





Fukuoka REIT Corporation

1-2-25 Sumiyoshi, Hakata, Fukuoka City, Fukuoka, Japan

<https://www.fukuoka-reit.jp/eng/>

 @fukuokareit8968

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 fukuoka_realty

To help stakeholders better understand FRC and its operations, FRC is focusing efforts on its IR activities. FRC uses its website to post press releases and various disclosure materials and provide information on its portfolio of investment properties and other items. In addition, FRC uses social media such as Twitter, Facebook, and Instagram to disseminate a wide range of information on the Fukuoka and Kyushu areas, including information on these regions' economies, real estate markets, retail facilities, tourist attractions, and much more. We invite you to make use of these information resources.

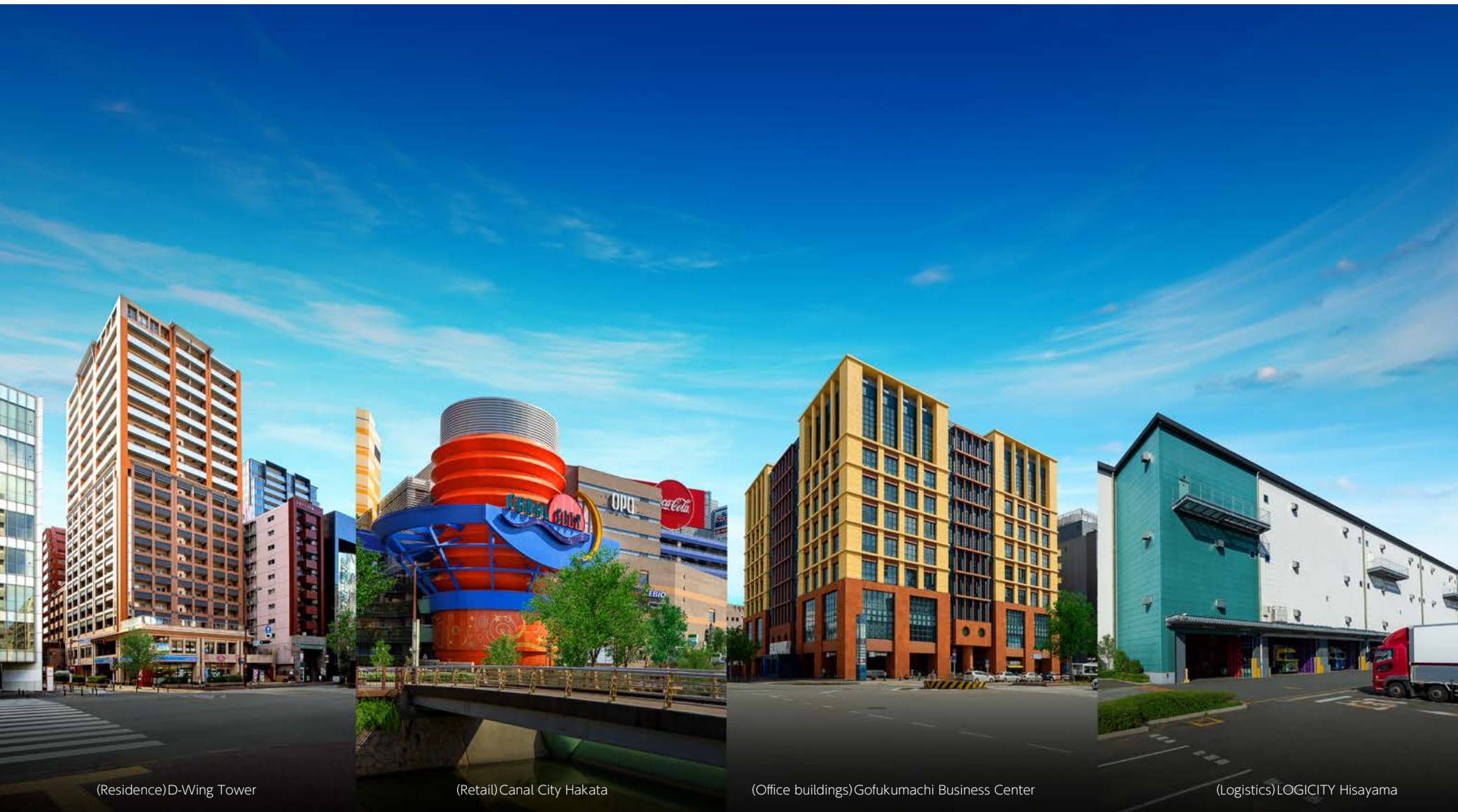


Integrated Report 2021

Fukuoka REIT Corporation

December 2021





(Residence)D-Wing Tower

(Retail) Canal City Hakata

(Office buildings)Gofukumachi Business Center

(Logistics)LOGICITY Hisayama

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Editorial Policy

With the aim of conveying details of the Investment Corporation's value creation process in an easy-to-understand manner, we have issued this Integrated Report since fiscal 2019. In editing this report, the editors adopt clear and accessible language, with reference to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and the Guidance for Collaborative Value Creation of Japan's Ministry of Economy, Trade and Industry (METI). We consider that this and subsequent reports will lead to active dialogue with investors and other stakeholders.



Corporate Profile / Characteristics

Taking advantage of our strength in knowing the local characteristics of real estate, which is a region-specific business, to invest in the wider Kyushu region with a focus on Fukuoka, on June 21, 2005, Fukuoka REIT Corporation (FRC) was listed as the first region-specific REIT in Japan. FRC believes that attracting excellent domestic and foreign investment funds to regional financial markets will stimulate community development in the Fukuoka and Kyushu areas. Moreover, we believe that possibilities for regional growth through urban development will provide FRC with a continuous stream of investment opportunities as well as income from assets under ownership for FRC while at the same time delivering profitable returns to unitholders.



Corporate Profile

Name	Fukuoka REIT Corporation
Securities code	8968
Listed date	June 21, 2005 : FRC listed on Tokyo Stock Exchange and Fukuoka Stock Exchange
Accounting periods	February, August
Asset management company	Fukuoka Realty Co., Ltd.
Sponsors	Fukuoka Jisho Co., Ltd. Kyushu Electric Power Co., Inc. THE BANK OF FUKUOKA, LTD. THE NISHI-NIPPON CITY BANK, LTD. Nishi-Nippon Railroad Co., Ltd. SAIBU GAS HOLDINGS CO., LTD. Kyudenko Corporation Kyushu Railway Company Development Bank of Japan Inc.

FRC's Characteristics

- 1 Japan's First Region-Specific REIT**

Taking advantage of our strength in knowing the local characteristics of real estate, which is a region-specific business, we invest in real estate for rent in the Fukuoka and Kyushu areas, where growth potential exists. By appropriately managing the invested real estate, we continue to secure stable earnings over the medium to long term while providing stable dividends.
- 2 Excellent Portfolio**

To build its portfolio, FRC selectively invests in a variety of investment property types, including retail facilities, office buildings, and logistics properties, etc., with a focus on the Fukuoka metropolitan area, which has significant growth potential.
- 3 Support Structure Comprises Sponsor Companies**

Powerful companies that lead the business world in Fukuoka and Kyushu, and accept our way of thinking, participate as shareholders of Fukuoka Realty Co., Ltd. FRC proactively utilizes the support from its sponsor companies while aiming to steadily expand its asset scale.
- 4 Stable Financial Base**

FRC conservatively controls its LTV and diversifies repayment periods over time. In addition, the Investment Corporation continues to maintain good relationships with financial institutions including its three sponsor banks.
- 5 Payment of Stable Dividends Continuing Since Listing**

Utilizing its sponsor pipeline and other advantages, FRC continues to distribute stable dividends per unit through the acquisition of carefully selected excellent properties and effective asset management in the Fukuoka and Kyushu areas.

FRC's Basic Policy

【Our Mission】

Taking advantage of our strength in knowing the local characteristics of real estate, which is a region-specific business, we invest in real estate for rent in the Fukuoka and Kyushu areas. By appropriately managing the invested real estate, we will achieve stable earnings over the medium to long term while making efforts to keep providing stable dividends for the future.

【Act Local】

We - FRC and Fukuoka Realty Co., Ltd. - are currently the only listed real estate investment corporation and asset management company registered outside the Tokyo metropolitan and Kansai areas under the provisions of the Act on Investment Trusts and Investment Corporations as well as the Financial Instruments and Exchange Act. As a region-specific REIT, FRC seeks differentiation in the selection of investment target properties and the management of owned assets through the enhancement of its information gathering ability and ability to discern the profitability of properties

by utilizing its speed and depth of information based on knowledge of local land and a broad network centering on local governments and the business world.

【Think Global】

We will proactively engage in IR activities to fulfill our accountability to global capital markets. In conjunction, we will take heed of Fukuoka Realty's corporate governance and compliance. Regarding real estate and financial markets, FRC will keep closely tracking movements occurring across the whole of Japan and the entire world, taking into consideration the logic of capital markets with global ideas, and appropriately reflecting such in our asset management.

We will also keep diligently pursuing dialogue with investors, focusing on fulfilling our accountability, and utilizing Fukuoka Realty's fund management skills for investors under a strict compliance policy.

Contribution to Regional Revitalization and Development of Attractive Communities

FRC and Fukuoka Realty Co., Ltd., believe that attracting domestic and foreign excellent investment funds to regional real estate financial markets will stimulate community development in the Fukuoka and Kyushu areas. Although we are not directly involved in community development or real estate development, we expect our acquisition of properties to lead to new funds passing to sellers and part of those funds being directed to new development, etc. With funds injected into FRC from Japan and abroad, new investment funds will flow to the Fukuoka and Kyushu areas as a whole.

Based on this perspective, we believe that we can contribute to regional revitalization and community development in the Fukuoka and Kyushu areas.

Funds will be returned to unitholders by distributing the earnings from owned assets.

Through the promotion of community development and the revitalization of regional economies in the Fukuoka and Kyushu areas, we will aim for FRC earnings stability.

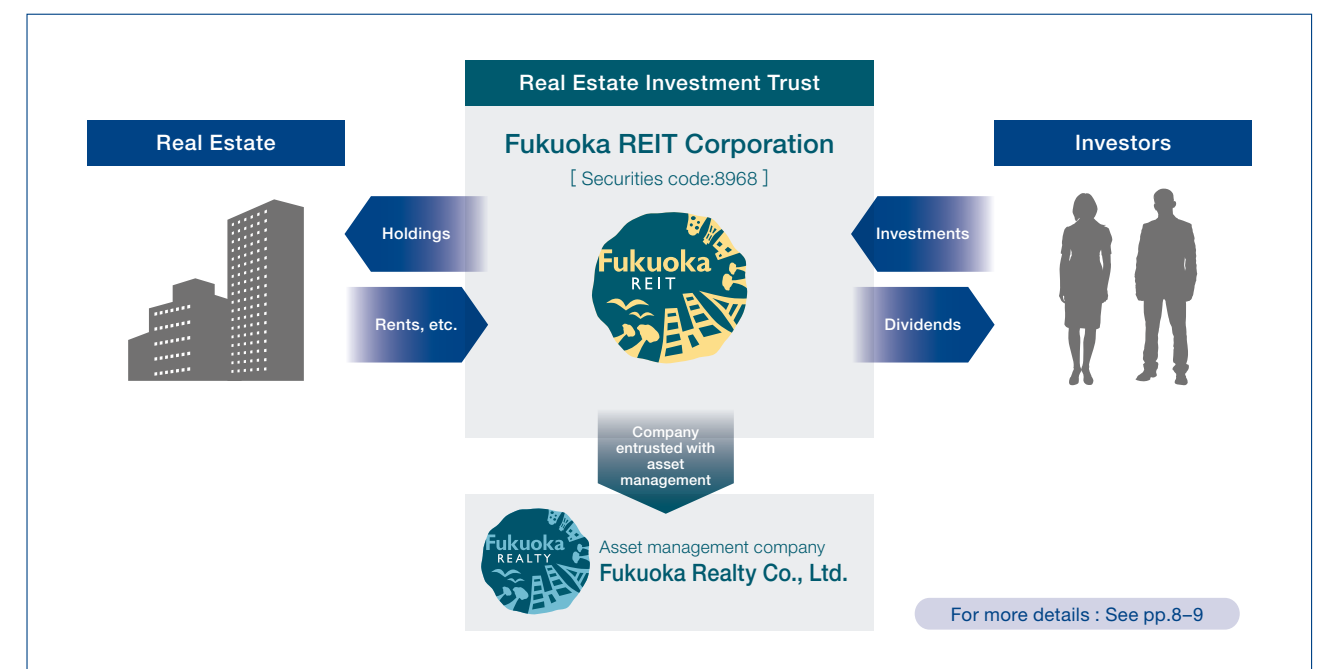


Corporate Profile of Fukuoka Realty Co., Ltd.

Listed on the real estate investment trust sections of the Tokyo and Fukuoka stock exchanges, Fukuoka Realty Co., Ltd., is FRC's asset management company. Having only one Executive Director and two Supervisory Directors, FRC outsources operations that include the selection of the real estate to be invested in, asset management, and other general affairs to outside experts. Among the experts to which operations are entrusted, an important role is played by the asset management company. Generally, FRC entrusts Fukuoka Realty Co., Ltd., see with surveys of new real es-

tate acquisitions, property selection, the post-acquisition management of real estate management companies outlined by Fukuoka Realty Co., Ltd., and real estate sales.

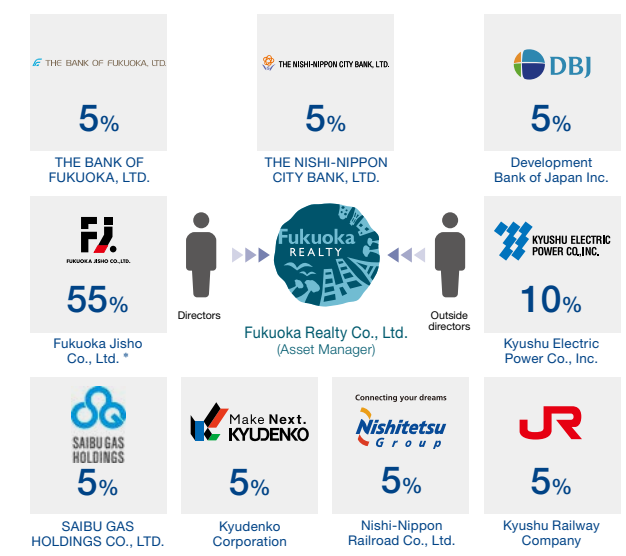
Located in Fukuoka City and comprising 40 employees with a variety of experience in real estate, finance, and other fields, Fukuoka Realty Co., Ltd., possesses a high level of expertise and makes full use of information unique to the local area in managing FRC's assets.



Leading companies in Fukuoka and the Kyushu region that are in agreement with FRC's concept participate as shareholders (sponsors) of Fukuoka Realty Co., Ltd. FRC is aiming to achieve sustainable growth as a REIT through the expanded scale of its assets through the contribution of excellent properties from among our sponsors and by actively leveraging their support, including the provision of relevant information.

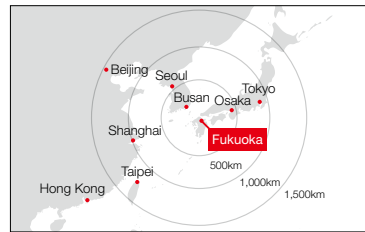
With regard to the properties owned and developed by the sponsor companies, Fukuoka Jisho Co., Ltd., FRC, and Fukuoka Realty Co., Ltd., have concluded a pipeline support memorandum of understanding (MOU) to seek stable and continuous acquisition opportunities.

Fukuoka Jisho Co., Ltd. overview : See p.25



* Concluded MOU with FRC and Fukuoka Realty Co., Ltd., concerning pipeline support.

Fukuoka City's Standing: From Regional City to an Asian Economic Metropolis



Blessed with a history and culture nurtured by the sea, an abundant natural environment, extensive urban functions, diverse human resources, and various other assets, Fukuoka City is recognized around the world as a livable city.

Under the "Fukuoka City Comprehensive Plan," the basic strategy for city management focuses on creating a virtuous cycle of "urban growth" and "greater quality of life." In aiming to become a "leading Asian city in which people, the environment, and urban vitality are harmonized," Fukuoka City is advancing urban planning that recognizes its presence within Asia as a compact, sustainable city that balances economic growth with a safe, secure, high quality of life.

Fukuoka City Initiatives

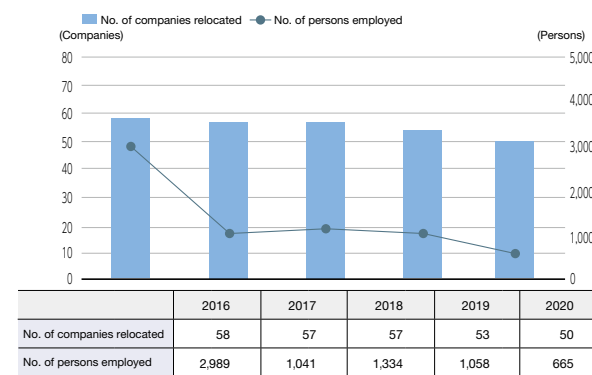
Fukuoka City's Activities to Attract "Growth Fields and Head Office Functions"

Having promoted the attraction of "growth fields and head office functions," Fukuoka City's track record in company relocations has exceeded 50 companies annually for eight consecutive years. With the progress of risk diversification and telework in the centralized area of Tokyo, more companies are considering opening bases in regional cities. Even when impacted by COVID-19, the willingness of companies to enter the market has not diminished. Fukuoka City will thus continue to make efforts to further establish companies and create employment by utilizing active PR and incentives.

Example of Major Function Relocation

Japanet Holdings Co., Ltd., launched its JAPANET@FUUKUOKA project, which features Fukuoka City as one of its new major bases. In addition to relocating 12 departments, including personnel and accounting, mid-career recruitment will be strengthened, and the plan is to have commenced operations by the end of 2021.

Fukuoka City: Trends in head office function/growth fields company relocations



TEAM FUKUOKA attracting international financial functions

The Japanese government, as a pillar of its growth strategy, aims to gather financial talent, funds, and information from overseas and to establish Fukuoka as an international financial city. In response, TEAM FUKUOKA, a promotional organization of industry-academia-government collaboration throughout Fukuoka, was established on September, 2020.

In aiming to attract international financial functions to the city, TEAM FUKUOKA's efforts included the opening of the Global Finance Center, a one-stop support portal specializing in international finance, and the appointment of a Fukuoka City international financial ambassador. The first success, the entry into the market of Hong Kong asset management company MCP Holdings Limited, was announced in February 2021. In July, the company's Japanese head office, MCP Japan Holdings, was established. TEAM FUKUOKA is deciding on many other corporate moves into the Fukuoka City market.

Examples of TEAM FUKUOKA Successes

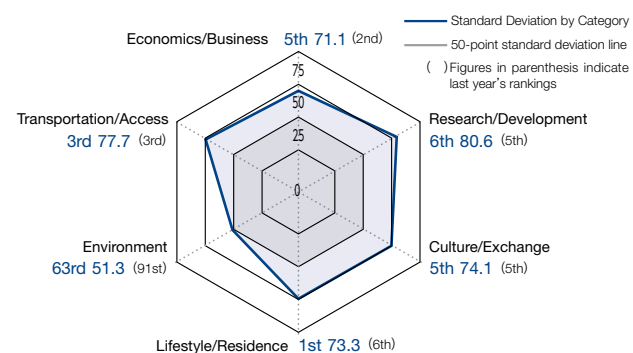
- (1) First success, MCP Holdings Limited attracted from Hong Kong
- (2) CapBridge Financial Pte. Ltd. attracted from Singapore
- (3) DHARMA.CAPITAL K.K., the first FinTech company, attracted from Tokyo

Source: "Restoring Vitality"—Overview of the Initial Budget Proposal for Fiscal 2021 issued by the Finance Bureau of the City of Fukuoka on February 16, 2021, and press release issued by the Economy, Tourism & Culture Bureau of the City of Fukuoka on February 12, 2021

Fukuoka: A Balanced City That Continues to Grow

According to "Japan Power Cities: Profiling Urban Attractiveness 2021," a survey conducted by the Mori Memorial Foundation, which analyzes the urban vitality of 138 cities in Japan from relative and multifaceted perspectives, Fukuoka City consistently received high marks as the largest city in the Kyushu region that combines economic vitality and ease of living. In terms of its "daily life and livability" functions, Fukuoka ranked first in the whole country. Aiming to create a leading city in Asia in which people, the environment, and urban vitality are in harmony, Fukuoka continues to grow as a balanced city.

Category Rankings/Standard Deviation

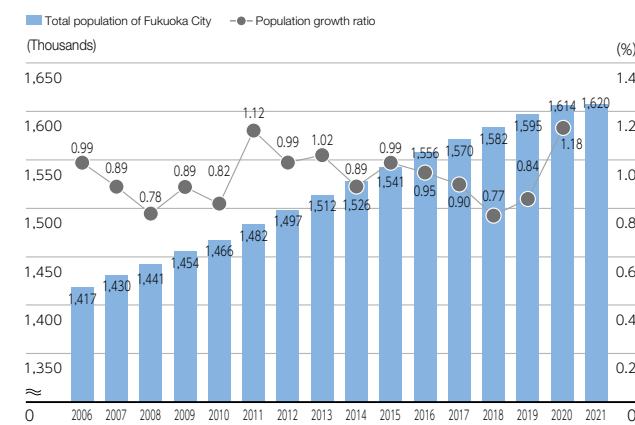


Source: Prepared by Fukuoka Realty Co., Ltd., based on data from "Japan Power Cities: Profiling Urban Attractiveness 2021," a survey conducted by the Mori Memorial Foundation.

Population Continues to Grow in Fukuoka City

The total population of Fukuoka City has increased consistently since 1985, and as of May 1, 2020, the estimated population exceeded 1.60 million. This total population makes the city the fifth most populous among government-designated cities, following Yokohama, Osaka, Nagoya, and Sapporo. According to estimates from the National Institute of Population and Social Security Research, the population of Fukuoka City is expected to continue growing until 2035.

Total Population and Population Growth Ratio of Fukuoka City

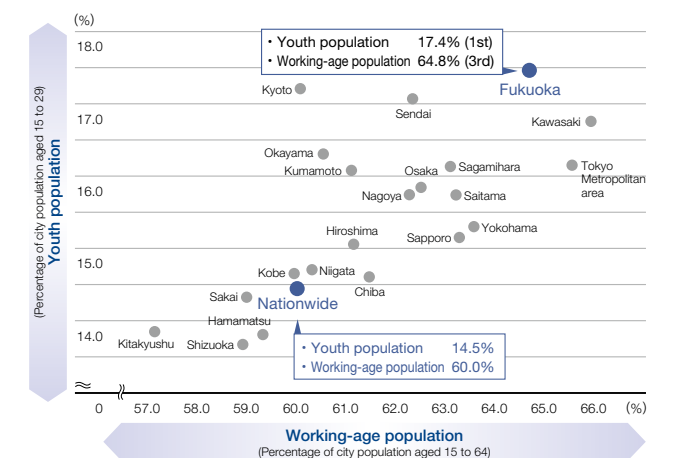


Note: Total population for 2021 indicates the population as of November 1, and therefore does not reflect the population growth rate.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Fukuoka City Estimated Population and Fukuoka City Registered Population, published by Fukuoka City

Fukuoka Has a Large Youth Population

Compared to other cities, the population composition of Fukuoka City is characterized by a higher proportion of young people. Of the cities listed in the chart below, the ratio of young people in Fukuoka City (the proportion of a city's total population accounted for by people ages 15 to 29) ranks first at 17.4%. Fukuoka City's working-age population ratio (the proportion of the city's total population made up of people ages 15 to 64) ranks third at 64.8%.

