

Additional Documentation for Press Release

Portfolio Replacement

November 27, 2018



HEIWA REAL ESTATE REIT, Inc.



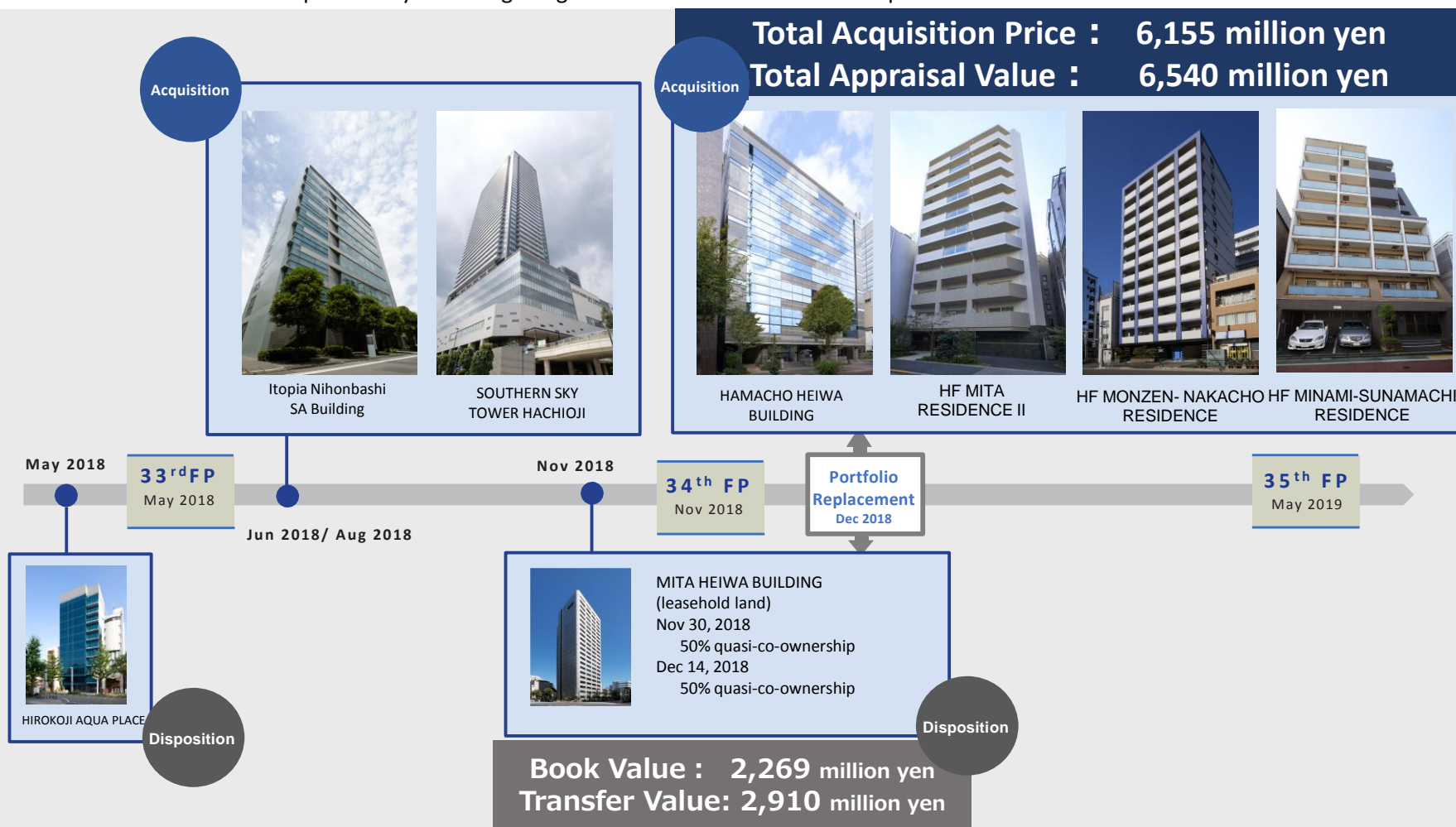
Asset Management Company

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With the support provided by the sponsor, 1 office property and 3 residence properties (6,155 million yen in total) will be acquired.

- 50% of the quasi-co-ownership interest of MITA HEIWA BUILDING (leasehold land) is transferred in each of the fiscal period ended Nov. 2018 (34th fiscal period) and the fiscal period ended Dec. 2018 (35th FP).
- An increase in internal reserves is planned by recording the gains on transfer in the two fiscal periods to utilize the tax loss carried forward.



