HEIWA REAL ESTATE REIT, Inc.

Translation Purposes Only

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Revision of Management Status Forecast for Fiscal Period Ending May 2011 (19th Fiscal Period)

HEIWA REAL ESTATE REIT, Inc. (the "Investment Corporation") announced that the management status forecast for the fiscal period ending May 2011 (19th Fiscal Period) released on January 27, 2011 was revised as follows.

Details

1. Revision of Management Status Forecast Figures for Fiscal Period Ending May 2011 (19th Fiscal Period)

		Operating revenue	Operating income	Ordinary income	Net income	Distribution per unit
		million yen	million yen	million yen	million yen	yen
Previous forecast	[A]	4,501	1,811	992	991	1,425
Revised forecast	[B]	4,318	(4,892)	(5,658)	(5,659)	1,425
Amount of increase (decrease)	[B − A]	(183)	(6,703)	(6,650)	(6,650)	–
Rate of increase (decrease)		(4.1%)	–%	–%	–%	–%

(Note 1) Number of investment units issued and outstanding at the end of period: 695,897 units

(Note 2) Amounts are rounded down to the nearest specified unit and the rate of increase (decrease) is rounded to one decimal place.

(Note 3) The figures above are the current forecast. Accordingly, actual operating revenue, operating income, ordinary income, net income and distribution per unit may vary. Moreover, this forecast is not a guarantee of distribution amounts.

2. Main Reasons for the Revision

Since merging with Japan Single-residence REIT Inc. ("JSR") in October 2010, the Investment Corporation has been pursuing improvement of the profitability and raising of the quality of its portfolio in the operational aspect, and improvement of the borrowing terms and conditions, including reduction of financial costs, and establishment of a stable financial base in the financial aspect. Improvement of the profitability of its portfolio and stabilization of its financial base are matters that have been pointed out also by rating agencies, etc. The Investment Corporation views solving of these concerned issues as an urgent task for realizing further growth ahead and believes that it will lead to enhancement of unitholder’s value.

As part of such efforts, the Investment Corporation decided to make effective use of the gain on negative goodwill earned from the recent merger to restructure its portfolio by transferring the assets that are thought to have low profitability and also little prospect of such improving (the “Transfer”) (Please refer to the “Transfer of Assets” press release dated today for details of the transfer.). On the other hand, the Investment Corporation believes that there is also a pressing need to improve borrowing terms and conditions. Of the ¥8,035 million in transfer proceeds, ¥7,180 million will be used for partial repayment of the loan succeeded from JSR that has high financial costs (loan amount: ¥13,250 million) in advance of the principal repayment date and ¥743 million will be used for partial repayment of another loan (loan amount: ¥7,387.5 million) in advance of the principal repayment date in an effort to reduce financial costs and maintain distributions (Please refer to the “Partial Early Repayment of Loans, and Cancellation and Execution of Agreements on Grant of Security Interests” press release dated today for details of the partial early repayment of loans.). These efforts are recognized as being the optimal measures in the current environment surrounding the Investment Corporation.

The revision is being made as the efforts described will cause some of the key assumptions of the management status forecast for the fiscal period ending May 2011 (19th Fiscal Period) – namely, operating revenue/expenses and non-operating expenses – to vary.

In the selection of transfer assets, the Investment Corporation took into comprehensive consideration such factors as (i) Portfolio asset composition and development policy, increase (decrease) in asset values, and real estate transaction and leasing market trends in the area surrounding the subject properties; (ii) Difficulty in improving NOI as further rent declines are expected ahead due to occupancy rates being on a downward trend and the prospects of revenue improving in the short run being low; (iii) There being concerns over revenue stability and involvement of potential impairment risks owing to large disparity between book values and appraisal values; and (iv) Future increase in repair expenses is expected due to building aging.

Although transfer values are below the book values as of November 30, 2010 and there is also a disparity with November 30, 2010 appraisal values, the Investment Corporation decided to transfer to the transferees offering price and other terms and conditions that were judged to be the best and appropriate in the current real estate transaction market environment from among those offered by several potential transferees.

