

## 34th Fiscal Period Financial Report (REIT)

January 22, 2019

REIT Issuer: HEIWA REAL ESTATE REIT, Inc.  
 Securities Code: 8966  
 Representative: (Title) Executive Director

Stock Exchange Listing: TSE  
 URL: <http://www.heiwa-re.co.jp/>  
 (Name) Masaaki Higashihara

Asset Management Company: HEIWA REAL ESTATE Asset Management CO., LTD.

Representative: (Title) President & Representative Director (Name) Takaya Ichikawa  
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Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): February 27, 2019

Scheduled date of commencement of distribution payments: February 15, 2019

Supplementary materials: Attached

IR Conference: Yes (for institutional investors, securities analysts)

[Amounts are rounded down to the nearest million yen]

## 1. Status of Management and Assets for the 34th Fiscal Period

## 34th Fiscal Period (34th FP): Fiscal period ended November 2018 (from June 1, 2017 to November 30, 2018)

## (1) Management

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income	
34th FP	¥6,215 million	(29.4%)	¥2,942 million	(44.5%)	¥2,487 million	(48.3%)	¥2,487 million	(48.3%)
33rd FP	¥8,803 million	49.7%	¥5,305 million	107.5%	¥4,815 million	135.1%	¥4,815 million	152.8%

	Net income per unit	Ratio of net income to unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenue
34th FP	¥2,450	2.6%	1.4%	40.0%
33rd FP	¥4,744	5.1%	2.7%	54.7%

## (2) Distributions

	Distribution per unit (excluding distribution in excess of earnings)	Total distributions (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit	Total distributions in excess of earnings	Payout ratio (Note 1)	Ratio of distributions to net assets (Note 2)
34th FP	¥2,350	¥2,384 million	¥0	¥0 million	95.9%	2.5%
33rd FP	¥2,300	¥2,334 million	¥0	¥0 million	48.5%	2.5%

(Note 1) Payout ratio shows figures that have been calculated using the following formula:

Total distributions (excluding total distributions in excess of earnings) ÷ Net income × 100

(Note 2) Ratio of distributions to net assets shows figures that have been calculated using the following formula:

Total distributions (excluding total distributions in excess of earnings) ÷ [(Net assets at beginning of period + Net assets at end of period) ÷ 2] × 100

(Note 3) The amount of total distributions (¥2,334 million) for the 33rd Fiscal Period are calculated as follows and therefore differ from the amount of net income. The reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit) is appropriated to the balance excluding the net income provision of reserve for reduction entry of ¥415 million and internal reserve amount of ¥2, 106 million.

(Note 4) The amount of total distributions (¥2,384 million) for the 34th Fiscal Period are calculated as follows and therefore differ from the amount of net income. The reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit) is appropriated to the balance excluding the net income provision of internal reserve of ¥143 million, which constitutes a part of the gain on sales of real estate properties.

## (3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
34th FP	¥183,199 million	¥95,357 million	52.1%	¥93,962
33rd FP	¥181,306 million	¥95,172 million	52.5%	¥93,780

## (4) Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
34th FP	¥3,868 million	(¥4,059 million)	(¥234 million)	¥16,965 million
33rd FP	¥12,208 million	(¥2,683 million)	(¥2,693 million)	¥17.391 million

## 2. Management Status Forecasts for the 35th and 36th Fiscal Periods

**35th Fiscal Period (35th FP): Fiscal period ending May 2019 (from December 1, 2018 to May 31, 2019)**

**36th Fiscal Period (36th FP): Fiscal period ending November 2019 (from June 1, 2019 to November 30, 2019)**

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income		Distribution per unit (excluding distribution in excess of earnings) (Note)	Distribution in excess of earnings per unit
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change	Amount	Amount
35th FP	¥6,359 million	2.3%	¥3,005 million	2.1%	¥2,544 million	2.3%	¥2,544 million	2.3%	¥2,400	¥-
36th FP	¥6,048 million	(4.9%)	¥2,698 million	(10.2%)	¥2,234 million	(12.2%)	¥2,234 million	(12.2%)	¥2,400	¥-

(Reference) Estimated net income per unit: 35th Fiscal Period: ¥2,507 36th Fiscal Period: ¥2,202

(Note) The sources of funds for paying the total distributions for the 35th Fiscal Period include the planned amount of the reversal of the reserve for the adjustment of temporary differences of ¥40 million (¥40 per unit), the sources of funds for paying the total distributions for the 36th Fiscal Period include the planned amount of the reversal of the reserve for the adjustment of temporary differences of ¥ 200million (¥198 per unit), and they therefore differ from the amount of net income.

### \* Other

#### (1) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

- |   |    |
|---|----|
| (i) Changes in accounting policies accompanying amendments to accounting standards, etc.: | No |
| (ii) Changes in accounting policies other than (i):                                       | No |
| (iii) Changes in accounting estimates:  | No |
| (iv) Restatements   | No |

#### (2) Total Number of Investment Units Issued and Outstanding

- (i) Total number of investment units issued and outstanding at end of period (including own investment units):
- (ii) Number of own investment units at end of period:

34th FP:	1,014,847 units	33rd FP:	1,014,847 units
34th FP:	– units	33rd FP:	– units

(Note) For the number of investment units on which the calculation of net income per unit is based, see “Note on per-unit information” on page 32 of the Japanese version of the “34th Fiscal Period Financial Report (REIT)” for the period ended November 2018.

### \* Statement on Status of Review Procedures

Financial statement review procedures based on the Financial Instruments and Exchange Act are still ongoing at the time of disclosure of this financial report.

### \* Explanation on the Appropriate Use of the Management Status Forecasts, and Other Matters of Special Note

(Caution Concerning Forward-Looking Statements, Etc.)

The management status outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions deemed reasonable by the Investment Corporation. Accordingly, actual management status and other results may vary materially due to various factors. This forecast is not a guarantee of actual distributions paid. See the “Management status forecast assumptions for 35th Fiscal Period (from December 1, 2018 to May 31, 2019) and 36th Fiscal Period (from June 1, 2019 to November 30, 2019)” on page 12 for notes on assumptions used in management status forecasts and on the use of management status forecasts.

## 1. Related Corporations of the REIT

No disclosure necessary, since there have been no material changes from “Structure of the REIT” in the most recent Annual Securities Report (submitted August 30, 2018).

## 2. Operating Policies and Operations

### (1) Operating policies

No disclosure is necessary since there have been no material changes to the “Investment policies,” “Targets of investments” and “Distributions policy” in the most recent Annual Securities Report (submitted on August 30, 2018).

### (2) Operations

#### a. General situation during the 33rd Fiscal Period

The REIT is striving based on its Basic Philosophy of “Steady Growth of Assets Under Management” and “Stable Medium- to Long-Term Profits,” as well as “cooperation with and use of the Heiwa Real Estate Group” (below, collectively referring to Heiwa Real Estate Co., Ltd. [below, “Heiwa Real Estate”] and the subsidiaries of Heiwa Real Estate; the same hereinafter) to manage its assets with the purpose of maximizing investor’s value. Following is a summary of our asset management during the 34th Fiscal Period.

#### (i) Brief background of the REIT

Investment units in the REIT have been listed on the Real Estate Investment Trust Section (J-REIT Section) of the Tokyo Stock Exchange (below, TSE) since March 8, 2005 (Securities Code: 8966). Subsequently, the REIT executed a capital increase through public offering and underwriting of new investment units issued through private placement on several occasions and an investment unit split and investment unit issuance through a merger with Japan Single-residence REIT Inc. on October 1, 2010 (below, this event is referred to as the merger) by the previous Fiscal Period. As a result, total investment units outstanding were 1,014,847 and unitholders' capital was 81,370 million yen as of the end of the 34th Fiscal Period (November 2018).

#### (ii) Operating environment

Although the Japanese economy temporarily stagnated due to the impact of successive natural disasters, such as large scale typhoons and the earthquakes in Hokkaido, the Japanese economy during the 34th Fiscal Period sustained a moderate recovery aided by the continued corporate earnings and increase in capital investment, which in turn reflected an increase in imports and an improvement in production activity against the backdrop of brisk overseas demand and steady personal consumption driven by sustained improvements in the employment/income environment. Looking ahead, however, factors of uncertainty can be seen such as the policies of the Trump administration, the trade friction between the U.S. and China, and the circumstances in the EU.

