

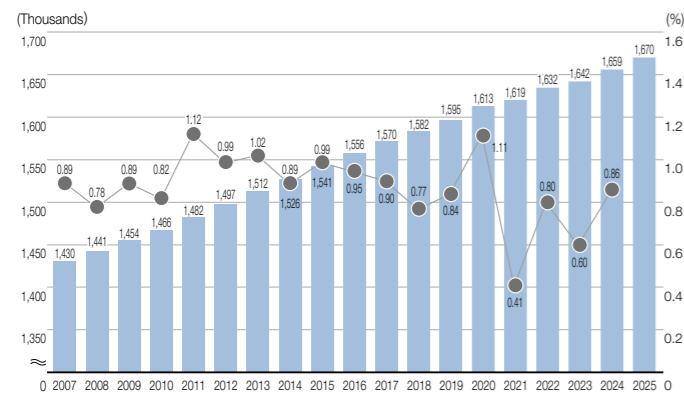
# External Environment: Macroeconomic Landscape of Fukuoka and Kyushu

Attractive urban development in the Fukuoka and Kyushu regions requires a combination of **urban growth and higher quality of life**. The features of Fukuoka and Kyushu as the areas targeted for investment by FRC include a growing population in Fukuoka City, geographical advantages from a low earthquake risk perspective, booming semiconductor-related industries, and expanding needs for logistics facilities. In addition, Fukuoka City itself is seeing large-scale redevelopment projects, including Tenjin Big Bang and Hakata Connected. We therefore assume that this location has significant potential as a region.

## Population Continues to Grow in Fukuoka City

The total population of Fukuoka City exceeded 1.6 million on May 1, 2020, and has consistently increased since 1985. This total population makes the city the fifth most populous among government-designated cities, following Yokohama, Osaka, Nagoya, and Sapporo. According to the National Institute of Population and Social Security Research, Fukuoka City's population is projected to continue growing until 2035.

### Total Population and Population Growth Ratio of Fukuoka City

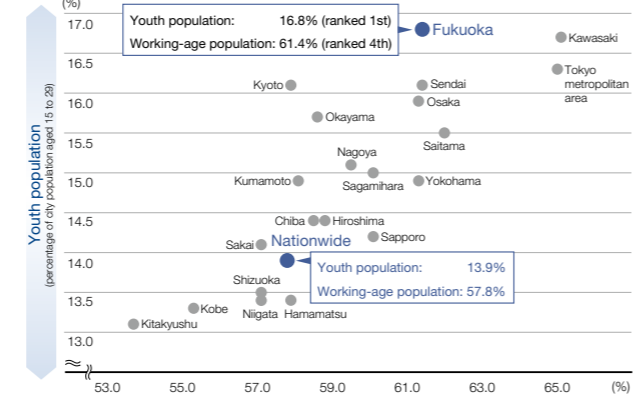


Note: Total population figures from 2007 to 2024 are based on figures as of December 1 each year. The total population figure for 2025 is based on the figure as of October 1, 2025. Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Fukuoka City Estimated Population and Fukuoka City Registered Population, published by Fukuoka City.

## A Hub for Young People

Fukuoka City stands out for its high proportion of young people in its population compared to other cities. Among the cities listed in the following table, Fukuoka City ranks first with a youth population rate of 16.8% (percentage of city population aged 15 to 29) and fourth with a working-age population ratio of 61.4% (percentage of city population aged 15 to 64).

### Youth and Working-Age Population Ratios Nationwide and in Major Cities (2020)

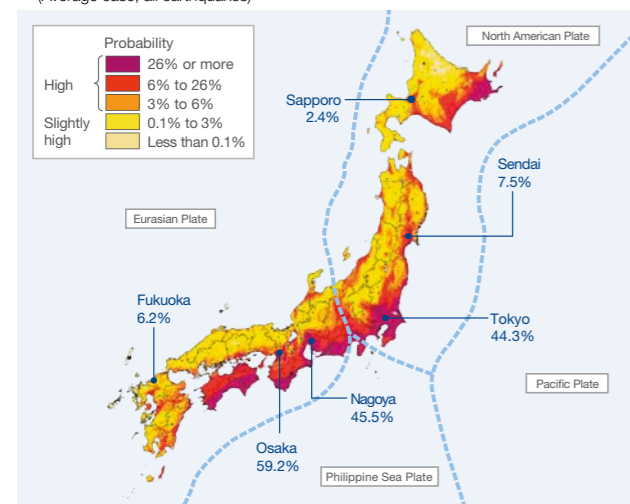


Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Population Census, Statistics Bureau, Ministry of Internal Affairs and Communications

## Earthquake Risks in Fukuoka and Kyushu

### Probabilistic Seismic Hazard Map

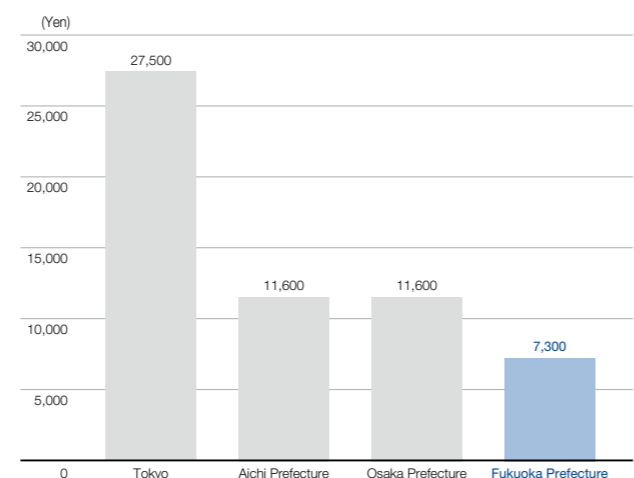
Probability of experiencing tremors of intensity 6 or higher within the next 30 years (Average case, all earthquakes)



Note: The areas with a probability of zero are displayed in white due to the model calculation conditions. The values for each city are based on data from 2024. Source: The Headquarters for Earthquake Research Promotion (Research Center for Earthquake and Volcano Sciences, 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 data from the Ministry of Land, Infrastructure, Transport and Tourism and the Japan Meteorological Agency websites. Data used in this map was compiled by Fukuoka Realty Co., Ltd.

