Fukuoka REIT Corporation

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

@fukuokareit8968 facebook.com/fukuokarealty fukuoka_realty

To better understanding of FRC and its operations, FRC is focusing efforts on 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 area, 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 2020

Fukuoka REIT Corporation

December 2020



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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 FY2019. 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.

Environment
Social
Governance
Guidance for Collaborative Value Creation

Corporate Profile / Characteristics

Taking advantage of our strength in knowing the local characteristics of real estate, which is a very regional-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 of the Fukuoka and Kyushu areas. Moreover, we believe that possibilities in 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. Nishi-Nippon Railroad Co., Ltd. ROYAL HOLDINGS Co., Ltd. THE BANK OF FUKUOKA, LTD. THE NISHI-NIPPON CITY BANK, LTD. SAIBU GAS 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 very regional-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
In order 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 maintains 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
We are reducing refinancing risk (by the conservative control of LTV and extending debt duration). We also maintain good relationships with financial institutions, including our 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 area.

Relationship with Fukuoka Realty Co., Ltd.

FRC's Basic Policy

【Our Mission】
Taking advantage of our strength in knowing the local characteristics of real estate, which is a very regional-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 – are the only listed real estate investment corporation and asset management company registered outside the Tokyo metropolitan and Kansai areas.
As a region-specific REIT, FRC also 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 broad network centering on the local government and business world.
【Think Global】
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. 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.

Contribution to Regional Revitalization and Development of Attractive Communities

FRC believes that attracting domestic and foreign excellent investment funds to regional real estate financial markets will stimulate community development of the Fukuoka and Kyushu areas. Although we are not directly involved in community development or real estate development, we expect that our acquisition of properties will 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.

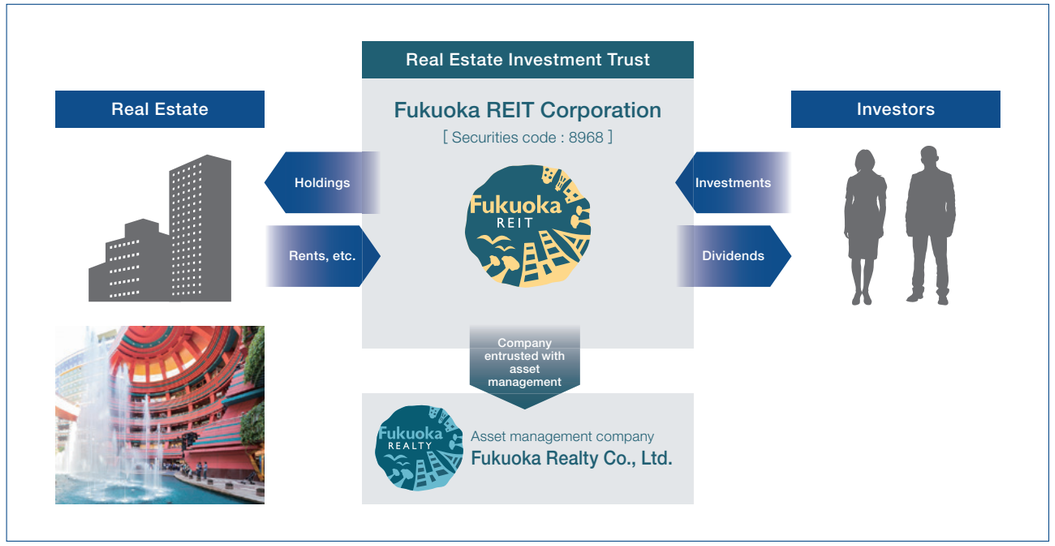


Investment Policy

Investment target areas		Investment type	
Fukuoka metropolitan area	60-90%	Retail	40-70%
Other Kyushu areas (including Okinawa and Yamaguchi prefectures)	10-30%	Office buildings	20-50%
Others	0-10%	Others (hotels, residences, logistics, etc.)	0-30%

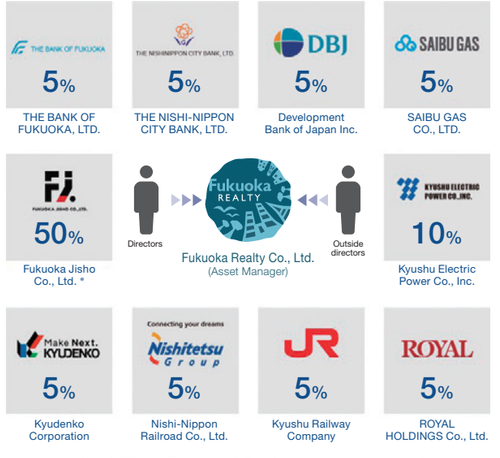
Corporate Profile of Fukuoka Realty Co., Ltd.

Comprising employees with various experiences in real estate, finance, and other fields, Fukuoka Realty Co., Ltd. possesses a high level of expertise and makes full use of local knowledge and know-how to manage FRC's assets.



Leading companies in the Fukuoka and Kyushu region who are in agreement with FRC's concept participate as shareholders (sponsors) of Fukuoka Realty Co., Ltd. FRC aims 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 the support, including provision of relevant information and staffing to asset management companies. 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.

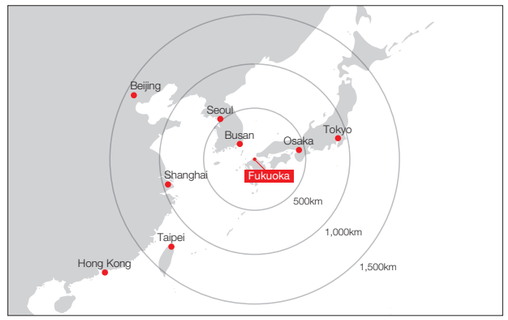
Fukuoka Jisho overview : See p.23



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

Macroeconomic Environment around Fukuoka City

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.

Hot Topics　Cabinet Office Startup Ecosystem Hub Creation Strategy: Fukuoka as a Global Hub City

Fukuoka City applied for the Startup Ecosystem Hub City Creation Project involved in the "Beyond Limits. Unlock Our Potential.: Strategies for creation of startup ecosystem to compete with the world top ecosystems" organized by the Cabinet Office of Japan. This program began accepting applications on January 28, 2019, and Fukuoka City was selected as a Global Hub City on July 14, 2020.

The Fukuoka Startup Consortium was established for the purpose of creating a Startup Ecosystem Hub City that will produce new value and give rise to startups that serve as engines for sustainable urban growth and vitality through the exploration of collaborations between corporations, universities, and government.

[Fukuoka Startup Consortium]

(1) Initiatives for encouraging the creation of a startup ecosystem
(2) Support for the creation and growth of startup companies through industry-academia-government collaboration
(3) Broadcast information to the world as a means of attracting startup companies, companies, investors, sponsors, and human resources, etc.
(4) Initiatives for proof-of-concepts and social implementations of new technologies and services
(5) Initiatives that contribute to the goals of the Consortium, etc.

TEAM FUKUOKA established to attract international financial functions

The Japanese government aims to expand acceptance of foreign financial institutions and overseas financial talents. In response, TEAM FUKUOKA, a promotion organization of industry-academia-government collaboration throughout Fukuoka, was established on September 29, 2020, so that a variety of entities involved in attracting international financial functions to Fukuoka will mutually share and exchange information and work by taking advantage of respective features.

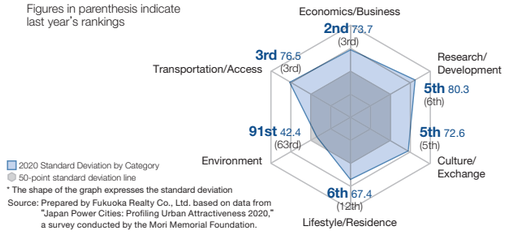


Photo provided by the Fukuoka Keizai editorial department

Fukuoka as a Continuously Growing, Balanced City

According to "Japan Power Cities: Profiling Urban Attractiveness 2020," a survey conducted by the Mori Memorial Foundation that analyzes the urban vitality of 109 cities in Japan from a relative and multifaceted perspective, Fukuoka City stands out in terms of economics and business, and has consistently received high marks for "business vitality" and "business climate." Fukuoka City also received high marks for "access from outside the city" in terms of transportation and access, and attracts many people and businesses as a city that aims to become a hub of exchange in Asia.

■ Category Rankings/Standard Deviation

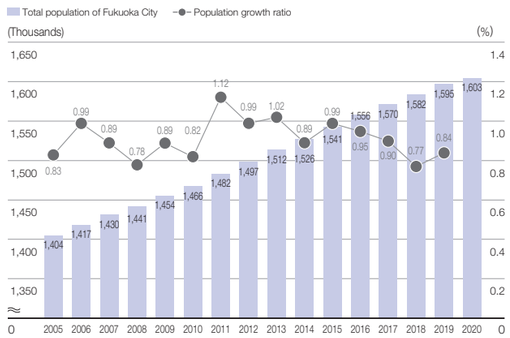


* The shape of the graph expresses the standard deviation
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from "Japan Power Cities: Profiling Urban Attractiveness 2020," a survey conducted by the Mori Memorial Foundation.

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 current estimated population exceeds 1.60 million. This total population makes the city the fifth most populous among the government-designated cities, following upon 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

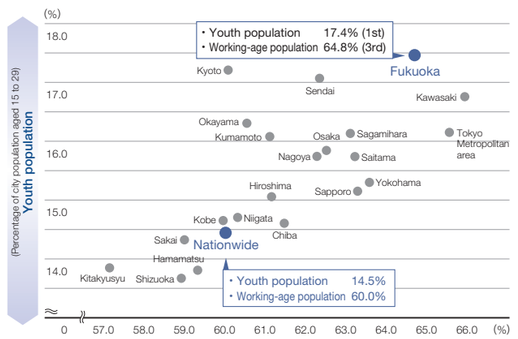


* Total population for 2020 indicates the population as of September 1, and therefore does not reflect the population growth rate.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from Fukuoka City Estimated Population and Fukuoka City Registered Population, published by Fukuoka City

Fukuoka with a Large Youth Population

Compared with 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 between the ages of 15 and 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 between the ages of 15 and 64) ranks third at 64.8%.

■ National and Major Cities' Young People and Working Age Population Ratios 〈2015〉

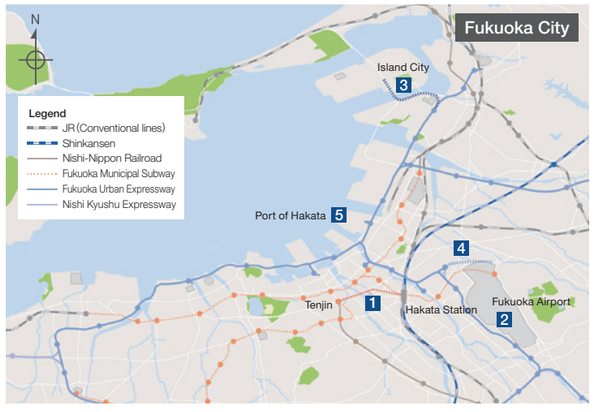


Source: Prepared by Fukuoka Realty Co., Ltd. based on data from the Ministry of Internal Affairs and Communications, Statistics Bureau Population Census of Japan.

Fukuoka as a Compact City

As a compact city, the air, sea, and land transportation access points of Hakata Station, the Port of Hakata, and Fukuoka Airport are located within a three-kilometer radius of Tenjin, Fukuoka City's central business district.

Currently, the city is working to improve the transport infrastructure and enhance the transport functions to further increase convenience. Moreover, Fukuoka City's ratio of greenery and water within a 10-kilometer radius of the city center, a measure of the abundance of local nature, rivals that of cities around the world recognized for their high "quality of life," including Melbourne and Seattle.