In this environment, the TSE REIT index fluctuated around the 1,750 point line during the 34th Fiscal Period in comparison to 1,734.13 points at the end of the previous Fiscal Period (end of May 2018). In the second half of the Fiscal Period under review, the index remained steady partly due to the expectation of rent rise under the background of a fall in long-term interest rates and brisk real estate market conditions, recovering to 1,800 points in late November for the first time in about 14 months, and rising to 1,816.96 points at the end of the Fiscal Period under review, up 82 points compared to the end of previous Fiscal Period.

#### (a) Office building leasing market

The latest office building market data from Miki Shoji Co., Ltd. shows a substantial decline in the average office building vacancy rate in the five central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) to 1.98% below the 2% level at the end of the Fiscal Period under review, down from 2.68% at the end of the previous period (May 2018). This reflected the completion of new buildings with no vacancy and a high rate of occupancy and the contracts to fill large-scale vacancies at existing office buildings due to their consolidation, increased floor areas within the buildings and relocation for expansion. The office building leasing market remains strong, driven by an increase in demand for office space backed by improved corporate economic sentiment. The average rent also remains steady, rising from 20,019 yen/tsubo at the end of the previous Fiscal Period to 20,743 yen/tsubo at the end of the Fiscal Period under review, maintaining the level above 20,000 yen/tsubo in the rent market.

#### (b) Residential leasing market

According to At Home Co., Ltd., the used condominium contract rent index in the Tokyo metropolitan area for November 2018 rose 0.1 percentage points year on year, but demand for rental housing remains strong due to a continuous excess of population inflow into the metropolitan area and a growing trend of smaller households. According to the Survey Report on the Statistics of Construction Starts published in November of the same year, the number of new housing starts (rental housing) decreased for the 3th straight month from the same month last year, further to the previous Fiscal Period, the supply increase has stabilized and the demand and supply trends in the rental market for residences remained steady. For assets under management by the REIT, occupancy rates remained high through the Fiscal Period under review, and the number of properties indicative of higher rent levels rose, contributing to a steady rise in rent income. The outlook for the residential market remains stable.

## (c) Real estate

According to the survey of land prices by prefecture as of July 1, 2018, announced in September 2018, average land prices in Japan's three major metropolitan areas showed an increasing trend to rise in both residential and commercial areas. A breakdown shows that the official prices in residential areas continued to increase amid the growth of housing demand, fueled by improved economic sentiment in the Tokyo and Nagoya areas. Prices in the Osaka area showed a rise for the first time in four years after remaining at the same level. In commercial areas, the upward trend maintained its momentum this year as official land prices climbed for the sixth straight year in the Tokyo, Osaka and Nagoya areas. The upward trend is attributable to the solid housing demand mainly in areas with traffic convenience and a good living environment as employment/income environments continue to improve, driven by the continued low interest rates supporting the demand. In commercial areas, it is attributable to factors such as the increased demand on the back of the favorable funding environment, the downward trend in the occupancy rate of office buildings in major city centers, an increase in the demand for stores and hotels arising from the growing number of foreign tourists, and increased prosperity resulting from progress of redevelopment and other projects.

Meanwhile, with respect to regional areas, land prices for both residential and commercial areas continued to fall. However, official land prices in the cities designated by government ordinance in the regional areas, which the REIT considers to be investment targets, are showing growth in both residential and commercial areas.

## (iii) Management performance

## (a) External growth

The REIT acquired one office building (Of-42, SOUTHERN SKY TOWER HACHIOJI [trust beneficiary rights, acquisition price: 1,600 million yen]) on June 25, 2018 and one office building (Of-41, Itopia Nihonbashi SA Building [trust beneficiary rights, acquisition price: 2,140 million yen]) on August 31, 2018, and sold one office building (50% of the quasi-co-ownership of Of-28, MITA HEIWA BUILDING (leasehold land) [trust beneficiary rights, acquisition price: 2,230 million yen]) on November 30, 2018 to increase the profitability of its portfolio and improve its quality.

As a result, portfolio assets as of the end of the period were 101 properties (total acquisition price: 168,116 million yen), including 31 office buildings (total acquisition price of 72,786 million yen) and 70 residential buildings (total acquisition price of 95,330 million yen).

## (b) Internal growth

The REIT has consistently endeavored to increase profitability by improving and maintaining its occupancy rates. During the 34th Fiscal Period, with the aim of maintaining the high occupancy rate achieved at the end of the previous Fiscal Period, the REIT continued to be engaged in tenant leasing activities, working to shorten vacancy duration as well as systematic efforts to increase its investment value based on tenant needs and the characteristics of each individual property. Partly as a result of these initiatives to maintain and improve the competitiveness of its assets, the occupancy rate for all properties held by the REIT climbed further to 98.1% as at the end of the 34th Fiscal Period from 97.9% at the end of the previous Fiscal Period. The REIT successfully maintained high and stable occupancy throughout the period, resulting in a high average month-end occupancy rate of 97.9% for the Fiscal Period under review.

## (iv) Procurement of funds

The REIT took out Term Loan 39 (loan amount: 2,100 million yen) on August 31, 2018 to use for funds to acquire properties. In addition, the REIT took out Term Loan 40 (Tranche A [loan amount: 2,400 million yen], Tranche B [loan amount: 1,750 million yen]) on October 31, 2018 to repay Term Loan 25 (Tranche B [loan balance: 1,300 million yen]), Term Loan 27 (Tranche A [loan balance: 850 million yen]) and Term Loan 31 (Tranche A [loan balance: 2,000 million yen]), the principal repayment date for which was October 31, 2018. Moreover, the REIT took out Term Loan 41 (loan amount: 500 million yen) on November 30, 2018 to repay Term Loan 35A (loan balance: 500 million yen), the principal repayment date for which was November 30, 2018.

An overview of the loans is provided below. The loans enabled the REIT to extend its borrowing periods and diversify its maturities (average borrowing period as of the end of November: 6.8 years; average remaining period: 4.0 years) and to lower its borrowing cost (average borrowing interest rate as of the end of November: 0.86 %).

In addition, to secure financial creditworthiness by increasing the means of flexible and stable fundraising and liquidity on hand, the REIT has established the commitment line with a maximum total limit of 6,000 million yen with Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. and Mizuho Bank, Ltd.

## [Term Loan 39]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation	2,100 million yen	October 31, 2019 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

## [Term Loan 40 Tranche A]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation Resona Bank, Limited MUFG Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited	2,400 million yen	October 31, 2021 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

## [Term Loan 40 Tranche B]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation Resona Bank, Limited Aozora Bank, Ltd. MUFG Bank, Ltd. Mizuho Trust & Banking Co., Ltd. Sumitomo Mitsui Trust Bank, Limited Mizuho Bank, Ltd. The Bank of Fukuoka, Ltd. The 77 Bank, Ltd.	1,750 million yen	November 30, 2025 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

## [Term Loan 41]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	500 million yen	October 31, 2019 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

(Note) Or the previous business day if the date shown is not a business day.

As a result, the total interest-bearing liabilities amount (Note) at period end was 80,767 million yen (period end LTV (Note): 44.09%).

(Note) Interest-bearing liabilities = Short-term loans + Long-term loans due within one year + Investment corporation bonds + Long-term loans

Closing ratio of interest-bearing liabilities to total assets = Closing amount of interest-bearing liabilities / Closing amount of total assets × 100

The ratings of the REIT as of the date of this document are as follows:

Credit rating agency	Issuer rating
Japan Credit Rating Agency, Ltd. (JCR)	Rating: A; Rating outlook: Positive

## (v) Performance and distributions

The management described above led to 34th Fiscal Period results of 6,215 million yen in operating revenues, 2,942 million yen in operating income, after deducting interest expenses on loans, 2,487 million yen in ordinary income, and 2,487 million yen in net income. With respect to the distribution of monies (“distributions”) stipulated in Article 137 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951 and subsequent amendments), distributions shall be not more than the amount of unappropriated retained earnings at the end of the Fiscal Period under review and are defined as anything in excess of 90% of the “amount of distributable income” stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957 and subsequent amendments; the “Special Taxation Measures Act”) in accordance with the stipulations of Article 32, paragraph 1 of its Articles of Incorporation (“bylaws”). Based on such policy, the REIT made a decision to pay out 2,384,890,450 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to the balance, excluding internal reserve of 143,023,913 yen, which constitutes a part of the gain on sales of real estate properties from the net income of 2,487,320,483 yen. As a result, distributions per unit have come to 2,350 yen.

