



President and CEO  
Fukuoka Realty Co., Ltd.  
Zenji Koike

**Q Please tell us about yourself.**

After working for a local bank (currently THE NISHI-NIPPON CITY BANK, LTD.) following my graduation from university, I joined Fukuoka Jisho Co., Ltd., one of our sponsors, where I spent many years primarily involved in duties related to retail property development and operations. Canal City Hakata is a particularly special property for me because I was involved in its development and operations following its opening, as well as in many aspects of the Canal City Hakata East Building, from its development in 2011 to attracting tenants.

I also served as General Manager of the Office of the President and General Manager of the Administration Division, so I have acquired experience throughout the company, including development as a real estate developer and in property management. And I managed the company (currently FJ. Entertainment Works Ltd.) that operates the

Canal City Theater and plans events at our retail facilities. More recently, I served the past four years as Chairman of Sunlife Co., Ltd., which is involved in building management, so I have experienced most types of work involved in real estate.

Other than work, I was a member of the yacht club for four years during my time in university, where I sailed 470-class two-person yachts. I still love the ocean but no longer sail. Currently, my entire interest in sports involves golfing and running. I ran my first marathon during the first Fukuoka Marathon seven years ago and have entered civic marathons in different areas two or three times every year since.

**Q What is the future strategy for Canal City Hakata and FRC's other assets?**

Canal City Hakata is not located near one of Fukuoka's major transportation hubs such as Tenjin or Hakata Station,

but rather is in an area adjacent to Nakasu and Kawabata, which, despite being situated in the heart of Fukuoka, did not see much daytime foot traffic at the time we developed this property. Hakata has a long history as a home to wholesale districts and as a center for many other merchants, but a large site was left behind when the area emptied out after the center of business moved to Tenjin and Hakata stations. So, we developed Canal City Hakata with the desire to create a new city here. With the birth of Canal City Hakata in this area where people rarely came before, despite being in the heart of the city, the development has become a new tourist destination in Fukuoka that attracts visitors from a wide area and receives many people from around Asia.

Canal City Hakata is home to a movie theater and playhouses, and we have aimed to make it into an entertainment retail facility where people can pass the time enjoying meals, walking the grounds, and watching the fountains and performance events. Under the initial concept of creating a new city here, we developed the property with the goal of limitlessly raising the accessibility of people in a way that links to Hakata and Tenjin. I believe that the property continues to realize this aim.

On the other hand, one of the very real challenges the property faces is the recent transformation in consumption activity, namely a decrease in the weight of in-person shopping and the shift to e-commerce. So, the question is how can we incorporate efforts aimed at e-commerce into conventional retail facilities? For tenants, brick-and-mortar store sales and e-commerce sales both lead to profits, so it is important for us to consider these as a whole. One potential approach that involves the entire facility is to eliminate inventory at brick-and-mortar stores and instead use these like showrooms where customers choose products that can be shipped to them from another location.

When Fukuoka REIT Corporation was initially listed on the stock exchange, one area of concern for our investors was the high ownership weight of Canal City Hakata. However, we have since achieved a balance by investing in office building, hotel, residential, and logistics facilities in addition to retail facilities. Challenges like the recent COVID-19 pandemic also tend to drive structural changes in consumption, though, where city-center retail facilities see a greater amount of volatility. In terms of asset balance, I therefore feel we should invest more in office buildings and logistics facilities, which are growing due to e-commerce. We are also looking to curtail the weight placed

on retail facilities and incorporate other assets, such as research-and-development facilities and data centers, as well as those in sponsor business fields, like energy-related facilities in the infrastructure sector.

Although there has been much debate over office assets, for example, regarding how work styles will change post COVID-19, when we consider the location of Fukuoka in Kyushu, it is clear that this type of asset will hold firm. Moreover, I believe developments as part of Tenjin Big Bang must prepare workplace environments that can contribute to new office formats, work-style reforms, and sustainability.

**Q What is the appeal of Fukuoka?**

I am originally from Fukuoka, so I could go on forever bragging about my home. But the best thing about Fukuoka is that the city is extremely compact, which I think makes it the perfect size for people to really experience the scale of their lives. Including the region around Fukuoka City, the urban area has a population of about 2.6 million people. The average commute time is less than half that of the Tokyo metropolitan area, the city is surrounded by nature, with both the ocean and mountains nearby, and it is compact with sufficient public transportation infrastructure.

Although it might not offer the same amount of information as Tokyo, in a metropolis like Tokyo the scope that can be grasped on one's own is always limited. In contrast, I feel Fukuoka is an extremely comfortable city because the residents can grasp the overall layout of their city as their sphere of everyday life. Which is why people like me who are from Fukuoka feel that Tokyo is a very difficult place to reside when we imagine living there.

Every year, I participate in the Hakata Gion Yamakasa Festival, a unique experience that offers many opportunities to interact with local people. As part of my duties, I have also had the privilege of being involved in the festival as the person responsible for the Canal City Hakata kazari yamakasa (decorated float). It is at these times when interacting with all of those who were born and grew up here, and who are involved in the festival as a part of their lifestyle, that I have strongly felt the character of Hakata and the humanity of the city. My grandfather was a descendent of a wholesale merchant from the Hakata area, so I too carry the blood of the Hakata merchants. I am always reminded that I am glad to have been born and raised in this

city whenever I speak to those who defend the traditions of the area. Although those of us from Hakata might not be the most polite people, we are very kind-hearted. More than anything, the people here love this city and its local festivals.

