

32nd Fiscal Period Financial Report (REIT)

January 17, 2018

REIT Issuer: HEIWA REAL ESTATE REIT, Inc. Stock Exchange Listing: TSE
 Securities Code: 8966 URL: <http://www.heiwa-re.co.jp/>
 Representative: (Title) Executive Director (Name) Masaaki Higashihara

Asset Management Company: HEIWA REAL ESTATE Asset Management CO., LTD.
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Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): February 28, 2018
 Scheduled date of commencement of distribution payments: February 15, 2018
 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 32nd Fiscal Period**32nd Fiscal Period (32nd FP): Fiscal period ended November 2017 (from June 1, 2017 to November 30, 2017)**

(1) Management

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

	Operating revenue		Operating income		Ordinary income		Net income	
32nd FP	¥5,881 million	0.9%	¥2,557 million	1.4%	¥2,048 million	2.0%	¥1,904 million	(5.1%)
31st FP	¥5,827 million	2.3%	¥2,521 million	6.2%	¥2,007 million	10.3%	¥2,007 million	84.9%

	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
32nd FP	¥1,877	2.1%	1.1%	34.8%
31st FP	¥1,977	2.2%	1.1%	34.5%

(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)
32nd FP	¥2,054	¥2,084 million	¥0	¥0 million	109.4%	2.3%
31st FP	¥2,017	¥2,046 million	¥0	¥0 million	102.0%	2.2%

(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 (¥2,046 million) for the 31st Fiscal Period includes the reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit), and the amount therefore differs from the amount of net income.

(Note 4) The amount of total distributions (¥2,084 million) for the 32nd Fiscal Period includes the reversal of the reserve for adjustment of temporary differences (¥138 million), which was calculated based on the amount offsetting gains on sales of real estate properties and impairment losses, as well as the reversal of retained earnings brought forward from the previous period (¥0 million) and the reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit), for the purpose of stable distribution. Therefore, the amount differs from the amount of net income.

(3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
32nd FP	¥178,855 million	¥92,410 million	51.7%	¥91,058
31st FP	¥178,734 million	¥92,427 million	51.7%	¥91,075

(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
32nd FP	¥4,590 million	(¥1,478 million)	(¥2,068 million)	¥10,559 million
31st FP	¥4,988 million	(¥7,396 million)	¥1,088 million	¥9,515 million

2. Management Status Forecasts for the 33rd and 34th Fiscal Periods

33rd Fiscal Period (33rd FP): Fiscal period ending May 2018 (from December 1, 2017 to May 31, 2018)

34th Fiscal Period (34th FP): Fiscal period ending November 2018 (from June 1, 2018 to November 31, 2018)

[% 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	%	Amount	%	Amount	%	Amount	%		
33rd FP	¥5,931 million	0.8%	¥2,556 million	(0.0%)	¥2,071 million	1.1%	¥2,070 million	8.7%	¥2,080	¥-
34th FP	¥5,916 million	(0.2%)	¥2,564 million	0.3%	¥2,091 million	1.0%	¥2,091 million	1.0%	¥2,100	¥-

(Reference) Estimated net income per unit: 33rd Fiscal Period: ¥2,040 34th Fiscal Period: ¥2,060

(Note) The sources of funds for paying the total distributions for the 33rd and 34th Fiscal Periods include the planned amount of the reversal of the reserve for the adjustment of temporary differences of ¥40 million (¥40 per unit), respectively, 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):

32nd Fiscal Period:	1,014,847 units	31st Fiscal Period:	1,014,847 units
32nd Fiscal Period:	– units	31st Fiscal Period:	– units

- (ii) Number of own investment units at end of period:

(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 34 of the Japanese version of the “32nd Fiscal Period Financial Report (REIT)” for the period ended November 2017.

* 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 Japanese version of the “Management status forecast assumptions for 33rd Fiscal Period (from December 1, 2017 to May 31, 2018)” and 34th Fiscal Period (from June 1, 2018 to November 31, 2018) 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 28, 2017).

2. Operating Policies and Operations

(1) Operating policies

HEIWA REAL ESTATE Asset Management CO., LTD., an asset management company to which the management of the REIT’s assets is outsourced (hereinafter referred to as the “Asset Management Company”) changed its investment criteria for regional investment areas stipulated in its company regulations Guidelines for Management Operations for HEIWA REAL ESTATE REIT, Inc. on November 29, 2017. The new investment criteria for regional investment areas are as follows.

Investment area	Regional investment area	Major urban areas in metropolitan areas excluding primary and secondary investment areas (Note)
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(Note) Metropolitan area refers to an urban area consisting of a central city and its surrounding cities and towns that are connected socially and economically, while “central cities” in metropolitan areas refer to special wards of Tokyo and cities designated by government ordinance.

Other than the above, 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 28, 2017).

(2) Operations

a. General situation during the 32nd 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 “Active 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 32nd 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 32nd Fiscal Period (November 2017).

(ii) Operating environment

During the 32nd Fiscal Period, the Japanese economy continued to recover due to a rise in exports driven by an increase in overseas demand and a continued pickup in corporate earnings as a result of a rebound in production activities, as well as solid personal consumption backed by continuous improvements in the employment and income conditions. However, there are uncertain factors on the horizon, such as North Korean issues, the policy operation of the Trump administration in the U.S. and the situation in the Middle East.

Under these circumstances, the TSE REIT index fell, due mainly to the effect of cash outflow from the monthly dividend type of investment trust, from 1748.56 points at the end of the previous Fiscal Period (end of May 2017) to 1605.89 points on November 10, 2017, almost dropping below 1,600 points. The index remained sluggish throughout the Fiscal Period under review, declining approximately 77 points from the end of May 2017 to 1671.62 points as of the end of November 2017.

(a) Office building leasing market

The latest office building market data from Miki Shoji Co., Ltd. shows a gradual decline in the average office building vacancy rate in the five central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) to 3.03% at the end of the Fiscal Period under review, down from 3.41% at the end of the previous period (May 2017). This reflected the continued reduction in vacancies at existing office buildings due to their consolidation, increased floor areas within the buildings and relocation for expansion, as well as more contracts signed for new buildings. The office building leasing market is showing signs of a steady improvement trend driven by an increase in demand for office space backed by improved corporate economic sentiment. The average rent level also rose steadily from 18,801 yen per tsubo at the end of the previous Fiscal Period to 19,064 yen per tsubo at the end of the Fiscal Period under review, and there is a noticeable improvement trend in market rents.

