

Featuring our expertise on the local real estate markets of Fukuoka and Kyushu to maximize the profits of investors.



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

Q What are the characteristics and strong points of Fukuoka REIT Corporation and Fukuoka Realty Co., Ltd.?

FRC, the investment corporation, was listed in June 2005 with assets of ¥73.5 billion (four properties including retail facilities and office buildings). Over the ensuing period, we have achieved steady growth, and as of August 31, 2019, assets stood at ¥195.9 billion (29 properties including retail facilities, office buildings, residences, hotels and logistics facilities). This represents an expansion of roughly 2.7 times over 14 years for an annual rate of growth in the 7% range. Fukuoka Realty, the asset management company, was established in December 2003, and currently has over 40 employees.

We operate in a limited area, so our growth has come about by being local professionals with a disciplined perspective, and by using the utmost care to select and invest in properties. Over the years we have conducted five public offerings. Each time we undertake a PO, we emphasize two points, first, that the unit price is over one times the net asset value, and that distributions will increase after properties have been acquired. This reflects the importance that we place on returning profits to new and existing unitholders. → See p.20 Financial Strategies and TSR (Total Shareholder Return)

Among 63 J-REIT issues (as of August 2019), FRC clearly differentiates itself by its specialization in regional properties. Fukuoka, our core area of operation, is undergoing organic as well as inbound population growth, which is driving its growth as a region. We well understand that linked to our own expansion is the ability to skillfully seize upon such growth in our real estate investments.

In addition, it goes without saying that for an asset management company to create economic and social value, each and every one of its employees must be a valuable resource. Critical here will be to elicit individual abilities and how to heighten value. This is why every effort is being made to promote training and other activities. Starting with elective language training and support for acquiring qualifications, employees on a regular career track are required to obtain master qualification from the Association for Real Estate Securitization (ARES) as well certification as a real estate broker. Support is also provided for short-term studies at Ritsumeikan Asia Pacific University (APU) as well as a university in Singapore, the Kyushu Asia Institute of Leadership (KAIL), and courses at Kyushu University Business School.

Q What value should Fukuoka Realty create?

REITs help diversify the ways in which players in the real estate market procure funds. With the aim of expanding the asset formation methods of institutional investors such as pension funds and individual investors, they also provide a financial scheme that has been recognized for their tax system merits, namely, as a pass-through (conduit) for returns that work to maintain social infrastructure.

→ See p.6 J-REIT Mechanism and Fukuoka REIT Corporation's Business Model

Consequently, Fukuoka Realty creates value through its core operations by helping to improve the efficiency of the real estate market.

Over the long term, REITs have an important role in maintaining and raising the value of real estate. For example, Canal City Hakata is entering its 24th year since completion, and we have been systematically conducting exterior repair work and other operations for the past seven years. Moreover, as a measure to counter the threat of e-commerce to our retail facilities, steps were taken to invest roughly ¥1.5 billion in the introduction of projection mapping, a fountain, and devices that make for acoustically and visually interesting "real-world" shopping that has enjoyable experience value in the autumn of 2016. The result was an increase in visitors.

On the other hand, we are now in an age where management is expected to have a more conscious view of environmental, social and governance (ESG) concerns as a company or business entity, as a way to address issues with regard to the environment and society, such as climate change. Fukuoka Realty is no exception, and from last year the asset management company has participated in the Global Real Estate Sustainability Benchmark (GRESB) survey. For the second consecutive year, we acquired a "4 Star" rating. In the past, Fukuoka faced difficulties with water shortages, so proactive steps were taken to instill a thorough consciousness of water conservation, and to recycle or reuse water. Going forward, Fukuoka Realty is considering increasing opportunities for employees to learn through sustainability activities such as GRESB so as to further raise awareness within the Company. With regard to social value, we are participating in the once-a-month Clean-Up Day ^(Note 1) initiative. Through such efforts, we are afforded the opportunity to realize a variety of insights to improve ourselves in ways that we would not normally recognize. This is the kind of thing I would like to see continue.

→ See p.29 Initiatives for Local Communities

(Note 1) Local community cleaning activities undertaken with the goal of taking action for safety and security, and improving the environment.

Q What is it that you see as insufficient, or would like to enhance in order to foster future growth and create value?

Specializing in Japan's regions means that while we have strong capabilities with gathering and providing local information, disparities arise with regard to information with Tokyo. That's why in 2011 we set up the IR Kyushu subcommittee (Note 2), through which we learn about the latest IR trends, for use in our own IR activities. This serves as a forum to learn, and in reality, has also provided the trigger for publishing this Integrated Report.

→ See p.29 Initiatives for Local Communities

In addition, quite a few employees have recently participated in ARES subcommittees, where they are enthusiastically exchanging opinions among J-REIT asset management companies.

One thing I always say to our employees is, "Think with your own head!" Adopting the concept that "this is the way we've always done it" prevents employees from taking the initiative and thinking proactively. I would hope that employees be more voracious. For this reason, we are making efforts to support training and other activities.