**Q What are your thoughts on human assets?**

When we think about materiality (management challenges) and management resources in terms of how Fukuoka Realty manages FRC, we see that creating different types of value through business clearly relies on the core of human resources, or rather human capital. When I was appointed as president, I thought that the employees of REIT management companies would be specialists in real estate finance, many of whom would be focused on their own occupations and fields of specialty, and would mainly be concerned about building a career that would serve them regardless of the REIT management company for which they worked. In other words, I thought they would be smart, intellectual employees who would avoid becoming overly attached.

But I was reassured when I realized that, unexpectedly, everyone at here actually had a special place in their hearts for the city, whether it was in terms of working for a region-specific REIT management company, providing social value for this region, or contributing to society. So, I sent a message to our employees saying that if that is the case, then let us all endeavor together in this kind of work.

It has become difficult to create a sense of belonging and loyalty toward companies in the world of today. But I think these are very important concepts. If we were to only pursue profits for ourselves and business rationalization to grow the company, something contrary to a sense of belonging would emerge, which is why I feel that it is important for managers to find a balance between the two. It is my hope that our employees feel that their work is rewarding and engage in their work with a constant awareness of how their work can contribute to the city and society.

As far as future recruitment and employee training are concerned, I hope that we attract both new graduate employees, as well as employees who have built up different careers elsewhere and moved or returned to Fukuoka with a desire to work in the city. I want our employees to maintain the broad vision of Act Local, Think Global here in Fukuoka and Kyushu. And so I feel we must also offer systematic training whereby employees can properly acquire

skills, build a career, and accumulate knowledge at each rank. Moreover, as a Company we intend to create a system that firmly supports employees and provides them with opportunities besides just training to extend their knowledge so that they can capture and address future changes in the industry.

**Q What are your thoughts on the future of sustainability management?**

As far as ESG is concerned, I do not think we can wait on the environment. Our main sponsor, Fukuoka Jisho Co., Ltd., is an unlisted owner-operator company. In this respect, it can be led by the objectives of top management and can move with speed and flexibility. On the other hand, this presents the risk that it will not highly prioritize the corporate governance code required of listed companies and consideration of ESG, for example.

Meanwhile, FRC, to which we have entrusted management operations, is a listed company. So, I believe it is necessary for us to properly fulfill our responsibilities in a speedy manner together with our sponsor companies as we listen to the feedback of the market. In particular, it is important for us to think about first properly acknowledging the demands made by global institutional investors. In other words, one truly urgent challenge is properly employing the concept of "integrated thought" throughout the organization while prioritizing ESG in order to fulfill the social responsibilities that are demanded by those at the forefront of the times in line with our management philosophy of "Act Local, Think Global."

FRC was also the first in the J-REIT industry to publish an integrated report. But we must continue to evolve integrated thinking and integrated reporting through a virtuous cycle. In other words, we must do more than simply enrich what we include in the report and instead pursue this content in a manner that coincides with effectiveness. There is no question that I also feel responsibility as the head of the Company. And we must match ESG with business in a way that considers how we should engage in the real estate business to create a sustainable society for the future. For us to support community building and the lifestyles of people through real estate, we must look 10, 20, even 50 years into the future, be quick to pick up on what is required now for that purpose, and both consider how to link these requirements to growth for FRC and to actually engage in meeting these requirements.

**Q Finally, do you have a message as president?**

By the time I received the baton as president from my predecessor, Mr. Matsuyuki, our asset scale already exceeded 200 billion yen. Although the investment unit price fell at one point last year due to COVID-19, it has since recovered, so I received this baton while we were in a very good position. In this sense, this also puts a lot of pressure on me, but we have set the asset scale target for the time being at 250 billion yen. As a region-specific REIT, however, we must manage the company from a long-term perspective and not aim to grow our asset scale blindly. Because I know this city, because I know this region, I am aware there is still so much more we can do. We intend to continue investing in a way that only a region-specific REIT can and grow our assets in a way that supports this region. If we can manage this, I believe we will effortlessly clear our asset scale goal of 250 billion yen.

Although I feel we are starting to see an end to the COVID-19 pandemic, there is no chance that everything will return to the way it was before, which is why I believe that lifestyles, working environments, business models, and a variety of other areas will continue to change after COVID-19. Now is truly a time during which we must consider how to set and manage our priorities. I therefore

believe we must construct and reveal to all our stakeholders a solid business model that is built on a core approach such as ESG and that enables us to continue business operations as we manage various crises.

**Zenji Koike** President and CEO

Place of birth: Fukuoka City  
Hobbies: Running, golf

**Profile**

- 1988 Joined Fukuoka SOGO Bank (currently THE NISHI-NIPPON CITY BANK, LTD.)
- 1991 Joined Fukuoka Jisho Co., Ltd.
- 2013 Appointed as Chairman of Canal Entertainment Works Co., Ltd. (currently FJ. Entertainment Works Ltd.)
- 2017 Appointed as Senior Executive Officer of Fukuoka Jisho Co., Ltd.  
Appointed as Chairman of Sunlife Co., Ltd.
- 2021 Current position starting in June





Executive Director,  
Fukuoka REIT Corporation  
Advisor, Fukuoka Realty Co., Ltd.  
Etsuo Matsuyuki

**Q Please provide us with an overview of your roughly nine years as president of the asset management company.**

Over the nine years between June 2012 when I was appointed as President of Fukuoka Realty and June 2021, or 10 years if you include my time as Senior Vice President and General Manager of the Planning Department, I was involved in managing FRC.