Young People and Working-Age Population ratios of Nationwide and Major Cities (2015)

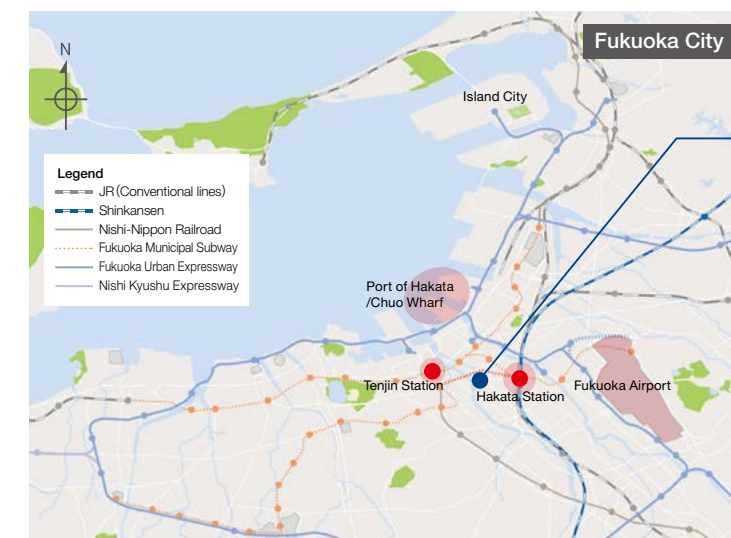


Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Ministry of Internal Affairs and Communications, Statistics Bureau Population Census of Japan.

Fukuoka as a Compact City

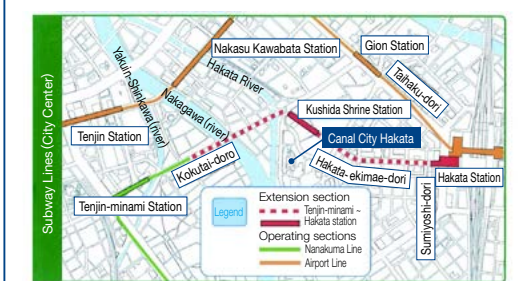
As a compact city, the air, sea, and land transportation access points of Hakata Station, the Port of Hakata/Chuo Wharf, and Fukuoka Airport are located within a three-kilometer radius of Tenjin, Fukuoka City's central business district. Traveling by the Fukuoka City Subway from Fukuoka Airport to the city center, it takes about

five minutes to Hakata and about 10 minutes to Tenjin. About 60% of commuting times are less than 30 minutes, which is about half that of Tokyo. In 2022, the Nanakuma Subway Line extension project will connect Tenjin and Hakata Station, and thus increased convenience is expected.



Nanakuma Subway Line Extension Project

An intermediate station on the Nanakuma Line extension project that will connect Tenjin and Hakata Station, Kushida Shrine Station is planned to be adjacent to Canal City Hakata, FRC's flagship property.



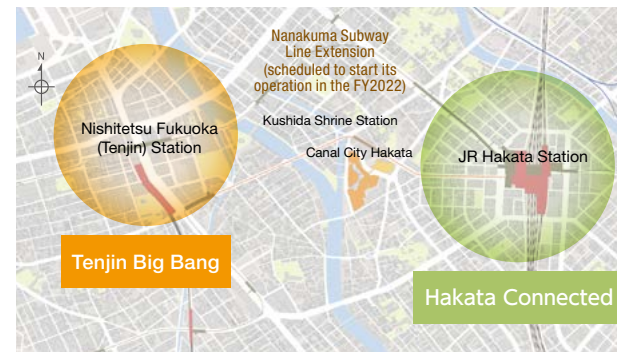
Source: Created by Fukuoka Realty Co., Ltd. based on data from Fukuoka City Transportation Bureau's Nanakuma Subway Line Extension Project Leaflet (April 2019).

Tenjin Big Bang and Hakata Connected Projects

The Tenjin district of Fukuoka City received special authorization to relax Civil Aeronautics Act-related building height restrictions following its designation as a National Strategic Special Zone for Global Startups & Job Creation. In addition, Fukuoka City has been advancing the Tenjin Big Bang project to create new spaces and employment, implementing original policies to deregulate floor area ratios, and working to significantly improve urban functions.

In the city's Hakata district, the Hakata Connected project has started to better link the vitality and prosperity of Hakata Station to the surrounding area. In the area surrounding Hakata Station, which serves as the overland gateway to the Kyushu region, municipal functions are being improved via transport infrastructure enhancements, including an extension to the Nanakuma subway line and the redevelopment of Hakata Ekimae Street. Through such factors as the deregulation of floor area ratios, the project will also

seek to encourage the reconstruction of older buildings as highly earthquake-resistant, high-tech buildings.



Note: Focus areas

Targeted certifications

Tenjin Big Bang

- Buildings scheduled to be completed by December 31, 2024
- Working on infectious disease countermeasures, buildings scheduled to be completed by December 31, 2026 (two-year extension from initial period)

Hakata Connected

Buildings scheduled to be completed by December 31, 2028

Certification requirements

Tenjin Big Bang

- High design quality buildings, including lower zones and public open spaces
- Building design that considers continuity with surrounding buildings
- Promotion of tree shade and flowers that enrich the town, and eye-catching greening
- Consideration given to Universal Design

Hakata Connected

- Creation of spaces to wander that create a connection with and expand on the surrounding area
- Creation of attractive plaza spaces that create a lively atmosphere, for example, by being used for events
- Promotion of tree shade and flowers that enrich the town, and eye-catching greening
- Consideration given to Universal Design

Number of buildings to be rebuilt (number of building certification applications)

Tenjin Big Bang

52 buildings (Construction completed: 42 buildings)
Note: February 2015 to February 2021

Hakata Connected

15 buildings (Construction completed: 7 buildings)
Note: January 2019 to February 2021

Relaxation of height restrictions

Tenjin Big Bang

- Around Fukuoka City Hall approx. 67 m (15 floors)

Examples of height restriction relaxation

- Tenjin, Meiji-dori district (west of the center of Watanabe-dori) approx. 115 m (26 floors)
- Tenjin, Meiji-dori district (east of the center of Watanabe-dori) approx. 76 m (17 floors) to approx. 100 m (22 floors)
- Tenjin 1-chome district approx. 80 m (18 floors) to approx. 96 m (21 floors)

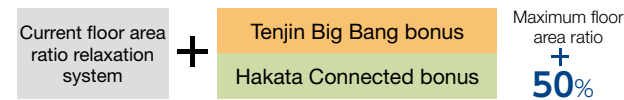
Hakata Connected

None

Expansion of floor area ratio relaxation policy (Policy to Encourage the Upgrading of Central Urban Functions in Fukuoka City)

Tenjin Big Bang Hakata Connected

Buildings that contribute to an increase in activity, including those with plazas and other areas, which facilitate linkages and ripple effects, to be granted a maximum floor area ratio of 50%



(Examples of relaxation of floor space ratios)

- Tenjin 1-chome south block 800% → 1,400% (maximum)
- Tenjin 2-chome south block (along Meiji-dori Ave.) 700% → 1,300% (maximum)
- Tenjin 1-chome north block (14th block) 600% → 1,250% (maximum)

Efforts toward becoming a city designed to control infection

Tenjin Big Bang Hakata Connected

Infectious disease controls newly added to the existing system to relax floor area ratio (Policy to Encourage the Upgrading of Central Urban Functions in Fukuoka City)



TOPIC FRC and Main Sponsor Fukuoka Jisho Co., Ltd.'s Initiatives in Tenjin Big Bang / Hakata Connected

Related Materiality -Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu

Concerning the Tenjin Nishi-Dori Business Center (Land with leasehold interest) acquired by FRC on June 1, 2021, we will be able to obtain stable rental income from sponsor and lessee Fukuoka Jisho Co., Ltd., during the redevelopment of the existing building on the property and for the period until either the end of February or the end of August, whichever comes first after nine months elapse following the completion of the redevelopment (the date certification of inspection is obtained). Once that period has elapsed, rental income in line with market fluctuations will be obtained. Due to this acquisition, we will capture the growth of the area arising from Tenjin Big Bang and contribute to boosting the attractiveness and revitalization of the city as a landowner. Main sponsor Fukuoka Jisho Co., Ltd., also completed the Tenjin Business Center, the first property deregulated by Tenjin Big Bang, in September 2021. As the property is equipped with Fukuoka's first large-scale seismic isolation structure and the incorporates measures to address such infectious diseases as COVID-19, the Tenjin

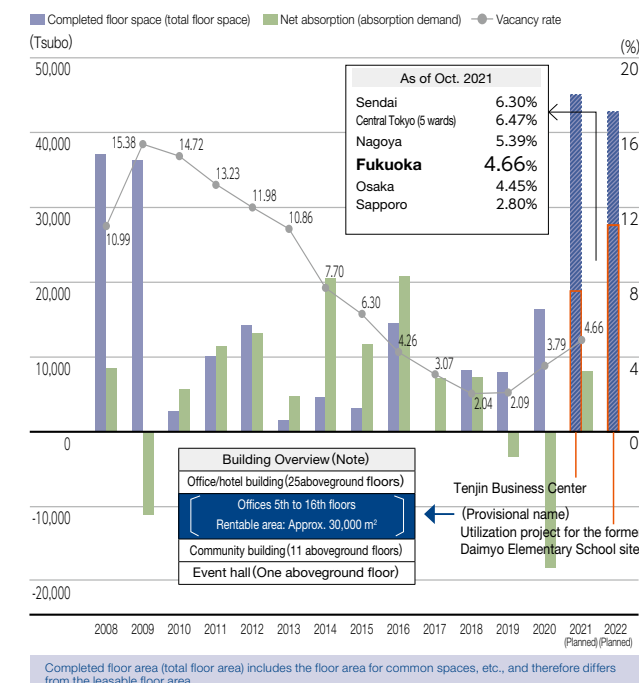
Business Center is helping to attract companies from outside the prefecture, including Japanet Holdings Co., Ltd. (See p.4), and operations have started at a high occupancy rate. In addition, Fukuoka Jisho Co., Ltd., is proceeding with the redevelopment of the adjacent Tenjin MMT Building, and the group represented by Fukuoka Jisho Co., Ltd., has obtained preferential negotiation rights for the site of Fukuoka City Hall's former north annex. In collaboration with THE NISHI-NIPPON CITY BANK, LTD., Fukuoka Jisho Co., Ltd., is also advancing a series of redevelopments of the Bank's aging main branch, main branch annex, and head office buildings under the Hakata Connected initiative.

In this way, FRC and sponsor Fukuoka Jisho Co., Ltd., are actively involved in the redevelopment of urban areas in Fukuoka City and are promoting initiatives that will lead to our contributions to boosting the attractiveness and revitalization of Fukuoka and the Kyushu region, as stated in the materiality.

Fukuoka Office and Logistics Facility Market Conditions

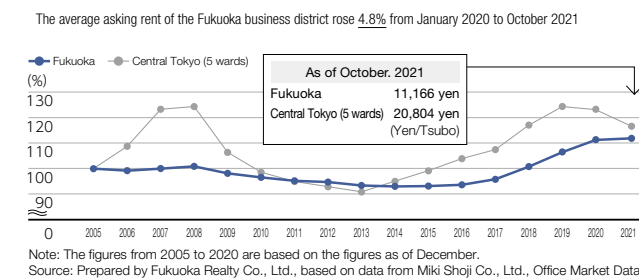
The office building market in Fukuoka remains solid, and demand for logistics facilities is robust.

Fukuoka Business District/Vacancy Rates and Supply and Demand of Office Buildings

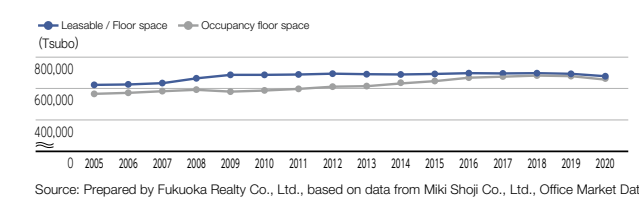


Notes: 1. Vacancy rates from 2008 to 2020 are based on the figures as of December 31.
Notes: 2. Office building-related data for each city are the data for areas and buildings included in surveys conducted by Miki Shoji Co., Ltd.
Notes: 3. Net absorption (absorption demand) shows the change in the occupied floor space during a specific period. It is calculated by subtracting the occupied floor space on December 31 of the previous year from the occupied floor space on December 31 of the applicable year (data for 2021 is based on figures as of the end of August). Completed floor space (total floor space) figures for 2021 and 2022 have not been finalized, and the floor space and expected completion dates are subject to change.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Miki Shoji Co., Ltd., Office Market Data.
Note: Prepared by Fukuoka Realty Co., Ltd., based on press releases from Fukuoka City and the operating entity.

Fukuoka Business District/Average Asking Rents (Y2005=100)

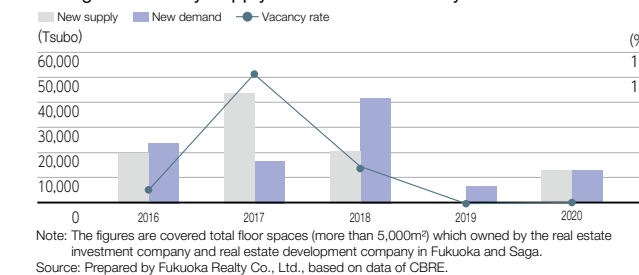


Trends in Leasable Floor Space and Occupancy Floor Space



Northern Kyushu Logistics Facility Supply and Demand Trends

Logistics Facility Supply/Demand and Vacancy Rates



Note: The figures are covered total floor spaces (more than 5,000m²) which owned by the real estate investment company and real estate development company in Fukuoka and Saga.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data of CBRE.

To contribute to the revitalization of Fukuoka and Kyushu and attractive urban development, FRC selects and procures funds for investment by utilizing local government and business networks as well as its information-gathering ability and know-how.

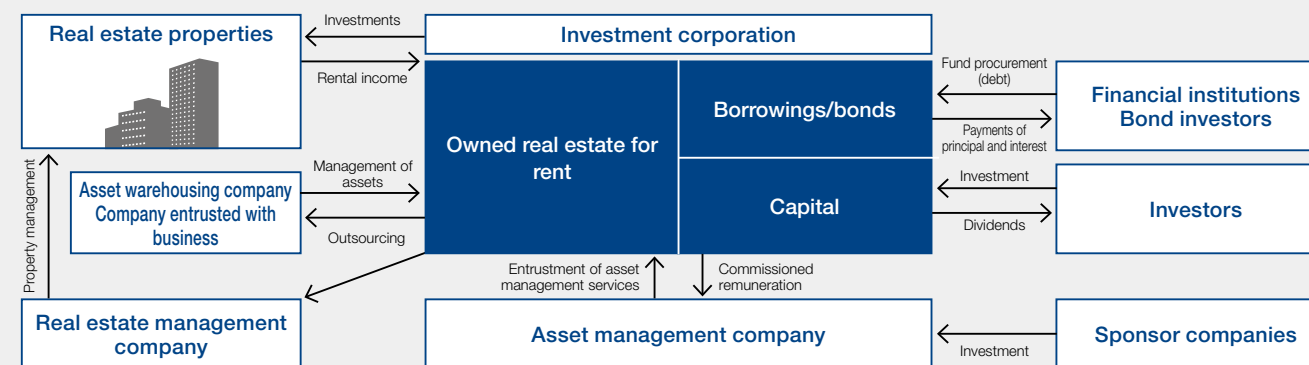
We aim to maximize the profits of investors by providing them with stable earnings over the medium- to long-term.

In addition, we place the utmost emphasis on dialogue with stakeholders and promote sustainable management that takes into account economic, social and environmental concerns by incorporating ESG issues into our investment management process as a part of our business model.

J-REIT Characteristics

- 1 Enables efficient diversified investment in real estate
- 2 Relatively stable high yields
- 3 Corporate taxes highly advantageous due to conduit status
- 4 Enables daily trading on stock exchanges
- 5 Full and ample information disclosure

J-REIT Mechanism



Main Management Resources (Inputs)

(As of August 31, 2021)

Financial capital

Building of a solid financial base through conservative control of LTV

- Total liabilities: 98,049 million yen
- Net assets: 101,755 million yen
- Total assets: 199,804 million yen
- Total debt: 82,400 million yen
- Average remaining duration to maturity: 5.7 years
- LTV: 41.2%

Manufacturing capital

Finding excellent properties that can generate stable cash flow over the long term

- Total leasable area: 572,215.71m²
- Total acquisition price: 202,019 million yen

Human capital

- Excellent human resources with specialized skills
- Support framework for flexible working styles
- Support system for career development
- Number of officers and employees: 40 (Male: 20 / Female: 20)
- Number of qualification holders: Real estate appraisers 3 / Attorney 1 / First-class registered architects 3 / MBA 2

Intellectual capital

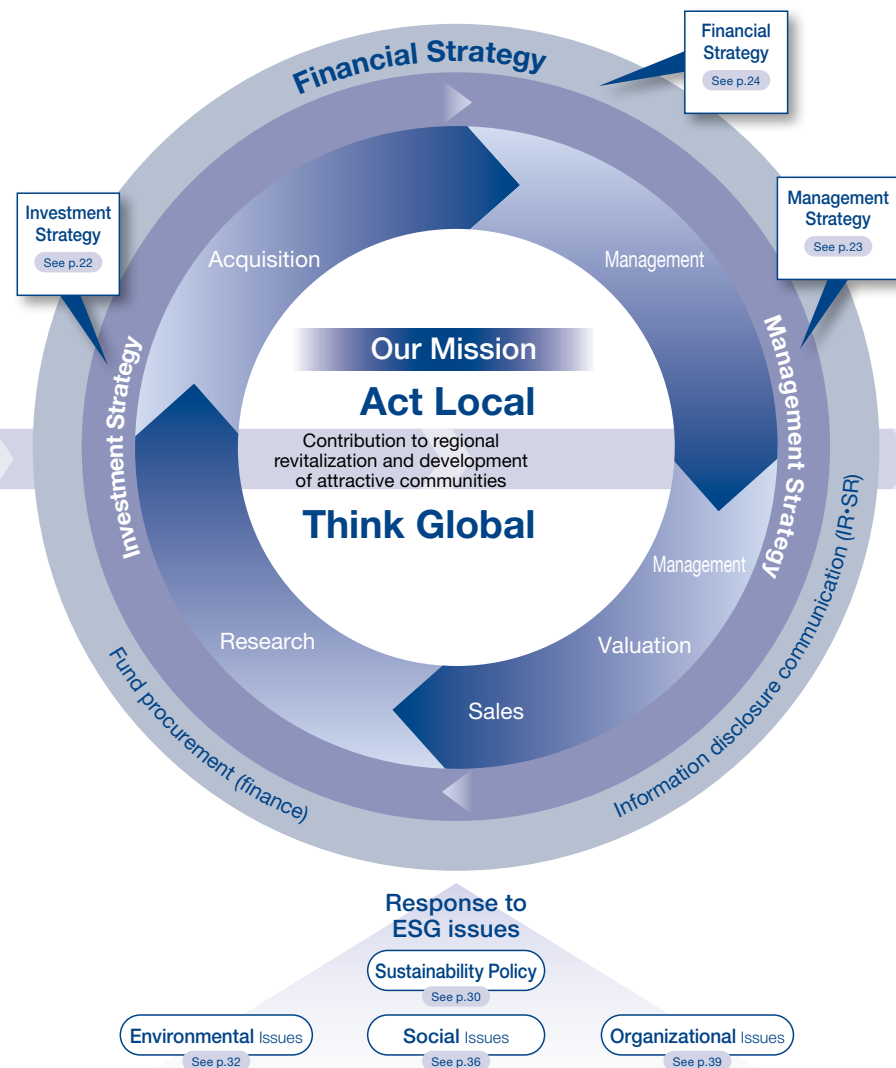
- A varied skill set formed through human resource training
- Experience and knowledge of IR activities based on long years of practical implementation
- Gathering of information deeply rooted in local communities

Social relationship capital

- Co-creative and trusting relationships with tenants
- Cooperative framework with property management (PM) companies
- Coordination with local society, local communities
- Maintenance of good relationships of trust with sponsors

Natural capital

- Land in properties held in the Fukuoka and Kyushu areas (57.4 ha)
- Energy, water, air, and other natural resources used in the operation of properties owned
- Natural environment and biodiversity in the areas around properties owned



Total 32 properties

(See pp.12-13)

- Retail 11 properties
- Office buildings 10 properties
- Residences 5 properties
- Logistics 4 properties
- Hotels 2 properties

Created Value (Outcomes)

(As of August 31, 2021)

Financial capital

- TSR for past 10 years: Annual rate 8.5%
- Average interest rate paid: 0.69%
- Dividend per unit: 3,539 yen
- Dividend yield: 4.0%
- Credit Ratings: JCR: AA- (stable), R&I: A+ (stable)

Manufacturing capital

- NOI: 5,336 million yen
- NOI yield: 5.4%
- Unrealized gain: 40,761 million yen
- P/NAV: 1.0X

Human resource capital

- Number of qualification holders: Real estate brokers 28 / ARES Certified Masters 25 / Certified building administrators 4
- Average paid leave acquisition rate (FY2020): 64.4%

Intellectual capital

- Number of IR interviews during the year: In Japan 166, Abroad 38 (including telephone conferences)
- Track record of winning awards: IR Excellent Company Encouragement Award (2014) / Nikko Excellent IR Website Award (2020)

Social relationship capital

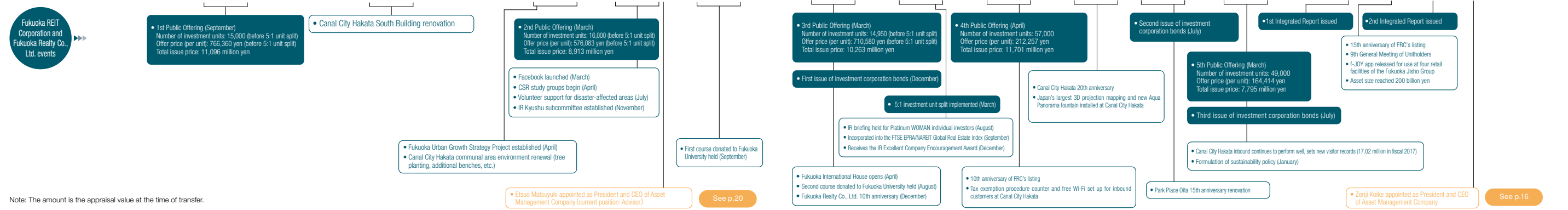
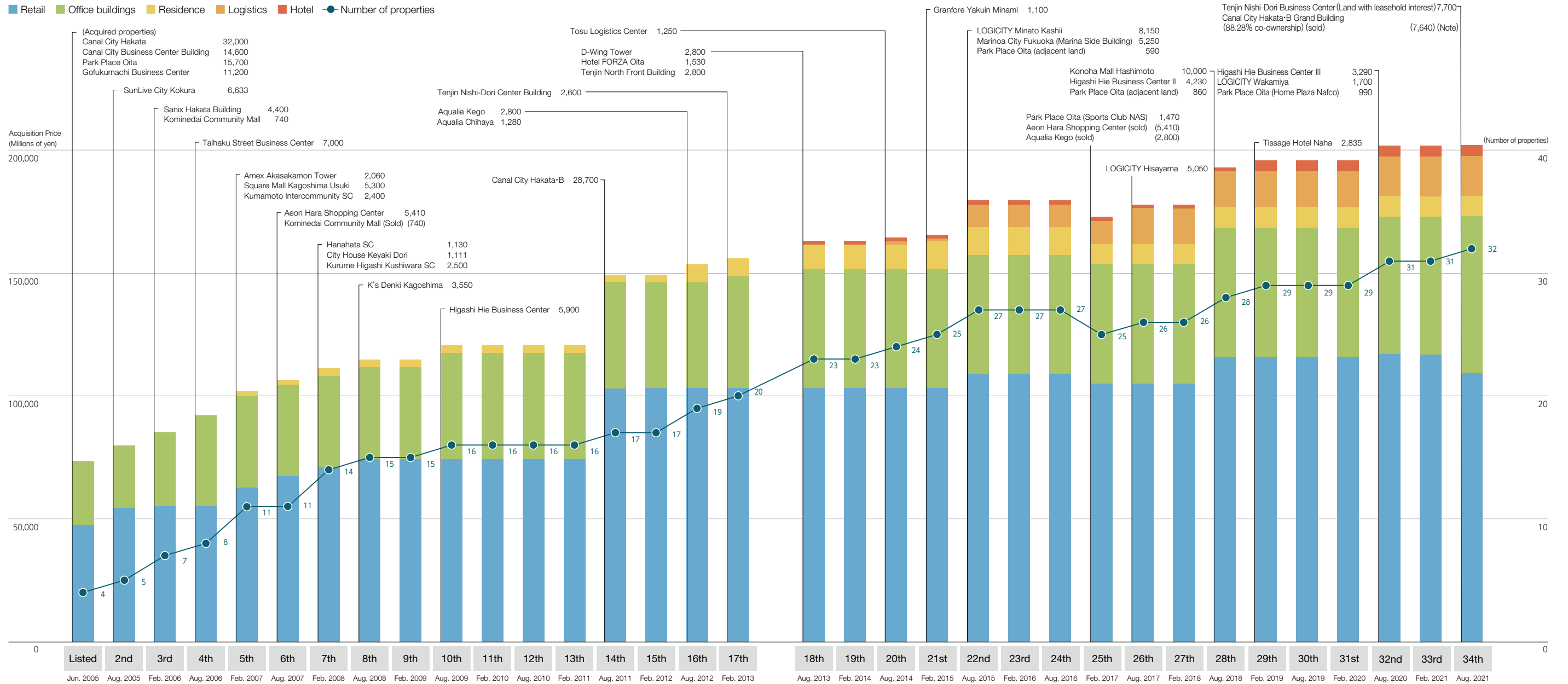
- Implementation of COVID-19 tenant support measures (assistance with vaccinations as requested and other support)
- Participation in local cleanup activities *289 times in total (as of October 15, 2021)
- Human resource exchanges with sponsors (4 people dispatched to sponsors, 2 people accepted from sponsors)

Natural capital

- Green building certification rate (total floor space basis): 78.8%
- Reduction of electricity usage and water consumption at in properties owned

History and Business Performance

Carefully selecting and investing in properties that can generate stable cash flow over the years, FRC is working to continuously expand the scale of its assets. In addition to retail and office buildings, we are diversifying investment types by expanding the scope of investment into such properties as residences, hotels and logistics facilities.



