HEIWA REAL ESTATE REIT, Inc.

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Notice Concerning Revision of Management Status Forecasts for Fiscal Period Ending May 2018 (33rd Fiscal Period) and November 2018 (34th Fiscal Period)

HEIWA REAL ESTATE REIT, Inc. (the "Investment Corporation") announced the outlook for its management status (forecast figures) for the fiscal period ending May 2018 (33rd Fiscal Period: December 1, 2017 to May 31, 2018) and November 2018 (34th Fiscal Period: June 1, 2018 to November 30, 2018), as described below.

Details

1. Management Status Forecasts for Fiscal Period Ending May 2018 (33rd Fiscal Period)

	Operating revenue (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distribution per unit (yen)
Previous forecast (A)	6,042	2,658	2,174	2,173	2,121
Revised forecast (B)	8,787	5,296	4,799	4,798	2,300
Variance (B) – (A)	2,744	2,637	2,625	2,625	179
Variance (%)	45.4	99.2	120.8	120.8	8.4
(Reference) Actual Results of Previous Period (Period ended November 2017)	5,881	2,557	2,048	1,904	2,054

(Note) The number of units issued and outstanding at the end of the fiscal year: 1,014,847.

Management Status Forecasts for Fiscal Period Ending November 2018 (34th Fiscal Period)

	Operating revenue (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distribution per unit (yen)
Previous forecast (A)	5,936	2,597	2,120	2,119	2,158
Revised forecast (B)	5,765	2,537	2,076	2,076	2,300
Variance (B) – (A)	-171	-59	-43	-43	142
Variance (%)	-2.9	-2.3	-2.1	-2.1	6.5

(Note) The number of units issued and outstanding at the end of the fiscal year: 1,014,847.

2. Reasons for revising the Management Status Forecasts

As stated in the “Notice Concerning Transfer of Asset (HIROKOJI AQUA PLACE)” published today, we have decided to transfer HIROKOJI AQUA PLACE.

We are making the revision because changes were made in the assumptions for the management status forecasts for the fiscal periods ending May 2018 (the 33rd fiscal period) that were published on March 15, 2018, given that a difference of 10% or more will arise in operating revenue, a difference of 30% or more will arise in ordinary income and net income and a difference of 5% or more will arise in distribution per unit.

While a gain on transfer (approximately 2,700 million yen) is expected to be generated from this transfer, we will internally reserve part of the profit after deducting the expenses for the sale and the repayment of borrowings from the gain on transfer. With respect to the internally reserved amount, we intend to return it to investors by adding it to the reserve for adjustment of temporary differences that we have held for some time and adding it to distributions from the fiscal period ending November 2018 (the 34th fiscal period) as a source for the future distribution payment. We also think that it will make a further contribution to the improvement and stabilization of the future distribution level because we will be able to cover distributions when a loss is made.

3. Satisfying requirements for conduit status

The Investment Corporation is institutionally allowed to include distributions in deductible expenses on the condition of meeting the conduit requirements, so that a system for avoiding double taxation together with taxation on the dividend income of investors is established. One of the conduit requirements is for dividends paid, which requires an investment corporation to distribute more than 90% of the amount of distributable profit.

Because distributions in the fiscal period ending May 2018 (the 33rd fiscal period) will be 90% or less than the amount of distributable profit due to the revision of the management status forecasts above, the conduit requirements will not be met. However, the Investment Corporation has a tax loss carried forward of about 4.45 billion yen (as of the end of the fiscal period ended November 2017 (the 32nd fiscal period)) and is able to deduct part of the taxable income. In addition, by applying the advanced depreciation based on the “special provisions for the advance acquisition of land, etc. in 2009 and 2010” stipulated in Article 66-2 of the Act on Special Measures Concerning Taxation, the Investment Corporation will be able to conduct advanced depreciation for 60% of the gain on transfer of land associated with this transfer. The Investment Corporation will also reduce taxable income by eliminating differences between tax and accounting treatments arising from the mergers in the past. Accordingly, no tax burden is expected to be imposed because taxable income for tax purposes will decline due to these effects.