In terms of external growth, the corporation most recently recorded an asset scale of approximately 202 billion yen, well above the nearly 150 billion yen asset scale at the time I was appointed. In other words, we successfully achieved the 200 billion yen goal established at the time of my appointment. We also nearly doubled the number of properties we manage from 17 to 32 over this time, and we successfully increased the number of asset types from just three, namely office buildings, retail, and residence, to five, including hotel and logistics. Although logistics have recently attracted a lot of attention, we were able to acquire several at an early stage and now own four such properties.

Moreover, we executed three public offerings during my time in office and were buoyed by a turnaround in the market. Together, these developments slightly more than doubled our market capitalization from 68.5 billion yen the day before my appointment to 148.6 billion yen on the day I left office. Although we sold off three properties during this time, this move helped to improve our situation, in part because the Aeon Hara Shopping Center presented challenges as a property with unrealized losses at the time of

its sale. More recently, we sold off the Canal City Hakata·B Grand Building (88.28% co-ownership interest in Grand Building) and engaged in asset replacement.

In terms of financials, we executed three public offerings to reduce the 44.6% LTV prior to my appointment to 41.3% and succeeded in extending the average debt duration from 2.9 years to 5.4 years, thereby achieving even greater stability for the financial base as a strength of FRC.

In terms of internal growth, we worked to increase office building rents starting in the 25th fiscal period. Although I have been told that rents on Fukuoka's office market are unlikely to rise and fall, in part due to the support of property management companies, we were able to raise rent per unit approximately 7% compared with the outset of this initiative.

**Q Looking back over the past nine years, what was the one thing that you were most happy about, and that you were most challenged by?**

What was most challenging, and that left the deepest impression on me, was the broad adjustment that occurred following the interest rate hike observation on the New York Stock Exchange immediately before we executed our public offering in February 2018. This adjustment led to instability in Japan's markets and caused us to really hesitate until the last minute on whether we should proceed with the public offering.

There are so many things I was happy about, though, including the public offering we made the year immediately after I was appointed president to acquire Hotel FORZA Oita. Having been involved in developing this property during my time at Fukuoka Jisho Co., Ltd., I put extra effort into explaining this property to investors.

I believe this happened during the public offering in 2018, but I remember one investor giving the move very high marks, saying he had nothing but praise for this solid public offering.

**Q Please tell us about the Company's most recent efforts to address COVID-19.**

Following the first State of Emergency Declaration regarding COVID-19 in April and May 2020, we temporarily closed Canal City Hakata and our other retail facilities in Fukuoka City. We did not take this approach during any of the subsequent State of Emergency Declarations, however, and instead implemented various measures in terms of operations. To relieve our customers of any uncertainty, we implemented physical measures that included making hand

sanitizers available and applying antibacterial coatings to handrails and such, and communicated our efforts to prevent the spread of infection through videos on our website and on televisions in our facilities. Prior to COVID-19, Canal City Hakata hosted a large duty-free shop and we had focused our energies on attracting inbound customers, but with the end of the contract period for the large duty-free shop, we turned our attention to reinforcing efforts to attract domestic customers, including working with NITORI to open store in March 2021.

**Q Although there is no clear end to COVID-19 in sight, what are your thoughts on the changes that might occur in the future?**

Commuting on packed trains in Tokyo has been considered a fact of life until now, but remote work has become a norm due to COVID-19 and in the future workplace functions will probably no longer need to be located in Tokyo. In fact, I think we will start to see cases where companies transfer some head office functions to Fukuoka, for example, where life is easier. JAPANET HOLDINGS Co., Ltd. has led the way in doing so by transferring some of its head office functions to the Tenjin Business Center, which was completed in September 2021. So, I believe that we will see an increasing number of cases where the impact of COVID-19 has acted as a positive factor for attractive regional cities.

Inbound demand will also likely return at some point. Given the geographical advantages of being near the rest of Asia, a recovery in inbound demand will probably connect to further revitalization of Fukuoka.

**Q What are your thoughts on the increasing interest in ESG and non-financial information?**

After we announced our results for the 33rd fiscal period in April 2021, I primarily held IR meetings over the telephone with institutional investors. One of the notable aspects of these meetings was that many participants asked questions about ESG. This was completely different from previous periods. Normally, I would spend most of these roughly one-hour meetings explaining the results and spend a little time discussing ESG at the end. One investor, however, requested that I spend 30 minutes of the hour-long meeting discussing ESG, which showed me just how much interest in ESG and non-financial information has grown.

**Q How did you tackle the issue of human resources development?**

After I was appointed as president of the asset management company, the number of employees changed very little despite growth in the asset scale, indicating the productivity of each employee had increased. Moreover, the ratio of female employees increased each year and recently reached 50%. I actively engaged in employee training by directly presenting challenges to responsible employees, regardless of their age or position, and actively supported their efforts to acquire certifications.

Another move I made that I think is unusual for a REIT asset management company was to assign employees to Fukuoka Jisho Co., Ltd., as one of our sponsors. I felt that this might help to connect to broader career development for the assignees, but I was also just happy to see them participate in various areas at Fukuoka Jisho Co., Ltd.

People are an asset for asset management companies. I therefore engaged in these efforts under the belief that the degree to which each individual employee grows will as a result connect to the growth of FRC and to the value that we deliver to our stakeholders.