### Basic Earthquake Insurance Rates

Earthquake insurance contracts starting from October 1, 2022. Fukuoka Prefecture offers relatively lower costs for earthquake insurance compared to other areas.

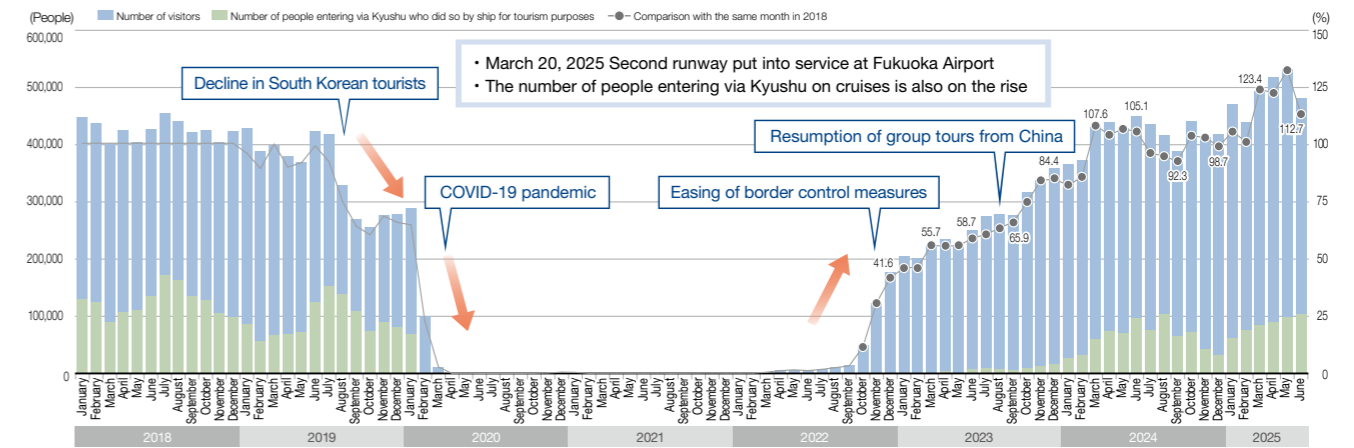


Note: These are the basic insurance rates for buildings primarily made of steel and concrete, based on an insurance amount of 10 million yen per year of coverage. Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the General Insurance Rating Organization of Japan.

## Inbound Situation

The number of foreign visitors to Kyushu now exceeds the number prior to the COVID-19 pandemic and has reached record highs.

### Trend of Foreign Visitors to Kyushu



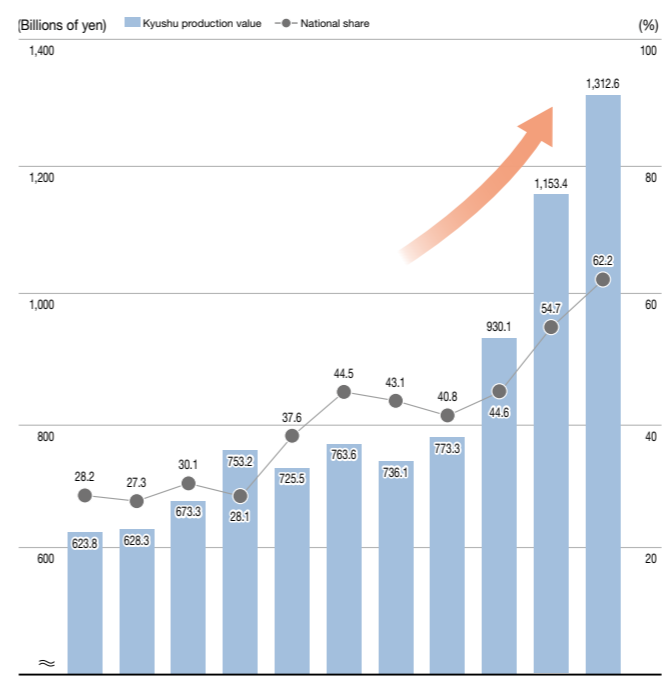
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Kyushu Transport Bureau, Ministry of Land, Infrastructure, Transport and Tourism, "Trends in the number of foreign nationals entering Kyushu."

## Kyushu Region Thriving in the Semiconductor Industry

The Kyushu region has become a key hub for the semiconductor-related industry, with further development expected in the future.

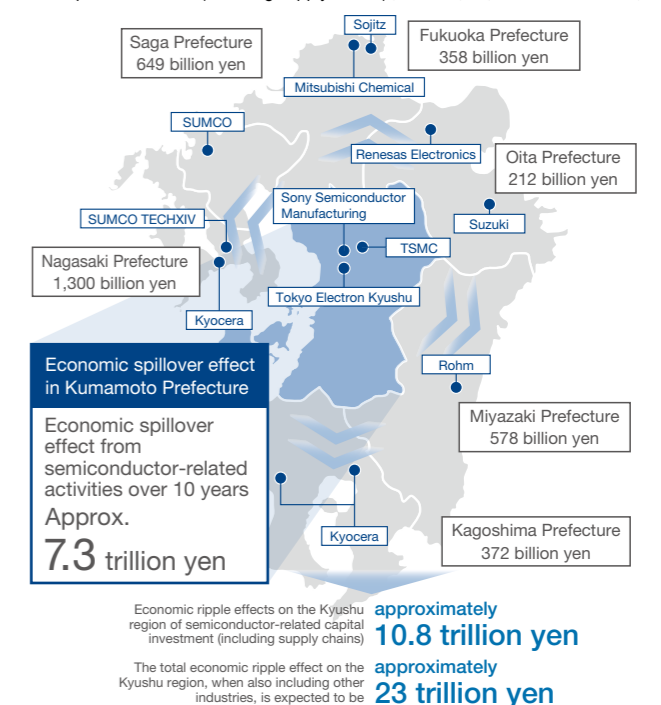
### Trend of Semiconductor Production Value and National Share in Kyushu