In the days when I was in banking, no matter what the topic of discussion I would be questioned on the process, such as "Why is this? Why did that happen?" However, I would not have been very persuasive if my answer was "That's the way it's always been." Without thinking for yourself about "Why did that happen?", you won't be able to explain things very well. By thinking with your own head, you will become better attuned to when convention and conditions change. Independent thinking will enable you to elicit conclusions and methods that differ from the past, giving rise to your own ideas.

Moreover, it is important to communicate freely with fellow employees, and to overcome the boundaries of rank or department. When I came to the Company in 2011, there were partitions separating desks, making for an environment where it was difficult to talk freely. I observed the situation for a year, and finally did away with the partitions and put in place an environment in which it was easier to communicate. By deepening communication with other departments, a variety of cross-organizational projects can be expected to emerge resulting in new ideas and reform in the manner business is conducted.

(Note 2) In partnership with the Japan Investor Relations Association (JIRA).

Q To which stakeholders would you like to provide this Integrated Report?

I expect this will be the first integrated report by an asset management company for real estate investment corporations and REITs. Important stakeholders for REITs are, foremost, investors and banks that are financial capital providers. We have been strengthening our efforts toward ESG for years now, but with our acquisition of GRESB status we anticipate receiving various comments and opinions from investors in and outside of Japan. When engaging in investor relations activities in Europe, we leveraged our ESG Evaluation analysis report as we met with investors. I am looking for this Integrated Report to provide these investors with a deeper understanding of Fukuoka REIT.

For the very reason that we are a regionally focused REIT company, demonstrating our efforts to create value will help deepen understanding from a wide range of regional stakeholders. This in turn will earn us a great deal of support. Moreover, we are looking to use this Integrated Report as a tool to boost the understanding of not only employees, but also tenants, in our efforts to address ESG concerns and value creation activities. Furthermore, we hope to garner support in this type of integrated-centric management.

Investment Department

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



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

The environment which surrounds the real estate investment market continues to be favorable for the procurement of funds, and the investor base that is considering investment in real estate is expanding. For that reason, property prices continue to rise in the Fukuoka and wider Kyushu regions, Fukuoka Realty's core areas of operation.

Against this backdrop, we engage in investments by leveraging our expertise and ability to gather and provide information based on a familiarity of particular conditions on the ground in Fukuoka and throughout Kyushu. The Company's strengths include the "speed and density of its information," "a feel for the local market," "a powerful local network across a broad area including administrative and economic authorities," and "a real estate management structure with a long-term commitment to the local community."

As for our investment policy, we continue to execute investments based on a fundamental consideration, namely making targeted investments in such overlapping domains as "markets with high growth potential" as well as "fields in which we excel and that enable us to exert our competitive advantage." As a general rule, our investments will be made in Fukuoka and the greater Kyushu region, and among these, there is a particular focus on the Fukuoka Metropolitan Area, in which a majority of our investments are made. That said, with regard to investment type we adopt a flexible policy that covers a variety of properties.

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

Selecting investment real estate entails conducting a range of meticulous surveys, such as economic-type surveys that cover projected revenue streams for each individual property and future potential of the area in which it is situated, physical surveys that take into account such factors as the property's condition and ability to withstand earthquakes, and surveys related to rights and legal issues, among others. Upon careful examination of a particular property's price, we then decide whether or not to acquire it based on an overall determination of its impact on our portfolio as a whole, the degree to which it will contribute to raising value, and other factors.

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

Properties Acquired



Konohta Mall Hashimoto
(acquired March 2018)



Higashi Hie Business Center II
(acquired March 2018)



Tissage Hotel Naha
(acquired December 2018)

Property Management Department

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



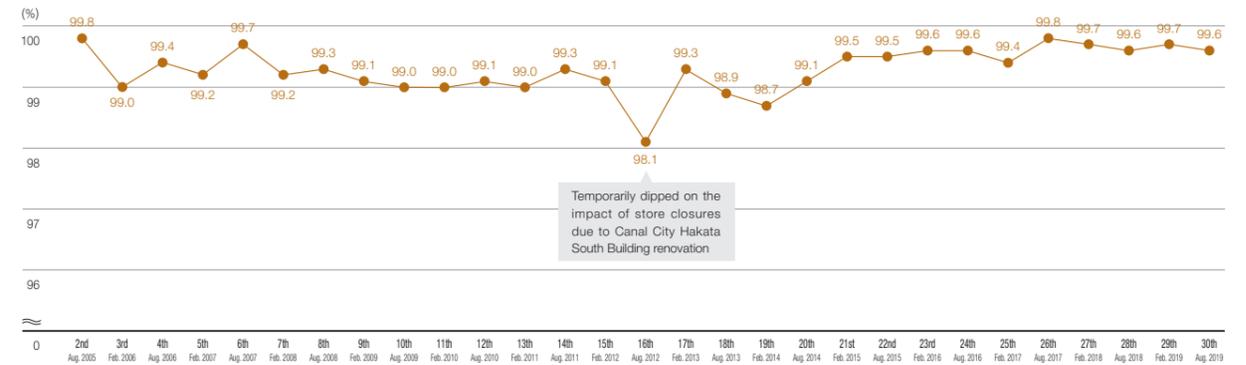
The Property Management Department draws up plans for management and investment so as to maximize the value of real estate owned by the Investment Corporation.