Note: The amount is the appraisal value at the time of transfer.

See p.20

See p.16

Overview of Properties Owned

FRC carefully selects and invests in properties with the potential to generate stable cash flow over the long term. It owns properties with widely divergent uses, mainly retail and office buildings, to diversify risks within the region.

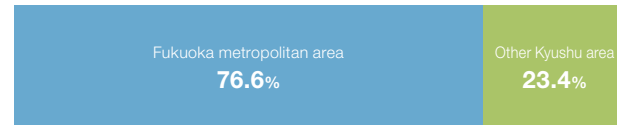
Asset Ratio (As of August 31, 2021)

See p.24

Investment Type (Acquisition price based on)



Investment Areas (Acquisition price based on)



Number of properties owned:

32

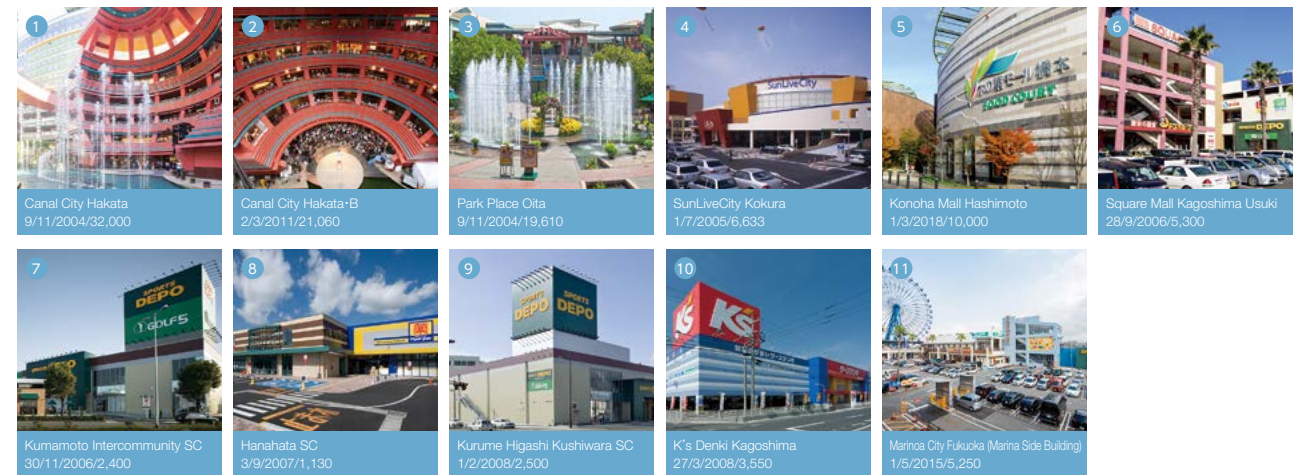
Total acquisition price:

202,019 million yen

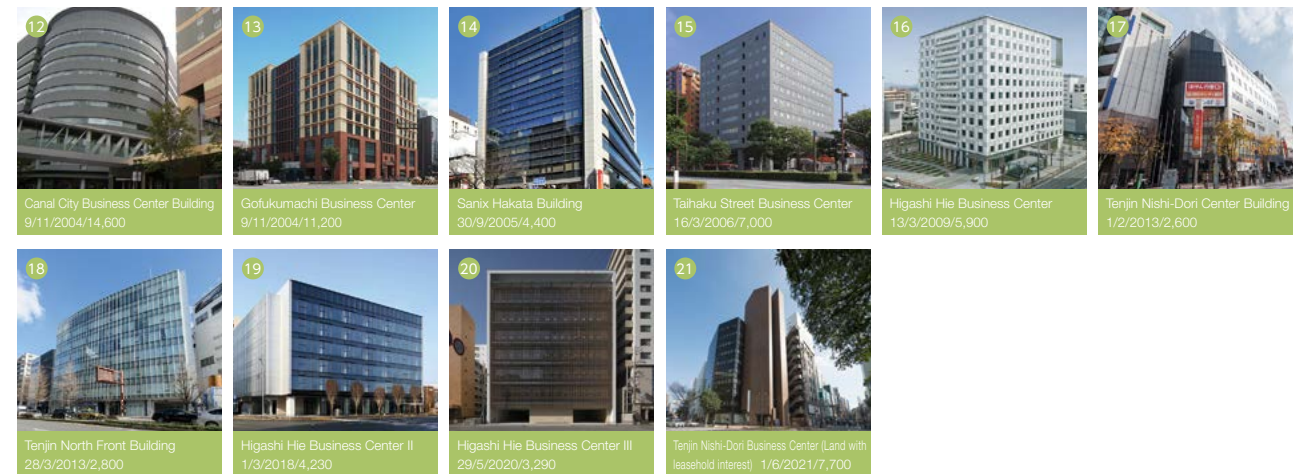
Note: Acquisition price data is rounded down to the nearest million yen.

Property name / acquisition date / acquisition price (millions of yen)

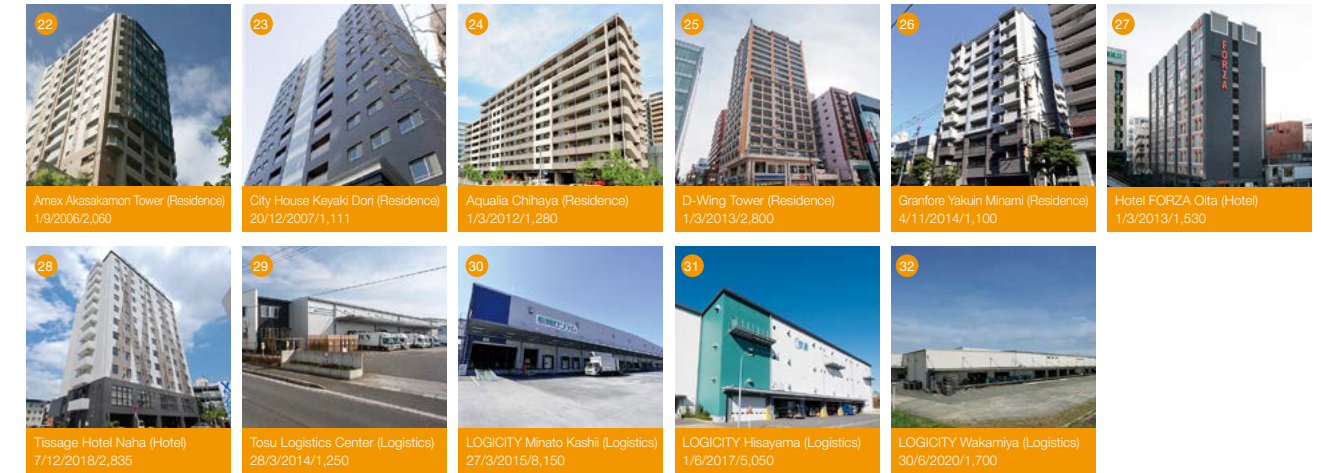
Retail: 11



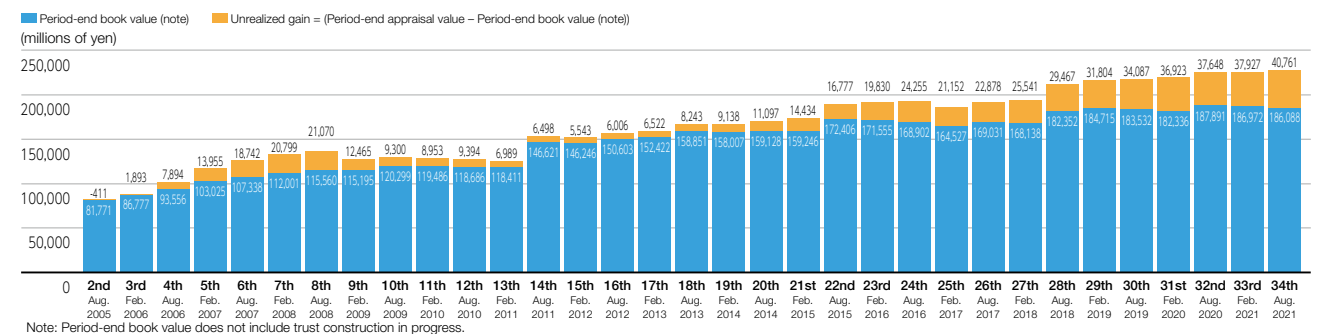
Office buildings: 10



Other properties (Hotel, Residence, Logistics): 11

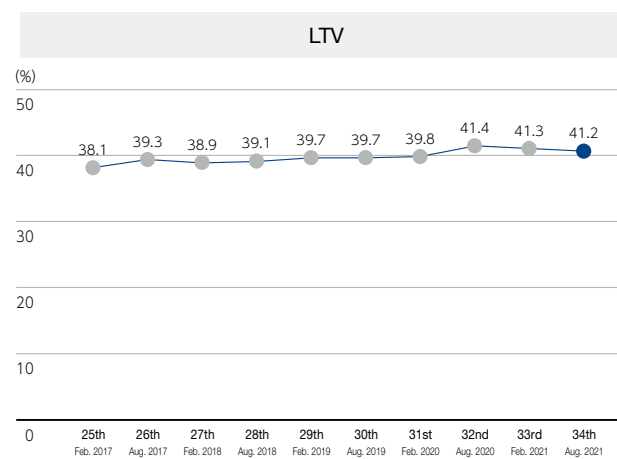
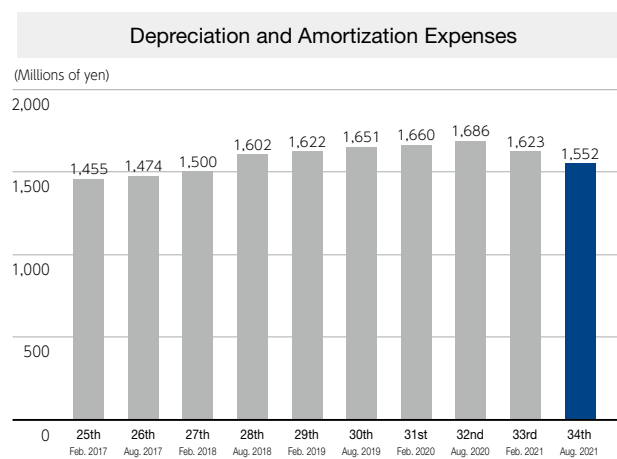
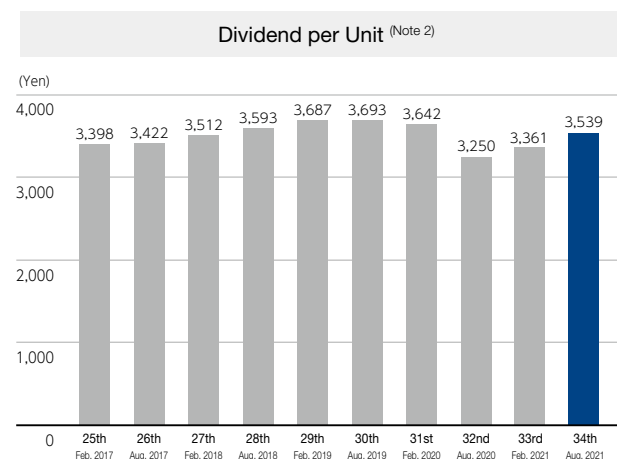
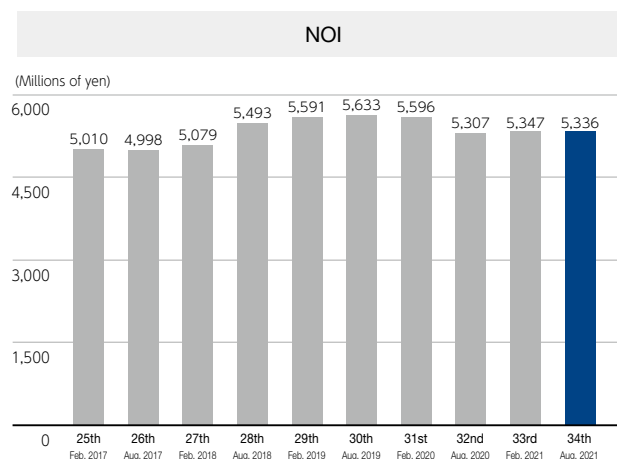
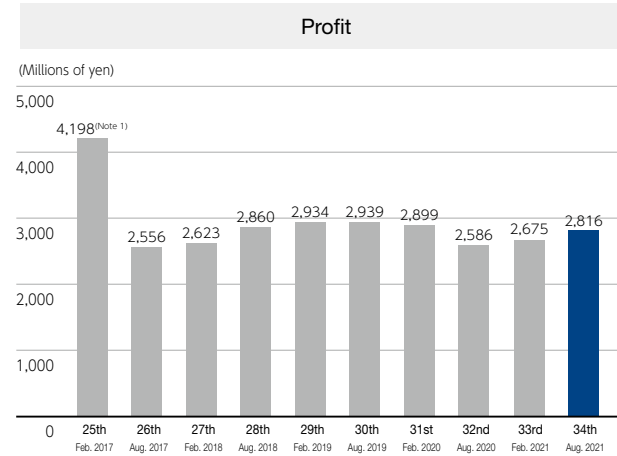
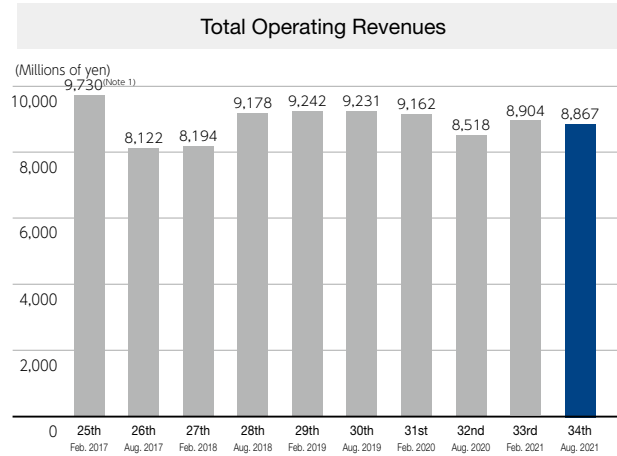


Trends in Appraisal Value and Unrealized gain

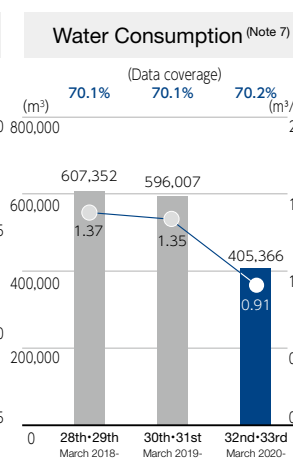
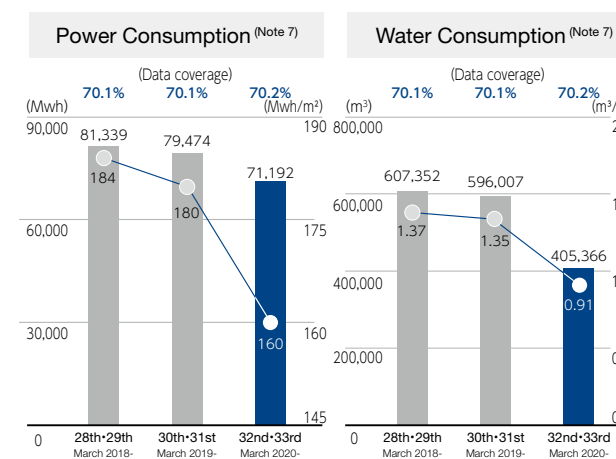
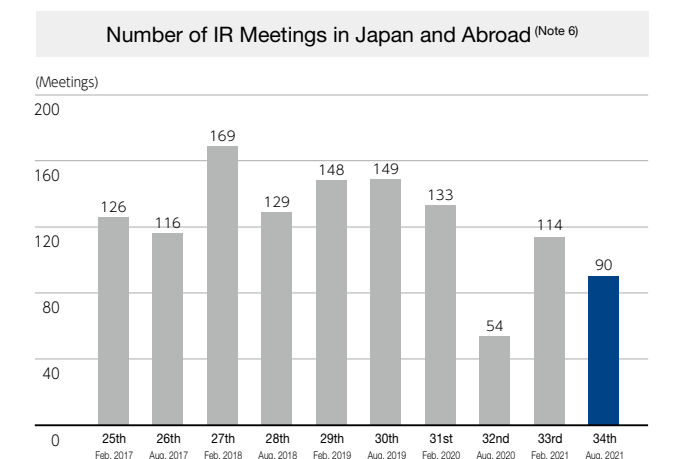
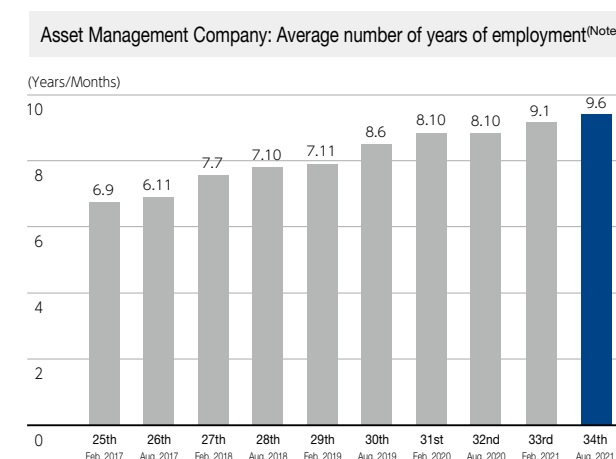
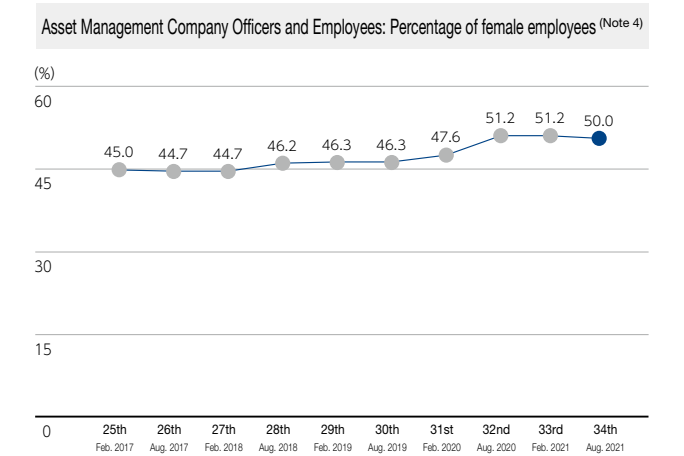
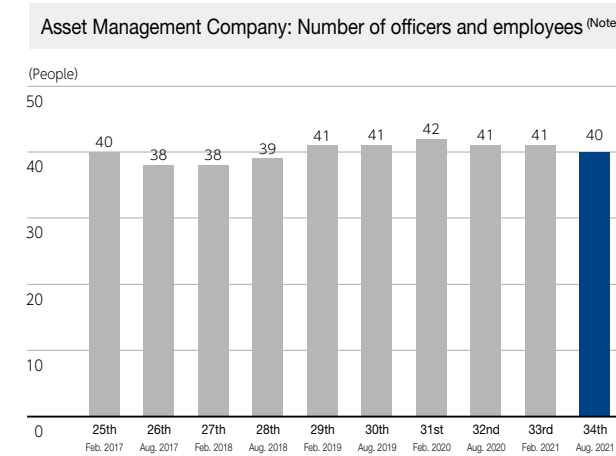


Note: Period-end book value does not include trust construction in progress.

Financial Highlights



Non-Financial Highlights



Notes: 1. Due to differences in accounting and tax treatment, the gain and loss on sale of AEON Hara Shopping Center and Aquila Kego transferred in the 25th fiscal period were handled as follows:
 (1) The amount of impairment loss for AEON Hara Shopping Center recorded in the profit and loss statement for the 24th fiscal period was recorded as reserve for temporary difference adjustments.
 (2) The gain on sale of Aquila Kego was recorded in the income statement for the 25th fiscal period.
 (3) Reversal of reserve for temporary difference adjustment was recorded in the statement on cash dividend for the 25th fiscal period.

Notes: 2. The dividend per unit for the 25th period was calculated as follows:
 Dividend for the 25th term: Profit - Reversal of the reserve for temporary difference adjustments - Surplus brought forward

Notes: 3. The number of officers and employees indicates the total number of directors and auditors, permanent employees, contract employees, temporary employees, secondees, etc., who are employed on a full-time basis at Fukuoka Realty Co., Ltd.

