HEIWA REAL ESTATE REIT, Inc.

October 15, 2015

For Immediate Release

REIT Issuer
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: Shinya Ito, General Manager, Planning & Finance Department
TEL. +81-3-3669-8771

Notice Concerning Revision of Management Status Forecasts for Fiscal Period Ending November 2015 (28th Fiscal Period)

HEIWA REAL ESTATE REIT, Inc. (the "Investment Corporation") announced the outlook for its management status (forecast figures) for the fiscal period ending November 2015 (28th Fiscal Period: June 1, 2015 to November 30, 2015), as described below.

Details

1． Management Status Forecasts for Fiscal Period Ending November 2015(28th 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) (million yen)	5,375	2,263	1,636	1,635	1,719
Revised forecast (B) (million yen)	5,921	2,771	2,081	2,081	1,719
Variance (B) – (A) (million yen)	546	508	445	446	—
Variance (%)	10.2	22.4	27.2	27.2	—
(Reference) Actual Results of Previous Period (Period ended May 2015)	5,415	1,760	1,112	1,111	1,742

2. Reasons for revising the Management Status Forecasts

The Investment Corporation has decided to newly acquire one office building and two residential properties as of October 29, 2015, as well as transfer four hotels as of October 30, 2015, as noted in the "Notice Concerning Acquisition and Transfer of Trust Beneficiary Interests in Domestic Real Estate and Loan Cancellation Associated with the Transfer" dated today.

In addition, as noted in the "Notice Concerning Borrowing of Funds and Partial Early Repayment of Loans," it has decided to borrow funds to acquire the one office building and two residential properties as well as to apply the proceeds from the transfer of the four hotels toward a partial and early loan repayment. Accordingly, the respective forecasts for operating revenue, operating income, ordinary income and net income will be revised due to a difference of over 10% occurring in operating revenue for the fiscal period ending November 2015 (28th Fiscal Period) announced on July 15, 2015. Gains on transfer (542 million yen) is expected to materialize from the transfer of the four hotels, and the amount of these gains after deducting related expenses that arise from the sale and loan repayment (446 million yen) is planned to be applied as internal reserves by utilizing a tax treatment of deferring net operating losses. Distribution per unit is not scheduled for a revision at the moment. Regarding the internal reserves in question, they are believed to contribute to stabilizing the level of distribution per unit in the future, given that they can be applied toward paying for distribution per unit at times of losses.

3. Satisfying requirements for conduit status

The Investment Corporation differs form a regular public company based on its structure, and does not get levied a corporation tax for the profit portion of its distributions allocated to shareholders, on the premise that it satisfies requirements of its conduit status, and thus double taxation is prevented as shareholders alone are taxed on the distributions. One of the requirements of its conduit status is the requirement for payment of distributions and that it has to distribute over 90% of the amount of its earnings available to be allocated as distributions.

In association with the aforementioned revision of management status forecasts, distribution for the fiscal period ending November 2015 (28th Fiscal Period) will be below the 90% mark of the amount for earnings available to be allocated as distributions. Thus, it will not satisfy the requirement to pay out distributions, which is one of the requirements to satisfy its conduit status, but the Investment Corporation holds around 6.2 billion yen (as of the end of the fiscal period ended May 2015) from the tax treatment of deferring net operating losses as a result of past sales of properties. Accordingly, even in situations when the requirements of tis conduit status are not satisfied, the Investment Corporation will not have any tax burden as taxable income will be cancelled out with deferred operating losses, so long as deferred period and the level of the relevant deferred operating losses are within range.

[Notes]

1. The above figures are as of the date of this document and based on the assumptions described in the attachment "Key Assumptions of the Management Status Forecasts for the Fiscal Period Ending November 2015 (28th Fiscal Period)." 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.
4. The gains on transfer are estimated after deducting various expenses from the difference between the expected transfer value and the book value.
5. Of the approximately 6.2 billion yen in the tax treatment of deferring operating losses that the Investment Corporation carries, the deferment period for around 6.0 billion yen is due in the Fiscal Period Ending May 2020, while around 2.0 billion yen is due in the Fiscal Period Ending May 2019.
6. Regarding Fiscal Periods that began on April 1, 2015 and to begin thereafter, the maximum deduction for deferred operating losses is limited to 65% of taxable income before the deduction, but the 65% limit does not apply to investment corporations that satisfy a certain amount of tax-related requirements. The Investment Corporation is expected to meet the requirements in question, and in this case, it will not be subject to the 65% limit.

