HEIWA REAL ESTATE CO.,LTD.

8803 Tokyo Stock Exchange First Section

29-Jul.-16

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Posting good business performance, Aims to Submit Urban Plans for Two Forerunning Revitalization Projects in Nihonbashi Kabutocho and Kayabacho During 2016

Heiwa Real Estate Co., Ltd. (8803) started by leasing buildings to stock exchanges, including those in Tokyo, Osaka, and Nagoya, and it now develops, leases, manages and operates office buildings primarily, but also commercial buildings and residential buildings in major Japanese cities. The leasing business, which accounts for 57.5% of operating revenues (FY3/16), owns numerous properties, primarily located in the financial districts of major urban centers, and features relatively low vacancy rates because many are leased out as entire buildings. The real estate solutions business, which represents 36.0% of operating revenues (FY3/16), provides a stable source of earnings through a value chain that includes Heiwa Real Estate REIT, Inc. <8966>.

Heiwa Real Estate posted upbeat results in FY3/16 at ¥37,010mn in operating revenue (+7.8% YoY), ¥8,267mn in operating income (-3.3%), ¥6,708mn in ordinary income (+2.1%), and ¥4,408mn in net income (+76.7%). Operating revenue rose mainly on higher building sales income in the leasing business and increased property sales in the real estate solutions business. Operating income only fell ¥281mn, despite the setback from rent reduction for the Tokyo Stock Exchange Building (-¥1,200mn YoY in FY3/16) negotiated in 2013, owing to profit contributions from buildings acquired in FY3/15 and newly constructed buildings in the leasing business and higher brokerage fees in the real estate solutions business. Ordinary income moved upward thanks primarily to a decline in interest payments. Net income attributed to owners of parent increased sharply because of a smaller extraordinary loss. The FY3/17 guidance calls for higher operating revenue and profits on a total basis, even with the prospect of lower sales and profits in the leasing business due to backlash from the previous year's building sales, led by increased sales of properties in the real estate solutions business.

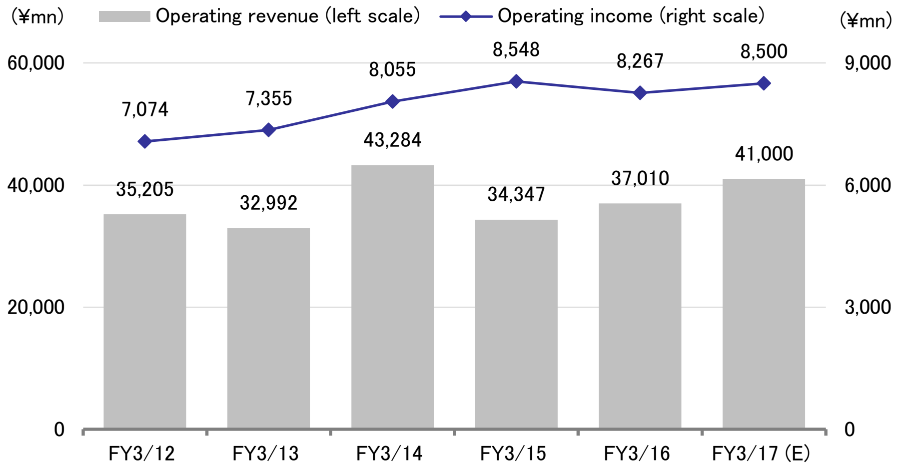
The Nihonbashi Kabutocho Revitalization Project is the centerpiece of the company's growth strategy. Heiwa Real Estate made substantial progress in FY3/16, including concept development, an additional application as an urban redevelopment project in the National Strategic Special Zone for Greater Tokyo, and property acquisitions in the target zones for phase-one projects (Kabutocho Project and Kayabacho Project). It aims to submit urban plan proposals for phase-one projects during 2016 and complete the projects by FY3/21.