Notes: 4. The percentage of female employees is calculated as the ratio of women to the number of directors, auditors, and employees.

Notes: 5. Average number of years of employment is calculated as the average service years of permanent and contract employees of Fukuoka Realty Co., Ltd.

Notes: 6. The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period.

Notes: 7. Total value for 11 properties, including four retail facilities and seven office buildings. Per unit is calculated by adjusting the total floor area (m²) by the occupancy rate. Data coverage is the area ratio of properties subject to data aggregation as compared to all properties, and is calculated at the end of the fiscal period. The figure for Canal City Hakata, Canal City Hakata-B, and Canal City Business Center Building reflects total electricity and water usage for all buildings, including electricity and water usage by some theater areas not owned by the Investment Corporation. The figure for Park Place Oita covers only the main building section and excludes the section for independently run stores.



President and CEO
Fukuoka Realty Co., Ltd.
Zenji Koike

Q Please tell us about yourself.

After working for a local bank (currently THE NISHI-NIPPON CITY BANK, LTD.) following my graduation from university, I joined Fukuoka Jisho Co., Ltd., one of our sponsors, where I spent many years primarily involved in duties related to retail property development and operations. Canal City Hakata is a particularly special property for me because I was involved in its development and operations following its opening, as well as in many aspects of the Canal City Hakata East Building, from its development in 2011 to attracting tenants.

I also served as General Manager of the Office of the President and General Manager of the Administration Division, so I have acquired experience throughout the company, including development as a real estate developer and in property management. And I managed the company (currently FJ. Entertainment Works Ltd.) that operates the

Canal City Theater and plans events at our retail facilities. More recently, I served the past four years as Chairman of Sunlife Co., Ltd., which is involved in building management, so I have experienced most types of work involved in real estate.

Other than work, I was a member of the yacht club for four years during my time in university, where I sailed 470-class two-person yachts. I still love the ocean but no longer sail. Currently, my entire interest in sports involves golfing and running. I ran my first marathon during the first Fukuoka Marathon seven years ago and have entered civic marathons in different areas two or three times every year since.

Q What is the future strategy for Canal City Hakata and FRC's other assets?

Canal City Hakata is not located near one of Fukuoka's major transportation hubs such as Tenjin or Hakata Station,

but rather is in an area adjacent to Nakasu and Kawabata, which, despite being situated in the heart of Fukuoka, did not see much daytime foot traffic at the time we developed this property. Hakata has a long history as a home to wholesale districts and as a center for many other merchants, but a large site was left behind when the area emptied out after the center of business moved to Tenjin and Hakata stations. So, we developed Canal City Hakata with the desire to create a new city here. With the birth of Canal City Hakata in this area where people rarely came before, despite being in the heart of the city, the development has become a new tourist destination in Fukuoka that attracts visitors from a wide area and receives many people from around Asia.

Canal City Hakata is home to a movie theater and playhouses, and we have aimed to make it into an entertainment retail facility where people can pass the time enjoying meals, walking the grounds, and watching the fountains and performance events. Under the initial concept of creating a new city here, we developed the property with the goal of limitlessly raising the accessibility of people in a way that links to Hakata and Tenjin. I believe that the property continues to realize this aim.

On the other hand, one of the very real challenges the property faces is the recent transformation in consumption activity, namely a decrease in the weight of in-person shopping and the shift to e-commerce. So, the question is how can we incorporate efforts aimed at e-commerce into conventional retail facilities? For tenants, brick-and-mortar store sales and e-commerce sales both lead to profits, so it is important for us to consider these as a whole. One potential approach that involves the entire facility is to eliminate inventory at brick-and-mortar stores and instead use these like showrooms where customers choose products that can be shipped to them from another location.

When Fukuoka REIT Corporation was initially listed on the stock exchange, one area of concern for our investors was the high ownership weight of Canal City Hakata. However, we have since achieved a balance by investing in office building, hotel, residential, and logistics facilities in addition to retail facilities. Challenges like the recent COVID-19 pandemic also tend to drive structural changes in consumption, though, where city-center retail facilities see a greater amount of volatility. In terms of asset balance, I therefore feel we should invest more in office buildings and logistics facilities, which are growing due to e-commerce. We are also looking to curtail the weight placed

on retail facilities and incorporate other assets, such as research-and-development facilities and data centers, as well as those in sponsor business fields, like energy-related facilities in the infrastructure sector.

Although there has been much debate over office assets, for example, regarding how work styles will change post COVID-19, when we consider the location of Fukuoka in Kyushu, it is clear that this type of asset will hold firm. Moreover, I believe developments as part of Tenjin Big Bang must prepare workplace environments that can contribute to new office formats, work-style reforms, and sustainability.

Q What is the appeal of Fukuoka?

I am originally from Fukuoka, so I could go on forever bragging about my home. But the best thing about Fukuoka is that the city is extremely compact, which I think makes it the perfect size for people to really experience the scale of their lives. Including the region around Fukuoka City, the urban area has a population of about 2.6 million people. The average commute time is less than half that of the Tokyo metropolitan area, the city is surrounded by nature, with both the ocean and mountains nearby, and it is compact with sufficient public transportation infrastructure.

Although it might not offer the same amount of information as Tokyo, in a metropolis like Tokyo the scope that can be grasped on one's own is always limited. In contrast, I feel Fukuoka is an extremely comfortable city because the residents can grasp the overall layout of their city as their sphere of everyday life. Which is why people like me who are from Fukuoka feel that Tokyo is a very difficult place to reside when we imagine living there.

Every year, I participate in the Hakata Gion Yamakasa Festival, a unique experience that offers many opportunities to interact with local people. As part of my duties, I have also had the privilege of being involved in the festival as the person responsible for the Canal City Hakata kazari yamakasa (decorated float). It is at these times when interacting with all of those who were born and grew up here, and who are involved in the festival as a part of their lifestyle, that I have strongly felt the character of Hakata and the humanity of the city. My grandfather was a descendent of a wholesale merchant from the Hakata area, so I too carry the blood of the Hakata merchants. I am always reminded that I am glad to have been born and raised in this

city whenever I speak to those who defend the traditions of the area. Although those of us from Hakata might not be the most polite people, we are very kind-hearted. More than anything, the people here love this city and its local festivals.

Q What are your thoughts on human assets?

When we think about materiality (management challenges) and management resources in terms of how Fukuoka Realty manages FRC, we see that creating different types of value through business clearly relies on the core of human resources, or rather human capital. When I was appointed as president, I thought that the employees of REIT management companies would be specialists in real estate finance, many of whom would be focused on their own occupations and fields of specialty, and would mainly be concerned about building a career that would serve them regardless of the REIT management company for which they worked. In other words, I thought they would be smart, intellectual employees who would avoid becoming overly attached.

But I was reassured when I realized that, unexpectedly, everyone at here actually had a special place in their hearts for the city, whether it was in terms of working for a region-specific REIT management company, providing social value for this region, or contributing to society. So, I sent a message to our employees saying that if that is the case, then let us all endeavor together in this kind of work.

It has become difficult to create a sense of belonging and loyalty toward companies in the world of today. But I think these are very important concepts. If we were to only pursue profits for ourselves and business rationalization to grow the company, something contrary to a sense of belonging would emerge, which is why I feel that it is important for managers to find a balance between the two. It is my hope that our employees feel that their work is rewarding and engage in their work with a constant awareness of how their work can contribute to the city and society.

As far as future recruitment and employee training are concerned, I hope that we attract both new graduate employees, as well as employees who have built up different careers elsewhere and moved or returned to Fukuoka with a desire to work in the city. I want our employees to maintain the broad vision of Act Local, Think Global here in Fukuoka and Kyushu. And so I feel we must also offer systematic training whereby employees can properly acquire

skills, build a career, and accumulate knowledge at each rank. Moreover, as a Company we intend to create a system that firmly supports employees and provides them with opportunities besides just training to extend their knowledge so that they can capture and address future changes in the industry.

Q What are your thoughts on the future of sustainability management?

As far as ESG is concerned, I do not think we can wait on the environment. Our main sponsor, Fukuoka Jisho Co., Ltd., is an unlisted owner-operator company. In this respect, it can be led by the objectives of top management and can move with speed and flexibility. On the other hand, this presents the risk that it will not highly prioritize the corporate governance code required of listed companies and consideration of ESG, for example.

Meanwhile, FRC, to which we have entrusted management operations, is a listed company. So, I believe it is necessary for us to properly fulfill our responsibilities in a speedy manner together with our sponsor companies as we listen to the feedback of the market. In particular, it is important for us to think about first properly acknowledging the demands made by global institutional investors. In other words, one truly urgent challenge is properly employing the concept of "integrated thought" throughout the organization while prioritizing ESG in order to fulfill the social responsibilities that are demanded by those at the forefront of the times in line with our management philosophy of "Act Local, Think Global."

FRC was also the first in the J-REIT industry to publish an integrated report. But we must continue to evolve integrated thinking and integrated reporting through a virtuous cycle. In other words, we must do more than simply enrich what we include in the report and instead pursue this content in a manner that coincides with effectiveness. There is no question that I also feel responsibility as the head of the Company. And we must match ESG with business in a way that considers how we should engage in the real estate business to create a sustainable society for the future. For us to support community building and the lifestyles of people through real estate, we must look 10, 20, even 50 years into the future, be quick to pick up on what is required now for that purpose, and both consider how to link these requirements to growth for FRC and to actually engage in meeting these requirements.

Q Finally, do you have a message as president?

By the time I received the baton as president from my predecessor, Mr. Matsuyuki, our asset scale already exceeded 200 billion yen. Although the investment unit price fell at one point last year due to COVID-19, it has since recovered, so I received this baton while we were in a very good position. In this sense, this also puts a lot of pressure on me, but we have set the asset scale target for the time being at 250 billion yen. As a region-specific REIT, however, we must manage the company from a long-term perspective and not aim to grow our asset scale blindly. Because I know this city, because I know this region, I am aware there is still so much more we can do. We intend to continue investing in a way that only a region-specific REIT can and grow our assets in a way that supports this region. If we can manage this, I believe we will effortlessly clear our asset scale goal of 250 billion yen.

Although I feel we are starting to see an end to the COVID-19 pandemic, there is no chance that everything will return to the way it was before, which is why I believe that lifestyles, working environments, business models, and a variety of other areas will continue to change after COVID-19. Now is truly a time during which we must consider how to set and manage our priorities. I therefore

believe we must construct and reveal to all our stakeholders a solid business model that is built on a core approach such as ESG and that enables us to continue business operations as we manage various crises.

Zenji Koike President and CEO

Place of birth: Fukuoka City
Hobbies: Running, golf

Profile

- 1988 Joined Fukuoka SOGO Bank (currently THE NISHI-NIPPON CITY BANK, LTD.)
- 1991 Joined Fukuoka Jisho Co., Ltd.
- 2013 Appointed as Chairman of Canal Entertainment Works Co., Ltd. (currently FJ. Entertainment Works Ltd.)
- 2017 Appointed as Senior Executive Officer of Fukuoka Jisho Co., Ltd.
Appointed as Chairman of Sunlife Co., Ltd.
- 2021 Current position starting in June





Executive Director,
Fukuoka REIT Corporation
Advisor, Fukuoka Realty Co., Ltd.
Etsuo Matsuyuki

Q Please provide us with an overview of your roughly nine years as president of the asset management company.

Over the nine years between June 2012 when I was appointed as President of Fukuoka Realty and June 2021, or 10 years if you include my time as Senior Vice President and General Manager of the Planning Department, I was involved in managing FRC.

In terms of external growth, the corporation most recently recorded an asset scale of approximately 202 billion yen, well above the nearly 150 billion yen asset scale at the time I was appointed. In other words, we successfully achieved the 200 billion yen goal established at the time of my appointment. We also nearly doubled the number of properties we manage from 17 to 32 over this time, and we successfully increased the number of asset types from just three, namely office buildings, retail, and residence, to five, including hotel and logistics. Although logistics have recently attracted a lot of attention, we were able to acquire several at an early stage and now own four such properties.

Moreover, we executed three public offerings during my time in office and were buoyed by a turnaround in the market. Together, these developments slightly more than doubled our market capitalization from 68.5 billion yen the day before my appointment to 148.6 billion yen on the day I left office. Although we sold off three properties during this time, this move helped to improve our situation, in part because the Aeon Hara Shopping Center presented challenges as a property with unrealized losses at the time of

its sale. More recently, we sold off the Canal City Hakata·B Grand Building (88.28% co-ownership interest in Grand Building) and engaged in asset replacement.

In terms of financials, we executed three public offerings to reduce the 44.6% LTV prior to my appointment to 41.3% and succeeded in extending the average debt duration from 2.9 years to 5.4 years, thereby achieving even greater stability for the financial base as a strength of FRC.

In terms of internal growth, we worked to increase office building rents starting in the 25th fiscal period. Although I have been told that rents on Fukuoka's office market are unlikely to rise and fall, in part due to the support of property management companies, we were able to raise rent per unit approximately 7% compared with the outset of this initiative.

Q Looking back over the past nine years, what was the one thing that you were most happy about, and that you were most challenged by?

What was most challenging, and that left the deepest impression on me, was the broad adjustment that occurred following the interest rate hike observation on the New York Stock Exchange immediately before we executed our public offering in February 2018. This adjustment led to instability in Japan's markets and caused us to really hesitate until the last minute on whether we should proceed with the public offering.

There are so many things I was happy about, though, including the public offering we made the year immediately after I was appointed president to acquire Hotel FORZA Oita. Having been involved in developing this property during my time at Fukuoka Jisho Co., Ltd., I put extra effort into explaining this property to investors.

I believe this happened during the public offering in 2018, but I remember one investor giving the move very high marks, saying he had nothing but praise for this solid public offering.

Q Please tell us about the Company's most recent efforts to address COVID-19.

Following the first State of Emergency Declaration regarding COVID-19 in April and May 2020, we temporarily closed Canal City Hakata and our other retail facilities in Fukuoka City. We did not take this approach during any of the subsequent State of Emergency Declarations, however, and instead implemented various measures in terms of operations. To relieve our customers of any uncertainty, we implemented physical measures that included making hand

sanitizers available and applying antibacterial coatings to handrails and such, and communicated our efforts to prevent the spread of infection through videos on our website and on televisions in our facilities. Prior to COVID-19, Canal City Hakata hosted a large duty-free shop and we had focused our energies on attracting inbound customers, but with the end of the contract period for the large duty-free shop, we turned our attention to reinforcing efforts to attract domestic customers, including working with NITORI to open store in March 2021.

Q Although there is no clear end to COVID-19 in sight, what are your thoughts on the changes that might occur in the future?

Commuting on packed trains in Tokyo has been considered a fact of life until now, but remote work has become a norm due to COVID-19 and in the future workplace functions will probably no longer need to be located in Tokyo. In fact, I think we will start to see cases where companies transfer some head office functions to Fukuoka, for example, where life is easier. JAPANET HOLDINGS Co., Ltd. has led the way in doing so by transferring some of its head office functions to the Tenjin Business Center, which was completed in September 2021. So, I believe that we will see an increasing number of cases where the impact of COVID-19 has acted as a positive factor for attractive regional cities.

Inbound demand will also likely return at some point. Given the geographical advantages of being near the rest of Asia, a recovery in inbound demand will probably connect to further revitalization of Fukuoka.

Q What are your thoughts on the increasing interest in ESG and non-financial information?

After we announced our results for the 33rd fiscal period in April 2021, I primarily held IR meetings over the telephone with institutional investors. One of the notable aspects of these meetings was that many participants asked questions about ESG. This was completely different from previous periods. Normally, I would spend most of these roughly one-hour meetings explaining the results and spend a little time discussing ESG at the end. One investor, however, requested that I spend 30 minutes of the hour-long meeting discussing ESG, which showed me just how much interest in ESG and non-financial information has grown.

Q How did you tackle the issue of human resources development?

After I was appointed as president of the asset management company, the number of employees changed very little despite growth in the asset scale, indicating the productivity of each employee had increased. Moreover, the ratio of female employees increased each year and recently reached 50%. I actively engaged in employee training by directly presenting challenges to responsible employees, regardless of their age or position, and actively supported their efforts to acquire certifications.

Another move I made that I think is unusual for a REIT asset management company was to assign employees to Fukuoka Jisho Co., Ltd., as one of our sponsors. I felt that this might help to connect to broader career development for the assignees, but I was also just happy to see them participate in various areas at Fukuoka Jisho Co., Ltd.

People are an asset for asset management companies. I therefore engaged in these efforts under the belief that the degree to which each individual employee grows will as a result connect to the growth of FRC and to the value that we deliver to our stakeholders.

Q Finally, please tell us what you expect from Mr. Koike as the new President and CEO of the asset management company.

President and CEO Koike was born and raised in Fukuoka and has been deeply involved in Hakata Gion Yamakasa as a representative festival of the region and in support duties for local professional sports. I believe this experience will serve as a major benefit for the growth of FRC.

As far as external growth is concerned, the market has not emerged as a buyers' market, even after the spread of COVID-19, but I hope that he firmly engages in acquisitions from the outside despite the current environment, and I anticipate he will leverage the sponsor pipeline for this purpose.

Of the properties owned by FRC, hotels and retail facilities were affected the most by COVID-19. We curtailed hotel-related risk by selling off the Canal City Hakata·B Grand Building (88.28% co-ownership interest in Grand Building). In contrast to our community-based retail facilities, which have tended to fare relatively well, as a city-based retail facility Canal City Hakata also enjoyed the strong support of inbound customers, so continues to face severe challenges. I therefore look forward to President Koike thoroughly demonstrating his experience working on the development and management of Canal City Hakata as he undertakes various efforts toward future recovery.

Investment Department

Related Materiality

- Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu
- Maintenance and enhancement of environmental and construction performance
- Creation of pleasant workplaces(tenants)

General Manager of the Investment Department
Takeshi Usumoto



With property selection skills that can only be possessed by a local hand, the Investment Department strives to discover those properties that have the potential to generate stable cash flow over the medium to long term.

Amid conditions that are as harsh as they have ever been due to the impact of COVID-19 infections, the trend toward a pickup in the real estate investment market environment is continuing. Although economic conditions in Fukuoka and the wider Kyushu region—FRC’s core areas of operation—remain harsh, office buildings, logistics, and residential asset types are maintaining strong management performance and property transaction prices remain high.

Looking at land price trends, according to the 2021 Land Market Value Publication, the national average has declined for the second consecutive year, although the rate of decline has narrowed for all uses. In contrast, in Fukuoka City, the central area of FRC’s investment targets, commercial land prices increased 7.7% year on year and those for residential land increased, for the ninth consecutive year, 4.4% year on year.

Against this backdrop, we will continue to make investments that leverage our expertise and ability to gather and provide information, based on our familiarity with the particular conditions on the ground in Fukuoka and throughout Kyushu.

The Company’s strengths include the “speed and density of its information,” “a feel for the local market,” “a powerful local network across a broad area including administrative and economic authorities,” and “a real estate management structure with a long-term commitment to the local community.”

Acquisition Case Study: Tenjin Nishi-Dori Business Center (Land with Leasehold Interest) See p.7

We acquired the Tenjin Nishi-Dori Business Center (Land with leasehold interest) property on June 1, 2021.

This property deal covers the acquisition of land for our sponsor’s redevelopment project.¹ As we concluded a land lease agreement that in the future will shift the fixed land lease fees during the redevelopment period to variable land lease fees linked to tenant rents, this represents a scheme that will start to generate cash flow at the same time as the acquisition and will be able to capture the growth of Fukuoka’s Tenjin business district going forward.¹ Furthermore, this is a lease contract that includes preferential negotiation rights for the building, and the acquisition of the building is expected in the future.



Acquisition date
June 1, 2021
Acquisition price
7,700 million yen
Appraisal value
7,790 million yen
Seller
Fukuoka Jisho Co., Ltd.
NOI yield*
3.5%

*Calculated based on the appraisal report NOI.

As for our investment policy, we will continue to execute investments based on considerations that consider the making of targeted investments in such overlapping domains as “markets with high growth potential” and “fields in which we excel and that enable us to exert our competitive advantage.”

As a general rule, our investments will be made in Fukuoka and the greater Kyushu region, and among these, there is a particular focus on the Fukuoka Metropolitan Area, in which a majority of our investments are made. That said, regarding investment type, while continuing to keep a careful eye on the potential for growth in the COVID-19 pandemic era, we adopt a flexible policy that covers a variety of properties.

We also utilize a network of sponsor companies in our pursuit of even more acquisition opportunities.

Selecting real estate for investment entails conducting a range of meticulous surveys, such as economic-type surveys that cover projected revenue streams for each individual property and the future potential of the area in which it is situated, physical surveys that consider such factors as the property’s condition and ability to withstand earthquakes, and surveys related to rights and legal issues, among others. After rigorously examining a particular property’s value, we then decide whether to acquire it based on a determination of its impact on our overall portfolio, the degree to which it will contribute to raising value, and other factors.

Going forward, we will steadily seize upon opportunities to invest in real estate in the Fukuoka and Kyushu areas, and ensure sound asset scope and portfolio growth.

Acquisition Case Study: Hakata Chikushi-Dori Center Building

On August 30, 2021, FRC resolved to acquire the Hakata Chikushi-Dori Center Building as of March 1, 2022.

Based on a proposal for the sale of this property to the owner (seller) of the head office located in Fukuoka City, FRC considered acquiring the property. Giving the seller sufficient time to examine the proposal while gathering information on needs and returning the effect of reducing building management costs to the seller made this an attractive proposal. Looking ahead, I also believe that we will be able to efficiently manage the building by having FRC perform the large-scale repairs that will occur in the future on behalf of a seller whose main business is not real estate.² We believe this transaction to be an example of good value co-creation that we were able to tackle while fully demonstrating the strengths of regional REITs and satisfying the needs of sellers (tenants).³



Acquisition date (scheduled)
March 1, 2022
Acquisition price (planned)
4,320 million yen
Appraisal value
4,540 million yen
NOI yield*
5.3%

*Calculated based on the appraisal report NOI.

Real Estate Management Department

Related Materiality

- Co-creation with the local community
- Maintenance and enhancement of environmental and construction performance
- Creation of pleasant workplaces (tenants)

General Manager of the Real Estate Management Department
Hideya Kanno



The Real Estate Management Department aims for the long-term and stable optimization of assets managed by FRC, while drawing up plans for asset management. As a comprehensive REIT investing in a diverse range of asset types, we will work on internal growth through aggressive investment in our portfolio of assets while deriving maximum value from our real estate portfolio over the long term. This will be achieved against the backdrop of the region’s potential for growth, including the rising population in our primary destination for investments, the Fukuoka Metropolitan Area, which is also home to an increasing number of companies.

Due to the spread of COVID-19 infections, the business environment continued to be difficult in 2021, but we took a variety of measures to ensure the long-term stability of our real estate portfolio. In the management of each asset, we focused on preventing the spread of infection and endeavored to ensure that tenants and facility visitors could utilize them with peace of mind by thoroughly ensuring the safety of facility environments and hygiene.

Concerning Grand Hyatt Fukuoka, where the harsh business environment continued, we replaced properties based on the prospect of future business recovery and the present value of the real estate. This ensures the long-term stability of the portfolio and at the same time improves the quality of the portfolio by the acquisition of alternative properties.