Effect of Portfolio Replacement

- Since the end of May 2018, 2 properties were sold and 6 properties were acquired. (The dealings made this time include the sale of 1 property and the acquisition of 4 properties.)
- With a series of portfolio replacements, a large realized gain can be assessed while maintaining the level of the portfolio yield.
- Forecast EPU is significantly increased along with the expansion of the asset size.

(unit: million yen)

	Before the Transactions	Disposition (1)	Acquisitions (1)		Disposition (2)	Acquisitions (2)				After the Transactions
		HIROKOJI AQUA PLACE	SOUTHERN SKY TOWER HACHIOJI	Itopia Nihonbashi SA Building	MITA HEIWA BUILDING (leasehold land)	HAMACHO HEIWA BUILDING	HF MITA RESIDENCE II	HF MONZEN-NAKACHO RESIDENCE	HF MINAMI-SUNAMACHI RESIDENCE	
	May 31, 2018	May 31, 2018	Jun 25, 2018	Aug 31, 2018	Nov 30, 2018 Dec 14, 2018	Dec 14, 2018				Dec 14, 2018
Number of Portfolios	100	-1	1	1	-1	1	1	1	1	104
Acquisition Price	168,421	2,930	1,600	2,140	2,230	3,100	1,210	945	900	173,156
Transfer Value	-	5,520	-	-	2,910	-	-	-	-	-
Appraisal Value	192,294	4,870	1,840	2,210	2,712	3,240	1,290	1,060	950	195,302
Unrealized Gain	29,839	2,203	240	70	443	140	80	115	50	27,889
Realized Gain	-	2,728	-	-	641	-	-	-	-	3,368
NOI Yield	5.34%	9.53%	6.19%	4.36%	4.28%	4.46%	4.45%	4.85%	4.98%	5.34%
NOI Yield after Depreciation	4.17%	7.37%	5.14%	3.84%	4.28%	3.91%	4.00%	4.03%	4.08%	4.17%
Impact on EPU (net income per unit) (yen)	-	-84.6	+26.6	+28.1	-40.1	+43.6	+17.1	+13.5	+12.4	+16.6
Office Property ratio	43.40%									43.18%
Residence Property ratio	56.60%									56.82%
Ratio of the 23 wards of Tokyo	69.28%									70.89%
Appraisal -based LTV	42.18%									42.23%

Effect of This Replacement
EPU +46.6 yen

(Note) The amount of acquisition prices, appraisal values and unrealized gain before a series of replacements include the amount of HIROKOJI AQUA PLACE transferred on May 31, 2018.

(Note) The impact on appraisal values, unrealized gain, realized gain, NOI yields, depreciated NOI yields and distributions after the series of replacements is an approximate value in consideration of properties acquired or transferred in the replacements.

(Note) Gains on transfer of MITA HEIWA BUILDING (leasehold land) is a pro forma amount calculated as the difference of the estimated book value as of November 30, 2018 and is not equivalent to the actual gains on transfer.

(Note) For MITA HEIWA BUILDING (leasehold land), two-split transfers on November 30, 2018 and December 14, 2018 are planned.