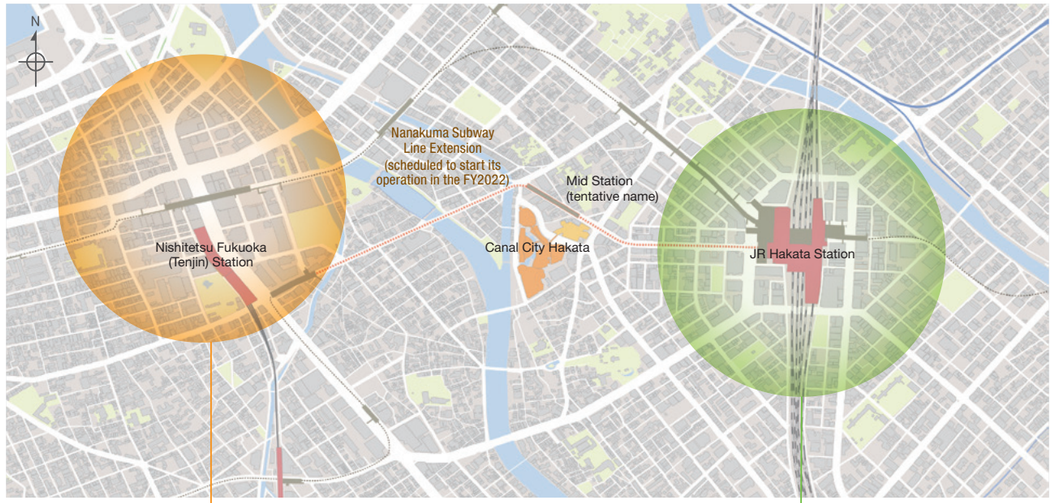


Fukuoka City Infrastructure Enhancements

1 Planned extension of the Fukuoka City Nanakuma subway line (scheduled for completion in FY2022)
2 Fukuoka Airport runway expansion (scheduled for completion in FY2024)
3 Fukuoka Urban Expressway 6 (Island City Route) (scheduled for completion in FY2020)
4 Fukuoka Urban Expressway 3 extension (Airport Route) (scheduled for completion in FY2024)
5 Waterfront zone redevelopment
Cruise ship terminal (completed in FY2015)
Port of Hakata Chuo Port extension construction (completed in FY2018)

Macroeconomic Environment around Fukuoka City

Redevelopment Trends in Fukuoka City



Tenjin Big Bang

Having received special authorization to relax Civil Aeronautics Act-related building height restrictions following the designation of the Fukuoka City Tenjin Region as a "National Strategic Special Zone for Global Startups & Job Creation," Fukuoka City has been advancing the "Tenjin Big Bang" project to create new spaces and employment. This move includes implementing original policies to deregulate floor area ratios and working to significantly improve urban functions. As the first stage of Tenjin Big Bang, Fukuoka Jisho Co., Ltd., the main sponsor of FRC, is advancing development of "Tenjin Business Center," which is equipped with Fukuoka's first large-scale seismic isolation structure, the highest level of BCP performance in Japan, and high-quality office specifications, while also incorporating measures to address such infectious diseases as COVID-19. This project is scheduled for completion during September 2021.

In aims of becoming the first city in the world designed to control infection, Fukuoka City extended the completion deadline from 2024 to 2026 for buildings implementing infection controls under development plans leveraging Tenjin Big Bang incentives. This move is intended to induce new building initiatives, including those for securing ventilation, non-contact operations, physical distancing, and telecommunications environment enhancements.

Hakata Connected

In January 2019, Fukuoka City launched the "Hakata Connected" project to better link the vitality and prosperity of Hakata Station to the surrounding area.

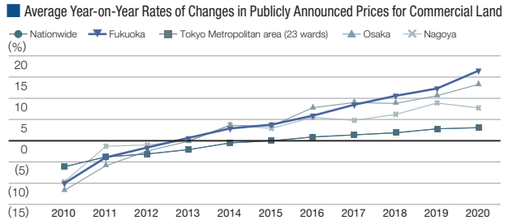
As the overland gateway to the Kyushu region, the area surrounding Hakata Station, which is expected to experience further development, will see transport infrastructure enhancements, including an extension to the Nanakuma subway line and redevelopment of Hakata Ekimae Street. The project will also encourage reconstruction of older buildings into highly earthquake-resistant, high-tech buildings through floor area ratio deregulation as a means of improving urban functions. Along with THE NISHI-NIPPON CITY BANK, LTD., Fukuoka Jisho Co., Ltd., the main sponsor of FRC, will also engage in a series of redevelopments of the Bank's aging main branch, main branch annex, and head office buildings to serve as a trigger for "Hakata Connected".

Land Price Trends in Fukuoka City

【Commercial Land】

According to the official land price annual fluctuation rates (as of January 1 each year) for 2020 announced by the Ministry of Land, Infrastructure, Transport and Tourism, the national average for commercial land increased 3.1% year on year, making for a fifth consecutive year of positive growth. In Fukuoka City, land prices began to rise in 2013 ahead of other cities. In addition to the increase in domestic and foreign tourists and the firm office market, progress in redevelopment projects has led the rate of increase to exceed that of other cities since 2018. Since the first quarter of 2020 land price trends have been impacted by the spread of COVID-19.

Average Year-on-Year Rates of Changes in Publicly Announced Prices for Commercial Land

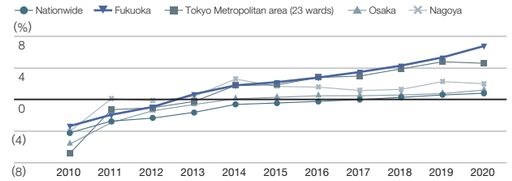


Note: The publicly announced price indicates the land price disclosed by the Ministry of Land, Infrastructure, Transport and Tourism as of January 1 of each year.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from Ministry of Land, Infrastructure, Transport and Tourism Land Price Survey 2010-2020.

【Residential Land】

According to the official land price annual fluctuation rates (as of January 1 each year) for 2020 announced by the Ministry of Land, Infrastructure, Transport and Tourism, the national average for residential land increased 0.8% year on year. Amid the ongoing improvement in the employment and income environment, the continued low interest rate environment and housing acquisition support measures underpinning demand for housing have led demand to remain strong, primarily in highly convenient areas. In Fukuoka City, land prices began to rise in 2013 due to strong housing demand brought about by population inflow, and the rate of land price increase has risen every year up until 2020. Since the first quarter of 2020 land price trends have been impacted by the spread of COVID-19.

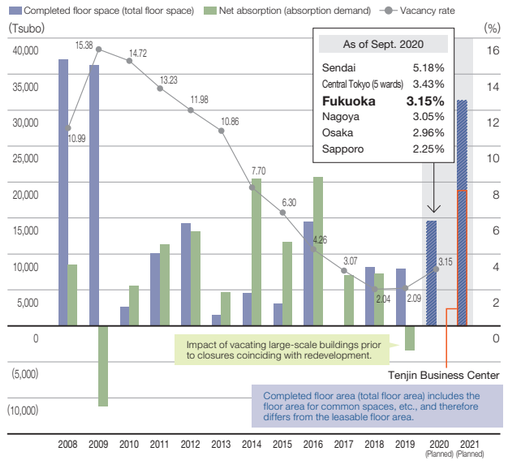
Average Year-on-Year Rates of Changes in Publicly Announced Price for Residential Land



Note: The publicly announced price indicates the land price disclosed by the Ministry of Land, Infrastructure, Transport and Tourism as of January 1 of each year.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from Ministry of Land, Infrastructure, Transport and Tourism Land Price Survey 2010-2020.

Fukuoka Office Market / Fukuoka Business District

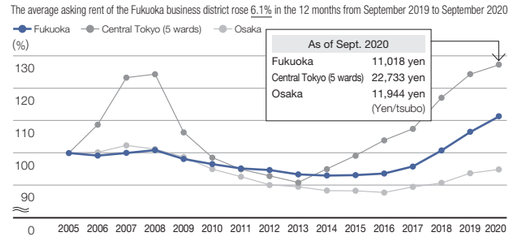
Vacancy Rates and Supply and Demand



Note: Vacancy rates from 2008 to 2019 are based on the figures as of December 31.
Note: Office building-related data for each city is data for areas and buildings included in surveys conducted by Miki Shoji Co., Ltd.
Note: 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.
Completed floor space (total floor space) figures for 2020 and 2021 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.

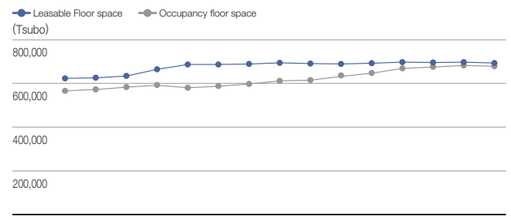
Average Asking Rents (Y2005=100)

The average asking rent of the Fukuoka business district rose 6.1% in the 12 months from September 2019 to September 2020



Note: The figures from 2005 to 2019 are based on the figures as of December.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from Miki Shoji Co., Ltd. Office Market Data.

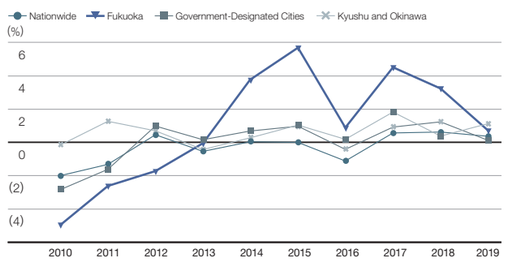
Trends in Leasable Floor Space and Occupancy Floor Space



Note: The figures from 2005 to 2019 are based on the figures as of December.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data from Miki Shoji Co., Ltd. Office Market Data.

Fukuoka City Commercial Climate

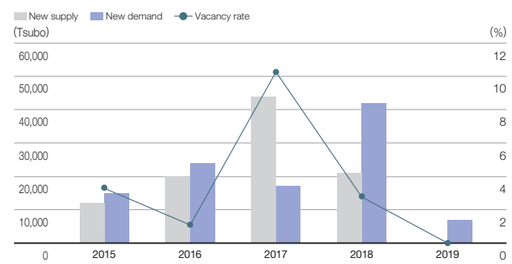
Year-on-Year Sales Fluctuation Rate Trends



Source: Prepared by Fukuoka Realty Co., Ltd. based on the Japan Council of Shopping Centers "Annual Report of Sales Statistical Research."

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 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.

J-REIT Mechanism and Fukuoka REIT Corporation's Business Model

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.

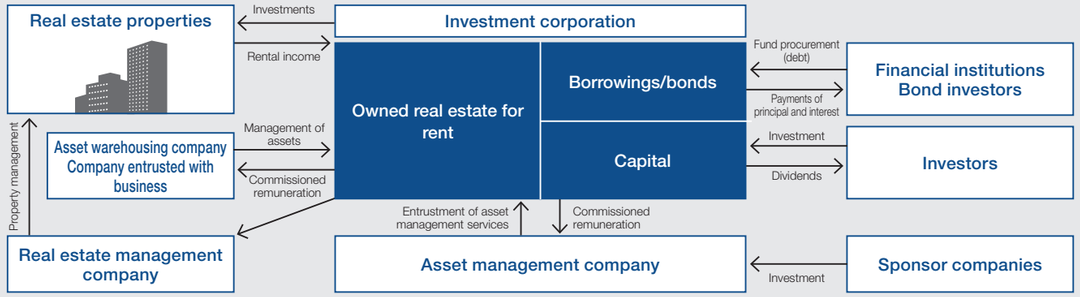
We aim to maximize the profits of investors by providing them with stable earnings over the medium- to long-term.

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, 2020

Financial capital

Building of a solid financial base through conservative control of LTV

- Total liabilities **97,478 million yen**
- Net assets **101,525 million yen**
- Total assets **199,004 million yen**
- Total debt **82,400 million yen**
- Average remaining duration to maturity **5.9 years**
- LTV **41.4%**

Manufacturing capital

The finding of excellent properties that can generate stable cash flow over the long term

- Total leasable area **591,021.51m²**
- Total acquisition price **201,959 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 **41**
- Number of qualification holders: Real estate appraisers **2** / Attorney **1** / First-class registered architects **2** / MBA **1**
- Proportion of female employees **51.2%**

Intellectual capital

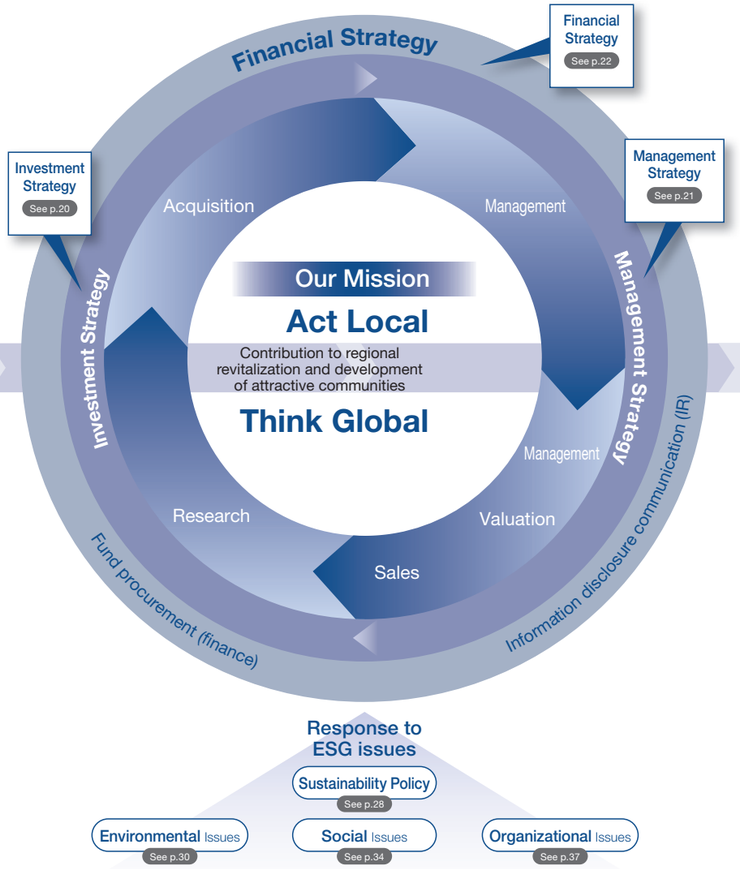
- A varied skill set formed through human resource training
- Experience and knowledge of IR activities based on long years of practical implementation
- Gathering of information deeply rooted in local communities

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 area **(57.3ha)**
- 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 31 properties
See pp.12-13