In the meantime, we also actively considered investments with an eye on the post-COVID era and promoted efforts to increase future profits. In terms of internal growth, against the backdrop of increasing demand for daily necessities brought about by the current changes in the living environment, at Konoha Mall Hashimoto we replaced tenants in the Hashimoto Marche food market zone to improve the attractiveness of food-related products. At SunLiveCity Kokura renewal was carried out jointly with our tenants, further enhancing its appeal as the best store in the area. We are also promoting environmental renewal at

Park Place Oita while working to improve the facility’s appeal and strengthening cooperation with the surrounding area.¹

In each of these measures, we maximized consideration to facility safety, ensuring hygiene security and cooperation with the local community while formulating an investment plan to realize attractive sales floors and fulfilling working environments. In asset types such as office buildings and logistics properties, we are also pursuing the role and ideal image of real estate in future eras, considering safety and security, and at the same time striving to maintain the competitiveness of each asset.²

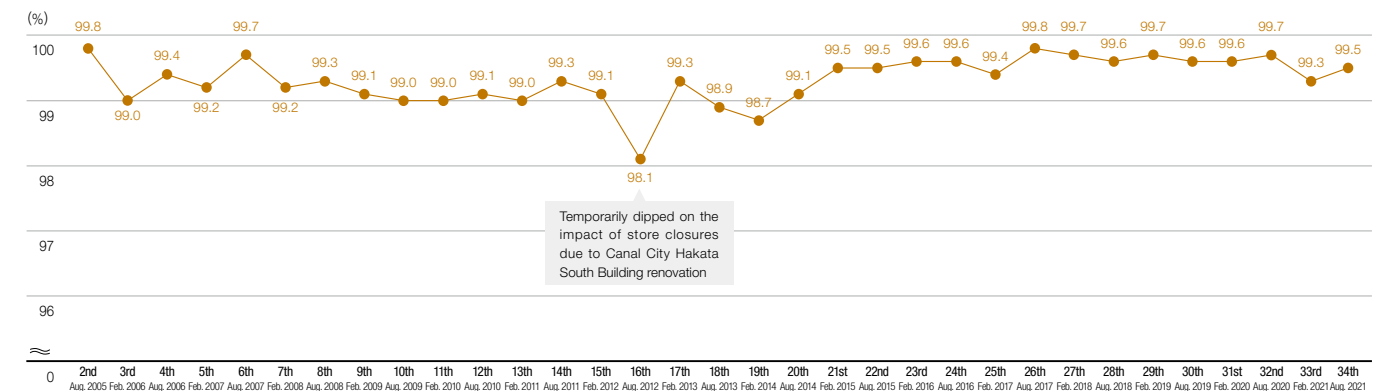
Going forward, we will further emphasize the sustainability aspect in our asset management of real estate. Regarding factors such as continuous relationships with tenants, measures for employee working environments and the business environment, and consideration for the environment,³ as growth opportunities for our real estate portfolio, we will steadily respond to maximize long-term and stable profits.

Asset replacement (June 1, 2021)

- Capture the medium- to long-term growth potential of office buildings in the Tenjin area
- Reduce the risk of having a full-service hotel that is subject to large impact of COVID-19

Property name	Tenjin Nishi-Dori Business Center (Land with Leasehold Interest)	Sponsor support Asset replacement Gain on sale 104 million yen	Property name	Canal City Hakata-B Grand Building (88.28% co-ownership in Grand Building)
Acquisition price	7,700 million yen		Transfer price	7,700 million yen

Trends in FRC Property Occupancy Rates



Note: FRC’s occupancy rates from the second to fourth fiscal periods represent occupancy rates as of the end of each period. The fifth to the 34th fiscal periods are calculated as a weighted average occupancy rate during the period. Total leased area is stated as a percentage of total leasable area.

Finance Department

Related Materiality

1. Co-creation with the local community
2. Information disclosure and dialogue with stakeholders

General Manager of the Finance Department
Hiroyuki Ayabe



In addition to drawing up and executing financial and capital strategies that are in the best interests of our unitholders, the Finance Department is responsible for IR (including SR and public relations) activities to convey FRC's situation in a timely, fair, and accurate manner.

Amid the impact of COVID-19, which looks as if it will be protracted, the Tokyo Stock Exchange REIT Index has been returning to its pre-COVID state after having temporarily seen a precipitous decline in March 2020. With the Bank of Japan maintaining monetary easing, it is thought that low interest rates will continue, although I believe that it will be necessary to practice financial management that remains aware of suddenly changing risks in the financial market.

Under such circumstances, the financial strategy, capital strategy, and IR activities that we can consider are as follows.

Financial Strategy/Capital Strategy

Regarding our financial strategy, we are first and foremost maintaining a conservative interest-bearing debt ratio from the perspective of building a solid financial base. The interest-bearing debt ratio at the end of the 34th fiscal period (August 2021) was 41.2%.

Next, from the perspective of ensuring the flexibility and agility of financing, we have set a commitment line with a maximum amount of 13 billion yen. By also deciding on a three-year commitment period, we are taking measures that will be able to address any deterioration in the fund procurement environment due to the prolonged impact of COVID-19.

In addition, from the perspective of reducing the risks from interest rate rises and refinancing, we seek to fix interest-bearing debt over the long term and to diversify repayment dates while keeping a close eye on interest rate levels. While maintaining good relationships with financial institutions with which we have existing relationships—starting with our three sponsor banks but including regional banks that operate primarily in Kyushu and the megabanks—we will strive to diversify our procurement sources.¹

In addition, we will actively incorporate consideration for ESG issues. In July 2019, FRC helped to resolve environmental issues by conducting its first funds procurement by means of green finance. By having conducted procurement via “a mechanism for financial institutions to donate a part of the profits obtained through borrowing as

funds for research into the development of a new COVID vaccine at national universities” in March 2021, FRC has been able to contribute to resolving a social problem.¹

Regarding our capital strategy, we will ascertain the market timing and raise capital in line with external growth, which is one of the growth drivers. We will also consider the balance between distribution growth after capital procurement and LTV control as well as other factors.

IR Activities²

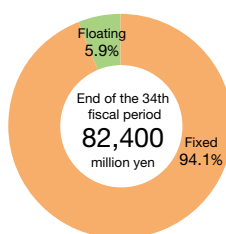
Coupled with compiling the various types of information necessary for investment decisions, our primary consideration is to offer a steady stream of timely, fair, accurate, and easy-to-understand information, which is the basic policy of IR activities.

While proactively disclosing (increasing the amount of) non-financial information that does not appear in the income statement or balance sheet, such as publicizing our strengths as a REIT specializing in regional properties and the real estate situation in Kyushu and Fukuoka, we will work to improve the content. I believe that doing so will lead to a deepening of mutual understanding with all unitholders, the building of relationships of trust, and ensuring positive steps toward attracting outstanding investment funds from other parts of Japan and overseas to Kyushu and Fukuoka.

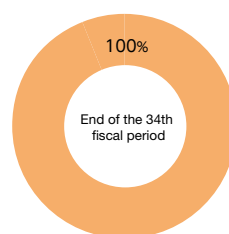
Prior to the COVID pandemic, we met and held meetings in person with more than 200 institutional investors each year. When face-to-face IR activities would have been beset with difficulties, we continued our IR activities with the highest priority placed on preventing the spread of COVID-19 infections. We are incorporating innovative ideas, such as making full use of a range of Internet tools to hold efficient meetings. I would like us to consider actively holding briefing sessions for individual investors as well.

In the years to come, I believe that taking a long-term view in proactively working to raise the level of sustainability will be indispensable for achieving optimal profits for investors. We will convey our efforts in an easy-to-understand manner through, for example, integrated reports, our website and financial briefing documents, and other materials.

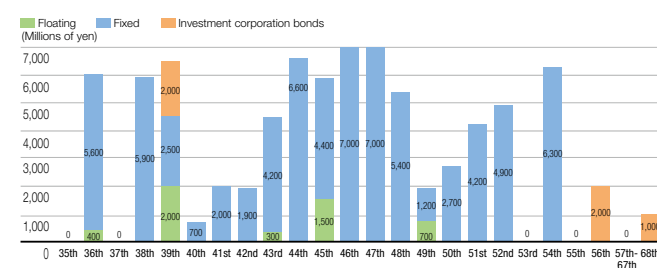
Fixed and floating rate



Long-term rate



Diversification of debt maturities (as of August 31, 2021)



Planning Department

Related Materiality

1. Compliance/Risk management
2. Creation of pleasant workplaces (Fukuoka Realty)
3. Maintenance and enhancement of environmental and construction performance
4. Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu
5. Co-creation with the local community

General Manager of the Planning Department
Keishi Tamura



The Planning Department is in charge of FRC's institutional management and accounting operations, as well as Fukuoka Realty's personnel affairs, general affairs, and sustainability-related operations.

As FRC's institutional management, there are deliberations conducted by the Executive Committee and the Investment Committee, resolutions on important matters passed by the Board of Directors at Board of Directors' meetings, and appropriate management and operations carried out in compliance with laws and internal rules.¹

In our accounting business tasks, we prepare financial statements, such as asset management reports and securities reports. Regarding the financial statements of investment corporations, in addition to the accounting systems with which general business companies are to comply, it is necessary to remain in compliance with accounting-related rules specific to investment corporations. From the perspective of satisfying the conduit status requirements that are the premise of calculations for the payment of dividends to unitholders, we are working on preparing financial statements after accumulating appropriate accounting treatment from both accounting and tax perspectives.

In personnel and general affairs, we are striving to secure human resources, promote diversity, improve employee motivation, build an employee education system, and ensure employee safety.²

As of the end of August 2021, the company had 40 officers and employees, and the ratio of female was 50.0%. The company also includes diverse professional human resources, such as a lawyer, three real estate appraisers, three first-class architects, and two MBA holders. We are also actively providing training after employees have joined the Company while working to improve the quality of our business by recommending the acquisition of qualifications: 28 people are qualified

as real estate brokers, and 25 are certified masters of the Association for Real Estate Securitization (ARES). We are also actively promoting work-style reforms and have been certified as a Fukuoka work-style reform promotion company by Fukuoka City.²

To ensure the safety of employees, we have put in place crisis management procedures. While giving top priority to protecting human lives and rescues in the event of a crisis, these are designed to bring about the prompt recovery and continuation of operations and for the purpose of cooperation with stakeholders for the continuation of the asset management business.^{1,2}

Nowadays, sustainability-related work is gaining in importance, and we are planning and managing the progress of sustainability promotion plans as well as continuing to acquire GRESB Real Estate evaluations.³ Since this investment corporation is a regional REIT, we are actively exchanging opinions with research institutes on regional economies and industries in Kyushu, Okinawa, and Yamaguchi to contribute to the enhancement and revitalization of Fukuoka and Kyushu. We are also holding regular dialogues with the local companies that are Fukuoka Realty's sponsors to promote attractive urban development in collaboration with local communities.⁴ At Fukuoka Realty in 2021, we implemented the corporate version of the hometown tax payment in seven cities where FRC-owned properties are located (Kagoshima, Kumamoto, Kurume, Miyawaka, Naha, Oita, and Tosu)⁵ in an effort to contribute to resolving social issues and revitalizing the local communities. In the months and years ahead, I intend to lead the company to promote business operations in which all employees are aware that they are contributing to the social issues that the world should address, such as the SDGs.

Corporate Version Hometown Tax Donation Program

Implemented a corporate version of the hometown tax payment for projects related to industry, tourism, etc., in seven cities. (View of Tosu City donation acceptance ceremony)



Executive Director Etsuo Matsuyuki (left) and Tosu City Mayor Yasushi Hashimoto (right)

TOPIC Main Sponsor: Introducing Fukuoka Jisho Co., Ltd.

See p.3

Corporate philosophy
We are committed to creating attractive towns and regions with steadfast devotion.



Tenjin Business Center (Completed September 2021)

See p.7

Overview (As of May 31, 2021)

Name	Fukuoka Jisho Co., Ltd.
Established	July 1961
Industries	Real estate (comprehensive developer)
Representative	Ichiro Enomoto, President and CEO
Employees	188
Net sales	20.4 billion yen
Ordinary income	6.2 billion yen
Total assets	202.9 billion yen
Borrowings	113.7 billion yen
Equity ratio	35.1%

To achieve sustainable growth, FRC keeps close track of highly significant risks and opportunities while assessing their impact on the Investment Corporation and its stakeholders.

Measures to Address Risks Opportunities

Significant Risks	Impact on Stakeholders	Measures to Address Risks and Opportunities
<p>Risks from Natural Disasters</p> <ul style="list-style-type: none"> Response to climate change <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load 	<ul style="list-style-type: none"> Buildings might be lost, suffer deterioration or damage due to the occurrence of natural disasters, such as earthquakes, storms, and floods, or severe weather due to climate change, and their value could be affected, with a decrease in rent due to the non-operation of properties 	<ul style="list-style-type: none"> Consider that it is possible to purchase insurance at a relatively low cost compared to other areas; arrange earthquake insurance coverage for all properties Improve resilience (e.g., ability to respond to disasters) by engaging in a variety of activities; this includes conducting disaster drills at each property, stockpiling emergency food supplies, strengthening flood countermeasures, and formulating a business continuity plan (BCP) See p.34
<p>Environment-Related Risks</p> <ul style="list-style-type: none"> Reduction of environmental load Soil pollution and toxic substances <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load Maintenance and enhancement of environmental and construction performance 	<ul style="list-style-type: none"> Increase in property management costs due to more stringent environmental laws and regulations, such as the strengthening of the Building Energy Conservation Law Risk of damage to the health of building users due to the presence of toxic substances in the soil or in building materials, and other items, of properties owned; risk of bearing the cost of compensation for damage to health or for removal of toxic substances 	<ul style="list-style-type: none"> Work to maintain and improve environmental performance through renovation opportunities for properties owned; acquire Green Building and other certification, to obtain the results of environmental/social initiatives in visual form and improve property competitiveness See p.35 Aim to reduce vacancy rates by pursuing healthful and comfortable conditions in properties owned and by increasing leasing demand for properties with high environmental performance Conduct thorough physical investigations at the time of property acquisition; property acquisition after confirming the presence or absence of toxic substances and taking of appropriate measures
<p>Human Resource Related Risks</p> <ul style="list-style-type: none"> Deterioration in the caliber of human resources Dependence on human resources <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (asset management company) 	<ul style="list-style-type: none"> Risk of deterioration in the organizational strength of Fukuoka Realty Co., Ltd. (Asset Management Company) due to a failure to maintain the human resources base, in terms of such factors as ability, experience, and know-how of the asset management company for smooth business operations Heavy reliance on FRC's directors and auditors as well as on the human resources of the asset management company; the risk that the outflow of these human resources could have an adverse effect on operations 	<ul style="list-style-type: none"> Improve organizational strength and increase employee loyalty by hiring and fostering excellent human resources Improve employee motivation by realizing a work-life balance and the stabilization of work through health management See p.36
<p>Infectious Disease, Epidemic, and Other Related Risks</p> <ul style="list-style-type: none"> Pandemic <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance Creation of pleasant workplaces (asset management company) Creation of pleasant workplaces (tenants) 	<ul style="list-style-type: none"> Risk that such external factors as infectious diseases and epidemics in Japan and overseas could interfere with the normal operation and management of FRC's properties Decrease in rental income from real estate due to such factors as a downturn in visitors, which might have an adverse effect on for example earnings 	<ul style="list-style-type: none"> In addition to physical infectious disease countermeasures, expand the COVID-19 workplace vaccination program scope to cover retail facility tenant employees as a means of promoting a safe and secure facility environment for asset management company employees, tenants, and consumers See p.37 Set up satellite offices at the asset management company and introduce a telework system with a view to ensuring business continuity
<p>Property Concentration Risks</p> <ul style="list-style-type: none"> Region (Fukuoka/Kyushu) Retail facilities <p>Related Materiality</p> <ul style="list-style-type: none"> Co-creation with the local community Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu 	<ul style="list-style-type: none"> As FRC's properties owned are concentrated in Fukuoka and Kyushu, the vacancy rate might increase due to a worsening economic situation in that region, and profitability could deteriorate due to a decrease in rent Possibility of adverse effects on profits due to overall consumer consumption as well as other overall trends in the retail industry that reflect the nature of retail facilities as a main investment target 	<ul style="list-style-type: none"> Invest in various types of properties to reduce the risk of portfolio fluctuation by diversifying rental market cycles and tenant industries See pp.10-13 In retail facilities, such as Canal City Hakata/Canal City Hakata*B, operate bustling facilities by replacing tenants and providing new experience and other value, thereby reducing the risk of profit fluctuation by dispersing tenants Revitalize the entire region and connect this growth to the growth of properties owned

Significant Risks	Impact on Stakeholders	Measures to Address Risks and Opportunities
<p>Risks from Changes in Business Conditions</p> <ul style="list-style-type: none"> Increase in vacancy rates Decrease in rent <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (tenants) 	<ul style="list-style-type: none"> Vacancy rate increases associated with worsening real estate market conditions; decrease in dividends due to rent decreases Rent reduction, rent nonpayment, and vacating risks due to deterioration of a lessee's financial situation 	<ul style="list-style-type: none"> Consider extending lease agreement terms, fixing of such items as rent, according to property characteristics Appropriate occupancy screening when tenants move in as well as monitoring of operating status and thorough credit management during the lease period Deposits and security deposits against items including rent delinquency; collateral by such means as guarantor companies Treat deterioration in the real estate market as an opportunity to acquire excellent properties and execute strategic investments through appropriate financial management utilizing information-gathering capabilities
<p>Market-Related Risks</p> <ul style="list-style-type: none"> Increase in interest rates Fluctuations in the investment unit price <p>Related Materiality</p> <ul style="list-style-type: none"> Information disclosure and dialogue with stakeholders 	<ul style="list-style-type: none"> Risk of increase in interest payment due to increase in interest rates caused by market trends at the time of borrowing Risk that FRC's investment unit price might fluctuate due to factors that include unitholder supply and demand, interest rate conditions, economic conditions, and real estate market conditions Risk of not being able to acquire planned assets because additional units cannot be issued at the desired time and under desired conditions due to fluctuations in unit price 	<ul style="list-style-type: none"> Long-term fixing of interest-bearing debt and repayment period limit diversification Conservative interest-bearing debt management and commitment lines to ensure flexibility and agility in funding See p.24 Conducting of proactive IR activities
<p>Risks from Property Degradation, Deterioration</p> <ul style="list-style-type: none"> Increase in repair and maintenance expenses Decline in property competitiveness <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance 	<ul style="list-style-type: none"> Increase in expenses required for such items as large-scale repairs, due to the deterioration of properties, and large capital expenditures could reduce cash flows Possibility of tenants vacating and a reduction in rent due to a loss of property competitiveness resulting from changes in the surrounding environment 	<ul style="list-style-type: none"> Maintain/improve property competitiveness through appropriate maintenance and repair work, value-up investment, and extending the number of service life years Based on an understanding of conditions including real estate market trends and the capital market environment, if the strategic holding of a property becomes less significant from the perspective of property performance, competitiveness, and future profitability, consider replacement of that property if it is determined that selling it is in the interest of unitholders
<p>Regulatory Risks</p> <ul style="list-style-type: none"> New laws and regulations Changes in the tax system <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk Management 	<ul style="list-style-type: none"> Possibility of a limitation on rights with respect to properties owned and an increase in property management expenses and other items, due to newly established, revised, or abolished laws and regulations Possibility of an increased burden from taxes and fees due to tax reform 	<ul style="list-style-type: none"> In addition to receiving information from such sources as Fukuoka Realty's affiliated organizations, tax accountants, and law firms, participate in external training, obtain information, and take measures to reduce any impact from an early stage
<p>IT-Related Risks</p> <ul style="list-style-type: none"> Information leaks <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk Management 	<ul style="list-style-type: none"> Risk of leakage of personal and confidential information due to delays in strengthening cybersecurity 	<ul style="list-style-type: none"> Strengthen confidential information management systems by introducing two-factor authentication for software as well as applications and by conducting training on cybersecurity and information management Enable property differentiation by introducing advanced technologies into properties owned
<p>Compliance Risks</p> <ul style="list-style-type: none"> Violations of organizational laws and regulations Conflicts of interest <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk Management 	<ul style="list-style-type: none"> If Fukuoka Realty Co., Ltd. (Asset Management Company) violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability Potential conflict of interest issues with sponsors 	<ul style="list-style-type: none"> Prevent violations including those of laws and regulations as well as transactions involving conflicts of interest, through deliberations and audits by the Compliance Assessment Committee Improve employee awareness of compliance by conducting regular compliance trainings See p.40

Increasing the scale of its assets by incorporating low-cost borrowings in its fund procurement on the markets, FRC is aiming to return higher dividends to its unitholders.

Basic Approach to Financial Strategy

A feature of J-REITs is that, if certain conditions are met, such as the dividend of more than 90% of revenue, there is virtually no corporate tax and there are no retained earnings, so revenue will be distributed as a dividend almost as it is. In the case of general stock companies, etc., corporate tax will be imposed on the tax income raised by the company, internal reserves for the next business will be deducted, and the remainder paid as dividends. Therefore, J-REITs tend to have higher dividend yields than general stock companies.

Another characteristic is that financing (funds procurement) is based on certain financial disciplines, taking into account the balance between capital and debt (to achieve an optimal capital

structure).

To date, FRC has maintained its management with an emphasis on financial stability. Going forward, we will continue to build a solid financial base through the conservative management of LTV. Specifically, the Investment Corporation's financial policy is to keep LTV below a certain level and to use long-term fixed interest rate entities to reduce the risk from future interest rate hikes.

In the years to come, we will place an even greater emphasis on the role of finance in supporting the expansion of our assets and work to expand our fund procurement sources and methods while maintaining financial stability.

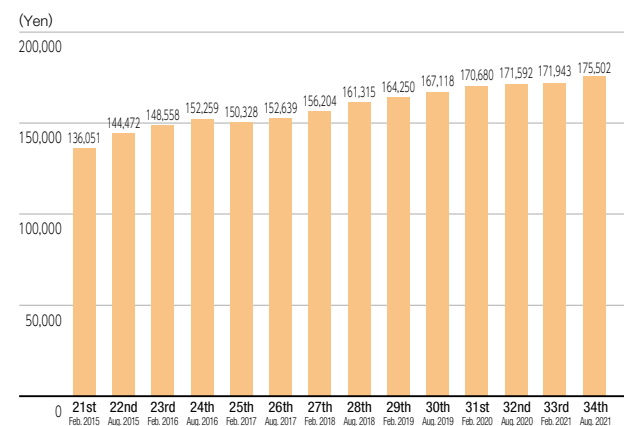
External Growth and Internal Growth

Through the steady growth of the scale of its assets (external growth) by means of the acquisition of carefully selected real estate in the Fukuoka and Kyushu area utilizing the sponsor pipeline, etc.—and effective asset management (internal growth), FRC has been distributing stable dividends per unit since its listing. Going forward, we will strive to maintain and improve our dividend per unit through the creation of stable cash flows by the acquisition of excellent properties and the continuation of strategic initiatives.

The acquisition of real estate, etc., to expand the scale of assets and increase the cash flow to fund dividends offers the following advantages:

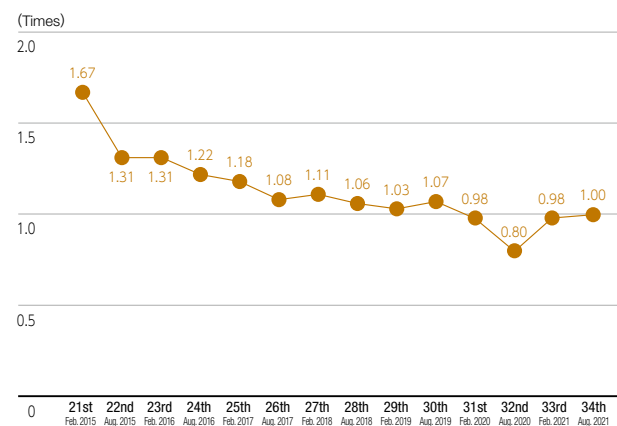
- Ability to diversify risks for properties and tenants
- Enables efficient management of properties by taking advantage of economies of scale

Trends in NAV per Investment Unit



Note: NAV per investment unit = (Net assets + unrealized gain/loss - Total Dividends) / Total number of investment units issued as of the end of the period

NAV Ratio Trends



Note: NAV ratio = Investment unit price as of the end of the period / NAV per investment unit

Dividends and TSR

Figure 1 shows FRC's past dividends and dividend yields.

