



Fukuoka REIT Corporation

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



 [@fukuokareit8968](https://twitter.com/fukuokareit8968)



 facebook.com/fukuokarealty



 [fukuoka_realty](https://instagram.com/fukuoka_realty)

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



Fukuoka REIT Corporation Integrated Report 2022

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Editorial Policy

We have issued our Integrated Report since fiscal 2019 with the aim of imparting knowledge concerning the value creation process of the investment corporation and the asset management company. The Report has been positioned as an important tool for engaging with our unitholders, investors, and other stakeholders. The International Reporting Framework recommended by the IFRS Foundation and the

Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation have been referenced in the preparation of this Report to ensure ease of understanding.

Through this Report, we aim to increase understanding of our efforts to enhance corporate value based on the basic philosophies of the investment corporation and the asset management company as well as the value we create in working to realize a sustainable society. We will continue striving to make the Report an effective tool for facilitating constructive dialogue.

International Initiatives We Focus On

Sustainable Development Goals (SDGs)

The SDGs refer to the international goals set forth in the 2030 Agenda for Sustainable Development adopted at the United Nations Summit in September 2015 as the successor to the Millennium Development Goals (MDGs) established in 2001. Given the medium- to long-term expectations stakeholders have for the resolution of these challenges, our priority issues (materiality) were established in September 2019 with reference to the SDGs.



Sustainability

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Positioning of This Report

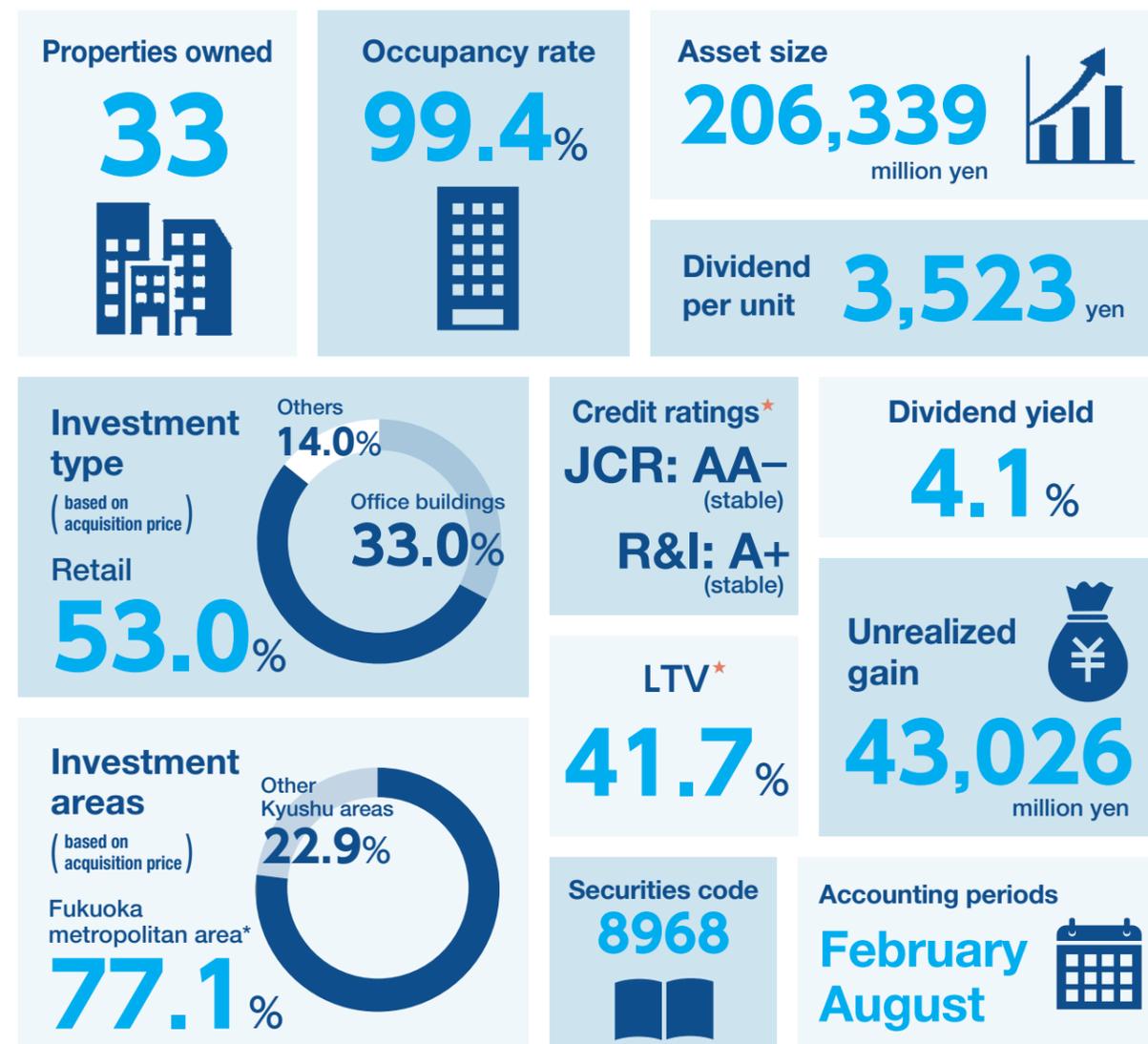


Principles for Responsible Investment (PRI)

PRI comprises an international network of financial institutions working to realize six principles for the finance industry with the aim of encouraging the incorporation of environmental, social, and governance ("ESG") issues into investment decision-making processes. Fukuoka Realty Co., Ltd., endorsed and became a signatory of PRI in September 2018 to promote the consideration of ESG issues in real estate investment management operations and practices that conform to international standards.



Fukuoka REIT Corporation in Numbers



* The Fukuoka metropolitan area includes Fukuoka City, Chikushino City, Kasuga City, Onojo City, Munakata City, Dazaifu City, Koga City, Fukuoka City, Itoshima City, Nakagawa City, Umi Town, Sasaguri Town, Shime Town, Sue Town, Shingu Town, Hisayama Town, and Kasuya Town.

Glossary

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.

LTV
An abbreviation for Loan to Value, and an indicator of a company's borrowing ratio as well as a measure of stability in borrowing. The lower the value, the greater the degree of safety against redemption of debt.
[Calculation method] LTV (%): Interest-bearing debt / Total assets multiplied by 100

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

Note that all information in this document is current at the time of preparation and is subject to change without prior notice.

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.

Any unauthorized reprinting, use, reproduction, distribution, or modification of all or part of the content contained in this Report is expressly prohibited.

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

Overview of Fukuoka REIT Corporation

Name	Fukuoka REIT Corporation	Asset manager	Fukuoka Realty Co., Ltd.
Representative	Zenji Koike, Executive Director	Sponsors (Shareholders of the asset management company)	Fukuoka Jisho Co., Ltd. Kyushu Electric Power Co., Inc. THE BANK OF FUKUOKA, LTD. THE NISHI-NIPPON CITY BANK, LTD. Nishi-Nippon Railroad Co., Ltd. SAIBU GAS HOLDINGS CO., LTD. Kyudenko Corporation Kyushu Railway Company Development Bank of Japan Inc.
Security code	8968		
Listed date	June 21, 2005 (Tokyo Stock Exchange, Fukuoka Stock Exchange)		
Fiscal period	February and August		

	History of Fukuoka REIT Corporation	Fukuoka Kyushu Actions
2005	<ul style="list-style-type: none"> Listed on the Tokyo Stock Exchange and Fukuoka Stock Exchange Property acquisitions: SunLive City Kokura, Sanix Hakata Building 	<ul style="list-style-type: none"> Nanakuma subway line opens Kyushu National Museum opens
2006	<ul style="list-style-type: none"> 1st public offering (Offer price: 153,272 yen*) 10th anniversary of the opening of Canal City Hakata Property acquisitions: Taihaku Street Business Center, Amex Akasakamon Tower, Square Mall Kagoshima Usuki, Kumamoto Intercommunity SC 	<ul style="list-style-type: none"> New Kitakyushu Airport opens
2007	<ul style="list-style-type: none"> Property acquisitions: Hanahata SC, City House Keyaki Dori 	<ul style="list-style-type: none"> Tenjin LOFT opens
2008	<ul style="list-style-type: none"> Canal City Hakata South Building renovation (2nd floor) Property acquisitions: Kurume Higashi Kushiwara SC, K's Denki Kagoshima 	<ul style="list-style-type: none"> Kurume City, Fukuoka Prefecture, becomes a core city
2009	<ul style="list-style-type: none"> Property acquisition: Higashi Hie Business Center 	<ul style="list-style-type: none"> Kyushu University Ropponmatsu Campus closes (redevelopment project zone)
2010	<ul style="list-style-type: none"> Canal City Hakata common space and Park Place Oita common space, tenant floor renovations 	<ul style="list-style-type: none"> Fukuoka Parco opens
2011	<ul style="list-style-type: none"> 2nd public offering (Offer price: 115,217 yen*) IR Kyushu Workshop launch Selected as a AAA website All Japanese Listed Companies' Website Ranking for fiscal 2011 Property acquisition: Canal City Hakata-B 	<ul style="list-style-type: none"> Kyushu Shinkansen Kagoshima route fully opens
2012	<ul style="list-style-type: none"> Opened LAOX/XEBIO in the Canal City Hakata South Building Selected as a AAA website All Japanese Listed Companies' Website Ranking for fiscal 2012 Property acquisition: Aqualia Chihaya 	<ul style="list-style-type: none"> Fukuoka Urban Expressway fully opens and Kanjo Line opens
2013	<ul style="list-style-type: none"> 3rd public offering (Offer price: 142,116 yen*) 1st investment corporation bond* issuance Selected as a AAA website All Japanese Listed Companies' Website Ranking for fiscal 2013 Property acquisitions: Tenjin Nishi-Dori Business Center Building, D-Wing Tower, Hotel FORZA Oita, Tenjin North Front Building 	<ul style="list-style-type: none"> Fukuoka City population tops 1.5 million JR Kyushu Cruise Train "Seven Stars in Kyushu" begins operations
2014	<ul style="list-style-type: none"> 5:1 investment unit split implemented Received the IR Excellent Company Encouragement Award (organized by Japan Investor Relations Association) Property acquisitions: Tosu Logistics Center, Grantore Yakuin Minami 	<ul style="list-style-type: none"> Fukuoka City designated a National Strategic Special Zone Number of cruise ship port calls: 115
2015	<ul style="list-style-type: none"> 4th public offering (Offer price: 212,257 yen*) Fukuoka REIT Corporation 10th anniversary Property acquisitions: LOGICITY Minato Kashii, Marinao City Fukuoka (Marina Side Building) 	<ul style="list-style-type: none"> Tenjin Big Bang begins Number of cruise ship port calls: 259 (shopping sprees) JR Oita City opens
2016	<ul style="list-style-type: none"> Canal City Hakata 20th anniversary Japan's largest 3D projection mapping and new Aqua Panorama fountain installed at Canal City Hakata 	<ul style="list-style-type: none"> Higashi-Kyushu Expressway fully opens Number of cruise ship port calls: 328 Vegefru stadium (new fresh produce market) begins at Island City
2017	<ul style="list-style-type: none"> 2nd investment corporation bond issuance Park Place Oita 15th anniversary renovation Canal City Hakata inbound sets new visitor record (17.02 million in fiscal 2017) Property acquisition: LOGICITY Hisayama (Asset management company) Formulated Policies for Customer-Oriented Business Operations 	<ul style="list-style-type: none"> Fukuoka City Science Museum opens World Cultural Heritage registers heritage sites related to Kami-yadoru shima Munakata and Okinoshima
2018	<ul style="list-style-type: none"> 5th public offering (Offer price: 164,414 yen*/3rd investment corporation bond issuance) Property acquisitions: Konoha Mall Hashimoto, Higashi Hie Business Center II, Tissage Hotel Naha (Asset management company) Formulated the Sustainability Policy/Endorsed the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21)/Certified as a "Fukuoka 'Work Style Reform' Promotion Company" 	<ul style="list-style-type: none"> Fukuoka Jisho Co., Ltd., becomes a premium partner of Avispa Fukuoka
2019	<ul style="list-style-type: none"> Received the rating of "4 stars" and "Green Star" in the GRESB Real Estate Assessment Became the first company in Kyushu to conduct borrowing via green loans 	<ul style="list-style-type: none"> Private-sector outsourcing of Fukuoka Airport operations begins
2020	<ul style="list-style-type: none"> Became the first J-REIT to publish an integrated report Received the rating of "3 stars" and "Green Star" in the GRESB Real Estate Assessment Property acquisitions: Higashi Hie Business Center III, LOGICITY Wakamiya 	<ul style="list-style-type: none"> COVID-19 outbreak TEAM FUKUOKA launched to attract international financial functions to Fukuoka
2021	<ul style="list-style-type: none"> Canal City Hakata opening 25th anniversary/Nitori Canal City Hakata opens Received the rating of "4 stars" and "Green Star" in the GRESB Real Estate Assessment Selected as a AAA website All Japanese Listed Companies' Website Ranking for fiscal 2021 Property acquisition: Tenjin Nishi-Dori Business Center (Land with leasehold interest) 	<ul style="list-style-type: none"> Tenjin Big Bang, Tenjin Business Center completed
2022	<ul style="list-style-type: none"> Partial revision to management guidelines/Set targets for materiality KPIs/Conducted borrowing via a sustainability-linked loan*/Endorsed the TCFD recommendations Received the rating of "4 stars" and "Green Star" in the GRESB Real Estate Assessment/Top "A" in the GRESB Public Disclosure Renewal opening of Park Place Oita's 3-floor, Shangri-la Zone Property acquisitions: Hakata Chikushi-Dori Center Building, Island City Minato Bay related site (land with leasehold interest; conclusion of agreement; tentative name) (Asset management company) Registration with Fukuoka City Well-Being & SDGs Registration System "Master" 	<ul style="list-style-type: none"> Dontaku parade held for the first time in three years Oiyama event of Hakata Gion Yamakasa Festival held for the first time in three years

* The investment corporation undertook a five-for-one investment unit split effective March 1, 2014. Accordingly, offer prices for the first to third public offerings have been divided by five.

Glossary Sustainability-linked loan

Sustainability-linked loans are loans that encourage borrowers to meet ambitious sustainability performance targets (SPTs).

Investment corporation bond

Bonds issued by investment corporations in accordance with the Act on Investment Trusts and Investment Corporations and are equivalent to corporate bonds of stock companies. Bonds are issued as a means of fund procurement, and are used mainly for acquisition of real estate, repair, and maintenance of existing properties, and repayment and redemption of borrowings.

FRC's Characteristics

FRC has the following five main strengths.

- 1 Japan's first region-specific REIT**
Asset management leveraging our in-depth knowledge of the real estate environment of the Fukuoka and Kyushu areas
- 2 Excellent portfolio centered on the Fukuoka metropolitan area**
A portfolio of carefully selected investments in the high growth area of Fukuoka City, which is gaining attention in Japan and abroad
- 3 Solid support from a sponsor company involved in property development**
Asset portfolio expansion and high occupancy rates facilitated through coordination with our sponsors
- 4 Establishment of a stable financial base**
Conservative control of the interest-bearing debt ratio and long-term diversification of repayment deadlines
- 5 Stable dividends and steady NAV***
Appropriate management of real estate investments



Canal City Hakata is a multipurpose retail facility that opened in 1996 as an urban redevelopment project based on the concept of "urban theater."

Canal City Hakata is located between the Tenjin district—which forms the commercial center of Fukuoka City—and the business district centering on JR Hakata Station, and is close to the famous entertainment area Nakasu and Kushida Shrine, which once flourished as a community of Hakata merchants and is famous throughout Japan for the Hakata Yamakasa Festival. Canal City Hakata was designed by American architect Jon Jerde. The project site was the former location of the Hakata Silk Cotton Spinning Company (later the Hakata Factory of Kanegafuchi Spinning, hereafter the "Kanebo Factory"). It had become a forgotten plot of land at the heart of Fukuoka City that had lost the urban functions that once helped develop modern society.

In 1977, Fukuoka Jisho acquired a portion of the former Kanebo Factory site, which is an area of approximately 3,000 tsubo. At the time, the area was being planned as a redevelopment for condominiums, but the concept was reworked many times in the hope of "reviving Hakata as a commercial city." In 1982, a basic development concept was formulated and a master plan was announced the following year, but the redevelopment was temporarily postponed due to the poor earnings for key tenants. In 1988, a major step toward realization was finally taken, and Canal City Hakata opened on April 20, 1996, as a catalyst to revitalize the central part of the downtown area, which had become stagnant, and to promote the balanced development of the entire city center. Traffic congestion on surrounding roads that had been a concern before the opening was addressed through road maintenance in cooperation with the local government, and a pedestrian bridge was constructed to connect to the Kamikawabata Shopping Arcade. Accordingly, the opening of Canal City Hakata has led to the revitalization of the Kamikawabata Shopping Arcade and surrounding areas.

Source: Prepared by Fukuoka Realty Co., Ltd., based on the Canal City Hakata Concept Book

Before completion

Kanebo Factory in 1957. The Japan National Railways tracks and a service line are visible in the foreground.



Completion

Fulfilling new urban functions, enhances circulation to Tenjin and Hakata while connecting the surrounding areas of Kawabata and Sumiyoshi.



After Completion

Five million people visited Canal City Hakata in the first two months after its opening. The "urban theater" was born, creating a variety of ripple effects in the surrounding area.



Glossary NAV

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 the book value of the property owned and the appraised value.

[Calculation method] NAV: Net assets + Unrealized gains or losses - Dividends
Market net assets value per unit: NAV / Total number of units issued

Relationship with Fukuoka Realty Co., Ltd.