FRC's portfolio currently consists of retail, office buildings, hotels, residences, and logistics facilities. Given the constant changes in the environment surrounding these real estate properties, we systematically conduct research into the reorganization of delivery bases and delivery methods, and keep a close eye on the future potential of respective asset types. In carrying out these tasks, we constantly keep in close touch with those in the local community, bringing to bear FRC's specialization in the area.

In operating and managing real estate held, we maintain a management strategy that is characterized by its ongoing organic growth and that presupposes a consistently high occupancy rate, based on management plans that reflect the results of our research. We work to secure rental income and NOI growth through a variety of measures including the replacement of tenants of properties held, the cutting of costs, and re-investments intended to raise the value of assets. At the flagship retail facility Canal City Hakata, we especially focus on management that ensures the property remains bustling with activity. To this end, we engage in the proactive replacement of tenants, creation of new experience value, and provision of events that are both popular and topical with the aims of increasing visitors and bolstering revenues.

In addition, while we seek organic growth, we also consider replacing real estate held depending upon building age, the various conditions associated with the real estate leasing contracts we have with tenants, the amount of future anticipated re-investment, and conditions in the real estate buying and selling market. Our aim is to achieve value maximization for FRC over the medium to long term by optimizing the real estate portfolio.

Trends in FRC Property Occupancy Rates



* FRC's occupancy rates from the second to fourth fiscal periods represent occupancy rates as of the end of each period. The fifth to the 30th fiscal periods are calculated as a weighted average occupancy rate during the period. Total leased area is stated as a percentage of total leasable area.

Finance Department

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



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

The J-REIT market environment continues to benefit from favorable conditions with respect to the procurement of funds owing to sustained capital inflows. Meanwhile, the investor base is expanding on account of new entrants, chiefly regional financial institutions. In addition, the monetary easing policy adopted by the Bank of Japan is expected to continue with a low interest rate environment for the foreseeable future. For the medium to long term, though, we recognize the need for prudent financial management are an acute awareness toward the sudden risks that may occur in financial markets.

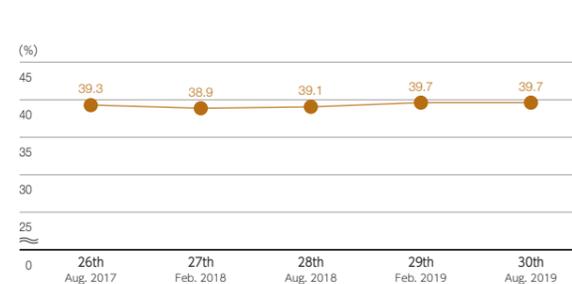
Under these circumstances, we will proactively engage in investor and public relations to support our capital policy. Coupled with efforts to set a basic policy for investor relations activities that offers a steady stream of timely, fair, accurate

and easy-to-understand information that covers a variety of issues necessary for investment decisions, we will publicize our strengths as a REIT specializing in regional properties and actively disclose non-financial matters as well as other information. We will continue to fully disclose information, and conduct investor relations through conversations with a medium- to long-term perspective. Doing so will lead to a deepening of mutual understanding with all unitholders, the building of relationships of trust, and positive steps to attract outstanding investment funds from both in and outside Japan.

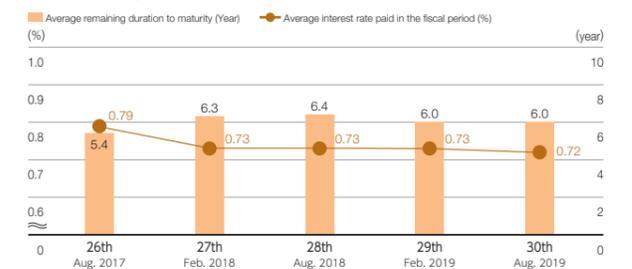
Our financial policy aims to build a firm financial foundation through conservative LTV management. At 39.7% as of the end of the 30th fiscal period (August 2019), we successfully maintain a relatively low and conservative LTV. At the same time, a commitment line limit has been set at ¥13.0 billion. Through these and other means, we are securing the flexible and fluid procurement of funds.

In undertaking new borrowings and refinancing, we seek to fix interest-bearing debt over the long term and to diversify repayment dates while keeping a close eye on interest rate levels. Going forward, we strive to maintain good relationships with financial institutions with which we have existing relationships, starting with our three sponsor banks, regional banks that operate primarily in Kyushu, central financial institutions and others, while gaining an ample amount of new procurement sources. In addition, in July 2019, FRC conducted its first funds procurement through a "green loan," as green finance. We will continue to move forward with endeavors that support sustainability.