Among listed REITs, dividends are characteristically stable. In contrast, the dividend yield has fluctuated between 3.8% and 4.7% over the past seven years, indicating that investment unit prices have fluctuated due to fluctuations in the stock market, interest rate trends, and fluctuations in market supply and demand.

Figures 2 and 3 show the total shareholder return (TSR), taking into account FRC's dividends and capital gains.

TSR performance has been 8.5% annually over the past 10 years. Performance declined temporarily due to the impact of COVID-19 but recovered relatively quickly and had returned to pre-COVID levels as of the end of August 2021. At the present time, there is a divergence in performance between FRC and the TSE REIT Index, but we believe that the main factor driving the increase in the TSE REIT Index is the high performance of the logistics sector. In contrast, our TSR performance over the most recent fiscal year has exceeded that of the TSE REIT Index, as shown in Figure 4. From now on, we will work to improve performance by making a connection from the recovery stage to the internal growth stage, by managing properties in anticipation of the situation returning to normal after the COVID-19 pandemic, and by swiftly conducting aggressive external growth centered on our sponsor pipeline.

In terms of our property portfolio, we will gradually reduce our portfolio of retail facilities and further diversify risks as a comprehensive REIT by acquiring mainly office buildings and logistics properties in Fukuoka and Kyushu that are deemed stable over the medium to long term.

As an asset management company knowledgeable about the circumstances of the region, we will continue to maximize the profit of our unitholders by utilizing information and expertise.

Figure 1: Past Dividends and Dividend Yields

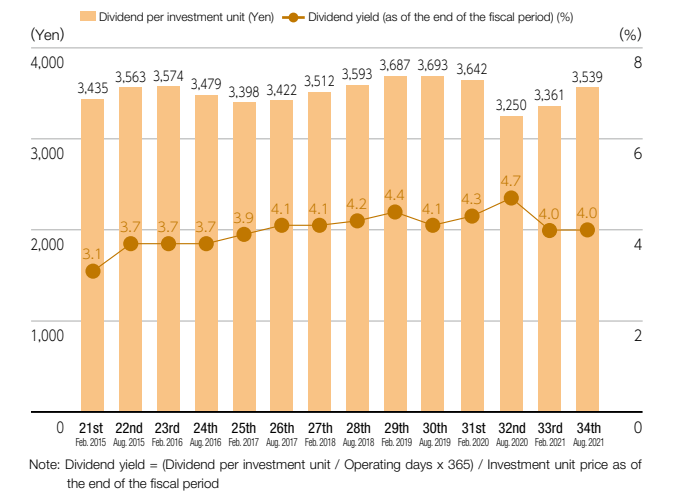
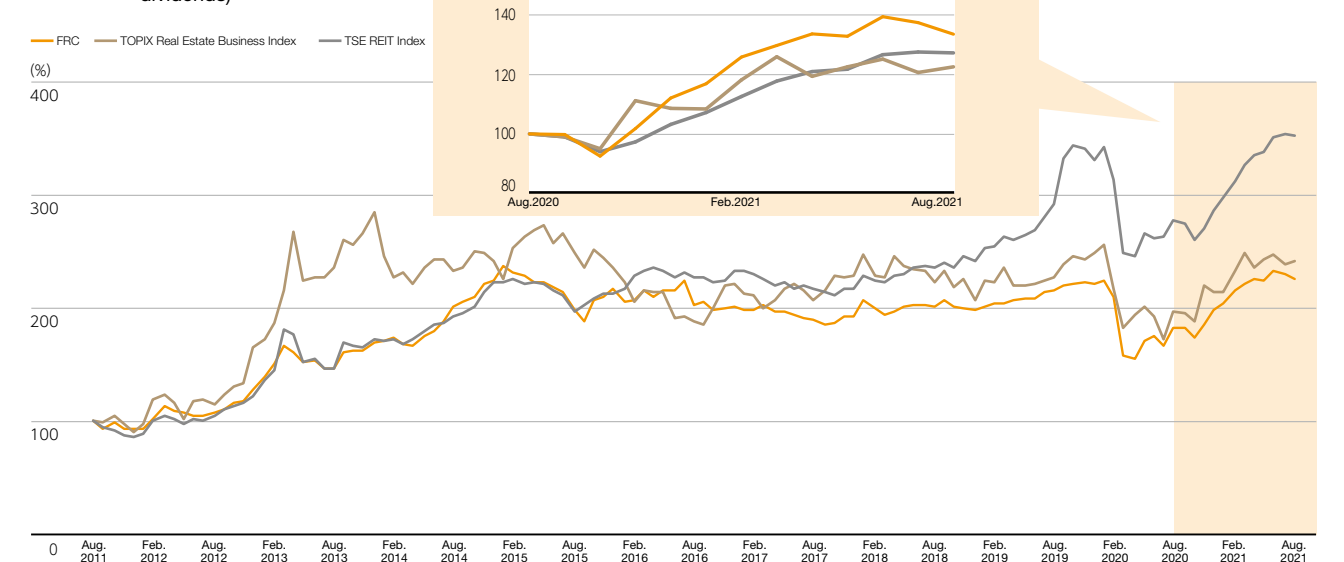


Figure 2: TSR over the past 10 years

	Past 1 year	Past 3 year		Past 5 year		Past 10 year	
		Cumulative total	Annual rate	Cumulative total	Annual rate	Cumulative total	Annual rate
FRC	33.6%	15.4%	4.9%	13.2%	2.5%	125.4%	8.5%
TOPIX Real Estate Business Index	22.6%	8.4%	2.7%	29.0%	5.2%	142.0%	9.2%
TSE REIT Index	27.3%	49.8%	14.4%	55.7%	9.3%	252.9%	13.4%

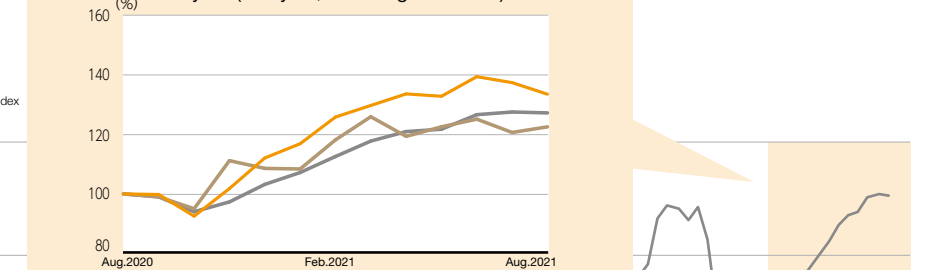
Note: Annual rate conversion is the geometric mean of cumulative returns.

Figure 3: Investment Unit Price Performance (10 years, including dividends)



Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2011, as 100. TSR over the past 10 years considers dividends and investment unit prices in indicating the profitability of investments made on August 31, 2011, as of August 31, 2021. The TOPIX real estate index and the TSE REIT index are indexed in the same way, using dividend-included data. Similarly, the graph for the most recent fiscal year is indexed with the investment unit price as of August 31, 2020, as 100.

Figure 4: Investment unit price performance for the most recent fiscal year (one year, including dividends)



FRC and Fukuoka Realty Co., Ltd., believe maximizing profits for unitholders over the medium to long term requires not only the pursuit of profitability but also consideration for the environment, society, and governance. With this in mind, we focus on ESG issues as part of the real estate investment management process.

Sustainability Policy

1. Promoting Energy Conservation of Portfolio Properties

- We will monitor the energy consumption levels of the properties we manage and work to improve management to lower the levels over the medium to long term.
- We will endeavor to improve the energy consumption efficiency of buildings and facilities when undertaking renovations, so as to enhance property value and mitigate environment-related risks as well as reduce operating costs.

2. Responding to Climate Change Risks

- We will endeavor to help mitigate climate change risks by working to reduce greenhouse gas emissions from the properties we manage through utilization of renewable energy and other energy conservation measures.

3. Contributing to the Creation of a Recycling Society

- We will monitor water consumption and waste management at the properties we manage and promote water saving and recycling through better management, in an effort to utilize limited resources efficiently.
- We will investigate the adoption of water-saving equipment and water-reuse systems at the opportunities of renovating buildings.

4. Pursuing Well-Being and Safety

- We will endeavor to provide healthy and comfortable indoor spaces at the properties we manage, such as ensuring earthquake resistance and fully preparing emergency equipment, to provide safe and secure buildings.
- We will implement measures to prevent and reduce disasters at the properties we manage, such as ensuring earthquake resistance and fully preparing emergency equipment, to provide safe and secure buildings.

5. Utilizing Green Building Certifications

- We will investigate the obtainment of green building certifications and other environmental assessments in order to visualize the results of our initiatives on the environment and society at the properties we manage as well as to enhance property competitiveness.

6. Enlightening Employees

- To implement the Policy, we will provide our employees with education and training sessions on ESG awareness in real estate investment and management operations, heightening their awareness and enriching their expertise.

7. Collaboration with Tenants and Suppliers

- In implementing the Policy, assuming that it is essential to obtain understanding and cooperation from the tenants of respective properties and our major business partners including property management companies, we will work to build good relations with each of them in an effort to establish a collaborative structure.

8. Establishing Internal Organizations

- To manage the implementation of what is provided in the Policy, we will organize a sustainability promotion committee within the Company.
- We will set up specific objectives, etc., for each of our initiatives and review them periodically.

9. Monitoring and Disclosing Environmental and Social Performance

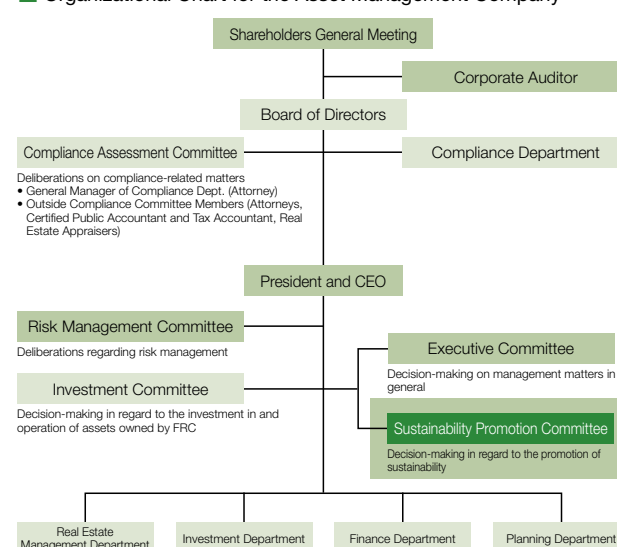
- We will continuously grasp the status and results of our efforts based on the Policy, while monitoring the status of ESG initiatives on our own by utilizing external assessment systems and surveys including GRESB.
- We will disclose information and achievements regarding our ESG initiatives to unitholders and other stakeholders in a timely and appropriate manner.

Established January 29, 2018

System for Promoting Sustainability

Fukuoka Realty Co., Ltd. has established the Sustainability Promotion Committee to promote sustainability initiatives in a continuous and systemic manner based on its Sustainability Policy. To achieve the goals of the Sustainability Policy, the Company has put in place the "Regulations Concerning Sustainability Management" manual. In the context of the Company's internal systems, collaboration with stakeholders, and information disclosure policy, the Committee, in principle, meets at least twice a year to examine goals and measures related to sustainability. The Sustainability Promotion Committee includes the President and CEO, a full-time director, and each general manager of the Real Estate Management Dept., Investment Dept., Finance Dept., Planning Dept., and Compliance Dept. The President and CEO, who chairs the Committee, makes decisions regarding the implementation of sustainability-related measures. The chair of the Committee also periodically reports on targets and results, as well as progress in certain issues, to the Boards of Directors of both the Company and FRC.

Organizational Chart for the Asset Management Company



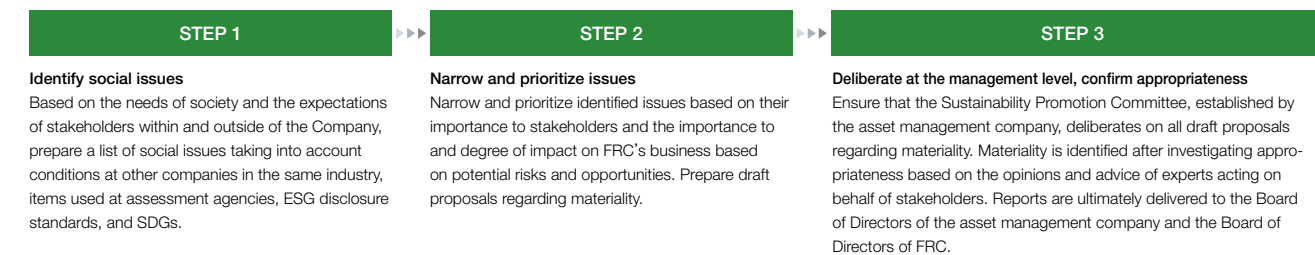
Identification of Materiality significant issues

Fukuoka Realty Co., Ltd., is taking steps to identify materiality (important issues to address) in its sustainability initiatives based on the requests and expectations of its stakeholders and the expected impact on and importance to the Investment

Corporation. By promoting initiatives based on materiality policies and targets derived through cooperation with stakeholders, the Company targets sustainable growth at FRC alongside contributions toward solving social issues.

Materiality significant issues		Policies and targets	Related SDGs
Environment	Reduction of environmental load	Coordinate with Property Management and Building Management on promotion of management and reduction of energy consumption, greenhouse gas emissions, water consumption, and waste output	7, 11, 12, 13
	Maintenance and enhancement of environmental and construction performance	Carry out performance and function evaluation of properties on a regular basis and ameliorate any deterioration in performance, etc. Maintain and improve competitiveness by acquiring green building certifications and through visual representation of building performance	7, 11, 13
Society	Creation of pleasant workplaces	Asset management company Improve quality of operations by enhancing and expanding employee education systems and promoting acquisition of qualifications Continue to improve office environments and work on providing pleasant working environments Give consideration to work-life balance and boost employee satisfaction	4, 8
		Tenants Promote improvement of employee satisfaction and work toward increasing the job satisfaction of tenant employees	3, 8
	Contributions toward boosting the attractiveness and revitalization of Fukuoka and Kyushu	Enhance dissemination of information regarding the strengths and charms of Fukuoka and Kyushu Support research and studies on the local economy and industries; promote attractive urban development in collaboration with local business circles	9, 11
Governance	Co-creation with the local community	Deepen dialogue and collaboration with the local community through participation in community activities and various initiatives using properties under our management to grow and develop together with the local community	11, 17
	Information disclosure and dialogue with stakeholders	Disclose financial and non-financial information to stakeholders in an appropriate and timely manner Build relationships of trust through proactive dialogue with stakeholders and reflect stakeholder feedback in our management strategy	17
	Compliance / Risk Management	Ensure thorough compliance, including with laws and ordinances, and the elimination of any conflict of interest with interested parties, and develop and operate an appropriate internal risk management system to maintain and improve corporate value	16

Process for Identifying Materiality



Akira Eguchi
Executive Vice President
Fukuoka Realty Co., Ltd.

In 2019, Fukuoka Realty Co., Ltd., identified seven key "material issues," taking into consideration "events that are important to stakeholders" and "issues that have a significant impact on the Company's management," as well as established its activity policy and targets. Amid the growing importance of sustainability worldwide, events that could affect the Company's operations continue to evolve. As a result, we are taking steps to review current material issues. In addition, we are engaging in discussions on materiality-related KPIs and the Task Force on Climate-related Financial Disclosures (TCFD) or equivalent climate change disclosures. As the asset management company for Japan's first region-specific REIT, we recognize the need to factor ESG considerations into our real estate investment management process as part of our overarching mission.

Related Materiality

•Reduction of environmental load

Environmental initiatives IC

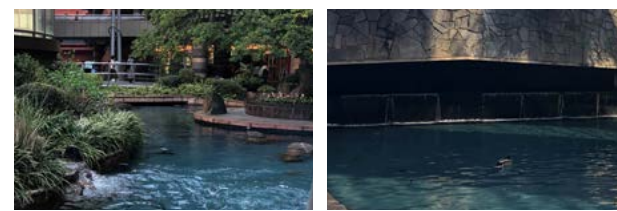
Retail Natural Environment Conservation and Creation

At Canal City Hakata and Park Place Oita, we are making efforts to coexist with various natural environments by providing green space in communal areas, installing aquatic spaces, and creating shaded spaces. We are creating habitats for wild fauna and flora that contribute to the preservation of biodiversity, as well as providing places where employees and visitors can relax and interact with nature.



Retail Canal Water Filtration System (rainwater reuse system)

Canal City Hakata's symbolic canal has both a recreational function and is a source of water to fight fires in the case of an emergency. At all times, this canal holds roughly 1,200 tons of water, and rainwater is used in order to conserve resources.



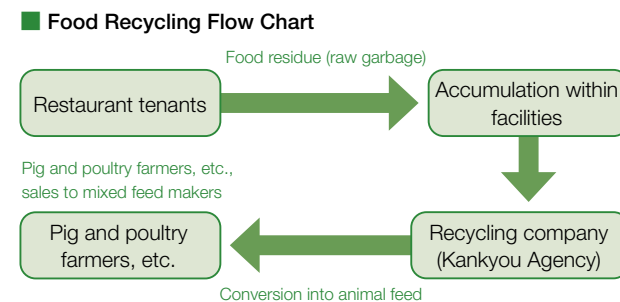
Retail Greywater Plant (kitchen drainage reuse system)

At Canal City Hakata and Konoha Mall Hashimoto, kitchen wastewater discharged by restaurants is collected and processed as reclaimed water. It is then used as tap water in on-site restrooms.



Retail Food Residue Recycling (raw garbage recycling) NEW

Canal City Hakata consigns the collection of raw garbage from each restaurant to a recycling company, which recycles it into animal feed.



Office Buildings Energy-Saving Initiatives Based on the Promotion of LED Lighting

We are focusing on converting each property to LED-based lighting to reduce energy consumption.

〈Office buildings already converted to LED〉

- Gofukumachi Business Center (e.g., Interior shared spaces, some external areas)
- Sanix Hakata Building (interior recessed lighting)
- Taihaku Street Business Center (e.g., Entrance, interior shared spaces)
- Tenjin North Front Building (common spaces) NEW



LED lighting being used at the Sanix Hakata Building

Others (logistics facilities) Introducing Renewable Energy Equipment

At LOGICITY Hisayama, LOGICITY Minato Kashii, and Konoha Mall Hashimoto, we have installed solar panels on the rooftops to generate renewable energy and contribute to the formation of a recycling-based society.



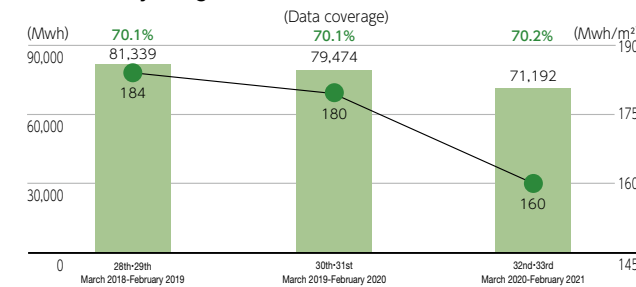
Solar panels

LOGICITY Hisayama

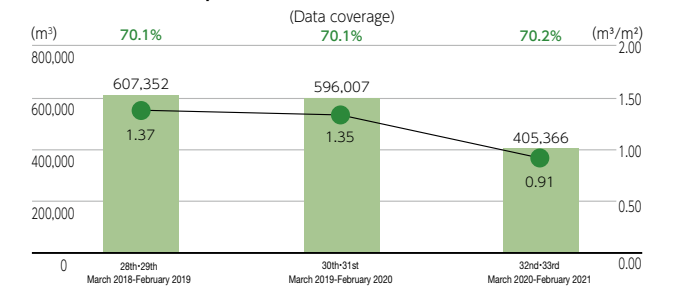
Environmental Performance Data and Green Finance IC

Environmental Performance Data

Electricity Usage



Water Consumption



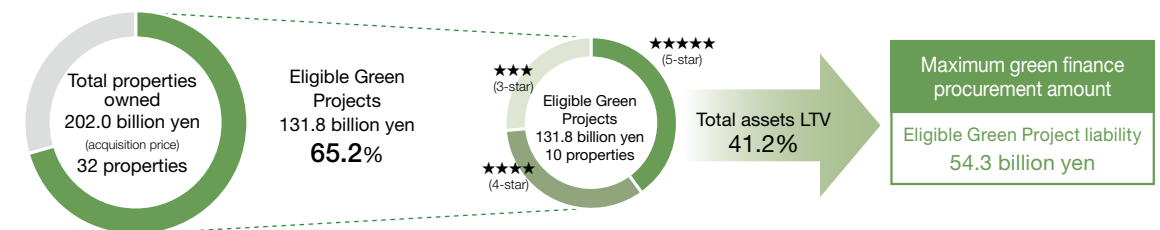
Notes: 1.Total value for 11 properties, including four retail facilities and seven office buildings.
 Notes: 2.Per unit is calculated by adjusting the total floor area (m²) by the occupancy rate.
 Notes: 3.Data coverage is the area ratio of properties subject to data aggregation as compared to all properties and is calculated at the end of the fiscal period.
 Notes: 4.The figure for Canal City Hakata, Canal City Hakata-B, and Canal City Business Center Building reflects total electricity and water usage for all buildings, including electricity and water usage by some theater areas not owned by FRC.
 Notes: 5.The figure for Park Place Oita covers only the main building section and excludes the section for independently run stores.

Green Finance

With the goal of further promoting ESG activities and expanding financing options through an enhanced investor base, FRC established the Green Finance Framework in 2019 in line with the Green Loan Principles, the Green Bond Guidelines 2017 from the Ministry of the Environment, and the Green Bond Principles 2018 in order to ensure implementation of green financing, including green loans. The funds procured through green finance will be allocated toward the acquisition of Eligible Green Projects, the repayment of borrowings required in the acquisition of eligible green assets, or the redemption of investment corporation bonds issued and outstanding.

Eligible Green Projects are specified assets held by FRC that have received or are scheduled to receive one of the following certifications from third-party certification organizations at the time of procurement or the reporting date.

- (1) DBJ Green Building certification of 4 or 5 stars or a 3-star evaluation
- (2) CASBEE certification of S, A, or B+ rank
- (3) BELS evaluation of 3, 4, or 5 stars



After procuring green finance, FRC will announce the total amount of Eligible Green Projects, the amount of liabilities related to Eligible Green Projects and the amount of funds from green finance as of the end of each fiscal period (February and August each year). The Investment Corporation will also announce the following indicators related to Eligible Green Projects as of the end of February each year.

- The number of properties classified as Eligible Green Projects, and the number and type of obtained environmental certifications.