Fukuoka REIT Corporation (“FRC”) comprises one Executive Director and two Supervisory Directors, and actual investment management is contracted to our asset manager, Fukuoka Realty (“Fukuoka Realty”). As such, FRC and Fukuoka Realty are treated as one entity in this document in reporting on the value created for stakeholders.

FRC’s Basic Policy

【Our Mission】

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

【Act Local】

We—FRC and Fukuoka Realty—are currently the only listed real estate investment corporation and asset management company registered outside the Tokyo metropolitan and Kansai areas under the provisions of the Act on Investment Trusts and Investment Corporations as well as the Financial Instruments and Exchange Act.

As a region-specific REIT, FRC seeks differentiation in the selection of investment target properties and the management of owned assets through the enhancement of its information gathering ability and ability to discern the profitability of properties

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

【Think Global】

We will proactively engage in IR activities to fulfill our accountability to global capital markets. In conjunction, we will take heed of Fukuoka Realty’s corporate governance and compliance.

Regarding real estate and financial markets, FRC will keep closely tracking movements occurring across the whole of Japan and the entire world, taking into consideration the logic of capital markets with global ideas, and appropriately reflecting such in our asset management.

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

Contribution to Regional Revitalization and Development of Attractive Communities

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

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

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

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



Act Local

- Real estate is a local business
- Distinctive capability for gathering qualitative information on the real estate market (speed, in-depth information)
 - Specialization in local properties
 - Solid network among local governments and the business world

Our Mission

Region-Specific REIT
Aim to achieve the best interests of unitholders by leveraging our expertise in the local real estate markets of Fukuoka and Kyushu

Think Global

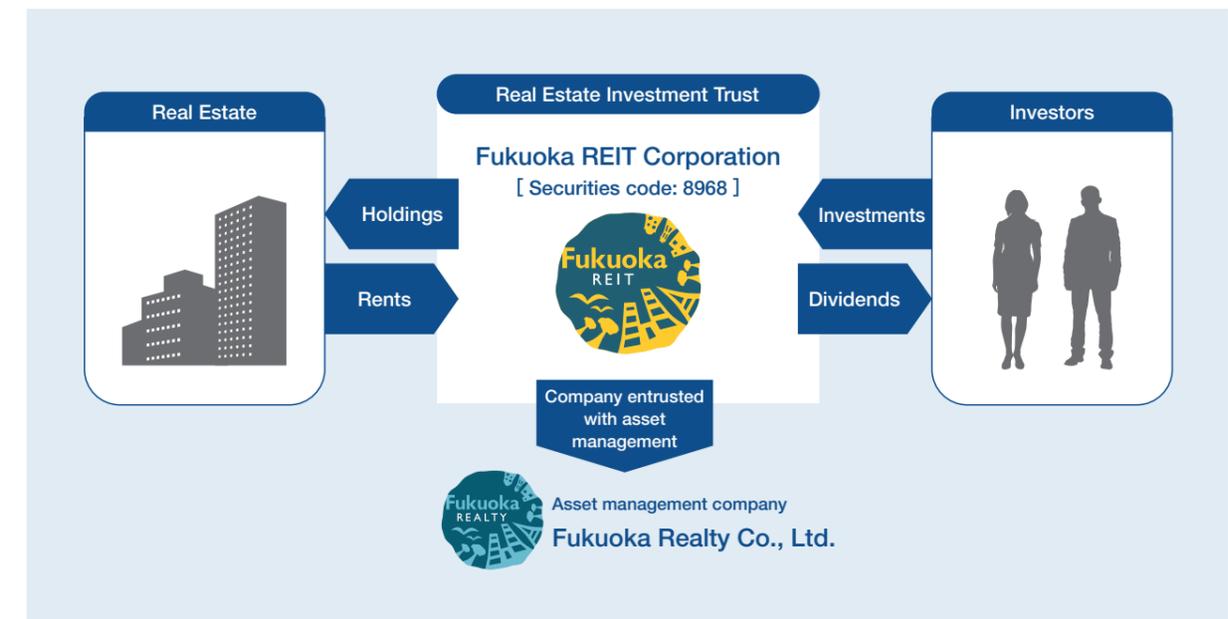
- Capital market theory
- Accountability and transparent dialogue with investors
 - Decent policy to comply
 - Fund management skills

Corporate Profile of Fukuoka Realty Co., Ltd.

Listed on the real estate investment trust sections of the Tokyo and Fukuoka stock exchanges, Fukuoka Realty Co., Ltd., is FRC’s asset management company.

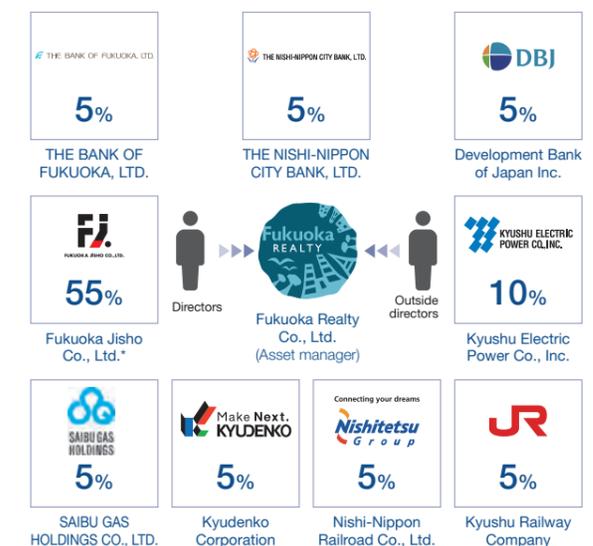
Based on an asset management agreement concluded with FRC, Fukuoka Realty is entrusted with the key operations of “acquiring and selling assets,” “asset rental management,” and “financing.”

Located in Fukuoka City and comprising 41 employees with a variety of experience in real estate, finance, and other fields, Fukuoka Realty possesses a high level of expertise and makes full use of information unique to the local area in managing FRC’s assets.



Leading companies in Fukuoka and the Kyushu areas that are in agreement with FRC’s concept participate as shareholders (sponsors) of Fukuoka Realty. 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 their support, including the provision of relevant information.

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



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

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

Our Mission Act Local, Think Global

Vision Promote Attractive Urban Development in the Fukuoka and Kyushu Areas

Main management resources (Inputs)

<p>Financial capital</p> <p>Building of a solid financial base through conservative control of LTV</p> <ul style="list-style-type: none"> LTV 41.7% Fixed rate..... 93.4%
<p>Manufacturing capital</p> <p>Finding excellent properties that can generate stable cash flow over the long term</p>
<p>Human capital</p> <ul style="list-style-type: none"> Excellent human resources with specialized skills Support framework for flexible working styles Support system for career development Number of full-time officers and employees*: 41 Number of qualification holders*: Real estate appraisers 1 / Attorney 1 / First-class registered architects 1 / MBA 2 <p><small>*Fukuoka Realty Co., Ltd.</small></p>
<p>Intellectual capital</p> <ul style="list-style-type: none"> 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
<p>Social relationship capital</p> <ul style="list-style-type: none"> 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
<p>Natural capital</p> <ul style="list-style-type: none"> Energy, water, air, and other natural resources used in the operation of properties owned Natural environment and biodiversity in the areas around properties owned

Business activities



External Environment [See p.20](#)

Response to ESG issues

Sustainability [See p.29](#) Environmental Issues [See p.32](#)
Social Issues [See p.36](#) Organizational Issues [See p.38](#)

Risks and Opportunities [See p.22](#)

Total 33 properties [See p.42](#)



Outcome

Financial capital

- TSR* for past 10 years **Annual rate 8.1%**
- Dividend per unit / Average interest rate paid **3,523 yen / 4.1%**
- Credit ratings JCR: AA- (stable), R&I: A+ (stable)

Manufacturing capital

- NOI yield **5.2%**
- Unrealized gain **43,026 million yen**
- NAV per unit **178,348 yen**

Human capital

- Number of qualification holders: Real estate brokers **56.1%** out of 41 full-time officers and employees / ARES Certified Masters **43.9%** out of 41 full-time officers and employees

Intellectual capital

- Number of IR interviews during the year In Japan 184, Abroad 22 (including telephone conferences)
- Track record of winning awards IR Excellent Company Encouragement Award (2014) / Nikko Excellent IR Website Award (2021)

Social relationship capital

- Human resource exchanges with sponsors (e.g., 3 people accepted from sponsors, 8 people dispatched to sponsors)
- Improvement of office environments (introduction of meeting booths, plants and other greenery)
- Implementation of COVID-19 tenant support measures (assistance with vaccinations as requested and other support)

Natural capital

- Green building certification rate (total floor space basis) **77.8%**
- Reduction of electricity usage and water consumption at properties owned Electricity usage reduced by 8.84% compared with 2019 Water consumption reduced by 31.14% compared with 2019

Value creation with stakeholders

Clients/Tenants [Management Strategy See p.25](#) [Initiatives at Facilities See p.34](#)

- <Office Buildings>
 - Create business opportunities, attract companies from other countries and other regions in Japan, and establish a place for start-ups to flourish
- <Commercial>
 - Increase users, create employment, and generate synergies between tenants (differentiate from shopping centers)

Region and Society [Management Strategy See p.25](#) [Community-Based Initiatives See p.37](#)

- <Commercial and Hotel>
 - Provide new discoveries for users and enhance satisfaction (e.g., first store in Kyushu)
 - Revitalize interaction with surrounding regions through community-based initiatives
 - Make it fun to go out and invigorate regional interaction
- <Logistics>
 - Increase convenience for the general public by upgrading local distribution networks

Employees [Sustainability See p.29](#) [Employee Initiatives See p.36](#)

- Improve experiences through human resource exchanges and rotation
- Increase motivation through participation in urban development, etc.
- Enhance personal connections and capabilities based on various experiences through connection with society
- Boost employees' job and personal satisfaction through a focused human resource strategy
- Enhance systems that enrich people's lives and encourage them to remain in service for longer

Unitholders/Financial Institutions [Investment Strategy See p.24](#) [Redevelopment Project in Fukuoka City See p.21](#)

- Create investment opportunities in real estate in the Fukuoka and Kyushu areas
- Convey the appeal of the Fukuoka and Kyushu areas by enhancing information disclosure
- Ensure the stable return of profits and secure opportunities for growth through appropriate investment and management in response to unitholder feedback
- Maintain good relationships with financial institutions and ensure the appropriate return of profits

Sponsors [Investment Strategy See p.24](#) [Redevelopment Project in Fukuoka City See p.21](#)

- Provide funding for new property development
- Support developments over the medium to long term that lead to local advancement
- Engage in collaborative projects to enable efficient and productive property management
- Strengthen development and operational capabilities through ongoing information exchange
- Bolster human capital through human resource exchanges

Environment/Nature [Environmental Initiatives See p.32](#)

- Promote environmental conservation through investment in properties with high environmental performance
- Contribute to sustainability in the Fukuoka and Kyushu areas over the medium to long term through active participation
- Co-create in harmony with nature through proactive environmental initiatives in the real estate market
- Engage in real estate development that takes advantage of the nature found in Kyushu

Related Stakeholders

Clients/Tenants
Total tenants in all properties: 1,021

- Customer satisfaction surveys at retail facilities
- Tenant satisfaction surveys

Region and Society
Population of the 6 prefectures we have properties in: Approx. 11,774,000

- Organizing community and other events utilizing facility common areas
- Active participation in the Hakata Town Planning Promotion Council's activities
- Announcement of financial results by the Fukuoka Stock Exchange

Employees
Number of full-time officers and employees: 41

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

Unitholders/Financial Institutions
No. of unitholders: 13,554
No. of financial institutions we deal with: 22

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

Sponsors
Sponsors: 9

- Contribution of excellent properties
- Ongoing information exchange
- Human resource exchanges

Environment/Nature
Property location/Six prefectures (Fukuoka/Saga/Kumamoto/Oita/Kagoshima/Okinawa)

- Environmental preservation (Electricity and water conservation)
- Green Building certification

Glossary **TSR**
An abbreviation for Total Shareholder Return. This can also be called total shareholder (investor) yield and reflects combined capital gains and dividends, reflecting the overall investment yield for investors. [Calculation method] TSR (%) = (Dividend per unit + Increase in investment unit price) / Initial investment unit price multiplied by 100



Investment Strategy [See p.24](#)

Management Strategy [See p.25](#)

Financial Strategy [See p.26](#)

Fund procurement (financing)

Information communication (IR/SR)

Research

Human resources who are familiar with the area and have built trusting relationships collect high-quality information on properties from sponsors and the community

Strengths and characteristics of the value creation process

- Property appraisal skills unique to a local person
- Robust network
- Market research and analysis

Related capital

- Intellectual capital (information-gathering ability)
- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation and collaboration)

Challenges and initiatives to further strengthen value creation

- Employment of exceptional human resources required for suitable business execution
- Asset portfolio expansion and realization of high occupancy rates

[See p.24](#)

Acquisition

Acquisition of excellent real estate in the Fukuoka and Kyushu areas through sponsor companies and local communities

- Discovery and acquisition of properties that can generate stable cash flow
- Improvement of property value

- Financial capital (financing ability)
- Manufacturing capital (excellent properties)
- Human capital (discerning eye, expertise)

- Diversification in fund procurement
- Discovery of excellent properties using networks we created

[See p.24](#)

Management

Constant forward-looking management with an attention to detail unique to a region-specific REIT

- Stable cash flow
- Derive maximum value from our real estate portfolio over the long term

- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation and collaboration)
- Natural capital (natural environment)

- Maintenance of NOI in existing properties
- Essential environmental initiatives

[See p.25](#)

Management, Valuation, and Sales/ Replacement

Portfolio management from a medium- to long-term perspective and appropriate financial strategies

- Sound financial position
- Realization of stable distributions and dividends

- Financial capital (management know-how/performance)
- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation and collaboration)

- Management focused on long-term fixed interest rate entities and financial stability
- Management that emphasizes the best interests of unitholders

[See p.26](#)

Related Stakeholders

Clients/Tenants
Total tenants in all properties: 1,021

- Customer satisfaction surveys at retail facilities
- Tenant satisfaction surveys

Region and Society
Population of the 6 prefectures we have properties in: Approx. 11,774,000

- Organizing community and other events utilizing facility common areas
- Active participation in the Hakata Town Planning Promotion Council's activities
- Announcement of financial results by the Fukuoka Stock Exchange

Employees
Number of full-time officers and employees: 41

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

Unitholders/Financial Institutions
No. of unitholders: 13,554
No. of financial institutions we deal with: 22

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

Sponsors
Sponsors: 9

- Contribution of excellent properties
- Ongoing information exchange
- Human resource exchanges

Environment/Nature
Property location/Six prefectures (Fukuoka/Saga/Kumamoto/Oita/Kagoshima/Okinawa)

- Environmental preservation (Electricity and water conservation)
- Green Building certification

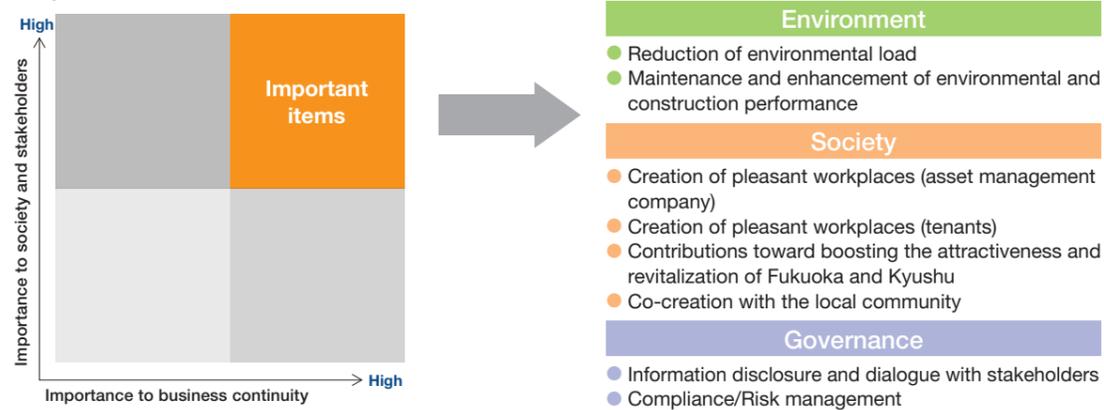
Materiality

Fukuoka REIT Corporation and Fukuoka Realty Co., Ltd., consider it essential to take into account environmental, social, and governance (ESG) factors in addition to pursuing profitability to achieve the best interests of unitholders over the medium to long term. Accordingly, we strive to respond to various ESG-related issues within our real estate investment and management processes.

Identifying Materiality

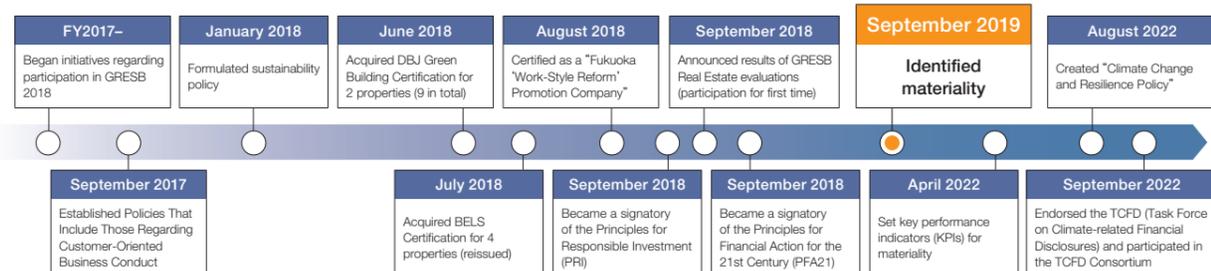
Fukuoka Realty, the asset management company, has identified materiality (important issues to address) in its sustainability initiatives based on the demands and expectations of stakeholders and the expected impact on and importance to FRC's business.