## b. Outlook for next period

## Management policy and future issues

The REIT has developed and managed a high quality portfolio, primarily consisting of office and residence properties located in Tokyo 23 Wards, with the aim of maximizing investor value through our Basic Philosophy of “Steady Growth of Assets under Management” and “Stable Medium- to Long-Term Profits” as well as through “cooperation with and use of the Heiwa Real Estate Group.” In subsequent periods, we will continue to adhere to the above philosophy, aiming to further maximize investor value through the stable management of our portfolio and pursuing a strategy of steady growth.

### (a) External growth

The REIT attempted to increase and enhance the volume and quality of its portfolio and increase its revenues by acquiring six new properties of good quality, in addition to selling one property from the Fiscal Period under review to the next Fiscal Period. While the REIT will continue to seek expansion in the scale of its assets in the future, it will also consider the replacement of assets, strive to enhance its medium- to long-term portfolio quality and aim to maximize investor value. Given the sound financing environment and the expectations for higher property prices on the back of the expected economic recovery, competitors are maintaining a strong appetite for the acquisition of properties. As a result, the property acquisition environment is likely to remain challenging. We will endeavor to promptly obtain information on excellent properties by using our pipeline with Heiwa Real Estate and building up our unique information routes as an asset management company. As a basic strategy, we aim to increase opportunities for primarily acquiring properties owned and developed by Heiwa Real Estate, and additionally for acquiring properties owned and developed by other developers to expand our portfolio, contributing to stable profitability over the medium to long term.

### (b) Internal growth

The REIT believes that by using the database and information network developed by the Heiwa Real Estate Group and its property management company, it can quickly detect leasing market trends and conduct precise property management, enabling it to maintain and increase occupancy rates and rent levels in assets under management. To maintain and increase rent levels, the REIT will continue actively endeavoring to revise rents to reasonable levels against the backdrop of improvement in the leasing market. Meanwhile, to maintain and increase occupancy rates, it will deal with tenants by focusing on minimizing departures and will undertake leasing management, including reducing the period of time for work for restoration to the original state, to shorten the period between the time when properties are vacated and the acquisition of new tenants. To make our properties more competitive, we continuously and actively make value-building investments in repairs and improvements of assets under management to maintain and enhance their medium- to long-term value, taking into account each property’s asset age, facility level and other aspects. Through these measures, our goal is to maintain and further improve occupancy rates at high and stable levels.

### (c) Financial strategy

The REIT is actively implementing measures in an effort to stabilize its financial foundations and achieve sustainable growth. Concerning borrowings, the REIT will continue to strive to extend its borrowing periods and diversify maturities by maintaining an appropriate loan-to-value ratio, while promoting measures to reduce risks from higher interest rates in the future and cut financial costs. It will also endeavor to further strengthen its bank formation by strengthening its relationships with financial institutions. The REIT will also issue investment corporation bonds, while keeping a close watch on the effect of reducing financial costs and trends in the financial market. By implementing these measures and initiatives on a continuous basis, the REIT will strive to build sound financial systems that are resilient to changes in the funding environment.

### (d) Promotion of more timely disclosure

We practice information disclosure that is accurate, fair and timely, complying with the TSE’s Securities Listing Regulations and other regulations, laws, etc. relating to timely disclosure. The REIT discloses information on its decisions on the acquisition of new properties, etc. as a rule at the time of the decision by a REIT organization such as the Board of Directors, while events such as damage to assets under management resulting from incidental occurrences are disclosed at the time they are discovered. As a rule, REIT information is disclosed through the TSE’s TDnet, press releases to the TSE press club (Kabuto Club), Ministry of Land, Infrastructure, Transport and Tourism Press Club, etc., and through the REIT’s website.

## c. Significant subsequent events

## A. Asset Acquisitions

Based on the basic policy on asset management prescribed in its bylaws, the REIT acquired the real estate trust beneficiary rights to one property (acquisition price: 3,100 million yen) and three real estate properties (total acquisition price: 3,055 million yen) on December 14, 2018.

Property no: Of-43 Property name: HAMACHO HEIWA BUILDING

Type of acquired property	Trust beneficiary rights
Contract date	November 27, 2018
Acquisition date	December 14, 2018
Acquisition price	3,100 million yen
Location (residential address)	2-17-8, Nihonbashihamacho, Chuo-ku, Tokyo
Use	Office, stores for sale of goods, parking lot
Completed	September 30, 1993
Structure	Steel/steel reinforced concrete structure, flat-roof, 10 stories above ground and two basement level floors
Total floor area	4,133.47 m <sup>2</sup>
Total rentable area	2,936.10 m <sup>2</sup>

Property no: Re-86 Property name: HF MITA RESIDENCE II (Note)

Type of acquired property	Real estate
Contract date	November 27, 2018
Acquisition date	December 14, 2018
Acquisition price	1,210 million yen
Location (residential address)	5-2-2, Shiba, Minato-ku, Tokyo
Use	Co-housing
Completed	July 8, 2006
Structure	Reinforced concrete flat-roofed 11-story structure
Total floor area	1,353.81 m <sup>2</sup>
Total rentable area	1,160.60 m <sup>2</sup>

(Note) The name of this building is “Antenia Mita Keidaimae” as of the date of this document; however, the name will be changed to “HF MITA RESIDENCE II” on May 1, 2019. Therefore, the name after the said change is stated above.

Property no: Re-87 Property name: HF MONZEN-NAKACHO RESIDENCE (Note)

Type of acquired property	Real estate
Contract date	November 27, 2018
Acquisition date	December 14, 2018
Acquisition price	945 million yen
Location (residential address)	1-16-4, Botan Koto-ku, Tokyo
Use	Co-housing
Completed	February 6, 2008
Structure	Reinforced concrete flat-roofed 12-story structure
Total floor area	1,276.33 m <sup>2</sup>
Total rentable area	1,145.76 m <sup>2</sup>

(Note) The name of this building is “Antenia Monzen-nakacho” as of the date of this document; however, the name will be changed to “HF MONZEN-NAKACHO RESIDENCE” on May 1, 2019. Therefore, the name after the said change is stated above.

Property no: Re-88 Property name: HF MINAMI-SUNAMACHI RESIDENCE (Note)

Type of acquired property	Real estate
Contract date	November 27, 2018
Acquisition date	December 14, 2018
Acquisition price	900 million yen
Location (residential address)	7-4-9, Minamisuna, Koto-ku, Tokyo
Use	Co-housing
Completed	August 29, 2007
Structure	Reinforced concrete flat-roofed 8-story structure

Total floor area	1,250.03 m <sup>2</sup>
Total rentable area	1,141.16 m <sup>2</sup>

(Note) The name of this building is “Antenia Minamisuna” as of the date of this document; however, the name will be changed to “HF MINAMI-SUNAMACHI RESIDENCE” on May 1, 2019. Therefore, the name after the said change is stated above.

#### B. Asset Transfer

Based on the basic policy on asset management prescribed in its bylaws, the REIT signed a purchase agreement for transfer of the following assets on November 27, 2018, and transferred 50% of the quasi-co-ownership of the trust beneficiary rights on December 14, 2018.

Property no: Of-28 Property name: MITA HEIWA BUILDING (leasehold land)

Property transferred	Trust beneficiary rights
Location (residential address)	2-32-1, Shiba, Minato-ku, Tokyo
Transfer price (Note 1)	1,455 million yen
Book value (Note 2)	1,134 million yen
Contract date	November 27, 2018
Transfer date	December 14, 2018
Transferee	Heiwa Real Estate Co., Ltd.

(Note 1) The sale price equivalent to 50% of the quasi-co-ownership of that which will be transferred as set forth in the agreement for sale and purchase of real estate trust beneficiary rights is stated.