LTV Trends



Average Interest Rate in the Fiscal Period (Note 1) and Average Remaining Duration to Maturity



(Note 1) Interest is stated as rounded to two decimal places.

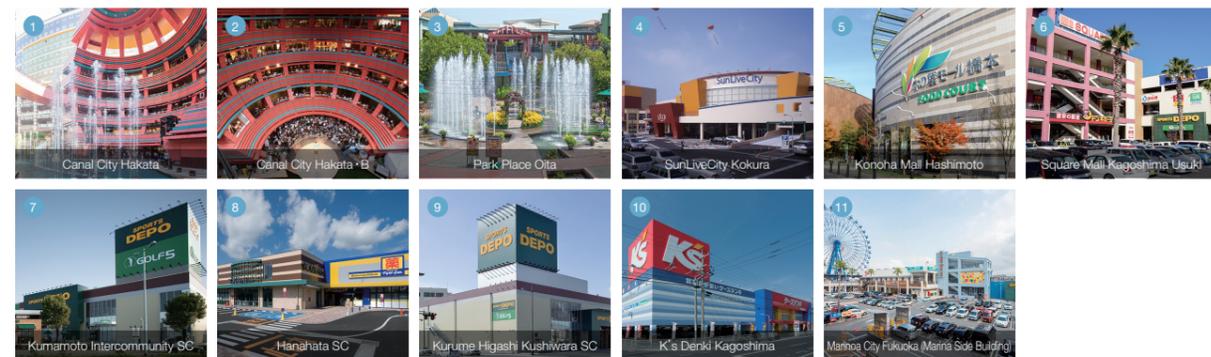
Overview of Properties Owned

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

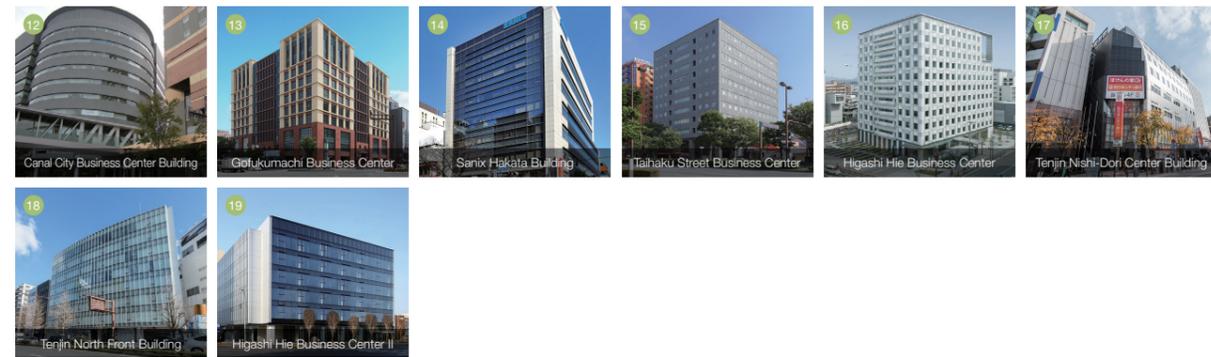
Number of properties owned: **29**

Total acquisition price: **¥195.9 billion** (August 31, 2019)
* Acquisition price data is rounded down to the nearest ¥100 million.