Green Finance (actual)

Type	Lender	Amount borrowed (Millions of yen)	Interest rate (annualized)	Loan date	Notes
Long-term loan (Green loan)	Mizuho Bank The Bank of Saga The Higo Bank	2,200	0.521% ^(Note 1)	July 31, 2019	Unsecured/unguaranteed Lump-sum repayment Fixed interest rate Green loan assessment: Green 1 ^(Note 2)

Notes: 1. FRC has concluded a swap agreement to establish a fixed interest rate on debt. The indicated interest rate reflects the effects of the swap agreement.
 Notes: 2. FRC has received the highest "Green 1" rating from the Japan Credit Rating Agency for our adherence to the Green Loan Principles.

Related Materiality

Maintenance and enhancement of environmental and construction performance

Disaster Risk Countermeasures IC

Countermeasures to Flooding Risks

Severe damage from flooding in Fukuoka City on June 29, 1999 contributed to the formulation of the Storm Water Management Action Plan and the upgrading of rainwater drainage facilities in the areas where the flooding was particularly harsh. Ongoing efforts to implement anti-flooding measures have greatly improved flood safety within the city limits.

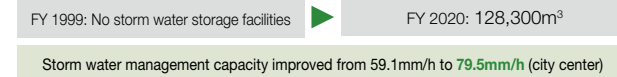
Replacing and Installing New Water Stops (July 2020)

We reviewed the specifications and installation locations of existing water stops throughout the Canal City Hakata premises and either repaired or installed equipment as part of our countermeasures to river flooding as a result of typhoons and locally heavy rains, which appear likely to come more frequently and increase in severity due to global warming.



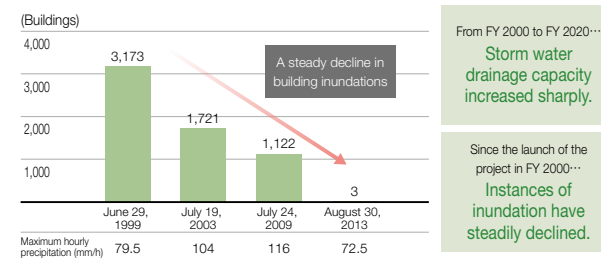
Storm Water Storage Facilities

Storm water storage capacity



Storm water management capacity improved from 59.1mm/h to 79.5mm/h (city center)

Instances of Building Inundation in Fukuoka City (zero instances since 2014)



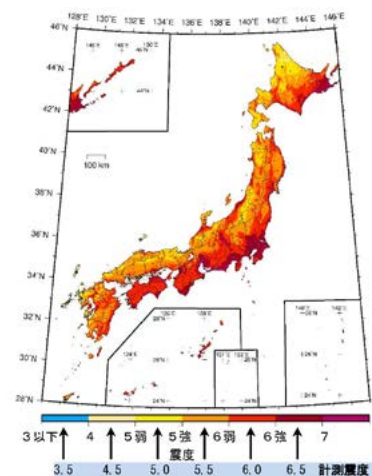
* Number of buildings: Total number of buildings inundated above and below the floor level. Period covered is between June 29, 1999, and December 31, 2020. Source: Fukuoka Realty Co., Ltd., based on data from the "Storm Water Management Action Plan 2026" pamphlet for the Fukuoka City Storm Water Emergency Control Plan.

Earthquake Risk Countermeasures

Fukuoka Prefecture is an area in which there are relatively few earthquakes. According to the probabilistic earthquake prediction map from the Office of the Headquarters for Earthquake Research Promotion, Earthquake and Disaster-Reduction Research Division, Research and Development Bureau, Ministry of Education, Culture, Sports, Science and Technology, the probability of an earthquake with an intensity of six or greater over the next 30 years is lower in Fukuoka Prefecture than in the

Probabilistic Earthquake Prediction Map

Probability of an earthquake with an intensity of six or greater over the next 30 years (average case / all earthquakes) (reference date on January 1, 2020)



Note: The mesh for zero probability based on the model calculation conditions is shown in white. Source: Office of the Headquarters for Earthquake Research Promotion, Earthquake and Disaster-Reduction Research Division, Research and Development Bureau, Ministry of Education, Culture, Sports, Science and Technology

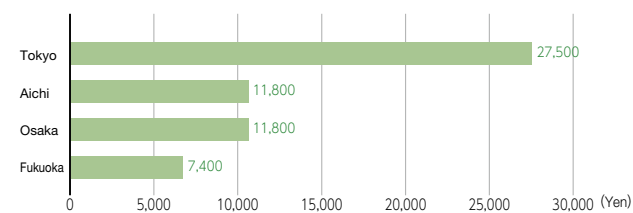
Kanto, Chubu, and Kansai areas. FRC establishes the insurance value of each property based on its replacement value, earthquake PML value, and other factors, and maintains earthquake insurance for all its properties (buildings). In addition, FRC continues to conduct annual property surveys through external organizations to estimate earthquake damage to properties based on various scenarios.

Earthquake PML Value (full portfolio) 4.5%

Basic Earthquake Insurance Rate

Earthquake insurance with coverage beginning on January 1, 2021

Earthquake insurance can be purchased in Fukuoka Prefecture at a relatively lower cost than in other areas.



Note: The basic rate is 10 million yen for one year of insurance, mainly for steel-frame and concrete buildings. Source: Fukuoka Realty Co., Ltd., based on data from the Ministry of Finance's Basic Rates for Earthquake Insurance (earthquake insurance with contracts starting on January 1, 2021).

Other Disaster Prevention Measures

Disaster Prevention Drills

We conduct comprehensive disaster drills at Canal City Hakata, with all tenants participating. We conduct fire and earthquake evacuation drills in case of emergency to improve fire and disaster prevention awareness and strengthen cooperation between tenants.



Acquiring External Certifications IC AMC

FRC makes continuous improvements through feedback on the results it receives from acquiring external certifications.

Participation in GRESB Assessment 2021 ("Green Star" and "4 Star" Ratings)

The Global Real Estate Sustainability Benchmark (GRESB) was established by a group of European pension funds and is the benchmark for measuring sustainability in real estate companies and managing organizations. FRC was given "Green Stars" and "four stars (in the five-level)" GRESB Real Estate Assessment conducted in 2021.



Initiatives We Support

In September 2018, Fukuoka Realty Co., Ltd., endorsed the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21) and became a signatory to these initiatives. Through ESG-conscious asset management, the company is contributing still further to the achievement of a sustainable society.

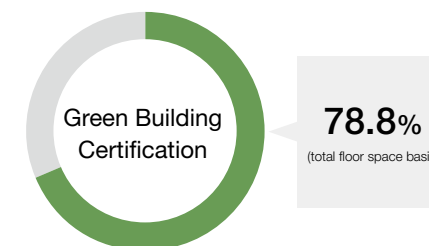
Signatory of:



Ratio of Properties Certified as Green Buildings

As of the end of August 2021, the ratio of properties within the entire portfolio certified as green buildings was 78.8%.

The DBJ Green Building Certification is a third-party certification system established by the Development Bank of Japan for real estate properties that feature excellent environmental and social considerations. FRC has acquired certification for 12 of its owned properties that exhibit environmental and social awareness (including two properties that were recertified in June 2021).



★★★★★	Canal City Hakata (2018) Canal City Hakata-B (2018)
★★★★★	Konoha Mall Hashimoto (2020) Park Place Oita (2018) Canal City Business Center Building (2018)
★★★★	LOGICITY Minato Kashii (2020) LOGICITY Hisayama (2020) Gofukumachi Business Center (2018) Higashi Hie Business Center (2018) Higashi Hie Business Center II (2020)
★	SunLive City Kokura (2019) Marinoa City Fukuoka (Marina Side Building) (2019)



Social Issues

Related Materiality

Creation of pleasant workplaces

IC Investment Corporation (FRC) AMC Asset Management Company

Initiatives for Employees and Tenants

Building a Pleasant Workplace Environment

FRC and Fukuoka Realty Co., Ltd., actively push forward initiatives for its employees and tenants. Through dialogue, every effort is made to provide an attractive work environment where employees can continue to work with peace of mind and with opportunities for human resource development. From a tenant perspective, both FRC and Fukuoka Realty Co., Ltd., are committed to ensuring safe, secure, and comfortable spaces while improving satisfaction.

Initiatives for Employees AMC

Fukuoka Realty Co., Ltd.: Number of officers and employees, number of credentialed employees

Average number of years of continuous (*As of August 31, 2021) **service by permanent employees:** 9 years and 6 months

Number of full-time officers and employees: 40 (20 male and 20 female)

- Employees seconded from sponsors: 2
- Employees seconded to sponsors: 4

Number of credentialed personnel (aggregate total)

- Real estate brokers: 28
- Certified building administrators: 4
- First-class registered architects: 3
- Real estate appraisers: 3
- ARES certified masters: 25
- Attorney: 1
- MBA: 2
- Administrative scrivener: 1
- SME management consultant: 1
- CMA: 2

Supporting flexible work styles

- Child-rearing support (maternity leave, childcare leave system)
- Nursing care leave
- Leave for voluntary work
- No overtime days
- Employee welfare (e.g., 401K, cumulative investment system)
- Encouraging use of paid holidays, etc.

Employee Health

- Monitoring working hours
- Checking and reporting deviations in working hours (monthly)
- Health checkups and physical examinations
- Influenza vaccinations
- Health consultations with public health nurses

Employee training

- Regular study groups by the Kyushu Economic Research Center
- Compliance training
- Sustainability training
- Nursing care training
- In-house recreation, etc.

Support for career development

- Employee satisfaction survey
- Career interview
- Secondment system (dispatching employees to sponsor companies)
- Promotion from contract employee to permanent employee status
- Offering of training programs tailored to each management level
- System for supporting acquisition of qualifications (e.g., Real Estate Securitization Master, Real Estate Transaction Agent)
- Support for language learning, etc.

Creating a Comfortable Working Environment AMC

Work style reforms at the Asset Management Company

Fukuoka Realty was certified as a "Fukuoka 'Work Style Reform' Promotion Company" on August 28, 2018. This system recognizes companies that have achieved at least a certain number of the "initiative items" that were selected by Fukuoka City as indicators to advance work style reforms.

Recognized initiatives

- There is a training system for employees
- There is a support system for self-development initiatives

- There is a system to support career advancement and to consult about career building
- There is a certification acquisition support system as well as subsidized English and bookkeeping training systems
- The company has measures in place to encourage shorter working hours
- There is a system in place allowing employees to take time off in increments of hours or half-days
- There is a personnel development system, including training contributing to career advancement, etc.



Improvement of the Working Environments AMC

Fukuoka Realty Co., Ltd., is working on a variety of measures aimed at protecting the health of its employees. With the aim of preventing the spread of COVID-19, in the fiscal year under review we worked to implement thorough measures to prevent the spread of the virus to individuals - administering workplace vaccinations to interested employees and considering alternate schedules for commuting - and strengthening measures aimed at preventing the spread of the virus in the office.

- Installing thermo-monitors at office entrances and exits **NEW**
- Distributing masks and thermometers
- Shifting morning and other meetings to an online format
- Ensuring social distancing in offices
- Regular disinfecting of tables, chairs, and doorknobs, etc.



Installation of splash guards and sanitizing stations



Installing thermo-monitors

Tenant Initiatives IC

With a focus on the health and comfort of tenant employees, we are improving the employee lounge environments within retail facilities and renovating office building common areas.

Moreover, FRC is engaging in a variety of initiatives for tenants as a part of efforts to promote sustainability.

- Supporting COVID-19 vaccinations for interested employees (e.g., providing venues) **NEW**
- Holding emergency drills intended to improve tenant safety and security
- Implementing tenant satisfaction surveys
- Distributing sustainability guidebooks
- Sponsoring events to improve sustainability awareness
- Providing sustainability training, etc.

A COVID-19 vaccination support venue (July -August 2021)



Customer and Business Partner Initiatives

Measures to Prevent the Spread of COVID-19 IC

During the fiscal year under review, we strengthened measures aimed at preventing the further spread of COVID-19 at FRC properties in line with the guidelines issued by the Ministry of Health, Labour and Welfare. The safety of our employees, customers, and tenants is our first priority, and we are working to create the safest and most secure environment for them as possible.

Retail

Principal measures aimed at preventing the spread of COVID-19

- Installation of alcohol-based sanitizing stations and splash guards
- Posting of social distancing reminders
- Comprehensive health management through tenant employee temperature checks
- Clearing of common-area chairs and tables

Office Buildings

Principal measures aimed at preventing the spread of COVID-19

- Installation of alcohol-based sanitizing stations at office entrances
- Enhanced ventilation in common areas
- Posting of notices regarding efforts to prevent the spread of COVID-19 in elevators

Hotel

Principal measures aimed at preventing the spread of COVID-19

- Installation and expansion of alcohol-based sanitizing stations
- Regular disinfection and sterilization work
- Strict enforcement of social distance at front desks and restaurants
- Thorough health management of hotel employees via temperature-taking, etc.

Acceptance of COVID-19 patients (those with mild symptoms) **NEW**

- Hotel FORZA Oita

Adopted mobile ordering system

Canal-LINE Order **NEW**

This service enables users to order takeout items and make online payments in advance anytime, anywhere, and at any available store.

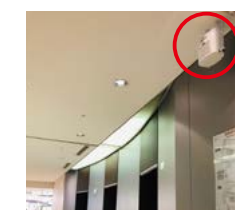


Location-Specific Initiatives IC

Sanitizing Measures

Canal City Hakata

We have implemented measures to prevent the spread of COVID-19 and strengthen safety and security, including the installation of Air Buster units near the elevators and pedal-operated sanitizing stations in 32 places around the building.



Air Buster unit



Pedal-operated sanitizing stand

Measures to Prevent the Spread of COVID-19 in Food Courts

Park Place Oita

Konoha Mall Hashimoto

With the goal of ensuring the safety and security of customers, we have installed splash guards on the Park Place Oita and Konoha Mall Hashimoto food court tables.








Related Materiality

- Contributions toward boosting the attractiveness and revitalization of Fukuoka and Kyushu
- Co-creation with the local community

Initiatives for Local Communities

Initiatives for Local Communities IC AMC

<p>Environment Promotion Events</p>  <p>At Canal City Hakata, employees of the asset management company also participate in events that involve sprinkling water on sidewalks to cool them down and promote well-being. (Initiative suspended in 2021 to prevent the spread of COVID-19.)</p>	<p>Safety Town Council</p>  <p>At Park Place Oita, we established a "Safety Town Council" that partners with related institutions and groups to conduct crime-prevention patrols and proactively strive to prevent youth misconduct.</p>	<p>Clean-Up Days</p>  <p>Asset management company executives and employees actively participate in cleanup activities, of which there had been 289 as of October 15, 2021.</p>	<p>Various Events Held</p>  <p>At Canal City Hakata, the Farmers Marche was held, which was realized from the collaboration between "agriculture" and "welfare," providing a place to sell agricultural products produced at a facility for the disabled.</p>	<p>Participation in Community Events</p>  <p>Every year, male employees of the asset management company participate in the Hakata Gion Yamakasa festival (Hachiban Yamakasa Kazariyuki, Kamikawabata-dori; Etsuo Matsuyuki, CEO at the time, rode on a float at the event in 2018). (Initiative suspended in 2021 to prevent the spread of COVID-19.)</p>
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Real Estate, Finance, and the Economy Gathering AMC

We have held gatherings to exchange information and opinions on real estate, finance, and the economy annually since 2008 with the cooperation of the Japan Real Estate Institute (not held in 2020 in light of concerns over COVID-19).

Local real estate companies, financial institutions, and government agencies participate in the conference, which contributes to networking and further stimulation of the local economy.

It has been designated as a continuing education course for ARES masters.



In 2021, these gatherings were held using online tools to prevent the spread of COVID-19.

The Kyushu Economic Research Center AMC

Fukuoka Realty Co., Ltd., and the Kyushu Economic Research Center have concluded a memorandum of understanding in a bid to promote increased cooperation in the macroeconomic analysis and the Kyushu economy.

Through this initiative, both signatories to the memorandum will share information on the current state of the Fukuoka-Kyushu economy as well as issues to be faced thereby revitalizing economic activity throughout the region. In addition, study groups on seasonal topics that are specific to Fukuoka and Kyushu are held on a regular basis.



Other Activities AMC

IR Workshop

The Kyushu IR Group, which entered its 11th year in 2021, was established in cooperation with the Japan Investor Relations Association. The Group assists in learning about the latest IR trends with IR employees of companies located in Fukuoka and Kyushu, and fosters the forming of networks between participating companies. Impacted by the COVID-19 pandemic, a study group was held also using online tools this year.

Details of the Study Group

Schedule	Theme and Lecturer
First Study Workshop (August 2021)	"IR Trends in 2021- Against the Backdrop of the Revised Corporate Governance Code" Ms. Yoshiko Sato, Executive Managing Director, Japan Investor Relations Association "ESG Initiatives and Integrated Report Enhancements" Nahoko Kutsukake, Chief Manager, Investor Relation Department, MARUI GROUP CO., LTD.
Second Study Workshop (November 2021)	"ESG Investor Perspectives" Hiroyuki Horii, Managing Executive Officer, Sumitomo Mitsui Trust Asset Management Co., Ltd.

Participation in the Hakata Town Planning Promotion Council's Activities

We are an active participant in the Hakata Town Planning Promotion Council's activities and efforts to promote urban development mainly around the Hakata Station area, the gateway to Kyushu and Asia. Through various initiatives that comply with Hakata City's development guidelines, our goal is to assist with efforts that lead to the development and growth of Hakata City as well as Fukuoka as a whole.

Participation in the Kyushu SDGs Management Promotion Forum

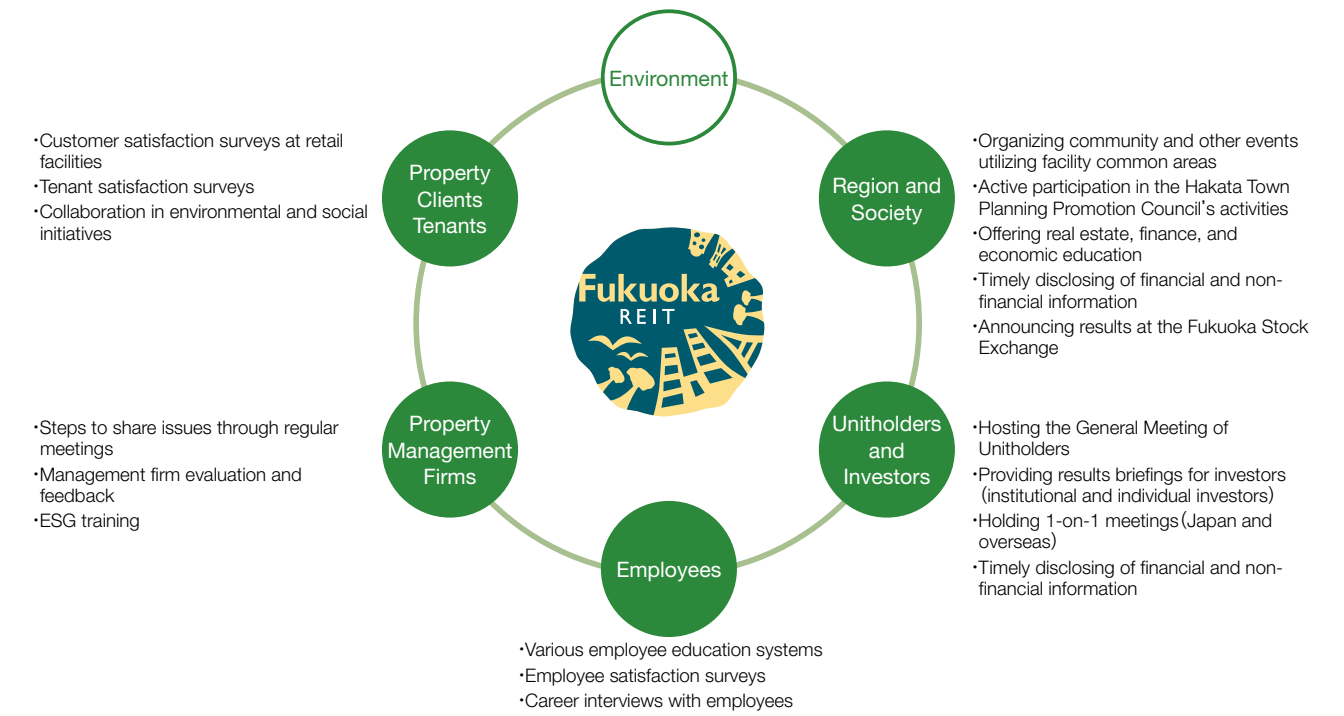
We are also participating in the Kyushu SDGs Management Promotion Forum, an industry-academic-government-funded platform established by the Kyushu Bureau of Economy, Trade and Industry. As a participant in this forum, energies are directed toward providing information between companies and supporting SDG management endeavors aimed at solving regional and social issues. (This event was not held in fiscal 2020.)

Related Materiality

- Information disclosure and dialogue with stakeholders

Stakeholder Engagement IC AMC

FRC engages in proactive dialogue with its various stakeholders aimed at sustainable growth and higher corporate value. At the same time, FRC recognizes that fulfilling its required social responsibilities leads to sustainable business activities. Valuing our relationships of trust with stakeholders, we will leverage this concept in our ESG initiatives.



Dialogue with Investors and Unitholders

FRC works to disclose information in a timely manner to reflect the importance of dialogue with its unitholders and investors. To prevent the spread of COVID-19, FRC undertakes various investor relation activities mainly in an online format for domestic/overseas institutional investors and individual investors.

- General Meeting of Unitholders (once every two years)
- Results briefings for analysts, institutional investors
- IR for overseas investors
- IR for individual investors
- Enhanced IR tools, information disclosure, etc.



Dialogue with Employees

FRC and Fukuoka Realty Co., Ltd., recognize that human resources are our greatest asset. As part of our efforts to create comfortable and healthy workplaces, we are endeavoring to improve the efficiency of our operations by strengthening the office environment and enhancing our systems. In addition, we provide IR information internally and disseminate details of results announcements online as part of our efforts to facilitate internal communication.

- Employee satisfaction survey
- President interviews, career interviews
- Internal IR
- Counseling with public health nurses, etc.



Related Materiality
Compliance/risk management

IC Investment Corporation (FRC) AMC Asset Management Company

Corporate Governance

Risk Management and Compliance Initiatives

Managing Conflicts of Interest

When a transaction such as the purchase and sale of a property between FRC and a stakeholder, including a sponsor, takes place, the asset management company must address any possibility of prioritizing the interests of interested parties over investors. Fukuoka Realty Co., Ltd., has accordingly established a Basic Policy on Compliance, as well as compliance regulations and other internal rules to prevent any conflict of interest. Based on these rules, we obtain a preliminary assessment from the Compliance Department General Manager and ensure deliberations by the Compliance Assessment Committee, consisting of the Compliance Department General Manager and three outside experts in order to engage in the management of any conflict of interest pertaining to our dealings with stakeholders in an appropriate manner.

FRC Directors



Supervisory Director Yasuo Kawasho Executive Director Etsuo Matsuyuki Supervisory Director Takashi Tanabe

Fukuoka Realty Co., Ltd. Directors



Vice President Board of Directors (Non-Executive) Yukitaka Ohara Vice President Board of Directors (Non-Executive) Hiroshi Shimuta President and CEO Zenji Koike Executive Vice President (Non-Executive) Akira Eguchi Vice President Board of Directors (Non-Executive) Noboru Hashimoto Corporate Auditor (Non-Executive) Masanori Tasaka



The company prevents transactions with conflicts of interest based on strict rules for transactions with interested parties in order to fulfill responsibilities entrusted to it on behalf of investors. We naturally do not engage in transactions that unfairly benefit the company and interested parties and believe that it is important to not avoid the appearance of impropriety. Accordingly, we take steps to clearly record the decision-making process behind transactions to enable verification after the fact. In addition, we verify the objective validity of transactions by receiving evaluations from independent third parties, including internal audits conducted by outside specialists. Beyond this, we work to raise awareness of these issues by regularly conducting compliance training aimed at ensuring that each employee is cognizant about managing assets entrusted to us by investors.