* 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 the fiscal period ending November 30, 2015 (28th Fiscal Period)

Item	Assumptions
Management Period	28th Fiscal Period: from June 1, 2015 to November 30, 2015 (183 days)
Assets under Management	・The following acquisition of three properties as well as a transfer of four properties are scheduled by the end of the Fiscal Period Ending November 2015, in addition to the 95 real estate properties and trust beneficiary interests held as of October 15, 2015. ・This is based on a premise of respectively purchasing three properties scheduled for acquisition, namely the Kanda Ogawamachi TOSEI Building II, HF Nishikoen Residence and HF Bansuidori Residence on October 29, 2015 (hereinafter the three properties are collectively referred to as "assets scheduled for acquisition"). While the name of HF Nishikoen Residence is Relation Nishikoen as of October 15. 2015, the Investment Corporation plans to change its name to HF Nishikoen Residence after the acquisition, so the document refers to it in the name after the change is to take place. Similarly, the name of HF Bansuidori Residence is Relation Bansuidori as of October 15, 2015, the document refers to it in the name after the change for the same reason. ・This is based on a premise that assets scheduled for a transfer, namely the four properties Super Hotel Osaka/Tennoji, Super Hotel Kyoto/Karasumagojo, Super Hotel Saitama/Omiya and Super Hotel Sendai/Hirosedori are to be respectively transferred on October 30, 2015 (hereinafter the four properties are collectively referred to as "assets scheduled for transfer"). ・The revision of management status forecasts is based on the premise that no other changes in investment assets other than the assets scheduled for acquisition and the assets scheduled for transfer, which are deemed to take place as of the aforementioned dates, by the end of the Fiscal Period Ending November (28th Fiscal Period). ・In reality, there is a possibility of changes to the transfer of investment assets.
Total outstanding investment	・Assumption of 951,147 total outstanding investment units as of October 15, 2015 ・Per-unit net income and distributions for the fiscal period under review calculated on treatment of the aforementioned 951,147 units as the outstanding investment units as of the end of each fiscal period.
Operating revenues	・Assumption of 951,147 total outstanding investment units as of the above assets under management. ・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. ・Gains on transfer of 542 million yen is expected from the assets scheduled for transfer.
Operating expense	・Operating expenses are calculated based on the assumption of the above assets under management ・Assumptions concerning major operating expenses are as follows: Public charges and taxes (fixed property tax, city planning tax, etc.): 386 million yen Maintenance and repair fees: 156 million yen Management commissions: 557million yen Depreciation: 908 million yen ・Repair expenses are recognized as expenses in the amount of routine repairs estimated to be necessary in the fiscal periods under review based on the repair plan for each property. ・Actual operation expenses may vary significantly from the forecast amount due to possible emergency repair expenses arising from unexpected factors.
Non-operating expenses	・Interest rate payments and lending-related expenses of 676 million yen is expected.
Interest –bearing liabilities	・The balance of interest-bearing liabilities as of October 15, 2015 was 71,311million yen. ・The calculation is based on the premise of a new loan totaling 5,550 million yen as of October 29, 2015, repaying 4,500 million yen on November 16, 2015 and carrying interest-bearing debt of 72,361 million yen as of the end of the Fiscal Period Ending November 2015. ・This is based on the premise that the entire amount of the loan due for repayment in October 2015 will be refinanced.
Distributions per unit(excluding	・Distribution per unit is calculated on the premise that the amount per established in regulations will be allocated. Regarding distribution for the Fiscal Period Ending November 2015, the premise is to retain 446 million yen of the 2,081 million yen expected in net income as internal reserves and

distributions in excess of earnings)	distribute a total of 1,635 million yen (distribution per unit of 1,719 yen). ・Distribution 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.
Distribution 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.