Mapping of Issues

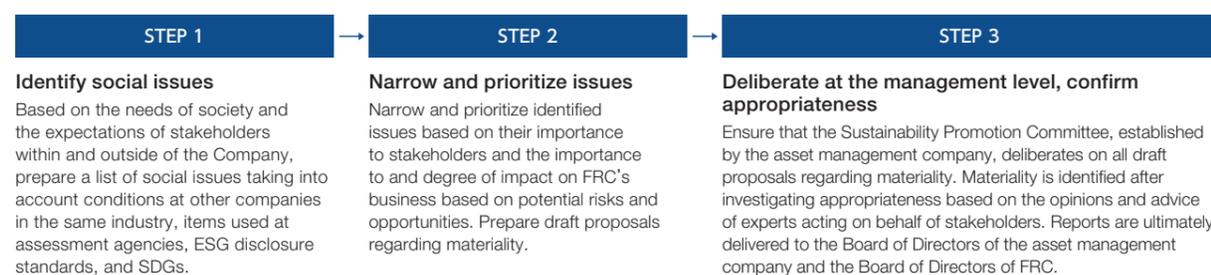


We have identified eight material issues through the process below from environmental, social, and governance perspectives that are of high importance to society and stakeholders and to business continuity.

Historical Background to Identification of Materiality



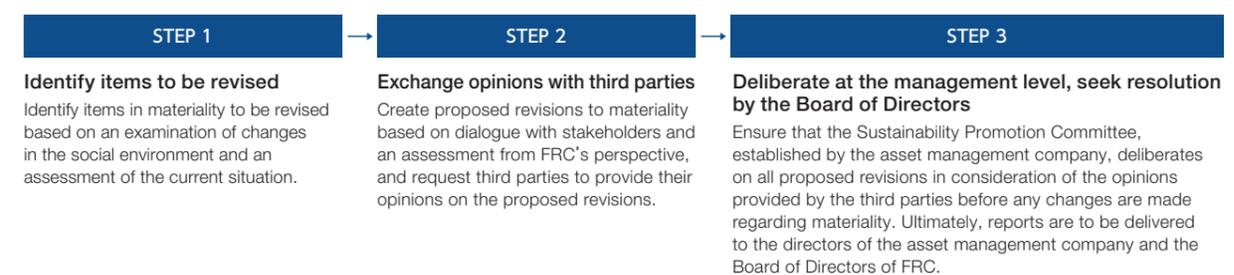
Process for Identifying Materiality



Materiality

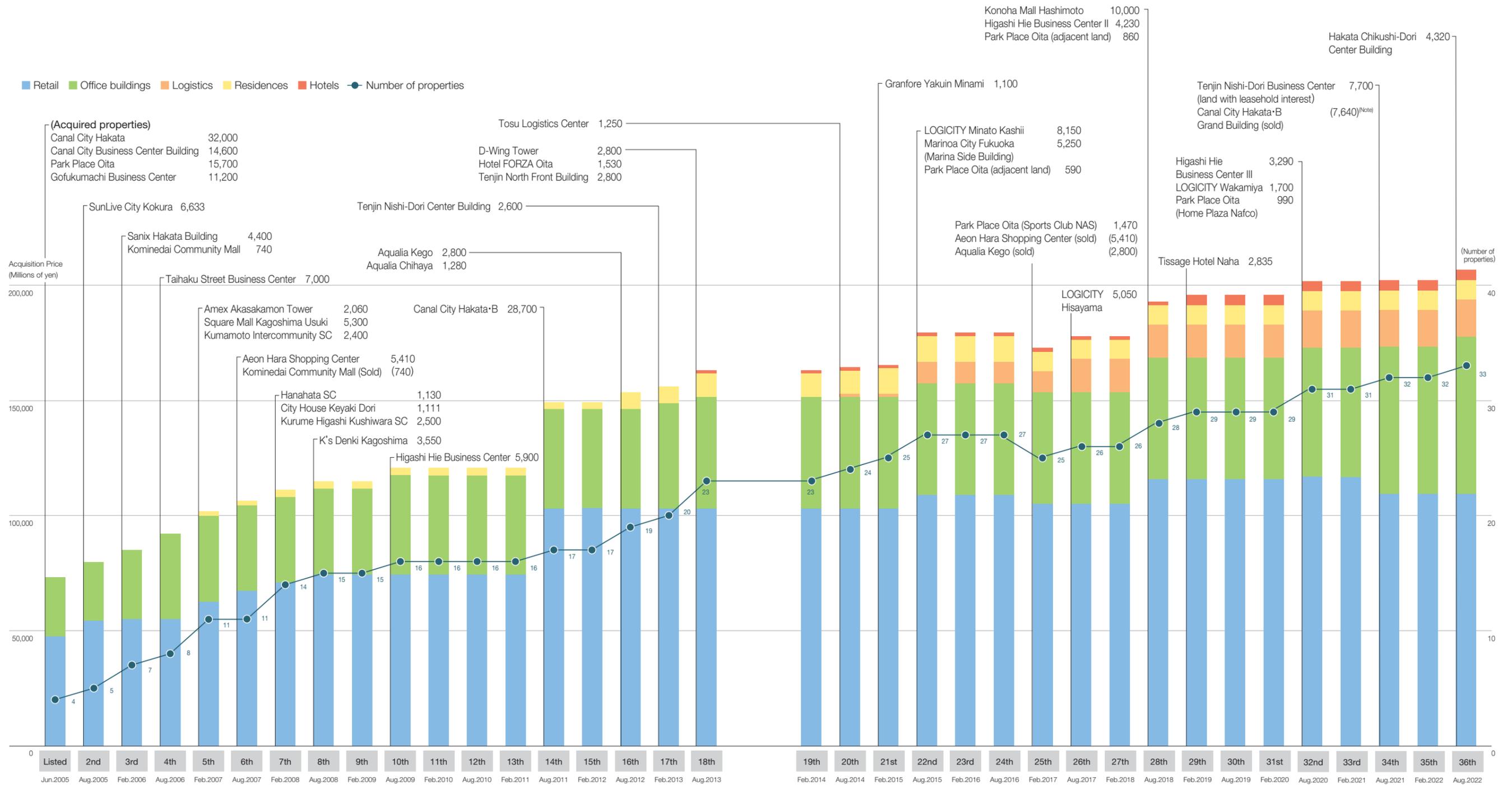
	Materiality	Policies and targets	KPIs and targets	Related SDGs
Environment	Reduction of environmental load	<ul style="list-style-type: none"> Coordinate with Property Management and Building Management on promotion of management and reduction of energy consumption, greenhouse gas emissions, water consumption, and waste output See p.30	<ul style="list-style-type: none"> (by 2030) 35% reduction in CO₂ emissions (compared with 2019, basic unit), 75% waste recycling rate 	
	Maintenance and enhancement of environmental and construction performance	<ul style="list-style-type: none"> Carry out performance and function evaluation of properties on a regular basis and ameliorate any deterioration in performance Maintain and improve competitiveness by acquiring green building certifications and through visual representation of building performance See p.35	<ul style="list-style-type: none"> (by 2030) 85% Green Building Certification rate or higher 	
Society	Creation of pleasant workplaces (asset management company)	<ul style="list-style-type: none"> 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 a work-life balance and boost employee satisfaction 	<ul style="list-style-type: none"> Training per employee (number of times) Improve office environment (number of cases) 	
	Creation of pleasant workplaces (tenants)	<ul style="list-style-type: none"> Promote improvement of employee satisfaction and work toward increasing job satisfaction of tenant employees See p.36	<ul style="list-style-type: none"> Conduct regular tenant satisfaction surveys (all properties) 	
	Contributions toward boosting the attractiveness and revitalization of Fukuoka and Kyushu	<ul style="list-style-type: none"> Enhance dissemination of information regarding strengths and charms of Fukuoka and Kyushu Support research and studies on the local economy and industries and promote attractive urban development in collaboration with local business circles See p.37	<ul style="list-style-type: none"> Join and participate in local economic organizations Host local community events (number of times) 	
	Co-creation with the local community	<ul style="list-style-type: none"> Deepen dialogue and collaboration with local communities through participation in community activities and various initiatives using properties under our management to grow and develop together with the local community 	<ul style="list-style-type: none"> Join and participate in area management organizations Continued participation in activities that contribute to the community (number of times) 	
Governance	Information disclosure and dialogue with stakeholders	<ul style="list-style-type: none"> 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 the management strategy 	<ul style="list-style-type: none"> Dialogue with investors (number of times) Sustainability training for employees (number of times) See p.38	
	Compliance/Risk management	<ul style="list-style-type: none"> Ensure thorough compliance including compliance with laws and ordinances and elimination of conflicts of interest with interested parties, and develop and operate an appropriate internal risk management system to maintain and improve corporate value 	<ul style="list-style-type: none"> Compliance training (number of times) See p.39	

Process for Revising Materiality



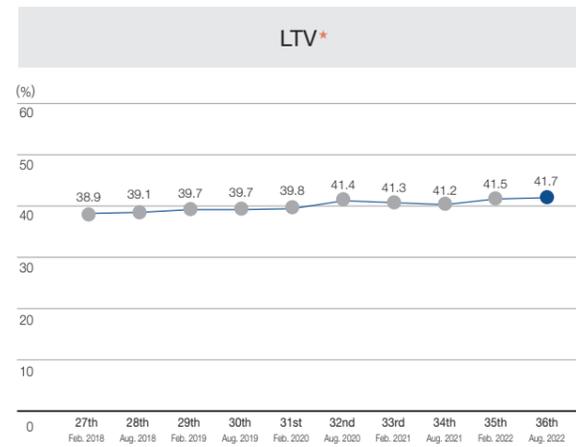
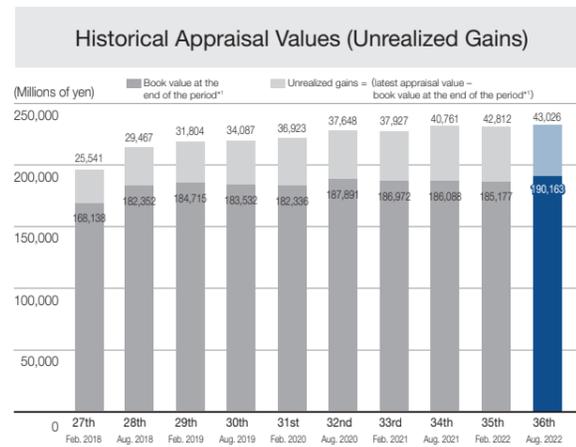
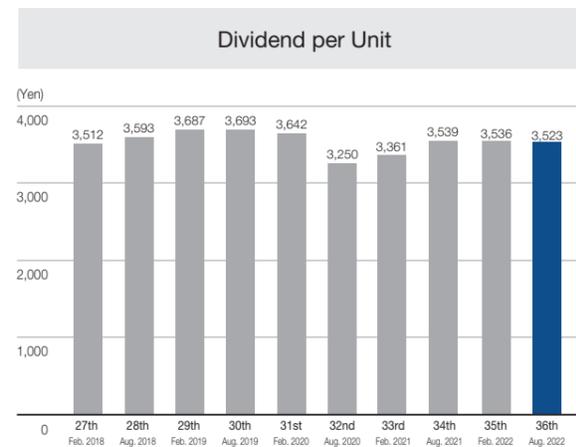
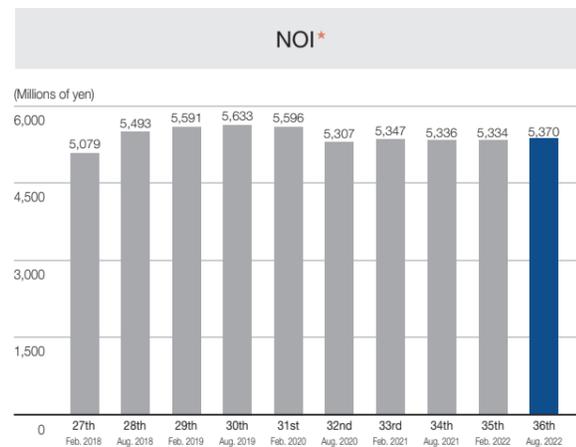
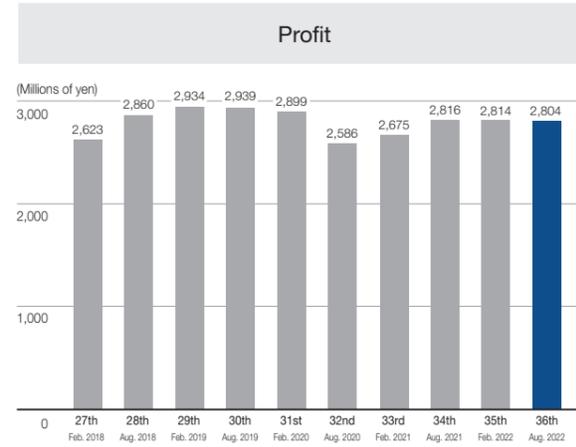
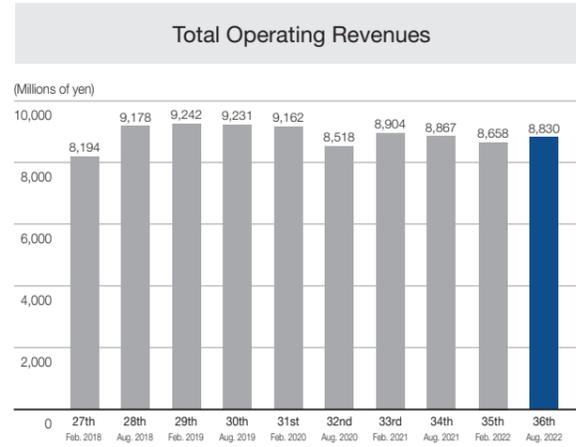
History of Asset Portfolio Expansion

Based on our intention to draw funds to the region by introducing excellent properties in Fukuoka and Kyushu to investors locally and around the world, FRC carefully selects and invests in properties that can generate stable cash flow over many years, and we are working to continuously expand the scale of our assets. In addition to retail and office buildings, we are diversifying our portfolio by expanding the scope of investment into such properties as logistics facilities, residences, and hotels.



* Amounts indicate acquisition price.
Note: FRC has co-ownership interest in the amount of 88.28%, and the amount indicates the appraisal value at the time of transfer.

Financial Highlights



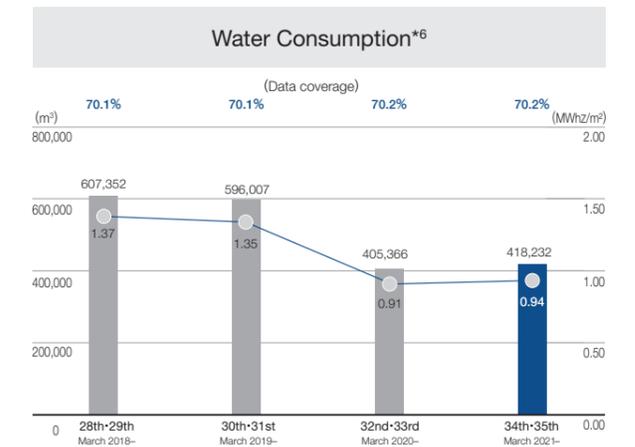
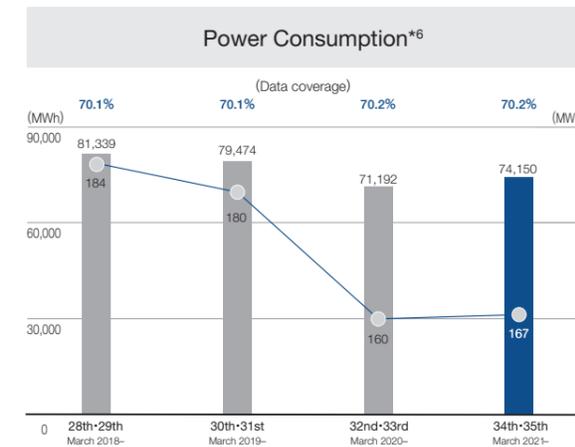
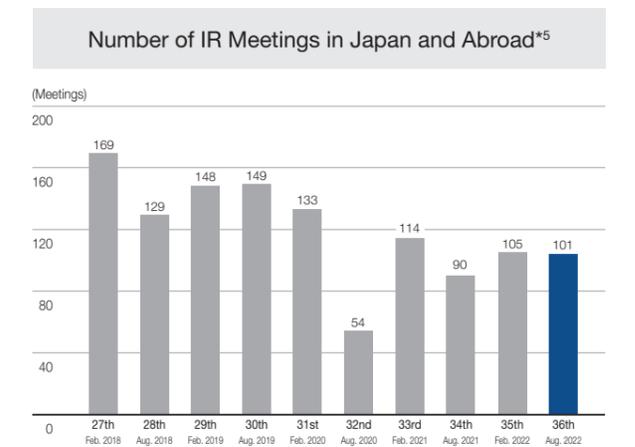
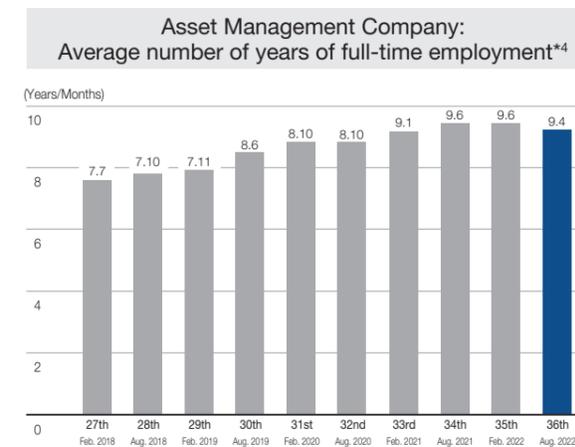
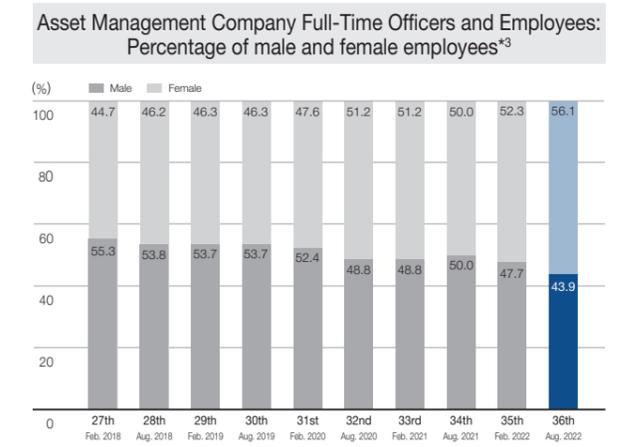
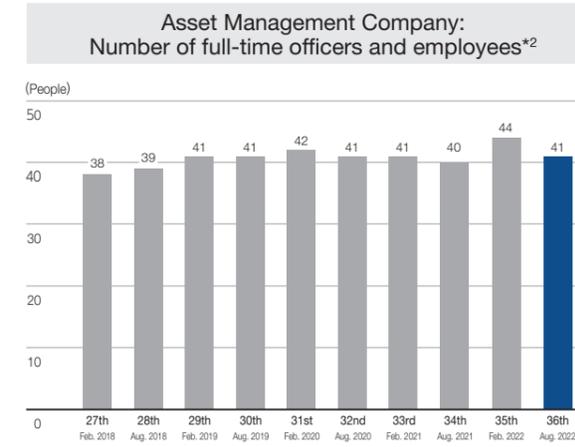
Glossary

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).