(Note 2) The amount equivalent to 50% of the quasi-co-ownership subject to the said transfer is stated.

#### C. Borrowing of capital

The REIT took out a loan (total loan amount: 1,700 million yen) on December 14, 2018 to use for funds to obtain one office building and three residential buildings acquired on December 14, 2018 (please refer to "B. Asset Acquisitions" below), as shown below.

[Term Loan 42 (1)]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	1,000 million yen	November 30, 2025 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

[Term Loan 42 (2)]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
The Bank of Fukuoka, Ltd.	700 million yen	November 30, 2025 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

(Note) Or the previous business day if the date shown is not a business day.



## d. Outlook for the 34th and 35th Fiscal Periods

Operations are forecast to be as follows during the 35th Fiscal Period (from December 1, 2018 to May 31, 2019). See “Management status forecast assumptions for 35th Fiscal Period (from December 1, 2018 to May 31, 2019) and 36th Fiscal Period (from June 1, 2019 to November 30, 2019)” below for assumptions used in this forecast.

Operating revenues	6,359 million yen
Operating income	3,005million yen
Ordinary income	2,544 million yen
Net income	2,544 million yen
Distributions per unit (excluding distributions in excess of earnings)	2,400 yen
Distributions in excess of earnings per unit	– yen

(Note 1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 185 million yen (183 yen per unit), and they therefore differ from the amount of net income.

(Note 2) The above forecast figures were calculated using a fixed set of assumptions and are valid as of the time of this notice. Actual net income, distributions, etc., may vary due to changes in conditions. Forecast figures are not a guarantee of the amount of distributions.

Operations are forecast to be as follows during the 36th Fiscal Period (from June 1, 2019 to November 30, 2019). See “Management status forecast assumptions for 35th Fiscal Period (from December 1, 2018 to May 31, 2019) and 36th Fiscal Period (from June 1, 2019 to November 30, 2019)” below for assumptions used in this forecast.

Operating revenues	6,048 million yen
Operating income	2,698 million yen
Ordinary income	2,234 million yen
Net income	2,234 million yen
Distributions per unit (excluding distributions in excess of earnings)	2,400 yen
Distributions in excess of earnings per unit	– yen

(Note 1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 200 million yen (198 yen per unit), and they therefore differ from the amount of net income.

(Note 2) The above forecast figures were calculated using a fixed set of assumptions and are valid as of the time of this notice. Actual net income, distributions, etc., may vary due to changes in conditions. Forecast figures are not a guarantee of the amount of distributions.

Management status forecast assumptions for 35th Fiscal Period (from December 1, 2018 to May 31, 2019) and 36th Fiscal Period (from June 1, 2019 to November 30, 2019)

Item	Assumptions																				
Management period	35th Fiscal Period: from December 1, 2018 to May 31, 2019 (182 days) 36th Fiscal Period: from June 1, 2019 to November 30, 2019 (183 days)																				
Assets under management	<ul style="list-style-type: none"> <li>The assumption is 104 properties consisting of 101 properties owned by the REIT at the end of the fiscal period ended November 30, 2018 and “HAMACHO HEIWA BUILDING,” “HF MITA RESIDENCE II,” “HF MONZEN-NAKACHO RESIDENCE” and “HF MINAMI-SUNAMACHI RESIDENCE,” acquired on December 14, 2018, excluding “MITA HEIWA BUILDING (leasehold land)” transferred on December 14, 2018. The actual number of properties owned may vary if properties are newly acquired, transferred, etc.</li> </ul>																				
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> <li>The assumption is 1,014,847 units as the total number of investment units issued and outstanding at the end of the fiscal period ended November 2018.</li> </ul>																				
Operating revenues	<ul style="list-style-type: none"> <li>Operating revenues are calculated based on the assumption of the above assets under management.</li> <li>It is expected that 301 million yen will be assessed as gains on the transfer of real estate of the assets to be transferred in the fiscal period ended May 2019.</li> <li>Operating revenues are calculated taking into account such factors as cancellation notices currently received and the future market environment, using the history of acquired assets as our standard.</li> </ul>																				
Operating expenses	<ul style="list-style-type: none"> <li>Operating expenses are calculated based on the assumption of the above assets under management.</li> <li>Assumptions concerning major operating expenses are as follows: <table style="margin-left: 20px;"> <tr> <td colspan="2">35th Fiscal Period (from December 1, 2018 to May 31, 2019)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">371 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">224 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">650 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">960 million yen</td> </tr> <tr> <td colspan="2">36th Fiscal Period (from June 1, 2019 to November 30, 2019)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">397 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">220 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">635 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">946 million yen</td> </tr> </table> </li> <li>Fixed property tax, city planning tax, etc. associated with properties held are accounted for as expenses related to the lending business by posting the amounts corresponding to the relevant calculation period from the amount of tax determined to be due. Although fixed property tax, city planning tax, etc., on the buying and selling of real estate properties is generally calculated on a pro-rata basis with former owners and settled at the time of acquisition, the amount equivalent to the settlement money is not expensed, as it is included in the acquisition cost.</li> <li>For maintenance and repair fees, an amount deemed necessary during the period based on the maintenance and repair plans for the properties is posted.</li> <li>Emergency costs may arise as a result of unforeseeable factors, and actual operating expenses may therefore vary significantly from the forecast.</li> </ul>	35th Fiscal Period (from December 1, 2018 to May 31, 2019)		Public charges and taxes (fixed property tax, city planning tax, etc.):	371 million yen	Maintenance and repair fees:	224 million yen	Management commissions:	650 million yen	Depreciation:	960 million yen	36th Fiscal Period (from June 1, 2019 to November 30, 2019)		Public charges and taxes (fixed property tax, city planning tax, etc.):	397 million yen	Maintenance and repair fees:	220 million yen	Management commissions:	635 million yen	Depreciation:	946 million yen
35th Fiscal Period (from December 1, 2018 to May 31, 2019)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	371 million yen																				
Maintenance and repair fees:	224 million yen																				
Management commissions:	650 million yen																				
Depreciation:	960 million yen																				
36th Fiscal Period (from June 1, 2019 to November 30, 2019)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	397 million yen																				
Maintenance and repair fees:	220 million yen																				
Management commissions:	635 million yen																				
Depreciation:	946 million yen																				
Non-operating expenses	<ul style="list-style-type: none"> <li>The REIT assumes 458 million yen and 461 million yen as interest expenses (including interest expenses on investment corporation bonds) and borrowing-related expenses for the fiscal period ending May 2019 and the fiscal period ending November 2019 respectively. Moreover, the REIT assumes 2 million yen and 3 million yen as amortization of investment corporation bond issuance expenses for the fiscal period ending May 2019 and the fiscal period ending November 2019, respectively.</li> </ul>																				
Interest-bearing liabilities	<ul style="list-style-type: none"> <li>Interest-bearing liabilities at the end of the fiscal period ended November 2018 are 80,767 million yen.</li> <li>We intend to procure new loans totaling 1,700 million yen as part of the fund for the assets acquired in December 2018, and we assume that the total loan debts will be 82,467 million yen at the end of the fiscal period ending May 2019 and 82,467 million yen at the end of the fiscal period ending November 2019.</li> <li>We assume that the loans maturing in May 2019 and October 2019 will be fully refinanced.</li> </ul>																				

Item	Assumptions
Distributions per unit (excluding distributions in excess of earnings)	<ul style="list-style-type: none"> <li>• Distributions per unit (excluding distributions in excess of earnings) are calculated based on the cash distribution policy stipulated in the REIT's bylaws. For the fiscal period ending May 2019, we assume that a total of 2,435 million yen (2,400 yen per unit) will be distributed after allocating the planned amount of the reversal of the reserves for adjustment of temporary differences of 40 million yen (40 yen per unit) to the estimated net income of 2,544 million yen. For the fiscal period ending November 2019, we also assume that a total of 2,435 million yen (2,400 yen per unit) will be distributed after allocating the planned amount of the reversal of the reserve for adjustment of temporary differences of 200 million yen (198 yen per unit) to the estimated net income of 2,234 million yen.</li> <li>• Distributions per unit (excluding distributions in excess of earnings) may change because of various factors, including changes in leasing income attributable to changes of assets under management or changes in tenants or to unexpected maintenance and repair work.</li> </ul>
Distributions in excess of earnings per unit	<ul style="list-style-type: none"> <li>• We do not expect any distributions in excess of earnings at this time.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• We assume no amendments to laws, the tax system, accounting standards, TSE rules, or The Investment Trusts Association, Japan rules, etc., that would affect the above forecast figures.</li> <li>• We assume that no major unforeseen changes will occur in the general economic trends, real estate market conditions, etc.</li> </ul>

## (3) Investment risk

No disclosure necessary, since there have been no material changes from "Investment risk" in the most recent Annual Securities Report (submitted August 30, 2018).