We think financial and management indicator trends show improvements in Heiwa Real Estate's soundness and profitability. The D/E ratio (interest-bearing debt/net assets), shareholders' equity ratio, and other financial indicators improved thanks to a decline in the interest-bearing debt balance and rise in net assets. Heiwa Real Estate is also sustaining the long-term loan ratio at about 95%, and the average loan interest rate is trending lower. It has bolstered the foundation to support investments in the Nihonbashi Kabutocho redevelopment. ROE (net profit/shareholders' equity) and ROA (ordinary income/total assets) are moving upward, and capital and management efficiencies are getting better. Heiwa Real Estate raised the dividend for the first time in three years in FY3/16 to ¥26 for the full year, putting the dividend payout ratio at 23.5%. It plans to pay ¥26 again in FY3/17.

Check Point

- Aims to submit the urban plan proposal for phase-one projects for Nihonbashi Kabutocho and Kayabacho redevelopment during 2016
- Strengthening the financial base by lowering the interest-bearing debt balance and reducing the average loan interest rate
- Posted good business performance in FY3/16 by offsetting the impact of rent reduction for the TSE Building with income from other areas and expects operating revenue and profit increases in FY3/17

Full-Year Results Trends



Business Trends

Posted good business performance by offsetting the impact of rent reduction for the TSE Building with income from other areas

(1) Review of FY3/16 results

Heiwa Real Estate posted upbeat results in FY3/16 at ¥37,010mn in operating revenue (+7.8% YoY), ¥8,267mn in operating income (-3.3%), ¥6,708mn in ordinary income (+2.1%), and ¥4,408mn in net income (+76.7%). Operating revenue rose mainly on higher building sales income in the leasing business and increased property sales in the real estate solutions business. Operating income only fell ¥281mn, despite the setback from rent reduction for the Tokyo Stock Exchange Building (-¥1,200mn YoY in FY3/16) accepted in 2013, owing to profit contributions from buildings acquired in FY3/15 and newly constructed buildings in the leasing business and higher brokerage fees in the real estate solutions business. Ordinary income moved upward thanks primarily to a decline in interest payments. Net income attributed to owners of parent increased sharply because of a smaller extraordinary loss.

FY3/16 Results by Business Segments

(unit: ¥mn)

	FY3/15	FY3/16		
	Result	Result	Value change	YoY
Operating revenue				
Leasing Business	19,365	21,276	1,910	9.9%
Real Estate Solutions Business	12,668	13,318	650	5.1%
Other Businesses	2,313	2,415	102	4.4%
Total	34,347	37,010	2,663	7.8%
Operating income				
Leasing Business	7,616	7,158	-458	-6.0%
Real Estate Solutions Business	1,795	2,087	292	16.3%
Other Businesses	222	144	-77	-34.9%
Eliminations	-1,085	-1,122	-37	-
Total	8,548	8,267	-281	-3.3%
Ordinary income	6,568	6,708	139	2.1%
Extraordinary loss	2,215	661	-1,554	-70.2%
Net income attributable to owners of parent	2,495	4,408	1,913	76.7%

Source: Company materials

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Expecting higher operating revenue and profits led by the real estate solutions business

(2) FY3/17 outlook

The FY3/17 guidance calls for higher operating revenue and profits at ¥41,000mn in operating revenue (+10.8% YoY), ¥8,500mn in operating income (+2.8%), ¥7,000mn in ordinary income (+4.3%), and ¥4,500mn in net income (+2.1%). Heiwa Real Estate expects overall gains, even with the prospect of lower sales and profits in the leasing business due to backlash from the previous year's building sales, led by increased sales of properties and revenue from residential developments in the real estate solutions business.

