NEWS RELEASE

Dec 16, 2013

R&I Upgrades to 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-, Previously BBB+
Rating Outlook: Stable

RATIONALE:

Heiwa Real Estate REIT, Inc. (HFR) is a real estate investment trust (REIT) that invests in small and midsized 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.

The rating upgrade this time reflects the fact that HFR has improved its portfolio by acquiring properties steadily and strengthened its financial base further through a public offering of investment units and a planned release of security interest on borrowings, along with other positive developments.

In November 2013, HFR announced that it will issue new investment units through a public offering, as it did in the previous year, and acquire three office buildings for a total of 9.5 billion yen, which is far lower than their appraisal value. Since the sponsor change, HFR has been able to acquire properties on relatively favorable terms with support from Heiwa Real Estate, and this has helped improve its portfolio.

Despite the increasingly challenging environment for property acquisition, it would be possible for HFR to continue to achieve a certain degree of external growth, because it has acquired the right of first refusal to purchase two office buildings in Tokyo through bridge funds and can expect to acquire properties from its sponsor.

The occupancy rate of existing properties remains high. For office buildings, the rate exceeds 96%, and rent levels have begun to stop declining. The occupancy rate of residential properties is also stable, standing at more than 96%. A relatively diversified tenant mix would contribute to the stability of occupancy as well.

As of May 2013, HFR's LTV ratio was 44%, while the LTV ratio based on appraisal value was 50%, which suggest comparatively conservative leverage. These ratios will likely be basically unchanged even after the acquisition of the above-mentioned three properties. An unrealized loss continues to be posted, but is smaller than before. Since the aforementioned three properties will be acquired at prices lower than their appraisal value, such loss is expected to decrease further.

Along with the plan for the public offering, HFR announced that it has reached an agreement with all lender financial institutions to release security interests. Access to unsecured loans should improve its funding flexibility significantly. In addition, with the progress made in lengthening its maturity profile, staggering due dates and improving the composition of lender financial institutions, its funding base has been strengthened further.

The Rating Outlook is Stable. R&I believes that HFR is on a steady growth path, as the REIT achieved operational and financial improvements through various measures it has taken in recent years. The sponsor's willingness to support HFR also remains strong. The rating reflects a likely further improvement in funding conditions as well.

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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NEWS RELEASE

R&I RATINGS:

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

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