Both the semiconductor production value and national share in Kyushu are on an upward trend



Note: Because this is a comprehensive survey of firms above a certain scale, the figures might differ from those in industrial statistics. Source: Prepared by Fukuoka Realty based on data from the Ministry of Economy, Trade and Industry's "Yearbook of Current Production Statistics."

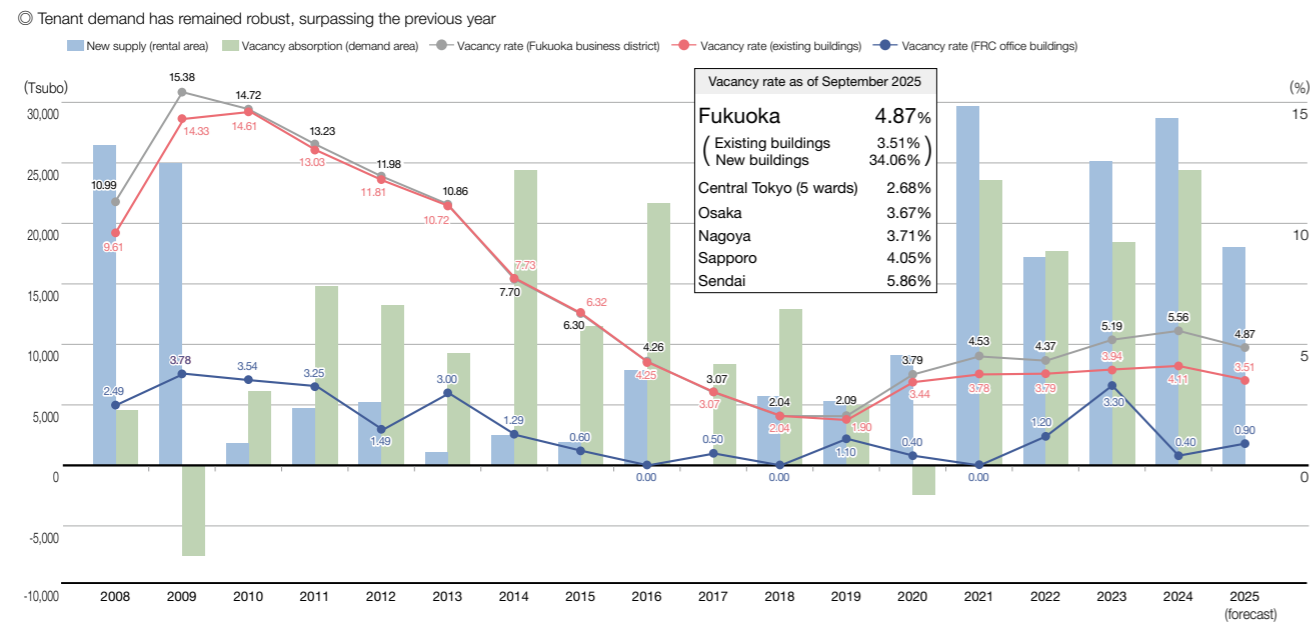
### Economic Ripple Effects on the Kyushu Region of Semiconductor-Related Capital Investment (including supply chains) (For the 10-year period from 2021 to 2030)



Source: Prepared by Fukuoka Realty based on materials created by the Kyushu Economic Research Center and press releases.

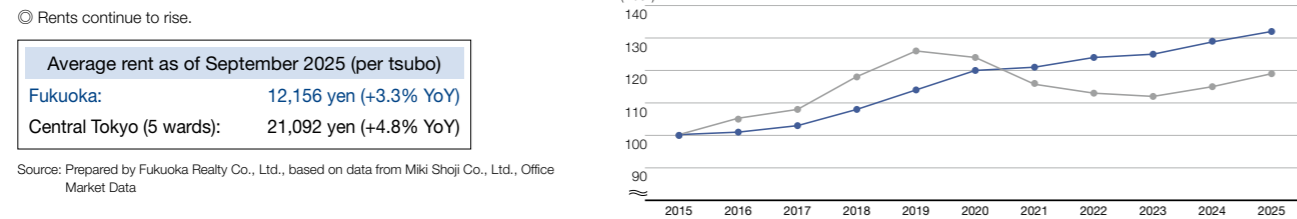
# External Environment: Macroeconomic Landscape of Fukuoka and Kyushu

## Fukuoka Business District: Vacancy Rates and Supply and Demand of Office Buildings



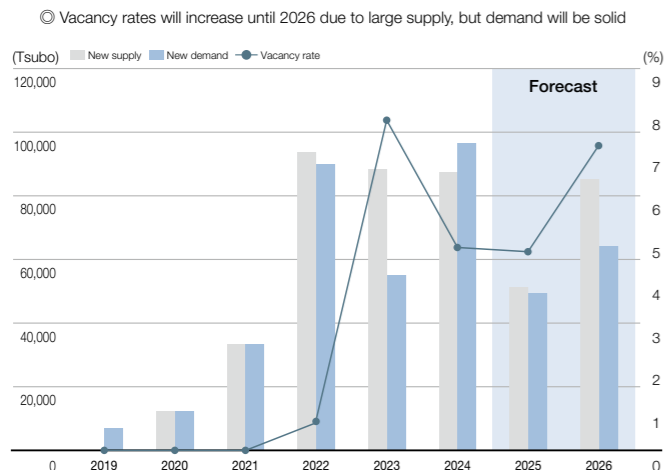
Notes:  
 1. The vacancy rates from 2008 to 2024 are based on the figures as of December 31. The vacancy rate in 2025 is based on the figure as of September 30, 2025.  
 2. Office building-related data for each city are the data for areas and buildings included in surveys conducted by Miki Shoji Co., Ltd.  
 3. Vacancy absorption (demand area) is calculated by adding the new supply (rental area) for each year to the vacant space as of December 31 of the previous year, then subtracting the vacant space as of December 31 of the current year.  
 Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Miki Shoji Co., Ltd., Office Market Data