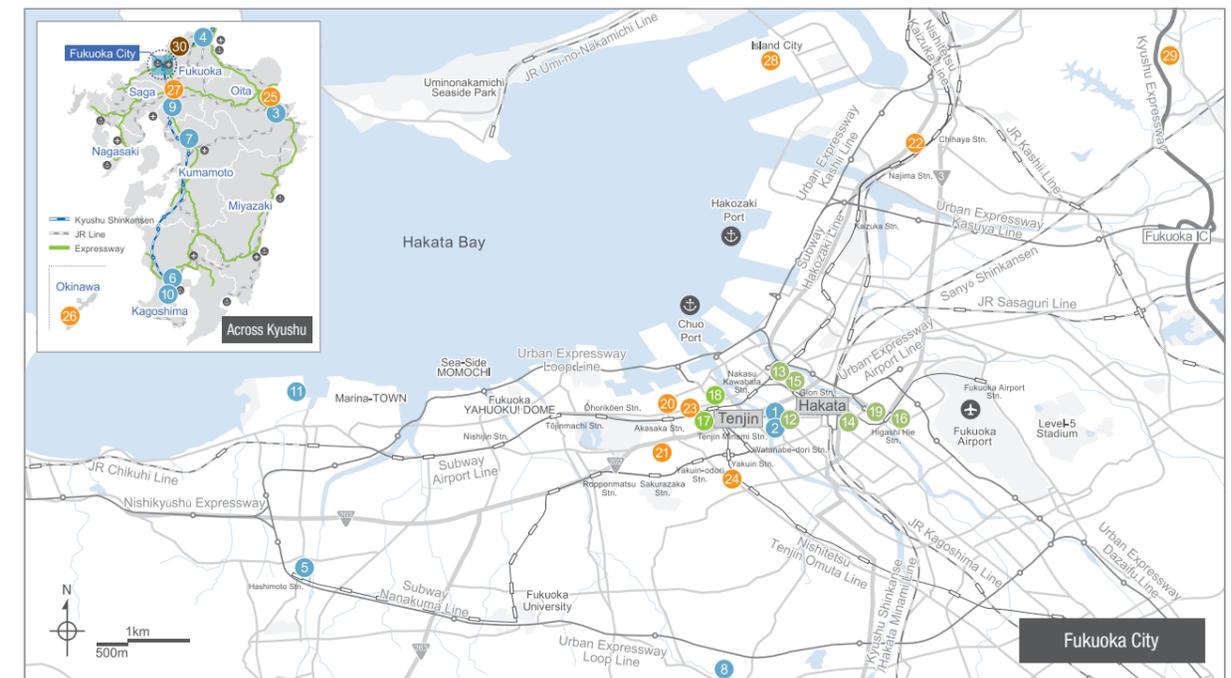
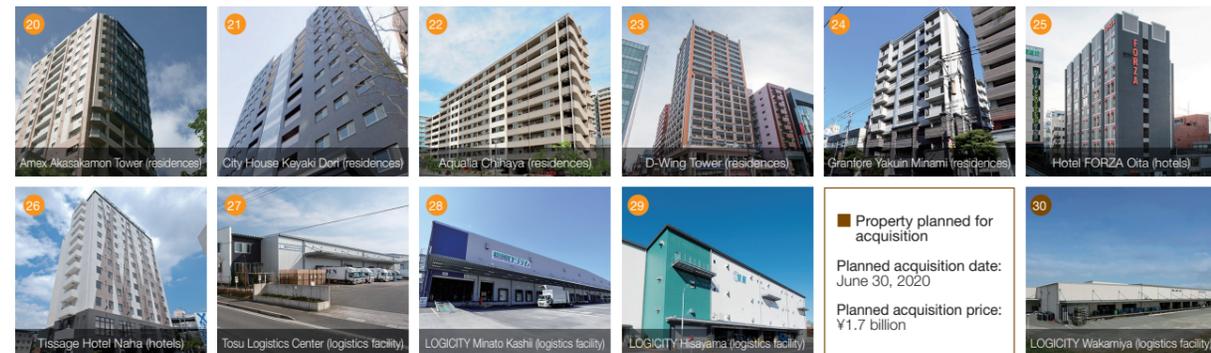
Retail: 11



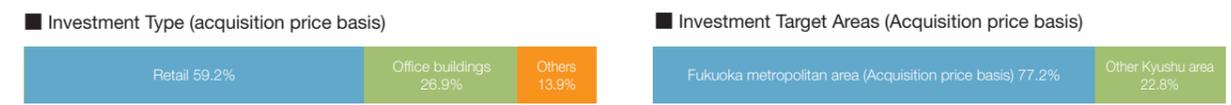
Office buildings: 8



Other properties (hotels, residences, logistics): 10 (plus 1 facility expected to be acquired)



Asset Ratio (As of August 31, 2019)



Retail				Office Buildings				Others			
Property name	Acquisition date	Acquisition price (Millions of yen) (Note 1)	Investment ratio (Note 2)	Property name	Acquisition date	Acquisition price (Millions of yen) (Note 1)	Investment ratio (Note 2)	Property name	Acquisition date	Acquisition price (Millions of yen) (Note 1)	Investment ratio (Note 2)
Canal City Hakata	Nov. 9, 2004	32,000	16.3%	Canal City Business Center Building	Nov. 9, 2004	14,600	7.4%	Amex Akasakamon Tower	Sept. 1, 2006	2,060	1.1%
Canal City Hakata-B	Mar. 2, 2011	28,700	14.6%	Gofukumachi Business Center	Nov. 9, 2004	11,200	5.7%	City House Keyaki Dor	Dec. 20, 2007	1,111	0.6%
Park Place Oita	Park Place Oita acquired on November 9, 2004. Additional land acquired on May 28, 2015. Additional land and building acquired on September 1, 2016. Additional land acquired on July 6, 2018.	18,620	9.5%	Sanix Hakata Building	Sept. 30, 2005	4,400	2.2%	Aqualia Chihaya	Mar. 1, 2012	1,280	0.7%
SunLiveCity Kokura	Jul. 1, 2005	6,633	3.4%	Taihaku Street Business Center	Mar. 16, 2006	7,000	3.6%	D-Wing Tower	Mar. 1, 2013	2,800	1.4%
Konoha Mall Hashimoto	Mar. 1, 2018	10,000	5.1%	Higashi Hie Business Center	Mar. 13, 2009	5,900	3.0%	Granfore Yakuin Minami	Nov. 4, 2014	1,100	0.6%
Square Mall Kagoshima Usuki	Sept. 28, 2006	5,300	2.7%	Tenjin Nishi-Dori Center Building	Feb. 1, 2013	2,600	1.3%	Hotel FORZA Oita	Mar. 1, 2013	1,530	0.8%
Kumamoto Intercommunity SC	Nov. 30, 2006	2,400	1.2%	Tenjin North Front Building	Mar. 28, 2013	2,800	1.4%	Tissage Hotel Naha	December 7, 2018	2,835	1.4%
Hanahata SC	Sept. 3, 2007	1,130	0.6%	Higashi Hie Business Center II	Mar. 1, 2018	4,230	2.2%	Tosu Logistics Center	Mar. 28, 2014	1,250	0.6%
Kurume Higashi Kushiwara SC	Feb. 1, 2008	2,500	1.3%					LOGICITY Minato Kashii	Mar. 27, 2015	8,150	4.2%
K's Denki Kagoshima	Mar. 27, 2008	3,550	1.8%					LOGICITY Hisayama	Jun. 1, 2017	5,050	2.6%
Marinoa City Fukuoka (Marina Side Building)	May 1, 2015	5,250	2.7%								
								Total acquisition price	-	195,979	100.0%