FY3/17 Results Outlook (Consolidated)

	FY3/16 cumulative		FY3/17 cumulative		
	Result (¥mn)	Ratio to operating revenue (%)	Guidance (¥mn)	Ratio to operating revenue (%)	YoY change (%)
Operating revenue	37,010	100.0	41,000	100.0	10.8
Cost of goods sold	24,650	66.6	-	-	-
Gross income	12,359	33.4	-	-	-
SG&A expenses	4,091	11.1	-	-	-
Operating income	8,267	22.3	8,500	20.7	2.8
Ordinary income	6,708	18.1	7,000	17.1	4.3
Net income attributable to owners of parent	4,408	11.9	4,500	11.0	2.1

Source: Financial results

Strengthening the financial base by lowering the interest-bearing debt balance and reducing the average loan interest rate

(3) Financial and management indicators

We think financial and business indicator trends over the past four years show improvements in Heiwa Real Estate's soundness and profitability. The D/E ratio (interest-bearing debt/net assets), shareholders' equity ratio, and other financial indicators improved thanks to a decline in the interest-bearing debt balance from ¥186.9bn (FY3/13) to ¥160.2bn (FY3/16). Heiwa Real Estate is also sustaining the long-term loan ratio at about 95%, and the average loan interest rate is trending lower. It has bolstered the foundation to support investments in the Nihonbashi Kabutocho redevelopment.

ROE (net income/shareholders' equity) and ROA (ordinary income/total assets) are moving upward, and capital and management efficiencies are getting better. We have a favorable view of Heiwa Real Estate's success in sustaining operating margin even with the TSE Building's rent reduction.

Financial and Management Indicators

	FY3/13 Result	FY3/14 Result	FY3/15 Result	FY3/16 Result	Trend (↑,→,↓)
<Measures of financial stability>					
D/E ratio (interest-bearing debt/net assets; times)	2.2	2.0	1.8	1.7	↓
Equity ratio (%)	26.7%	29.0%	31.0%	32.3%	↑
Interest-bearing debt balance (¥100mn)	1,869	1,703	1,624	1,602	↓
Financial costs (interest payments, etc.; ¥100mn) *Heiwa Real Estate nonconsolidated	-	26.4	23.3	19.3	↓
Long-term loan ratio (%)	-	94.1%	96.0%	95.0%	→
Average loan interest rate (%)	-	1.42%	1.24%	1.10%	↓
<Profitability>					
ROE (net income/shareholders' equity)	3.1%	3.4%	2.8%	4.7%	↑
ROA (ordinary income/gross assets)	1.5%	1.9%	2.2%	2.3%	↑
ROS (operating income/operating revenue)	22.3%	18.6%	24.9%	22.3%	→

Source: Financial results, earnings materials

Growth Strategy

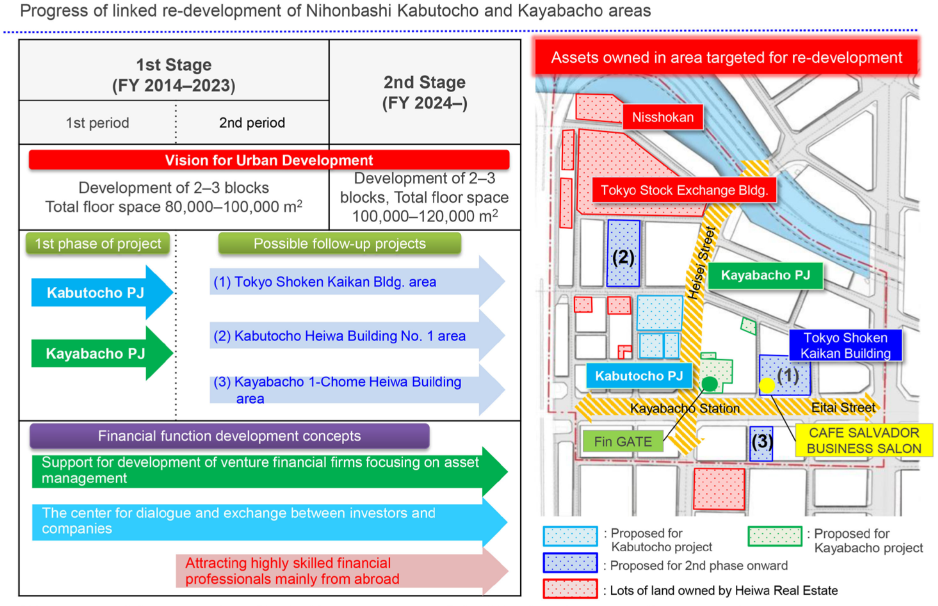
Plans to submit the urban plan proposal for the first phase of the Nihonbashi Kabutocho Revitalization Project within the year