**Q Finally, please tell us what you expect from Mr. Koike as the new President and CEO of the asset management company.**

President and CEO Koike was born and raised in Fukuoka and has been deeply involved in Hakata Gion Yamakasa as a representative festival of the region and in support duties for local professional sports. I believe this experience will serve as a major benefit for the growth of FRC.

As far as external growth is concerned, the market has not emerged as a buyers' market, even after the spread of COVID-19, but I hope that he firmly engages in acquisitions from the outside despite the current environment, and I anticipate he will leverage the sponsor pipeline for this purpose.

Of the properties owned by FRC, hotels and retail facilities were affected the most by COVID-19. We curtailed hotel-related risk by selling off the Canal City Hakata·B Grand Building (88.28% co-ownership interest in Grand Building). In contrast to our community-based retail facilities, which have tended to fare relatively well, as a city-based retail facility Canal City Hakata also enjoyed the strong support of inbound customers, so continues to face severe challenges. I therefore look forward to President Koike thoroughly demonstrating his experience working on the development and management of Canal City Hakata as he undertakes various efforts toward future recovery.

## Investment Department

Related Materiality

- Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu
- Maintenance and enhancement of environmental and construction performance
- Creation of pleasant workplaces(tenants)

General Manager of the Investment Department  
Takeshi Usumoto



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.

Amid conditions that are as harsh as they have ever been due to the impact of COVID-19 infections, the trend toward a pickup in the real estate investment market environment is continuing. Although economic conditions in Fukuoka and the wider Kyushu region—FRC’s core areas of operation—remain harsh, office buildings, logistics, and residential asset types are maintaining strong management performance and property transaction prices remain high.

Looking at land price trends, according to the 2021 Land Market Value Publication, the national average has declined for the second consecutive year, although the rate of decline has narrowed for all uses. In contrast, in Fukuoka City, the central area of FRC’s investment targets, commercial land prices increased 7.7% year on year and those for residential land increased, for the ninth consecutive year, 4.4% year on year.

Against this backdrop, we will continue to make investments that leverage our expertise and ability to gather and provide information, based on our familiarity with the 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.”

Acquisition Case Study: Tenjin Nishi-Dori Business Center (Land with Leasehold Interest) See p.7

We acquired the Tenjin Nishi-Dori Business Center (Land with leasehold interest) property on June 1, 2021.

This property deal covers the acquisition of land for our sponsor’s redevelopment project.<sup>1</sup> As we concluded a land lease agreement that in the future will shift the fixed land lease fees during the redevelopment period to variable land lease fees linked to tenant rents, this represents a scheme that will start to generate cash flow at the same time as the acquisition and will be able to capture the growth of Fukuoka’s Tenjin business district going forward.<sup>1</sup> Furthermore, this is a lease contract that includes preferential negotiation rights for the building, and the acquisition of the building is expected in the future.



**Acquisition date**  
June 1, 2021  
**Acquisition price**  
7,700 million yen  
**Appraisal value**  
7,790 million yen  
**Seller**  
Fukuoka Jisho Co., Ltd.  
**NOI yield\***  
3.5%

\*Calculated based on the appraisal report NOI.

As for our investment policy, we will continue to execute investments based on considerations that consider the making of targeted investments in such overlapping domains as “markets with high growth potential” and “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, regarding 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 the future potential of the area in which it is situated, physical surveys that consider such factors as the property’s condition and ability to withstand earthquakes, and surveys related to rights and legal issues, among others. After rigorously examining a particular property’s value, we then decide whether to acquire it based on a determination of its impact on our overall portfolio, 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: Hakata Chikushi-Dori Center Building

On August 30, 2021, FRC resolved to acquire the Hakata Chikushi-Dori Center Building as of March 1, 2022.

Based on a proposal for the sale of this property to the owner (seller) of the head office located in Fukuoka City, FRC considered acquiring the property. Giving the seller sufficient time to examine the proposal while gathering information on needs and returning the effect of reducing building management costs to the seller made this an attractive proposal. Looking ahead, I also believe that we will be able to efficiently manage the building by having FRC perform the large-scale repairs that will occur in the future on behalf of a seller whose main business is not real estate.<sup>2</sup> We believe this transaction to be an example of good value co-creation that we were able to tackle while fully demonstrating the strengths of regional REITs and satisfying the needs of sellers (tenants).<sup>3</sup>



**Acquisition date (scheduled)**  
March 1, 2022  
**Acquisition price (planned)**  
4,320 million yen  
**Appraisal value**  
4,540 million yen  
**NOI yield\***  
5.3%

\*Calculated based on the appraisal report NOI.

## Real Estate Management Department

Related Materiality

- Co-creation with the local community
- Maintenance and enhancement of environmental and construction performance
- Creation of pleasant workplaces (tenants)

General Manager of the Real Estate Management Department  
Hideya Kanno



The Real Estate Management Department aims for the long-term and stable optimization of assets managed by FRC, while drawing up plans for asset management. As a comprehensive REIT investing in a diverse range of asset types, we will work on internal growth through aggressive investment in our portfolio of assets while deriving maximum value from our real estate portfolio over the long term. This will be achieved against the backdrop of the region’s potential for growth, including the rising population in our primary destination for investments, the Fukuoka Metropolitan Area, which is also home to an increasing number of companies.

Due to the spread of COVID-19 infections, the business environment continued to be difficult in 2021, but we took a variety of measures to ensure the long-term stability of our real estate portfolio. In the management of each asset, we focused on preventing the spread of infection and endeavored to ensure that tenants and facility visitors could utilize them with peace of mind by thoroughly ensuring the safety of facility environments and hygiene.