(b) Residential leasing market

According to the IPD/Recruit Japan Residential Index, rents for used condominiums in the Tokyo metropolitan area rose 0.5% in November 2017 compared to the same month in the previous year. As this index shows, demand for rental houses remained solid, reflecting the trend of a continuous net positive influx of people into the Tokyo metropolitan area and the increasing number of households with few family members. 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 6th straight month from the same month last year, indicating a firm supply-demand trend in the residential leasing market as the increase in supply, which had lasted until the previous Fiscal Period, became stable. 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 land price survey conducted by prefectural governments as of July 1, 2017, which was announced in September 2017, average land prices in Japan's three major metropolitan areas maintained last year's upward trend in both residential and commercial areas. A breakdown shows that the official prices in residential areas continued to increase modestly, as in the previous year, amid the growth of housing demand fueled by improved economic sentiment in the Tokyo and Nagoya areas. In commercial areas, the upward trend maintained its momentum this year as the official land prices climbed for the fifth straight year in the Tokyo, Osaka and Nagoya areas. The upward trend is attributable to the solid housing demand driven by low interest rates and mortgage tax breaks, while in commercial areas, it is attributable to factors such as the increased demand for real estate investment on the back of the favorable funding environment created by low interest rates, 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 an improvement in rents.

In contrast, official land prices in the regional areas continued to fall, both in the residential and commercial areas. 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 the residential and commercial areas.

(iii) Management performance

(a) External growth

The REIT acquired one residential building (Re-83, HF TABATA RESIDENCE [real estate and land leasehold rights, acquisition price: 1,100 million yen]) on August 25, 2017, and sold one office building (Of-16, ANWA TSUKASACHO BUILDING [real estate, acquisition price: 1,385 million yen]) on August 24, 2017 for the purpose of increasing the profitability of its portfolio and improving its quality.

As a result, portfolio assets as of the period end were 100 properties (total acquisition price 166,353 million yen), including 31 office buildings (total acquisition price of 73,041 million yen) and 69 residential buildings (total acquisition price 93,312 million yen).

(b) Internal growth

The REIT has consistently endeavored to increase profitability by improving and maintaining its occupancy rates. During the 32nd 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 97.7% as at the end of the 32nd Fiscal Period from 97.6% 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 97.7% for the fiscal period under review. In particular, office buildings were almost fully occupied, with an average month-end occupancy rate of 99.7%.

Moreover, as part of the initiatives that the REIT has been working on continuously, it changed the names of the following one managed asset in the period between the start of the fiscal period under review and the date of this report, for the purpose of seeking to improve the caliber of its appeal to potential tenants and achieve more efficient leasing.

Properties renamed on September 1, 2017

Property no.	Former property name	New property name
Of-08	KOKUSAI TAMEIKE Bldg.	HF TAMEIKE Bldg.

(iv) Procurement of funds

On June 30, 2017, the REIT issued the first series of unsecured investment corporation bonds (total amount of issuance: 1,000 million yen) and the second series of unsecured investment corporation bonds (total amount of issuance: 1,800 million yen) to strengthen its financial base by extending the maturities of interest-bearing liabilities and diversifying repayment dates and means of fund procurement. Using funds procured by the issuance of these bonds, the REIT repaid some of the loans on July 7, 2017. In addition, the REIT took out Term Loan 34 (Tranche A [loan amount: 600 million yen], Tranche B [loan amount: 2,880 million yen] and Tranche C [loan amount: 3,700 million yen]) to repay Term Loan 14 (loan balance: 4,080 million yen) and Term Loan 13 Tranche D (loan balance: 3,100 million yen), whose principal repayment dates were October 31, 2017.

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: 6.7 years; average remaining period: 4.2 years) and to lower its borrowing cost (average borrowing interest rate as of the end of November: 0.89 %).

[First series of unsecured investment corporation bonds]

Name	HEIWA REAL ESTATE REIT, Inc. First Series of Unsecured Investment Corporation Bonds (with special pari passu conditions among specified investment corporation bonds)
Total amount of investment corporation bonds	1,000 million yen
Payment date	June 30, 2017
Amount to be paid in	100 yen per the amount of 100 yen of each investment corporation bond
Interest rate	0.300% annually
Security and guarantee	Unsecured Non-guaranteed
Maturity	The REIT will redeem the total amount of the Investment Corporation Bonds on June 30, 2022. The REIT may conduct the retirement by purchase of the Investment Corporation Bonds anytime from the day after the payment date, unless otherwise provided for in laws, regulations or the operational rules of Japan Securities Depository Center, Inc., which is the transfer institution, and other rules.
Interest payment date	June 30 and December 30 every year
Use of funds	Funds were appropriated to some of funds for the repayment of existing loans (Term Loan 32).

[Second series of unsecured investment corporation bonds]

Name	HEIWA REAL ESTATE REIT, Inc. Second Series of Unsecured Investment Corporation Bonds (with special pari passu conditions among specified investment corporation bonds)
Total amount of investment corporation bonds	1,800 million yen
Payment date	June 30, 2017
Amount to be paid in	100 yen per the amount of 100 yen of each investment corporation bond
Interest rate	0.650% annually
Security and guarantee	Unsecured Non-guaranteed
Maturity	The REIT will redeem the total amount of the Investment Corporation Bonds on June 30, 2027. The REIT may conduct the retirement by purchase of the Investment Corporation Bonds anytime from the day after the payment date, unless otherwise provided for in laws, regulations or the operational rules of Japan Securities Depository Center, Inc., which is the transfer institution, and other rules.
Interest payment date	June 30 and December 30 every year
Use of funds	Funds were appropriated to some of funds for the repayment of existing loans (Term Loan 32).