(1) The Nihonbashi Kabutocho Revitalization Project

This project is part of the Tokyo Global Financial Center plan being pursued by the Tokyo Metropolitan Government. For the project, Heiwa Real Estate plans to complete new buildings and thereby expand its leasing assets and profitability. It has presented a corporate vision of pursuing urban revitalization with redevelopment of Nihonbashi Kabutocho as the starting point.

Nihonbashi Kabutocho is the center of the securities industry in Tokyo, housing the Tokyo Stock Exchange, many other buildings owned by Heiwa Real Estate, and the company's main office. The area is within walking distance of Tokyo Station, is served by five subway lines, is close to the business districts of Nihonbashi, Otemachi and Marunouchi, and has easy access to both of Tokyo's international airports, Haneda and Narita. However, the area has gradually lost its vitality over time due to several factors, including total automation of stock transactions, prolonged economic weakness since the collapse of the bubble economy, and moves and consolidations by securities firms, and many buildings were getting older. Heiwa Real Estate aims to restore the area's vibrancy through the revitalization project. About 100,000 m2 of Nihonbashi Kabutocho are targeted for redevelopment and, Heiwa Real Estate plans to take on the Kabutocho project and the Kayabacho project, which both front onto Heisei Street avenue, as phase one of the 1st stage (FY3/15-24).

Candidates for Project



* The above schedule is being worked on and is subject to change depending on further deliberation and discussions with concerned parties.

Source: Company materials

The two projects advanced considerably in FY3/16. In its interim report of April 2015, the Council on Urban Development for Investment and Economic Growth explained the concept behind a new key role to be played by Nihonbashi Kabutocho, one that focuses on asset managers and other financial service professionals. The concept aims to create a community that promotes nurturing and concentration of financial venture companies and specialized financial service providers centered on financial professionals and asset managers and facilitates interaction with listed companies. Given this initiative, Heiwa Real Estate plans in its phase-one projects to realize the concepts of "supporting the development of financial venture companies that focus on asset management" and "developing facilities that promote dialog and interaction among investors and companies." The company will do this through construction of facilities that promote the incubation of financial venture companies, such as new asset management firms, and creation of an investor forum and facilities that foster financial knowledge for investors and companies.

In June 2015, the district commission for National Strategic Special Zone in Greater Tokyo designated two projects in the Nihonbashi Kabutocho and Kayabacho 1-chome, which is part of the area the company is redeveloping, as an urban redevelopment project. The Tokyo Metropolitan Government has come up with the Tokyo Financial Street idea for supporting the concept of a Tokyo Financial Center in the area extending along Eitai Street avenue from the Otemachi district to the Kabutocho district. Given its status as a National Strategic Special Zone to upgrade financial functions, we expect the projects to benefit specifically from relaxation of plot ratio regulations and a speedier approval process.

While Heiwa Real Estate had been making progress in buying properties, it completed the purchase of the Kayabacho Kyodo Building, which is well situated in Kabutocho, in May 2015, providing an additional boost to the project. It also acquired the Sanraku Bldg. (Kayabacho Project area) and other sites during FY3/16 and has largely finished land purchases for phase one.

The next milestone is the urban plan proposal. Management cannot specify a certain date because of discussions with related parties, but hopes to submit the proposal during 2016.