LTV

An abbreviation for Loan to Value, and an indicator of a company's borrowing ratio as well as a measure of stability in borrowing. The lower the value, the greater the degree of safety against redemption of debt. [Calculation method] LTV (%) = Interest-bearing Debt / Total assets multiplied by 100

Non-Financial Highlights



*1. Book value at the end of period does not include construction in progress.

*2. The number of full-time 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.

*3. The gender ratio is calculated as the ratio of males and females to the number of full-time personnel.

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

*5. The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period. There were fewer face-to-face interviews in the 32nd fiscal period due to the impact of the COVID-19 pandemic.

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



Looking back over the past year of ongoing dialogue with our investors, I felt the importance of taking a different perspective from developers.

Now in my second year as president of Fukuoka Realty Co., Ltd. (the Company), the asset management company for Fukuoka REIT Corporation (FRC), I have had the privilege of experiencing something different from my past involvement as a developer, which was very informative. In many cases, those of us who are involved in the REIT industry report our earnings twice a year, at which point we meet with our investors. And with each meeting, I experience firsthand the importance of dialogue with investors.

Developers engage in urban and community development under their own set of values, and undertake risk themselves as they develop and profit from properties. On the other hand, companies that employ the REIT scheme own real estate using equity capital solicited from investors and loans borrowed from financial institutions, so absolutely must achieve stable profits. Which is also why we must not act solely upon our own set of values, but must ensure investors accept the value of our actions. Although I feel the perspective of investors is primarily focused on financial results in the form of dividends, it can be difficult to achieve such results from our own

perspective alone. This past year was one in which I began to see this gap.

We will work to address sustainability in unison with our sponsors.

Amid the growing emphasis on sustainability as part of investment and management, I have recently felt the importance of sincerely engaging in the question of how we should address sustainability as a REIT. Which is why I also intend to expand the scope of sustainability-related disclosures going forward. On the other hand, I have also recognized a fair amount of difference in the level of enthusiasm in terms of our investors' interest and questions regarding sustainability. I myself see sustainability initiatives in a positive light.

As one of the Company's sponsors, Fukuoka Jisho Co., Ltd., is an unlisted company, which means it is us that engages with investors and the market. And this is why it is important for us to hold dialogues with our investors, capture the interest of the market, and involve our sponsors in our efforts. Over the past year, I have also felt that the awareness of sustainability among our sponsors, as well as their sustainability initiatives, have made progress. Fukuoka Jisho's Corporate Planning Department has also

started to set down sustainability targets in terms of what they engage in as part of real estate development. The Company's Sustainability Promotion Office and Fukuoka Jisho's Corporate Planning Department must continue to collaborate in facing issues such as determining the degree to which specific targets must be achieved in regard to the assets of the Group. This year, we set specific KPIs and targets for materiality. And we intend to actively disclose these targets along with our results.

The Company's vision and FRC's strategy

The Company's Basic Policy is to soundly manage investment properties with a specialization in the Kyushu region, while our mission as a REIT is to distribute stable dividends over the medium to long term. And contributing to regional revitalization and to the development of attractive communities based on the policy of Act Local and Think Global is both our vision and a direction that we have no intention of changing into the future.

In other words, our position as a region-specific REIT—our primary defining characteristic—is a unique quality with which I can relate very well from the standpoint of someone who was previously involved in urban development. On the other hand, I am concerned over the degree to which our investors acknowledge the value of this unique quality. The price of REIT investment units (valuation) varies depending on the assessment of growth potential (growth expectation). So, if we see valuation as the growth potential for scale, then a slow real estate acquisition pace by FRC as a region-specific REIT will result in a negative market assessment when compared to a REIT that invests in the Tokyo metropolitan area.

Given our desire to contribute to a specific region through the assets that we own, however, simply considering growth in terms of asset scale alone would not match with our vision. Although we could increase investment opportunities by expanding our investment target to the Tokyo metropolitan and Kansai areas as a means of raising the growth potential demanded of investors, this would conflict with our direction. Which is why we instead intend to invest in high-quality real estate in the region of Kyushu and Okinawa, centered on Fukuoka, and manage the REIT with a firm idea as to how we can revitalize the region and contribute in other ways through real estate asset management.

Glossary NAV
 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 the book value of the property owned and the appraised value.
 [Calculation method] NAV: Net assets + Unrealized gains or losses – Dividends Market net assets value per unit: NAV / Total number of units issued

We aim to expand business with a focus on development targeting future stable growth.

I myself have absolutely no intention of allowing the assessment of FRC to deteriorate among the J-REIT brands, which is why I naturally believe in the importance of following our Basic Policy as we actively engage in property acquisition or efforts to increase our market capitalization and our total asset value, all while prioritizing stable dividend distribution and the steady growth of NAV*. Given our uncompromising stance of remaining a region-specific REIT, however, we intend to contribute to the development of cities in the Kyushu region and Okinawa, centered on Fukuoka, as our business field.

I believe that large developers in the Tokyo metropolitan area are similarly involved in contributing to urban development and local communities with their own respective intentions. As one of our sponsors, Fukuoka Jisho Co., Ltd., also aims to increase the value of real estate by making cities more interesting and by helping them grow. And as real estate liquidity increases, developers will shift to considering real estate exit strategies.

In this sense, I see investment corporations and developers as inseparable. After all, REITs acquire properties developed by developers and manage these appropriately. Yet I believe that it is necessary to maintain a structure in which the Company and FRC act independently from each other. With the most recent revisions to the Asset Management Guidelines, we now have greater flexibility when investing in development properties. We made these revisions because we felt that engaging in development projects together with our sponsor companies and other developers will contribute to the growth potential of dividends. In other words, the portion equivalent to the capital gains for developers will help reduce the acquisition book value, which we expect to enable us to acquire properties with relatively high NOI.

Human resources for appropriate asset management and growth of owned real estate

The value of owned real estate varies depending on asset management after acquisition. Moreover, asset management requires a greater degree of manpower as the number of properties increases with an expanding asset scale. The

Company believes we can effectively address this issue through human resources growth based on previously accumulated experience, human resources development through training, and optimized personnel assignments.

The Company is now approaching the 20th anniversary of our founding. We therefore intend to enhance loyalty by providing continuous service awards to those employees who have reached their 15th year of employment. In terms of training, we have conducted overseas training to put Think Global into practice, including overseas training in North America and observation with training in Shenzhen depending on the demands of each employee's duties. We also offer an extensive lineup as part of our certification acquisition support system, through which many of our employees have acquired certifications related to real estate and finance, including becoming ARES Certified Masters and real estate brokers.

As a result of our past initiatives and track record, we were certified as a "Fukuoka 'Work Style Reform' Promotion Company" in 2018, and were registered as a Fukuoka City Well-Being & SDGs Registration System "Master" this year. We are currently advancing a range of work-style reforms, including eliminating all overtime, ensuring employees take annual paid leave, and supporting a balance between child raising and work. Developing human resources and making various considerations will continue to be important. And because we hope to expand the areas in which we do business going forward, we will strive to capture business opportunities for growth by strengthening our human resources and assigning personnel appropriately.

Setting sustainability targets and managing owned properties

Making sustainability-related disclosures is an urgent challenge. Looking back over the past year, we have established a data platform as the prerequisite for achieving the materiality related numerical targets for the properties we currently manage. Going forward, we will work together with our sponsors, and cooperate with each company in the Fukuoka Jisho Group as we shift in a direction that will allow us to store and manage data. In April 2021, we raised the targets of reducing CO₂ emissions by 35%, recycling 75% of waste, and achieving a Green Building Certification rate of 85% or higher, all by 2030. Moreover, in September 2022 we both publicly endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and joined the TCFD Consortium, an association of companies in Japan that has endorsed the recommendations.

In terms of creating value for our stakeholders, the tenants that occupy our properties, for example, each have their own set of values regarding the ESGs. And it is necessary for us to do what we can to address those values. Moreover, if a property does not meet the prerequisites of the tenants, they will no longer choose that property in some cases, so we must have a strong awareness of the demand for sustainability. This awareness, in other words, will necessarily have an impact on the earnings of our properties.

As the basis for accepting all our clients, we must also meet the required standards. The challenges differ in each case, however, where we must question the degree to which we have addressed sustainability in properties under development, or the degree to which we can address sustainability after the fact in properties that we have already acquired. At the very least, we must indicate the value that our properties create from the perspective of environmental action to our stakeholders, and primarily our tenants.

In conclusion: "Together with Local Communities and Cities"

One thing I often say to our employees during morning assemblies is that I want them to value our "focus on the



Riding on top of a float (President Zenji Koike at far right) in the Oiyama float event of the Hakata Gion Yamakasa Festival on July 15, 2022

region" and our "close ties with the region" as a means of practicing Act Local, one of our missions. Although it is fairly difficult to connect these to economic value, I feel that one of our strengths is our ability to help plan and participate in various local activities and events. In 2022, the *Hakata Gion Yamakasa Kakiyama* was held for the first time in three years. I was also allowed to play a part in the festival, and rode the *Hachiban-yamakasa* as part of the *Oiyama* float race on the final day of the event.

Developers in large cities likely struggle when trying to delve deeply into a region from the stance of management once a property is developed. As the entity that manages properties after development, FRC and the Company consider our contributions to the local community together with those developers who work with real estate here in Fukuoka and Kyushu, which means we serve as landlords with deep roots in the community. This, I believe, is a strength of region-specific REITs. And I feel that this aspect is particularly important. In essence, real estate should be considered as a series of stages, beginning with thinking about why land needs to be developed and what kind of value can be offered through development, and ending

with thinking about what needs to be done in terms of asset management afterward to realize that value, and ultimately how to enhance that value. And I feel that being loved by the community and the city residents as a result of this approach will have a major impact on real estate development and post-development management.

FRC and the Company constantly think about this value and focus our energies on managing real estate that is loved by the region. I therefore humbly ask for your continued support.

Zenji Koike President and CEO Fukuoka Realty Co., Ltd.
Place of birth: Fukuoka City Hobbies: Running, golf

Profile

- 1988 Joined Fukuoka SOGO Bank (currently THE NISHI-NIPPON CITY BANK, LTD.)
- 1991 Joined Fukuoka Jisho Co., Ltd.
- 2013 Appointed as Chairman of Canal Entertainment Works Co., Ltd. (currently FJ. Entertainment Works Ltd.)
- 2017 Appointed as Senior Executive Officer of Fukuoka Jisho Co., Ltd. Appointed as Chairman of Sunlife Co., Ltd.
- 2021 Joined Fukuoka Realty Co., Ltd. Appointed as President and CEO of Fukuoka Realty Co., Ltd. (current position)
- 2022 Appointed as Executive Director of FRC in May (current position)

Column "What is Hakata Gion Yamakasa?"

Hakata Gion Yamakasa began when Shoichikokushi rode a *segakidana* and sprinkled perfumed holy water (honeydew water) to remove a pestilence from the city in 1241, which led to the Gion Faith for warding off calamities and ultimately developed into a *yamakasa* ritual. With its roots dating back to 1241, *Hakata Gion Yamakasa* was registered as a UNESCO Intangible Cultural Heritage in 2016, thereby bringing the festival worldwide recognition. This year, the festival was held for the 782nd time. There are two types of *yamakasa* portable shrines, *kazariyama* ornamental floats and *Kakiyama* floats. *Kazariyama* ornamental floats are not carried, but are instead displayed at specific locations in Fukuoka city every year during the festival from July 1 to July 15. The different *Kakiyama* float events begin on July 9 and culminate in the *Oiyama* float race as the climax of the *Hakata Gion Yamakasa*.

The *Kakiyama* float race was held for the first time in three years during 2022 due to COVID-19.

Some of the *yamakasa* are called the seven "Nagare," each of which is carried and compete for time during *Kushida-iri** and over the *Oiyama* float race course. The first *yama* to start the race is called

Ichiban-yama, and is the only *yamakasa* granted the privilege of singing the *Hakata Iwaiuta (Iwaimedeta)* during *Kushida-iri*, so each year the order changes. The *Hakata Iwaimedeta* overpowers as it reverberates throughout Kushida Shrine.

The race starts with the dedication of *Ichiban-yamakasa* upon beginning *Kushida-iri* at 4:59 in the morning, from which time all eight *yamakasa* perform *Kushida-iri* in succession before racing off into the city of Hakata in the dim morning light.

* *Kushida-iri* refers to the act of carrying a *yamakasa* onto the grounds of Kushida Shrine, circling a flag on the grounds, and leaving the grounds again.



Oiyama Float Race Course Map



A Kazariyama ornamental float is dedicated to Canal City Hakata every year.

External Environment (Initiatives of 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.

Initiatives Aimed at Attracting Companies

Attracting International Financial Functions, TEAM FUKUOKA



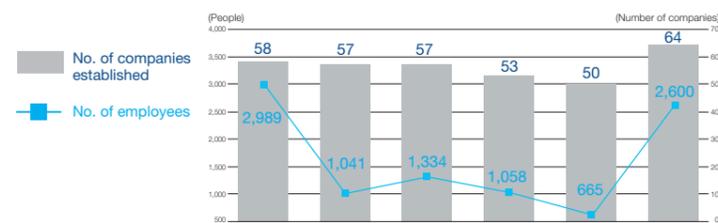
With the aim of attracting international financial functions to Fukuoka, TEAM FUKUOKA was launched to conduct promotional activities and create an environment that will generate momentum for the city as a whole by leveraging the characteristics of industrial, academic, and government partners (in September 2020).



M-DAQ, a globally expanding and Unicorn-class Singapore FinTech company offering financial services using foreign exchange, and E.SUN Bank, a leading financial institution in Taiwan that holds the largest share in financing for SMEs, have decided to open offices in Fukuoka City (in September 2022).

Change in the Number of Companies with Headquarters Functions/ in Growth Area Established in Fukuoka City

Strong Demand for Creative-Related Industries and Call Centers



(of which, main fields and functions)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Creative-related industries	28	40	38	38	30	41
Foreign/foreign-affiliated	18	13	14	15	12	15
Call center	12	9	7	2	8	8
Headquarters functions, etc.	3	1	7	6	0	7
International finance	-	-	-	-	-	6

Source: Prepared by Fukuoka Realty based on data from "Headquarters functions/in growth area" by the Fukuoka City Economy, Tourism & Culture Bureau.

Fukuoka City Tops List of Business Opening Rate in Japan for Three Consecutive Years



Source: Prepared by Fukuoka Realty based on data from "The general condition of the Fukuoka City Economy, March 2022" by the Fukuoka City Economy, Tourism & Culture Bureau.

Fukuoka City Special Zone for Global Start-Ups & Job Creation (National Strategic Special Zone)

Initiatives to support start-ups

- Tax Reduction for start-ups (municipal tax, national tax)
- Startup Visa
- Startup Café
- Fukuoka Growth Next
- Global Startup Center

Source: Prepared by Fukuoka Realty based on the section of Fukuoka City's official site featuring "National Strategic Special Zone for Global Start-Ups & Job Creation."

Redevelopment Project



Note: Focus areas

Tenjin Big Bang

Redevelopment Projects

Name	Completion month
① Sumitomo Life Fukuoka Building/Nishi-dori Business Center Reconstruction Project (provisional name)	May 2025 (scheduled)
② Tenjin Business Center	September 2021
③ Fukuoka City Hall's Former North Annex Utilization Project	November 2025 (scheduled)
④ Tenjin 1-chome North 14th Block Building (provisional name)	March 2025 (scheduled)
⑤ New Fukuoka Building (provisional name)	December 2024 (scheduled)
⑥ Tenjin1-7 plan (provisional name)	March 2026 (scheduled)
⑦ Hulic Fukuoka Building Rebuilding Project (provisional name)	December 2024 (scheduled)
⑧ Fukuoka Daimyo Garden City	December 2022 (scheduled)

Source: Created by Fukuoka Realty based on each company's press release.