## 3. Financial Statements

## (1) Balance Sheet

(Unit: 1,000 yen)

	33rd Fiscal Period (As of May 31, 2018)	34th Fiscal Period (As of November 30, 2018)
Assets		
Current assets		
Cash and deposits	17,116,926	16,729,073
Cash and deposits in trust	3,504,078	3,461,125
Operating accounts receivable	67,577	60,844
Prepaid expenses	145,527	154,493
Consumption taxes receivable, etc.	–	246,521
Other	5,618	8,550
Allowance for doubtful accounts	(869)	(991)
Total current assets	20,838,858	20,659,618
Noncurrent assets		
Property, plant and equipment		
Buildings	11,082,873	11,122,450
Accumulated depreciation	(3,041,731)	(3,201,893)
Buildings, net	8,041,141	7,920,556
Structures	57,434	57,662
Accumulated depreciation	(29,887)	(31,466)
Structures, net	27,547	26,195
Machinery and equipment	222,877	226,157
Accumulated depreciation	(143,958)	(150,689)
Machinery and equipment, net	78,918	75,468
Tools, furniture and fixture	146,435	154,515
Accumulated depreciation	(102,227)	(108,529)
Tools, furniture and fixtures, net	44,208	45,985
Land	22,223,632	22,231,000
Buildings in trust	48,479,067	49,520,754
Accumulated depreciation	(10,222,487)	(10,894,695)
Buildings in trust, net	38,256,579	38,626,059
Structures in trust	278,592	279,550
Accumulated depreciation	(83,748)	(89,537)
Structures in trust, net	194,844	190,013
Machinery and equipment in trust	611,016	649,884
Accumulated depreciation	(268,621)	(292,428)
Machinery and equipment in trust, net	342,395	357,455
Tools, furniture and fixtures in trust	927,266	978,228
Accumulated depreciation	(576,203)	(623,251)
Tools, furniture and fixtures in trust, net	351,063	354,976
Land in trust	85,718,064	87,516,611
Total property, plant and equipment	155,278,394	157,344,323
Intangible assets		
Leasehold right	1,193,875	1,193,875
Leasehold rights in trust	3,315,665	3,315,665
Software	–	6,316
Other	242	242
Total intangible assets	4,509,782	4,516,098

## HEIWA REAL ESTATE REIT, Inc. (8966) 34th Fiscal Period Financial Report

(Unit: 1,000 yen)

	33rd Fiscal Period (As of May 31, 2018)	34th Fiscal Period (As of November 30, 2018)
Investment and other assets		
Guarantee deposits	14,633	14,617
Long-term prepaid expenses	269,315	280,085
Derivatives	54,109	24,768
Other	303,355	330,367
Total investments and other assets	641,414	649,839
Total noncurrent assets	160,429,591	162,510,261
Deferred assets		
Investment unit issuance	6,169	–
Investment corporation bond issuance costs	31,713	29,618
Total deferred assets	37,882	29,618
Total assets	181,306,332	183,199,498
Liabilities		
Current liabilities		
Operating accounts payable	498,576	423,975
Short-term loans payable	500,000	500,000
Current portion of long-term loans payable	9,681,000	13,631,000
Accrued expenses	823,674	696,205
Income taxes payable	594	225
Accrued consumption tax, etc.	366,320	–
Advances received	948,253	1,000,905
Other	13,305	10,700
Total current liabilities	12,831,725	16,263,012
Noncurrent liabilities		
Investment corporation bonds	3,800,000	3,800,000
Long-term loans payable	64,686,200	62,836,200
Tenant leasehold and security deposits	615,164	620,432
Tenant leasehold and security deposits in trust	3,931,771	4,077,557
Derivative liabilities	268,768	244,392
Total noncurrent liabilities	73,301,904	71,578,582
Total liabilities	86,133,629	87,841,594
Net Assets		
Unitholders' equity		
Unitholders' capital	81,370,715	81,370,715
Surplus		
Investment surplus	7,406,652	7,406,652
Voluntary retained earnings		
Reserve for reduction entry	–	415,683
Reserve for temporary differences, etc.	*3 1,906,972	*3 1,866,378
Total voluntary retained earnings	1,906,972	2,282,061
Unappropriated retained earnings (undisposed loss)	4,815,238	4,593,321
Total surplus	14,128,862	14,282,034
Total unitholders' equity	95,499,577	95,652,750
Valuation and translation adjustments		
Deferred hedge gain or loss	(326,875)	(294,846)
Total valuation and translation adjustments	(326,875)	(294,846)
Total net assets	*2 95,172,702	*2 95,357,903
Total liabilities and net assets	181,306,332	183,199,498

## (2) Profit and Loss Statement

(Unit: 1,000 yen)

	33rd Fiscal Period (December 1, 2017 – May 31, 2018)	34th Fiscal Period (June 1, 2018 – November 30, 2018)
<b>Operating Revenues</b>		
Rent revenue-real estate	*1 5,458,663	*1 5,481,791
Other lease business revenue	*1 516,457	*1 431,579
Gain on sales of real estate properties	*2, *3 2,828,671	*2, *3 302,003
Total operating revenue	8,803,792	6,215,374
<b>Operating expenses</b>		
Expenses related to rent business	*1, *3 2,613,023	*1, *3 2,513,989
Asset management fee	668,720	560,443
Asset custody fee	19,778	15,318
Administrative service fees	43,777	40,397
Directors' compensation	7,965	7,963
Audit fee	9,660	9,660
Other operating expenses	135,153	125,105
Total operating expenses	3,498,079	3,272,877
Operating income	5,305,713	2,942,497
<b>Non-operating income</b>		
Interest income	1,263	1,289
Reversal of dividends payable	649	637
Insurance income	3,270	3,835
Refunds of fixed property tax, etc.	1,760	–
Other	130	3,043
Total non-operating income	7,074	8,805
<b>Non-operating expenses</b>		
Interest expenses	390,997	372,418
Borrowing related expenses	84,627	62,012
Interest expenses on investment corporation bonds	7,811	10,850
Amortization of investment corporation bond issuance costs	1,589	2,094
Amortization of investment unit issuance expenses	6,169	6,169
Other	5,749	9,832
Total non-operating expenses	496,944	463,377
Ordinary income	4,815,843	2,487,925
Income before income taxes	4,815,843	2,487,925
Income taxes-current	605	605
Total income taxes	605	605
Net income	4,815,238	2,487,320
Retained earnings brought forward	–	2,106,000
Unappropriated retained earnings (undisposed loss)	4,815,238	4,593,321

(3) Statements of Changes in Net Assets (Unitholders' Equity)  
33rd Fiscal Period (December 1, 2017 – May 31, 2018)

(Unit: 1,000 yen)

	Unitholders' equity				
	Unitholders' capital / Total capital	Investment surplus	Surplus		Unappropriated retained earnings (or undisposed loss)
			Reserve for temporary differences, etc.	Total voluntary retained earnings	
Balance at the beginning of the period	81,370,715	7,406,652	2,085,761	2,085,761	1,905,706
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences			(178,788)	(178,788)	178,788
Dividends from surplus					(2,084,495)
Net income					4,815,238
Net changes of items other than unitholders' equity					
Total changes of items during the period	–	–	(178,788)	(178,788)	2,909,531
Balance at the end of the period	*1 81,370,715	7,406,652	1,906,972	1,906,972	4,815,238

