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Provisional translation only

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Notice of Disposition of Assets

Fukuoka REIT Corporation (FRC) announces that Fukuoka Realty Co., Ltd., an asset management company to which the company entrusts the management of its assets, hereby provides notice of its decision on August 30, 2016 to dispose of assets as follows.

1. Outline of Disposition

Name of assets	Disposition price (planned) (mm yen) (Note 1)	Book value (mm yen) (Note 2)	Difference between disposition price (planned) and book value (mm yen)	Appraisal Value (mm yen)	Buyer	Date of contract	Date of transfer (planned)
AEON Hara Shopping Center	3,700	5,249	(1,549)	4,030	Not disclosed (Note 4)	August 31, 2016	September 30, 2016
Aqualia Kego	4,320	2,634	1,686	3,670	Not disclosed (Note 4)	August 31, 2016	November 29, 2016
Total	8,020	7,883	137 (Note 3)	7,700	—		

(Note 1) The price is shown in the amount excluding expenses for the sale, property taxes and city planning taxes, consumption tax, etc.

(Note 2) The book value is estimated as of August 31, 2016.

(Note 3) The figures are the difference between the planned disposition price and book value (estimated as

of August 31, 2016) and differ from gain (loss) on disposition. The gain (loss) on disposition including expenses for the disposition, etc. is minus 6 million yen.

(Note 4) Details of the buyer are not disclosed since the consent disclosure has not been obtained from the buyer.

2. Reason for Disposition

AEON Hara Shopping Center was acquired and is being managed from March 2007, but since there are less than 3 years from maturity of the fixed-term building lease agreement concluded with AEON KYUSHU Co., Ltd. (February 2019), FRC has been investigating risks that could occur in the future and the impact based on the assumption of the lease terms after maturity, building age, etc. Specifically, considering the competitiveness of the asset, such as its trade zone population (approx. 300 thousand in 3km district), FRC also thoroughly investigated, in addition to disposition, the possibility of renovation through additional investment, its return on investment, possibility of resolving unrealized loss, etc. As a result, FRC decided that even though the planned disposition price falls below the book value or appraisal value, it was determined to be preferable to avoid future risks by disposing the property at the current point in a booming market.

Additionally, Aqualia Kego has maintained high occupancy since acquisition in March 2012 and the appraisal value has risen to 3,670 million yen as of August 1, 2016. FRC decided that disposing the property at the current point in a booming market will lead to maximizing revenue, and will dispose the asset at the same time as AEON Hara Shopping Center to minimize the impact on its performance. (*)

FRC considers that the dispositions will result in avoiding future risks and secure mid- to long-term stability of the portfolio. Funds procured from the dispositions will be allocated to repayment of existing borrowings, but FRC is also considering to continue to acquire excellent assets by also utilizing the sponsor pipeline.

*Please refer to “Notice on Revision to Forecast of Performance for Fiscal Period Ending August 2016 and February 2017” as of August 30, 2016 regarding the impact of the disposition assets of AEON Hara Shopping Center and Aqualia Kego.

3. Outline of Assets

(1) AEON Hara Shopping Center

Property Name		AEON Hara Shopping Center
Type of the Property		Real Estate beneficiary interest
Location (Address)		27-52 6-chome, Hara, Sawara-ward Fukuoka City Fukuoka
Land	Area	17,439.70 ㎡

	Zoning	Category2 residential				
	Type of ownership	100% Ownership				
Building	Structure/floor	Reinforced concrete bldg. with deck roof 4 floors				
	Built	October 1976, New building June 1991 and February 2007, extension building				
	Total floor area	27,313.53 ㎡				
	Type of ownership	100% Ownership				
Appraisal Value		4,030 million yen				
Appraiser		Japan Real Estate Institute				
Summary of tenant						
Total number of tenant		1				
Total leasing revenues (annually)		425 million yen (Note 1)				
Security Deposit and Guaranty		325 million yen (Note 2)				
Total leasable floor space		27,313.53 ㎡ (Note 3)				
Total leased floor space		27,313.53 ㎡ (Note 3)				
Occupancy Rate (Note 4)		August, 2014	February, 2015	August, 2015	February, 2016	June, 2016
		100%	100%	100%	100%	100%
Remarks		Not Stated				

(Note 1) The figure is the annual rent indicated in the lease agreements concluded as of June 30, 2016. The figure has been rounded to the nearest million yen.

(Note 2) The figure is the amount indicated in the lease agreements concluded as of June 30, 2016. The figure has been rounded to the nearest million yen.

(Note 3) The leasable floor space is the total floor area of the building, and the total leased space indicates the sum of the contracted spaces designated in the lease agreements concluded as of June 30, 2016.

(Note 4) The figure indicates the ratio of the total leased space to the leasable space. The figure has been rounded off to the first decimal place.

(Note 5) Figures for area of land and total floor area are based on the indications in the registry.

