



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

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

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

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

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

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

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

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

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

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

On the other hand, our sponsor Fukuoka Jisho Co., Ltd. is developing offices at Tenjin Big Bang, while we raised

investment caps on asset types expected to grow later on, including logistic properties under development. In line with these policy changes, we acquired office buildings and logistics facilities such as Higashi Hie Business Center III and LOGICITY Wakamiya in 2020.

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

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

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

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

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

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

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

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

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

I believe the Integrated Report has fostered shared

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

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

Q Please share your thoughts on human capital.

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

We cannot be complacent amid rapidly changing conditions, keeping employees regularly informed of any information we gather. I was elated to see younger employees subsequently pickup on this and become more focused. During the pandemic, direct communication has declined, and internal recreational activities have become impossible. Last year, employees visited Busan, South Korea—from where many tourists visit Canal City Hakata

—and travelled to Shenzhen, China to conduct research on the shift to cashless payment. Now, however, gathering employees together to perform such tasks is no longer possible, and we are considering how to communicate online, including social gatherings.

Q What are your thoughts on ESG investment trends?

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

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

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

that include gathering such data in cooperation with Fukuoka Jisho Co., Ltd.

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

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

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



Strategies of Each Department

Investment Department

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



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

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

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

As for our investment policy, we continue to execute investments based on a fundamental consideration, namely making targeted investments in such overlapping domains as "markets with high growth potential" as well as "fields

in which we excel and that enable us to exert our competitive advantage." As a general rule, our investments will be made in Fukuoka and the greater Kyushu region, and among these, there is a particular focus on the Fukuoka Metropolitan Area, in which a majority of our investments are made. That said, with regard to investment type, while continuing to keep a careful eye on the potential for growth in the COVID-19 pandemic era, we adopt a flexible policy that covers a variety of properties.

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

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

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

Acquisition Case Study "LOGICITY Wakamiya"

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

the optimal use of a logistics asset in the Kyushu region.

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



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



Exterior after renovation

Property Management Department

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



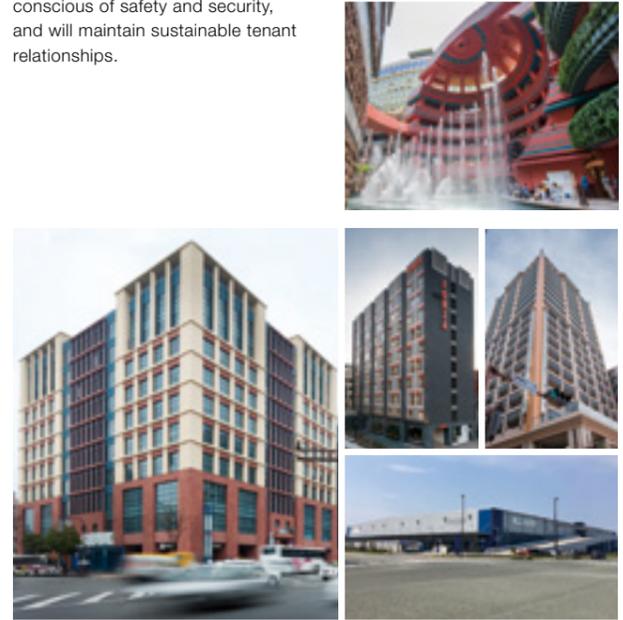
The Property Management Department aims for the long-term and stable optimization of assets managed by FRC, while drawing up plans for asset management. FRC's portfolio currently consists of retail facilities, office buildings, residences, logistics properties, and hotels. As a comprehensive REIT investing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

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

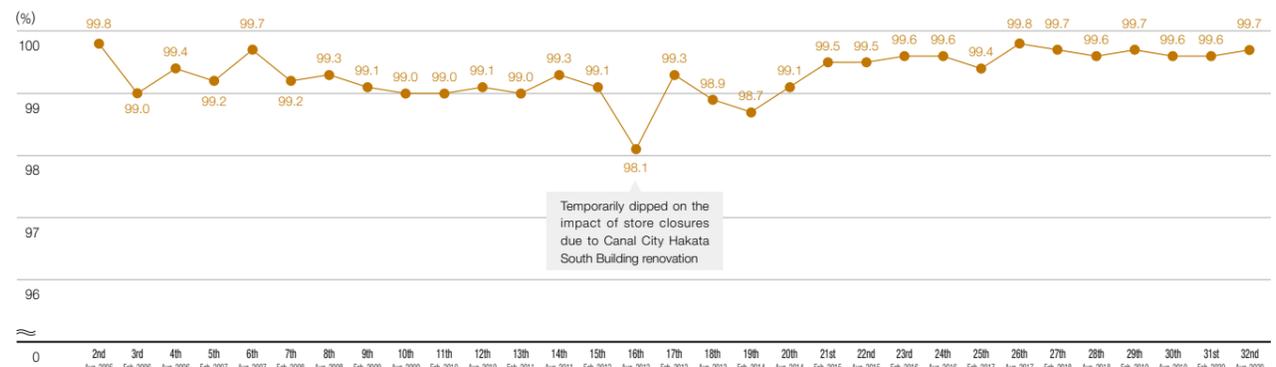
FRC's basic strategy is to promote the internal growth of assets under management. To this end, we work to maintain a high occupancy rate by paying particular attention to our tenant relationships, make every effort to control income and expenditures and engage in ongoing investments.

