HEIWA REAL ESTATE REIT, Inc.

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Notice Concerning Revision of Management Status Forecasts for Fiscal Period Ending November 2018 (34th Fiscal Period) and May 2019 (35th 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 2018 (34th Fiscal Period: June 1, 2018 to November 30, 2018) and May 2019 (35th Fiscal Period: December 1, 2018 to May 31, 2019), as described below.

Details

1. 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)(Note)
Previous forecast (A)	5,880	2,609	2,148	2,148	2,300
Revised forecast (B)	6,210	2,938	2,480	2,480	2,350
Variance (B) – (A)	329	329	331	331	50
Variance	5.6%	12.6%	15.4%	15.4%	2.2%
(Reference) Actual Results of Previous Period (Period ended May 2018)	8,803	5,305	4,815	4,815	2,300

(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 May 2019 (35th Fiscal Period)

	Operating revenue (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distribution per unit (yen)(Note)
Previous forecast (A)	5,925	2,630	2,170	2,170	2,350
Revised forecast (B)	6,359	3,004	2,537	2,537	2,400
Variance (B) – (A)	434	373	367	367	50
Variance	7.3%	14.2%	16.9%	16.9%	2.1%

(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 described in the "Notice Concerning Asset Acquisitions and Transfer" issued today, the Investment Corporation decided to acquire HAMACHO HEIWA BUILDING, HF MITA RESIDENCE II, HF MONZEN-NAKACHO RESIDENCE and HF MINAMI-SUNAMACHI RESIDENCE and transfer MITA HEIWA BUILDING (leasehold land).

As a result, the assumptions of the forecast of operation status in the fiscal period ended November 2018 (34th fiscal period) and the fiscal period ended May 2019 (35th fiscal period) were changed, for which the revisions were made.

Also, as a result of the transfer of MITA HEIWA BUILDING (leasehold land), gains on transfer (approx. ¥301 million) are expected in two fiscal years, namely the fiscal period ended November 2018 (34th fiscal period) and the fiscal period ended May 2019 (35th fiscal period). The gains on transfer are planned to be internally reserved using the loss carried forward on tax affairs.

The internally reserved amount will be used for returns to unitholders as funds for the payment of distributions in the future in combination with the reserve for temporary difference adjustments that has been retained. It also becomes possible to continue to pay distributions should any loss arise, and so this will also contribute to the improvement and stabilization of the distribution level in the future

【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 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)" 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).

* 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: https://www.heiwa-re.co.jp/en/

[Reference] Management status forecast assumptions for 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)

Item	Assumptions
Management Period	34th Fiscal Period: from June 1, 2018 to November 30, 2018 (183 days) 35th Fiscal Period: from December 1, 2018 to May 31, 2019 (182 days)
Assets under Management	・Based on the assumptions that HAMACHO HEIWA BUILDING, HF MITA RESIDENCE II, HF MONZEN-NAKACHO RESIDENCE and HF MINAMI-SUNAMACHI RESIDENCE (hereinafter referred to as the "assets to be acquired") will be acquired on December 14, 2018 from the 101 properties that the Investment Corporation owns as of today, that the quasi-co-ownership interest 50% of MITA HEIWA BUILDING (leasehold land) (hereinafter referred to as the "assets to be transferred") will be transferred on November 30, 2018 and that the quasi-co-ownership interest 50% of the Assets to Be Transferred will be transferred on December 14, 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. ・It is expected that ¥301 million will be assessed as gains on the transfer of real estate of the assets to be transferred in the fiscal period ended November 2018 and that ¥301 million will be assessed in the fiscal period ended May 2019. ・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: 34th Fiscal Period (from June 1, 2018 to November 30, 2018) Public charges and taxes (fixed property tax, city planning tax, etc.): 409 million yen Maintenance and repair fees: 190 million yen Management commissions: 611 million yen Depreciation: 933 million yen 35th Fiscal Period (from December 1, 2018 to May 31, 2019) Public charges and taxes (fixed property tax, city planning tax, etc.): 371 million yen Maintenance and repair fees: 224 million yen Management commissions: 650 million yen Depreciation: 960 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. 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 2019 (35th 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.

Non-operating expenses	・Interest expenses (including interest on investment corporation bonds) and related borrowing expenses are estimated to be 445 million yen for the fiscal period ending in November 2018 and 464 million yen for the fiscal period ending in May 2019. Amortization of investment unit issuance expenses and investment corporation bond issuance expenses are estimated to be 8 million yen for the fiscal period ending in November 2018 and 2 million yen for the fiscal period ending in May 2019.
Interest-bearing liabilities	・The balance of interest-bearing liabilities is 80,787 million yen at present. ・The calculation was based on the assumption that ¥1,700 million will be newly borrowed as a part of the acquisition funds for the Assets to Be Acquired on December 14, 2018, and the outstanding borrowings as of the end of the fiscal period ended May 2019 will be ¥82,467 million. ・We assume that the loans maturing in November 2018 and May 2019 will be fully refinanced.
Distributions per unit (excluding distributions in excess of earnings)	・Distribution per unit was calculated on the basis of the monetary distribution policy set forth in the rules. With regard to the distributions for fiscal period ended November 2018, it is assumed that ¥136 million out of the estimated net income for the year of ¥2,480 million will be internally reserved, and the total of the remaining amount of net income for the year and the planned amount of reversal of reserve for temporary difference adjustments of ¥40 million (reversal amount per unit: ¥40), that is ¥2,384 million, will be distributed (distribution per unit: ¥2,350). With regard to the distributions for the fiscal period ended May 2019, it is assumed that ¥142 million out of the estimated net income for the year of ¥2,537 million will be internally reserved, and the total of the remaining amount of net income for the year and the planned amount of reversal of reserve for temporary difference adjustments of ¥40 million (reversal amount per unit: ¥40), that is ¥2,435 million, will be distributed (distribution per unit: ¥2,400). ・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.