(2) Aqualia Kego

Property name		Aqualia Kego
Type of the property		Real estate beneficiary interest
Location (Address)		13-17 2-chome, Kego, Chuo-ward, Fukuoka city
Land	Area	1,267.43 ㎡
	Zoning	Commercial area
	Ownership	100% Ownership

Building	Structure/floor	Reinforced concrete bldg. Steel-framed roof, 20 floors and 1 below				
	Built	November, 2008				
	Total floor area	10,396.97 ㎡				
	Ownership	100% Ownership				
Appraisal value		3,670 million yen				
Appraiser		Japan Real Estate Institute				
Summary of tenant						
Total number of tenant		130 (Note 1)				
Total leasing revenues		211 million yen (Note 2)				
Security Deposit and Guaranty		21 million yen (Note 3)				
Total leasable floor space		7,415.36 ㎡ (Note 4)				
Total leased floor space		7,100.56 ㎡ (Note 4)				
Occupancy rate (Note 5)		August, 2014	February, 2015	August, 2015	February, 2016	June, 2016
		92.6%	94.2%	96.0%	96.3%	95.8%
Remarks		Not stated				

(Note 1) The number of leasable units indicates the total of residential portion (126 units) and the retail/business portion (4 units).

(Note 2) The figure has been calculated by multiplying the total amount of the monthly rents and proceeds from monthly common expenses, indicated in the lease agreements concluded as of June 30, 2016, by 12 times. The figure has been rounded to the nearest million yen. Parking spaces, etc. have not been included in the calculation.

(Note 3) The figure is the sum of the amounts indicated in the lease agreements concluded as of June 30, 2016 (excluding deduction from deposits). The figure has been rounded to the nearest million yen. Parking spaces, etc. have not been included in the calculation.

(Note 4) The leasable area is the sum of the areas leasable to end tenants, and the total leased area is the sum of the contracted areas indicated in the lease agreements concluded with end tenants as of June 30, 2016. Parking spaces have not been included.

(Note 5) The figure indicates the ratio of the total leased area to the leasable space. The figure has been rounded to the first decimal place. Parking spaces have not been included.

(Note 6) Figures for area of land and total floor area are based on the indications on the registry.

4. Outline of Buyer

(1) AEON Hara Shopping Center

Details of the buyer are not disclosed since the consent disclosure has not been obtained from the buyer. The buyer does not fall under the category of interested parties etc. of either FRC or its asset management company. In addition, FRC and Fukuoka Realty Co., Ltd. Have no significant capital

ties, personal relationships and transactions with the buyer of the disposition assets and nor it falls under a related party of FRC and Fukuoka Realty Co., Ltd.

(2) Aqualia Kego

Details of the buyer are not disclosed since the consent disclosure has not been obtained from the buyer. The buyer does not fall under the category of interested parties etc. of either FRC or its asset management company. In addition, FRC and Fukuoka Realty Co., Ltd. Have no significant capital ties, personal relationships and transactions with the buyer of the disposition assets and nor it falls under a related party of FRC and Fukuoka Realty Co., Ltd.

5. Outline of Brokerage

(1) AEON Hara Shopping Center

Name	FUKUOKA JISHO R&I Co., Ltd.
Location (Address)	3-23 Kanda Nishiki-cho Chiyoda-ward, Tokyo
Representative	Hideo Fujimura, Representative Director
Business	Type II Financial Instruments Business, Real Estate transaction business, Database services business
Capital	100 million yen
Establishment	June 2, 2014
Brokerage fee	55.5 million yen (excl. taxes)
Standing to Related Party	The broker does fall under the category of a related party of the asset management company.

Name	Sumitomo Mitsui Trust Bank, Limited
Location	4-1 1-chome, Marunouchi Chiyoda-ward, Tokyo
Representative	Hitoshi Tsunekage, President
Business	Trust services, Banking Services
Capital	342.0 billion yen as of August 31, 2016
Establishment	July 28, 1925
Brokerage fee	Not disclosed *
Standing to Related Party	The broker does not fall under the category of a related party of the asset management company.

*Details of the broker are not disclosed since the consent disclosure has not been obtained from the broker.

(2) Aqualia Kego

Name	FUKUOKA JISHO R&I Co., Ltd.
Location	3-23 Kanda Nishiki-cho Chiyoda-ward, Tokyo
Representative	Hideo Fujimura, Representative Director
Business	Type II Financial Instruments Business, Real Estate transaction

	business, Database services business
Capital	100 million yen
Establishment	June 2, 2014
Brokerage fee	21.6 million yen (excl. taxes)
Standing to Related Party	The broker does fall under the category of a related party of the asset management company.

Name	Sumitomo Mitsui Trust Bank, Limited
Location	1-4-1 Marunouchi Chiyoda-ward, Tokyo
Representative	Hitoshi Tsunekage, President
Business	Trust services, Banking Services
Capital	342.0 billion yen as of August 31, 2016
Establishment	July 28, 1925
Brokerage fee	Not disclosed *
Standing to Related Party	The broker does not fall under the category of a related party of the asset management company.

*Details of the broker are not disclosed since the consent disclosure has not been obtained from the broker.

6. Transactions with Interested Party

FRC will conclude a Real Estate Trust Beneficiary/Interest Brokerage Agreement with Fukuoka Jisho R&I Co., Ltd. in order to consign the disposition of the properties. Accordingly, the asset management company has conducted discussions with and obtained approvals from its Investment Management Committee, Compliance Assessment Committee and Board of Directors concerning the conclusion of such agreement.