Concerning Grand Hyatt Fukuoka, where the harsh business environment continued, we replaced properties based on the prospect of future business recovery and the present value of the real estate. This ensures the long-term stability of the portfolio and at the same time improves the quality of the portfolio by the acquisition of alternative properties.

In the meantime, we also actively considered investments with an eye on the post-COVID era and promoted efforts to increase future profits. In terms of internal growth, against the backdrop of increasing demand for daily necessities brought about by the current changes in the living environment, at Konoha Mall Hashimoto we replaced tenants in the Hashimoto Marche food market zone to improve the attractiveness of food-related products. At SunLiveCity Kokura renewal was carried out jointly with our tenants, further enhancing its appeal as the best store in the area. We are also promoting environmental renewal at

Park Place Oita while working to improve the facility’s appeal and strengthening cooperation with the surrounding area.<sup>1</sup>

In each of these measures, we maximized consideration to facility safety, ensuring hygiene security and cooperation with the local community while formulating an investment plan to realize attractive sales floors and fulfilling working environments. In asset types such as office buildings and logistics properties, we are also pursuing the role and ideal image of real estate in future eras, considering safety and security, and at the same time striving to maintain the competitiveness of each asset.<sup>2</sup>

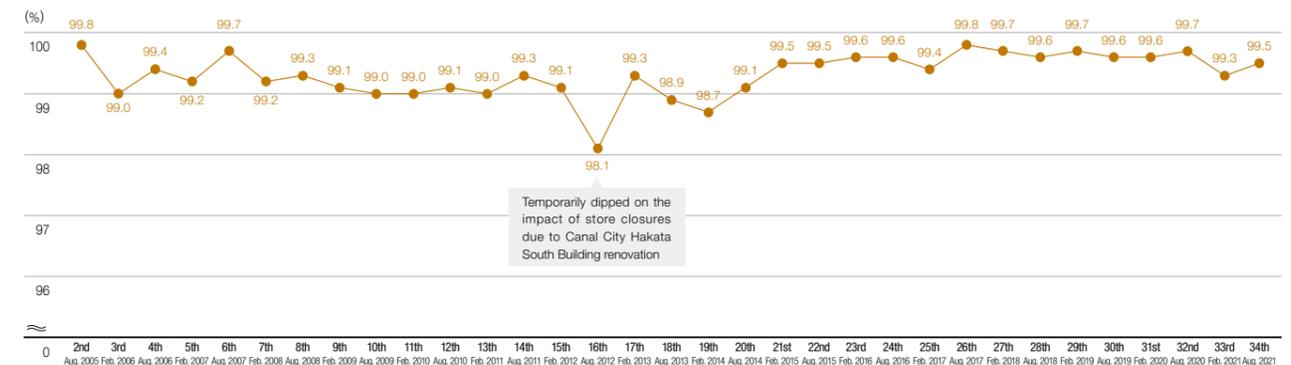
Going forward, we will further emphasize the sustainability aspect in our asset management of real estate. Regarding factors such as continuous relationships with tenants, measures for employee working environments and the business environment, and consideration for the environment,<sup>3</sup> as growth opportunities for our real estate portfolio, we will steadily respond to maximize long-term and stable profits.

Asset replacement (June 1, 2021)

- Capture the medium- to long-term growth potential of office buildings in the Tenjin area
- Reduce the risk of having a full-service hotel that is subject to large impact of COVID-19

Property name	Tenjin Nishi-Dori Business Center (Land with Leasehold Interest)	Asset replacement	Property name	Canal City Hakata-B Grand Building (88.28% co-ownership in Grand Building)
Acquisition price	7,700 million yen	Sponsor support	Transfer price	7,700 million yen
		Gain on sale 104 million yen		

Trends in FRC Property Occupancy Rates



Note: 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 34th 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

Related Materiality

- 1. Co-creation with the local community
- 2. Information disclosure and dialogue with stakeholders

General Manager of the Finance Department  
Hiroyuki Ayabe



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

Amid the impact of COVID-19, which looks as if it will be protracted, the Tokyo Stock Exchange REIT Index has been returning to its pre-COVID state after having temporarily seen a precipitous decline in March 2020. With the Bank of Japan maintaining monetary easing, it is thought that low interest rates will continue, although I believe that it will be necessary to practice financial management that remains aware of suddenly changing risks in the financial market.

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

### Financial Strategy/Capital Strategy

Regarding our financial strategy, we are first and foremost maintaining a conservative interest-bearing debt ratio from the perspective of building a solid financial base. The interest-bearing debt ratio at the end of the 34th fiscal period (August 2021) was 41.2%.

Next, from the perspective of ensuring the flexibility and agility of financing, we have set a commitment line with a maximum amount of 13 billion yen. By also deciding on a three-year commitment period, we are taking measures that will be able to address any deterioration in the fund procurement environment due to the prolonged impact of COVID-19.