Retail 11 properties


Office buildings 9 properties


Residences 5 properties


Logistics 4 properties


Hotels 2 properties

Created Value (Outcomes)

* As of August 31, 2020

Financial capital

- TSR for past 10 years **Annual rate 6.7%**
- Average interest rate paid **0.69%**
- Dividends **3,250 yen**
- Dividend yield **4.7%**
- Credit Ratings JCR: **AA-** (stable), R&I: **A+** (stable)

Manufacturing capital

- NOI **5,307 million yen**
- NOI yield **5.3%**
- Unrealized gain **37,648 million yen**
- P/NAV **0.8×**

Human resource capital

- Number of qualification holders: Real estate brokers **26** / ARES Certified Masters **23** / Certified building administrators **5**
- Average paid leave acquisition rate (FY2019) **70.9%**

Intellectual capital

- Number of IR interviews during the year In Japan **147**, Abroad **40** (including telephone conferences)
- Track record of winning awards
  IR Excellent Company Encouragement Award <2014> / Nikko Best IR Website Award <2018>

Social relationship capital

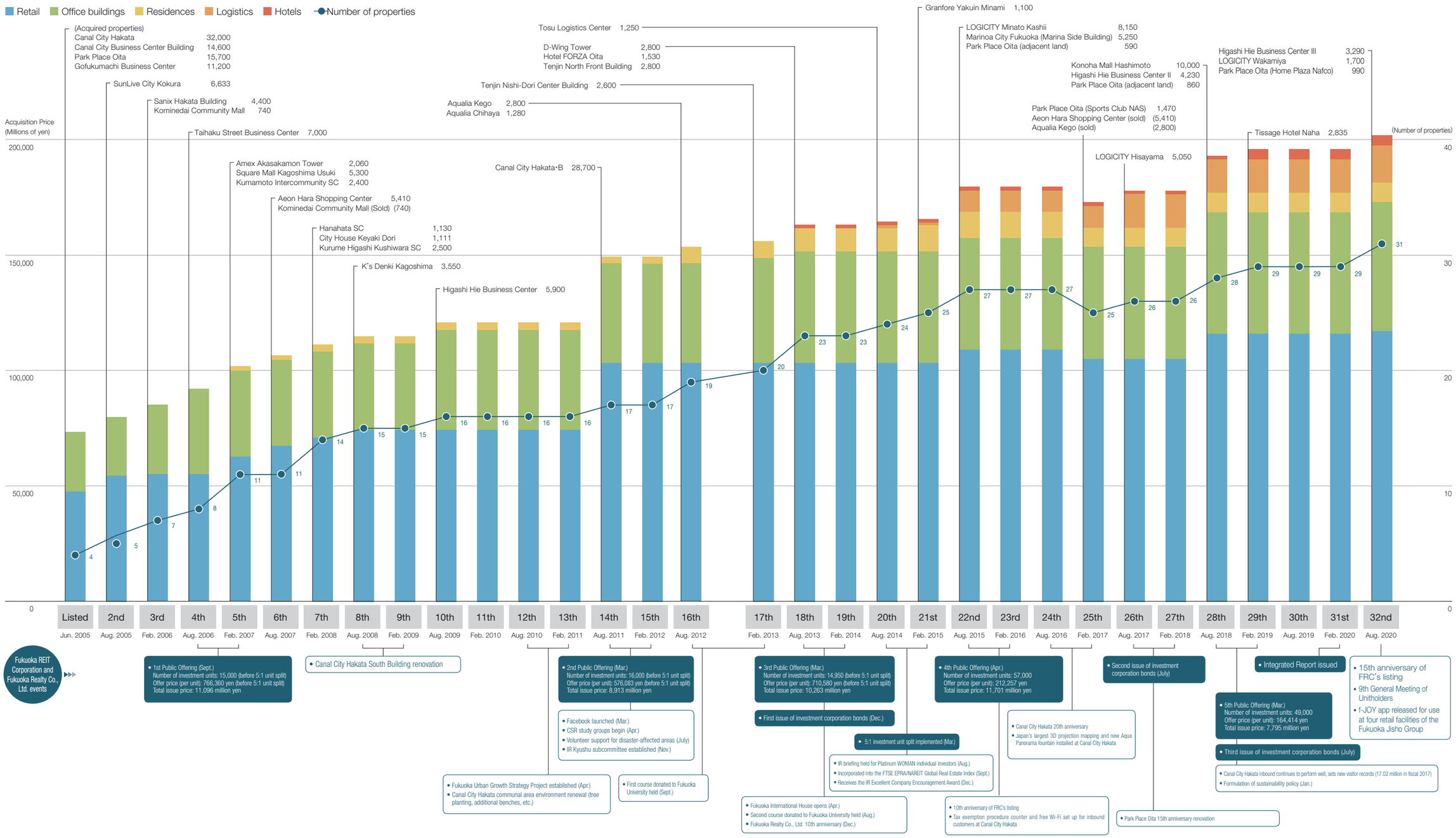
- Implementation of COVID-19 tenant support measures (rent exemptions and payment deferrals, hosting of a bento (box lunch) market, etc.)
- Participation in local clean-up activities *284 times in total (as of October 15, 2020)
- Human resource exchanges with sponsors (4 people dispatched to sponsors, 2 people accepted from sponsors)

Natural capital

- Green building certification rate (total floor space basis) **79.8%**
- 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.



Introduction

Overview of Properties Owned

FRC carefully selects and invests in properties with the potential to generate stable cash flow over the long term. To diversify risk within a given area, we own properties with widely divergent uses, with a focus in particular on retail and office buildings.

Asset Ratio (As of August 31, 2020)

■ Investment Type (Acquisition price basis)



■ Investment Target Areas (Acquisition price basis)



Number of properties owned: **31**

Total acquisition price: **201,959 million yen**

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

Property name / acquisition date / acquisition price (million yen)

Retail: 11


Canal City Hakata
9/11/2004/32,000


Canal City Hakata-B
2/3/2011/28,700


Park Place Oita
9/11/2004/19,610


SunLiveCity Kokura
1/7/2005/6,633


Konoha Mall Hashimoto
1/3/2018/10,000


Square Mall Kagoshima Usuki
28/9/2006/5,300


Kumamoto Intercommunity SC
30/11/2006/2,400


Hanahata SC
3/9/2007/1,130

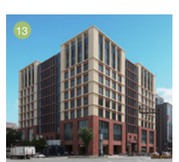

Kurume Higashi Kushiwara SC
1/2/2008/2,500


K's Denki Kagoshima
27/3/2008/3,550


Marinoa City Fukuoka (Marina Side Building)
1/5/2015/5,250

Office buildings: 9


Canal City Business Center Building
9/11/2004/14,600


Gofukumachi Business Center
9/11/2004/11,200


Sanix Hakata Building
30/9/2005/4,400


Taihaku Street Business Center
16/3/2006/7,000


Higashi Hie Business Center
13/3/2009/5,900


Tenjin Nishi-Dori Center Building
1/2/2013/2,600


Tenjin North Front Building
28/3/2013/2,800


Higashi Hie Business Center II
1/3/2018/4,230


Higashi Hie Business Center III
29/5/2020/3,290

Other properties (Hotels, Residences, Logistics): 11


Amex Akasakamon Tower (Residences)
1/9/2006/2,060


City House Keyaki Dori (Residences)
20/12/2007/1,111


Aqualia Chihaya (Residences)
1/3/2012/1,280


D-Wing Tower (Residences)
1/3/2013/2,800


Granfore Yakuin Minami (Residences)
4/11/2014/1,100


Hotel FORZA Oita (Hotels)
1/3/2013/1,530

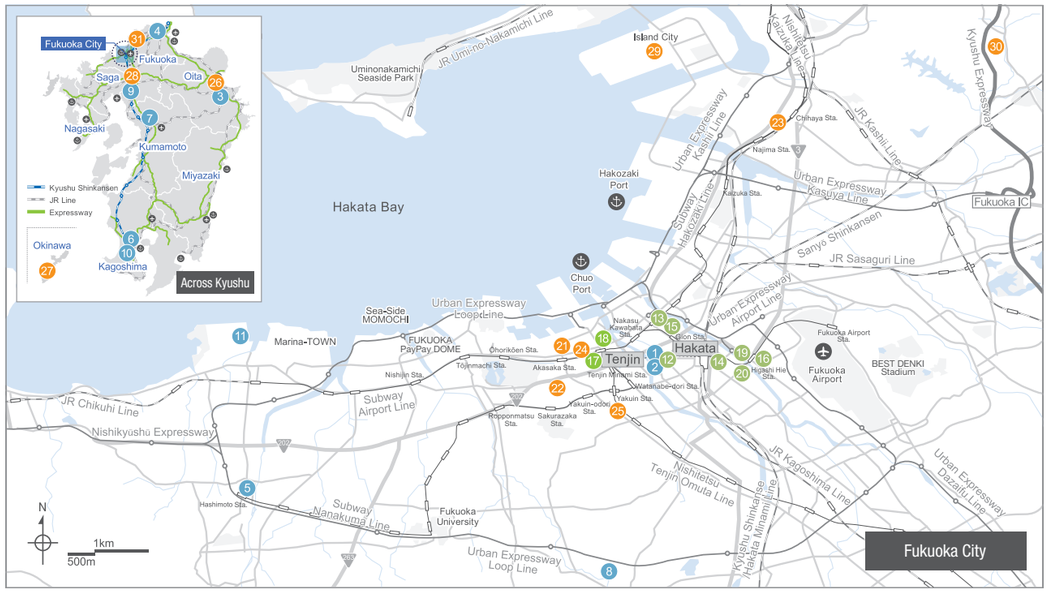

Tissage Hotel Naha (Hotels)
7/12/2018/2,835


Tosu Logistics Center (Logistics facility)
28/3/2014/1,250

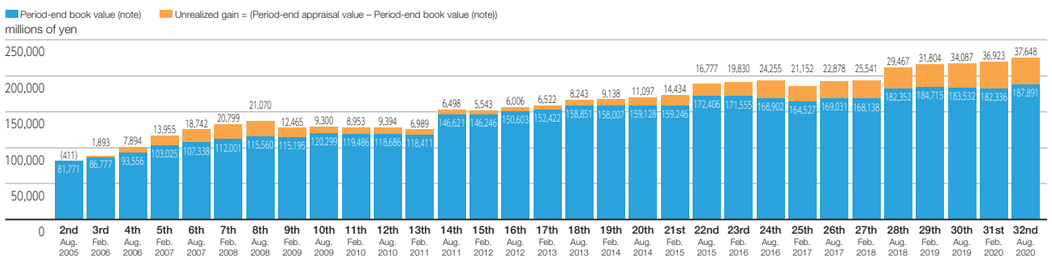

LOGICITY Minato Kashii (Logistics facility)
27/3/2015/8,150


LOGICITY Hisayama (Logistics facility)
1/6/2017/5,050


LOGICITY Wakamiya (Logistics facility)
30/6/2020/1,700



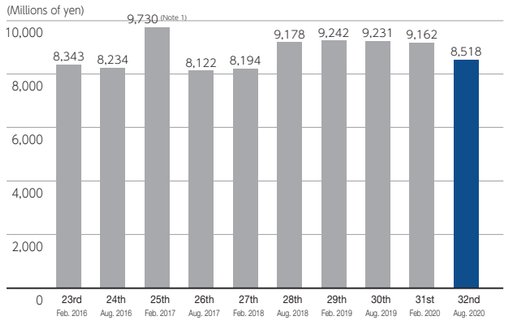
Trends in Appraisal Value



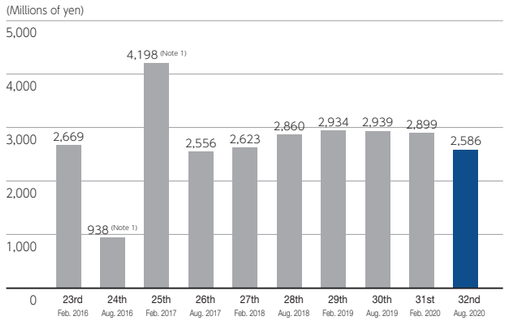
(Note) Period-end book value does not include trust construction in progress. Renovation work at LOGICITY Wakamiya had not been completed as of the end of the 32nd fiscal period. Accordingly, the estimated renovation amount has been added to the period-end book value.