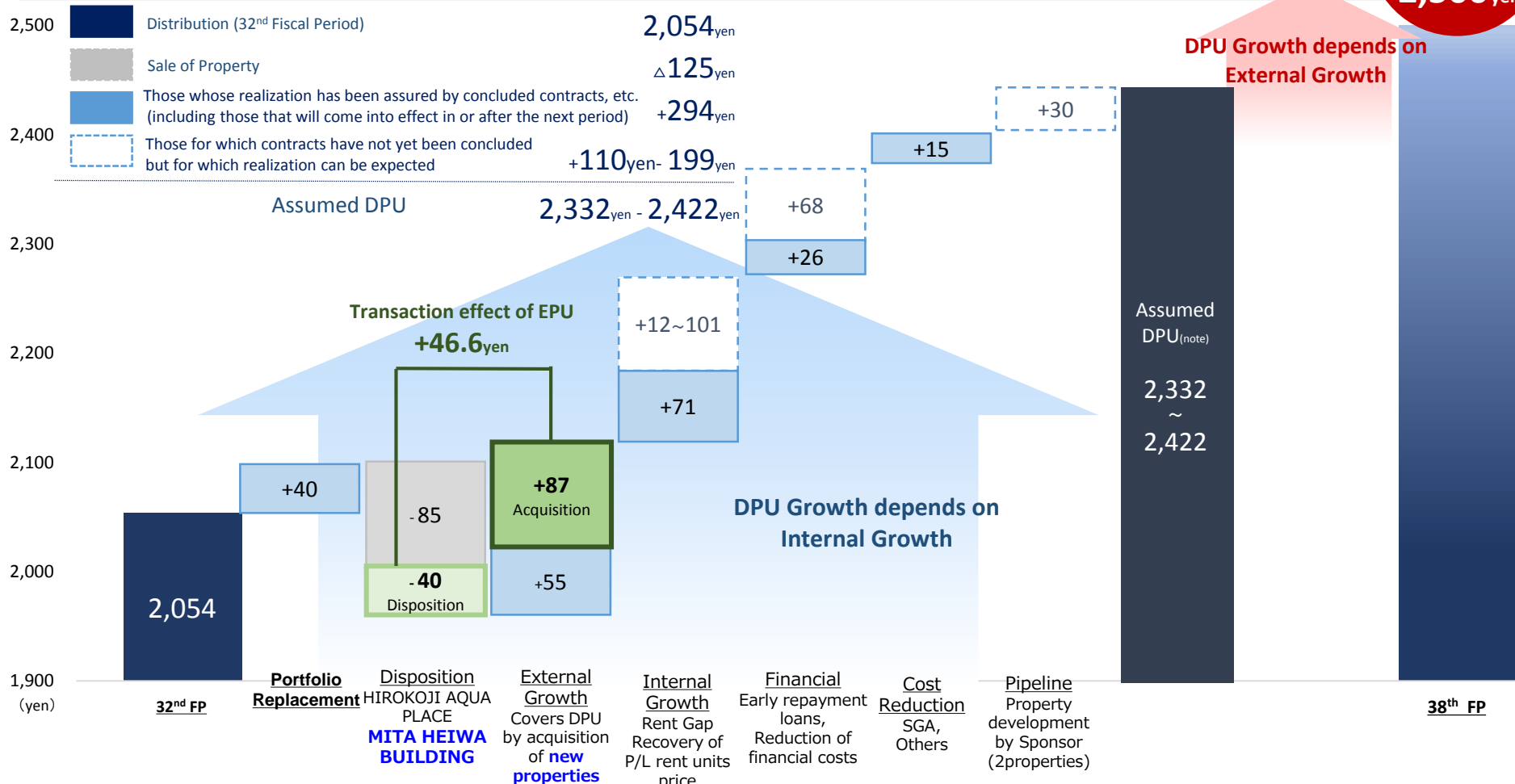
(Note) The NOI yield of the newly acquired properties shows the appraisal NOI yield calculated by dividing appraisal NOI at the time of acquisition by the acquisition price.

(Note) NOI yield after depreciation of the acquisitions is calculated by dividing the rental business profit by the scheduled acquisition price. The rental business profit in appraisal is calculated by subtracting the depreciation for 12 months that is estimated by the Investment Corporation corresponding to the service life from NOI in appraisal.

Distribution growth capacity, assumed ordinary level and distributions

- Due to the executions of the portfolio replacements, assumed ordinary distribution will be improved (+46.4yen), and profit per unit in the 35th fiscal period in which the burden of public charges and taxes is not incurred is +82.4yen.
- Accordingly, the forecast distribution in the fiscal period ended Nov. 2018 (34th fiscal period) is revised from 2,300yen to **2,350yen** and in the fiscal period ended May 2019 (35th fiscal period) is revised from 2,350 yen to **2,400yen**.
- We will continue to take initiatives to raise the ordinary level with steady and healthy external growth by leveraging our ample investment capabilities.

DPU Midterm Target
2,500yen



Note: Assumed ordinary distribution is a value calculated by setting the standard at the end of the 32nd fiscal period and accumulating internal growth, revision of interest rates and other factors expected in the following three years. In this chart, the impact of the transactions were added to the calculation results as of the end of the 33rd fiscal period. The other values do not reflect the results of the 34th fiscal period.

Ample internal reserve and investment growth capabilities supported by free cash

Internal Reserve
(at the end of 33rd FP)
4,390 million yen

Cash Total(at the end of 33rd FP) **14,200**million yen

Performance of 34th FP

Realized Gain
641million yen

Transfer value(MITA HEIWA BUILDING)
2,910million yen

Acquisition - **1,700**million yen
Total acquisition price 3,740 million yen
Loan amount 2,100 million yen

Aug 31, 2018: Itopia Nihonbashi SA Building
Jun 25, 2018: SOUTHERN SKY TOWER HACHIOJI

After transaction
Internal Reserve Total
5,030million yen

After transaction Cash Total **15,410**million yen

Further Utilization

Investor Return

Forecast DPU
34th FP: 2,350yen
35th FP: 2,400yen

Return to investors: Make it a source to pay distributions by continuously adding it to profit per unit even from the 36th fiscal period.