In addition, from the perspective of reducing the risks from interest rate rises and refinancing, we seek to fix interest-bearing debt over the long term and to diversify repayment dates while keeping a close eye on interest rate levels. While maintaining good relationships with financial institutions with which we have existing relationships—starting with our three sponsor banks but including regional banks that operate primarily in Kyushu and the megabanks—we will strive to diversify our procurement sources.<sup>1</sup>

In addition, we will actively incorporate consideration for ESG issues. In July 2019, FRC helped to resolve environmental issues by conducting its first funds procurement by means of green finance. By having conducted procurement via "a mechanism for financial institutions to donate a part of the profits obtained through borrowing as

funds for research into the development of a new COVID vaccine at national universities" in March 2021, FRC has been able to contribute to resolving a social problem.<sup>1</sup>

Regarding our capital strategy, we will ascertain the market timing and raise capital in line with external growth, which is one of the growth drivers. We will also consider the balance between distribution growth after capital procurement and LTV control as well as other factors.

### IR Activities<sup>2</sup>

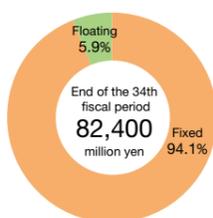
Coupled with compiling the various types of information necessary for investment decisions, our primary consideration is to offer a steady stream of timely, fair, accurate, and easy-to-understand information, which is the basic policy of IR activities.

While proactively disclosing (increasing the amount of) non-financial information that does not appear in the income statement or balance sheet, such as publicizing our strengths as a REIT specializing in regional properties and the real estate situation in Kyushu and Fukuoka, we will work to improve the content. I believe that doing so will lead to a deepening of mutual understanding with all unitholders, the building of relationships of trust, and ensuring positive steps toward attracting outstanding investment funds from other parts of Japan and overseas to Kyushu and Fukuoka.

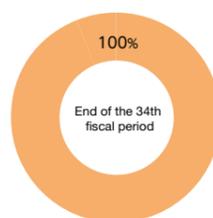
Prior to the COVID pandemic, we met and held meetings in person with more than 200 institutional investors each year. When face-to-face IR activities would have been beset with difficulties, we continued our IR activities with the highest priority placed on preventing the spread of COVID-19 infections. We are incorporating innovative ideas, such as making full use of a range of Internet tools to hold efficient meetings. I would like us to consider actively holding briefing sessions for individual investors as well.

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

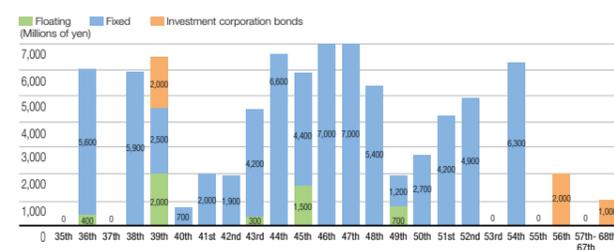
### Fixed and floating rate



### Long-term rate



### Diversification of debt maturities (as of August 31, 2021)



# Planning Department

Related Materiality

- 1. Compliance/Risk management
- 2. Creation of pleasant workplaces (Fukuoka Realty)
- 3. Maintenance and enhancement of environmental and construction performance
- 4. Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu
- 5. Co-creation with the local community

General Manager of the Planning Department  
Keishi Tamura



The Planning Department is in charge of FRC's institutional management and accounting operations, as well as Fukuoka Realty's personnel affairs, general affairs, and sustainability-related operations.

As FRC's institutional management, there are deliberations conducted by the Executive Committee and the Investment Committee, resolutions on important matters passed by the Board of Directors at Board of Directors' meetings, and appropriate management and operations carried out in compliance with laws and internal rules.<sup>1</sup>

In our accounting business tasks, we prepare financial statements, such as asset management reports and securities reports. Regarding the financial statements of investment corporations, in addition to the accounting systems with which general business companies are to comply, it is necessary to remain in compliance with accounting-related rules specific to investment corporations. From the perspective of satisfying the conduit status requirements that are the premise of calculations for the payment of dividends to unitholders, we are working on preparing financial statements after accumulating appropriate accounting treatment from both accounting and tax perspectives.

In personnel and general affairs, we are striving to secure human resources, promote diversity, improve employee motivation, build an employee education system, and ensure employee safety.<sup>2</sup>

As of the end of August 2021, the company had 40 officers and employees, and the ratio of female was 50.0%. The company also includes diverse professional human resources, such as a lawyer, three real estate appraisers, three first-class architects, and two MBA holders. We are also actively providing training after employees have joined the Company while working to improve the quality of our business by recommending the acquisition of qualifications: 28 people are qualified

as real estate brokers, and 25 are certified masters of the Association for Real Estate Securitization (ARES). We are also actively promoting work-style reforms and have been certified as a Fukuoka work-style reform promotion company by Fukuoka City.<sup>2</sup>

To ensure the safety of employees, we have put in place crisis management procedures. While giving top priority to protecting human lives and rescues in the event of a crisis, these are designed to bring about the prompt recovery and continuation of operations and for the purpose of cooperation with stakeholders for the continuation of the asset management business.<sup>1,2</sup>

Nowadays, sustainability-related work is gaining in importance, and we are planning and managing the progress of sustainability promotion plans as well as continuing to acquire GRESB Real Estate evaluations.<sup>3</sup> Since this investment corporation is a regional REIT, we are actively exchanging opinions with research institutes on regional economies and industries in Kyushu, Okinawa, and Yamaguchi to contribute to the enhancement and revitalization of Fukuoka and Kyushu. We are also holding regular dialogues with the local companies that are Fukuoka Realty's sponsors to promote attractive urban development in collaboration with local communities.<sup>4</sup> At Fukuoka Realty in 2021, we implemented the corporate version of the hometown tax payment in seven cities where FRC-owned properties are located (Kagoshima, Kumamoto, Kurume, Miyawaka, Naha, Oita, and Tosu)<sup>5</sup> in an effort to contribute to resolving social issues and revitalizing the local communities. In the months and years ahead, I intend to lead the company to promote business operations in which all employees are aware that they are contributing to the social issues that the world should address, such as the SDGs.