【Notes】

1. The above figures are as of the date of this document and based on the assumptions described in the attachment "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)" Therefore, actual operating revenue, operating income, ordinary income, net income and distributions per unit may vary. These forecasts are not guarantees of actual distributions.
2. The Investment Corporation may revise forecasts in the future in the event of significant discrepancy with the figures above is expected.
3. Amounts are rounded down to the nearest specified unit, and figures for the Variance are rounded to the second decimal place.
4. The carry-over deadline for the tax loss carried forward of the Investment Corporation is the fiscal period ending May 2020 (the 37th fiscal period).
5. The application deadline for the "special provisions for the advance acquisition of land, etc. in 2009 and 2010" is the fiscal period ending May 2020 (the 37th fiscal period).

* Distribution: Kabuto Club, Ministry of Land, Infrastructure, Transport and Tourism Press Club, and Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications

* Investment Corporation Website: http://www.heiwa-re.co.jp/english/

[Reference] 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	・The assumption is 99 properties (100 properties under management at present, excluding "HIROKOJI AQUA PLACE" to be transferred on May 31, 2018). ・The actual number of properties owned may vary if properties are newly acquired, transferred, etc.
Total outstanding investment units	・The assumption is 1,014,847 units as the total number of investment units at present.
Operating revenues	・Operating revenues are calculated based on the assumption of the above assets under management. ・A gain on sales of real estate properties of approximately 2,836 million yen that aggregates the gain and the loss on the transfer of the assets (including HIROKOJI AQUA PLACE, HF TORANOMON BUILDING and HF TENJIN-HIGASHI RESIDNCE) to be transferred is taken into account. ・Operating revenues are calculated taking into account such factors as cancellation notices currently received and the current market environment, using the history of acquired assets as our standard.
Operating expenses	・Operating expenses are calculated based on the assumption of the above assets under management ・Assumptions concerning major operating expenses are as follows: 33rd Fiscal Period (from December 1, 2017 to May 31, 2018) Public charges and taxes (fixed property tax, city planning tax, etc.): 399 million yen Maintenance and repair fees: 229 million yen Management commissions: 655 million yen Depreciation: 966 million yen 34th Fiscal Period (from June 1, 2018 to November 30, 2018) Public charges and taxes (fixed property tax, city planning tax, etc.): 408 million yen Maintenance and repair fees: 191 million yen Management commissions: 617 million yen Depreciation: 925 million yen ・Fixed property tax and 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 and city planning tax, etc. on the buying and selling of real estate properties is generally calculated on a pro-rata basis between former and new owners and settled at the time of buying and selling, the amount equivalent to the settlement money is not expensed at the time of acquisition, 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.
Non-operating expenses	・Interest expenses (including interest on investment corporation bonds) and related borrowing expenses are estimated to be 484 million yen for the fiscal period ending in May 2018 and 449 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	・The balance of interest-bearing liabilities is 82,661 million yen. ・In accordance with the issuance of investment corporation bonds, it is assumed that repayment of 1,000 million yen in short-term borrowing. ・This is calculated on the assumption that borrowings of 2,994 million yen will be repaid from the proceeds of the transfer of the asset to be transferred in May 2018. ・We assume that the loans maturing in May 2018 and October 2018 will be fully refinanced.
Distributions per unit (excluding distributions in excess of earnings)	・Distribution per unit is calculated based on the policy for the distribution of monies stipulated in the Articles of Incorporation. Distributions in the fiscal period ending May 2018 are based on the assumption that a total amount of 2,334 million yen (distribution per unit of 2,300 yen) that is obtained by adding the planned amount of reversal (40 million yen, or 40 yen per unit) of the reserve for the adjustment of temporary differences to the amount that is obtained by deducting the internal reverse of 2,504 million yen from expected net income of 4,798 million yen will be distributed. Distributions in the fiscal period ending November 2018 are based on the assumption that a total amount of 2,334 million yen (distribution per unit of 2,300 yen) that is obtained by appropriating the planned amount of reversal (40 million yen, or 40 yen per unit) of the reserve for the adjustment of temporary differences and 218 million yen (215 yen per unit) of the internal reserve to expected net income of 2,076 million yen will be distributed. ・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	・Distributions in excess of earnings are not planned at this point in time.
Other	・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.