## Fukuoka Business District/Trend of Average Asking Rent (Index: 100 in 2015)



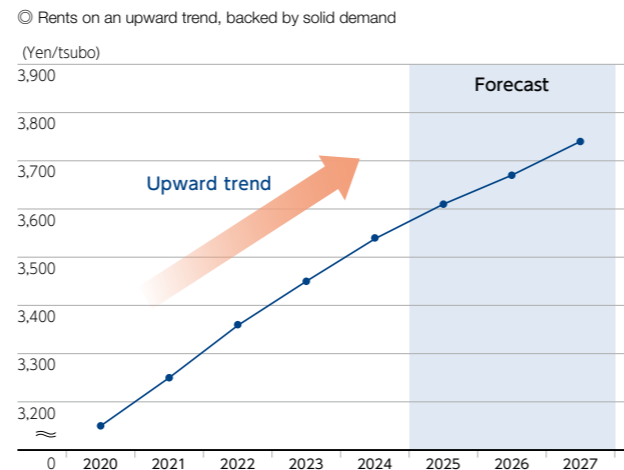
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Miki Shoji Co., Ltd., Office Market Data

## Supply/Demand and Vacancy Rates for Logistics Facilities



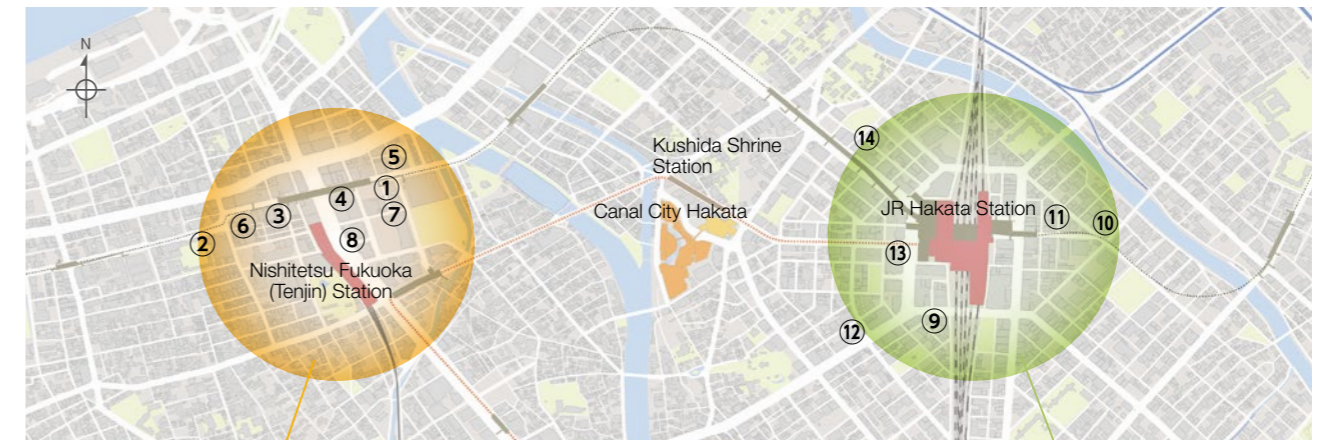
Note: Large multi-tenant (LMT) facilities with a total floor area of 5,000 tsubo or more in the Fukuoka metropolitan area are targeted, specifically those that were planned and designed with the assumption of multiple tenant use at the time of development.  
 Source: Prepared by Fukuoka Realty Co., Ltd., based on CBRE's regular survey of Fukuoka's logistics market (August 2025).

## Trend in Rent Unit Price



Note: Large multi-tenant (LMT) facilities with a total floor area of 5,000 tsubo or more in the Fukuoka metropolitan area are targeted, specifically those that were planned and designed with the assumption of multiple tenant use at the time of development.  
 Source: Prepared by Fukuoka Realty Co., Ltd., based on CBRE's regular survey of Fukuoka's logistics market (August 2025).

## Redevelopment Project



Note: Focus areas

### Tenjin Big Bang

#### Redevelopment Projects

Name	Completion month
① Tenjin Business Center	September 2021
② Fukuoka Daimyo Garden City	March 2023
③ HULIC SQUARE FUKUOKA TENJIN	December 2024
④ ONE FUKUOKA Building	December 2024
⑤ Tenjin Brick Cross	April 2025
⑥ Tenjin Sumitomo Life FJ Business Center	June 2025
⑦ Tenjin Business Center Phase 2 Project (provisional name)	June 2026 (scheduled)
⑧ Tenjin 1-7 plan (provisional name)	December 2026 (scheduled)

Source: Created by Fukuoka Realty Co., Ltd., based on each project'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. 67 m (15 floors)
- Tenjin Meiji-dori district (west of the center of Watanabe-dori) approx. 115 m (26 floors)
- Tenjin Meiji-dori district (east of the center of Watanabe-dori) approx. 76 m (17 floors) ~ approx. 100 m (22 floors)
- Tenjin 1-chome district approx. 80 m (18 floors) ~ approx. 96 m (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 Hakata Fukami Park Building	February 2021
⑩ Hakata East Terrace	August 2022
⑪ CONNECT SQUARE HAKATA	March 2024
⑫ Chuo Nittochi Hakata Ekimae Building	June 2025
⑬ Nishi-Nippon City Building	March 2026 (scheduled)
⑭ The Nishi-Nippon City Bank Administrative Head Office Building	September 2028 (scheduled)

Source: Created by Fukuoka Realty Co., Ltd., based on each project'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 enhancing the vibrancy, 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.