Financial Highlights

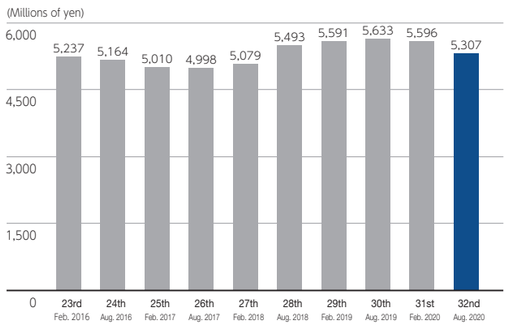
Total Operating Revenues



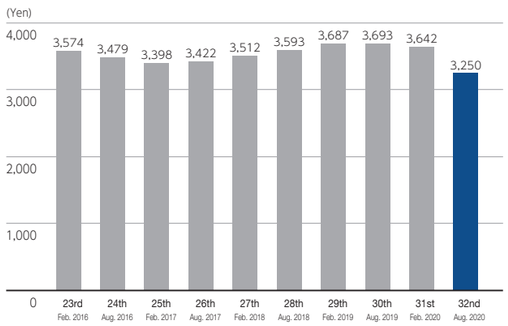
Profit



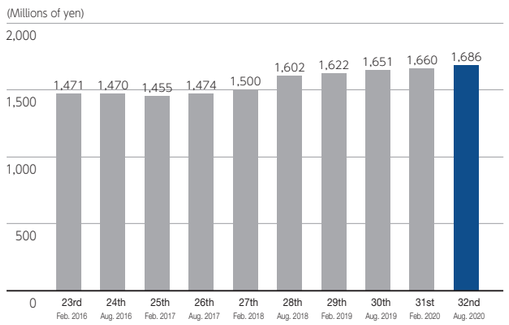
NOI



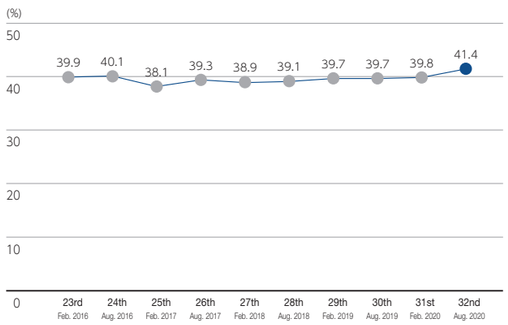
Dividend per Unit (Note 2)



Depreciation and Amortization Expenses

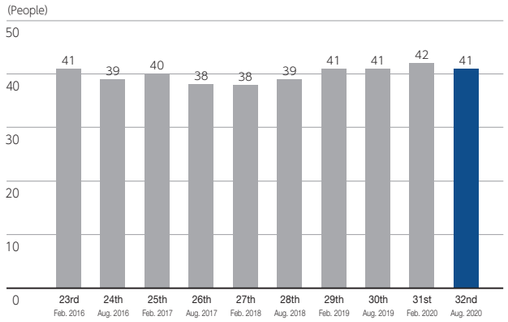


LTV

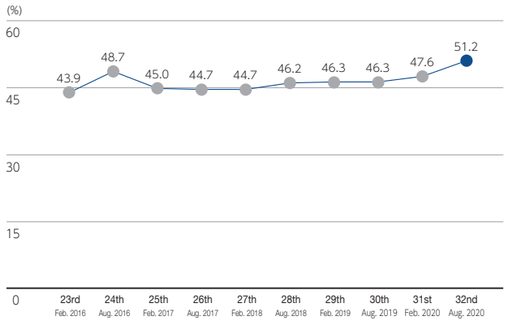


Non-Financial Highlights

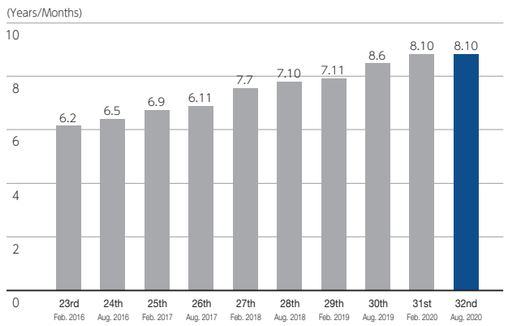
Number Officers and Employees (Note 3)



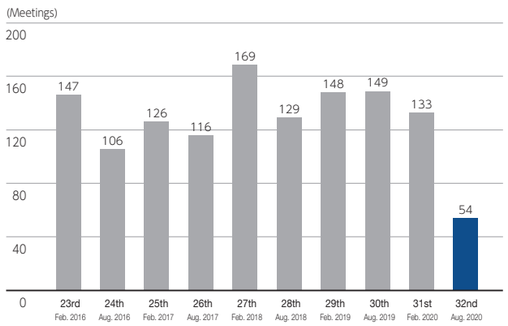
Percentage of Female Employees (Note 4)



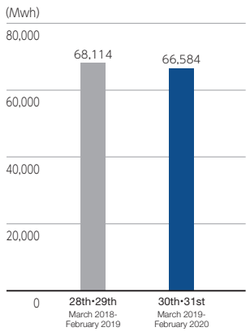
Average Number of Years of Employment (Note 5)



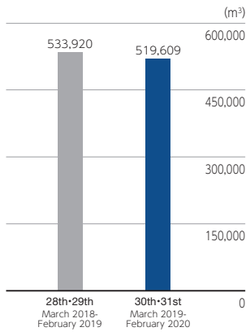
Number of IR Meetings in Japan and Abroad (Note 6)



Power Consumption (Note 7)



Water Consumption (Note 7)



(Note 1) Due to differences in accounting and tax treatment, the gain and loss on sale of AEON Hara Shopping Center and Aqualia 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 Aqualia 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.

(Note 2) Dividends per unit for the 24th and 25th periods were calculated as follows:
Dividend for the 24th term: Profit + Reserve for temporary difference adjustments – Surplus brought forward
Dividend for the 25th term: Profit - Reversal of the reserve for temporary difference adjustments – Surplus brought forward

(Note 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.

(Note 4) The percentage of female employees are calculated as the ratio of women to the number of directors, auditors and employees

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

(Note 6) The number of IR meetings in Japan and abroad shows the total number of IR meetings with institutional investors and analysts through interviews and telephone conferences.

(Note 7) Total value of five properties: Canal City Hakata, Canal City Hakata•B, Canal City Business Center Building, Park Place Oita, and Konoha Mall Hashimoto



CEO & Representative Director
Fukuoka Realty Co., Ltd.
Etsuo Matsuyuki

Q Please discuss the impact of the novel coronavirus (COVID-19) on the real estate industry.

The degree of COVID-19's impact varies by asset type. The pandemic has impeded the flow of people to hotels and retail facilities, whereas the impact on Fukuoka office buildings remains minor, and residential properties are unchanged. Meanwhile, logistics facility demand is strong, so we acquired "LOGICITY Wakamiya" in June. We considered purchasing "LOGICITY Wakamiya" after conducting surveys of property data, ultimately acquiring the facility on the condition that it has a net operating income, or NOI, yield of 7.0% on an appraisal value basis based on value upgrades to attract a new tenant sourced by the company. This purchase demonstrates the slight alteration to our purchasing approach to date and, in turn, Fukuoka Realty's strength.

Q How has COVID-19 impacted the economies of Fukuoka and Kyushu in your view?

Inbound tourism benefits drying up has been a major blow. In 2018, Fukuoka City completed upgrades to the Chuo Port enabling it to accommodate the world's largest cruise ships. However, municipal regulations forbid cruise ships from docking until effective ways to treat COVID-19 are found. Nevertheless, Fukuoka is a regional city that is less dense than Tokyo, and I think its economic fundamentals are strong in light of transportation infrastructure upgrading led by improvements to Fukuoka Airport passenger terminals and construction to extend the Nanakuma subway line directly to Canal City Hakata. In addition, Japan's 2015 census showed Fukuoka City had the highest proportion of young people among government-designated cities, demonstrating yet another area where the city excels. Having said that, we cannot let down our guard amid the spread of COVID-19.

Q How did FRC respond to the "before" COVID-19 period? What steps are being taken to address the "with" and "post" pandemic periods?

We did not give much thought to the risks posed by infectious diseases prior to the COVID-19 outbreak. After the State of Emergency was declared, however, we offered our utmost cooperation to help stop the spread of COVID-19, deciding to temporarily close "Canal City Hakata", "Konoha Mall Hashimoto", and "Marinoa City Fukuoka" along with "Park Place Oita" in Oita City after taking into consideration the health and safety of tenant employees. Moreover, we have partially deferred rent payments and reduced rents in order to maintain our relationships of trust with tenants as well as stable earnings over the medium- to long-term.

We also took into account notification from the Financial Services Agency to examine flexible measures such as reductions or the deferment of rent payment of rent for tenants having serious difficulties, while fulfilling our responsibility to provide explanations to investors as needed.

Except for retail facilities (including hotels with adjoining retail facilities), we did not reduce or defer rent payments for offices, logistics facilities, hotels, or residences in the 32nd fiscal period (ended August 2020). In Fukuoka City, disruptions were relatively negligible as assistance was provided to restaurants and bars relatively early on, underscoring the city's responsiveness as a strength.

Q Please explain the thinking behind the current investment policy, which changed last year.

We revised our investment policy in March 2019, lowering investment ratio caps by 10% for retail facilities and raising them by 10% for offices buildings and other properties. While investment in retail facilities had been capped at 80%, it was limited to 70% or below, which is still a record high. The ratio of retail facilities in the current portfolio is 58%.

On the other hand, our sponsor Fukuoka Jisho Co., Ltd. is developing offices at Tenjin Big Bang, while we raised investment caps on asset types expected to grow later on, including logistic properties under development. In line with these policy changes, we acquired office buildings and logistics facilities such as Higashi Hie Business Center III and LOGICITY Wakamiya in 2020.

Fukuoka REIT's assets have grown 200 billion yen in the 15 years since being listed, though this is perhaps not that fast. Given the limited area in which we operate, we have been discerning about investments, and I think this has enabled us to pay relatively stable dividends. Looking ahead, we aim to reach an asset size of 250 billion yen as the next stage through continued stringent investments and sponsor-developed projects.

Q Please tell us the timeline for completing Tenjin Big Bang and its benefits.

According to a newspaper article dated August 28, 2020, Fukuoka City has announced that it will extend the completion deadline for the Tenjin Big Bang project from 2024 to 2026 in order to encourage the introduction of new coronavirus countermeasures. Moving forward, we believe that the reconstruction of Tenjin Big Bang will continue to progress in the future. Drawing from announcements made by Fukuoka City, the economic ripple effect of reconstruction is expected to total around 850 billion yen each year. With work on "Tenjin Business Center," the first stage of Tenjin Big Bang that is being developed by Fukuoka Jisho Co., Ltd., progressing steadily with completion scheduled for September 2021, JAPANET HOLDINGS Co., Ltd. announced in November that it will take up three floors of space (approximately 7,000 square meters) with the aim of decentralizing its Tokyo-based functions. Amid a review of the way of work is conducted in the wake of COVID-19, the fact that Fukuoka has a commuting time of less than half that of Tokyo and the ability to secure a diverse workforce as the center of Kyushu were some of the deciding factors. Looking ahead, we expect that a growing number of companies will consider moving to Fukuoka as the trend toward concentration in Tokyo shifts triggering increasingly active relocation to other regional cities.

Q Please discuss Fukuoka REIT's medium- to long-term strategies along with Fukuoka Realty's future vision and direction.

I think the spread of COVID-19 has reaffirmed the benefits of the Investment Corporation dispersing its assets as a diversified REIT. We have worked to hedge risks to a certain extent mainly by changing our investment policy, increasing logistics properties, and mitigating the high weighting of "Canal City Hakata" in retail facilities with the purchase of the community-based "Konoha Mall Hashimoto."

In addition, while Fukuoka is a smaller regional city versus Tokyo's 23 wards and Osaka, it is without doubt poised to enter the spotlight. Osaka and Fukuoka have recently been listed as candidates for international financial hubs. The strengths of Fukuoka and Kyushu lie in their closeness to Asia in various ways, so we will pursue initiatives with this in mind.

As for asset types, we intend to focus our efforts on logistics. While residences are attractive, many of them are on the smallish side and remain unsold due to the tendency for prices to surge with multiple bidding. We currently own five residential properties, but high-rent homes remain unoccupied, and it takes some time to find new tenants. In contrast, demand is relatively steady for rental properties in high demand volume zones such as "Aqualia Chihaya" and "Granfore Yakuin Minami." We are also examining new asset types that include data centers.

Q The initial Integrated Report was published last year; how has it been received both within and outside the Investment Corporation?

I think it has served as good opportunity for employees to unify their approach for creating value in both financial and non-financial areas. Unfortunately, we have made little progress on investor meetings featuring the Integrated Report due to COVID-19.

I believe the Integrated Report has fostered shared employee awareness of the Investment Corporation's medium- to long-term direction, since we drafted it using a bottom-up rather than a top-down approach, also gaining cooperation from departments not directly involved. Drafting the Integrated Report has increased opportunities for exchanging information with sponsor Fukuoka Jisho Co., Ltd., which has appointed an internal ESG manager to raise awareness of the importance of ESG based on the Integrated Report.

Looking ahead, I think integrated reports will promote understanding of an integrated approach among property management companies and tenants. The idea for drafting an integrated report came from research on themes for the IR Workshop, which we have jointly hosted with the Japan Investor Relations Association since 2011. This organization has raised awareness of the need for integrated reports among participating company IR managers.

Q Please share your thoughts on human capital.

The COVID-19 outbreak made me think deeply about human resources. While occurring at the worst time with results underway, the outbreak prompted us to establish satellite offices and employ staggered work hours to keep employees safe. In light of this, we developed remote platforms to enable all employees to participate in the Monday morning assembly. Following the announcement of results, while investors posed a variety of questions at the teleconference, we received high marks for maintaining Fukuoka REIT's stable management performance. Moral increased after relaying details of this high praise back to employees.