(Note 1) Acquisition price data is the sales price identified in purchase and sale agreement between FRC and the seller, and exclude acquisition charges, taxes and other expenses.
 (Note 2) Investment ratio data is rounded to the first decimal place.

Risks and Opportunities

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

Significant Risks	Impact on Stakeholders	Measures to Address Risks (Opportunities)
Risks from Changes in Business Conditions <ul style="list-style-type: none"> Increase in vacancy rates Decrease in rent 	<ul style="list-style-type: none"> Vacancy rate increases associated with worsening real estate market conditions, decrease in distributions due to rent decreases Rent reduction, rent nonpayment and vacating risks due to deterioration of lessee's financial situation 	<ul style="list-style-type: none"> Consider extending lease agreement terms, fixing of rent, etc. according to property characteristics Appropriate occupancy screening when tenants move in and thorough credit management during period of lease Deposits and security deposits against rent delinquency, etc., collateral by means of guarantor companies, etc. Treat deterioration in real estate market as opportunity to acquire excellent properties and execute strategic investments through appropriate financial management utilizing information-gathering ability (opportunity)
Market-Related Risks <ul style="list-style-type: none"> Increase in interest rates Fluctuations in the investment unit price 	<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 may fluctuate due to factors that include unitholder supply and demand, interest rate conditions, economic conditions, and real estate market conditions Risk of not being able to acquire planned assets because additional units cannot be issued at the desired time and under desired conditions due to fluctuations in unit price 	<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 Conducting of proactive IR activities
Risks from Natural Disasters <ul style="list-style-type: none"> Response to climate change 	<ul style="list-style-type: none"> Buildings may be lost, suffer deterioration or damage due to the occurrence of natural disasters, such as earthquakes, storms and floods, or severe weather due to climate change, and their value may be affected, with a decrease in rent due to the non-operation of properties 	<ul style="list-style-type: none"> Consider that it is possible to purchase insurance at a relatively low cost compared with other areas, arrange earthquake insurance coverage for all properties Improve resilience (ability to respond to disasters, etc.) by conducting disaster drills at each property, stockpiling emergency food and formulating business continuity plans (BCPs)
Environment-Related Risks <ul style="list-style-type: none"> Reduction of environmental load Soil pollution and toxic substances 	<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 health of building users due to the presence of toxic substances in the soil or in building materials, etc. of properties owned, risk of bearing the cost of compensation for damage to health or for removal of toxic substances 	<ul style="list-style-type: none"> Work to maintain and improve environmental performance through renovation opportunities for properties owned; acquire Green Building certification, etc. to obtain results of environmental/social initiatives in visual form and improve property competitiveness Aim to reduce vacancy rates by pursuing healthful and comfortable conditions in properties owned and by increasing leasing demand for properties with high environmental performance (opportunity) Conduct thorough physical investigations at the time of property acquisition; property acquisition after confirming the presence or absence of toxic substances and taking of measures
Risks from Property Degradation, Deterioration <ul style="list-style-type: none"> Increase in repair and maintenance expenses Decline in property competitiveness 	<ul style="list-style-type: none"> Increase in expenses required for large-scale repairs, etc. due to the deterioration of properties, and large capital expenditures may reduce cash flows Possibility of tenants vacating and a reduction in rent due to a loss of property competitiveness resulting from changes in the surrounding environment 	<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 real estate market trends, capital market environment, etc., in the event that the strategic holding of a property becomes less significant from the perspective of property performance, competitiveness, and future profitability, consider replacement of that property if it is determined that selling it is in the interest of unitholders