Significant risks	Impact on stakeholders	Response to risks and opportunities
<p><b>Risks from Natural Disasters</b></p> <ul style="list-style-type: none"> <li>Response to climate change</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Addressing climate change</li> <li>Resource circulation and efficient utilization</li> <li>Natural disaster preparedness</li> </ul>	<ul style="list-style-type: none"> <li>Buildings might be lost: Suffering deterioration or damage due to the occurrence of natural disasters, such as earthquakes, storms, and floods, or experiencing severe weather due to climate change, their value could be affected, with a decrease in rent due to the non-operation of properties</li> </ul>	<ul style="list-style-type: none"> <li>Consider that it is possible to purchase insurance at a relatively low cost compared to other areas; arrange earthquake insurance coverage for all properties</li> <li>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)</li> </ul> <p><a href="#">See p.38</a></p>
<p><b>Environment-Related Risks</b></p> <ul style="list-style-type: none"> <li>Reduction of environmental load</li> <li>Soil pollution and toxic substances</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Resource circulation and efficient utilization</li> <li>Business operations for resolving environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>Increase in property management costs due to more stringent environmental laws and regulations, such as the strengthening of the Building Energy Conservation Law</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Aim to reduce vacancy rates by pursuing healthy and comfortable conditions in properties owned and by increasing leasing demand for properties with high environmental performance</li> <li>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</li> </ul> <p><a href="#">See p.39</a></p>
<p><b>Human Resources-Related Risks</b></p> <ul style="list-style-type: none"> <li>Deterioration in the caliber of human resources</li> <li>Dependence on human resources</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Creation of pleasant workplaces (Asset Management Company)</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Heavy reliance on FRC's directors and auditors as well as on the human resources of the Asset Management Company with the risk that the outflow of these human resources could have an adverse effect on operations</li> </ul>	<ul style="list-style-type: none"> <li>Improve organizational strength and increase employee loyalty by hiring and fostering excellent human resources</li> <li>Improve employee motivation by realizing a work-life balance and the stabilization of work through health management</li> </ul> <p><a href="#">See p.40</a></p>
<p><b>Infectious Disease, Epidemic, and Other Related Risks</b></p> <ul style="list-style-type: none"> <li>Pandemic</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Business operations for resolving environmental issues</li> <li>Creation of pleasant workplaces (Asset Management Company)</li> <li>Improvement in tenant engagement</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Implement infectious disease countermeasures and put in place a facility environment that provides peace of mind for tenants and consumers</li> <li>Set up satellite offices at the Asset Management Company and introduce a telework system with a view to ensuring business continuity</li> </ul>
<p><b>Property Concentration Risks</b></p> <ul style="list-style-type: none"> <li>Regions (Fukuoka/Kyushu)</li> <li>Retail facilities</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Invest in various types of properties to reduce the risk of portfolio fluctuation by diversifying rental market cycles and tenant industries</li> <li>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</li> <li>Revitalize the entire region and connect this growth to the growth of properties owned</li> </ul> <p><a href="#">See pp.12-13</a> <a href="#">See pp.44-45</a></p>

Significant risks	Impact on stakeholders	Response to risks and opportunities
<p><b>Risks from Changes in Business Conditions</b></p> <ul style="list-style-type: none"> <li>Increase in vacancy rates</li> <li>Decrease in rent</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Improvement in tenant engagement</li> </ul>	<ul style="list-style-type: none"> <li>Vacancy rate increases associated with worsening real estate market conditions; decrease in dividends due to rent decreases</li> <li>Rent reduction, rent nonpayment, and vacating risks due to deterioration of a lessee's financial situation</li> </ul>	<ul style="list-style-type: none"> <li>Consider extending lease agreement terms and the fixing of such items as rent, according to property characteristics</li> <li>Appropriate occupancy screening when tenants move in as well as monitoring of operating status and thorough credit management during the lease period</li> <li>Deposits and security deposits against items including rent delinquency; collateral by such means as guarantor companies</li> <li>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</li> </ul>
<p><b>Market-Related Risks</b></p> <ul style="list-style-type: none"> <li>Increase in interest rates</li> <li>Fluctuations in the investment unit price</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Information disclosure and dialogue with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Risk of increase in interest payment due to increase in interest rates caused by market trends at the time of borrowing</li> <li>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</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Long-term fixing of interest-bearing debt and repayment period limit diversification</li> <li>Conservative interest-bearing debt management and commitment lines* to ensure flexibility and agility in funding</li> <li>Conduct proactive IR activities</li> </ul> <p><a href="#">See p.28</a></p>
<p><b>Risks from Property Degradation, Deterioration</b></p> <ul style="list-style-type: none"> <li>Increase in repair and maintenance expenses</li> <li>Decline in property competitiveness</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Natural disaster preparedness</li> <li>Business operations for resolving environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Possibility of tenants vacating and a reduction in rent due to a loss of property competitiveness resulting from changes in the surrounding environment</li> </ul>	<ul style="list-style-type: none"> <li>Maintain/improve property competitiveness through appropriate maintenance and repair work, value-up investment, and extending the number of service life years</li> <li>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</li> </ul>
<p><b>Regulatory Risks</b></p> <ul style="list-style-type: none"> <li>New laws and regulations</li> <li>Changes in the tax system</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Compliance/Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Possibility of restrictions on property rights or increased management costs due to the introduction or amendment of laws and regulations</li> <li>Possibility of an increased burden from taxes and fees due to tax reform</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>
<p><b>IT-Related Risks</b></p> <ul style="list-style-type: none"> <li>Information leaks</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Compliance/Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Risk of leakage of personal and confidential information due to delays in strengthening cybersecurity</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Enable property differentiation by introducing advanced technologies into properties owned</li> </ul>
<p><b>Compliance Risks</b></p> <ul style="list-style-type: none"> <li>Violations of organizational laws and regulations</li> <li>Conflicts of interest*</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Compliance/Risk management</li> </ul>	<ul style="list-style-type: none"> <li>If Fukuoka Realty (Asset Management Company) violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability</li> <li>Potential conflict of interest issues with sponsor</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Improve employee awareness of compliance by conducting regular compliance trainings</li> </ul> <p><a href="#">See p.43</a></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 the Asset Management Company.