We cannot be complacent amid rapidly changing conditions, keeping employees regularly informed of any information we gather. I was elated to see younger employees subsequently pickup on this and become more focused. During the pandemic, direct communication has declined, and internal recreational activities have become impossible. Last year, employees visited Busan, South Korea—from where many tourists visit Canal City Hakata—and travelled to Shenzhen, China to conduct research on the shift to cashless payment. Now, however, gathering employees together to perform such tasks is no longer possible, and we are considering how to communicate online, including social gatherings.

Q What are your thoughts on ESG investment trends?

I believe this a critical time to seriously examine ESG-related risks and opportunities arising amid the global pandemic. In fact, during the earnings roadshow for the 32nd fiscal period (ended August 2020), questions from investors about ESG increased considerably. It is also important to manage corporate risks regarding environmental and social issues highlighted by the outbreak.

Particularly with responsiveness to society getting more attention, the health and safety of employees and other business associates along with labor conditions are important. Against this backdrop, I think corporate managers are adopting strategies that enhance competitiveness by shifting from pursuing short-term profits to long-term value creation.

As for the environment, we must view real estate as social infrastructure that should be developed and managed in a manner that reduces environmental burdens. The Company still has to compile more environmental data but intends to operate ESG-oriented real estate businesses that include gathering such data in cooperation with Fukuoka Jisho Co., Ltd.

Q In conclusion, is there anything else you would like to say?

We are earnestly working in every way possible to help alleviate difficulties arising from the pandemic. While nothing can be done about externals like the fall in inbound tourism for now, I am certain that tourists will return. We will pursue measures with this in mind since tourism will highlight the regional strengths of Fukuoka and Kyushu. Surveys show that people around the world are very keen on visiting Japan, which is seen as safer and more secure than ever before. In light of the difficulties we face, I want to impress upon investors that we are examining strategies to maintain steady dividends and growth by going back to basics (i.e., Act Local, Think Global).

Changing the subject, while the Olympics have been delayed to 2021, sports are extremely popular in the Fukuoka and Kyushu areas. In baseball, the Fukuoka Softbank Hawks has been around for 15 years and are nearly always in the pennant race. In soccer, Sagan Tosu and Oita Trinita compete in the J1 soccer league, while Avispa Fukuoka, V-Varen Nagasaki, Giravanz Kita Kyushu, and FC Ryukyu compete in the J2 league. The region also boasts strong high school and adult rugby teams. All told, this lively sports scene should lift the spirits of those living in Fukuoka and Kyushu.



Investment Department



Keitaro Otsubo

General Manager of the Investment Department
Fukuoka Realty Co., Ltd.

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.

The environment which surrounds the real estate investment market is experiencing conditions of chaos and fragmentation emerging on a global scale, primarily with the pandemic, natural disasters, and geopolitical risks. The Fukuoka and wider Kyushu regions, Fukuoka Realty's core areas of operation, are also seeing a decline in the number of property transactions, and a continuing shift toward price stagnation from prices that had been on an upward trajectory.

Against this backdrop, we engage in ongoing investments by leveraging our expertise and ability to gather and provide information based on a familiarity of 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."

As for our investment policy, we continue to execute investments based on a fundamental consideration, namely making targeted investments in such overlapping domains as "markets with high growth potential" as well as "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, with regard to 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 future potential of the area in which it is situated, physical surveys that take into account such factors as the property's condition and ability to withstand earthquakes, and surveys related to rights and legal issues, among others. Upon careful examination of a particular property's price, we then decide whether or not to acquire it based on an overall determination of its impact on our portfolio as a whole, 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.

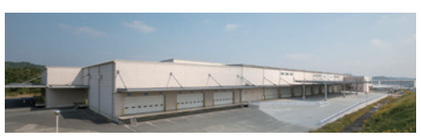
Acquisition Case Study "LOGICITY Wakamiya"

In June 2020, we acquired a logistics facility in Miyawaka City, Fukuoka Prefecture. This facility is positioned in the vicinity of the Wakamiya Interchange on the Kyushu Expressway, and is situated in an industrial park that brings together an auto factory operated by Toyota Motor Kyushu and logistics companies' warehouses. In making the acquisition, we provided a sales and leaseback proposal to the owner (seller) that had previously been utilizing the property as its own delivery base, and considered acquiring the property. As a last step, it was decided that the owner (seller) would vacate the property by consolidating its bases, and that we would search for a new tenant. However, by enabling the owner (seller) to take sufficient time to consider its business reorganization, and through our independent involvement in this project, we took pride in having been able to play a part in the optimal use of a logistics asset in the Kyushu region.

In addition, our consideration to acquire the property was based on the premise that we would undertake its renovation following acquisition. By having the new candidate tenant participate in the renovation from the planning stage and putting in place their preferred specifications, we were able to conclude a long-term lease agreement that was mutually beneficial, prior to property acquisition. In June 2020, we undertook the acquisition, and renovation work was concluded at the end of October, while the lease agreement commenced from November. We were able to enhance property value by utilizing our long-cultivated expertise, and anticipate an NOI yield of 7.0% on the acquisition cost (including renovation expense). This transaction sufficiently seized upon our strengths as a regionally specialized REIT, and we believe it serves as a good example of efforts that led to a satisfying experience for both the seller and tenant.



	October 2019	November 2019-June 2020	July-October 2020	November 2020
Asset acquisition		Contract Forward commitment period Settlement/delivery		
Renovation			Restoration to former state/ renewal work	
Tenant lease	Lease option agreement		Contract	Lease begins



Exterior after renovation

Property Management Department



Hideya Kanno

General Manager of the Property Management Department
Fukuoka Realty Co., Ltd.

The Property Management Department aims for the long-term and stable optimization of assets managed by FRC, while drawing up plans for asset management. FRC's portfolio currently consists of retail facilities, office buildings, residences, logistics properties, and hotels. As a comprehensive REIT investing in a diverse range of asset types, we have continued to achieve internal growth based on the proper management of our portfolio of assets against the backdrop of the region's potential for growth, specifically the rising population in our primary destination for investments, the Fukuoka Metropolitan Area, which is also home to an increasing number of companies. We strive to gain a grasp of the economic situation, consumer and social trends, and changes to real estate market conditions in a bid to secure a stable revenue stream from all assets under management over the medium- to long-term, and appropriately maintain the leasing status of the assets we manage.

In managing assets, we keep a close eye on the period remaining on the leasing agreement with the lessee, the lessee's business and credit conditions, replace tenants or extend lease agreement terms, and take other measures to maintain stable leasing revenue. In addition, we endeavor to regularly upgrade equipment and to optimize spending through energy management, and to thoroughly manage expenses. We make plans for asset renewal in accordance with evolving consumer and social trends, while aggressively undertaking investments, as well as taking into consideration the need to optimize our portfolio based on asset replacement. Recent years have seen a rising level of wind, flooding, and other types of damage from natural disasters, and we periodically review risk holding capacity for all assets held in our portfolio while striving to manage risks by considering earthquake insurance coverage and other measures.

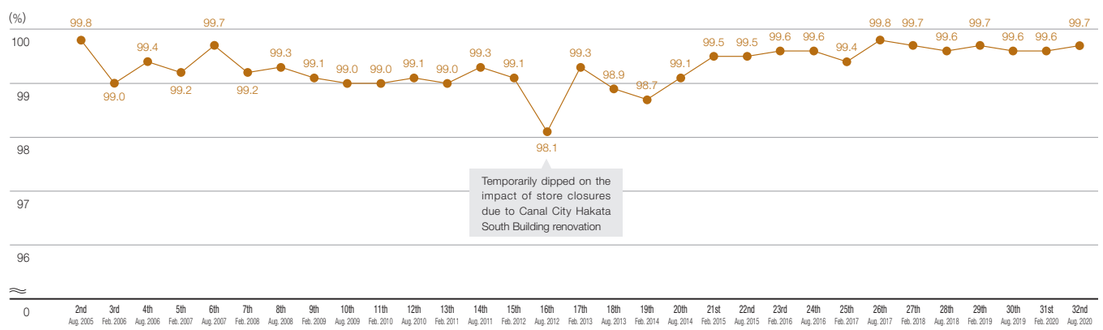
FRC's basic strategy is to promote the internal growth of assets under management. To this end, we work to maintain a high occupancy rate by paying particular attention to our tenant relationships, make every effort sot control income and expenditures and engage in ongoing investments.

A result of the major changes in consumer behavior and corporate activities brought about by COVID-19, in addition to measures taken to prevent the spread of infections, there has been a situation in which we had no choice but to temporarily close certain assets under management, notably Canal City Hakata, our flagship property. Under these circumstances, together with eliminating concerns as they pertain to leasing agreements and business operations by promptly responding to requests from our lessees, we remain focused on making improvements to facilities' environments so that each of our tenants, tenant employees, and consumers can feel at ease. At present as well, our efforts to address this situation is ongoing. In addition to our basic strategy, we will remain conscious of safety and security, and will maintain sustainable tenant relationships.





Trends in FRC Property Occupancy Rates



* 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 32nd 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



Keishi Tamura
General Manager of the Finance Department
Fukuoka Realty Co., Ltd.

The Finance Department draws up finance and capital strategies so as to maximize profits for all unitholders.

Given the environment which surrounds the J-REIT market, and with COVID-19, the Tokyo Stock Exchange REIT Index saw precipitous decline in March 2020, and following that point, a gradual recovery. With the Bank of Japan maintaining monetary easing, low interest rates are thought to continue for the immediate future, although it will be necessary to practice financial management conscious of suddenly changing risks in the financial market over the medium- to long-term.

Under these circumstances, we will proactively engage in investor and public relations to support our capital policy. Coupled with efforts to set a basic policy for investor relations activities that offers a steady stream of timely, fair, accurate and easy-to-understand information that covers a variety of issues necessary for investment decisions, we will publicize our strengths as a REIT specializing in regional properties and actively disclose non-financial matters as well as other information. We will continue to fully disclose information, and conduct investor relations through conversations with a medium- to long-term perspective. Doing so will lead to a deepening of mutual understanding with all unitholders, the building of relationships of trust, and positive steps to attract outstanding investment funds from both in and outside Japan.

In terms of investor relations, we have been meeting directly with over 200 institutional investors per year. However, in our efforts to as much as possible prevent the spread of COVID-19, we have changed our methods and devised different ways to streamline meetings through the use of a variety of tools. Similarly, with briefings held for individual investors, we are actively considering holding such meetings based on an array of tools.

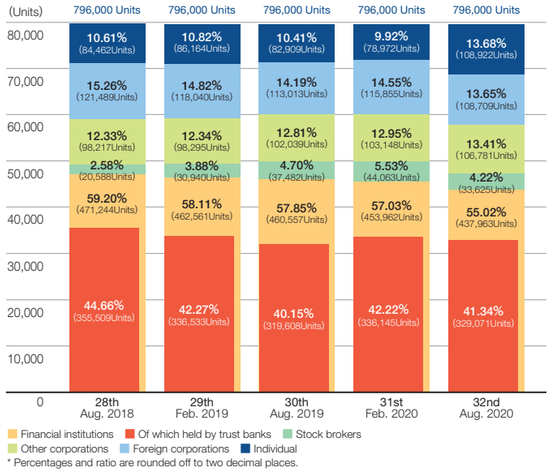
Our financial policy aims to build a firm financial foundation through conservative LTV management. At 41.4% as of the end of the 32nd fiscal period (August 2020), we successfully maintain a relatively low and conservative LTV. At the same time, a commitment line limit has been set at 13.0 billion yen. Through these and other means, we are securing the flexible and fluid procurement of funds.

We are working to extend the commitment line over the long term from the perspective of further securing the stability of funds procurement, and have extended the agreement term to three years for both the 7.0 billion yen commitment line limit, and the 6.0 billion yen commitment line limit.

In undertaking new borrowings 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. Going forward, we strive to maintain good relationships with financial institutions with which we have existing relationships, starting with our three sponsor banks, regional banks that operate primarily in Kyushu, central financial institutions and others, while gaining an ample amount of new procurement sources. In July 2019, FRC conducted its first funds procurement through a "green loan," as green finance.

We will continue our endeavors that raise the level of sustainability, which we believe are indispensable to achieving optimal profits for investors. To convey these initiatives in an easy-to-understand manner, we actively promote the disclosure of information through this Integrated Report and Website, financial briefing documents, and other materials.

Distribution by investor category (breakdown of investment units)



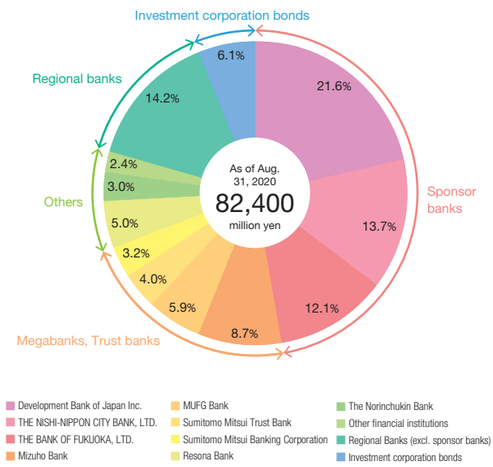
* Percentages and ratio are rounded off to two decimal places.