Progress since FY3/16

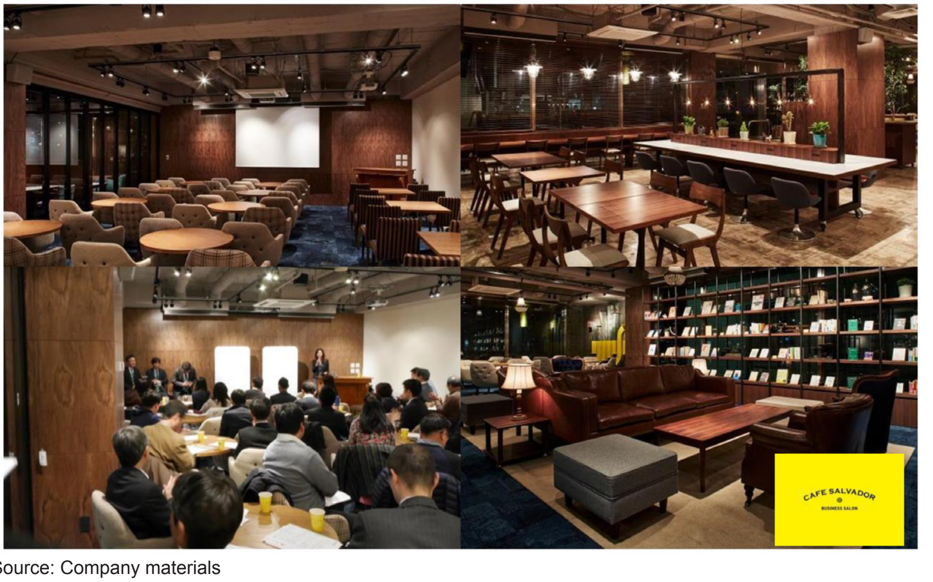
April 2015	Announcement of interim opinions by the Council for Urban Development for Investment and Economic Growth
May 2015	Acquired Kayabacho Kyodo Bldg. (Kayabacho Project area) and Kayabacho Heiwa Bldg. No. 5 (formerly Yusen Kabutocho Bldg.)
June 2015	Was added to the National Strategic Special Zone urban revitalization project
October 2015	Participated as an observer in the “Working Group on Asset Management,” a subgroup of the “Forum for Promotion of the Tokyo International Financial Center Concept” hosted by Japan Securities Dealers Association, The Investment Trusts Association, Japan and Japan Investment Advisors Association
March 2016	Opened “Fin GATE,” an event venue to promote Fintech etc., on the 1st floor of Kayabacho Kyodo Bldg. Opened “CAFE SALVADOR BUSINESS SALON”

Source: FISCO Ltd. from company materials

Heiwa Real Estate opened “CAFE SALVADOR BUSINESS SALON” as an information hub for the redevelopment project on the first floor of the Tokyo Shoken Kaikan Building in March 2016. A key aim of this site is accumulating knowhow through early initiatives with the redevelopment concepts of “interaction among investors and companies” and “support for development of venture financial firms.” The site is having a smooth start with numerous seminar and other events hosted by asset management firms.

Information Hub in the Re-developed Nihonbashi Kabutocho and Kayabacho

- We opened “CAFE SALVADOR BUSINESS SALON” as an information hub for redevelopment project on the first floor of the Tokyo Shoken Kaikan Building in March 2016.
- 20 to 30 seminars and performance briefings are held each month, by such as asset managers “soshoku” long-term investors (i.e., Commons Asset Management, Saison Asset Management and Hifumi Investment Trust).