7. Method of Payment

The payment to the buyer will be a lump-sum payment upon the delivery of the Property.

8. Disposition Schedule

(1) AEON Hara Shopping Center

August 30, 2016 Decision of transfer

August 31, 2016 Conclusion of agreement of trust beneficial interest (scheduled)

September 30, 2016 Delivery of property (scheduled)

(2) Aqualia Kego

August 30, 2016 Decision of transfer

August 31, 2016 Conclusion of agreement of trust beneficial interest (scheduled)

November 29, 2016 Delivery of property (scheduled)

9. Outlook

Please refer to "Notice on Revision to Forecast of Performance for Fiscal Period Ending August 2016 and February 2017" regarding the impact of the transaction of AEON Hara Shopping Center and Aqualia Kego on FRC's operating forecast for the fiscal period ending February 2017 (September 1, 2016 – February 28, 2017), which were announced in the "Earnings Briefing for the Period Ended February 2016" announced on April 8, 2016.

10. Outline of appraisal

Property Name		AEON Hara Shopping Center	
Appraisal value		4,030,000,000 yen	
Appraiser		Japan Real Estate Institute	
Pricing date		August 1, 2016	
		Figures	Reasons, etc.
Income Capitalization Approach Value		4,030,000,000 yen	
Value Calculated Using the Direct Capitalization Method		4,050,000,000 yen	
Gross Operating Revenue		300,000,000 yen	
	Maximum Gross Operating Revenue	300,000,000 yen	Calculated the rents receivable in a stable manner over a medium to long term
	Shortfall Attributed to Vacancies	0 yen	
Operating Expenses		33,842,000 yen	
	Outsourcing expenses	9,000,000 yen	Calculated by referring to the current agreement concerning of the fees of comparable real estate and adjusting for specific characteristics of the property
	Utility expenses	0 yen	Charge to tenants
	Repair and maintenance expenses	0 yen	Charge to tenants
	Tenant expenses	0 yen	
	Taxes and fees	24,001,000 yen	Calculated based on the related references to taxes and fees.
	Damage insurances	841,000 yen	Calculated concerning of insurance contacts and premium rates of similar buildings.

	Other expenses	0 yen	
Net operating income		266,158,000 yen	
	Profit through management of temporary deposits, etc.	4,500,000 yen	
	Capital Expenditure Reserve	23,391,000 yen	Based on ER and similar cases
Net Cash Flow		247,267,000 yen	
Capitalization rate		6.1%	Evaluated considering the location, etc. of the property, future uncertainties, comparable cases, etc.
Value through DCF method		4,000,000,000 yen	
	Discount rate	5.8%	
	Terminal cap rate	7.3%	
Value through cost method		4,020,000,000 yen	
	Percentage of leased land	85.9%	
	Percentage of building	14.1%	

Other matters noted by the appraiser in conducting appraisal	Not stated

Property Name		Aqualia Kego	
Appraisal value		3,670,000,000 yen	
Appraiser		Japan Real Estate Institute	
Pricing date		August 1, 2016	
		Figures	Reasons, etc.
Income Capitalization Approach Value		3,670,000,000 yen	
Value Calculated Using the Direct Capitalization Method		3,710,000,000 yen	
Gross Operating Revenue		229,415,000 yen	
	Outsourcing fees	248,339,000 yen	Calculated based on the current leasing revenues, etc., the rents, etc. receivable in a stable manner over a medium to long term
	Shortfall Attributed to Vacancies	18,924,000 yen	Calculated based on comparable real estate

			and past results
Operating Expenses		47,832,000 yen	
	Maintenance and management fees and utility expenses	13,172,000 yen	Calculated by referring to the current agreement and concerning of the fees of comparable real estate and adjusting for specific characteristics of the property
	Utility expenses	2,900,000 yen	Calculated by referring to the past actual results and concerning of utility expenses of comparable real estate and adjusting for specific characteristics of the property
	Repair and maintenance expenses	8,056,000 yen	Based on ER and similar cases,
	Tenant expenses	5,710,000 yen	Calculated based on comparable cases and past results
	Taxes and fees	16,806,000 yen	Calculated based on the related references to taxes and fees.
	Damage insurances	1,188,000yen	Calculated concerning of insurance contacts and premium rates of similar buildings.
	Other expenses	0 yen	
Net operating income		181,583,000 yen	
	Profit through management of temporary deposits, etc.	449,000 yen	
	Capital Expenditure Reserve	4,150,000 yen	Based on ER and similar cases
Net Cash Flow		177,882,000 yen	
Capitalization rate		4.8%	Evaluated considering

			the location, etc. of the property, future uncertainties, comparable cases, etc.
Value through DCF method		3,630,000,000 yen	
	Discount rate	4.6%	
	Terminal cap rate	5.0%	
Value through cost method		3,140,000,000 yen	
	Percentage of leased land	48.1%	
	Percentage of building	51.9%	

Other matters noted by the appraiser in conducting appraisal	Not stated

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