Major investors (at the end of the 32nd fiscal period)

(As of August 31, 2020)

	Name	Investment units held	Percentage
1	Custody Bank of Japan, Ltd. (Trust account)	169,654	21.31%
2	The Master Trust Bank of Japan, Ltd. (Trust account)	86,221	10.83%
3	Fukuoka Jisho Co., Ltd.	73,136	9.18%
4	The Nomura Trust and Banking Co., Ltd. (Investment trust account)	37,002	4.64%
5	Custody Bank of Japan, Ltd. (Securities investment account)	19,059	2.39%
6	NORTHERN TRUST Co. (AVFC) RE HCR00	14,083	1.76%
7	STATE STREET BANK WEST CLIENT – TREATY 505234	11,597	1.45%
8	MetLife, Inc.	10,227	1.28%
9	Shikoku Railway Company	9,130	1.14%
10	Nomura Securities Co., Ltd.	8,961	1.12%

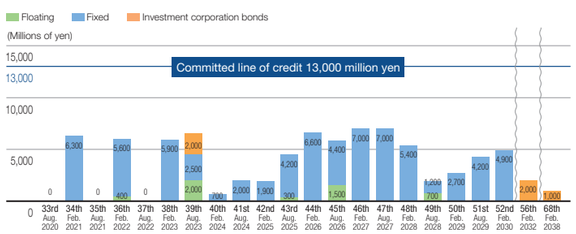
Breakdown of debt by lenders



Fixed rates



Diversification of debt maturities (as of August 31, 2020)



Main sponsor Introducing Fukuoka Jisho Co., Ltd.

Overview of Fukuoka Jisho Co., Ltd.

Name	Fukuoka Jisho Co., Ltd.
Established	July 1961
Industries	Real estate (comprehensive developer)
Representative	Ichiro Enomoto, President and C.E.O.
Employees	213 (as of May 31, 2020)
Net sales	30.3 billion yen (as of May 31, 2020; same below)
Ordinary income	5.8 billion yen
Total assets	198.3 billion yen
Borrowings	106.0 billion yen
Equity ratio	31.0%

Corporate philosophy

We are committed to create attractive towns and regions with steadfast devotion.

福岡地所株式会社
FUKUOKA JISHO CO.,LTD.

Fukuoka Jisho Co., Ltd. History and Milestones

https://fukuokajisho.com/company/history.html

Main Businesses

- Development Division (Retail Facilities, Offices, Business Hotels, Logistics facilities)
- Realty Management Division (Leasing and management, Property management, Brokerage)
- Residential Business Division (Condominiums, Housing information total service)

Main Properties Held and Development Properties



Tenjin Business Center
(scheduled for completion in September 2021)



LOGICITY Minato Kashii North



Hotel FORZA Hakataeki Chikushi-guchi I



Naha Business Center

Risks and Opportunities

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
Risks from Changes in Business Conditions • Increase in vacancy rates • Decrease in rent	• 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 lessee's financial situation	● Consider extending lease agreement terms, fixing of rent, etc. 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 rent delinquency, etc., collateral by means of guarantor companies, etc. ● Treat deterioration in real estate market as opportunity to acquire excellent properties and execute strategic investments through appropriate financial management utilizing information-gathering ability (opportunity)
Market-Related Risks • Increase in interest rates • Fluctuations in the investment unit price	• 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 may 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	● 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 ● Conducting of proactive IR activities See P.22
Risks from Natural Disasters • Response to climate change	• Buildings may 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 may be affected, with a decrease in rent due to the non-operation of properties	● Consider that it is possible to purchase insurance at a relatively low cost compared with other areas, arrange earthquake insurance coverage for all properties ● Improve resilience (ability to respond to disasters, etc.) 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.33
Environment-Related Risks • Reduction of environmental load • Soil pollution and toxic substances	• 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 health of building users due to the presence of toxic substances in the soil or in building materials, etc. of properties owned, risk of bearing the cost of compensation for damage to health or for removal of toxic substances	● Work to maintain and improve environmental performance through renovation opportunities for properties owned; acquire Green Building certification, etc. to obtain results of environmental/social initiatives in visual form and improve property competitiveness See P.30 ● 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 (opportunity) ● Conduct thorough physical investigations at the time of property acquisition; property acquisition after confirming the presence or absence of toxic substances and taking of measures
Risks from Property Degradation, Deterioration • Increase in repair and maintenance expenses • Decline in property competitiveness	• Increase in expenses required for large-scale repairs, etc. due to the deterioration of properties, and large capital expenditures may 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	● 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 real estate market trends, capital market environment, etc., in the event that 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

Significant Risks	Impact on Stakeholders	Measures to Address Risks and Opportunities
Property Concentration Risks • Region (Fukuoka/Kyushu) • Retail facilities	• As FRC's properties owned are concentrated in Fukuoka and Kyushu, the vacancy rate may increase due to a worsening economic situation in that region, and profitability may 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	● 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 value, etc., thereby reducing the risk of profit fluctuation by dispersing tenants
Regulatory Risks • New laws and regulations • Changes in the tax system	• Possibility of a limitation on rights with respect to properties owned and an increase in property management expenses, etc. due to newly established, revised or abolished laws and regulations • Possibility of an increased burden from taxes and fees due to tax reform	● In addition to receiving information from Fukuoka Realty's affiliated organizations, tax accountants, law firms, etc., participate in external training, obtain information, and take measures to reduce any impact from an early stage
IT-Related Risks • Information leaks	• Risk of leakage of personal and confidential information due to delays in strengthening cyber security	● Strengthen confidential information management systems by introducing two-factor authentication for software as well as applications and by conducting training on cyber security and information management ● Enable property differentiation by introducing advanced technologies into properties owned (opportunity)
Compliance Risks • Violations of organizational laws and regulations • Conflicts of interest	• In the event that Fukuoka Realty (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	● Prevent violations of laws and regulations, transactions involving conflicts of interest, etc. through deliberations and audits by the Compliance Assessment Committee ● Improve employees' awareness toward compliance by conducting regular compliance training See P.39
Human Resource-Related Risks • Deterioration in the caliber of human resources • Dependence on human resources	• Risk of deterioration in organizational strength of Fukuoka Realty (Asset Management Company) due to a failure in maintaining 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; and the risk that the outflow of these human resources could have an adverse effect on operations	● Improve organizational strength and increase employee loyalty by hiring and fostering excellent human resources ● Improve employee motivation by realizing work-life balance and the stabilization of work through health management (Opportunity) See P.35
Infectious Disease-, Epidemic-, and Other-Related Risks • Pandemic	• Risk that such external factors as infectious diseases and epidemics in Japan and overseas may 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 may have an adverse effect on earnings, etc.	● Implement infectious disease countermeasures and promote a safe and secure facility environment for tenants, tenant employees, and consumers ● Set up satellite offices at the Asset management company and introduce a telework system with a view to ensuring business continuity See P.34

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:

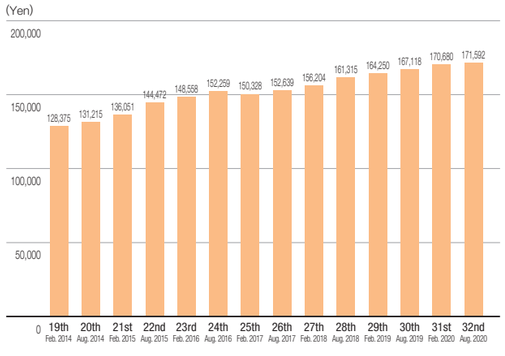
- Ability to diversify risks for properties and tenants
- Enables efficient management of properties by taking advantage of economies of scale

As a capital policy for external growth when raising capital, FRC conducts management while bearing in mind two criteria:

- The value obtained by dividing the investment unit price by net asset value (NAV) per unit (NAV ratio) is almost to or greater than one
- To grow stabilized dividends after property acquisition

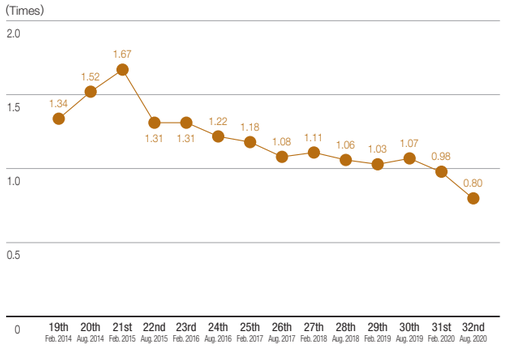
The difference (unrealized gain or loss) between the total real estate appraisal value and the total real estate book value (excluding trust construction in progress) added to total net assets, NAV is calculated based on market value-based net assets. An NAV ratio of one or less is considered to be undervalued. Were the situation to continue, we would consider acquiring our own investment units, etc., and believe that we should be cautious about raising capital.

Trends in NAV per Investment Unit



* 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



* 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 very 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.

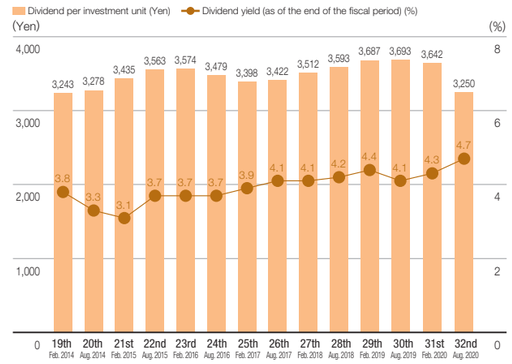
Figure 2 shows the total shareholder return (TSR), taking into account FRC's dividends and capital gains.

One of the reasons for the deterioration in TSR over the past five to six years is that investment unit prices were rising due to shopping spree cruise passengers five years ago. With regard to dividends, in 2017, we considered it best practice to avoid future risks when the real estate market is booming, and this included the sale of two properties and a dividend decrease in the 25th fiscal period.

While dividends have been continuously improving up until the end of the 30th fiscal period after bottoming out in the 25th fiscal period due to both internal and external growth, FRC's most recent dividend per unit declined to 3,250 yen owing to a variety of factors including the drop in rental income in the wake of COVID-19. In addition, our investment unit price plummeted in March 2020 due to fluctuations in the stock market, from which there has been a gradual recovery. On a positive note, we are witnessing a modest recovery. Based on the aforementioned, FRC's has experienced a substantial deterioration in TSR over the past year.

Looking ahead, we aim to increase unitholder value by securing a recovery and increase in dividends. In specific terms, we will implement a variety of internal and external growth measures, while engaging in management that focuses on dividend stability.

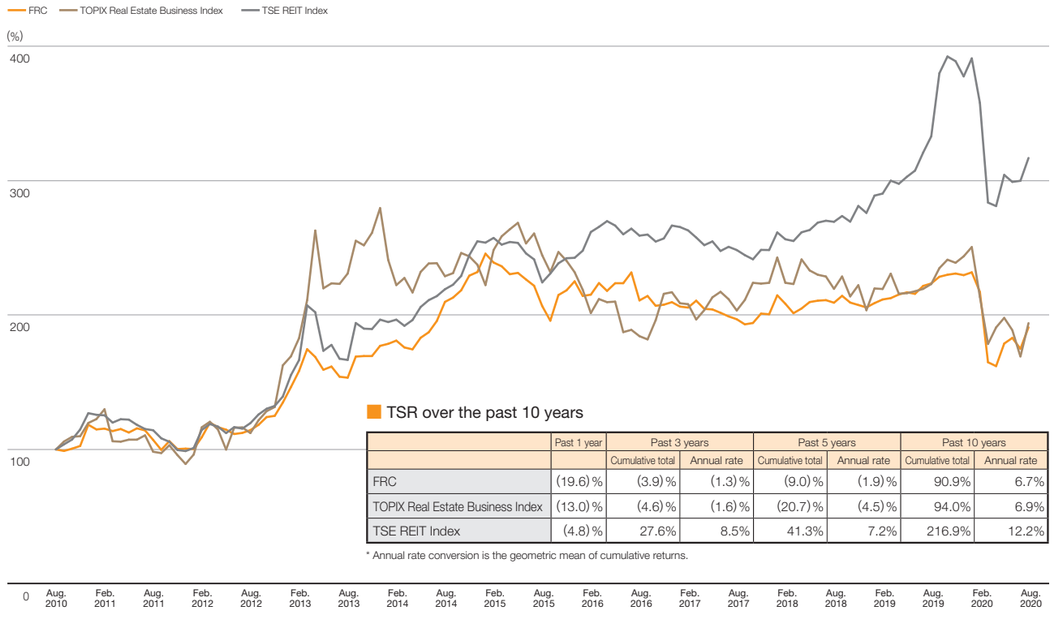
Figure 1: Past Dividends and Dividend Yields



Note: With March 1, 2014, as the effective date, FRC investment units were split at a ratio of 5:1. Dividends prior to the 19th fiscal period are shown as values divided by five.

Note: Dividend yield = (Dividend per investment unit / Operating days x 365) / Investment unit price as of the end of the fiscal period

Figure 2: Investment Unit Price Performance (10 years, including dividends)



TSR over the past 10 years

	Past 1 year	Past 3 years		Past 5 years		Past 10 years	
		Cumulative total	Annual rate	Cumulative total	Annual rate	Cumulative total	Annual rate
FRC	(19.6)%	(3.9)%	(1.3)%	(9.0)%	(1.9)%	90.9%	6.7%
TOPIX Real Estate Business Index	(13.0)%	(4.6)%	(1.6)%	(20.7)%	(4.5)%	94.0%	6.9%
TSE REIT Index	(4.8)%	27.6%	8.5%	41.3%	7.2%	216.9%	12.2%

* Annual rate conversion is the geometric mean of cumulative returns.

Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2010 as 100. TSR over the past 10 years indicates profitability based on dividends from and investment unit price made on August 31, 2010, as of August 31, 2020. The TOPIX real estate index and TSE REIT index are indexed in the same way, using dividend-included data.

FRC and Fukuoka Realty 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, striving to enhance tenant satisfaction and property competitiveness
- 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
- In order 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.

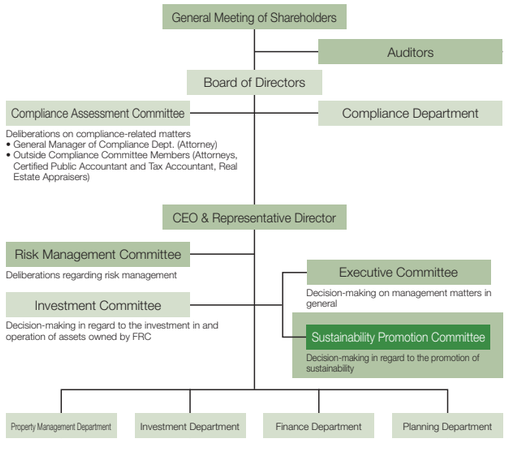
9. Monitoring and Disclosing Environmental and Social Performances
- We will continuously grasp the status and results of our efforts based on the Policy, while monitoring the status of ESG initiatives on our own by utilizing external assessment systems and surveys including GRESB.
- We will disclose 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 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 CEO & Representative Director, and each general manager of the Property Management Dept., Investment Dept., Finance Dept., Planning Dept., and Compliance Dept. The CEO & Representative Director, who chairs the Committee, makes a decision 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 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	
Environment	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	
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	
Society	Creation of pleasant workplaces	Tenants	・Promote improvement of employee satisfaction and work toward increasing the job satisfaction of tenant employees	
Society	Contributions to 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	
Society	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	
Governance	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	
Governance	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	

Process for Identifying Materiality

STEP 1

Identify social issues
Based on the needs of society and the expectations of stakeholders within and outside of the Company, prepare a list of social issues taking into account conditions at other companies in the same industry, items used at assessment agencies, ESG disclosure standards, and SDGs.

STEP 2

Narrow and prioritize issues
Narrow and prioritize identified issues based on their importance to stakeholders and the importance to and degree of impact on the FRC's business based on potential risks and opportunities. Prepare draft proposals regarding materiality.

STEP 3

Deliberate at the management level, confirm appropriateness
Ensure that the Sustainability Promotion Committee, established by the asset management company, deliberates on all draft proposals regarding materiality. Materiality is identified after investigating appropriateness based on the opinions and advice of experts acting on behalf of stakeholders. Reports are ultimately delivered to the Board of Directors of the asset management company and the Board of Directors of the Investment Corporation.



Akira Eguchi
Executive Managing Director
Fukuoka Realty Co., Ltd.

In 2019, Fukuoka Realty reorganized its materiality matrix taking into consideration "events that are important to stakeholders" and "issues that have a significant impact on the company's management." In addition to identifying seven key "material issues," Fukuoka Realty announced details of its activity policy and targets. Amid the growing importance of sustainability worldwide, events that could affect the company's operations including climate change and COVID-19 continue to evolve. As a result, ongoing steps are being made to review the content and details of material issues. As the asset management company for Japan's first regionally specialized REIT, we recognize the need to factor ESG considerations into our real estate investment management process is part of our overarching mission.

Acquiring External Certifications

Participation in GRESB Assessment 2020 (“Green Star” and “3 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 three stars in the five-level GRESB Real Estate Assessment conducted in 2020.

GRESB 2020

Initiatives We Support

In September 2018, Fukuoka Realty endorsed the Principles for Responsible Investment (PRI) and 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:

PRI Principles for Responsible Investment

PFA21 Principles for Financial Action for the 21st Century

Ratio of Properties Certified as Green Buildings

As of the end of August 2020, the ratio of properties within the entire portfolio certified as green buildings was 79.8%.

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 11 of its properties owned that exhibit environmental and social awareness. In addition, the Building Energy-Efficiency Labeling System (BELS) is a system in which third parties evaluate, indicate, and certify the energy conservation performance of non-residential buildings, based on the Evaluation Guidelines for the Building Energy-Efficiency Labeling System for Non-Residential Buildings (2013). FRC has acquired certification for four of its properties owned.



★★★★★	Canal City Hakata (2018) Canal City Hakata・B (2018)
★★★★	Park Place Oita (2018) Canal City Business Center Building (2018) LOGICITY Hisayama (2017) Konoha Mall Hashimoto (2017)
★★★	Gofukumachi Business Center (2018) Higashi Hie Business Center (2018) Higashi Hie Business Center Ⅱ (2017)
★	SunLive City Kokura (2019) Marinoa City Fukuoka (Marina Side Building) (2019)

DBJ Green Building

BELS Building-Housing Energy-efficiency Labeling System


Higashi Hie Business Center


Higashi Hie Business Center II

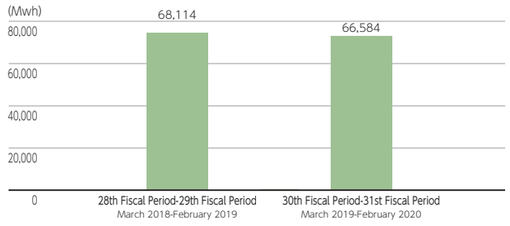

LOGICITY Minato Kashii


LOGICITY Hisayama

Environmental Performance Data and Green Finance

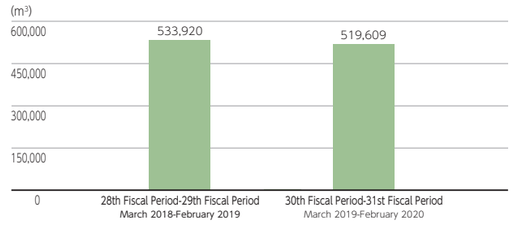
Environmental Performance Data (Total for five major retail facilities)

Electricity Usage



* Total value for the five properties of Canal City Hakata, Canal City Hakata・B, Canal City Business Center Building, Park Place Oita, and Konoha Mall Hashimoto.
* The figure for electricity consumption for Canal City Hakata, Canal City Hakata・B, and Canal City Business Center Buildings reflects usage for all of the buildings, including electricity usage for the portion, which is 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.

Water Consumption



* Total value for the five properties of Canal City Hakata, Canal City Hakata・B, Canal City Business Center Building, Park Place Oita, and Konoha Mall Hashimoto.
* The figure for water consumption for Canal City Hakata, Canal City Hakata・B, and Canal City Business Center Buildings reflects usage for all of the buildings, including water consumption for the portion, which is 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.

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 June 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%*1	July 31, 2019	Unsecured/unguaranteed Lump-sum repayment Fixed interest rate Green loan assessment: Green 1*2

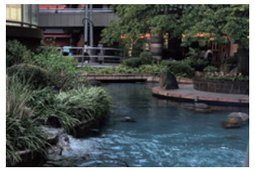
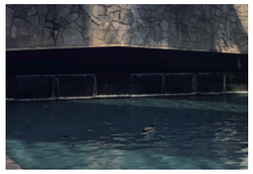
*1: FRC has concluded a swap agreement to establish a fixed interest rate on debt. The indicated interest rate reflects the effects of the swap agreement.
*2: FRC has received the highest "Green 1" rating from Japan Credit Rating Agency for our adherence to the Green Loan Principles.

Environmental initiatives

[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.

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.




Renovation of the Rooftop Garden

The rooftop garden at Grand Hyatt Fukuoka, which has been used as a place for guests to relax and talk, was renovated in May 2020. As part of the renovations, we are preserving biodiversity by planting several different species of medium-sized to tall trees, shrubs, and groundcover.



Sixth Annual Green Social Contribution Award (2018)

Canal City Hakata

With the aim of creating an environmentally friendly facility, Canal City Hakata is engaged in greening, recycling, and energy and resource saving activities. Canal City Hakata received a Sixth Annual Green Social Contribution Award in recognition of its efforts to contribute to the regional community and improve the environment since its opening. These efforts include the creation of an area where visitors can relax, focusing on artificial canals, and installing a rooftop garden at the facility hotel.

[Office Buildings]

Energy-Saving Initiatives Based on the Promotion of LED Lighting

We are focused on converting each property to LED-based lighting in order to reduce energy consumption.

- Gofukumachi Business Center (interior shared spaces, some external areas, etc.)
- Sanix Hakata Building (interior recessed lighting)
- Taihaku Street Business Center (entrance, interior shared spaces, etc.)




LED lighting being used at the Sanix Hakata Building

[Others (logistics facilities)]

Introducing Renewable Energy Equipment

At LOGICITY Hisayama and LOGICITY Minato Kashii, 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

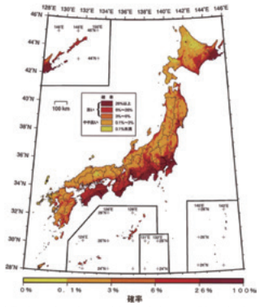
Disaster risk countermeasures

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 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.

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: January 1, 2018) (Updated in January 2019)



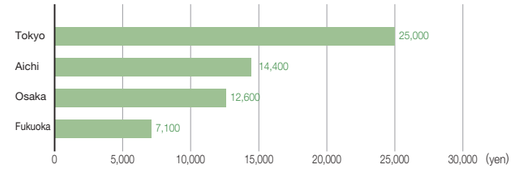
* The mesh for zero probability based on the model calculation conditions is shown in white.
Source: Office of the Headquarters for Earthquake Research Promotion, Earthquake and Disaster-Reduction Research Division, Research and Development Bureau, Ministry of Education, Culture, Sports, Science and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

Earthquake PML Value (full portfolio) 4.9%

Basic Earthquake Insurance Rate

Earthquake insurance with coverage beginning on January 1, 2019

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



* 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, 2019).

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.

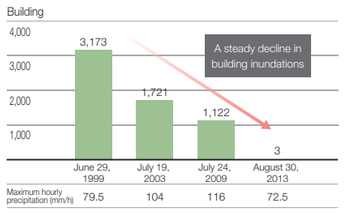
Storm Water Storage Facilities

Storm water storage capacity

FY 1999: No storm water storage facilities ▶ FY 2018: 128,300m³

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

Instances of Building Inundation in Fukuoka City (number of buildings)



From FY 2000 to FY 2018…
Storm water drainage capacity increased sharply.

Since the launch of the project in FY 2000…
Instances of inundation have steadily declined.

* Number of buildings: Total number of buildings inundated above and below the floor level. Period covered is between June 29, 1999 and December 31, 2018.
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.

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.



Canal City Hakata (north side of the building)



Canal City Business Center Building

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 to improve fire and disaster prevention awareness and strengthen cooperation between tenants.



Disaster Prevention Products for the Office

We have prepared a lineup of disaster prevention products for all our employees to use in case of a emergency. As a company, we are focused on corporate disaster prevention measures, including the creation of a business continuity plan (BCP) and the continued safety of our employees.



Measures to prevent the spread of COVID-19

Measures to prevent the spread of COVID-19

We have 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

Tenant (restaurant) support

Canal City Bento Market

Canal City Hakata restaurants sell weekday-only take-out bento boxes

(June 22–July 17, September 28–October 9)



[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



Location-Specific Initiatives

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 visitors, we have installed splash guards on the Park Place Oita and Konoha Mall Hashimoto food court tables





Employee Initiatives

Fukuoka Realty Co., Ltd. is working on a variety of measures aims at preventing the spread of COVID-19 and protecting the health of our employees.

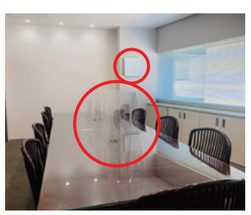
In particular, we are working to establish satellite offices, considering alternate schedules for commuting, implementing thorough measures to prevent the spread of the virus to individuals, and strengthening measures aimed at preventing the spread of the virus in the office.

- Establishment of a satellite office in Tenjin, Chuo Ward, Fukuoka City
- Telecommuting, staggered commuting
- Distribution of masks and thermometers
- Shifting of morning and other meetings to an online format
- Ensuring social distancing in offices
- Regular disinfecting of tables, chairs, and doorknobs



(Fukuoka Realty Co., Ltd. reception)

Installation of splash guards and sanitizing stations



Installation of splash guards and ozone generators (disinfection equipment) in conference rooms

Initiatives for Employees and Tenants

Initiatives for Employees and Tenants

FRC and Fukuoka Realty 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 as well as opportunities for human resource development. From a tenant perspective, both FRC and Fukuoka Realty are committed to ensuring safe, secure, and comfortable spaces while improving satisfaction.