Main Deregulation in the Tenjin Big Bang Area (National Strategic Special Zone)

① Special permission to relax Civil Aeronautics Act-related building height regulations

- Around Fukuoka City Hall approx. 67m (15 floors)
- Tenjin Meiji-dori district (west of the center of Watanabe-dori) approx. 115m (26 floors)
- Tenjin Meiji-dori district (east of the center of Watanabe-dori) approx. 76m (17 floors) ~ approx. 100m (22 floors)
- Tenjin 1-chome district approx. 80m (18 floors) ~ approx. 96m (21 floors)

② Deregulation of floor space ratios (Fukuoka City original)

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

Hakata Connected

Redevelopment Projects

Name	Completion month
⑨ The Nishi-Nippon City Bank Head Office Main Building Construction site	February 2025 (scheduled)
⑩ Fukuoka Higashi General Prefectural Office Building Site Utilization Project	March 2024 (scheduled)
⑪ Hakata East Terrace	August 2022
⑫ Hakata Fukami Park Building	February 2021
⑬ The Nishi-Nippon City Bank Administrative Head Office Building	September 2028 (scheduled)

Source: Created by Fukuoka Realty based on each company's press release.

Hakata Connected Bonus

Expand the system to relax the floor area ratio requirement (measure to facilitate renewal of city center functions)
Increase the floor area ratio (up to 50%) for buildings contributing to expand the bustle, such as creation of open spaces that generate connections and expanse.

Existing system to relax floor area ratio + New incentive Floor area ratio of up to **50%**

- High-quality, high-value-added buildings
- Provide floors for tenant relocation

Note: The projects are designed to solve problems specific to the area around Hakata Station (limited to the period of Hakata Connected)

Risks and Opportunities

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

● Measures to Address Risks ● Opportunities

Significant risks	Impact on stakeholders	Respond to risks and opportunities
Risks from Natural Disasters <ul style="list-style-type: none"> Response to climate change <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load 	<ul style="list-style-type: none"> Buildings might be lost, suffer deterioration or damage due to the occurrence of natural disasters, such as earthquakes, storms, and floods, or severe weather due to climate change, and their value could be affected, with a decrease in rent due to the non-operation of properties 	<ul style="list-style-type: none"> Consider that it is possible to purchase insurance at a relatively low cost compared to other areas; arrange earthquake insurance coverage for all properties Improve resilience (e.g., ability to respond to disasters) by engaging in a variety of activities; this includes conducting disaster drills at each property, stockpiling emergency food supplies, strengthening flood countermeasures, and formulating a business continuity plan (BCP) <p>See p.34</p>
Environment-Related Risks <ul style="list-style-type: none"> Reduction of environmental load Soil pollution and toxic substances <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load Maintenance and enhancement of environmental and construction performance 	<ul style="list-style-type: none"> Increase in property management costs due to more stringent environmental laws and regulations, such as the strengthening of the Building Energy Conservation Law Risk of damage to the health of building users due to the presence of toxic substances in the soil or in building materials, and other items, of properties owned; risk of bearing the cost of compensation for damage to health or for removal of toxic substances 	<ul style="list-style-type: none"> Work to maintain and improve environmental performance through renovation opportunities for properties owned; acquire Green Building and other certifications to obtain the results of environmental/social initiatives in visual form and improve property competitiveness Aim to reduce vacancy rates by pursuing healthful and comfortable conditions in properties owned and by increasing leasing demand for properties with high environmental performance Conduct thorough physical investigations at the time of property acquisition; acquire properties after confirming the presence or absence of toxic substances and taking appropriate measures <p>See p.35</p>
Human Resource Related Risks <ul style="list-style-type: none"> Deterioration in the caliber of human resources Dependence on human resources <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (asset management company) 	<ul style="list-style-type: none"> Risk of deterioration in the organizational strength of Fukuoka Realty Co., Ltd. (asset management company), due to a failure to maintain the human resources base, in terms of such factors as ability, experience, and know-how of the asset management company for smooth business operations Heavy reliance on FRC's directors and auditors as well as on the human resources of the asset management company; the risk that the outflow of these human resources could have an adverse effect on operations 	<ul style="list-style-type: none"> Improve organizational strength and increase employee loyalty by hiring and fostering excellent human resources Improve employee motivation by realizing a work-life balance and the stabilization of work through health management <p>See p.36</p>
Infectious Disease, Epidemic, and Other Related Risks <ul style="list-style-type: none"> Pandemic <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance Creation of pleasant workplaces (asset management company) Creation of pleasant workplaces (tenants) 	<ul style="list-style-type: none"> Risk that such external factors as infectious diseases and epidemics in Japan and overseas could interfere with the normal operation and management of FRC's properties Decrease in rental income from real estate due to such factors as a downturn in visitors, which might have an adverse effect on, for example, earnings 	<ul style="list-style-type: none"> In addition to physical infectious disease countermeasures, expand the COVID-19 workplace vaccination program scope to cover retail facility tenant employees as a means of promoting a safe and secure facility environment for asset management company employees, tenants, and consumers Set up satellite offices at the asset management company and introduce a telework system with a view to ensuring business continuity <p>See p.36</p>
Property Concentration Risks <ul style="list-style-type: none"> Region (Fukuoka/Kyushu) Retail facilities <p>Related Materiality</p> <ul style="list-style-type: none"> Co-creation with the local community Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu 	<ul style="list-style-type: none"> As FRC's properties owned are concentrated in Fukuoka and Kyushu, the vacancy rate might increase due to a worsening economic situation in that region, and profitability could deteriorate due to a decrease in rent Possibility of adverse effects on profits due to overall consumer consumption as well as other overall trends in the retail industry that reflect the nature of retail facilities as a main investment target 	<ul style="list-style-type: none"> Invest in various types of properties to reduce the risk of portfolio fluctuation by diversifying rental market cycles and tenant industries In retail facilities, such as Canal City Hakata/Canal City Hakata-B, operate bustling facilities by replacing tenants and providing new experiences and other value, thereby reducing the risk of profit fluctuation by dispersing tenants Revitalize the entire region and connect this growth to the growth of properties owned <p>See pp.12-13 See pp.42-43</p>

Significant risks	Impact on stakeholders	Respond to risks and opportunities
Risks from Changes in Business Conditions <ul style="list-style-type: none"> Increase in vacancy rates Decrease in rent <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (tenants) 	<ul style="list-style-type: none"> Vacancy rate increases associated with worsening real estate market conditions; decrease in dividends due to rent decreases Rent reduction, rent nonpayment, and vacating risks due to deterioration of a lessee's financial situation 	<ul style="list-style-type: none"> Consider extending lease agreement terms, fixing of such items as rent, according to property characteristics Appropriate occupancy screening when tenants move in as well as monitoring of operating status and thorough credit management during the lease period Deposits and security deposits against items including rent delinquency; collateral by such means as guarantor companies Treat deterioration in the real estate market as an opportunity to acquire excellent properties and execute strategic investments through appropriate financial management utilizing information-gathering capabilities
Market-Related Risks <ul style="list-style-type: none"> Increase in interest rates Fluctuations in the investment unit price <p>Related Materiality</p> <ul style="list-style-type: none"> Information disclosure and dialogue with stakeholders 	<ul style="list-style-type: none"> Risk of increase in interest payment due to increase in interest rates caused by market trends at the time of borrowing Risk that FRC's investment unit price might fluctuate due to factors that include unitholder supply and demand, interest rate conditions, economic conditions, and real estate market conditions Risk of not being able to acquire planned assets because additional units cannot be issued at the desired time and under desired conditions due to fluctuations in unit price 	<ul style="list-style-type: none"> Long-term fixing of interest-bearing debt and repayment period limit diversification Conservative interest-bearing debt management and commitment lines* to ensure flexibility and agility in funding Conduct proactive IR activities <p>See p.27</p>
Risks from Property Degradation, Deterioration <ul style="list-style-type: none"> Increase in repair and maintenance expenses Decline in property competitiveness <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance 	<ul style="list-style-type: none"> Increase in expenses required for such items as large-scale repairs, due to the deterioration of properties, and large capital expenditures could reduce cash flows Possibility of tenants vacating and a reduction in rent due to a loss of property competitiveness resulting from changes in the surrounding environment 	<ul style="list-style-type: none"> Maintain/improve property competitiveness through appropriate maintenance and repair work, value-up investment, and extending the number of service life years Based on an understanding of conditions including real estate market trends and the capital market environment, if the strategic holding of a property becomes less significant from the perspective of property performance, competitiveness, and future profitability, consider replacement of that property if it is determined that selling it is in the interest of unitholders
Regulatory Risks <ul style="list-style-type: none"> New laws and regulations Changes in the tax system <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> Possibility of a limitation on rights with respect to properties owned and an increase in property management expenses and other items, due to newly established, revised, or abolished laws and regulations Possibility of an increased burden from taxes and fees due to tax reform 	<ul style="list-style-type: none"> In addition to receiving information from such sources as Fukuoka Realty's affiliated organizations, tax accountants, and law firms, participate in external training, obtain information, and take measures to reduce any impact from an early stage
IT-Related Risks <ul style="list-style-type: none"> Information leaks <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> Risk of leakage of personal and confidential information due to delays in strengthening cybersecurity 	<ul style="list-style-type: none"> Strengthen confidential information management systems by introducing two-factor authentication for software as well as applications and by conducting training on cybersecurity and information management Enable property differentiation by introducing advanced technologies into properties owned
Compliance Risks <ul style="list-style-type: none"> Violations of organizational laws and regulations Conflicts of interest* <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> If Fukuoka Realty Co., Ltd. (asset management company), violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability Potential conflict of interest issues with sponsor 	<ul style="list-style-type: none"> Prevent violations including those of laws and regulations as well as transactions involving conflicts of interest, through deliberations and audits by the Compliance Assessment Committee Improve employee awareness of compliance by conducting regular compliance trainings <p>See p.39</p>

Glossary **Commitment lines**
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.

Conflicts 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.



The Investment Department leverages its capabilities in information gathering, relationship building with local communities, and property observation that are unique to a region-specific REIT to acquire excellent properties that generate stable cash flow over the medium to long term, a goal that cannot be realized with investment from outside the region.

The real estate market in the Kyushu area remains brisk on the back of rising land prices and construction costs, solid rental demand, and robust investment demand. In Fukuoka City, real estate values continue to rise amid positive macroeconomic indicators. Against this backdrop, it is becoming increasingly difficult each year to acquire investment properties with an emphasis on yield. We are therefore striving to secure investment opportunities for premium real estate by swiftly attaining useful information through community-based management and our community ties so we can make informed decisions on investment potential.

Recently, FRC signed an agreement with Fukuoka City to acquire a site on Island City, an artificial island in Hakata Bay, Fukuoka City, that has benefits from a logistics perspective, jointly with Fukuoka Jisho Co., Ltd., one of our sponsors. The project will enable us to avoid excessive competition and secure investment opportunities in the Fukuoka market, where we forecast ongoing competition in the investment property sector. This is expected to contribute to the stable external growth of FRC. It is also anticipated that the project will help improve logistics operations in the Fukuoka metropolitan area and facilitate the distribution of goods while also providing new employment opportunities and thus revitalizing the region.

FRC revised the methods for acquiring investments within our management guidelines in 2022 to ensure adequate diversification. As a result, even as a REIT, FRC can now consider certain other development projects in addition to the acquisition of buildings that have been completed, premised on defined risk management and collaboration with business partners. Diversifying property acquisition methods in this way is expected to lead to further investment opportunities. FRC plans to increase the proportion of projects that allow involvement from the development stage to around 10% of all acquired properties.

We are also targeting other regions in Kyushu to invest in based on a careful analysis of conditions and changes in the business environment in each region. The local government is currently implementing policies to attract companies to the Kyushu area, and there has been a marked uptick in activity by companies that have entered as well as by businesses associated with them. FRC intends to take advantage of this trend to enhance our portfolio, diversify risk, and drive continued internal growth, pursuant to our investment criteria. We also recognize sustainability as a key factor that needs to be considered when acquiring property. Although recently constructed properties have few issues in this regard, it can be relatively difficult to obtain environmental certification for older properties, and this might not be sufficiently reflected in the CAP rate.

Even though the real estate market is mildly overheated at present, we remain committed to realizing stable growth for our unitholders over the medium to long term and contributing to the revitalization of regional economies through our investments and operations.



The Real Estate Management Department draws up plans for asset management with the aim of ensuring long-term and stable expansion in profits from the assets held by FRC. The Fukuoka metropolitan area, our primary destination for investing, manifests potential for growth due to a rising population and an increasing number of companies locating operations there. Accordingly, as a comprehensive REIT, we are investing in the region in a diverse range of asset types. REITs consist of two types of growth: external growth in which we aim to increase dividends through investment, and internal growth in which we strive to enhance the profitability of the assets in our portfolio. The Real Estate Management Department seeks to maximize the value of our property portfolio over the long term through renovations and other innovative operational initiatives that enhance the appeal of our assets.

Although the business environment remained extremely difficult for a portion of our portfolio in 2022 due to the lingering effects of the COVID-19 pandemic, we implemented various measures to maintain and improve the long-term value of all the properties we own.

At Park Place Oita, we overhauled the outdoor environment with Shangri-la, a playground for children that stimulates their curiosity for play and introduced large new stores to enhance our ability to attract customers. At Canal City Hakata, we signed an agreement with a major new retail tenant and embarked on a plan to systematically overhaul the premises based on a medium- to long-term business strategy drafted with a view to co-creation with the local community. At Konoha Mall Hashimoto, we endeavored to ensure that tenants and visitors can utilize our facilities with peace of mind by continuing to take measures to prevent the spread of COVID-19 infections and providing a safe and hygienic environment throughout.

Efforts included upgrading the food court, introducing a large new store (GU), and replacing certain drinking and eating establishments with Komeda's Coffee and other stores.

In terms of office building tenants, we are making steady progress in planned backfilling in line with the closure of certain large-scale tenants. We are also striving to maintain and improve environmental and construction performance, not only in commercial facilities but also in hotels, office buildings, and other assets to maintain their competitiveness. We are upgrading critical facilities such as water supply, drainage, and air conditioning as well as gradually shifting to LED lighting. Other efforts are focused on ensuring a safe and hygienic environment and pursuing energy conservation.

We will strive to effectively identify greenhouse gas and waste emissions and implement measures to reduce these to further emphasize our stance toward sustainability and promote environmental preservation in the real estate sector. We also intend to take steps to enhance the work and business environments for tenants and employees.



April 2022



Executive Director and General Manager of the Finance Department
Hiroyuki Ayabe

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

Although the Tokyo Stock Exchange (TSE) REIT Index temporarily saw a precipitous decline at the start of 2021 and again in June of that year, it has since returned to a level exceeding 2,000 points, the pre-COVID level, as of September 2022, amid signs of a gradual recovery

following the impact of the pandemic. While the low interest rate environment is forecast to continue due to the ongoing monetary easing policy of the Bank of Japan, the markets are pricing in future interest rate hikes. As such, I believe that it will be necessary to practice financial management with an even greater awareness of the risks posed by rising interest rates.

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

Financial Strategy/Capital Strategy

Regarding our financial strategy, we will first and foremost maintain a conservative interest-bearing debt ratio from the perspective of building a solid financial base. The interest-bearing debt ratio at the end of August 2022 was 41.7%.

Next, from the perspective of ensuring flexibility and agility in financing, we have set a commitment line with a maximum amount of 13 billion yen. We have also decided on a three-year commitment period, enabling us to address unexpected deterioration in the financing environment.

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

regional banks that operate primarily in Kyushu and the megabanks—we will strive to diversify our procurement sources.

We will also actively incorporate consideration for the United Nations Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) issues from a financial perspective and look to contribute to the resolution of all related challenges.

The ratio of sustainable finance to total borrowings was 11.6%.

Regarding our capital strategy, we will look for the best timing relative to market conditions to raise capital alongside external growth, which is one of the drivers of growth for FRC. We will also adequately consider the balance between increasing dividends after capital procurement and LTV control as well as other factors.

July 2019	Procured funds through green finance, a first for FRC
March 2021	Procured funds via a mechanism for financial institutions to donate a part of the profits obtained through borrowing as funds for research into the development of a new COVID vaccine at national universities →Newly borrowed 2 billion yen from The Juhachi-Shinwa Bank that was donated to Nagasaki University
June 2022	Procured funds through green finance (1.6 billion yen in refinancing from Sumitomo Mitsui Banking Corporation) See p.33
August 2022	Procured funds through a syndicated sustainability-linked loan from the three sponsor banks of our asset management company, a first for a J-REIT (4.9 billion yen from the Development Bank of Japan, The Nishi-Nippon City Bank, and The Bank of Fukuoka)*1

*1. A 35% reduction in CO₂ emissions (basic unit) compared with 2019 has been set as a sustainability performance target (SPT) to be attained by 2030, and the achievement of the target will be linked to the conditions of the loan. When the SPT is achieved, the contract will offer a preferential interest rate from the interest rate determined at the time of borrowing from August 2031 until the repayment date, as an incentive.

Investor Relations (IR) Activities

Coupled with compiling the various types of information necessary for investment decisions, our primary consideration is to offer a steady stream of timely, fair, accurate, and easy-to-understand information, which is the basic policy of IR activities. As one measure, while proactively disclosing (increasing the amount of) non-financial information that does not appear in the income statement or balance sheet, such as publicizing our strengths as a REIT specializing in regional properties and the real estate situation in Kyushu and Fukuoka, we will work to improve the content. I believe that doing so will lead to a deepening of mutual understanding with all unitholders, the building of relationships of trust, and ensuring positive steps toward attracting outstanding investment funds from other parts of Japan and overseas to Kyushu and Fukuoka.

Before the COVID pandemic, we held meetings in person with more than 200 institutional investors each year. Due to restrictions placed on face-to-face IR activities, we are continuing our IR activities with the highest priority placed on preventing the spread of COVID-19 infections.