External Growth

Acquisition of new properties

Focus is placed on external growth by continually using sponsor supports. Property acquisitions in and after the 34th fiscal period have been undertaken steadily.

Scheduled to be Acquired

4properties
6,155 million yen

Financial Strategy

Create a solid financial structure

By increasing cash on hand, it is aimed to maintain a more stable level of LTV and secure flexible property acquisition capacity.

Buyback

Priority is placed on external growth, but we will implement it when we still have sufficient surplus funds and judge that a significant impact can be obtained.

Distribution Policy

Investor Return

Make it a source to pay distributions by continuously adding it to profit even from the 36th fiscal period.

Stabilization of Distribution

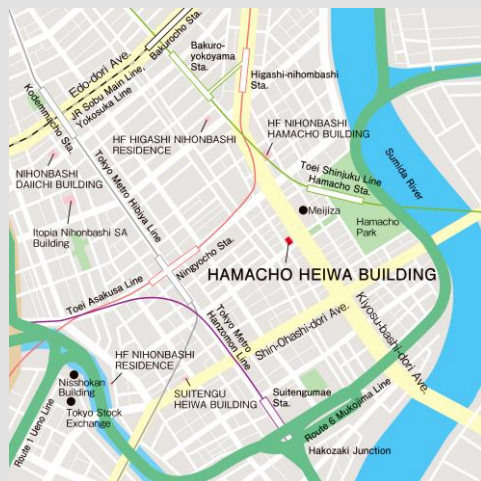
We will prepare for the following by internally reserving some funds.

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

(Note) All of the above values are before the deduction of expenses relating to the sale. The expenses are estimated at approx. ¥39 million, but because the value has not been finally determined yet, it is expressed as shown in the above.

(Note) Total internal reserve above and cash total are the sum of the current balance estimate at the time and impact of this transaction and do not indicate the outlook for the balance at the end of 34th FP.

HAMACHO HEIWA BUILDING



Location	Chuo-ku, Tokyo	Acquisition Price	3,100million yen
Acquisition Date	Dec 14, 2018	Appraisal Value	3,240million yen
Total Floor Space	4,133.47㎡	NOI yield(Note)	4.5%
Construction Completion Date	Sep 20, 1993	NOI Yield After Depreciation(Note)	3.9%

- The property is located about two minutes' walk from Hamacho Station on the Toei Shinjuku Line, about six minutes' walk from Ningyocho Station on the Tokyo Metro Hibiya Line/Toei Asakusa Line and about seven minutes' walk from Suitengumae Station on the Tokyo Metro Hanzomon Line, meaning that multiple rail lines and stations are available for good access to the main areas in the urban center.
- In the area surrounding Ningyocho Station/Hamacho Station where there are many old small and medium-sized office buildings, the property is quite competitive compared to the other office buildings in the district because it is highly rated in terms of its external appearance and the size of the rental areas, and because the building has been renovated.
- The rental area on a standard floor is about 100 tsubo with an approximately 2.5-meter high ceiling, individual air-conditioning and OA floor, whose specifications and equipment level meet tenants' needs.

(Note) NOI Yield = $\text{NOI} \div \text{Acquisition price}$ NOI Yield After Depreciation = $(\text{NOI} - \text{Depreciation}) \div \text{Acquisition price}$
 NOI is NOI for 12 months, which serves as the assumption for the value indicated by the income approach under the direct capitalization method shown in the appraisal report of each acquired asset,
 Depreciation is depreciation for 12 months, which we estimated by the depreciation ratio in the straight-line method corresponding to the service life, in the same way as for our existing assets under management

HF MITA RESIDENCE II



Location	Minato-ku, Tokyo
Construction Completion Date	Jun 8, 2006
Acquisition Price	1,210million yen
Appraisal Value	1,290million yen
NOI yield(Note)	4.5%
NOI Yield After Depreciation(Note)	4.0%

HF MINZEN-NAKACHO RESIDENCE



Location	Koto-ku, Tokyo
Construction Completion Date	Feb 6, 2008
Acquisition Price	945million yen
Appraisal Value	1,060million yen
NOI yield(Note)	4.9%
NOI Yield After Depreciation(Note)	4.0%

HF MINAMI-SUNAMACHI RESIDENCE



Location	Koto-ku, Tokyo
Construction Completion Date	Aug 29, 2007
Acquisition Price	900million yen
Appraisal Value	950million yen
NOI yield(Note)	5.0%
NOI Yield After Depreciation(Note)	4.1%

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