NEWS RELEASE

Feb 25, 2016

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 office buildings and residential properties 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.

In October 2015, HFR implemented asset replacement. The REIT replaced extraordinary assets of 4 hotel properties with 3 new properties including a relatively new office building in Tokyo. In December 2015, it conducted a public offering, marking the 4th consecutive year of doing so, and acquired 4 properties including an office building in Yokohama for a total of 8.6 billion yen.

The asset size exceeded 160 billion yen on an acquisition price basis. While the pace of expanding the portfolio size is modest because of its prudent investment stance, HFR has continued with certain property acquisitions, with the cooperation of the sponsor. The breakdown of the portfolio by property type and geography shows that office buildings represent 45% and residential properties 55% and Tokyo 23 wards account for close to 70% of total.

The occupancy rates of existing properties have been high. The average occupancy rate for the term ended November 2015 was 96.9%. The relatively diversified tenant mix will also likely contribute to stable occupancy levels. The NOI yield is kept at around 5% on average.

The LTV ratio is maintained at a sound level, standing at 43.3% as of November 2015. The appraisal value-based LTV ratio declined to 44.9% as of the same month thanks to a rise in the appraisal value of properties owned.

Funding conditions continue improving. Debts are all unsecured. The average remaining term to maturity of debts was lengthened to about 4 years, and maturity dates are more staggered. In its efforts to strengthen relationships with major financial institutions, HFR successfully reduced borrowing costs. 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. As evidenced by steady property acquisitions and constantly high occupancy rates, prudent management is maintained under strong support from the sponsor. Another positive factor is that the LTV ratios are kept at conservative levels and the funding base continues to be strengthened. While the portfolio is stable, further improving the quality of and expanding the 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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R&I RATINGS:

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

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