Initiatives for Employees

Fukuoka Realty: Number of officers and employees, number of credentialed employees
Average number of years of continuous service by permanent employees: (* As of August 31, 2020)
8 years and 10 months

Number of full-time officers and employees:
41 (20 male and 21 female) * Percentage of female employees 51.2%
- Employees seconded from sponsors: 2
- Employees seconded to sponsors: 4

Number of credentialed personnel (aggregate total)
- Real estate brokers: 26
- Certified building administrators: 5
- First-class registered architects: 2
- Real estate appraisers: 2
- ARES certified masters: 23
- Attorney: 1
- MBA: 1
- Administrative scrivener: 1
- SME management consultant: 1

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

Employee training
- Regular study groups by the Kyushu Economic Research Center
- Compliance training
- ESG 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 (Real Estate Securitization Master, Real Estate Transaction Agent, etc.)
- Support for language learning, etc.



Overseas inspection tour (Shenzhen DJI Showroom)

Creating a Comfortable Working Environment

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

- The average annual paid leave taken by permanent employees for the most recent fiscal year is 70% or more
- 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.

Average paid leave acquisition rate (FY2019) 70.9%



Tenant Initiatives

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.

- Undertaking of emergency drills intended to improve tenant safety and security
- Implementation of tenant satisfaction surveys
- Distribution of sustainability guidebooks
- Sponsoring of events to improve sustainability awareness
- Sustainability training, etc.

Improvements made to the employee lounge environment at Park Place Oita (September 2020)



Before renovation



After renovation

Initiatives for Local Communities

Initiatives for Local Communities

Environment Promotion Events



At Canal City Hakata, employees participate in events that involve sprinkling water on sidewalks to cool them down and promote well-being. (Initiative suspended in 2020 to prevent the spread of COVID-19.)

Safety Town Council



At Park Place Oita, we established a "Safety Town Council" that partners with related institutions and groups to conduct crime-prevention patrols and proactively strives to prevent youth misconduct.

Clean-Up Days



Executives and employees actively participate in clean-up activities, of which there have been 284 as of October 15, 2020.

Participation in Community Events



Every year, male employees of the Company participate in the Hakata Gion Yamakasa festival (Hachiban Yamakasa Kasariyama, Kamikawabata-dori). CEO Etsuo Matsuyuki rode on a float at the event in 2018. (Initiative suspended in 2020 to prevent the spread of COVID-19.)

Real Estate, Finance, and the Economy Gathering

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.



The Kyushu Economic Research Center

Fukuoka Realty 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

• IR Workshop

The Kyushu IR Group, which entered its 10th year in 2020, 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 2020)	Initiatives Aimed at Promoting Constructive Dialogue between Institutional Investors and Issuers OMRON Corporation General Manager, Investor Relations Dept., Global Investor & Brand Communication Headquarters Mr. Shunji Okumura

• Participation in the ESG Dialogue Platform Provided by Japan's Ministry of the Environment

Japan's Ministry of the Environment provides the ESG Dialogue Platform as an Environmental Reporting Platform Development Pilot Project for the purpose of supporting effective disclosure of environmental information and substantive dialogue between parties including companies and investors. In fiscal 2019, we participated in "ESG consultation meetings" targeted at companies that aim to directly engage in dialogue with investors concerning ESG-related issues.

• 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

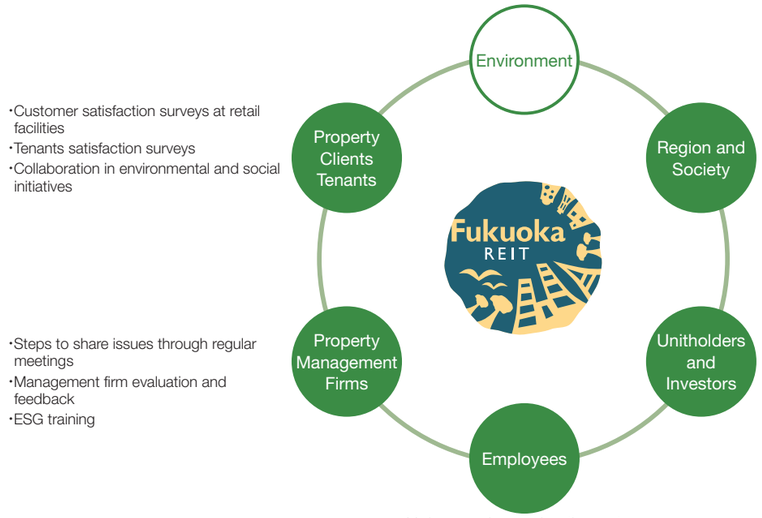
We are also participating in the Kyushu SDGs Management Promotion Forum, an industry-academic-government-funded platform established by the Kyushu Bureau of Economy, Trade and Industry. As a participant in this forum, energies are directed toward providing information between companies and supporting SDG management endeavors aimed at solving regional and social issues.

• Sponsoring the Fukuoka International Architectural Design Competition

In conjunction with the main sponsor, Fukuoka Jisho Co., Ltd., we are a co-organizer in the Fukuoka International Design Competition. With the Residential Suites Fukuoka, a hostel located in Seaside Momochi, as the site for the competition, participants are asked to submit entries based on the concepts of "work" + "home" + "added value appropriate for Seaside Momochi."

Stakeholder Engagement

FRC engages in proactive dialogue with its various stakeholders aimed at sustainable growth and higher corporate value. At the same time, the Investment Corporation 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.



- Customer satisfaction surveys at retail facilities
- Tenants satisfaction surveys
- Collaboration in environmental and social initiatives

- Organizing community and other events utilizing facility common areas
- Active participation in the Hakata Town Planning Promotion Council's activities
- Real estate, finance, and economic education

- Steps to share issues through regular meetings
- Management firm evaluation and feedback
- ESG training

- General Meeting of Unitholders
- Results briefings for investors (institutional and individual investors)
- 1on1 meetings (Japan and overseas)

- Various employee education systems
- Employee satisfaction surveys
- Career interviews with employees

Dialogue with Investors & 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.



Basic Policy on Customer-Oriented Business Operations

Basic Policy on Customer-Oriented Business Operations

Fukuoka Realty has adopted all seven principles set forth in the Principles for Customer-Oriented Business Conduct, announced by the Financial Services Agency on March 30, 2017, and formulated a basic policy to realize customer-oriented business operations on September 20, 2017.

Fukuoka Realty's Basic Policy

1	Fukuoka Realty is a financial business operator that operates listed REITs. We will constantly strive to provide high-quality services so that we can meet the investment needs of unitholders.
2	Fukuoka Realty, as an asset management company knowledgeable about the particular circumstances of the region, strives to maximize the profit of our unitholders by utilizing information and expertise, to provide investors with stable earnings over the medium- to long-term.
3	Fukuoka Realty will make the fiduciary duty entrusted to it by unitholders its primary consideration and appropriately manage any conflict of interest.
4	Fukuoka Realty's officers and employees will engage in honest and fair operations on a daily basis and act responsibly toward the Company's investors and other stakeholders.
5	Fukuoka Realty will proactively engage in voluntary IR activities in addition to statutory disclosure and timely disclosure and increase the fairness and transparency of information disclosure.

Seven Principles

Principle 1 Establishment and Announcement of Policy on Customer-Oriented Business Conduct

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

Principle 2 Pursuit of Customers' Best Interest

As a financial business operator, we maintain a high level of professionalism and professional ethics, and conduct operations with integrity and fairness for unitholders in an effort to secure their best interests. We also strive to ensure that such business conduct will be deeply rooted in our corporate culture.

Principle 3 Appropriate Management of Transactions with Conflicts of Interest

For transactions with our interested parties including Fukuoka Jisho Co., Ltd., one of our sponsors having 50% equity, which may cause conflicts of interest, we work to accurately grasp the possibility of conflicts of interest with unitholders pursuant to laws and regulations as well as 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 may 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.

Principle 4 Clarification of Fees and Commissions

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.

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

We do not solicit the sale or recommendation, etc. of financial instruments or financial services. However, 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 in an effort to provide information desirable for investors from an investor-oriented perspective.

Principle 6 Provision of Services Suitable for Unitholders

We strive to understand the needs and requirements of unitholders, and conduct asset management taking into account 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.

Principle 7 Preparing a Framework, etc. for Appropriately Motivating Employees

We established a "Code of Conduct" to ensure our officers and employees always act in the best interest of unitholders. In addition, we regularly and continuously carry out education and training on compliance for all of our employees so that they can secure fairness in business conduct and thoroughly implement appropriate management for transactions that may involve conflicts of interest, as well as enhance their awareness on compliance.

Corporate Governance

Risk Management & 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 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.

Decision-Making Process

Proposals from the responsible department
↓
General Manager of Compliance Dept.
↓
Deliberations by the Investment Management Committee
↓
Deliberations and resolution by the Compliance Assessment Committee
↓
Resolution/decision-making report by the Board of Directors
↓
FRC Board of Executive Officers

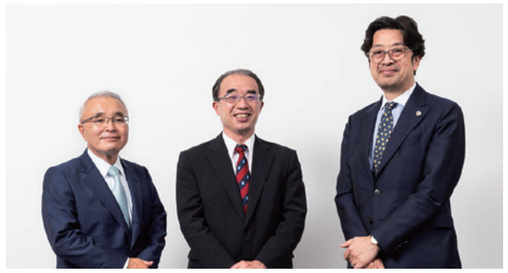
Third-party assessment by external experts (Real estate appraisals)
- Japan Real Estate Institute
- The Tanizawa Sogo Appraisal Co., Ltd.
- Daiwa Real Estate Appraisal Co., Ltd.

[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.

(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.

FRC Directors



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

Fukuoka Realty Directors



Director (Non-Executive) Hiroshi Shimuta | Director (Non-Executive) Hidenori Hara | Director (Non-Executive) Noboru Hashimoto | CEO and Representative Director Etsuo Matsuyuki | Executive Managing Director, General Manager of Planning Dept. Akira Eguchi | Auditor (Non-Executive) Masanori Tasaka

Changes in 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 2017-September 2018	October 2018-September 2019	October 2019-September 2020
8 times	7 times	6 times



Daisuke Yokoyama
General Manager of the Compliance Department
Fukuoka Realty Co., Ltd.



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.

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

	11th Feb. 2010	12th Aug. 2010	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
Financial information																						
Earnings (Millions of yen)																						
Operating revenue	5,640	5,663	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
Operating income	2,408	2,412	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
Ordinary income	1,863	1,797	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
Profit	1,862	1,796	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
NOI	3,698	3,637	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
Financial conditions (Millions of yen)																						
Total assets	130,705	132,349	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
Net assets	62,126	62,061	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
Interest-bearing debt	57,225	59,150	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	77,500	82,400
Interest-bearing debt ratio (%)	43.8	44.7	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
Depreciation	954	953	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
Capital expenditures	141	154	685	254	1,031	1,285	431	612	848	740	328	445	630	665	1,789	741	600	657	947	476	465	790
Cash flow (Millions of yen)																						
Cash flow provided by (used in) operating activities	3,150	2,394	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
Cash flow provided by (used in) investing activities	(233)	(3,398)	(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)
Cash flow provided by (used in) financing activities	(1,928)	56	(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
Cash and cash equivalents at year-end	6,877	5,928	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
Per-unit indicators (Yen)																						
Dividend per unit	3,479	3,356	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
EPS per unit	3,479	3,356	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
BPS per unit	116,070	115,947	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	127,937	127,544
NAV per unit	129,320	130,141	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
FFO per unit	5,263	5,137	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
Investment unit information																						
Investment unit price (Yen)	98,200	107,400	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
Total number of investment units issued	535,250	535,250	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
Non-financial information																						
Number of employees	35	36	36	37	38	35	36	40	40	34	35	38	41	39	40	38	38	39	41	41	42	41
Percentage of female employees (%)	40.0	36.1	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
Average number of years of employment (Years/Months)	3.10	4.2	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
The number of IR meetings (Note 1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	122	154	147	106	126	116	169	129	148	149	133	54

* 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.
* Dividends per unit are 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. Dividends and NAV per unit up to the 19th fiscal period have been retroactively adjusted to reflect this split.

(Note 1) The number of IR meetings convened in Japan and abroad from the 11th to 20th fiscal periods is not recorded, as records do not exist for these periods.

Data Section

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 for 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 unitholder 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 a long-term issuer rating from Japan Credit Rating Agency, Ltd. and an issuer rating from Rating and Investment Information Inc.

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 for 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 FFO per unit, the greater the company's profitability.
Calculation method for FFO: net profit – gains/losses from the sale of real estate + depreciation; 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 for FFO ratio: Investment unit price/FFO per unit

Green bonds
These are bonds issued by companies and local governments in order 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.

Data Section

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 for 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. If can also be used as a REIT investment metric. A higher NOI yield indicates greater profitability, with greater dividends to the investor.
Calculation method for 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 for NAV: Net assets + unrealized gains or losses – dividends
NAV/unit is 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 for 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 form 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 re-built 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 Kyushu 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 tor 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 for TSR (%): (Dividends per unit + increase in investment unit price)/initial investment unit price multiplied by 100

* 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 may 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 may not necessarily be accurate. Actual results may differ materially due to various factors. Neither Fukuoka REIT Corporation nor Fukuoka Realty 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 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.

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