Significant Risks	Impact on Stakeholders	Measures to Address Risks (Opportunities)
Property Concentration Risks <ul style="list-style-type: none"> Region (Fukuoka/Kyushu) Retail facilities 	<ul style="list-style-type: none"> As FRC's properties owned are concentrated in Fukuoka and Kyushu, the vacancy rate may increase due to a worsening economic situation in that region, and profitability may deteriorate due to a decrease in rent Possibility of adverse effects on profits due to overall consumer consumption as well as other overall trends in the retail industry that reflect the nature of retail facilities as a main investment target 	<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 experience value, etc., thereby reducing the risk of profit fluctuation by dispersing tenants
Regulatory Risks <ul style="list-style-type: none"> New laws and regulations Changes in the tax system 	<ul style="list-style-type: none"> Possibility of a limitation on rights with respect to properties owned and an increase in property management expenses, etc. due to newly established, revised or abolished laws and regulations Possibility of an increased burden from taxes and fees due to tax reform 	<ul style="list-style-type: none"> In addition to receiving information from Fukuoka Realty's affiliated organizations, tax accountants, law firms, etc., participate in external training, obtain information, and take measures to reduce any impact from an early stage
IT-Related Risks <ul style="list-style-type: none"> Information leaks 	<ul style="list-style-type: none"> Risk of leakage of confidential information due to delays in strengthening cyber security 	<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 cyber security and information management Enable property differentiation by introducing advanced technologies into properties owned (opportunity)
Compliance Risks <ul style="list-style-type: none"> Violations of organizational laws and regulations Conflicts of interest 	<ul style="list-style-type: none"> In the event that Fukuoka Realty violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability Potential conflict of interest issues with sponsors 	<ul style="list-style-type: none"> Prevent violations of laws and regulations, transactions involving conflicts of interest, etc. through deliberations and audits by the Compliance Assessment Committee Improve employees' awareness toward compliance by conducting regular compliance training
Human Resource-Related Risks <ul style="list-style-type: none"> Deterioration in the caliber of human resources Dependence on human resources 	<ul style="list-style-type: none"> Risk of deterioration in organizational strength due to a failure in maintaining the human resources base, in terms of such factors as ability, experience, and know-how of the asset management company for smooth business operations Heavy reliance on FRC's directors and auditors as well as on the human resources of the asset management company; and the risk that the outflow of these human resources could have an adverse effect on operations 	<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 work-life balance and the stabilization of work through health management (Opportunity)

Financial Strategies and TSR (Total Shareholder Return)

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

Basic Approach to Financial Strategy

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

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

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

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

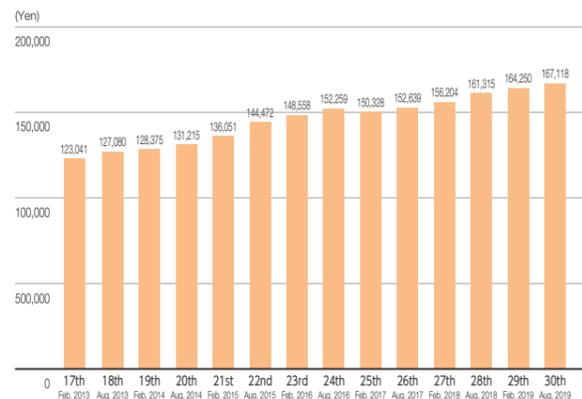
External Growth and Internal Growth

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

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

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

Trends in NAV per Investment Unit



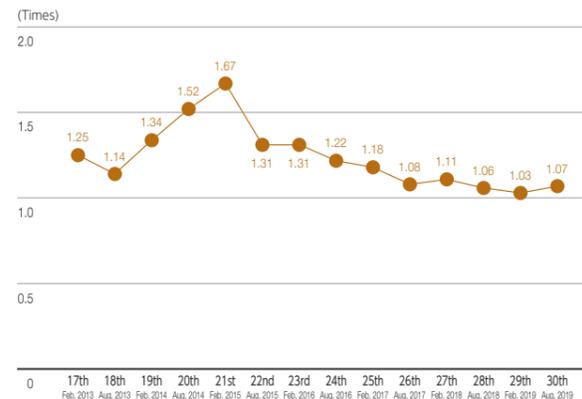
* NAV per investment unit = (Net assets + unrealized gain/loss - Total Dividends) / Total number of investment units issued as of the end of the period

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

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

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

NAV Ratio Trends



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

Dividends and TSR

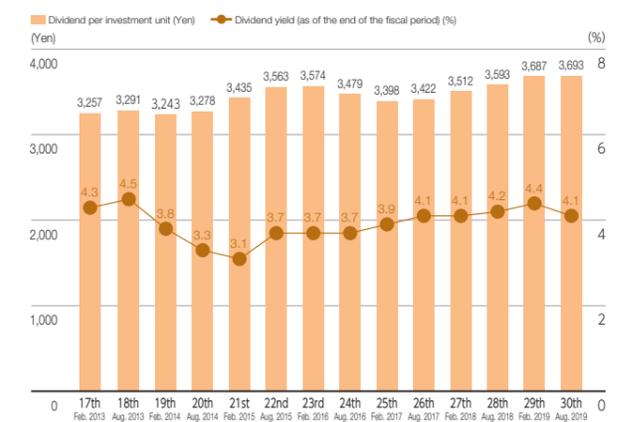
Figure 1 shows FRC'S past dividends and dividend yields.

