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Fukuoka REIT to Purchase Additional Preferred Silent Partnership Interest

Fukuoka REIT Corporation (FRC) announces that it has decided to purchase additional preferred silent partnership interest as described below. In addition, FRC announces that there is partial change to the content of “Fukuoka REIT to Purchase Preferred Silent Partnership Interest” dated February 27, 2006.

1. Outline of Acquisition

- (1) Property to be acquired: Preferred silent partnership interest backed by cash flow gained from trust beneficiary interest (hereafter “preferred silent partnership interest”)
- (2) Property name: Preferred silent partnership interest with CCH Bridge Y.K. (Note 1)
- (3) Subject real estate, etc.: Canal City Hakata SPC Section (Note 2) (sectional ownership)
- (4) Additional investment: 3,000 million yen (acquisition expenses and others are not included) (Note 3)
- (5) Acquisition date: March 11, 2010 (planned)
- (6) Funding: Borrowings and cash on hand
- (7) Silent partnership distribution: Annual rate of 6.5% at maximum
- (8) Contract period: From March 11, 2010 to March 31, 2017 (planned) (Note 4)

(Note 1) CCH Bridge Y.K. (hereafter “SPC”) is a special purpose company with the objective only to acquire and own the subject real state, etc., and the subject real estate, etc. was acquired on February 28, 2006.

(Note 2) In regards to details of Canal City Hakata SPC Section, please refer to “Fukuoka REIT to Purchase Preferred Silent Partnership Interest” dated February 27, 2006 (hereafter, “press release dated February 27, 2006”).

(Note 3) Other than the additional purchase, FRC has already purchased 3,400 million yen of preferred silent partnership interest (hereafter “already purchased preferred silent partnership interest”). In regards to details of already purchased preferred silent partnership interest, please refer to the press release dated February 27, 2006.

(Note 4) This indicates the contract period of the contract of the SPC. However, in case when sales of the subject real estate, etc. by the trustee or the sales party is not completed, it will be extended until the sales of the subject real estate, etc. is completed.

2. Reason for Acquisition

Since the additional investment interest is backed by the operating real estate, etc. indicated in below “4. Details of Subject Real Estate, etc.,” dividends (Note 5) in accordance to the preferred investment share can be expected with cash flow generated from Canal City Hakata SPC Section.

FRC has comprehensively taken the current portfolio composition, FRC’s dividends policy, stability of the SPC and exit strategy into account in deciding to conduct refinancing of the investment in SPC with an additional portion.

FRC considers that this will enable ongoing integrated management which will lead to maintaining and enhancing the attraction of Canal City Hakata as a whole, including the portion FRC owns, and the increased stability of the SPC will allow formulating a flexible exit strategy.

Currently, FRC and the SPC have a contract to reserve acquisition of the "Canal City Hakata SPC Owned Section." This contract sets the execution period of the right to consummate the reservation (Note 6) from September 1, 2006 to March 1, 2010, but as of March 1, 2010, the execution period to consummate the reservation has been extended to March 31, 2017. In addition, as announced in the press release “Notice Concerning Matters Regarding Forward Commitments, etc.,” there are no provisions such as penalties in the case the right to consummate the reservation is not executed.

(Note 5) In the “Survey on Investment Value of Preferred Equity” as of February 19 2010 prepared by Tanizawa Sogo Appraisal, FRC received an evaluation that the SPC dividends are at an appropriate yield level and considered to have investment value more than the investment amount.

(Note 6) This is a right to make the transaction effective by indicating FRC’s intent to complete the transaction to the seller.

3. About the Portion to be Additionally Acquired

(Reference) Capital Structure Overview (paid-in capital of Y.K. (yugen kaisha) is omitted for simplification)

<Before additional investment>

CCH Bridge Y.K.	
Asset (real estate, etc.)	Liabilities
Canal City Hakata SPC Section, cash and deposits, and other assets Total of 30,605 million yen	Non-recourse loan 23,500 million yen
	Preferred silent partnership equity (total) 5,400 million yen
	Subordinated silent partnership interest 1,705 million yen

<After additional investment>

CCH Bridge Y.K.	
Asset (real estate, etc.)	Liabilities
Canal City Hakata SPC Section, cash and deposits, and other assets Total of 30,605 million yen	Non-recourse loan 17,500 million yen
	Preferred silent partnership equity (total) 8,400 million yen
	Subordinated silent partnership interest 4,705 million yen

