 2,258 yen to 2,352 yen
- The expected distribution including investor return for the 33rd fiscal period and the 34th fiscal period is 2,300 yen
- We aim to raise the cruising level through continuous external growth combined with sponsor support by actively utilizing the ample investment capacity
- As a result, the target distribution for the 38th fiscal period is set at 2,500 yen per unit (including measures for investor return).

(yen)
2,600

2,500

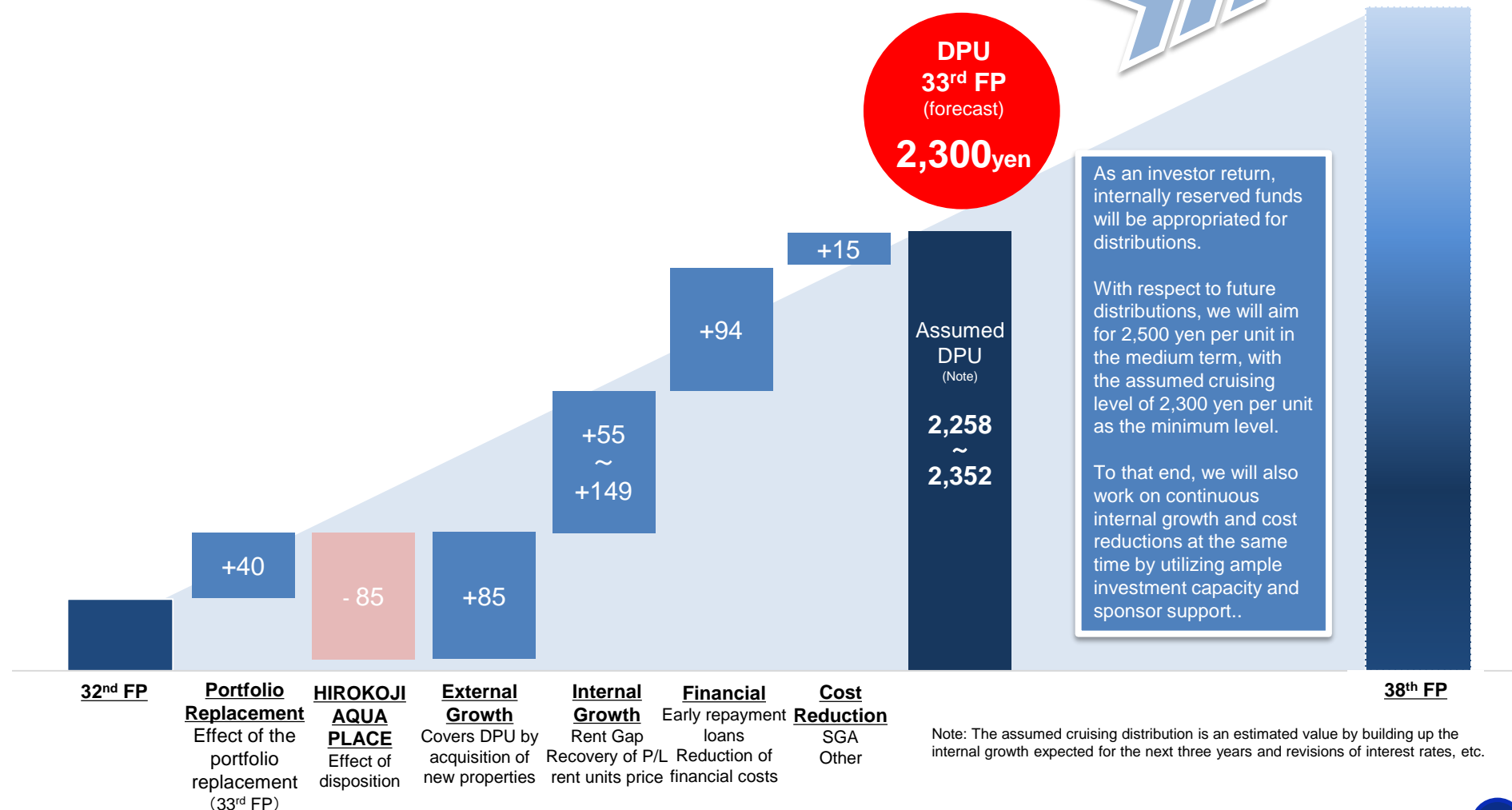
2,400

2,300

2,200

2,100

2,000



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