A result of the major changes in consumer behavior and corporate activities brought about by COVID-19, in addition to measures taken

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



Trends in FRC Property Occupancy Rates



* FRC's occupancy rates from the second to fourth fiscal periods represent occupancy rates as of the end of each period. The fifth to the 32nd fiscal periods are calculated as a weighted average occupancy rate during the period. Total leased area is stated as a percentage of total leasable area.

Finance Department

Keishi Tamura

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



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

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

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

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

Our financial policy aims to build a firm financial foundation through

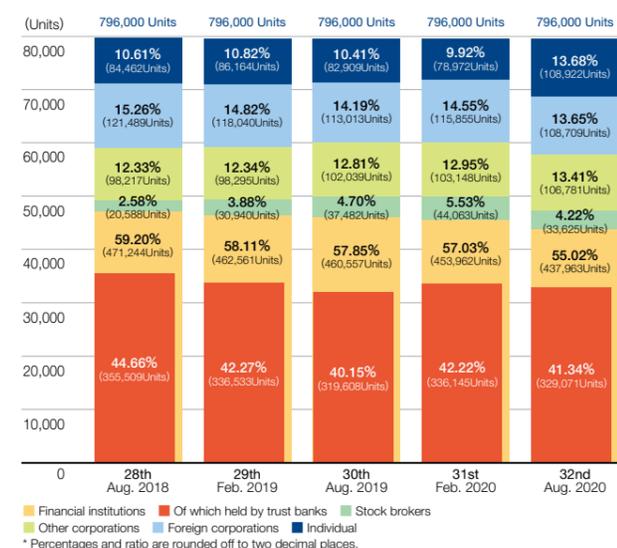
conservative LTV management. At 41.4% as of the end of the 32nd fiscal period (August 2020), we successfully maintain a relatively low and conservative LTV. At the same time, a commitment line limit has been set at 13.0 billion yen. Through these and other means, we are securing the flexible and fluid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

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

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

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

Distribution by investor category (breakdown of investment units)

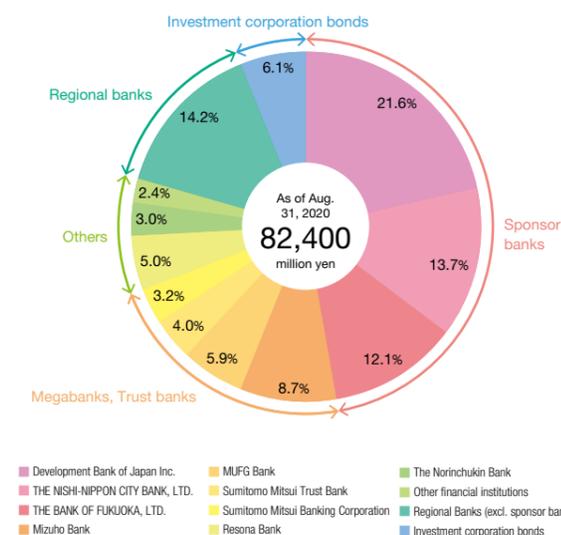


Major investors (at the end of the 32nd fiscal period)

(As of August 31, 2020)

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

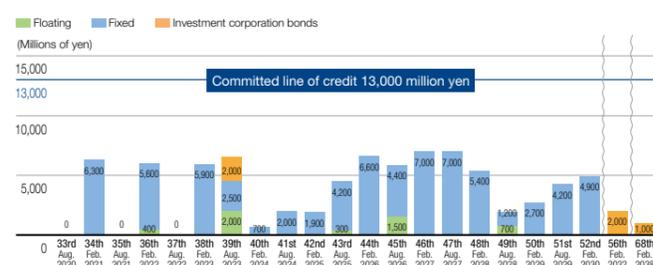
Breakdown of debt by lenders



Fixed rates



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



Main sponsor Introducing Fukuoka Jisho Co., Ltd.

Overview of Fukuoka Jisho Co., Ltd.