[Term Loan 34 Tranche A]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600 million yen	October 31, 2018 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

[Term Loan 34 Tranche B]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Aozora Bank, Ltd. Resona Bank, Limited. Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,880 million yen	May 31, 2022 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

[Term Loan 34 Tranche C]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Aozora Bank, Ltd. Resona Bank, Limited. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd.	3,700 million yen	May 31, 2026 (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 loan amount at period end was 79,261 million yen (period end LTV(Note): 44.3%).

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

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: Stable

(Note) The issuer rating from Rating and Investment Information, Inc. (R & I) was withdrawn as of December 1, 2017.

(v) Performance and distributions

The management described above led to 32nd Fiscal Period results of 5,881 million yen in operating revenues, 2,557 million yen in operating income, and after deducting interest expenses on loans, 2,048 million yen in ordinary income, and after deducting an impairment loss of 143 million yen from the sale of HF SHIN-YOKOHAMA BUILDING, 1,904 million yen in net income. Concerning the distribution of monies (“distributions”) prescribed in Article 137 of the Act on Investment Trusts and Investment Corporations, the amount of distributions shall be more than 90% of the earnings available for distribution in accordance with 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 the above policy, the REIT made a decision to pay out 2,084,495,738 yen as distributions from earnings by appropriating the reversal of the reserve for the adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to 2,043,901,858 yen (by appropriating retained earnings brought forward of 755,671 yen and the reversal of the reserve for the adjustment of temporary differences of 138,194,962 yen to net income), which is the maximum value for the integral multiple of the total number of outstanding investment units, or 1,014,847 units, within the range of the amount equivalent to net income of 1,904,951,225 yen plus the amount offsetting the gain on sales of real estate properties of 3,377,520 yen and the impairment loss of 143,159,407 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 enhance the quality of its portfolio and increase its revenues by acquiring three new properties of good quality, in addition to selling two properties whose profitability could not be expected to improve 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 following two residential properties (total acquisition price: 2,520 million yen) as of December 15, 2017 through borrowing (see "C. Borrowing of capital" below) and with its own capital.

Property no: Re-84 Property name: HF RYOGOKU RESIDENCE

Type of acquired property	Real estate and land lease rights (Note)
Contract date	November 29, 2017
Acquisition date	December 15, 2017
Acquisition price	1,400 million yen
Location (residential address)	1-9-3 Midori, Sumida-ku, Tokyo
Use	Co-housing
Completed	March 1, 2017
Structure	Reinforced concrete flat-roofed 12-story structure
Total floor area	2,705.78 m ²
Total rentable area	2,149.95 m ²

(Note) The acquired asset is a building with leasehold rights (building, land and land leasehold rights). The land leasehold rights are regular ones (renewal type).

Property no: Re-85 Property name: HF HACHIOJI RESIDENCE (Note)

Type of acquired property	Real estate
Contract date	November 29, 2017
Acquisition date	December 15, 2017
Acquisition price	1,120 million yen

Location (residential address)	8-7 Nakacho, Hachioji-shi, Tokyo
Use	Co-housing and shops
Completed	February 27, 2009
Structure	Reinforced concrete flat-roofed 11-story structure with 1 underground level
Total floor area	1,833.55 m ²
Total rentable area	1,600.38 m ²

(Note) The property name is the new name “HF HACHIOJI RESIDENCE” because it will be changed from the current name of “Stacis Hachioji” as of the date of this release starting May 1, 2018.

B. Asset Transfer

As a result of repeated discussions over the transfer of the asset below with the transferee by the end of the 32nd Fiscal Period, the REIT concluded a sales contract for the asset on November 29, 2017 and transferred the asset on December 22, 2017.

Property no: Of-10 Property name: HF SHIN-YOKOHAMA BUILDING

Property transferred	Real estate
Location (residential address)	2-17-19 ShinYokohama, Kohoku-ku, Yokohama-shi, Kanagawa
Transfer price	1,220 million yen
Book value (Note)	1,181 million yen
Contract date	November 29, 2017
Transfer date	December 22, 2017
Transferee	AR Asset Management Co., Ltd.

(Note) Represents the book value after recording an impairment loss due to the transfer of the property.

C. Borrowing of capital

To provide for the funds to acquire two residential properties as of December 15, 2017 (see “A. Asset Acquisitions” above), the borrowing of capital (loan amount: 1,500 million yen) was determined as of November 29, 2017 and implemented as of December 15, 2017.

[Term Loan 35 Tranche A]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	700 million yen	November 30, 2018 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

[Term Loan 35 Tranche B]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	800 million yen	October 31, 2024 (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 33rd and 34th Fiscal Periods

Operations are forecast to be as follows during the 33rd Fiscal Period (from December 1, 2017 to May 31, 2018). See “Management status forecast assumptions for 33rd Fiscal Period (from December 1, 2017 to May 31, 2018) and 34th Fiscal Period (from June 1, 2018 to November 30, 2018)” below for assumptions used in this forecast.

Operating revenues	5,931 million yen
Operating income	2,556 million yen
Ordinary income	2,071 million yen
Net income	2,070 million yen
Distributions per unit	
(excluding distributions in excess of earnings)	2,080 yen
Distributions in excess of earnings per unit	– yen

(Note1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 40 million yen (40 yen per unit), and they therefore differ from the amount of net income.

(Note2) 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 34th Fiscal Period (from June 1, 2018 to November 30, 2018). See “Management status forecast assumptions for 33rd Fiscal Period (from December 1, 2017 to May 31, 2018) and 34th Fiscal Period (from June 1, 2018 to November 30, 2018)” below for assumptions used in this forecast.

Operating revenues	5,916 million yen
Operating income	2,564 million yen
Ordinary income	2,091 million yen
Net income	2,091 million yen
Distributions per unit	
(excluding distributions in excess of earnings)	2,100 yen
Distributions in excess of earnings per unit	– yen

(Note1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 40 million yen (40 yen per unit), and they therefore differ from the amount of net income.