Specifically, we are incorporating innovative ideas, such as making full use of a range of Internet tools to hold efficient meetings. In-person meetings are gradually becoming possible again, and I would like us to consider actively holding briefing sessions for individual investors as well. In addition, we are very particular about the stories and visuals we use in our financial briefing documents for unitholders so that they can fully grasp the appeal of a region-specific REIT. FRC has been highly praised for our efforts over the years, winning the IR Excellent Company Encouragement Award in 2014*2 and the IR Good Visual Award in 2017 and 2019*3. Our website was recognized as outstanding in general and industry rankings in fiscal 2021.

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

*2. Hosted by the Japan Investor Relations Association
*3. All Japanese Listed Companies' Website Ranking by Nikko Investor Relations Co., Ltd.

FRC's IR Activities

	September 2019– August 2020	September 2020– August 2021	September 2021– August 2022
Results briefings	2	2	2
IR in Japan*4	147	166	184
IR overseas*4	40	38	22
IR for individual investors*5	6	7	5

*4. Includes telephone conferences
*5. Includes results briefings for individual investors

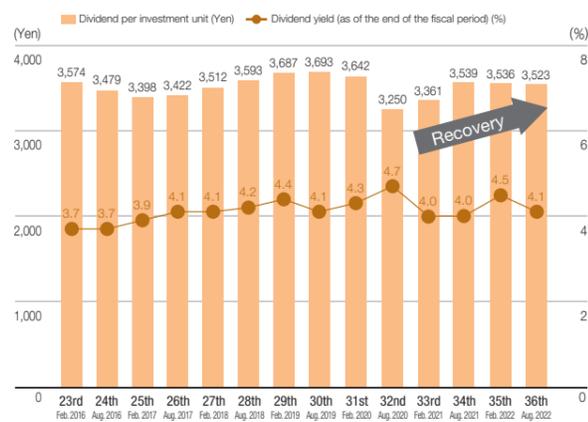


Dividends and TSR

Figure 1 shows FRC's past dividends and dividend yields. Among listed REITs, our dividends are extremely stable.

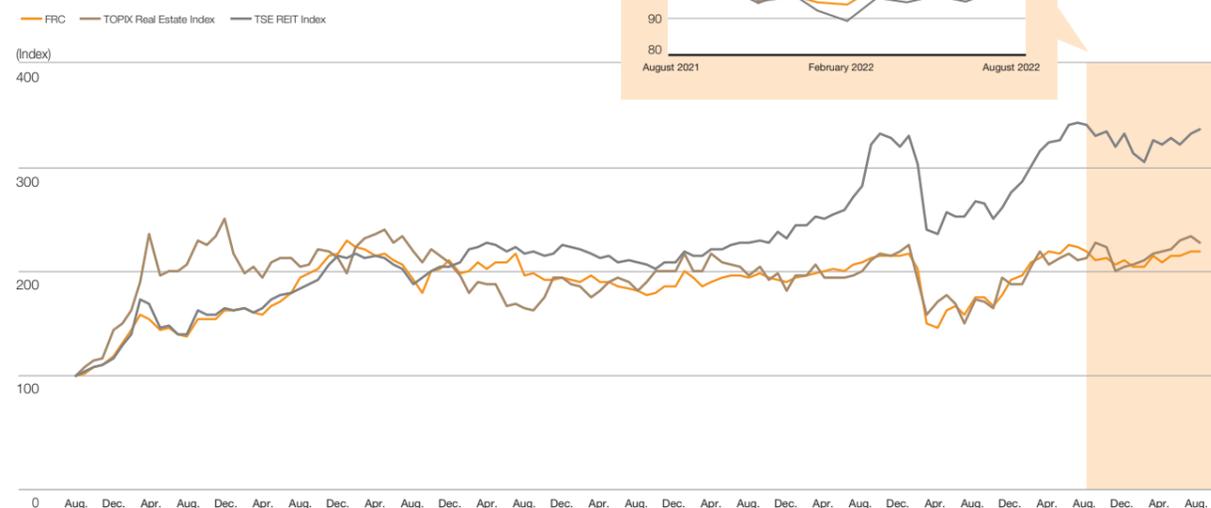
In contrast, the dividend yield has fluctuated between 3.8% and 4.7% over the past eight years, indicating that investment unit prices have shifted due to changes in the stock market, interest rate trends, and fluctuations in market supply and demand.

Figure 1. Past Dividends and Dividend Yields



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)



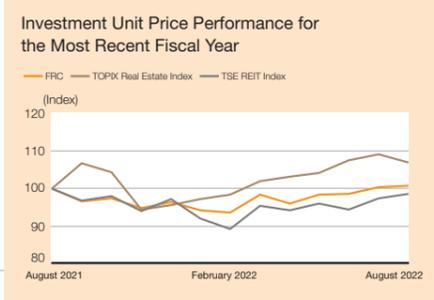
Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2012, as 100. TSR over the past 10 years considers dividends and investment unit prices in indicating the profitability of investments made on August 31, 2012, as of August 31, 2022. The TOPIX Real Estate Index and the TSE REIT Index are indexed in the same way, using dividend-included data. Similarly, the graph for the most recent fiscal year is indexed with the investment unit price as of August 31, 2021, as 100.

Table 1 and Figure 2 show the total shareholder return (TSR), taking into account FRC's dividends and capital gains. TSR performance has been 8.1% annually over the past 10 years. In contrast, returns have remained flat over the past year as the TSE REIT Index weakened.

Table 1. 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	(0.9)%	7.2%	2.3%	25.2%	4.6%	118.6%	8.1%
TOPIX Real Estate Index	6.9%	14.0%	4.5%	25.0%	4.6%	126.5%	8.5%
TSE REIT Index	(1.5)%	19.3%	6.1%	60.0%	9.9%	232.3%	12.8%

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



Planning Department



General Manager of the Planning Department and General Manager of Sustainability Promotion Office
Keishi Tamura

The Role of the Planning Department

The Planning Department is in charge of matters relating to management policy, general affairs, personnel affairs, accounting, and sustainability. We believe in the importance of creating an environment in which all employees can fulfill their potential in order to contribute to regional revitalization and the development of attractive communities, based on an understanding of the activities of our asset management company and under the basic policy of Act Local, Think Global.

Framework for Sustainable Initiatives

In 2018, FRC established the Sustainability Policy and Regulations Concerning Sustainability Management to promote sustainability in consideration of environmental, social, and governance (ESG) issues and set up the Sustainability Promotion Committee comprised of full-time directors, executive directors, and general managers. The committee establishes internal organizations, collaborates

with outside parties, examines specific goals and measures relating to information disclosure policy and other matters, and identifies the progress made in measures being implemented. Sustainability officers are responsible for practical matters relating to achieving the goals set by the committee with the General Manager of the Planning Department providing general oversight.

Sustainability Initiatives and GRESB

FRC has been conducting sustainability initiatives since our listing that include obtaining DBJ Green Building Certification. ESG-related inquiries from investors started to increase in 2017 at investor relations activities overseas.

We believe it is necessary to make efforts in line with global standards, and in 2017 we decided to take part in the Global Real Estate Sustainability Benchmark (GRESB) system to further promote our sustainability initiatives.

We worked to increase an understanding of ESG issues and sustainability with related parties to effectively set goals for our sustainability activities. This included endorsing the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21) and inviting investors, analysts, and REIT issuers engaged in advanced sustainability activities to a workshop concerning disclosure of non-financial information at the

IR Kyushu Workshop run jointly by FRC and the Japan Investor Relations Association.

We attained a 4-star rating in our first GRESB Real Estate Assessment in 2018 and have received ratings every year since. In 2022, we received another 4-star rating in this category as was the case in 2021 and obtained an A-level rating in the GRESB Real Estate Public Disclosure evaluation.

Materiality and ESG Initiatives

As part of our sustainability initiatives, we identified material issues (materiality) for the first time in 2019 when we published our inaugural Integrated Report. In April 2022, we set targets and key performance indicators (KPIs) for each issue. The status of initiatives being undertaken for each of these issues is outlined below.

Environment

In terms of environmental efforts, we are switching to LED lighting in the properties we own. We plan to continue installing e.g. LED lighting in our commercial facilities this fiscal year as well. In addition, we are in talks with property management companies regarding ways we can reduce energy consumption when it comes time for facilities to be upgraded and have targeted a 35% reduction in CO₂ emissions by 2030 relative to 2019. We are also looking to acquire Green Building Certification and have done so for 77.8% of our properties to date. We aim to increase this number to 85% or higher by 2030 by maintaining and improving the environmental performance of existing properties and by adopting a careful selection process for new properties.

Society

As one social initiative, we aim to create an appealing workplace for employees. In 2018, FRC was recognized by Fukuoka City as a company that actively seeks to promote work-style reform. We were highly praised for our efforts to enhance productivity by supporting personal development and for our campaign encouraging no overtime.

In 2022, Fukuoka City launched a registration system for businesses committed to achieving the well-being of their workers and the SDGs with the aims of enhancing the satisfaction of people's lives and realizing a sustainable environment, society, and economy. This is the first such initiative in Japan. FRC registered and has been certified as a "master" under the system.

We are also actively communicating with the local community, including through Twitter since 2010.

Governance

In terms of governance-related efforts, we adopted all seven principles set forth in the Principles for Customer-Oriented Business Conduct established by the Financial Services Agency in 2017 and formulated our own Policies for Customer-Oriented Business Operations.

Since then, we have been disclosing information on the status of this initiative. With regard to risk management, we update our risk matrix in a timely manner and regularly conduct drills as part of our business continuity plan (BCP) to confirm its effectiveness.

Sustainability Finance

In July 2019, FRC was the first company headquartered in the Kyushu region to be issued a green loan and the first J-REIT to take out a syndicate-based green loan. Following this, we have procured funds that included a donation to a COVID-19 vaccine development research fund at Nagasaki University and procured funds through a sustainability-linked loan. With the latter, a syndicate was formed in which the Development Bank of Japan, one of our sponsor banks, serves as the coordinator with collaboration from The Nishi-Nippon City Bank and The Bank of Fukuoka. Through this loan, the sponsor banks and FRC team up to set Sustainability Performance Targets in consideration of the environment and strive to reduce CO₂ emissions.

Task Force on Climate-related Financial Disclosures (TCFD)

One current focus concerns the Task Force on Climate-related Financial Disclosures (TCFD). In September 2022, we established a Policy on Climate Change and Resilience that states measures regarding the risks and opportunities associated with climate change as well as the resilience (strength and buoyancy) of operations and strategies relative to climate-related issues. We also announced our endorsement of the recommendations of the TCFD and joined the TCFD Consortium, an organization of Japanese companies expressing their support of the TCFD.

The TCFD requests companies to evaluate the climate-related risks and opportunities to their business and to assess and disclose the financial impact. FRC has started analyzing different climate scenarios to identify the risks, opportunities, and financial impact in order to formulate a viable strategy.

We will continue to conduct asset management in consideration of sustainability as Japan's first region-specific REIT that promotes community development and economic revitalization in the Fukuoka and Kyushu areas.

Climate Change Scenario Analysis

We conducted an analysis to be used for the purpose of assessing the validity of current climate change measures and developing future strategies. Risks, opportunities, and financial impacts as shown in the table are assessed below.

	Risk/Opportunity factors	Financial impacts	4°C scenario			15°C scenario		
			Short term	Medium term	Long term	Short term	Medium term	Long term
Transition risks	Policy and law	Taxation of CO ₂ emissions due to introduction of carbon tax	S	S	S	S	M	M
		Stricter energy-saving standards for existing real estate and introduction of carbon emission-related restrictions	S	S	S	S	M	L
		Stricter mandatory emissions reporting requirements in the Energy Efficiency Act	S	S	S	S	S	S
	Technology	Evolution/Spread of renewable energy and energy-saving technology	S	S	S	S	M	L
		Changing social values relating to environmental performance	S	S	S	S	S	S
	Markets	Decrease in asset value due to delayed environmental compliance at owned properties	S	S	S	S	S	S
		Increased importance of transition risks	S	S	S	S	S	S
Increased value related to environmental performance		S	S	S	S	M	L	
Physical risks	Acute	Damage to owned properties due to typhoons/heavy rain	S	S	M	S	S	S
		Flooding at owned properties in low-elevation areas due to sea level rise	S	S	M	S	S	S
	Chronic	Increased need for A/C due to rising temperatures	S	S	M	S	S	S
Opportunities	Energy sources	Introduction of renewable energy at sites	S	S	S	S	S	S
	Products and services	Attracting tenants, occupants, and users by offering low-emission facilities and services	S	S	S	S	M	L
	Markets	Expanding the client base by continuing to provide rental properties aligned with changing tenant and occupant tastes	S	S	S	S	M	L
		Expanding the investor base	S	S	S	S	S	S

Related Materiality

- Reduction of environmental load

Environmental Initiatives IC

Retail Natural Environment Conservation and Creation

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



Retail Canal Water Filtration System (rainwater reuse system)

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



Retail Greywater Plant (kitchen drainage reuse system)

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



Retail Introducing Renewable Energy Equipment

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



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

We are focusing on converting each property to LED-based lighting to reduce energy consumption.
(Office buildings already converted to LED)

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



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.

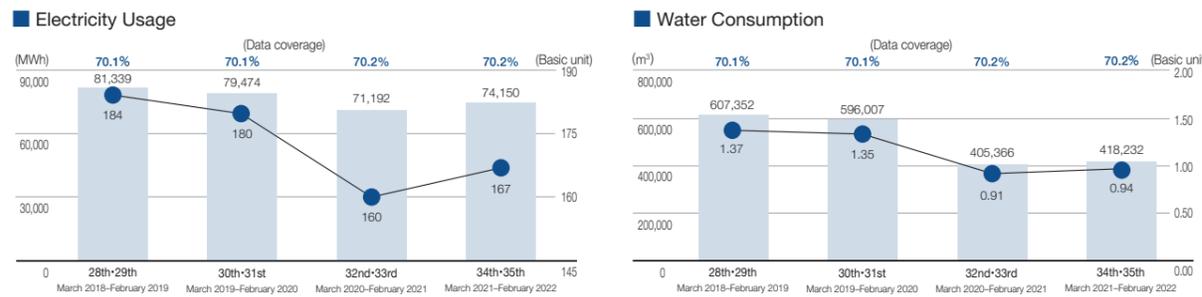


Solar panels

LOGICITY Hisayama

Environmental Performance Data IC

Although values increased for the fiscal period ended February 2022 compared to the interval in which we closed facilities due to the spread of the COVID-19 pandemic, we still recorded a reduction of 8.84% in electricity usage and 31.14% in water consumption compared with the period ended February 2019.



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

Green Finance IC

With the goal of further promoting ESG activities and expanding financing options through an enhanced investor base, FRC established the Green Finance Framework in 2019 in line with the Green Loan Principles, the Green Bond* Guidelines 2017 from the Ministry of the Environment, and the Green Bond Principles 2018 to ensure implementation of green financing, including sustainability-linked loans* and 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.

- DBJ Green Building Certification of 4 or 5 stars or a 3-star evaluation
- CASBEE certification of S, A, or B+ rank
- 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.

Sustainable Finance (Actual)

Category	Lender	Balance (Millions of yen)	Average interest rate	Date	Term	Description
Long-term debt (green loan)	Mizuho Bank/The Bank of Saga/The Higo Bank	2,200	0.52100%*1	July 31, 2019	10 years	Green loan assessment: Green 1**
Long-term debt (donation-type loan)	The Juhachi-Shinwa Bank	1,000	0.59000%	March 31, 2021	10 years	Donate part of the interest as funds for research into the development of a new COVID vaccine at Nagasaki University
NEW Long-term debt (green loan)	Sumitomo Mitsui Banking Corporation	1,600	0.72625%	June 30, 2022	7 years	Green loan assessment: Green 1**
NEW Long-term debt (sustainability-linked loan)	Development Bank of Japan/The Nishi-Nippon City Bank/The Bank of Fukuoka	4,900	0.91875%*3	August 31, 2022	10 years	Third-party opinion on sustainability-linked loan**

*1 FRC has concluded a swap agreement to practically fix the interest rate on debt. The indicated interest rate reflects the effect of the swap agreement.
 **2 FRC was assigned the comprehensive assessment of Green 1, the highest rank, regarding compatibility with the Green Loan Principles from Japan Credit Rating Agency, Ltd. (JCR).
 **3 If the CO₂ reduction target is achieved, a preferential interest rate is applied from August 2031 until the repayment date from the interest rate of the initial loan.
 **4 A third-party opinion has been obtained from Japan Credit Rating Agency, Ltd. (JCR).

Glossary
Green bonds
 These are bonds issued by companies and local governments to raise the funds necessary for Green Projects in Japan and overseas.
Green loan
 A loan in which the use of funds is limited to environmentally friendly businesses.

Sustainability-linked loan
 A sustainability-linked loan is a loan that encourages borrowers to achieve ambitious sustainability performance targets (SPTs).

Initiatives for Facility and Building Management

Individual Facility Initiatives

Retail Renovation of Food Court **NEW**

The food court at Konoha Mall Hashimoto was renovated to address the lack of adequate seating at busy times on Saturdays and Sundays and to enhance the overall environment. In addition to increasing the number of seats, we provided seating that meets diverse needs such as for families with young children to make the area easier to use and more comfortable.



Office Buildings Renovation of Common Areas **NEW**

At the Sanix Hakata Building, we overhauled the common space to maintain the aesthetic appeal of the building and enhance tenant satisfaction.

Initiatives for Disaster Risk

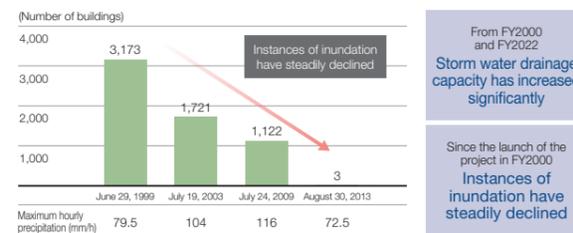
Countermeasures to Flooding Risks

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 antiflooding measures have greatly improved flood safety within the city limits.