Source: Company materials

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Steadily replacing properties in the leasing portfolio, intends to consolidate holdings in office buildings and Tokyo's three central wards or around its branch offices

(2) Strengthening of the building leasing business

Steady replacement of leasing assets in the building leasing business is important in order to raise asset efficiency. Heiwa Real Estate also needs an even stronger earnings foundation to proceed smoothly in revitalization of the Nihonbashi Kabutocho area. It sold properties worth about ¥16bn and purchased properties totaling roughly ¥18bn over the two years covering April 2014 to March 2016, bolstering portfolio quality. Quatro Muromachi Building (located in Tokyo's Chuo ward and has 5,351 m2 of floor space) is a notable example of a leasing property purchased in FY3/16.

Portfolio replacement initiatives for building lease assets have increased building lease revenue and leasable floor space in the Tokyo area (FY3/16). Leasing revenue from the Tokyo area, excluding the impact of rent reduction for the TSE Building, climbed from FY3/15's ¥5.1bn to ¥5.5bn in FY3/16 and leasable space rose from FY3/15's 95,000 m2 to 100,000 m2 in FY3/16. The Greater Tokyo area also has a lower vacancy rate than other areas. The company's vacancy rate for all properties works out to 1.8%, while properties in Greater Tokyo are at 1.3% (FY3/16 vacancy rates excluding space sidelined by redevelopment projects).

Examples of Portfolio Renewal

Quatro Muromachi Bldg. was acquired in FY ended March 31, 2016. Since Apr. 2014, approximately 16 billion yen worth of assets have been sold, and approximately 18 billion yen worth of new assets have been acquired.

Major acquisitions	Kayabacho Broad Square	Sakae Center Building	Hamacho Heiwa Bldg.	Quatro Muromachi Building
				
Location	Chuo Ward, Tokyo	Naka Ward, Nagoya City	Chuo Ward, Tokyo	Chuo Ward, Tokyo
Total floor space	5,895.69 m²	7,337.43 m²	4,241.86 m²	5,351.31 m²
Completed	January 1992	March 1995	September 1993	April 2003
Acquired	December 2014	February 2015	March 2015	December 2015

Major disposals	Mio Porto (Girls' dormitories, three buildings)	Nagoya Marunouchi Heiwa Building	Tenjin 3-Chome Heiwa Building, lot for lease	Four Antenia Series buildings
Location	Setagaya Ward, Tokyo, other	Naka Ward, Nagoya City	Chuo Ward, Fukuoka City	Bunkyo Ward, Tokyo, other
Total floor space	4,648.97 m² (three buildings)	11,412.07 m²	9,167.35 m²	5,895.75 m² (four buildings)
Completed	March 1991–March 1994	January 1982	April 1999	April 1988–March 2007
Sold	July 2015	July 2015	August 2015	March 2016

* Total floor spaces represent those belonging to Heiwa Real Estate

Source: Company materials

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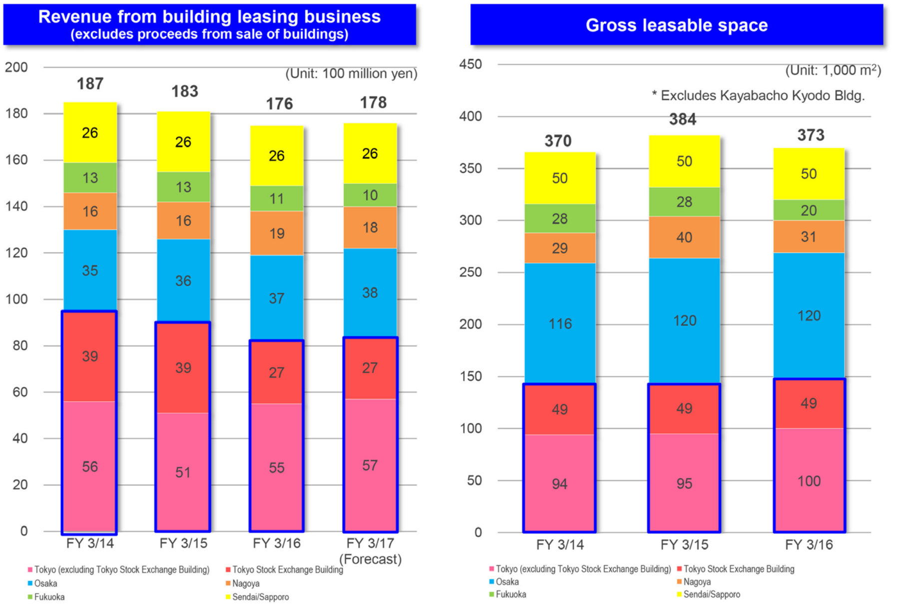
Progress of Replacement in Portfolio of Buildings for Lease