Decision-Making Process



Note: The prior consent of the Investment Corporation's Board of Directors is obtained in cases falling under the provisions of Article 201-2 (1) of the Act on Investment Trusts and Investment Corporations.

Third-party assessment by external experts (Real estate appraisals)

- Japan Real Estate Institute
- The Tanizawa Sogo Appraisal Co., Ltd.
- Daiwa Real Estate Appraisal Co., Ltd.

[Market reports]

- Analysis on trade areas and competitive environment
- Adequate rent levels, etc.

[Engineering reports]

- Compliance with statutory and regulatory requirements and earthquake resistance
- Check of soil contamination, toxic substances, and the status of use
- Replacement price, expenses for long-term maintenance and repairs, etc.

Changes in the Asset Management Fee Structure

FRC revised management fees 1 and 3 with the aim of increasing linkage between asset management fees for the asset management company and investor profits. The changes listed below were approved at the Ninth General Meeting of Unitholders held on May 26, 2020, and became effective on September 1, 2020 (33rd fiscal period start).

Management fees	Calculation Method
Management fee 1 (total asset basis)	[Three months following the day after the last fiscal period-end] Total assets at last fiscal period-end x 0.25% (previously 0.3%) x No. of days/365 days [From the day after the aforementioned fiscal period-end to the next fiscal period-end] Total assets at the last fiscal period-end + acquired asset value - disposal asset value x 0.25% (previously 0.3%) x No. of days/365 days
Management fee 2 (operating revenue basis)	Operating revenue for the last fiscal period x 2.0%
Management fee 3 (distributable profit basis)	(Distributable profit amount before payment of management fee 3 for the last fiscal period) x 3.6% (previously 2.0%)
Management fee 4 (acquisition remuneration)	Acquisition fee x 0.5% (0.25% in the event of acquisition from interested parties)
Management fee 5 (sale remuneration)	Sale fee x 0.5% (0.25% in the event of sale from interested parties)

Compliance Training (including e-learning)

October 2018-September 2019	October 2019-September 2020	October 2020-September 2021
7 times	6 times	6 times



Policies for Customer-Oriented Business Operations

Policies for Customer-Oriented Business Operations

As an asset management company entrusted with asset management operations by Fukuoka REIT Corporation (FRC), Fukuoka Realty Co., Ltd., has adopted all seven principles set forth in the Principles for Customer-Oriented Business Conduct established by the Financial Services Agency (announced on March 30, 2017; revised on January 15, 2021). We have also formulated and announced our own Policies for Customer-Oriented Business Operations as policies to realize better business operations for our customers.

Policy 1 Establishing and Announcing Policies That Include Those Regarding Customer-Oriented Business Conduct

Fukuoka Realty Co., Ltd., is a financial business operator managing a listed REIT, which, through investing in real estate properties, supports and facilitates the asset formation of a wide range of investors. As such, we have established clear policies to implement customer-oriented business conduct throughout the investment chain and have publicized those on our website and via other methods. Moreover, we continuously check on the status of our endeavors to realize better customer-oriented business operations.

Policy 2 Pursuit of Customers' Best Interests

As a financial business operator, we maintain a high level of professionalism and professional ethics, conduct operations with integrity and fairness for unitholders, secure stable dividends, increase dividends over the medium to long term and conduct investment that can contribute to society, among other endeavors, to achieve unitholders' best interests. We also strive to ensure that such business conduct will be deeply rooted in our corporate culture. As an asset management company knowledgeable about the circumstances of the region, we will make efforts that leverage our expertise and ability to gather and provide information to achieve the best interests of our unitholders.

Policy 3 Appropriate Management of Transactions with Conflicts of Interest

(1) We place the highest priority on the fiduciary duty entrusted to us by our unitholders. For transactions with our interested parties, including Fukuoka Jisho Co., Ltd., one of our sponsors having 55% equity, which might cause conflicts of interest, we work to accurately grasp the possibility of conflicts of interest with any of our unitholders pursuant to laws and regulations, our internal rules, etc. If any such possibility is found, our Compliance Department investigates the matter in advance before the relevant transaction takes place, and deliberation is made in advance at the Investment Committee and the Compliance Assessment Committee, which invites outside experts if necessary. Through these steps, we appropriately manage transactions that might have conflicts of interest. Specifically, when acquiring real estate from any interested party, for example, we follow the processes established in our in-house rules for determining whether a certain deal is a transaction with a conflict of interest as stipulated in our Asset Management Guidelines. By doing so, we prevent any disadvantage to unitholders from arising. When acquiring real estate from any interested party, we conduct an investigation and give full consideration, for instance, conducting the transaction at a price equal to or less than the appraisal value provided by a third party, before deciding on the investment.

(2) As we do not sell financial products and do not have a corporate sales or management department within our company or the Group, there is no possibility of a conflict of interest when soliciting sales or recommending financial instruments or when choosing an investment destination for assets.

Policy 4 Clarification of Fees and Commissions

(1) Entrusted by the Investment Corporation to carry out all operations related to asset management, Fukuoka Realty Co., Ltd., in return receives asset management fees from the Investment Corporation. We have adopted an asset management fee system that enables asset management from a long-term perspective while linking part of the asset management fee amount to the profitable returns to unitholders.

(2) We provide information through statutory and timely disclosure and voluntary disclosure so that unitholders can understand our asset management fees and other commissions or expenses to be borne by the Investment Corporation, including what types of services are paid for.

Policy 5 Provision of Important Information in an Easy-to-Understand Manner

(1) As an asset management company of a listed REIT, we provide important information that relates to investment decision-making for unitholders in an easy-to-understand manner through statutory and timely disclosure as well as voluntary disclosure so that such information can be readily understood. We also post such information on our website in a timely manner to provide information desirable for unitholders from a unitholder-oriented perspective.

(2) Not soliciting the sale or recommendation, etc., of financial instruments or financial services, we do not provide important information related to these to our unitholders.

Policy 6 Provision of Services Suitable for Unitholders

(1) We strive to understand the needs and requirements of unitholders and conduct asset management considering such needs and requirements. Specifically, we aim to secure stable dividends, increase dividends over the medium to long term, and conduct investment that can contribute to society, among other endeavors.

(2) We do not solicit the sale or recommendation, etc., of financial instruments or financial services.

Policy 7 Preparing a Framework or Other Mechanism for Appropriately Motivating Employees

Having established our Basic Policy on Compliance to ensure our officers and employees always act in the best interest of unitholders, we conduct assessments that include items by which compliance is assessed in personnel evaluations. In addition, we regularly and continuously carry out education and training on compliance for all our employees so that they can secure fairness in business conduct and thoroughly implement appropriate management for transactions that might involve conflicts of interest, as well as enhance their awareness on compliance.

Established September 20, 2017
Revised October 16, 2018
Revised June 30, 2021
Revised November 29, 2021

Financial/Non-Financial Highlights (11-Year/22-Period Summary)

	13th Feb. 2011	14th Aug. 2011	15th Feb. 2012	16th Aug. 2012	17th Feb. 2013	18th Aug. 2013	19th Feb. 2014	20th Aug. 2014	21st Feb. 2015	22nd Aug. 2015	23rd Feb. 2016	24th Aug. 2016	25th Feb. 2017	26th Aug. 2017	27th Feb. 2018	28th Aug. 2018	29th Feb. 2019	30th Aug. 2019	31st Feb. 2020	32nd Aug. 2020	33rd Feb. 2021	34th Aug. 2021
Financial information																						
Earnings (Millions of yen)																						
Operating revenue	5,662	7,045	6,931	7,094	7,200	7,565	7,574	7,779	7,789	8,423	8,343	8,234	9,730	8,122	8,194	9,178	9,242	9,231	9,162	8,518	8,904	8,867
Operating income	2,317	2,729	2,637	2,595	2,622	2,848	2,801	2,824	2,860	3,167	3,141	3,069	4,585	2,920	2,965	3,238	3,306	3,318	3,273	2,966	3,061	3,204
Ordinary income	1,763	2,083	2,046	2,005	2,005	2,272	2,239	2,263	2,370	2,663	2,670	2,616	4,199	2,562	2,624	2,861	2,935	2,939	2,900	2,587	2,677	2,817
Profit	1,762	2,082	2,045	1,992	2,004	2,271	2,238	2,262	2,369	2,661	2,669	938	4,198	2,556	2,623	2,860	2,934	2,939	2,899	2,586	2,675	2,816
NOI	3,537	4,406	4,351	4,372	4,444	4,751	4,732	4,800	4,829	5,229	5,237	5,164	5,010	4,998	5,079	5,493	5,591	5,633	5,596	5,307	5,347	5,336
Financial conditions (Millions of yen)																						
Total assets	132,497	155,657	155,792	159,601	160,574	167,857	167,492	167,824	167,369	181,597	181,445	179,513	175,063	178,063	177,283	193,112	195,433	195,106	194,795	199,004	199,559	199,804
Net assets	62,026	71,259	71,222	71,170	71,182	81,712	81,679	81,703	81,811	93,804	93,812	92,081	93,681	93,699	93,766	101,799	101,874	101,878	101,837	101,525	101,614	101,755
Interest-bearing debt	59,075	69,500	69,425	73,350	74,675	71,100	71,025	71,150	70,775	72,400	72,325	71,950	66,675	69,900	68,900	75,500	77,500	77,500	72,500	82,400	82,400	82,400
Interest-bearing debt ratio (%)	44.6	44.6	44.6	46.0	46.5	42.4	42.4	42.4	42.3	39.9	39.9	40.1	38.1	39.3	38.9	39.1	39.7	39.7	39.8	41.4	41.3	41.2
Depreciation and Amortization Expenses	958	1,164	1,177	1,242	1,268	1,343	1,354	1,387	1,390	1,458	1,471	1,470	1,455	1,474	1,500	1,602	1,622	1,651	1,660	1,686	1,623	1,552
Capital expenditures	685	254	1,031	1,285	431	612	848	740	328	445	630	665	1,789	741	600	657	947	476	465	790	687	445
Cash flow (Millions of yen)																						
Cash flow provided by (used in) operating activities	2,545	3,294	3,677	3,617	3,120	3,609	3,699	3,890	3,735	4,167	4,174	4,336	3,685	3,590	4,292	4,149	4,832	4,863	3,985	3,450	5,374	4,724
Cash flow provided by (used in) investing activities	(162)	(20,086)	(566)	(6,016)	(3,067)	(7,897)	(916)	(2,312)	(1,452)	(14,488)	(606)	(772)	4,220	(6,029)	(478)	(15,326)	(3,604)	(1,043)	(220)	(7,136)	(842)	(1,425)
Cash flow provided by (used in) financing activities	(1,871)	17,548	(2,153)	1,881	(666)	4,651	(2,359)	(2,115)	(2,635)	10,934	(2,747)	(3,043)	(7,872)	667	(3,555)	11,734	(859)	(2,933)	(2,938)	2,000	(2,586)	(2,674)
Cash and cash equivalents at year-end	6,440	7,197	8,154	7,637	7,024	7,387	7,810	7,273	6,920	7,533	8,353	8,873	8,905	7,134	7,392	7,950	8,319	9,205	10,032	8,348	10,293	10,917
Per-unit indicators (Yen)																						
Dividend per unit	3,293	3,384	3,324	3,238	3,257	3,291	3,243	3,278	3,435	3,563	3,574	3,479	3,398	3,422	3,512	3,593	3,687	3,693	3,642	3,250	3,361	3,539
EPS per unit	3,293	3,384	3,324	3,238	3,257	3,291	3,243	3,278	3,434	3,563	3,573	1,256	5,621	3,422	3,512	3,593	3,687	3,692	3,642	3,249	3,361	3,538
BPS per unit	115,884	115,822	115,762	115,676	115,696	118,423	118,376	118,410	118,567	125,574	125,585	123,267	125,410	125,434	125,524	127,888	127,982	127,987	127,936	127,544	127,656	127,833
NAV per unit	125,647	123,001	121,447	122,299	123,041	127,080	128,375	131,215	136,051	144,472	148,558	152,259	150,328	152,639	156,204	161,315	164,250	167,118	170,680	171,592	171,943	171,502
FFO per unit	5,083	5,276	5,237	5,258	5,319	5,238	5,207	5,288	5,450	5,515	5,543	5,448	5,351	5,395	5,520	5,606	5,725	5,767	5,728	5,368	5,401	5,358
Investment unit information																						
Investment unit price (Yen)	120,800	108,400	107,200	109,600	153,600	145,000	171,400	199,000	227,000	188,700	194,200	186,100	177,100	164,300	173,100	170,400	169,300	178,300	167,900	136,500	168,500	175,500
Total number of investment units issued	535,250	615,250	615,250	615,250	615,250	690,000	690,000	690,000	690,000	747,000	747,000	747,000	747,000	747,000	747,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000
Non-financial information																						
Number of employees ^(Note 1)	36	37	38	35	36	40	40	34	35	38	41	39	40	38	38	39	41	41	42	41	41	40
Percentage of female employees (%) ^(Note 1)	36.1	37.8	39.5	42.9	36.1	37.5	35.0	38.2	40.0	44.7	43.9	48.7	45.0	44.7	44.7	46.2	46.3	46.3	47.6	51.2	51.2	50.0
Average number of years of employment ^(Years/Months) ^(Note 1)	4.6	4.10	5.2	5.8	5.7	6.1	6.2	7.1	7.5	6.0	6.2	6.5	6.9	6.11	7.7	7.10	7.11	8.6	8.10	8.10	9.1	9.6
The number of IR meetings ^(Note 2)	—	—	—	—	—	—	—	—	122	154	147	106	126	116	169	129	148	149	133	54	114	90

* Gains and losses on the sale of the Aeon Hara Shopping Center and Aqualia Kego, which were transferred in the 25th fiscal period, were handled in the following manner due to differing tax and accounting standards.
 1) An amount equivalent to impairment losses on the Aeon Hara Shopping Center booked in the profit and loss statement in the 24th fiscal period was booked as an allowance for a temporary difference adjustment on the statement concerning the allotment of funds for the 25th fiscal period.
 2) Gains on the sale of Aqualia Kego were recorded on the profit and loss statement for the 25th fiscal period.
 3) The return of allowances for a temporary difference adjustment was booked on the statement concerning the allotment of funds for the 25th fiscal period.
 * Dividend per unit is calculated as follows.
 24th fiscal period: [net profit] + [reserve for temporary difference adjustment] - [earnings carried forward to the next period]
 25th fiscal period: [net profit] - [return of reserve for temporary difference adjustment] - [earnings carried forward to the next period]
 * The Investment Corporation undertook a five-for-one split effective March 1, 2014. Dividend and NAV per unit up to the 19th fiscal period have been retroactively adjusted to reflect this split.
 * The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period.
 Notes: 1. Data are for the Asset Management Company.
 Notes: 2. The number of IR meetings convened in Japan and abroad from the 13th to 20th fiscal periods is not recorded, as records do not exist for these periods.

Asset type

Refers to the type of asset application, such as office buildings, retail facilities, and residences.

BPS

An abbreviation of Book-Value Per Share. This shows net assets per unit and is viewed as an indicator for stability.
[Calculation method] BPS: net assets/total number of units issued

Cap rate

This is also referred to as the return yield and represents the return on a real estate investment used when determining the appraisal price or theoretical price of a real estate property. In general, NOI or NCF (Net Cash Flow) divided by the cap rate is considered the theoretical price of a real estate property. The cap rate varies depending on the characteristics of a property, such as whether it is new or older, grade and size, as well as factors such as proximity to transportation and location.

Capital expenditure

This refers not only to the maintenance and repair of real estate or equipment, but also the costs of maintaining and improving the value of these assets, which are recorded by the investment corporation as assets and are subject to depreciation.

Commitment line

This refers to the upper loan limit a borrower can receive at any time without going through a defined review, within a range agreed upon in advance with the bank. Commitment in this case indicates a contracted promise. The borrower can secure stable working capital regardless of business conditions.

Conflict of interest

In general, this refers to when an act is in one's own interest, while at the same time disadvantageous to the interests of another. For a J-REIT, this often refers to a conflict between a unit holder and the interests of the investment corporation or asset management company.

Credit rating

A grade that reflects the safety and creditworthiness of a company and its ability to pay the principal and interest of bonds issued by the company based on an analysis of the company's performance and financial condition.

FRC has obtained the following credit ratings:

Japan Credit Rating Agency, Ltd. (JCR): Long-term issuer rating
Rating and Investment Information Inc. (R&I): Issuer rating

Earthquake PML

Refers to the probable maximum loss as a percentage of the expected maximum damage (Probable Maximum Loss) caused by an earthquake. The higher the PML value, the higher the building's seismic risk.

[Calculation method] PML = Expected maximum damage / Replacement cost

Engineering reports

Reports outlining the results of a physical survey of a property. These often include surveys on building conditions, soil contamination, long-term repair and refurbishing costs, and earthquake risk.

EPS

An abbreviation of Earnings Per Share. This shows net profit per unit and is viewed as an indicator of a company's ability to generate earnings.
[Calculation method] EPS: net profit/ total number of units issued

ESG

ESG is an abbreviation for Environment, Social, and Governance. The idea that a company needs to maintain focus on these three concepts to ensure long-term growth is gaining ground throughout the world. With an emphasis on sustainability, ESG management is focused on pursuing strategies with the environment and society in mind.

External growth/Internal growth

For J-REITs, per-unit profit growth achieved through new real estate acquisitions is referred to as external growth. This growth is achieved by the investment corporation acquiring new real estate that is expected to produce high yields at relatively low funding costs. The acquisition of new real estate can also expand the scale of the business and diversify risk, with reduced transaction costs thanks to scale merits also contributing to growth. In contrast, internal growth is profit growth achieved through the efficient management of existing real estate.

FFO/FFO ratio

An abbreviation of Funds from Operations. This shows how much cash flow is generated from rental income. The larger the FFO per unit, the greater the company's profitability.

[Calculation method] FFO = Net profit + depreciation and amortization expenses + impairment loss - gains/losses from the sale of real estate
FFO per unit = FFO / total number of units issued

The FFO ratio is similar to PER. A lower value indicates an attractive share price versus fund profitability.

[Calculation method] FFO ratio=Investment unit price/FFO per unit

Green bonds

These are bonds issued by companies and local governments to raise the funds necessary for green projects in Japan and overseas.

Green loan

A loan in which the use of funds is limited to environmentally friendly businesses.

Interest-bearing debt

This refers to liabilities with interest that must be repaid. Specifically, this refers to long- and short-term loans from banks and funds procured on the market, including through the issuance of corporate bonds.

Investment corporation bonds

These are bonds issued by investment corporations in accordance with the Act on Investment Trusts and Investment Corporations and are equivalent to corporate bonds. Investment corporation bonds are issued to secure financing, with funds used to acquire real estate, undertake repairs on existing buildings, repay borrowings, and fund reimbursements.

IR

IR refers to Investor Relations, which is essentially public relations activities aimed at investors. These include the provision of information necessary to making sound financial decisions, including financial conditions at the company, to shareholders and investors.

LTV

An abbreviation for Loan to Value, and an indicator of a company's borrowing ratio as well as a measure of stability in borrowing. The lower the value, the greater the degree of safety against redemption of debt.

[Calculation method] LTV (%): Interest-bearing debt /total assets multiplied by 100

Materiality

Materiality involves the identification of related important issues and an evaluation of the impact of corporate activity on social issues. The process involves prioritizing and providing an easy-to-understand picture of the importance of each of the issues being confronted.

NOI

An abbreviation for Net Operating Income. This reflects net income stemming from the real estate leasing and REIT business, deducting expenses such as administrative costs and property taxes from rents in a given fiscal period. Costs not related to cash expenditures, including depreciation, interest paid on borrowings, or taxes are not deducted. This is used to assess real estate and REIT asset value and is similar to EBITDA, which focuses on operating cash flow in assessing corporate value. When determining the theoretical real estate property price, it is a common practice to divide NOI by the capitalization yield (cap rate).

NOI yield

This refers to annual NOI divided by property price and is an indicator for the investment yield of the real estate leasing business. It can also be used as a REIT investment metric. A higher NOI yield indicates greater profitability, with greater dividends to the investor.

[Calculation method] NOI yield: NOI/acquisition price multiplied by 100

NAV/NAV ratio

NAV is an abbreviation for Net Asset Value at an investment trust. Net assets are defined as total investment trust balance sheet assets minus liabilities, with the base price based on the number of units. For REITs, the term net assets refers to net assets plus unrealized gains or losses reflecting the difference between book value of the property owned and the appraised value.

[Calculation method] NAV: Net assets + unrealized gains or losses - dividends
Market net assets value per unit: NAV/total number of units issued

NAV ratio is somewhat similar to PBR (stock price/net asset ratio) taking into account the market value of real estate. It can be used to assess whether an investment unit is under or overvalued.

[Calculation method] NAV ratio: investment unit price/NAV per unit

Pipeline support agreement

Pipeline support agreements refer to contracts that provide the opportunity to acquire a property from a sponsor in advance of and in priority to a third party.

Public offering (PO)

This is one way to secure financing. A public offering targets general investors as shareholders, offering new shares for an established price based on current market value.

Real Estate Securitization Master Certification System

An educational program conducted by the Association for Real Estate Securitization. Certification that the recipient has broad practical expertise across the real estate and finance fields.

Renewable energy

Unlike limited fossil-based energy resources such as natural gas, crude oil, and coal, renewable energy sources are always present in nature, and include solar, wind, and geothermal resources.

Replacement cost

This refers to the construction costs required if a building is rebuilt to a structure equivalent to the current building. Replacement cost is often used in engineering reports.

Sponsor

A J-REIT sponsor is a shareholder of the company (asset management company) managing the assets of the investment corporation. Sponsors (shareholders) of Fukuoka Realty include leading companies in the Kyusyu economy, such as Fukuoka Jisho Co., Ltd., and Kyushu Electric Power Co., Inc.

Stakeholder engagement

Efforts undertaken by a company to better understand matters that are of interest to stakeholders in the conduct of activities and decision-making.

Sustainability

Sustainability is often used in reference to environmental issues, but has recently become a key word in reference to corporate social responsibilities.

TSR

An abbreviation for Total Shareholder Return. This can also be called total shareholder (investor) yield and reflects combined capital gains and dividends, reflecting the overall investment yield for investors.

[Calculation method] TSR (%): (Dividend per unit + increase in investment unit price)/initial investment unit price multiplied by 100

Note: Regarding amount, percentage, and ratio rounding: Unless otherwise noted, in these materials, monetary amounts are rounded down to the nearest whole unit, and percentages and ratios are rounded off to one decimal places.

These materials might contain future performance, plans, management targets, and strategies. These forward-looking descriptions are based on present assumptions on future events and trends in the business environment, but such assumptions might not necessarily be accurate. Actual results could differ materially due to various factors. Neither Fukuoka REIT Corporation nor Fukuoka Realty Co., Ltd., shall be liable for the accuracy, rationality, and completeness of information contained in these materials, whether they were prepared by Fukuoka REIT Corporation or Fukuoka Realty Co., Ltd., or provided by a third party. These materials have not been prepared to entice investment. When applying to purchase investment units issued by Fukuoka REIT Corporation, do so based on your own judgment and responsibility.