Capacity of Storm Water Storage Facilities of Fukuoka City



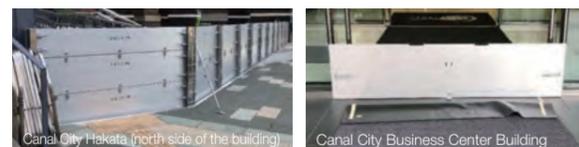
Instances of Building Inundation in Fukuoka City



Source: Prepared by Fukuoka Realty Co., Ltd. based on data from the "Storm Water Management Action Plan 2026" pamphlet about the Fukuoka City Stormwater 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.



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 (buildings). In addition, FRC continues to conduct annual property surveys through external organizations to estimate earthquake damage to properties based on various scenarios.

Other Disaster Prevention Measures

Emergency Drills

We have conducted comprehensive disaster drills at Canal City Hakata since 2017, with all tenants participating (not held in 2020 or 2021 due to COVID-19). The drills were conducted in November 2022.



Glossary 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

Initiatives We Support and External Certifications

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

Endorsement of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In September 2022, we announced our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB) to examine climate-related disclosures and how financial institutions should respond.

At the same time, we became a member of the TCFD Consortium, a group of companies in Japan that supports the TCFD.

Other Initiatives We Support

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

Signatory of:



Ratio of Properties Certified as Green Buildings

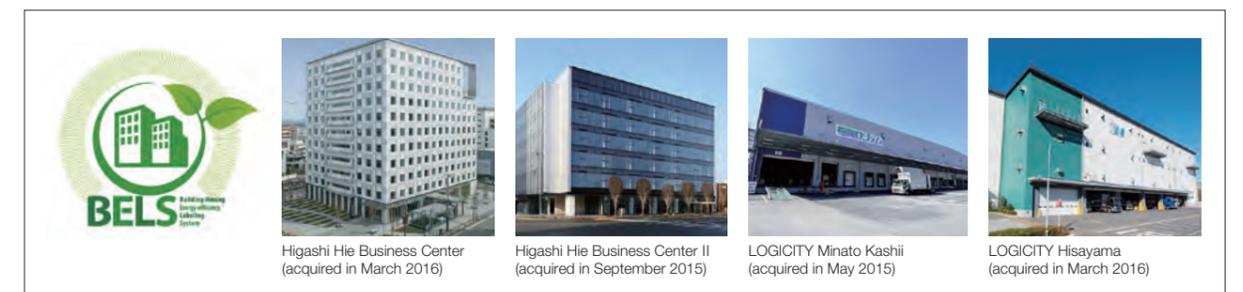
As of the end of August 2022, the ratio of properties within the entire portfolio certified as green buildings was 77.8%.

The DBJ Green Building Certification is a third-party certification system established by the Development Bank of Japan for real estate properties that feature excellent environmental and social considerations. FRC has acquired certification for 12 of its owned properties that exhibit environmental and social awareness (including six properties that were recertified in March 2022).

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 owned properties.



- ★★★★★ Canal City Hakata (2022)
Canal City Hakata-B (2022)
- ★★★★★ Park Place Oita (2022)
Konoha Mall Hashimoto (2020)
- ★★★★★ Canal City Business Center Building (2022)
Gofukumachi Business Center (2022)
Higashi Hie Business Center (2022)
LOGICITY Minato Kashii (2020)
LOGICITY Hisayama (2020)
Higashi Hie Business Center II (2020)
- ★★★★ SunLive City Kokura (2019)
Marinoa City Fukuoka (Marina Side Building) (2019)



Related Materiality
 • Creation of pleasant workplaces

Initiatives for Employees and Tenants

Initiatives for Employees **AMC**

Fukuoka Realty: Numbers of credentialed personnel
As of August 31, 2022

The average number of years of continuous service of permanent employees
 9 years and 4 months

Full-time personnel
 41 [Male: 18 Female: 23] Gender ratio Male: 43.9% Female: 56.1%

- Employees seconded from sponsors: 3
- Employees seconded to a sponsor: 8

Number of credentialed personnel

- Real estate brokers: 23
- ARES Certified Masters: 18
- Certified Building Administrators: 3
- MBA: 2
- CMA: 2
- First-class registered architect: 1
- Real estate appraiser: 1
- Attorney: 1
- Administrative Scrivener: 1
- SME management consultant: 1
- Licensed Representative of Condominium Management Company: 1

Support for Flexible Work Styles

- Child-rearing support (maternity leave, childcare leave system, and nursery support system)
- Nursing care leave
- Leave for voluntary work
- Employee welfare (401K, cumulative investment system, etc.)
- Encouraging use of paid holidays, etc.

Training for Employees

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

Career Development Support

- Employee satisfaction survey
- Self-assessment system
- Career interview
- Secondment system (dispatching of employees to e.g. 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 Transaction Agent, ARES Certified Masters, etc.)
- Support for language learning, etc.

Health Management/Improvement of Office Environment

- Initiatives to prevent infectious diseases such as influenza (implementation of influenza vaccination and full coverage of vaccination costs)
- Initiatives for preventing the spread of COVID-19 (such as the installation of thermographic monitors to measure temperature at office entrances; installation of anti-splash panels and ozone sterilization equipment; distribution of masks, thermometers and antiseptic solution; periodical disinfection of tables, chairs, and door knobs, etc.)
- Mandatory health checkups and comprehensive medical examinations
- Health counseling by public health nurses
- Application system to restrict excessive overtime work
- Assistance for use of sports clubs
- COVID-19 vaccination at workplaces
 Special leave for illness after COVID-19 vaccination
- Installation of personal booths, meeting booths, plants, etc.
- Installation of personal lockers



Installing thermographic monitors



Meeting booths

Creating a Comfortable Working Environment **AMC**



Certified as a "Fukuoka "Work-Style Reform" Promotion Company" (August 2018)



Registration with Fukuoka City Well-Being & SDGs Registration System (July 2022)

Tenant Initiatives **IC**

With a focus on the health and comfort of tenant employees, we are improving the employee lounge environments within retail facilities and renovating office building common areas. Moreover, FRC is engaging in a variety of initiatives for tenants as a part of efforts to promote sustainability.

- Improvement of employee lounge
- Implementation of tenant satisfaction surveys
- Distribution of sustainability guidebooks
- Sustainability training, etc.

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

Initiatives for Local Communities

Initiatives for Local Communities **IC** **AMC**

Annual Events



At Canal City Hakata, employees of the asset management company participate in events that involve sprinkling water on sidewalks to cool them down and promote well-being as part of efforts to enhance the environment.

Cleanup Days



Asset management company executives and employees actively participate in cleanup activities, of which there had been 300 as of September 15, 2022.

Participation in Community Events



Every year, employees of the asset management company participate in the Hakata Gion Yamakasa Festival. President Zenji Koike rode on one of the Yamakasa floats.

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 strive to prevent youth misconduct.

Various Events Held



At Canal City Hakata, we implemented an eco-friendly water station campaign as part of the Blue Earth Project, an environmental awareness-raising activity with a local high school. With the participation of restaurants in the facility, customers who brought their own bottles were offered free drinking water. (Period: September 17 to 25, 2022)

Gatherings for Real Estate, Finance, and the Economy **AMC**

We have held gatherings annually since 2008 with the cooperation of the Japan Real Estate Institute (not held in 2020 due to 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 The Association for Real Estate Securitization (ARES) masters.



The Kyushu Economic Research Center **AMC**

Fukuoka Realty Co., Ltd., and the Kyushu Economic Research Center have concluded a memorandum of understanding in a bid to promote increased cooperation in the macroeconomic analysis and the Kyushu economy. Through this initiative, both signatories to the memorandum will share information on the current state of the Fukuoka-Kyushu economy as well as issues to be faced, thereby revitalizing economic activity throughout the region.

In addition, study groups on seasonal topics that are specific to Fukuoka and Kyushu are held on a regular basis.



Other Activities **AMC**

• IR Kyushu Workshop

The Workshop, which entered its 12th year in 2022, was established in cooperation with the Japan Investor Relations Association. The Workshop 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 COVID-19, the study groups were held in a hybrid style that combined online tools with face-to-face interaction.

■ Details of the Study Group

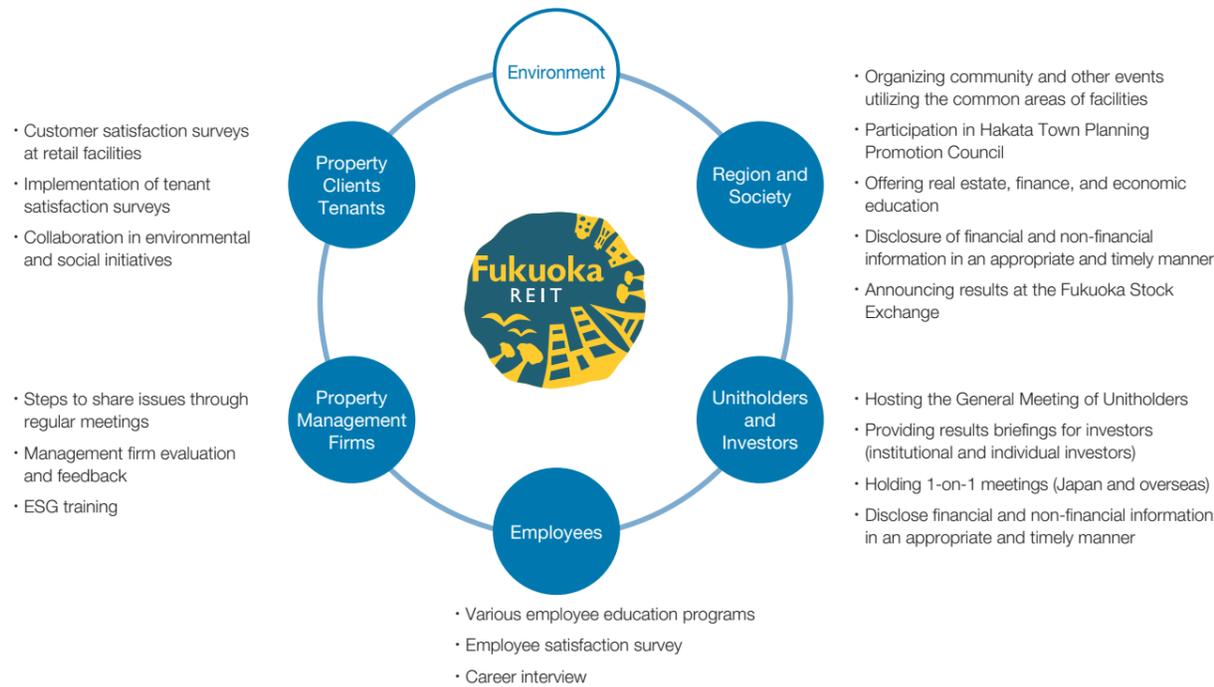
Date	Theme and lecturer
1st workshop July 2022	<p>"The Future of Information Disclosure and Investor Dialogue: Focus on ESG, Post-COVID, and Human Capital"</p> <p>Professor Shoichi Tsumuraya, Graduate School of Business Administration, Hitotsubashi University (Visiting researcher, Japan Investor Relations Association)</p> <p>Note: Information on the lecturers is that for the workshops held by the IR Kyushu Workshop.</p>

Related Materiality

- Information disclosure and dialogue with stakeholders
- Compliance/Risk management

Stakeholder Engagement

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



Dialogue with Unitholders and Investors

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 and institutional investors
- IR for overseas institutional 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 enhancing the office environment and 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.



Policies for Customer-Oriented Business Operations https://www.fukuoka-realty.jp/english/idea/operation_policy.html#fiduciaryduty

Corporate Governance



As an asset management company for a listed REIT, we strive to enhance compliance and governance by building appropriate systems and conducting appropriate business operations in pursuit of unitholders' best interests.

In particular, we recognize that managing transactions between unitholders and a stakeholder such as a sponsor of FRC that might involve conflicts of interest in an appropriate manner and preventing such conflicts of interest are important issues to be addressed in governance.

We have established strict rules for transactions with stakeholders to prevent conflicts of interest and make decisions based on these rules. In addition, we verify the appropriateness of the decision-making process through internal audits and other means.

We also ensure objectivity by receiving advice and evaluations from outside specialists to avoid taking a self-righteous approach in our decisions.

Risk Management and Compliance Initiatives

Managing Conflicts of Interest

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

The Asset Management Fee Structure

Asset management fees linked to unitholder interests:

Management Fee 1*	based on total assets
Management Fee 2	based on operating revenues
Management Fee 3*	based on distributable profit
Management Fee 4	Acquisition fee
Management Fee 5	Transfer fee

* We reduced the ratio of Management Fee 1 and increased the ratio of Management Fee 3 as of the fiscal period ended February 2021

Fukuoka REIT Corporation

The term of office for all executive directors and supervisory directors was set as two years from May 29, 2022.

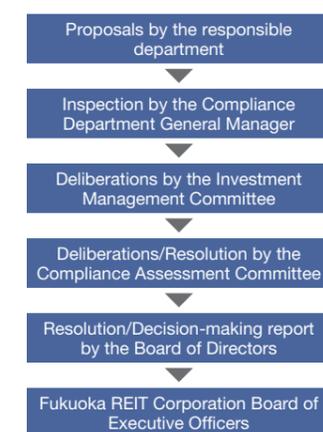


Supervisory Director Yasuo Kawasho Investment unit holdings: None
 Executive Director Zenji Koike Investment unit holdings: Five
 Supervisory Director Takashi Tanabe Investment unit holdings: None

Glossary 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.

Decision-Making Process



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 competition situation
 - Adequate rent levels, etc.
- [Engineering reports]***
- Law abidance and earthquake resistance
 - Check of soil contamination, toxic substance and use status
 - Replacement market 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.

Training Records

	Oct. 2019– Sept. 2020	Oct. 2020– Sept. 2021	Oct. 2021– Sept. 2022
Compliance training (including e-learning)	6 times	6 times	6 times
Sustainability training	1 time	2 times	3 times

Fukuoka Realty Co., Ltd. Directors

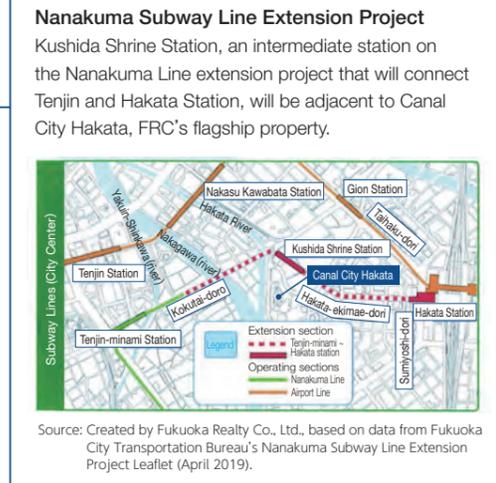
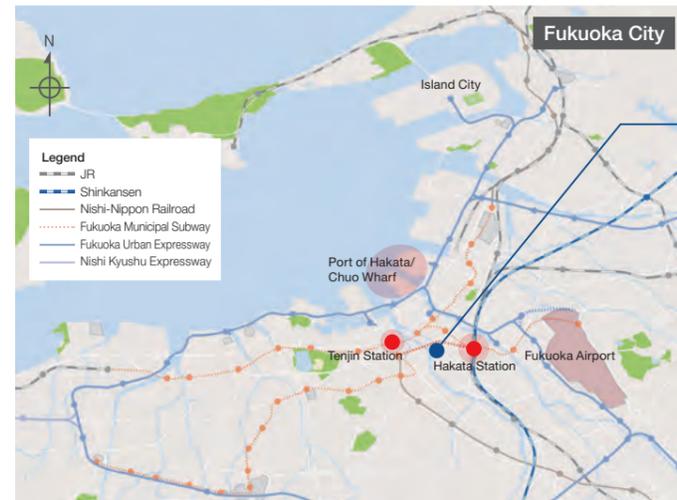


Vice President Board of Directors (Non-Executive) Yukitaka Ohara
 Vice President Board of Directors (Non-Executive) Hiroshi Shimuta
 President and CEO Zenji Koike
 Vice President Board of Directors (Non-Executive) Noboru Hashimoto
 Corporate Auditor (Non-Executive) Masanori Tasaka

Fukuoka as a Compact City

As a compact city, the air, sea, and land transportation access points of Hakata Station, the Port of Hakata/Chuo Wharf, and Fukuoka Airport are located within a three-kilometer radius of Tenjin, Fukuoka City's central business district. Traveling by the Fukuoka City Subway from Fukuoka Airport to the city center, it takes about five minutes to Hakata and about 10 minutes to Tenjin.

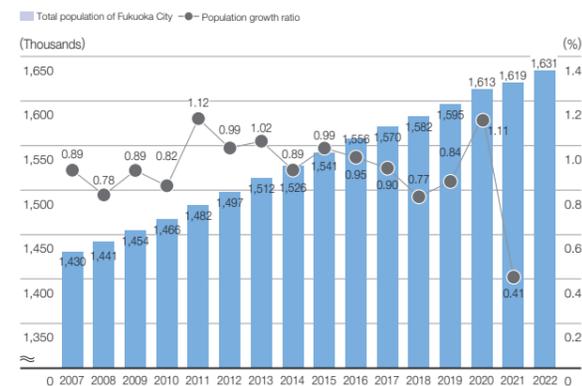
About 60% of commuting times are less than 30 minutes, which is about half that of Tokyo. The Nanakuma Subway Line extension project connecting Tenjin and Hakata Station will be completed in March 2023, which is expected to further enhance convenience.



