KENEDIX
Residential NEXT Investment Corporation

Translation of Japanese Original

January 18, 2019

To All Concerned Parties

REIT Issuer:
Kenedix Residential Next Investment Corporation
Representative: Keisuke Sato, Executive Director
(Securities Code Number: 3278)

Asset Management Company
Kenedix Real Estate Fund Management, Inc.
Representative: Masahiko Tajima, President & CEO
Contact: Shin Yamamoto, Head of Planning Division, Residential REIT Department
TEL: +81-3-5157-6011

Notice Concerning Revisions of Operating Forecasts and Cash Distribution Forecasts for the Fiscal Period Ending July 31, 2019

Kenedix Residential Next Investment Corporation (the "Investment Corporation") has revised its operating forecasts and cash distribution forecasts for the fiscal period ending July 31, 2019 (February 1, 2019 to July 31, 2019) (the "Previous forecast") announced on September 12, 2018. Details are as follows.

1. Revised Forecasts for the 15th Fiscal Period Ending July 31, 2019

	Operating revenues (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Net income per unit (yen)	Distribution per unit (excluding distribution in excess of earnings) (yen)	Distribution in excess of earnings per unit (yen)
Previous Forecast (A)	7,578	3,839	3,254	3,253	3,742	3,753	0
Revised Forecast (B)	7,905	4,149	3,540	3,539	4,072	4,030	0
Net Changes (B-A)	326	310	286	286	330	277	0
Change (%)	4.3%	8.1%	8.8%	8.8%	8.8%	7.4%	—

(Reference) 15th fiscal period ending July 31, 2019: Expected total number of investment units issued and outstanding at the end of the fiscal period: 869,133 units.
Estimated weighted average number of units: 869,133 units

(Note1) The above forecasts are calculated based on the assumptions stated in the attached "Assumptions for the Operating Forecasts and Distribution Forecasts for the Fiscal Period Ending July 31 2019 (the 15th Fiscal Period: from February 1, 2019 to Juy 31, 2019)." Accordingly, if going forward there are additional acquisitions or sales of properties, changes in rent income associated with lessee changes, unexpected repairs and other changes in the earnings environment, changes in interest rates or other factors, it is possible that actual circumstances may differ from the assumptions and, as a result, actual operating revenues, operating income, ordinary income, net income, net income per unit, distribution per unit, as well as distribution in excess of earnings per unit may change significantly. Therefore, these forecasts are not guaranteed.

(Note2) The revised distribution per unit is not the same amount as net income per unit because distribution is calculated based on the assumption of excluding revenues associated with the market value of interest swap succeeded from Japan Senior Living Investment Corporation (JSL) in association with the absorption-type merger with JSL effective as of March 1, 2018 with the Investment Corporation as the surviving corporation and JSL and (2) part of gain on sale associated with specified asset, from the reversal of Reserve for temporary difference adjustment.

(Note3) The above forecasts may be revised in the event that discrepancies in excess of a certain amount from the forecasts are expected.

(Note4) Amounts less than a unit are discarded and the changes are rounded off to the first decimal place.

2. Reason for Revisions of Operating Forecasts and Cash Distribution Forecasts

As described in the press release “Notice Concerning Sale of Property (KDX Residence Shin-Osaka)” separately announced today, the Investment Corporation has decided to sell KDX Residence Shin-Osaka (the “Sale”).

As ¥202 million of gain on sale is expected to be generated from the Sale, the Investment Corporation plans to internally reserve part of the gain on sale (¥48 million) and allot ¥154 million to cash distributions for the fiscal period ending July 2019 (15th fiscal period) for the purpose of maintaining and increasing the cash distribution level going forward to the extent that corporate income tax is not imposed.

In addition, it is anticipated that the lease business income decreases due to the Sale and the sale of KDX Residence Kotodai (Note1) scheduled on January 24, 2019. Whereas, it is expected that lease business income for the fiscal period ending July 2019 (15th fiscal period) will exceed the previous forecast due to the acquisitions of Plaisant Grand Ota tamagawa (Note 2) on September 28, 2018, KDX Residence Kamikitazawa (Note 2) and KDX Residence Kaminoge (Note 1) scheduled on February 1, 2019 and KDX Residence Higashi-Asakusa (Note 1) scheduled by the end of February 2019 will contribute to lease business income and other factors.

As a result, the Investment Corporation has decided to revise its operating forecasts and cash distribution forecasts due to a difference of over 5% in distribution per unit (excluding distributions in excess of earnings) for the fiscal period ending July 2019 (15th fiscal period) in addition to the above-mentioned impact of gain on sale from the Sale, etc.

(Note 1) For the derails of the to-be acquired properties and to-be sold property above , please refer to the press release “Notice Concerning Acquisition of Properties (Total of 2 residential Properties) and Sale of Property announced on December 25, 2018.

(Note 2) For the details of acquired property and to-be acquired property above, please refer to the press release “Notice Concerning Acquisition of Properties (Residential Property and Healthcare Property)” announced on September 25, 2018.
The property name was changed from “Tanoshii ie Ota tamagawa” to “Plaisant Grand Ota tamagawa” on January 7, 2019.

Furthermore, due to difference in accounting and taxation resulting from the Merger, the amount of income as per accounting is expected to exceed the amount of taxable income as per taxation for the fiscal period ending July 2019 (15th fiscal period). As a result, the Investment Corporation will be able to set aside a portion of capital gain on Sale without obligation to pay corporate taxes. The Investment Corporation plans to reverse such reserve for distribution payout starting from the next fiscal period in order to level out the realization of gain on property sale. The Investment Corporation believes that the distribution will be increased and stabilized by setting aside a portion of capital gain on the aforesaid property sale as reserve from the next fiscal period onwards.