### Corporate Version Hometown Tax Donation Program

Implemented a corporate version of the hometown tax payment for projects related to industry, tourism, etc., in seven cities. (View of Tosu City donation acceptance ceremony)



Executive Director Etsuo Matsuyuki (left) and Tosu City Mayor Yasushi Hashimoto (right)

### TOPIC Main Sponsor: Introducing Fukuoka Jisho Co., Ltd.

See p.3

**Corporate philosophy**  
We are committed to creating attractive towns and regions with steadfast devotion.



Tenjin Business Center (Completed September 2021)

See p.7

### Overview (As of May 31, 2021)

Name	Fukuoka Jisho Co., Ltd.
Established	July 1961
Industries	Real estate (comprehensive developer)
Representative	Ichiro Enomoto, President and CEO
Employees	188
Net sales	20.4 billion yen
Ordinary income	6.2 billion yen
Total assets	202.9 billion yen
Borrowings	113.7 billion yen
Equity ratio	35.1%

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
<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>Reduction of environmental load</li> </ul>	<ul style="list-style-type: none"> <li>Buildings might be lost, suffer deterioration or damage due to the occurrence of natural disasters, such as earthquakes, storms, and floods, or severe weather due to climate change, and their value could be affected, with a decrease in rent due to the non-operation of properties</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) <a href="#">See p.34</a></li> </ul>
<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>Reduction of environmental load</li> <li>Maintenance and enhancement of environmental and construction performance</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 certification, to obtain the results of environmental/social initiatives in visual form and improve property competitiveness <a href="#">See p.35</a></li> <li>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</li> <li>Conduct thorough physical investigations at the time of property acquisition; property acquisition after confirming the presence or absence of toxic substances and taking of appropriate measures</li> </ul>
<p><b>Human Resource 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; 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 <a href="#">See p.36</a></li> </ul>
<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>Maintenance and enhancement of environmental and construction performance</li> <li>Creation of pleasant workplaces (asset management company)</li> <li>Creation of pleasant workplaces (tenants)</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>In addition to physical infectious disease countermeasures, expand the COVID-19 workplace vaccination program scope to cover retail facility tenant employees as a means of promoting a safe and secure facility environment for asset management company employees, tenants, and consumers <a href="#">See p.37</a></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>Region (Fukuoka/Kyushu)</li> <li>Retail facilities</li> </ul> <p><b>Related Materiality</b></p> <ul style="list-style-type: none"> <li>Co-creation with the local community</li> <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 <a href="#">See pp.10-13</a></li> <li>In retail facilities, such as Canal City Hakata/Canal City Hakata·B, operate bustling facilities by replacing tenants and providing new experience 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>

Significant Risks	Impact on Stakeholders	Measures to Address 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>Creation of pleasant workplaces (tenants)</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, 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 <a href="#">See p.24</a></li> <li>Conducting of proactive IR activities</li> </ul>
<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>Maintenance and enhancement of environmental and construction performance</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 a limitation on rights with respect to properties owned and an increase in property management expenses and other items, due to newly established, revised, or abolished laws and regulations</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 Co., Ltd. (Asset Management Company) violates its duty of care as a good manager (duty of care) and its duty to faithfully perform tasks for FRC (duty of fidelity) under the law or specified contracts, the possibility exists that this could adversely affect FRC's survival and profitability</li> <li>Potential conflict of interest issues with sponsors</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 <a href="#">See p.40</a></li> </ul>

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.

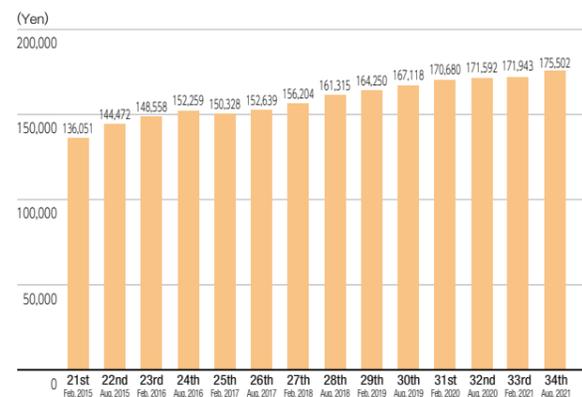
## External Growth and Internal Growth

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:

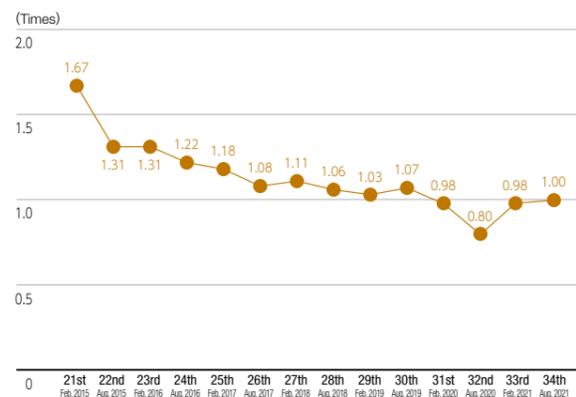
- Ability to diversify risks for properties and tenants
- Enables efficient management of properties by taking advantage of economies of scale

### Trends in NAV per Investment Unit



Note: 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



Note: 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 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.