(Note2) 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 33rd Fiscal Period (from December 1, 2017 to May 31, 2018) and 34th Fiscal Period (from June 1, 2018 to November 30, 2018)

Item	Assumptions																				
Management period	33rd Fiscal Period: from December 1, 2017 to May 31, 2018 (182 days) 34th Fiscal Period: from June 1, 2018 to November 30, 2018 (183 days)																				
Assets under management	<ul style="list-style-type: none"> The assumption is 101 properties (100 properties under management at the end of November 2017, excluding “HF SHIN-YOKOHAMA BUILDING” transferred on December 22, 2017 but adding “HF RYOGOKU RESIDENCE” and “HF HACHIOJI RESIDENCE” acquired on December 15, 2017). The actual number of properties owned may vary if properties are newly acquired, transferred, etc. 																				
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> 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 2017. 																				
Operating revenues	<ul style="list-style-type: none"> Operating revenues are calculated based on the assumption of the above assets under management. 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. 																				
Operating expenses	<ul style="list-style-type: none"> Operating expenses are calculated based on the assumption of the above assets under management. Assumptions concerning major operating expenses are as follows: <table border="0" style="margin-left: 20px;"> <tr> <td colspan="2">33rd Fiscal Period (from December 1, 2017 to May 31, 2018)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">400 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">234 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">654 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">968 million yen</td> </tr> <tr> <td colspan="2">34th Fiscal Period (from June 1, 2018 to November 30, 2018)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">426 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;">620 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">960 million yen</td> </tr> </table> 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. For maintenance and repair fees, an amount deemed necessary during the period based on the maintenance and repair plans for the properties is posted. Emergency costs may arise as a result of unforeseeable factors, and actual operating expenses may therefore vary significantly from the forecast. 	33rd Fiscal Period (from December 1, 2017 to May 31, 2018)		Public charges and taxes (fixed property tax, city planning tax, etc.):	400 million yen	Maintenance and repair fees:	234 million yen	Management commissions:	654 million yen	Depreciation:	968 million yen	34th Fiscal Period (from June 1, 2018 to November 30, 2018)		Public charges and taxes (fixed property tax, city planning tax, etc.):	426 million yen	Maintenance and repair fees:	220 million yen	Management commissions:	620 million yen	Depreciation:	960 million yen
33rd Fiscal Period (from December 1, 2017 to May 31, 2018)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	400 million yen																				
Maintenance and repair fees:	234 million yen																				
Management commissions:	654 million yen																				
Depreciation:	968 million yen																				
34th Fiscal Period (from June 1, 2018 to November 30, 2018)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	426 million yen																				
Maintenance and repair fees:	220 million yen																				
Management commissions:	620 million yen																				
Depreciation:	960 million yen																				
Non-operating expenses	<ul style="list-style-type: none"> Interest expenses (including interest on investment corporation bonds) and related borrowing expenses are estimated to be 471 million yen for the fiscal period ending in May 2018 and 461 million yen for the fiscal period ending in November 2018. Amortization of investment unit issuance expenses and investment corporation bond issuance expenses are estimated to be 7 million yen for the fiscal period ending in May 2018 and 8 million yen for the fiscal period ending in November 2018. 																				
Interest-bearing liabilities	<ul style="list-style-type: none"> Interest-bearing liabilities at the end of the fiscal period ended November 2017 are 79,261 million yen. We intend to procure new loans totaling 1,500 million yen as part of the fund for the assets acquired in December 2017, and we assume that the total loan debts will be 80,761 million yen at the end of the fiscal period ending in May 2018 and 80,761 million yen at the end of the fiscal period ending in November 2018. We assume that the loans maturing in February 2018, May 2018 and October 2018 will be fully refinanced. 																				

Item	Assumptions
Distributions per unit (excluding distributions in excess of earnings)	<ul style="list-style-type: none"> • 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 in May 2018, we assume that a total of 2,070 million yen 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 2,110 million yen. For the fiscal period ending in November 2018, we also assume that a total of 2,091 million yen will be distributed after allocating the planned amount of the reversal of the reserve for adjustment of temporary differences of 40 million yen (40 yen per unit) to the estimated net income of 2,131 million yen. • 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.
Distributions in excess of earnings per unit	<ul style="list-style-type: none"> • We do not expect any distributions in excess of earnings at this time.
Other	<ul style="list-style-type: none"> • 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. • We assume that no major unforeseen changes will occur in the general economic trends, real estate market conditions, etc.

(1) Investment risk

No disclosure necessary, since there have been no material changes from "Investment risk" in the most recent Annual Securities Report (submitted August 28, 2017).

3. Financial Statements

(1) Balance Sheet

(Unit: 1,000 yen)

	31st Fiscal Period (As of May 31, 2017)	32nd Fiscal Period (As of November 30, 2017)
Assets		
Current assets		
Cash and deposits	9,412,320	10,431,617
Cash and deposits in trust	7,067,237	7,108,638
Operating accounts receivable	70,850	54,314
Prepaid expenses	167,040	159,474
Consumption taxes receivable, etc.	55,875	–
Other	3,009	8,514
Allowance for doubtful accounts	(1,033)	(1,287)
Total current assets	16,775,300	17,761,272
Noncurrent assets		
Property, plant and equipment		
Buildings	11,636,107	11,596,485
Accumulated depreciation	(3,440,680)	(3,419,936)
Buildings, net	8,195,427	8,176,548
Structures	61,080	62,899
Accumulated depreciation	(36,397)	(37,442)
Structures, net	24,683	25,456
Machinery and equipment	235,356	238,522
Accumulated depreciation	(141,879)	(148,916)
Machinery and equipment, net	93,477	89,606
Tools, furniture and fixture	142,222	144,759
Accumulated depreciation	(93,280)	(99,244)
Tools, furniture and fixtures, net	48,942	45,514
Land	23,137,014	22,138,720
Buildings in trust	50,262,614	50,466,822
Accumulated depreciation	(9,243,474)	(9,948,305)
Buildings in trust, net	41,019,140	40,518,517
Structures in trust	298,980	299,108
Accumulated depreciation	(78,490)	(84,738)
Structures in trust, net	220,489	214,369
Machinery and equipment in trust	555,075	592,148
Accumulated depreciation	(223,774)	(247,517)
Machinery and equipment in trust, net	331,301	344,631
Tools, furniture and fixtures in trust	844,661	897,271
Accumulated depreciation	(494,886)	(540,886)
Tools, furniture and fixtures in trust, net	349,775	356,385
Land in trust	83,854,309	83,854,309
Total property, plant and equipment	157,274,561	155,764,059
Intangible assets		
Leasehold right	715,719	1,335,851
Leasehold rights in trust	3,315,665	3,315,665
Other	242	242
Total intangible assets	4,031,627	4,651,758