Revenue and floor space in Tokyo area increased as a result of replacements in the portfolio



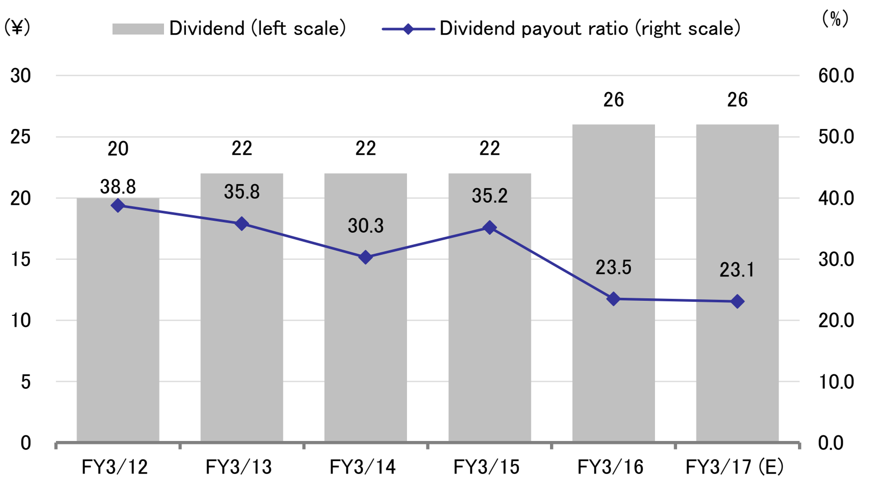
Source: Company materials

Shareholder Returns Policy

Dividend hike for the first time in three years in FY3/16, plan to maintain the same level in FY3/17

Heiwa Real Estate intends to maintain a dividend payout ratio of around 30% over the longer term, but it remains in a phase in which profit retention is more important than ever in order to achieve stable long-term business growth, including in redevelopment and leasing businesses. It raised the dividend for the first time in three years in FY3/16 to ¥26 for the full year, putting the dividend payout ratio at 23.5%. It plans to pay ¥26 again in FY3/17 for a 23.1% payout ratio.

Dividend Per Share and Dividend Payout Ratio



Note: While the company conducted a reverse split of ordinary shares (from five shares to one share) on October 1, 2012, we calculate the dividend per share as if it took place at the start of FY3/12.

Company Overview

Originated as a real estate leaser to Japan's securities industry

(1) History

In 1947, the Japan Securities Exchange (a semi-private semi-public enterprise with 11 offices throughout Japan) dissolved. That year Heiwa Real Estate was established as in-kind investments to lease buildings to new exchanges and securities companies. Subsequently, the company increased its leased assets by developing or acquiring office buildings and expanded the scope of its business to include asset management and home development. Today, it has six consolidated subsidiaries.

Leasing business and real estate solutions business coordinating with REIT form two main businesses

(2) Business overview

Two main businesses, leasing and real estate solutions, provided 93.5% of total operating revenue and almost all operating income in FY3/16.

As of March 2016, the leasing business owns about ¥214.2bn of assets for lease, including securities exchange buildings, office buildings, commercial facilities, and housing, in Japan's main cities, including Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, and Sendai. Many of these buildings are in the securities industry centers of Nihonbashi Kabutocho in Tokyo, Kitahama in Osaka, and Sakae in Nagoya. Leasing is the company's main business, supplying 57.5% of its total operating revenue and 86.5% of its total operating income before eliminations in FY3/16.