Figures 2 and 3 show the total shareholder return (TSR), taking into account FRC's dividends and capital gains.

TSR performance has been 8.5% annually over the past 10 years. Performance declined temporarily due to the impact of COVID-19 but recovered relatively quickly and had returned to pre-COVID levels as of the end of August 2021. At the present time, there is a divergence in performance between FRC and the TSE REIT Index, but we believe that the main factor driving the increase in the TSE REIT Index is the high performance of the logistics sector. In contrast, our TSR performance over the most recent fiscal year has exceeded that of the TSE REIT Index, as shown in Figure 4. From now on, we will work to improve performance by making a connection from the recovery stage to the internal growth stage, by managing properties in anticipation of the situation returning to normal after the COVID-19 pandemic, and by swiftly conducting aggressive external growth centered on our sponsor pipeline.

In terms of our property portfolio, we will gradually reduce our portfolio of retail facilities and further diversify risks as a comprehensive REIT by acquiring mainly office buildings and logistics properties in Fukuoka and Kyushu that are deemed stable over the medium to long term.

As an asset management company knowledgeable about the circumstances of the region, we will continue to maximize the profit of our unitholders by utilizing information and expertise.

Figure 1: Past Dividends and Dividend Yields

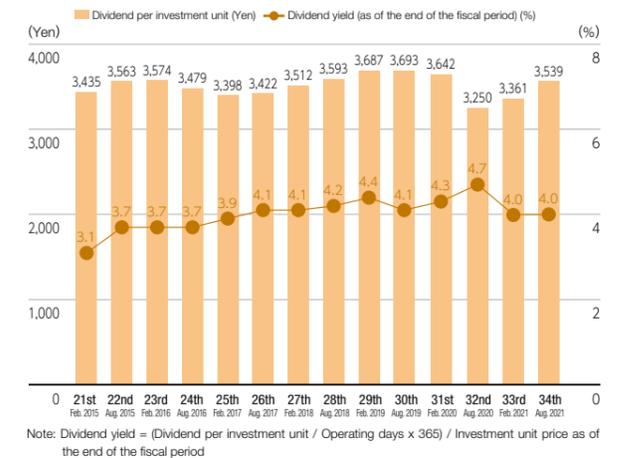
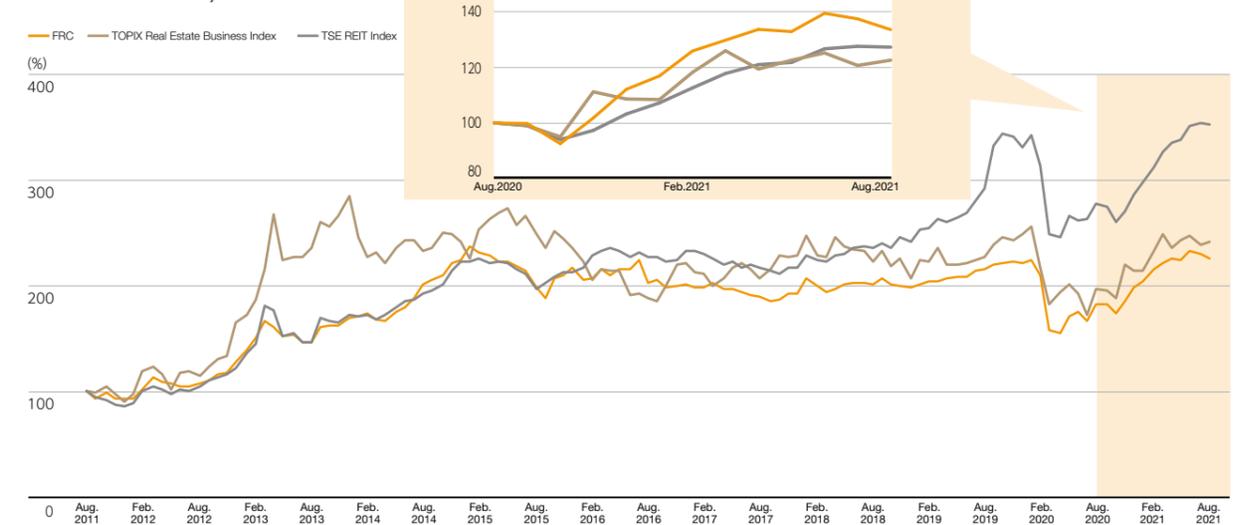


Figure 2: TSR over the past 10 years

	Past 1 year	Past 3 year		Past 5 year		Past 10 year	
		Cumulative total	Annual rate	Cumulative total	Annual rate	Cumulative total	Annual rate
FRC	33.6%	15.4%	4.9%	13.2%	2.5%	125.4%	8.5%
TOPIX Real Estate Business Index	22.6%	8.4%	2.7%	29.0%	5.2%	142.0%	9.2%
TSE REIT Index	27.3%	49.8%	14.4%	55.7%	9.3%	252.9%	13.4%

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

Figure 3: Investment Unit Price Performance (10 years, including dividends)



Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2011, as 100. TSR over the past 10 years considers dividends and investment unit prices in indicating the profitability of investments made on August 31, 2011, as of August 31, 2021. The TOPIX real estate index and the TSE REIT index are indexed in the same way, using dividend-included data. Similarly, the graph for the most recent fiscal year is indexed with the investment unit price as of August 31, 2020, as 100.