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

Corporate philosophy

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



Fukuoka Jisho Co., Ltd. History and Milestones

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

Main Businesses

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

Main Properties Held and Development Properties



Tenjin Business Center (scheduled for completion in September 2021)

LOGICITY Minato Kashii North

Hotel FORZA Hakataeki Chikushi-guchi I

Naha Business Center

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

● Measures to Address Risks ● Opportunities

Significant Risks	Impact on Stakeholders	Measures to Address Risks and Opportunities
Risks from Changes in Business Conditions <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 dividends 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 as well as monitoring of operating status and thorough credit management during the lease period Deposits and security deposits against rent delinquency, etc., collateral by means of guarantor companies, etc. Treat deterioration in real estate market as opportunity to acquire excellent properties and execute strategic investments through appropriate financial management utilizing information-gathering ability (opportunity)
Market-Related Risks <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 See P.22
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 engaging in a variety of activities. This includes conducting disaster drills at each property, stockpiling emergency food supplies, strengthening flood countermeasures, and formulating a business continuity plan (BCP) See P.33
Environment-Related Risks <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 See P.30 Aim to reduce vacancy rates by pursuing healthful and comfortable conditions in properties owned and by increasing leasing demand for properties with high environmental performance (opportunity) Conduct thorough physical investigations at the time of property acquisition; property acquisition after confirming the presence or absence of toxic substances and taking of measures
Risks from Property Degradation, Deterioration <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 and 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 See PP.10-13 In retail facilities, such as Canal City Hakata/Canal City Hakata-B, operate bustling facilities by replacing tenants and providing new experience value, etc., thereby reducing the risk of profit fluctuation by dispersing tenants
Regulatory Risks <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 personal and 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 (Asset Management Company) violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability Potential conflict of interest issues with sponsors 	<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 See P.39
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 of Fukuoka Realty (Asset Management Company) due to a failure in maintaining the human resources base, in terms of such factors as ability, experience, and know-how of the asset management company for smooth business operations Heavy reliance on FRC's directors and auditors as well as on the human resources of the asset management company; and the risk that the outflow of these human resources could have an adverse effect on operations 	<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) See P.35
Infectious Disease-, Epidemic-, and Other-Related Risks <ul style="list-style-type: none"> Pandemic 	<ul style="list-style-type: none"> Risk that such external factors as infectious diseases and epidemics in Japan and overseas may interfere with the normal operation and management of FRC's properties Decrease in rental income from real estate due to such factors as a downturn in visitors, which may have an adverse effect on earnings, etc. 	<ul style="list-style-type: none"> Implement infectious disease countermeasures and promote a safe and secure facility environment for tenants, tenant employees, and consumers Set up satellite offices at the Asset management company and introduce a telework system with a view to ensuring business continuity See P.34

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

Basic Approach to Financial Strategy

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

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

structure).

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

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

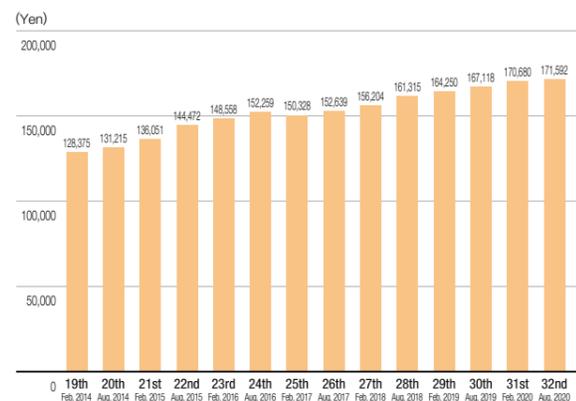
External Growth and Internal Growth

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

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

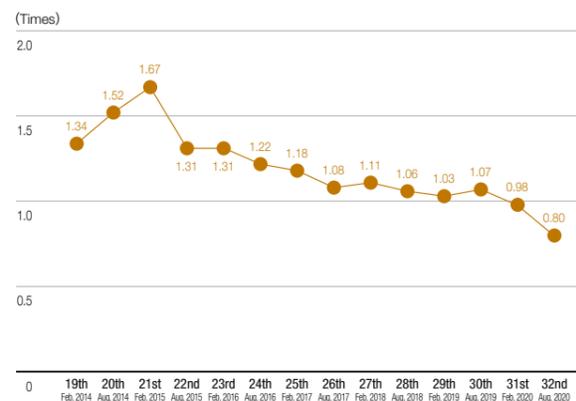
- Ability to diversify risks for properties and tenants
- Enables efficient management of properties by taking advantage of economies of scale

Trends in NAV per Investment Unit



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

NAV Ratio Trends



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

Dividends and TSR

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

Among listed REITs, dividends are characteristically very stable. In contrast, the dividend yield has fluctuated between 3.8% and 4.7% over the past seven years, indicating that investment unit prices have fluctuated due to fluctuations in the stock market, interest rate trends, and fluctuations in market supply and demand.

