Additional Documentation for Press Release

# Portfolio Replacement

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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

# Overview of Portfolio Replacement



## Objectives

| | |
|---|---|
| **1** | **Acquisition of the new quake-resistance standards property and Disposition of the old quake-resistance standards property** |
| **2** | **Improvement of EPU** — **+24** yen/unit |
| **3** | **Improvement of NOI** — Annually **+40** million yen |
| **4** | **Improvement of AUM** AUM total 174.7 billion yen — **+1.55** billion yen |
| **5** | **Improvement of NAV**(note1) Unrealized gain expected for the property to be acquired — Approx. **+90** million yen |
| **6** | **Book the gain on sale** Transfer value exceeding the appraisal value — Approx. **+201** million yen |
| **7** | **Increase of Internal Reserve** Part of the gain from the transfer will be allocated to the distribution, and the remaining amount will be internal reserve |

## Overview of Asset Replacement

### Acquisition

#### KINSHICHO SQUARE BUILDING

| | |
|---|---|
| Location | Sumida-ku, Tokyo |
| Total Floor Space | 2,932.42㎡ |
| Construction Date | September 30, 1986 |
| Acquisition Price | 2,840 million yen |
| Appraisal Value (As of July 2019) | 2,930 million yen |
| NOI yield (note2) | 4.27% |
| NOI Yield After Depreciation (note2) | 3.87% |

#### HF GOTANDA BUILDING

| | |
|---|---|
| Location | Shinagawa-ku, Tokyo |
| Total Floor Space | 2,921.56㎡ |
| Construction Date | May 6, 1980 |
| Book Value (As of August 2019) | 1,295 million yen |
| Appraisal Value (As of May 2019) | 1,503 million yen |
| Transfer Value | 1,505 million yen |
| NOI yield (note3) | 5.33% |
| NOI Yield After Depreciation (note3) | 3.75% |

### Disposition

(note1) The increase of NAV is calculated by subtracting the acquisition price from the appraisal value.
(note2) NOI Yield = NOI ÷ Acquisition price NOI Yield After Depreciation = (NOI - Depreciation) ÷ 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
(note3) The actual figures for the 35th fiscal period (May, 2019) are shown.

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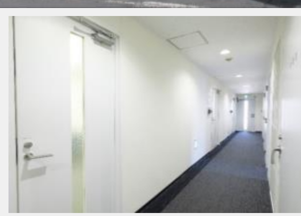
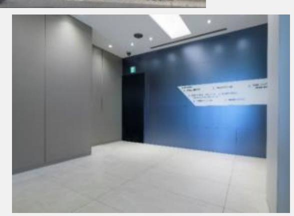
## KINSHICHO SQUARE BUILDING

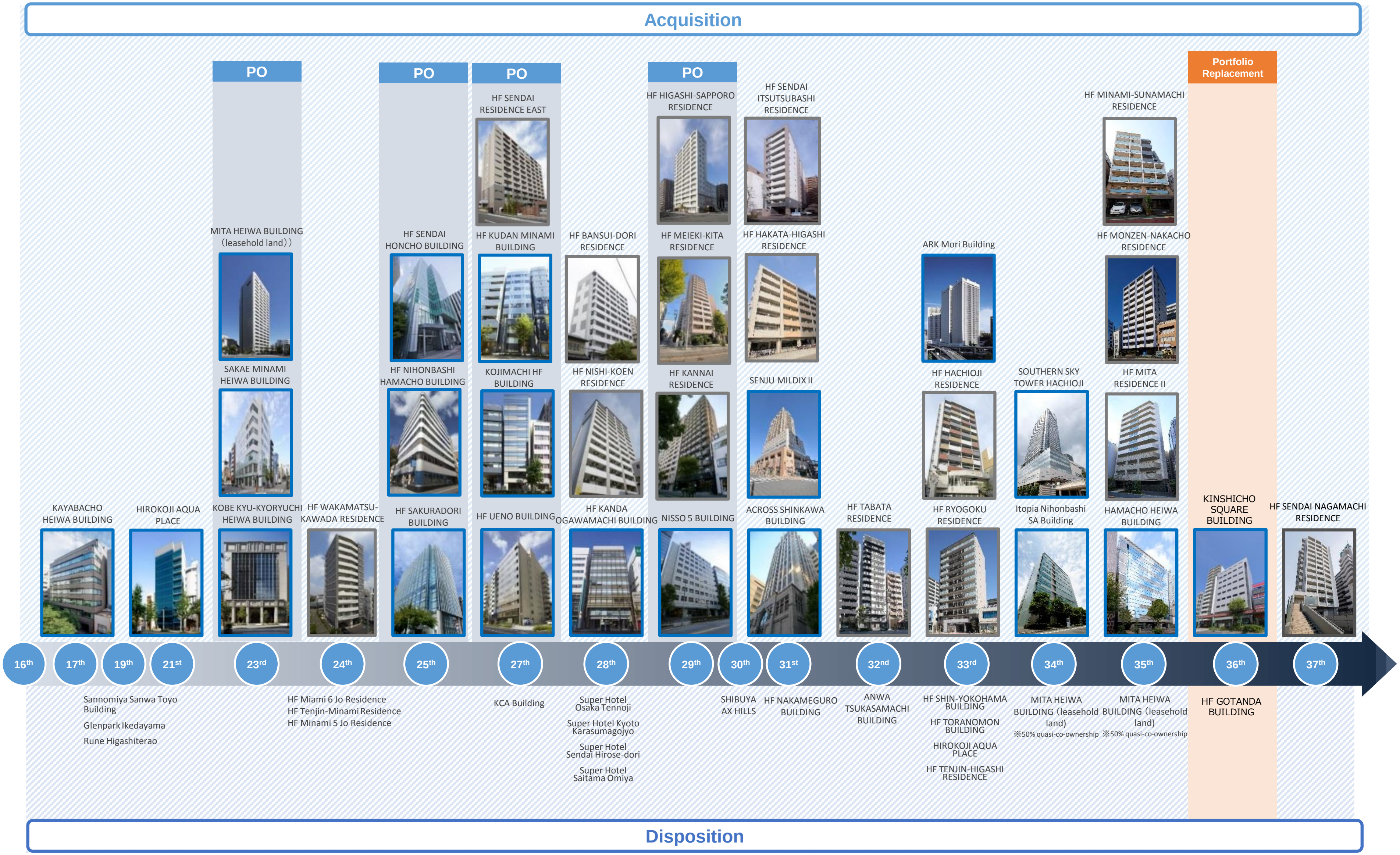


## Characteristics

- The property is located about two minutes' walk from Kinshicho Station on the JR Sobu Line, Sobu Line Express, and on the Hanzomon Line of Tokyo Metro and multiple rail lines and stations are available for good access to main areas in the urban center; Tokyo Station from Kinshicho Station is about 8 minutes/3 stops away and Otemachi Station is about 13 minutes/5 stops away on the Tokyo Metro Hanzomon Line. The Kinshicho area is the core of the eastern area of Tokyo and is designated by the Tokyo Metropolitan government as one of the seven subcenters alongside with Kameido.
- The property was completed in 1986. However, in the Kinshicho area, where there are many old small and medium-sized office buildings, the property is quite competitive compared to other office buildings in the district because it is highly rated in terms of its external appearance and the size of the rental area, and because the building, including the common space, was renovated on a large-scale basis in 2018.

## MAP

# History of Property Acquisition and Disposition
## (after Main Sponsor Change)




(Note) Excluding the properties that succeeded by the merger with Japan Shingle-Residence REIT Inc. on October 2,2010

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