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HEIWA REAL ESTATE REIT, Inc.
9-1 Nihonbashi Kabuto-cho, Chuo-ku, Tokyo
Masaaki Higashihara, Executive Director
(Securities Code: 8966)

Asset Management Company

HEIWA REAL ESTATE Asset Management CO., LTD.
Takaya Ichikawa, President & Representative Director
Inquiries: Yoshio Ito, General Manager, Planning & Finance Department
TEL. +81-3-3669-8771

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) | 5,931 | 2,556 | 2,071 | 2,070 | 2,080 |
| Revised forecast (B) | 6,042 | 2,658 | 2,174 | 2,173 | 2,121 |
| Variance (B) – (A) | 111 | 102 | 102 | 102 | 41 |
| Variance (%) | 1.9 | 4.0 | 4.9 | 4.9 | 2.0 |
| (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) | 5,916 | 2,564 | 2,091 | 2,091 | 2,100 |
| Revised forecast (B) | 5,936 | 2,597 | 2,120 | 2,119 | 2,158 |
| Variance (B) – (A) | 20 | 32 | 28 | 28 | 58 |
| Variance (%) | 0.3 | 1.3 | 1.4 | 1.4 | 2.8 |

(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 Asset Acquisition and Transfer” published today, the Investment Corporate has decided to acquire ARK Mori Building and transfer HF TORANOMON BUILDING and HF TENJIN-HIGASHI RESIDENCE.

Aggregating a gain and a loss on the transfer of HF TORANOMON BUILDING and HF TENJIN-HIGASHI RESIDENCE, a total gain on transfer of 99 million yen will be generated. Some of this gain on transfer will be internally reserved and appropriated for distributions to investors over three fiscal periods (30 yen per unit per period) for the purpose of stabilizing distributions.

In addition, because an improvement in operating income is expected with the acquisition and transfer of assets, the Investment Corporation will make revisions to its management status forecasts for the fiscal period ending in May 2018 (33rd fiscal period) and the fiscal period ending in November 2018 (34th fiscal period) announced on January 17, 2018, because changes have occurred in their assumptions.

【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 is institutionally allowed to include distributions in deductible expenses and taxable income on the condition that it has met the conduit requirements. In other words, it has established a mechanism to avoid double taxation together with taxation on dividend income at investors. Therefore, even if it has met the conduit requirements, corporate income tax, etc. will be imposed on profits that are not appropriated for distributions as a result of internally reserving some of them. With respect to the disposal of these properties, however, corporate income tax, etc. is not expected to be generated on the above gain that will be internally reserved because taxable income will decline in association with the elimination of differences between tax and accounting treatments that are attributable to mergers in the past.
3. The Investment Corporation may revise forecasts in the future in the event of significant discrepancy with the figures above is expected.
4. Amounts are rounded down to the nearest specified unit, and figures for the Variance are rounded to the second decimal place.

* 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 | 33 rd Fiscal Period: from December 1, 2017 to May 31, 2018 (182 days) 34 th Fiscal Period: from June 1, 2018 to November 30, 2018 (183 days) | | | | | | | | | | | | | | | | | | | | |
| Assets under Management | <ul style="list-style-type: none"> • The assumption is 100 properties (101 properties under management at present, excluding “HF TORANOMON BUILDING” to be transferred on March 28, 2018 and “ HF TENJIN-HIGASHI RESIDENCE” to be transferred on March 30, 2018 but adding “ARK Mori Building” to be acquired on March 28, 2018). • The actual number of properties owned may vary if properties are newly acquired, transferred, etc. | | | | | | | | | | | | | | | | | | | | |
| Total outstanding investment units | <ul style="list-style-type: none"> • The assumption is 1,014,847 units as the total number of investment units at present. | | | | | | | | | | | | | | | | | | | | |
| Operating revenues | <ul style="list-style-type: none"> • Operating revenues are calculated based on the assumption of the above assets under management. • A gain on sales of real estate properties of approximately 99 million yen that aggregates the gain and the loss on the transfer of the assets 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 | <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 style="margin-left: 40px; border: none;"> <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;">399 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">233 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">657 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">966 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;">420 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;">630 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">954 million yen</td> </tr> </table> • 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. Fixed property tax and city planning tax, etc. for the assets to be acquired will not be expensed in the fiscal period ending in May 2018 (33rd fiscal period) and the fiscal period ending in November 2018 (34th fiscal period). Fixed property tax and city planning tax, etc. for the assets to be acquired are expected to be expensed in the fiscal period ending in November 2019 (36th fiscal period). • 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. | 33 rd 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: | 233 million yen | Management commissions: | 657 million yen | Depreciation: | 966 million yen | 34 th Fiscal Period (from June 1, 2018 to November 30, 2018) | | Public charges and taxes (fixed property tax, city planning tax, etc.): | 420 million yen | Maintenance and repair fees: | 220 million yen | Management commissions: | 630 million yen | Depreciation: | 954 million yen |
| 33 rd 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: | 233 million yen | | | | | | | | | | | | | | | | | | | | |
| Management commissions: | 657 million yen | | | | | | | | | | | | | | | | | | | | |
| Depreciation: | 966 million yen | | | | | | | | | | | | | | | | | | | | |
| 34 th Fiscal Period (from June 1, 2018 to November 30, 2018) | | | | | | | | | | | | | | | | | | | | | |
| Public charges and taxes (fixed property tax, city planning tax, etc.): | 420 million yen | | | | | | | | | | | | | | | | | | | | |
| Maintenance and repair fees: | 220 million yen | | | | | | | | | | | | | | | | | | | | |
| Management commissions: | 630 million yen | | | | | | | | | | | | | | | | | | | | |
| Depreciation: | 954 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 470 million yen for the fiscal period ending in May 2018 and 465 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. | | | | | | | | | | | | | | | | | | | | |

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|--|--|
| Interest-bearing liabilities | <ul style="list-style-type: none"> • The balance of interest-bearing liabilities is 80,761 million yen. • We intend to procure new loans totaling 900 million yen as part of the fund for the assets acquired in May 2018, and we assume that the total loan debts will be 81,661 million yen at the end of the fiscal period ending in May 2018 and 81,661 million yen at the end of the fiscal period ending in November 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) | <ul style="list-style-type: none"> • Distributions per unit are calculated based on the policy on the distribution of monies prescribed in the bylaw. For the fiscal period ending in May 2018, we assume that a total of 2,152 million yen (2,121 yen per unit) will be distributed after adding the planned amount of the reversal of the reserves for the adjustment of temporary differences of 40 million yen (40 yen per unit) to the amount that is obtained by deducting the amount internally reserved (60 million yen) without distributing from the estimated net income of 2,173 million yen. For the fiscal period ending in November 2018, we also assume that a total of 2,190 million yen (2,158 yen per unit) will be distributed after adding the planned amount of the reversal of the reserves for the adjustment of temporary differences of 40 million yen (40 yen per unit) and 30 million yen (the planned amount of the reversal per unit of 30 yen) of the gain on transfer of the assets to be transferred to the estimated net income of 2,119 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"> • Distributions in excess of earnings are not planned at this point in 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. |