HEIWA REAL ESTATE REIT, Inc. (8966) 32nd Fiscal Period Financial Report

(Unit: 1,000 yen)

	31st Fiscal Period (As of May 31, 2017)	32nd Fiscal Period (As of November 30, 2017)
Investment and other assets		
Guarantee deposits	10,252	10,252
Long-term prepaid expenses	329,621	302,011
Derivatives	23,800	47,375
Other	264,873	285,377
Total investments and other assets	628,548	645,016
Total noncurrent assets	161,934,736	161,060,834
Deferred assets		
Investment unit issuance	24,506	12,338
Investment corporation bond issuance costs	–	21,282
Total deferred assets	24,506	33,620
Total assets	178,734,544	178,855,727
Liabilities		
Current liabilities		
Operating accounts payable	360,379	494,383
Short-term loans payable	–	600,000
Current portion of long-term loans payable	15,380,000	9,550,000
Accrued expenses	693,165	677,066
Income taxes payable	594	227
Accrued consumption tax, etc.	–	116,899
Advances received	952,949	921,909
Other	11,744	12,601
Total current liabilities	17,398,834	12,373,088
Noncurrent liabilities		
Investment corporation bonds	–	2,800,000
Long-term loans payable	63,881,700	66,311,700
Tenant leasehold and security deposits	756,690	724,719
Tenant leasehold and security deposits in trust	3,961,803	3,980,712
Derivative liabilities	308,200	254,569
Total noncurrent liabilities	68,908,394	74,071,700
Total liabilities	86,307,228	86,444,788
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 temporary differences, etc.	*3 2,126,355	*3 2,085,761
Total voluntary retained earnings	2,126,355	2,085,761
Unappropriated retained earnings (undisposed loss)	2,007,108	1,905,706
Total surplus	11,540,115	11,398,120
Total unitholders' equity	92,910,830	92,768,835
Valuation and translation adjustments		
Deferred hedge gain or loss	(483,514)	(357,896)
Total valuation and translation adjustments	(483,514)	(357,896)
Total net assets	*2 92,427,316	*2 92,410,938
Total liabilities and net assets	178,734,544	178,855,727

(2) Profit and Loss Statement

(Unit: 1,000 yen)

	31st Fiscal Period (December 1, 2016 – May 31, 2017)		32nd Fiscal Period (June 1, 2017 – November 30, 2017)	
Operating Revenues				
Rent revenue-real estate	*1	5,347,673	*1	5,402,385
Other lease business revenue	*1	479,830	*1	476,172
Gain on sales of real estate properties	*2	–	*2	3,377
Total operating revenue		5,827,504		5,881,935
Operating expenses				
Expenses related to rent business	*1	2,567,349	*1	2,586,380
Asset management fee		531,452		536,229
Asset custody fee		19,460		19,738
Administrative service fees		44,332		43,165
Directors' compensation		7,967		7,965
Audit fee		9,660		9,660
Other operating expenses		125,489		121,504
Total operating expenses		3,305,711		3,324,644
Operating income		2,521,792		2,557,291
Non-operating income				
Interest income		1,259		1,264
Reversal of dividends payable		718		604
Insurance income		7,525		4,838
Other		–		291
Total non-operating income		9,504		6,998
Non-operating expenses				
Interest expenses		426,332		415,823
Borrowing related expenses		79,403		74,363
Interest expenses on investment corporation bonds		–		6,125
Amortization of investment corporation bond issuance costs		–		1,240
Amortization of investment unit issuance expenses		12,168		12,168
Other		5,678		5,853
Total non-operating expenses		523,583		515,574
Ordinary income		2,007,713		2,048,715
Extraordinary losses				
Impairment loss		–		143,159
Total extraordinary losses		–		143,159
Income before income taxes		2,007,713		1,905,556
Income taxes-current		605		605
Total income taxes		605		605
Net income		2,007,108		1,904,951
Retained earnings brought forward		–		755
Unappropriated retained earnings (undisposed loss)		2,007,108		1,905,706

(3) Statements of Changes in Net Assets (Unitholders' Equity)

31st Fiscal Period (December 1, 2016 – May 31, 2017)

(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	2,457,010	2,457,010	1,581,316
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences			(330,655)	(330,655)	330,655
Dividends from surplus					(1,911,971)
Net income					2,007,108
Net changes of items other than unitholders' equity					
Total changes of items during the period	–	–	(330,655)	(330,655)	425,792
Balance at the end of the period	81,370,715	7,406,652	2,126,355	2,126,355	2,007,108

	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	11,444,979	92,815,694	(516,656)	(516,656)	92,299,038
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences	–	–			–
Dividends from surplus	(1,911,971)	(1,911,971)			(1,911,971)
Net income	2,007,108	2,007,108			2,007,108
Net changes of items other than unitholders' equity			33,141	33,141	33,141
Total changes of items during the period	95,136	95,136	33,141	33,141	128,277
Balance at the end of the period	11,540,115	92,910,830	(483,514)	(483,514)	92,427,316

32nd Fiscal Period (June 1, 2017 – November 30, 2017)

(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	2,126,355	2,126,355	2,007,108
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences			(40,593)	(40,593)	40,593
Dividends from surplus					(2,046,946)
Net income					1,904,951
Net changes of items other than unitholders' equity					
Total changes of items during the period	–	–	(40,593)	(40,593)	(101,401)
Balance at the end of the period	81,370,715	7,406,652	2,085,761	2,085,761	1,905,706

	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	11,540,115	92,910,830	(483,514)	(483,514)	92,427,316
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences	–	–			–
Dividends from surplus	(2,046,946)	(2,046,946)			(2,046,946)
Net income	1,904,951	1,904,951			1,904,951
Net changes of items other than unitholders' equity			125,617	125,617	125,617
Total changes of items during the period	(141,995)	(141,995)	125,617	125,617	(16,377)
Balance at the end of the period	11,398,120	92,768,835	(357,896)	(357,896)	92,410,938