FRC
3,000 million yen

←

Subordinated
investors
3,000 million yen

←

4. Details of Subject Real Estate, etc.

Property name	Canal City Hakata SPC Section	
Type of asset	Trust Beneficially Interest	
Location (lot number)	1-2-25 and others, Sumiyoshi. Hakata Ward, Fukuoka City	
Land	Area	Ownership ratio of land of 699,982/1,000,000 out of 34,363.91m ² (Total of 5 buildings held by sectional ownership)
	Zoning	Commercial area
	Floor area ratio	400%
	Building coverage	80%
	Type of ownership	Ownership
Building	Structure/floor	Steel framed reinforced concrete structure, 2 basement floors with 13 floors
	Built	April 15, 1996
	Total floor area	Out of total floor area of 225,899.23m ² , total of floor area of 5 buildings held sectional ownership of 108,021.62m ²
	Use	Hotel, theater, store, parking
	Type of ownership	Sectional Ownership
Appraisal value	30,100 million yen (Note 7)	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Collateral	Yes (Note 8)	
Property manager	Fukuoka Jisho Co., Ltd.	
Earthquake PML (Probable Maximum Loss)	6.1%, 8.2% (Note 9)	
No. of tenants	45	
Total leasable area	21,266.25m ²	
Others	There are 2 outside advertisement towers without certificate of inspection in the common area of the subject real estate, etc., but according to the investigation report on the compliance on Building Standards Law by Japan Constructive Inspect Association as of January 27, 2010, the advertisement towers “comply with the Building Standards Law in regards to structural strength.”	

(Note 7) Appraisal value (by the capitalization method) of Canal City Hakata SPC Section as of February 1, 2010 is indicated.

(Note 8) The trust beneficiary interest is pledged with the SPC as the pledger and non-recourse lender as pledgee.

(Note 9) Earthquake PML for each building held by sectional ownership comprised of subject real estate, etc. is indicated. Furthermore, the Earthquake PML figure is based on the earthquake risk assessment report by the indicated appraiser. The figure is a representation of the reporter’s opinion, and does not guarantee the accuracy of its content.

(Note 10) All figures for areas are based on the indications in the registry.

5. About Owned Portion

The maximum annual return for the already purchased preferred silent partnership interest by FRC was set as 8.0%. However, the refinance has increased the security of the overall finance structure due to smaller non-recourse loan amount and additional subordinated silent partnership interest and reduced the risk of the overall preferred silent partnership interest loss. Thus the rate was changed to 6.5%, the same rate as that of the additional investment.

6. Outlook

We will give the operation forecast pertaining to investment performance for the fiscal periods from March 1, 2010 through August 31, 2010 and from September 1, 2010 to February 28, 2011 at the time of the announcement of the results.

(Reference) Operation Forecast (announced on October 13, 2009)

	Operating revenues	Operating income	Ordinary income	Net income	Dividend per unit (excl. dividend in excess of earnings)	Dividend in excess of earnings per unit
	mn yen	mn yen	mn yen	mn yen	yen	yen
Period ending February 2010 (Forecast)	5,592	2,335	1,778	1,777	16,600	0
Period ending August 2010 (Forecast)	5,674	2,374	1,789	1,787	16,700	0

*This document of Japanese version was distributed to the press clubs within the Tokyo Stock Exchange, the Ministry of Land, Infrastructure, Transport and Tourism, construction trade newspaper of the Ministry of Land, Infrastructure, Transport and Tourism, the Fukuoka Economic Press Club and the Fukuoka Securities and Finance Press club.

*Fukuoka REIT Corporation's website is <http://www.fukuoka-reit.jp/eng/>

Reference Material

Outline of appraisal report on Canal City Hakata SPC Section

Appraiser	Tanizawa Sogo Appraisal Co., Ltd
Pricing date	February 1, 2010
Appraisal value	30,100,000 thousand yen
Direct capitalization method	30,700,000 thousand yen
Net cash flow (NCF)	1,658,124 thousand yen
Capitalization rate	5.4%
Value through DCF method	29,900,000 thousand yen
Discount rate	5.5%
Terminal cap rate	5.7%
Value through cost method	32,900,000 thousand yen
Land	20,280,000 thousand yen
Building	12,100,000 thousand yen