# Investment Strategy



**Investment Department**

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

**Hideya Kanno**

Based on a thorough understanding of the local characteristics of real estate, which is a very regional-specific business, and the features of each particular area, the Investment Department's mission is to invest in high-quality real estate and secure stable earnings over the medium to long term. To achieve that mission, I believe it is important to make the most of our local information-gathering capabilities, market insights, and strong network. At the same time, the real estate market is facing a challenging environment due to concerns surrounding increasing construction costs and interest rates. As a result, opportunities to acquire investment properties remain limited. Under these circumstances, I believe it is essential to go beyond existing frameworks and develop more flexible investment strategies that keep pace with the changing times.

By anticipating changes in the market environment and responding rapidly and flexibly, we will promote the diversification of asset types and engage in strategic portfolio replacement through the continuous acquisition and transfer of assets. This will enable us to work on the steady expansion of our asset scale, and in going beyond existing frameworks allow us to introduce flexible capital strategies, including the use of special purpose corporations (SPCs). In doing so, we will actively develop new opportunities from a long-term perspective. We are also taking full advantage of the regional characteristics of Fukuoka and Kyushu to venture into new areas that will contribute to the development of the local economy. For example, we are advancing research into capital investments that will form the foundation of the region, such as factories and industrial parks, and are developing ongoing activities with a view to acquiring investment real estate in the years to come. Through this process we are not merely "acquiring" properties. By focusing on the essence of value creation—"what to acquire, how to acquire it, and for what purpose"—we are strengthening the diversity and resilience of our portfolio as a whole and working toward the development of a flexible and sustainable investment strategy. As an important measure reflecting the increasing diversity of our investment targets, we have also adopted diversification in terms of our fund procurement strategies. Maintaining the solid management of a listed REIT as a foundation, we are working to engage in flexible investments that go beyond conventional boundaries. While optimizing the balance between capital efficiency and profitability, we aim to stabilize and improve investment returns.

Another important strategy is our commitment to sustainability, which involves incorporating environmental, social, and governance (ESG) factors into our investment decisions. At this

point, the link between properties with green specifications and price competitiveness might not be clearly evident. However, contributing to a sustainable society remains essential for increasing long-term corporate value. In anticipation of future market demands, we will continue to invest in environmentally friendly properties and improve the environmental performance of our existing portfolio, thereby contributing to the realization of a sustainable society. Not shying away from change and always seeking to optimize our investment strategies, I would like us to remain a "value creation partner" that paves the way to the future. More than just a real estate investment company, we as a whole will push ahead in a bid to contribute to the development of local communities and by association provide stable returns to our investors.

## Silent partnership investment in SPCs

In October 2025, we acquired silent partnership equity interests in two conveniently located rental apartment properties in the center of Nagasaki City, which is thriving due to redevelopment.

### ■ ABAS CHIKUGOMACHI



Overview	
Address	4-1 Chikugo-machi, Nagasaki-shi, Nagasaki
Built	January 2011
Acquisition price	1,330 million yen
Appraisal value	1,430 million yen
Total floor area	3,361.59 m <sup>2</sup>
Site area	675.02 m <sup>2</sup>
Structure	Steel-framed reinforced concrete, flat roof, 13 floors
Number of tenants	Total of 84 units (1K 36, 2DK 12, and 2LDK 36 units)

### ■ ABAS KANAYAMACHI



Overview	
Address	9-26 Kanaya-machi, Nagasaki-shi, Nagasaki
Built	January 2008
Acquisition price	880 million yen
Appraisal value	970 million yen
Total floor area	2,371.02 m <sup>2</sup>
Site area	478.60 m <sup>2</sup>
Structure	Steel-framed reinforced concrete, flat roof, 13 floors
Number of tenants	Total of 72 units (1K 36, 2DK 36 units)

# Management Strategy



**Real Estate Management Department**

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

**Takafumi Fujita**

As FRC's Asset Management Company, Fukuoka Realty's Real Estate Management Department develops unique strategies for a wide range of assets, including retail facilities, office buildings, logistics facilities, residential properties, and hotels, mainly in Kyushu and Fukuoka. Taking into account the changing market environment and regional characteristics, we are working to improve the value of real estate and maximize unitholder value over the medium to long term.

As some of the properties under ownership were built several years ago and require large-scale equipment and facility upgrades, we have formulated a maintenance plan for the next 10 years, which we are currently refining into an immediate and specific three-year plan. In Canal City Hakata, plans for large-scale investments include the renewal of elevators and escalators, renovation of restrooms, and upgrading of lighting and electrical equipment in common areas, some of which have already begun. We are also working with external experts to consider ways to level out costs and implement projects more efficiently. Because large-scale investments might temporarily increase capital expenditures with the possibility of negatively impacting dividends, we carefully consider the need to maintain and improve dividends in fundraising and allocation activities, while working to achieve both efficient capital management and stable returns.