(4) Statements of Cash Dividend Distributions

(Unit: yen)

	31st Fiscal Period (December 1, 2016 – May 31, 2017)	32nd Fiscal Period (June 1, 2017 – November 30, 2017)
I. Unappropriated retained earnings	2,007,108,190	1,905,706,896
II. Reversal of voluntary retained earnings		
Reversal of reserve for adjustment of temporary differences	40,593,880	178,788,842
III. Distributions	2,046,946,399	2,084,495,738
Distributions per unit (excluding distributions in excess of earnings)	(2,017)	(2,054)
IV. Retained earnings brought forward	755,671	–
How distributions were calculated	<p>Following the policy prescribed in Article 32-1 of the REIT's bylaws, distributions 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 2,046,946,399 yen as distributions from earnings by appropriating the reversal of the reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to 2,006,352,519 yen, which is the maximum value for the integral multiple of the total number of outstanding investment units, which is 1,014,847 units, within the range of net income. The REIT does not distribute monies in excess of income as prescribed in Article 32-2 of its bylaws.</p>	<p>Following the policy prescribed in Article 32-1 of the REIT's bylaws, distributions 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 2,084,495,738 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 2,043,901,858 yen (by appropriating retained earnings brought forward of 755,671 yen and the reversal of reserve for adjustment of temporary differences of 138,194,962 yen to net income), which is the maximum value for the integral multiple of the total number of outstanding investment units, or 1,014,847 units, within the range of the amount equivalent to net income of 1,904,951,225 yen plus the amount offsetting the gain on sales of real estate properties of 3,377,520 yen and the impairment loss of 143,159,407 yen. The REIT does not distribute monies in excess of income as prescribed in Article 32-2 of its bylaws.</p>

(5) Cash Flow Statement

(Unit: 1,000 yen)

	31st Fiscal Period (December 1, 2016 – May 31, 2017)	32nd Fiscal Period (June 1, 2017 – November 30, 2017)
Cash Flows from Operating Activities		
Income before income taxes	2,007,713	1,905,556
Depreciation	965,459	971,549
Increase (decrease) in allowance for doubtful accounts	520	254
Amortization of investment corporation bond issuance costs	–	1,240
Investment unit issuance expenses amortization	12,168	12,168
Impairment loss	–	143,159
Interest income	(1,259)	(1,264)
Interest expenses	426,332	421,948
Decrease (increase) of operating accounts receivable	5,862	15,336
Decrease (increase) of consumption taxes receivable	(55,875)	55,875
Increase (decrease) in accrued consumption taxes	(170,317)	116,899
Decrease (increase) of long-term prepaid expenses	34,416	27,609
Increase (decrease) in operating accounts payable	(66,639)	79,781
Increase (decrease) in accrued expenses	9,427	8,218
Increase (decrease) in advances received	65,810	(31,040)
Increase (decrease) in deposits received	190	317
Decrease from sales of property, plant and equipment	2,134,623	1,273,840
Other	(1,426)	(12,191)
Subtotal	5,367,006	4,989,259
Interest income received	66	2,464
Interest expenses paid	(378,928)	(400,020)
Income taxes (paid) refund	316	(972)
Cash Flows from Operating Activities	4,988,461	4,590,730
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(1,894,633)	(567,155)
Purchase of property, plant and equipment in trust	(5,413,966)	(258,903)
Purchase of intangible assets	–	(620,131)
Proceeds from receipt of tenant leasehold and security deposits	45,948	61,240
Repayments of tenant leasehold and security deposits	(134,098)	(93,271)
Proceeds from tenant leasehold and security deposits in trust	320,017	146,014
Repayments of tenant leasehold and security deposits in trust	(94,452)	(129,102)
Proceeds from payment of trust deposits corresponding to tenant leasehold and security deposits in trust	94,452	129,102
Deposits of trust deposits corresponding to tenant leasehold and security deposits in trust	(320,017)	(146,014)
Cash Flows from Investing Activities	(7,396,750)	(1,478,221)
Cash Flows from Financing Activities		
Proceeds from short-term loans payable	–	600,000
Proceeds from long-term loans payable	7,265,000	6,580,000
Repayment of investment corporation bonds	(4,265,000)	(9,980,000)
Proceeds from issuance of investment corporation bonds	–	2,777,477
Distributions paid	(1,911,413)	(2,046,199)
Cash Flows from Financing Activities	1,088,586	(2,068,722)
Increase (decrease) in cash and cash equivalents	(1,319,702)	1,043,786
Cash and cash equivalents at beginning of period	10,835,459	9,515,757
Cash and cash equivalents at end of period	*1 9,515,757	*1 10,559,544

4. Reference Information

(1) Investment status

Asset type	Use	Area	31st Fiscal Period (As of May 31, 2017)		32nd Fiscal Period (As of November 30, 2017)	
			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	9,952	5.6	8,666	4.8
		Metropolitan Area (Note 3)	4,903	2.7	4,722	2.6
	Residence	Tokyo 23 Wards	11,513	6.4	12,591	7.0
		Metropolitan Area (Note 3)	3,988	2.2	3,965	2.2
		Other (Note 4)	1,857	1.0	1,865	1.0
	Subtotal		32,215	18.0	31,811	17.8
Real estate in trust (Note 2)	Office	Tokyo 23 Wards	41,699	23.3	41,649	23.3
		Metropolitan Area (Note 3)	3,185	1.8	3,173	1.8
		Other (Note 4)	13,956	7.8	13,871	7.8
	Residence	Tokyo 23 Wards	47,492	26.6	47,330	26.5
		Metropolitan Area (Note 3)	2,993	1.7	2,976	1.7
		Other (Note 4)	19,763	11.1	19,603	11.0
	Subtotal		129,090	72.2	128,603	71.9
Real estate, etc., subtotal		161,305	90.2	160,415	89.7	
Deposits and other assets		17,428	9.8	18,440	10.3	
Total assets		178,734	100.0	178,855	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.