	Unitholders' equity		Valuation and translation adjustments		Total net assets
	Surplus	Total unitholders' equity	Deferred hedge gain or loss	Total valuation and translation adjustments	
	Total surplus				
Balance at the beginning of the period	11,398,120	92,768,835	(357,896)	(357,896)	92,410,938
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences	–	–			–
Dividends from surplus	(2,084,495)	(2,084,495)			(2,084,495)
Net income	4,815,238	4,815,238			4,815,238
Net changes of items other than unitholders' equity			31,021	31,021	31,021
Total changes of items during the period	2,730,742	2,730,742	31,021	31,021	2,761,764
Balance at the end of the period	14,128,862	95,499,577	(326,875)	(326,875)	95,172,702

34th Fiscal Period (June 1, 2018 – November 30, 2018)

(Unit: 1,000 yen)

	Unitholders' equity				
	Unitholders' capital / Total capital	Surplus			
		Investment surplus	Voluntary retained earnings		
			Reserve for reduction entry	Reserve for temporary differences, etc.	Total voluntary retained earnings
Balance at the beginning of the period	81,370,715	7,406,652	–	1,906,972	1,906,972
Changes of items during the period					
Accumulation of reserve for reduction entry			415,683		415,683
Reversal of reserve for adjustment of temporary differences				(40,593)	(40,593)
Dividends from surplus					
Net income					
Net changes of items other than unitholders' equity					
Total changes of items during the period	–	–	415,683	(40,593)	375,089
Balance at the end of the period	*1 81,370,715	7,406,652	415,683	1,866,378	2,282,061

	Unitholders' equity			Valuation and translation adjustments	
	Surplus		Total unitholders' equity	Deferred hedge gain or loss	Total valuation and translation adjustments
	Unappropriated retained earnings (undisposed loss)	Total surplus			
Balance at the beginning of the period	4,815,238	14,128,862	95,499,577	(326,875)	(326,875)
Changes of items during the period					
Accumulation of reserve for reduction entry	(415,683)	–	–		
Reversal of reserve for adjustment of temporary differences	40,593	–	–		
Dividends from surplus	(2,334,148)	(2,334,148)	(2,334,148)		
Net income	2,487,320	2,487,320	2,487,320		
Net changes of items other than unitholders' equity				32,028	32,028
Total changes of items during the period	(221,916)	153,172	153,172	32,028	32,028
Balance at the end of the period	4,593,321	14,282,034	95,652,750	(294,846)	(294,846)



	Total net assets
Balance at the beginning of the period	95,172,702
Changes of items during the period	
Accumulation of reserve for reduction entry	–
Reversal of reserve for adjustment of temporary differences	–
Dividends from surplus	(2,334,148)
Net income	2,487,320
Net changes of items other than unitholders' equity	32,028
Total changes of items during the period	185,200
Balance at the end of the period	95,357,903

## (4) Statements of Cash Dividend Distributions

(Unit: yen)

	33rd Fiscal Period (December 1, 2017 – May 31, 2018)	34th Fiscal Period (June 1, 2018 – November 30, 2018)
I. Unappropriated retained earnings	4,815,238,034	4,593,321,131
II. Reversal of voluntary retained earnings		
Reversal of reserve for adjustment of temporary differences	*1 40,593,880	*1 40,593,880
III. Distributions	2,334,148,100	2,384,890,450
Distributions per unit (excluding distributions in excess of earnings)	(2,300)	(2,350)
IV. Voluntary retained earnings		
Provision of reserve for reduction entry	415,683,166	–
V. Retained earnings brought forward	2,106,000,648	2,249,024,561
How distributions were calculated	<p>Following the policy prescribed in Article 32, paragraph 1 of the REIT's bylaws, distributions shall be not more than the amount of unappropriated retained earnings at the end of the Fiscal Period under review and are defined as anything in excess of 90% of the "amount of distributable income" stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation. However, taxable income is not generated due to the deduction of losses carried forward for the Fiscal Period under review even without application of the provision of Article 67-15 of the Act on Special Measures Concerning Taxation. In this case, according to Article 32, paragraph 1 of the REIT's bylaws, distributions shall be the amount rationally determined by the REIT. Based on this policy, the REIT made a decision to pay out 2,334,148,100 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to the balance excluding the provision of reserve for reduction entry under the application of the "Special Provisions for Taxation in the case of Advanced Acquisition of Land, etc. in 2009 and 2010" of Article 66-2 of the Act on Special Measures Concerning Taxation of 415,683,166 yen and the internal reserve of 2,106,000,648 yen from the net income of 4,815,238,034 yen for the Fiscal Period under review. The REIT does not distribute monies in excess of income as prescribed in Article 32, paragraph 2 of its bylaws.</p>	<p>Following the policy prescribed in Article 32, paragraph 1 of the REIT's bylaws, distributions shall be not more than the amount of unappropriated retained earnings at the end of the Fiscal Period under review and are defined as anything in excess of 90% of the "amount of distributable income" stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation. Based on this policy, the REIT made a decision to pay out 2,384,890,450 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to the balance excluding the internal reserve of 143,023,913 yen, which constitutes a part of the gain on sales of real estate properties from the net income of 2,487,320,483 yen for the Fiscal Period under review. The REIT does not distribute monies in excess of income as prescribed in Article 32, paragraph 2 of its bylaws.</p>

## (5) Cash Flow Statement

(Unit: 1,000 yen)

	33rd Fiscal Period (December 1, 2017 – May 31, 2018)	34th Fiscal Period (June 1, 2018 – November 30, 2018)
<b>Cash Flows from Operating Activities</b>		
Income before income taxes	4,815,843	2,487,925
Depreciation	964,880	932,764
Increase (decrease) in allowance for doubtful accounts	(418)	122
Amortization of investment corporation bond issuance costs	1,589	2,094
Investment unit issuance expenses amortization	6,169	6,169
Interest income	(1,263)	(1,289)
Interest expenses	398,808	383,268
Decrease (increase) of operating accounts receivable	(12,069)	5,545
Decrease (increase) of consumption taxes receivable	–	(246,521)
Increase (decrease) in accrued consumption taxes	249,420	(366,320)
Decrease (increase) of long-term prepaid expenses	32,695	(10,770)
Increase (decrease) in operating accounts payable	(38,153)	(6,071)
Increase (decrease) in accrued expenses	148,129	(125,481)
Increase (decrease) in advances received	26,344	52,651
Increase (decrease) in deposits received	(180)	(276)
Decrease from sales of property, plant and equipment	5,971,605	1,134,723
Other	3,099	(29,970)
Subtotal	12,566,500	4,218,564
Interest income received	70	2,476
Interest expenses paid	(357,989)	(351,952)
Income taxes (paid) refund	(238)	(973)
Cash Flows from Operating Activities	12,208,342	3,868,114
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(2,294,501)	(59,089)
Purchase of property, plant and equipment in trust	(3,419,339)	(4,157,225)
Purchase of intangible assets	(573,743)	(6,767)
Proceeds from receipt of tenant leasehold and security deposits	46,239	24,791
Repayments of tenant leasehold and security deposits	(155,794)	(19,056)
Proceeds from tenant leasehold and security deposits in trust	280,785	313,186
Repayments of tenant leasehold and security deposits in trust	(313,840)	(160,370)
Proceeds from payment of trust deposits corresponding to tenant leasehold and security deposits in trust	3,988,071	18,829
Deposits of trust deposits corresponding to tenant leasehold and security deposits in trust	(236,934)	(14,299)
Payments for guarantee deposits	(4,381)	16
Cash Flows from Investing Activities	(2,683,438)	(4,059,985)
<b>Cash Flows from Financing Activities</b>		
Proceeds from short-term loans payable	900,000	500,000
Decrease in short-term loans payable	(1,000,000)	(500,000)
Proceeds from long-term loans payable	6,900,000	6,250,000
Decrease in long-term loans payable	(8,394,500)	(4,150,000)
Proceeds from issuance of investment corporation bonds	987,979	–
Distributions paid	(2,086,497)	(2,334,404)
Cash Flows from Financing Activities	(2,693,017)	(234,404)
Increase (decrease) in cash and cash equivalents	6,831,886	(426,275)
Cash and cash equivalents at beginning of period	10,559,544	17,391,430
Cash and cash equivalents at end of period	17,391,430	16,965,154