In our retail facilities, we are strengthening our ability to respond to local characteristics and customer needs while working to improve efforts aimed at attracting customers and maximizing operating revenues. At Canal City Hakata, we are leveraging the property's heightened ability to attract customers from both Japan and overseas while strengthening promotions for which we are utilizing social media and overseas influencers. We are deploying detailed sales promotion strategies tailored to the target customers of each facility. This includes utilizing TV commercials and radio ads in the case of Park Place Oita and placing emphasis on sales promotions aimed at point card users at Konoha Mall Hashimoto. In addition to promoting the introduction and reviews of sales-based rents and revising the fixed rents at Konoha Mall Hashimoto in light of soaring prices, we have implemented a percentage of sales system whereby rents increase in line with tenant sales, thereby achieving both stable income and growth potential in a bid to maximize operating revenues.

At the same time, to address the labor shortages faced by our tenants, which is a common issue faced by all facilities, we are strengthening our collaboration with property management companies and promoting new initiatives, such as considering support services to provide human resources. We are also

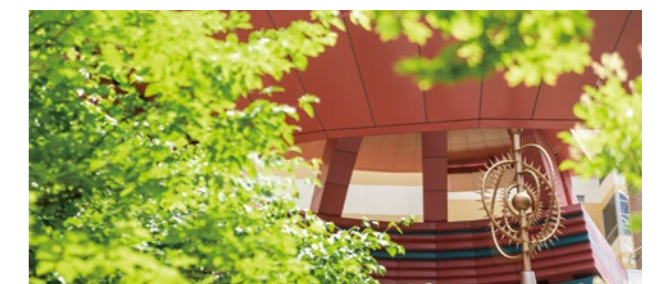
working to improve the overall appeal of our facilities by creating comfortable environments for both tenant employees and visitors, including the provision of rooms where employees can take breaks and nursing spaces.

From an office building perspective, redevelopment is underway in the Tenjin and Hakata areas of Fukuoka City. As the supply of new buildings in central Fukuoka City continues to increase, our office buildings possess a competitive advantage in terms of their location, size, and specifications. By means of ongoing negotiations to increase rents, we have also achieved favorable leasing results.

Even in well-located residential properties that are more than 17 years old, such as Amex Akasakamon Tower and D-Wing Tower in Fukuoka City, we have been able to increase rents by combining appropriate renovations and facility updates in conjunction with replacement. At D-Wing Tower, we are working to improve profitability through fair property valuations and renovation investments to, for example, achieve rent increase rates of more than 30%.

Against the backdrop of Fukuoka's growth potential and expanding inbound tourism demand, we consider hotels as an important option in future portfolio expansion. Despite facing challenges, such as changes in the market environment and intensifying competition, in the case of Tissage Hotel Naha that is currently under our management, the hotel is exploring the possibility of further expansion by focusing on the abundant tourist attractions that are spread throughout Kyushu.

Maintaining the soundness of our portfolio as a whole, strengthening the relationships with our tenants, and working toward sustainability are all important pillars for improving real estate value and maximizing unitholder value over the medium to long term. Pursuing greater efficiency and feasibility with a limited number of staff, Fukuoka Realty is committed to achieving sustainable growth by deploying a flexible management strategy tailored to market and customer needs.



## Financial Strategy



### Finance Department

Director and General Manager of Finance Department, Executive in-charge of Human Resources and Digital Transformation Department  
Fukuoka Realty Co., Ltd.

### Hiroyuki Ayabe

I believe that one of the core missions of the Finance Department is to seamlessly procure and effectively invest capital while drawing from dialogue with the capital markets. Today's rising interest rates and other notable changes in the external environment, however, have triggered the growing need to build a firm financial foundation and to engage in strategic capital investment. We have therefore broadly structured our financial strategy on the following three pillars.

- **Build a stable financing base**
- **Strategically allocate funds (cash allocation)**
- **Engage in ongoing IR activities**

Based on these three pillars, we are working to secure sustainable growth for the Investment Corporation and to maximize unitholder value. The core of our financial strategy, however, lies primarily in establishing a stable financing base.

Our current Loan-to-Value (LTV) ratio stands below the targeted range of between 35% and 45%, which ensures our financial strength. The strength of a company's financial standing is extremely important for enhancing its creditworthiness among financial institutions and for ensuring the freedom of future financing. Faced with the difficulty of avoiding higher financing costs going forward, today's rising interest rates present us with a challenge. Although our current average financing cost lies around 0.8%, should we be forced to refinance all of our existing loans, we estimate that this average will increase to 1.5% to 1.6%. We thus therefore focus our efforts on coming in as far below this estimate as possible.

From a long-term perspective, interest-bearing debt will also expand as our asset portfolio grows in the future. In addition to spreading out repayment maturities and controlling fixed rates, we must therefore also consider ways to diversify our financing options. Although loans from financial institutions will account for the majority of financing for the time being, we believe that using a range of financing options, including the issuance of corporate bonds, will enable us to further enhance our financing stability. Moreover, we assume that effectively and strategically allocating the funds we procure will serve as an important aspect that directly connects to greater unitholder value.

Furthermore, the primary sources of cash flow for the Investment Corporation are depreciation and amortization expenses and property sale proceeds. Our options for utilizing this cash include such financial strategies (capitalization) as dividends, the repayment of loans, and acquisition of own investment equity (buybacks), as well as investment strategies (reinvestment), including capital expenditures (CAPEX) and property acquisitions

(the replacement of properties). Based on the aforementioned, we recognize the critical need to consider approaches from among these options, and prioritize allocating cash to measures that help improve unitholder value over the medium to long term.