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

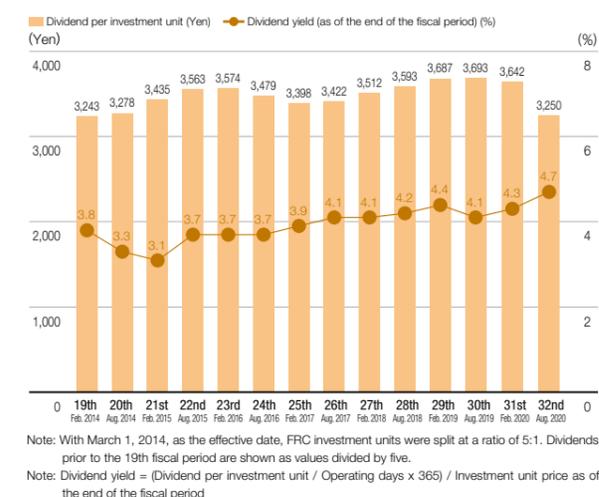
One of the reasons for the deterioration in TSR over the past five to six years is that investment unit prices were rising due to shopping spree cruise passengers five years ago. With regard to dividends, in 2017, we considered it best practice to avoid future risks when the real estate market is booming,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

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

substantial deterioration in TSR over the past year.

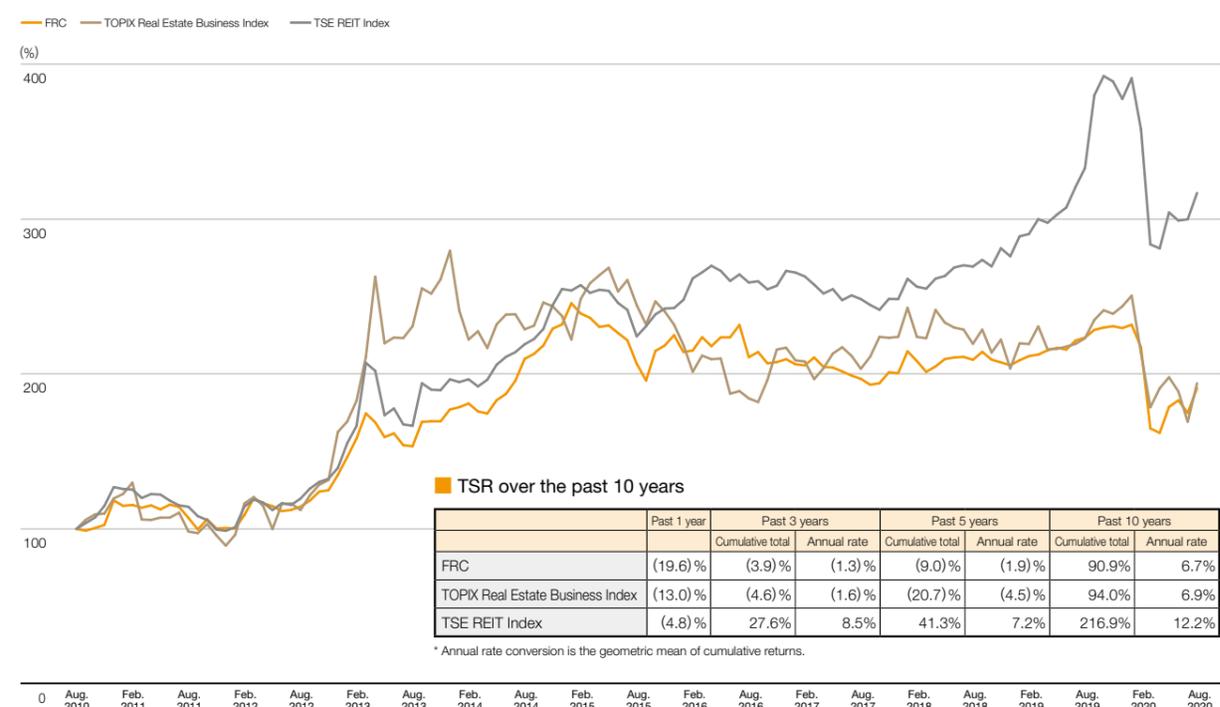
Looking ahead, we aim to increase unitholder value by securing a recovery and increase in dividends. In specific terms, we will implement a variety of internal and external growth measures, while engaging in management that focuses on dividend stability.

Figure 1: Past Dividends and Dividend Yields



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

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



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

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