## 4. Reference Information

## (1) Investment status

Asset type	Use	Area	33rd Fiscal Period (As of May 31, 2018)		34th Fiscal Period (As of November 30, 2018)	
			Value of holding (Million yen) (Note 1)	Ratio to total assets (%)	Value of holding (Million yen) (Note 1)	Ratio to total assets (%)
Real estate (Note 2)	Office	Tokyo 23 Wards	7,132	3.9	7,112	3.9
		Metropolitan Area (Note 3)	3,520	1.9	3,500	1.9
	Residence	Tokyo 23 Wards	13,969	7.7	13,904	7.6
		Metropolitan Area (Note 3)	5,126	2.8	5,101	2.8
		Other (Note 4)	1,860	1.0	1,874	1.0
	Subtotal		31,609	17.4	31,493	17.2
Real estate in trust (Note 2)	Office	Tokyo 23 Wards	44,707	24.7	45,638	24.9
		Metropolitan Area (Note 3)	3,161	1.7	4,837	2.6
		Other (Note 4)	11,122	6.1	11,079	6.0
	Residence	Tokyo 23 Wards	47,180	26.0	46,953	25.6
		Metropolitan Area (Note 3)	2,960	1.6	2,947	1.6
		Other (Note 4)	19,046	10.5	18,905	10.3
	Subtotal		128,178	70.7	130,360	71.2
Real estate, etc., subtotal		159,787	88.1	161,853	88.3	
Deposits and other assets		21,518	11.9	21,345	11.7	
Total assets		181,306	100.0	183,199	100.0	

(Note 1) "Value of holding" is based on the balance sheet amount (carrying amount after depreciation and impairment accounting in the case of real estate and real estate in trust) as of the end of the period.

(Note 2) The land leasehold right, etc. owned in conjunction with a building, etc. is stated in the sections of "real estate" and "real estate in trust" by aggregating it with the building, etc.

(Note 3) "Metropolitan Area" refers to Tokyo (other than Tokyo 23 Wards) and Kanagawa, Saitama and Chiba prefectures.

(Note 4) "Other" refers to investment areas other than Tokyo 23 Wards and Metropolitan Area.

	33rd Fiscal Period (As of May 31, 2018)		34th Fiscal Period (As of November 30, 2017)	
	Balance sheet amount (Million yen)	Ratio to total assets (%)	Balance sheet amount (Million yen)	Ratio to total assets (%)
Liabilities	86,133	47.5	87,841	47.9
Net assets	95,172	52.5	95,357	52.1

## (2) Investment real estate properties

## (i) Overview of portfolio assets

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Of-01	HF GOTANDA BUILDING	Shinagawa-ku, Tokyo	Trust beneficial interest	1,483	1,306	1,290	0.77
Of-05	SUITENGU HEIWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	1,556	1,412	1,550	0.92
Of-06	HF MONZEN-NAKACHO BUILDING	Koto-ku, Tokyo	Trust beneficial interest	2,680	2,282	2,500	1.49
Of-07	HF HAMAMATSUCHO BUILDING	Minato-ku, Tokyo	Trust beneficial interest	1,690	1,530	1,530	0.91
Of-08	HF TAMEIKE BUILDING	Minato-ku, Tokyo	Trust beneficial interest	2,730	2,768	2,700	1.61
Of-09	GRACE BUILDING SENGAKUJIMAE	Minato-ku, Tokyo	Trust beneficial interest	1,670	1,139	1,220	0.73
Of-11	NIHONBASHI DAIICHI BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,140	2,187	2,150	1.28
Of-12	HG HATCHOBORI BUILDING	Chuo-ku, Tokyo	Real estate	2,570	3,068	3,092	1.84
Of-17	HATCHOBORI MF BUILDING	Chuo-ku, Tokyo	Real estate	1,000	1,112	1,110	0.66
Of-18	M2 HARAJUKU	Shibuya-ku, Tokyo	Trust beneficial interest	4,933	3,437	3,418	2.03
Of-20	FUNABASHI FACE BUILDING	Funabashi-shi, Chiba	Real estate	3,290	3,500	3,900	2.32
Of-21	ADESSO NISHIAZABU	Minato-ku, Tokyo	Trust beneficial interest	553	607	640	0.38
Of-23	HF IKEBUKURO BUILDING	Toshima-ku, Tokyo	Real estate	1,430	1,302	1,314	0.78
Of-24	HF YUSHIMA BUILDING	Bunkyo-ku, Tokyo	Real estate	1,640	1,628	1,624	0.97
Of-25	KAYABACHO HEIWA Bldg.	Chuo-ku, Tokyo	Trust beneficial interest	6,590	4,768	4,798	2.85
Of-27	KOBE KYUKYORYUCHI HEIWA BUILDING	Kobe-shi, Hyogo	Trust beneficial interest	3,310	2,298	2,310	1.37
Of-28	MITA HEIWA BUILDING (leasehold land)	Minato-ku, Tokyo	Trust beneficial interest	1,435	1,134	1,115	0.66
Of-29	SAKAE MINAMI HEIWA BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	2,260	1,490	1,580	0.94
Of-30	HF SAKURADORI BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	6,160	4,607	4,900	2.91
Of-31	HF NIHONBASHI HAMACHO BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,450	1,940	1,900	1.13

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Of-32	HF SENDAI HONCHO BUILDING	Sendai-shi, Miyagi	Trust beneficial interest	3,440	2,682	2,700	1.61
Of-33	HF UENO BUILDING	Taito-ku, Tokyo	Trust beneficial interest	4,300	3,492	3,400	2.02
Of-34	KOJIMACHI HF BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	2,100	1,386	1,350	0.80
Of-35	HF KUDAN MINAMI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	3,310	2,775	2,720	1.62
Of-36	HF KANDA OGAWAMACHI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	4,170	3,245	3,150	1.87
Of-37	NISSO 5 BUILDING	Yokohama-shi, Kanagawa	Trust beneficial interest	3,660	3,169	3,100	1.84
Of-38	ACROSS SHINKAWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	3,660	3,282	3,250	1.93
Of-39	SENJU MILDIX II BANKAN	Adachi-ku, Tokyo	Trust beneficial interest	1,910	1,652	1,650	0.98
Of-40	ARK Mori Building	Minato-ku, Tokyo	Trust beneficial interest	3,420	3,134	3,085	1.84
Of-41	Itopia Nihonbashi SA Building	Chuo-ku, Tokyo	Trust beneficial interest	2,280	2,152	2,140	1.27
Of-42	SOUTHERN SKY TOWER HACHIOJI	Hachioji-shi, Tokyo	Trust beneficial interest	1,840	1,668	1,600	0.95
<b>Office subtotal</b>				<b>85,660</b>	<b>72,167</b>	<b>72,786</b>	<b>43.30</b>