Among listed REITs, dividends are characteristically very stable. In contrast, the dividend yield has fluctuated between 3.1% and 4.5% over the past seven years, indicating that investment unit prices have fluctuated due to fluctuations in the stock market, interest rate trends, and fluctuations in market supply and demand.

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

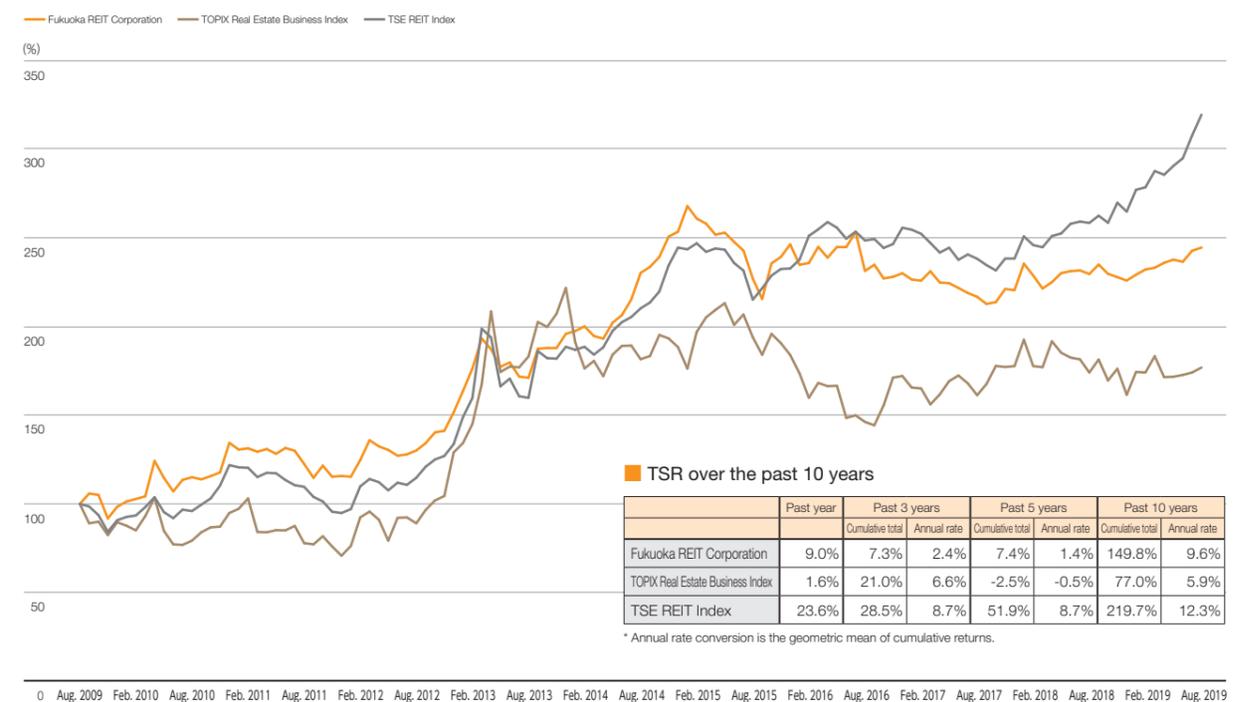
One of the reasons for the deterioration in TSR over the past five years is that investment unit prices were rising due to shopping spree cruise passengers five years ago. With regard to dividends, in 2017, we considered it best practice to avoid future risks when the real estate market is booming, and this included the sale of two properties and a dividend decrease in the 25th fiscal period. Dividends have been continuously improving up until the end of the 30th fiscal period, the most recent term, with the 25th fiscal period regarded as a bottoming out.

Figure 1: Past Dividends and Dividend Yields



Note: With March 1, 2014, as the effective date, FRC investment units were split at a ratio of 5:1. Dividends prior to the 19th fiscal period are shown as values divided by five.
Note: Dividend yield = (Dividend per investment unit / Operating days x 365) / Investment unit price as of the end of the fiscal period

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



Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2009 as 100. TSR over the past 10 years indicates profitability based on dividends from and investment unit price made on August 31, 2009, as of August 31, 2019. The TOPIX real estate index and TSE REIT index are indexed in the same way, using dividend-included data.
Source: Prepared by Fukuoka Realty Co., Ltd. based on data provided by Bloomberg L.P.