Population Continues to Grow in Fukuoka City

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

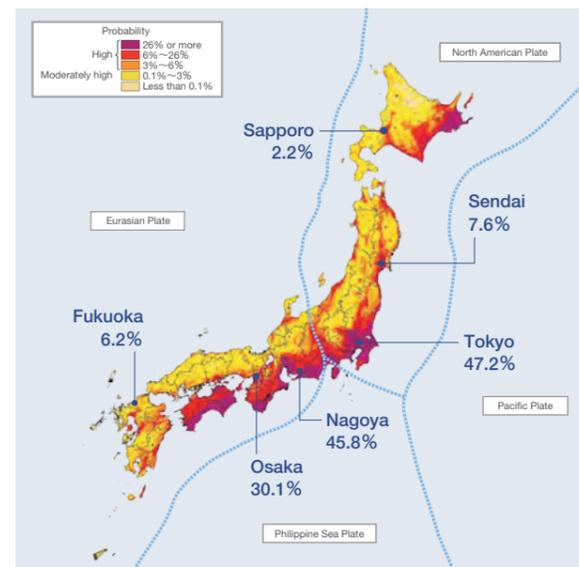
Total Population and Population Growth Ratio of Fukuoka City



Note: Total population figures from 2007 to 2021 are based on figures as of December 1 each year. The total population figure for 2022 is based on the figure as of October 1, 2022.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Fukuoka City Estimated Population and Fukuoka City Registered Population, published by Fukuoka City.

Probabilistic Earthquake Prediction Map

Probability of an earthquake with an intensity of six or greater over the next 30 years (Average case / Previous earthquakes) (Reference date: January 1, 2020)

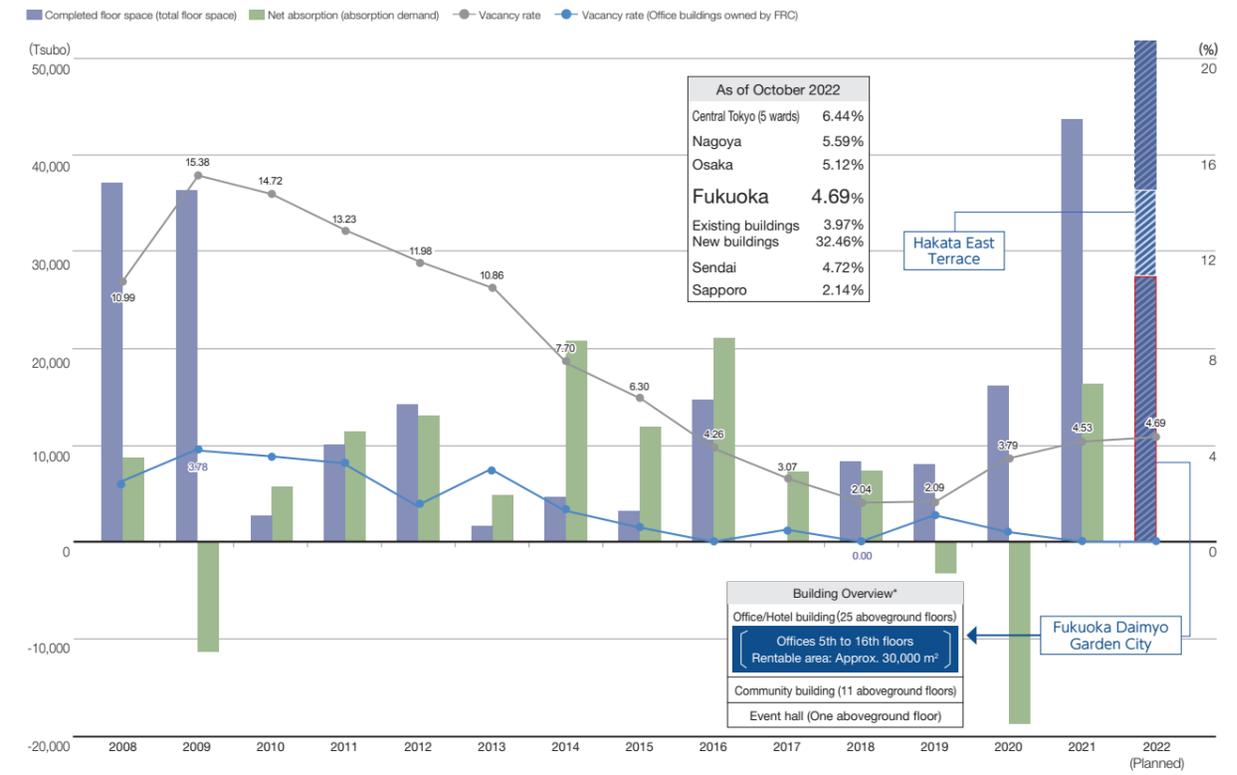


Note: The mesh for zero probability based on the model calculation conditions is shown in white.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Office of the Headquarters for Earthquake Research Promotion (Earthquake and Disaster-Reduction Research Division, Research and Development Bureau, Ministry of Education, Culture, Sports, Science and Technology); Japan Seismic Hazard Information Station (J-SHIS), National Research Institute for Earth Science and Disaster Resilience; and the website of the Japan Meteorological Agency, Ministry of Land, Infrastructure, Transport and Tourism.

Fukuoka Office and Logistics Facility Market Conditions

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

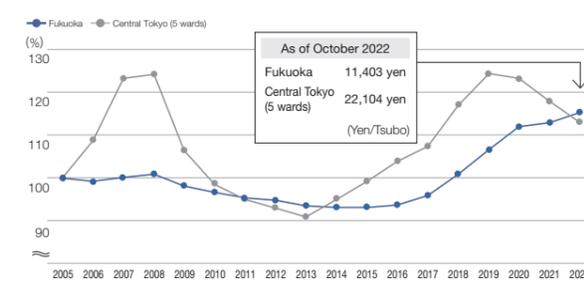
Fukuoka Business District/Vacancy Rates and Supply and Demand of Office Buildings



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

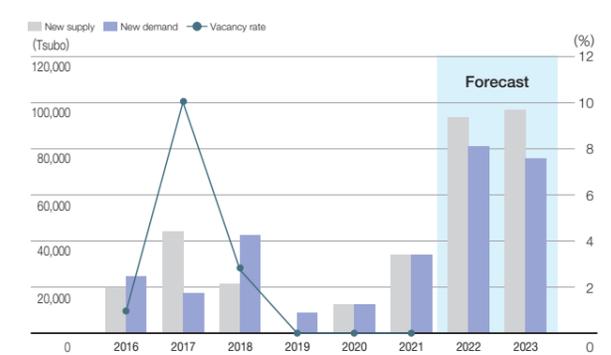
Fukuoka Business District/Average Asking Rents (2005 = 100)

The average asking rent of the Fukuoka business district rose 7.0% from January 2020 to October 2022



Note: The figures from 2005 to 2021 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.

Northern Kyushu Logistics Facility Supply/Demand and Vacancy Rates



Note: The figures are covered total floor spaces (more than 5000 m²) that are owned by the real estate investment company and real estate development company in Fukuoka and Saga.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data of CBRE K.K.

Overview of Properties Owned

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

Asset Ratio (As of August 31, 2022)

■ Investment Type (based on acquisition price)



■ Investment Areas (based on acquisition price)



Number of properties owned:

33

Total acquisition price:

206,339 million yen

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

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

Retail: 11

Canal City Hakata November 9, 2004/32,000	Canal City Hakata-B March 2, 2011/21,060	Park Place Oita November 9, 2004/19,610	SunLive City Kokura July 1, 2005/6,633	Konoha Mall Hashimoto March 1, 2018/10,000	Square Mall Kagoshima Usuki September 28, 2006/5,300
Kumamoto Intercommunity SC November 30, 2006/2,400	Hanahata SC September 3, 2007/1,130	Kurume Higashi Kushiwara SC February 1, 2008/2,500	K's Denki Kagoshima March 27, 2008/3,550	Marina City Fukuoka (Marina Side Building) May 1, 2015/5,250	

Office Buildings: 11

Canal City Business Center Building November 9, 2004/14,600	Gofukumachi Business Center November 9, 2004/11,200	Sanix Hakata Building September 30, 2005/4,400	Taihaku Street Business Center March 16, 2006/7,000	Higashi Hie Business Center March 13, 2009/5,900	Tenjin Nishi-Dori Center Building February 1, 2013/2,600
Tenjin North Front Building March 28, 2013/2,800	Higashi Hie Business Center II March 1, 2018/4,230	Higashi Hie Business Center III May 29, 2020/3,290	Tenjin Nishi-Dori Business Center (land with leasehold interest) June 1, 2021/7,700	Hakata Chikushi-Dori Center Building March 1, 2022/4,320	

Other Properties (Logistics, Residence, Others): 11

Tosu Logistics Center (Logistics) March 28, 2014/1,250	LOGICITY Minato Kashi (Logistics) March 27, 2015/8,150	LOGICITY Hisayama (Logistics) June 1, 2017/5,050	LOGICITY Wakamiya (Logistics) June 30, 2020/1,700	Amex Akasakamon Tower (Residence) September 1, 2006/2,060	City House Keyaki Dori (Residence) December 20, 2017/1,111
Aqualia Chihaya (Residence) March 1, 2012/1,280	D-Wing Tower (Residence) March 1, 2013/2,800	Granfore Yakuin Minami (Residence) November 4, 2014/1,100	Hotel FORZA Oita (Hotel) March 1, 2013/1,530	Tissage Hotel Naha (Hotel) December 7, 2018/2,835	Island City Minato Bay related site (land with leasehold interest) (tentative) March 31, 2023/9,082



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

	15th Feb. 2012	16th Aug. 2012	17th Feb. 2013	18th Aug. 2013	19th Feb. 2014	20th Aug. 2014	21st Feb. 2015	22nd Aug. 2015	23rd Feb. 2016	24th Aug. 2016	25th Feb. 2017	26th Aug. 2017	27th Feb. 2018	28th Aug. 2018	29th Feb. 2019	30th Aug. 2019	31st Feb. 2020	32nd Aug. 2020	33rd Feb. 2021	34th Aug. 2021	35th Feb. 2022	36th Aug. 2022
Financial Information																						
Earnings (Millions of yen)																						
Operating revenue	6,931	7,094	7,200	7,565	7,574	7,779	7,789	8,423	8,343	8,234	9,730	8,122	8,194	9,178	9,242	9,231	9,162	8,518	8,904	8,867	8,658	8,830
Operating income	2,637	2,595	2,622	2,848	2,801	2,824	2,860	3,167	3,141	3,069	4,585	2,920	2,965	3,238	3,306	3,318	3,273	2,966	3,061	3,204	3,185	3,181
Ordinary income	2,046	2,005	2,005	2,272	2,239	2,263	2,370	2,663	2,670	2,616	4,199	2,562	2,624	2,861	2,935	2,939	2,900	2,587	2,677	2,817	2,816	2,805
Profit	2,045	1,992	2,004	2,271	2,238	2,262	2,369	2,661	2,669	938	4,198	2,556	2,623	2,860	2,934	2,939	2,899	2,586	2,675	2,816	2,814	2,804
NOI	4,351	4,372	4,444	4,751	4,732	4,800	4,829	5,229	5,237	5,164	5,010	4,998	5,079	5,493	5,591	5,633	5,596	5,307	5,347	5,336	5,334	5,370
Financial conditions (Millions of yen)																						
Total assets	155,792	159,601	160,574	167,857	167,492	167,824	167,369	181,597	181,445	179,513	175,063	178,063	177,283	193,112	195,433	195,106	194,795	199,004	199,559	199,804	198,745	201,223
Net assets	71,222	71,170	71,182	81,712	81,679	81,703	81,811	93,804	93,812	92,081	93,681	93,699	93,766	101,799	101,874	101,878	101,837	101,525	101,614	101,755	101,753	101,743
Interest-bearing debt	69,425	73,350	74,675	71,100	71,025	71,150	70,775	72,400	72,325	71,950	66,675	69,900	68,900	75,500	77,500	77,500	72,500	82,400	82,400	82,400	82,400	83,900
Interest-bearing debt ratio (%)	44.6	46.0	46.5	42.4	42.4	42.4	42.3	39.9	39.9	40.1	38.1	39.3	38.9	39.1	39.7	39.7	39.8	41.4	41.3	41.2	41.5	41.7
Depreciation and amortization expenses	1,177	1,242	1,268	1,343	1,354	1,387	1,390	1,458	1,471	1,470	1,455	1,474	1,500	1,602	1,622	1,651	1,660	1,686	1,623	1,552	1,486	1,514
Capital expenditures	1,031	1,285	431	612	848	740	328	445	630	665	1,789	741	600	657	947	476	465	790	687	445	600	1,946
Cash flow (Millions of yen)																						
Cash flow provided by (used in) operating activities	3,677	3,617	3,120	3,609	3,699	3,890	3,735	4,167	4,174	4,336	3,685	3,590	4,292	4,149	4,832	4,863	3,985	3,450	5,374	4,724	3,146	4,712
Cash flow provided by (used in) investing activities	(566)	(6,016)	(3,067)	(7,897)	(916)	(2,312)	(1,452)	(14,488)	(606)	(772)	4,220	(6,029)	(478)	(15,326)	(3,604)	(1,043)	(220)	(7,136)	(842)	(1,425)	(658)	(5,498)
Cash flow provided by (used in) financing activities	(2,153)	1,881	(666)	4,651	(2,359)	(2,115)	(2,635)	10,934	(2,747)	(3,043)	(7,872)	667	(3,555)	11,734	(859)	(2,933)	(2,938)	2,000	(2,586)	(2,674)	(2,816)	(1,314)
Cash and cash equivalents at year-end	8,154	7,637	7,024	7,387	7,810	7,273	6,920	7,533	8,353	8,873	8,905	7,134	7,392	7,950	8,319	9,205	10,032	8,348	10,293	10,917	10,588	8,488
Per-unit indicators (Yen)																						
Dividend per unit	3,324	3,238	3,257	3,291	3,243	3,278	3,435	3,563	3,574	3,479	3,398	3,422	3,512	3,593	3,687	3,693	3,642	3,250	3,361	3,539	3,536	3,523
EPS* per unit	3,324	3,238	3,257	3,291	3,243	3,278	3,434	3,563	3,573	1,256	5,621	3,422	3,512	3,593	3,687	3,692	3,642	3,249	3,361	3,538	3,536	3,523
BPS* per unit	115,762	115,676	115,696	118,423	118,376	118,410	118,567	125,574	125,585	123,267	125,410	125,434	125,524	127,888	127,982	127,987	127,936	127,544	127,656	127,833	127,831	127,818
NAV per unit	121,447	122,299	123,041	127,080	128,375	131,215	136,051	144,472	148,558	152,259	150,328	152,639	156,204	161,315	164,250	167,118	170,680	171,592	171,943	171,502	178,079	178,348
FFO* per unit	5,237	5,258	5,319	5,238	5,207	5,288	5,450	5,515	5,543	5,448	5,351	5,395	5,520	5,606	5,725	5,767	5,728	5,368	5,401	5,358	5,403	5,425
Investment unit information																						
Investment unit price (Yen)	107,200	109,600	153,600	145,000	171,400	199,000	227,000	188,700	194,200	186,100	177,100	164,300	173,100	170,400	169,300	178,300	167,900	136,500	168,500	175,500	156,800	170,300
Total number of investment units issued	615,250	615,250	615,250	690,000	690,000	690,000	690,000	747,000	747,000	747,000	747,000	747,000	747,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000
Non-Financial Information																						
Number of full-time officers and employees ^(Note 1)	38	35	36	40	40	34	35	38	41	39	40	38	38	39	41	41	42	41	41	40	44	41
Average number of years of employment (Years/Months) ^(Note 1)	5.2	5.8	5.7	6.1	6.2	7.1	7.5	6.0	6.2	6.5	6.9	6.11	7.7	7.10	7.11	8.6	8.10	8.10	9.1	9.6	9.6	9.4
Number of IR meetings (Japan and overseas) ^(Note 2)	—	—	—	—	—	—	122	154	147	106	126	116	169	129	148	149	133	54	114	90	105	101

* Gains and losses on the sale of the Aeon Hara Shopping Center and Aqualia Kego, which were transferred in the 25th fiscal period, were handled in the following manner due to differing tax and accounting standards.
1) An amount equivalent to impairment losses on the Aeon Hara Shopping Center booked in the profit and loss statement in the 24th fiscal period was booked as an allowance for a temporary difference adjustment on the statement concerning the allotment of funds for the 25th fiscal period.
2) Gains on the sale of Aqualia Kego were recorded on the profit and loss statement for the 25th fiscal period.
3) The return of allowances for a temporary difference adjustment was booked on the statement concerning the allotment of funds for the 25th fiscal period.
* Dividend per unit is calculated as follows.
24th fiscal period: [Net profit] + [Reserve for temporary difference adjustment] - [Earnings carried forward to the next period]
25th fiscal period: [Net profit] - [Return of reserve for temporary difference adjustment] - [Earnings carried forward to the next period]
* The investment corporation undertook a five-for-one split effective March 1, 2014. Dividend and NAV per unit up to the 19th fiscal period have been retroactively adjusted to reflect this split.
* The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period.
Note 1: Data are for the asset management company.
Note 2: The number of IR meetings convened in Japan and abroad from the 15th to 20th fiscal periods is not recorded, as records do not exist for these periods.

Glossary
BPS
An abbreviation of Book Value per Share. This shows net assets per unit and is viewed as an indicator for stability.
[Calculation method] BPS: Net assets / Total number of units issued
EPS
An abbreviation of Earnings per Share. This shows net profit per unit and is viewed as an indicator of a company's ability to generate earnings.
[Calculation method] EPS: Net profit / Total number of units issued

FFO
An abbreviation of Funds from Operations. This shows how much cash flow is generated from rental income. The larger the FFO per unit, the greater the company's profitability.
[Calculation method] FFO: Net profit + Depreciation and amortization expenses + Impairment loss - Gains/losses from the sale of real estate
FFO per unit: FFO / Total number of units issued