* Website URL of the Investment Corporation: https://www.kdr-reit.com/en/

[Provisional Translation Only]
English translation of the original Japanese document is provided solely for information purposes.
Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.

[Attachment]

Assumptions for the Operating and Distribution Forecasts for the Fiscal Period Ending July 31, 2019.

(the 15th Fiscal Period: from February 1, 2019 to July 31, 2019)

Item	Assumptions
Calculation period	・Fiscal Period Ending July 31, 2019 (February 1, 2019 to July 31, 2019) (181 days)
Property portfolio	・Forecasts are based on the 140 properties included following the to-be acquired and to-be sold properties. (the Investment Corporation owns 139 properties as of today) "KDX Residence Kotodai" (To-be acquired date: January 24, 2019) "KDX Residence Kamikitazawa" (To-be acquired date: February 1, 2019) "KDX Residence Kaminoge" (To-be acquired date: February 1, 2019) "KDX Residence Shin-Osaka"(To-be sold date: February 1, 2019) "KDX Residence Higashi-Asakusa" (To-be acquired date:by the end of February 2019) ・However, the actual property portfolio may change due to new property acquisition or portfolio property sale, etc.
Operating revenues	・The average occupancy ratio for residential property (excludes land with leasehold interest) and healthcare facilities during the period is expected to be approximately 96.6% and 100.0% respectively. ・Operating revenues are based on the assumption that there will be no lessees who rent in arrears or non-payments from tenants. ・Dividends income from silent partnerships' equity interests is calculated ¥ 6 million for the fiscal period ending July 31, 2019, assuming that real estates that back the cash flow will maintain a stable occupancy. ・It assumed that gains on sales of ¥202 million due to the sale of KDX Residence Shin-Osaka.
Operating expenses	・Property-related expenses other than depreciation are calculated based on past record by reflecting seasonal factors and other expense variables. ・Depreciation is calculated based on the straight-line method, and is assumed to be ¥1,354million. ・Property tax and city planning tax, etc. are assumed to be ¥477 million. In general, in the purchase/sale of real estate, etc., property tax and city planning tax, etc. are allocated to the current owner and purchaser on a pro rata basis at the time of acquisition settlement, however, an amount equivalent to the portion allocated to the purchaser is included in the cost of acquisition and, thus, not charged to expenses. The anticipated amount of property tax and city planning tax, etc. expected to be included in the cost of acquisition of real estate, etc. for the fiscal period ending July 2019 is ¥9 million. ・Repair expenses are estimated based on the amounts budgeted by the asset management company for each property considered essential. Actual repair expenses may, however, differ significantly from the forecast amounts due to unforeseen circumstances possibly causing repair expenses to arise.
Non-operating expenses	・Depreciation of expenses associated with the issuance of new investment units and secondary offering of investment units is anticipated to be ¥9 million (expenses associated with the issuance of new investment units and secondary offering of investment units are scheduled to be amortized over a period of 36 months using the straight-line method). ・Interest expense, etc. (including borrowing-related expenses, etc.) are expected to be ¥608 million. The disclosed gain on market-value-based valuation of interest rate swap succeeded through the Merger as indicated is offset with interest expenses. Interest expenses after offsetting is expected to be ¥597 million.
Borrowings	・The balance of interest-bearing debt as of today is ¥123,250 million, and items are borrowings of ¥118,250 million and investment corporation bonds of ¥5,000 million. The balance of interest-bearing debt is assumed to be ¥123,250 million at the end of the fiscal period ending January 31, 2019.
Investment units	・It is assumed that 869,133 units issued and outstanding as of today. ・There will be no issuance of new investment units through to the end of the fiscal period ending July 31, 2019.

Item	Assumptions
Distribution per unit	・Distribution per unit is calculated in accordance with the policy regarding cash distribution provided in the Articles of Incorporation of the Investment Corporation, with the assumption that substantially all income (excluding gain on sale and compensation of succession of interest rate swap by JSL) will be distributed. ・Reserve for temporary difference adjustment ("RTA") stipulated in the rules concerning investment corporation calculations for the fiscal period ended July 2018 was ¥2,000 million. In each period, ¥20 million of RTA is scheduled to be reversed and allotted to cash distributions during and after the fiscal period ending January 2019. In the case where cash distribution per unit falls below ¥3,700, reserves will be utilized to maintain the level of cash distribution going forward by implementing additional reversals of internal reserve including retained earnings. ・Regarding cash distribution, it is assumed that a total of ¥3,502 million in which part of gain on sale of the Sale (¥46 million) and revenues associated with the market value of interest rate swaps are deducted from net income and ¥20 million of RTA even reversal is added, shall be distributed. ・Distribution per unit may change significantly from changes in properties; change in rent income in connection with lessee changes and other factors; unforeseen repairs and maintenance and other changes in the management environment; changes in interest rates; the number of new investment units to be issued and their price as actually decided; further issue of new investment units going forward and various other factors.
Distribution in Excess of earnings per unit	・Cash distribution in excess of earnings is not currently anticipated.
Other	・It is assumed there will be no revision to the laws and regulations, the tax system, accounting standards, listing regulations, regulations of The Investment Trusts Association, Japan, etc. that will impact the forecast figures above. ・It is assumed there will be no unexpected significant changes in general economic trends and real estate market conditions, etc.