The Transfer is expected to result in ¥6,650 million in loss on transfer being posted for the 3 properties combined. The Investment Corporation intends to apply gain on negative goodwill to the amount equivalent to that loss on transfer and thus has not revised the distribution per unit for the fiscal period ending May 2011 (19th Fiscal Period).

The Investment Corporation will continue to consider replacement, etc. of properties in seek of improving the profitability and raising the quality of its portfolio from the perspective of enhancing unitholder’s value. In addition, concerning loans with high financial costs, the Investment Corporation will continue to take the means thought to be optimal from a range of measures, including restructuring the lender composition, in pursuit of reduction of financial costs and improvement of borrowing terms and conditions. The Investment Corporation will also aim to establish a stable financial base through such means as diversifying repayment dates and strengthening the bank formation.

*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/

[Reference] Key Assumptions of the Management Status Forecast for Fiscal Period Ending May 2011 (19th Fiscal Period)

Item	Assumptions
Accounting period	19th Fiscal Period: Fiscal period ending May 2011 (from December 1, 2010 to May 31, 2011) (182 days)
Assets under management	• Assumes the 90 properties held at the end of the 18th Fiscal Period (November 30, 2010), of which Of-19 Sannomiya Sanwa Toyo Building, Re-27 Glenpark Ikedayama and Re-28 Rune Higashiterao will be transferred on February 28, 2011, and assumes there will be no changes in assets under management (new property acquisitions, transfer of existing properties, etc.) other than the transfer of these 3 properties. Actual assets under management may vary as a result of new property acquisitions, transfer of portfolio properties, etc.
Number of investment units issued and outstanding	• Assumes the number of investment units issued and outstanding at the end of the 18th Fiscal Period of 695,897 units.
Operating revenue	• Operating revenue is calculated by assuming the assets under management above. • Operating revenue is calculated based on acquired assets' historical data, and takes into account the status of agreement cancellation notices received to date, current market environment and other factors.
Operating expenses	• Operating expenses are calculated by assuming the assets under management above. • Major operating expenses are assumed as follows: Taxes and dues (fixed property tax, city planning tax, etc.) ¥289 million Repair expenses ¥209 million Management consignment expenses ¥491 million Depreciation ¥738 million • Expects loss on sales of ¥3,961 million for the transfer of Of-19 Sannomiya Sanwa Toyo Building, ¥920 million for the transfer of Re-27 Glenpark Ikedayama and ¥1,769 million for the transfer of Re-28 Rune Higashiterao. • Repair expenses are expensed in the amount of routine repairs estimated to be necessary in the fiscal period under review based on the repair plan for each property. However, the actual amount may differ significantly from the forecast amount due to emergency repair expenses possibly arising from unexpected factors.
Non-operating expenses	• Expects ¥671 million in interest expense (including interest expenses on investment corporation bonds). Also expects ¥75 million in borrowing related expenses and ¥6 million in amortization of investment corporation bond issuance costs.
Interest-bearing liabilities	• Of the Investment Corporation's balance of interest-bearing liabilities at the end of the 18th Fiscal Period of ¥70,263 million, assumes the ¥17,204 million in short-term loan due for repayment in the 19th Fiscal Period (repayment date: May 31, 2011) will be repaid by borrowing the same amount. • No investment corporation bonds or loans other than the above are due for final repayment in the 19th Fiscal Period. • Also assumes (1) ¥7,180 million of the ¥13,250 million loan due for repayment on June 30, 2011 and (2) ¥743 million of the ¥7,387.5 million loan due for repayment on October 31, 2011 will be repaid in advance of the principal repayment date by using the proceeds from the abovementioned transfer of 3 properties of the assets under management.
Distribution per unit	• Calculated based on the policy for cash distributions stipulated in the articles of incorporation. • Actual distribution per unit may vary as a result of various factors, including changes in assets under management, fluctuations in rental revenue due to tenant changes, etc. and incurrence of unexpected repairs.
Distribution in excess of earnings per unit	• There are currently no plans to make distributions in excess of earnings.
Other	• Assumes there are no revisions to laws and ordinances, the tax system, accounting standards, the regulations of the Tokyo Stock Exchange, the rules of The Investment Trusts Association, Japan, etc. that will affect the abovementioned forecast figures. • Assumes there will be no major unforeseen changes in general economic trends, real estate market conditions, etc.