The real estate solutions business has four sources of revenue: 1) management fees, 2) revenue from developed real estate, 3) brokerage fees, and 4) housing development. Management fees are earned by consolidated subsidiary Heiwa Real Estate Asset Management Co., Ltd., which operates assets received from Heiwa Real Estate REIT, Inc., a non-consolidated unit. Management fee income increases as the amount of assets under management expands. Revenue from developed real estate stems mainly from the sales of real estate to Heiwa Real Estate REIT as the exit. Sales tend to fluctuate annually, but because properties are usually sold soon after being acquired, the operating income from these sales varies less than sales. Brokerage fees are collected on real estate transactions conducted by the company across the board. The housing development business constructs condominium buildings and sells the units of these buildings. This business has a short operating cycle. In FY3/16, the real estate solutions business provided 36.0% of the company's total operating revenue and 25.2% of its total operating income before eliminations.

Business Breakdown

Business segments	Segment details	Share of operating revenue		Share of operating income	
Leasing Business	Office buildings	55.1%	57.5%	82.4%	86.6%
	Residential buildings	2.4%		4.1%	
Real Estate Solutions Business	Management fees	3.4%	36.0%	25.7%	25.2%
	Revenue and income from real estate development, etc.	25.6%			
	Brokerage fees	2.8%			
	Housing development	4.1%		-0.5%	
Other Businesses	Management and rennovation of buildings		6.5%		1.7%
Eliminations	-		-		-13.5%
Total	-		100%		100%

Source: Company materials *FY3/16 *FY3/16

Favorable market environment for building leasing business, company develops urban areas

(3) Leasing market environment and company's business model

Building leasing market has been improving. The average vacancy rate of office buildings in the five central commercial wards of Tokyo (Chuo, Chiyoda, Minato, Shinjuku, and Shibuya) decreased from 9.0% in March 2012 to 4.3% in March 2016*, on top of which the average rent in these wards grew higher. The average vacancy rate of office buildings leased in Greater Tokyo by Heiwa Real Estate was 4.3% in March 2016; however, excluding buildings the company had stopped leasing to redevelop, this vacancy rate was only 1.3%, far below the market average vacancy rate. The company practice to lease most of its building as a unit is contributing to this low vacancy rate.

In leasing business, to increase the added value, Heiwa Real Estate considers an entire area, not a single building. Because many of its buildings are located in the financial districts of leading cities, it excels at developing urban areas. For example, in the Sakae area of Nagoya, the company redeveloped buildings near the stock exchange over the 10 years from 2004, thereby enhancing the cityscape and increasing the floor area of all buildings leased in the area from 11,300 m2 to 39,700 m2. Its leasing revenue from the area grew accordingly. The Nihonbashi Kabutocho Revitalization Project is also an initiative where the company can leverage its expertise in urban redevelopment.

* Office data by Miki Shoji Co., Ltd.

Value chain strategy including REIT business

(4) Business model for real estate solutions business

The company's basic strategy for real estate solutions is to build a value chain that encompasses its entire group, including Heiwa Real Estate REIT Inc.. As a sponsor of Heiwa Real Estate REIT, Heiwa Real Estate acquires buildings, raises their value, such as by lowering their vacancy rates, and then supplies the buildings to the REIT. Heiwa Real Estate Asset Management, a consolidated subsidiary, mainly handles related asset management and earns management fees. This structure forms a cycle of organic growth that generates profits, in which Heiwa Real Estate enhances the REIT's asset value by supplying it with quality properties, and as the number of properties consigned by the REIT increases, stable management fees grow. Heiwa Real Estate REIT, which is not consolidated, mainly invests in office and residential buildings located in Tokyo's wards and has been generating healthy earnings in recent years.

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