With this in mind, we undertook a comprehensive assessment of the market environment and the level of our NAV ratio (PBR), and made the decision to acquire own investment equity in April 2025. Since the Investment Corporation maintains a NAV ratio well below 1 times, we believe that acquiring own investment equity is a better approach to effectively increasing yields as opposed to acquiring new properties, and that doing so will contribute more to returns for all existing unitholders. We also feel that acquiring own investment equity is an effective means of sending a strong message to the market, and of fulfilling our responsibilities to unitholders.

As the third pillar, ongoing IR activities (stronger dialogue with all investors) is essential. In specific terms, we will work diligently to listen to feedback from investors in an effort to continuously determine whether our financial strategies and initiatives match their expectations. We will also seek to accurately ascertain the respective needs and investment stances of institutional, individual, and overseas investors, as well as actively provide information through IR activities all while engaging in dialogue in a bid to achieve important targets, including consistent dividend growth and curtailing excessive fluctuations in investment unit prices. At the same time, we will strengthen our approach to individual investors who utilize the new NISA and similar systems, and intend to convey the appeal of the Investment Corporation to a broad range of investors.

Our sustainability initiatives are another area in which we will engage vigorously in disclosure of pertinent information. When seen from a short-term perspective, some aspects of our sustainability initiatives struggle to directly connect to dividends, which means gaining the understanding of investors requires detailed explanations and adequate time. When seen from a long-term perspective, however, the lower environmental impacts and contributions to society resulting from these initiatives are essential elements of enhancing property competitiveness and growing corporate value for the Investment Corporation. Similarly, we consider the costs involved in ESG as investments for the future as opposed to simple expenditures. For this reason, we will pursue the intrinsic sustainability of our properties as real estate by continuously using older properties over the long term while engaging in proper maintenance and repair, and working toward appropriate disclosure.

The environment in which the Investment Corporation operates is constantly evolving. Accordingly, we will calmly analyze each change and push forward financial strategies as appropriate as we proceed in a manner that provides our unitholders with peace of mind while achieving both stable dividends over the long term and sustainable growth.

## Human Resources and Digital Transformation Strategy



### Human Resources and Digital Transformation Department

General Manager of the Human Resources and Digital Transformation Department  
Fukuoka Realty Co., Ltd.

### Tatsuro Mimaki

As the foundation for supporting Fukuoka Realty's sustainable growth, the Human Resources and Digital Transformation Department is advancing human capital management in lockstep with our promotion of digital transformation. We see it as our core mission to draw out the most from the capabilities, experiences, and skills of each employee while linking this potential to the company's growth. At the same time, our goal is to balance greater employee satisfaction with higher operational efficiency.

### Human Resources Strategy

We are expanding opportunities for our employees to play an active role through improvements to our personnel systems and to the workplace environment. Because we are a relatively small organization with just over 50 employees, we adopt a detailed approach when addressing their respective needs while administering flexible, highly responsive systems. Leveraging these characteristics, we focus especially on the two themes of recruitment and dialogue. Here, we support seamless onboarding by emphasizing dialogue from the hiring stage, engaging in detailed follow-up from job offer to entry, providing extensive training, and conducting interviews. At the same time, we undertake vigorous follow-up during the second and third years after entry, and seek to build mechanisms that support retention and participation over the medium to long term.

Meanwhile, our hiring efforts have focused on recruiting mid-career employees. Taking into consideration the differences in industry experience and skills, the need for basic skill training has continued to emerge. To ensure that employees fully understand our business, we have looked carefully into cross-departmental training programs and have categorized business skills, management know-how, financial knowledge, and other areas into basic and specialized fields. In this manner, we have built a system that enables systematic learning. We also leverage external programs and encourage self-led career development with a target investment of more than 100,000 yen per person per year.

In addition, we see greater employee engagement as directly connected to the company's performance, and therefore seek to obtain feedback from the front lines through dialogue and questionnaires. In response to concerns that employees are unsure of what to learn, for example, we prepared an organizational training chart and have proposed recommended training programs for each position. We prepared items for a questionnaire, which we distribute once or twice a year, in reference to the standards

of a "Great Place to Work," and revise our personnel systems and their administration based on the results. As far as work styles are concerned, we introduced flextime work and refreshment leave in an effort to address today's more diverse lifestyles. As part of our personnel evaluations, we actively recognize cross-departmental activities and efforts to take on the challenge of new initiatives, which seeks to foster a culture that optimizes the overall organization while allowing for failure.

### Digital Transformation Strategy

Our digital transformation strategy promotes business process reforms utilizing digital technologies on the basis of improving efficiency for and standardizing operations. As part of this strategy, we are working to shift our diverse range of property management data away from a focus on manual Excel operations and are looking into the introduction of external platforms. By standardizing business processes and data structures, we are organizing systems that handle property information and rent data in an integrated manner, and are endeavoring to establish an environment that allows everyone to easily access essential data under the slogan of "Open & Simple."

During the current fiscal year, we introduced AI and various application tools in an effort to reduce high-workload operations that can lead to work stoppages. This effort both increased operational speed and stability, and has allowed us to allocate our limited human resources to higher-value-added work. We also share digital transformation success stories within the company and horizontally deploy effective techniques, which helps raise the overall level of literacy across the organization. Moreover, we also actively incorporate external cases, and explore the best approaches from among the various options.

We are also focused on providing digital transformation training to our employees, and offer them learning opportunities regarding digital tool application methods. This includes how to link these to their practical use. When we discover new issues among everyday operations, we rapidly explore and execute improvement measures, and flexibly correct implementation approaches based on the outcomes of improvements. Going forward, we will move beyond simple efficiency enhancements to include fully digitalized operation designs (application of electronic contract systems and digitalization of asset management operations) in order to promote flexible work styles that are unrestricted by place or time. By encouraging frontline-led improvement proposals and having individuals actively embed a culture of digital transformation, we will link our human resources and digital transformation strategies, seek to improve both engagement and productivity, and contribute to the sustainable growth of Fukuoka Realty.