	31st Fiscal Period (As of May 31, 2017)		32nd 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	86,307	48.3	86,444	48.3
Net assets	92,427	51.7	92,410	51.7

(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	1,411	1,306	1,290	0.78
Of-05	SUITENGU HEIWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	1,511	1,422	1,550	0.93
Of-06	HF MONZEN-NAKACHO BUILDING	Koto-ku, Tokyo	Trust beneficial interest	2,570	2,311	2,500	1.50
Of-07	HF HAMAMATSUCHO BUILDING	Minato-ku, Tokyo	Trust beneficial interest	1,650	1,539	1,530	0.92
Of-08	HF TAMEIKE BUILDING	Minato-ku, Tokyo	Trust beneficial interest	2,780	2,773	2,700	1.62
Of-09	GRACE BUILDING SENGAKUJIMAE	Minato-ku, Tokyo	Trust beneficial interest	1,660	1,149	1,220	0.73
Of-10	HF SHIN-YOKOHAMA BUILDING	Yokohama-shi, Kanagawa	Real estate	1,181	1,181	1,550	0.93
Of-11	NIHONBSHI DAIICHI BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,090	2,204	2,150	1.29
Of-12	HG HATCHOBORI BUILDING	Chuo-ku, Tokyo	Real estate	2,540	3,084	3,092	1.86
Of-17	HATCHOBORI MF BUILDING	Chuo-ku, Tokyo	Real estate	1,070	1,122	1,110	0.67
Of-18	M2 HARAJUKU	Shibuya-ku, Tokyo	Trust beneficial interest	4,780	3,454	3,418	2.05
Of-20	FUNABACHI FACE BUILDING	Funabashi-shi, Chiba	Real estate	3,240	3,540	3,900	2.34
Of-21	ADESSO NISHIAZABU	Minato-ku, Tokyo	Trust beneficial interest	537	611	640	0.38
Of-22	HF TORANOMON BUILDING	Minato-ku, Tokyo	Real estate	1,443	1,706	1,675	1.01
Of-23	HF IKEBUKURO BUILDING	Toshima-ku, Tokyo	Real estate	1,390	1,312	1,314	0.79
Of-24	HF YUSHIMA BUILDING	Bunkyo-ku, Tokyo	Real estate	1,420	1,440	1,434	0.86
Of-25	KAYABACHO HEIWA Bldg.	Chuo-ku, Tokyo	Trust beneficial interest	6,490	4,779	4,798	2.88
Of-26	HIROKOJI AQUA PLACE	Nagoya-shi, Aichi	Trust beneficial interest	4,870	2,695	2,930	1.76
Of-27	KOBE KYUKYORYUCHI HEIWA BUILDING	Kobe-shi, Hyogo	Trust beneficial interest	2,880	2,286	2,310	1.39
Of-28	MITA HEIWA BUILDING (leasehold land)	Minato-ku, Tokyo	Trust beneficial interest	2,712	2,269	2,230	1.34
Of-29	SAKAE MINAMI HEIWA BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	2,110	1,486	1,580	0.95
Of-30	HF SAKURADORI BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	6,050	4,670	4,900	2.95
Of-31	HF NIHONBASHI HAMACHO BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,420	1,921	1,900	1.14
Of-32	HF SENDAI HONCHO BUILDING	Sendai-shi, Miyagi	Trust beneficial interest	3,420	2,732	2,700	1.62
Of-33	HF UENO BUILDING	Taito-ku, Tokyo	Trust beneficial interest	4,180	3,516	3,400	2.04
Of-34	KOJIMACHI HF BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	1,930	1,388	1,350	0.81
Of-35	HF KUDAN MINAMI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	3,300	2,772	2,720	1.64
Of-36	HF KANDA OGAWAMACHI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	4,120	3,260	3,150	1.89
Of-37	NISSO 5 BUILDING	Yokohama-shi, Kanagawa	Trust beneficial interest	3,410	3,173	3,100	1.86
Of-38	ACROSS SHINKAWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	3,620	3,293	3,250	1.95
Of-39	SENJI MILDIX II BANKAN	Adachi-ku, Tokyo	Trust beneficial interest	1,910	1,673	1,650	0.99
Office subtotal				84,696	72,082	73,041	43.91