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-03	HF ICHIKAWA RESIDENCE	Ichikawa-shi, Chiba	Trust beneficial interest	540	378	430	0.26
Re-05	HF MEGURO RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	708	622	660	0.39
Re-09	HF KASAI RESIDENCE	Edogawa-ku, Tokyo	Trust beneficial interest	797	584	650	0.39
Re-11	HF WAKABAYASHI-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	4,356	3,178	3,610	2.15
Re-12	HF HIMONYA RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	1,717	1,421	1,560	0.93
Re-14	HF MINAMIAZABU RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,416	1,280	1,370	0.82
Re-15	HF AZABUJUBAN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,270	1,116	1,260	0.75
Re-16	HF GAKUGEIDAIGAKU RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	1,010	899	1,000	0.59
Re-17	HF HIGASHIKANDA RESIDENCE	Chiyoda-ku, Tokyo	Trust beneficial interest	1,400	890	1,100	0.65
Re-18	HF HIGASHINIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,640	991	1,210	0.72
Re-19	HF NERIMA RESIDENCE	Nerima-ku, Tokyo	Trust beneficial interest	843	562	690	0.41
Re-20	HF SHIROKANETAKANAWA RESIDENCE	Minato-ku, Tokyo	Real estate	4,860	3,682	4,030	2.40
Re-21	HF MEIDAIMAE RESIDENCE	Setagaya-ku, Tokyo	Real estate	1,030	983	1,070	0.64
Re-22	HF NIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,120	1,052	1,130	0.67
Re-23	HF KAMISHAKUJII RESIDENCE	Nerima-ku, Tokyo	Real estate	1,030	858	950	0.57
Re-24	HF KINSHICHO RESIDENCE	Sumida-ku, Tokyo	Real estate	1,200	1,063	1,100	0.65
Re-25	HF GINZA RESIDENCE EAST	Chuo-ku, Tokyo	Trust beneficial interest	5,170	5,495	5,940	3.53
Re-26	HF SHIN-YOKOHAMA RESIDENCE	Yokohama-shi, Kanagawa	Real estate	2,820	3,002	3,350	1.99
Re-29	HF HAKUSAN RESIDENCE	Bunkyo-ku, Tokyo	Real estate	1,980	2,253	2,350	1.40
Re-30	HF MAGOME RESIDENCE	Ota-ku, Tokyo	Real estate	1,410	1,497	1,630	0.97
Re-31	HF GAKUGEIDAIGAKU RESIDENCE II	Meguro-ku, Tokyo	Trust beneficial interest	1,260	1,557	1,650	0.98
Re-33	HF KAMEIDO RESIDENCE	Koto-ku, Tokyo	Real estate	1,140	996	1,050	0.62
Re-34	HF TANASHI RESIDENCE	Nishitokyo-shi, Tokyo	Real estate	778	913	911	0.54

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-35	HF SHIBA-KOEN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	891	803	836	0.50
Re-36	HF MITA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,270	1,034	1,080	0.64
Re-37	HF TAKANAWA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	931	714	749	0.45
Re-38	La Residence de Shirokanedai	Minato-ku, Tokyo	Trust beneficial interest	920	691	730	0.43
Re-39	HF GINZA RESIDENCE EAST II	Chuo-ku, Tokyo	Trust beneficial interest	1,770	1,384	1,460	0.87
Re-40	HF HATCHOBORI RESIDENCE II	Chuo-ku, Tokyo	Trust beneficial interest	2,210	1,780	1,890	1.12
Re-41	HF HATCHOBORI RESIDENCE III	Chuo-ku, Tokyo	Trust beneficial interest	1,020	724	793	0.47
Re-42	HF GINZA RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,220	824	944	0.56
Re-43	HF KOMAZAWA-KOEN RESIDENCE TOWER	Setagaya-ku, Tokyo	Trust beneficial interest	7,360	6,443	6,520	3.88
Re-44	HF UMEDA RESIDENCE TOWER	Osaka-shi, Osaka	Trust beneficial interest	2,130	1,750	1,920	1.14
Re-45	HF NAKANOSHIMA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	516	435	453	0.27
Re-46	HF AWAZA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	711	512	577	0.34
Re-47	HF MARUNOUCHI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	742	524	624	0.37
Re-48	HF HIRAO RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	2,120	1,627	1,780	1.06
Re-49	HF KAWARAMACHI NIJO RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	589	489	534	0.32
Re-53	HF SHIJO KAWARAMACHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	2,310	1,656	1,820	1.08
Re-54	La Residence de Sendagi	Bunkyo-ku, Tokyo	Trust beneficial interest	978	770	820	0.49
Re-55	HF SENDAGI RESIDENCE	Bunkyo-ku, Tokyo	Trust beneficial interest	1,050	812	870	0.52
Re-56	HF KOMAZAWA-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	700	569	615	0.37



Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-57	HF MUSASHI KOYAMA RESIDENCE	Shinagawa-ku, Tokyo	Trust beneficial interest	1,100	791	842	0.50
Re-58	HF KOKUBUNJI RESIDENCE	Kokubunji-shi, Tokyo	Trust beneficial interest	1,030	784	839	0.50
Re-59	HF HISAYAODORI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	1,280	993	1,080	0.64
Re-60	HF KARASUMA KURAMAGUCHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	679	524	572	0.34
Re-61	HF NISHI-SHINJUKU RESIDENCE WEST	Shinjuku-ku, Tokyo	Trust beneficial interest	2,580	1,953	1,990	1.18
Re-62	HF NISHI-SHINJUKU RESIDENCE EAST	Shinjuku-ku, Tokyo	Trust beneficial interest	1,490	1,145	1,170	0.70
Re-63	HF HIGASHI SHINJUKU RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,660	1,266	1,360	0.81
Re-64	HF HIGASHI-SHINSAIBASHI RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	684	527	566	0.34
Re-65	HF KITA-YOBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,130	719	809	0.48
Re-66	HF ATAGOBASHI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	919	590	684	0.41
Re-67	HF KYUDAIBYOINMAE RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	521	379	426	0.25
Re-68	HF ASAKUSABASHI RESIDENCE	Taito-ku, Tokyo	Trust beneficial interest	957	721	771	0.46
Re-69	HF ICHIBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,130	748	834	0.50
Re-70	HF HIGASHI-NAKANO RESIDENCE	Nakano-ku, Tokyo	Trust beneficial interest	1,100	881	942	0.56
Re-72	HF WASEDA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	2,550	1,976	2,090	1.24
Re-73	HF WASEDA RESIDENCE II	Shinjuku-ku, Tokyo	Trust beneficial interest	1,040	822	872	0.52
Re-74	HF WAKAMATSUKAWADA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,550	1,187	1,158	0.69
Re-75	HF Sendai Residence EAST	Sendai-shi, Miyagi	Trust beneficial interest	1,930	1,592	1,638	0.97
Re-76	HF NISHI-KOEN RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,430	1,343	1,310	0.78

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-77	HF BANSUI-DORI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	921	811	790	0.47
Re-78	HF KANNAI RESIDENCE	Yokohama-shi, Kanagawa	Trust beneficial interest	2,050	1,784	1,800	1.07
Re-79	HF MEIEKI-KITA RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	2,280	2,139	2,160	1.28
Re-80	HF HIGASHI-SAPPORO RESIDENCE	Sapporo-shi, Hokkaido	Trust beneficial interest	1,680	1,538	1,560	0.93
Re-81	HF HAKATA-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	Real estate	903	943	880	0.52
Re-82	HF SENDAI ITSUTSUBASHI RESIDENCE	Sendai-shi, Miyagi	Real estate	870	930	850	0.51
Re-83	HF TABATA RESIDENCE	Kita-ku, Tokyo	Real estate	1,320	1,126	1,100	0.65
Re-84	HF RYOGOKU RESIDENCE	Sumida-ku, Tokyo	Real estate	1,600	1,442	1,400	0.83
Re-85	HF HACHIOJI RESIDENCE	Hachioji-shi, Tokyo	Real estate	1,180	1,185	1,120	0.67
<b>Residence subtotal</b>				<b>106,497</b>	<b>89,686</b>	<b>95,330</b>	<b>56.70</b>
<b>Total</b>				<b>192,157</b>	<b>161,853</b>	<b>168,116</b>	<b>100.00</b>

(Note 1) The “Form of asset” column shows the REIT’s form of ownership of the asset. The form is shown as “Trust beneficial interest” if the REIT is listed as a beneficiary in the registry and as “Real estate” if the REIT is listed as the owner.

(Note 2) The “Balance sheet amount” column shows the acquisition price (including expenses for acquisition and subsequent capital expenditures) as of November 30, 2018, after deducting the accumulated depreciation.

(Note 3) The “Acquisition price” column shows the sales value listed in the real estate sales agreement or trust beneficial interest sales agreement (not including amount corresponding to consumption taxes or costs necessary to make acquisition; same applies below). However, for properties acquired as a result of the merger (35 properties, from Re-35 HF SHIBA-KOEN RESIDENCE through Re-73 HF WASEDA RESIDENCE II), the column shows the appraisal value as of October 1, 2010, the day the merger took effect. In addition, for Of-28 MITA HEIWA BUILDING (leasehold land), the amount of 50% of the quasi-co-ownership of the trust beneficiary rights is stated.

(Note 4) The “Percentage of investments” column shows the percentage of each property’s acquisition price to total acquisition price of all acquired assets, rounded to the nearest one-hundredth of one percent.

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