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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	541	382	430	0.26
Re-05	HF MEGURO RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	691	628	660	0.40
Re-09	HF KASAI RESIDENCE	Edogawa-ku, Tokyo	Trust beneficial interest	758	591	650	0.39
Re-11	HF WAKABAYASHI-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	4,210	3,142	3,610	2.17
Re-12	HF HIMONYA RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	1,667	1,433	1,560	0.94
Re-14	HF MINAMIAZABU RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,367	1,289	1,370	0.82
Re-15	HF AZABUJUBAN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,230	1,132	1,260	0.76
Re-16	HF GAKUGEIDAIGAKU RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	980	909	1,000	0.60
Re-17	HF HIGASHIKANDA RESIDENCE	Chiyoda-ku, Tokyo	Trust beneficial interest	1,380	910	1,100	0.66
Re-18	HF HIGASHINIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,590	1,008	1,210	0.73
Re-19	HF NERIMA RESIDENCE	Nerima-ku, Tokyo	Trust beneficial interest	806	573	690	0.41
Re-20	HF SHIROKANETAKANAWA RESIDENCE	Minato-ku, Tokyo	Real estate	4,630	3,724	4,030	2.42
Re-21	HF MEIDAIMAE RESIDENCE	Setagaya-ku, Tokyo	Real estate	1,000	989	1,070	0.64
Re-22	HF NIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,120	1,061	1,130	0.68
Re-23	HF KAMISHAKUJII RESIDENCE	Nerima-ku, Tokyo	Real estate	1,000	869	950	0.57
Re-24	HF KINSHICHO RESIDENCE	Sumida-ku, Tokyo	Real estate	1,170	1,072	1,100	0.66
Re-25	HF GINZA RESIDENCE EAST	Chuo-ku, Tokyo	Trust beneficial interest	4,940	5,542	5,940	3.57
Re-26	HF SHIN-YOKOHAMA RESIDENCE	Yokohama-shi, Kanagawa	Real estate	2,750	3,038	3,350	2.01
Re-29	HF HAKUSAN RESIDENCE	Bunkyo-ku, Tokyo	Real estate	1,940	2,270	2,350	1.41
Re-30	HF MAGOME RESIDENCE	Ota-ku, Tokyo	Real estate	1,400	1,515	1,630	0.98
Re-31	HF GAKUGEIDAIGAKU RESIDENCE II	Meguro-ku, Tokyo	Trust beneficial interest	1,260	1,569	1,650	0.99
Re-33	HF KAMEIDO RESIDENCE	Koto-ku, Tokyo	Real estate	1,110	1,007	1,050	0.63
Re-34	HF TANASHI RESIDENCE	Nishitokyo-shi, Tokyo	Real estate	782	927	911	0.55
Re-35	HF SHIBA-KOEN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	864	810	836	0.50
Re-36	HF MITA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,240	1,042	1,080	0.65
Re-37	HF TAKANAWA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	912	721	749	0.45
Re-38	La Residence de Shirokanedai	Minato-ku, Tokyo	Trust beneficial interest	885	694	730	0.44
Re-39	HF GINZA RESIDENCE EAST II	Chuo-ku, Tokyo	Trust beneficial interest	1,740	1,401	1,460	0.88
Re-40	HF HATCHOBORI RESIDENCE II	Chuo-ku, Tokyo	Trust beneficial interest	2,200	1,805	1,890	1.14
Re-41	HF HATCHOBORI RESIDENCE III	Chuo-ku, Tokyo	Trust beneficial interest	1,020	735	793	0.48
Re-42	HF GINZA RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,200	839	944	0.57
Re-43	HF KOMAZAWA-KOEN RESIDENCE TOWER	Setagaya-ku, Tokyo	Trust beneficial interest	7,160	6,503	6,520	3.92
Re-44	HF UMEDA RESIDENCE TOWER	Osaka-shi, Osaka	Trust beneficial interest	2,120	1,789	1,920	1.15
Re-45	HF NAKANOSHIMA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	515	444	453	0.27
Re-46	HF AWAZA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	706	524	577	0.35
Re-47	HF MARUNOUCHI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	725	535	624	0.38

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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-48	HF HIRAO RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	2,090	1,652	1,780	1.07
Re-49	HF KAWARAMACHI NIJO RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	578	493	534	0.32
Re-52	HF TENJIN-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	623	422	502	0.30
Re-53	HF SHIJO KAWARAMACHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	2,250	1,670	1,820	1.09
Re-54	La Residence de Sendagi	Bunkyo-ku, Tokyo	Trust beneficial interest	960	776	820	0.49
Re-55	HF SENDAGI RESIDENCE	Bunkyo-ku, Tokyo	Trust beneficial interest	1,030	818	870	0.52
Re-56	HF KOMAZAWA-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	686	575	615	0.37
Re-57	HF MUSASHI KOYAMA RESIDENCE	Shinagawa-ku, Tokyo	Trust beneficial interest	1,070	796	842	0.51
Re-58	HF KOKUBUNJI RESIDENCE	Kokubunji-shi, Tokyo	Trust beneficial interest	1,020	788	839	0.50
Re-59	HF HISAYAODORI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	1,250	1,005	1,080	0.65
Re-60	HF KARASUMA KURAMAGUCHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	667	528	572	0.34
Re-61	HF NISHI-SHINJUKU RESIDENCE WEST	Shinjuku-ku, Tokyo	Trust beneficial interest	2,520	1,966	1,990	1.20
Re-62	HF NISHI-SHINJUKU RESIDENCE EAST	Shinjuku-ku, Tokyo	Trust beneficial interest	1,450	1,153	1,170	0.70
Re-63	HF HIGASHI SHINJUKU RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,600	1,273	1,360	0.82
Re-64	HF HIGASHI-SHINSAIBASHI RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	663	531	566	0.34
Re-65	HF KITA-YOBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,090	731	809	0.49
Re-66	HF ATAGOBASHI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	889	599	684	0.41
Re-67	HF KYUDAIBYOINMAE RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	498	382	426	0.26
Re-68	HF ASAKUSABASHI RESIDENCE	Taito-ku, Tokyo	Trust beneficial interest	936	724	771	0.46
Re-69	HF ICHIBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,090	755	834	0.50
Re-70	HF HIGASHI-NAKANO RESIDENCE	Nakano-ku, Tokyo	Trust beneficial interest	1,070	888	942	0.57
Re-72	HF WASEDA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	2,510	1,980	2,090	1.26
Re-73	HF WASEDA RESIDENCE II	Shinjuku-ku, Tokyo	Trust beneficial interest	1,040	828	872	0.52
Re-74	HF WAKAMATSUKAWADA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,500	1,198	1,158	0.70
Re-75	HF Sendai Residence EAST	Sendai-shi, Miyagi	Trust beneficial interest	1,930	1,619	1,638	0.99
Re-76	HF NISHI-KOEN RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,410	1,365	1,310	0.79
Re-77	HF BANSUI-DORI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	908	825	790	0.47
Re-78	HF KANNAI RESIDENCE	Yokohama-shi, Kanagawa	Trust beneficial interest	2,010	1,805	1,800	1.08
Re-79	HF MEIEKI-KITA RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	2,260	2,162	2,160	1.30
Re-80	HF HIGASHI-SAPPORO RESIDENCE	Sapporo-shi, Hokkaido	Trust beneficial interest	1,650	1,562	1,560	0.94
Re-81	HF HAKATA-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	Real estate	901	950	880	0.53
Re-82	HF SENDAI ITSUTSUBASHI RESIDENCE	Sendai-shi, Miyagi	Real estate	856	915	850	0.51
Re-83	HF TABATA RESIDENCE	Kita-ku, Tokyo	Real estate	1,300	1,140	1,100	0.66
Residence subtotal				101,914	88,332	93,312	56.09
Total				186,609	160,415	166,353	100.00

- (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, 2017, after deducting the accumulated depreciation. However, for HF SHIN-YOKOHAMA RESIDENCE, the column shows the amount after impairment accounting.
- (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 (36 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.
- (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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