



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

Looking back over the past year of ongoing dialogue with our investors, I felt the importance of taking a different perspective from developers.

Now in my second year as president of Fukuoka Realty Co., Ltd. (the Company), the asset management company for Fukuoka REIT Corporation (FRC), I have had the privilege of experiencing something different from my past involvement as a developer, which was very informative. In many cases, those of us who are involved in the REIT industry report our earnings twice a year, at which point we meet with our investors. And with each meeting, I experience firsthand the importance of dialogue with investors.

Developers engage in urban and community development under their own set of values, and undertake risk themselves as they develop and profit from properties. On the other hand, companies that employ the REIT scheme own real estate using equity capital solicited from investors and loans borrowed from financial institutions, so absolutely must achieve stable profits. Which is also why we must not act solely upon our own set of values, but must ensure investors accept the value of our actions. Although I feel the perspective of investors is primarily focused on financial results in the form of dividends, it can be difficult to achieve such results from our own

perspective alone. This past year was one in which I began to see this gap.

We will work to address sustainability in unison with our sponsors.

Amid the growing emphasis on sustainability as part of investment and management, I have recently felt the importance of sincerely engaging in the question of how we should address sustainability as a REIT. Which is why I also intend to expand the scope of sustainability-related disclosures going forward. On the other hand, I have also recognized a fair amount of difference in the level of enthusiasm in terms of our investors' interest and questions regarding sustainability. I myself see sustainability initiatives in a positive light.

As one of the Company's sponsors, Fukuoka Jisho Co., Ltd., is an unlisted company, which means it is us that engages with investors and the market. And this is why it is important for us to hold dialogues with our investors, capture the interest of the market, and involve our sponsors in our efforts. Over the past year, I have also felt that the awareness of sustainability among our sponsors, as well as their sustainability initiatives, have made progress. Fukuoka Jisho's Corporate Planning Department has also

started to set down sustainability targets in terms of what they engage in as part of real estate development. The Company's Sustainability Promotion Office and Fukuoka Jisho's Corporate Planning Department must continue to collaborate in facing issues such as determining the degree to which specific targets must be achieved in regard to the assets of the Group. This year, we set specific KPIs and targets for materiality. And we intend to actively disclose these targets along with our results.

The Company's vision and FRC's strategy

The Company's Basic Policy is to soundly manage investment properties with a specialization in the Kyushu region, while our mission as a REIT is to distribute stable dividends over the medium to long term. And contributing to regional revitalization and to the development of attractive communities based on the policy of Act Local and Think Global is both our vision and a direction that we have no intention of changing into the future.

In other words, our position as a region-specific REIT—our primary defining characteristic—is a unique quality with which I can relate very well from the standpoint of someone who was previously involved in urban development. On the other hand, I am concerned over the degree to which our investors acknowledge the value of this unique quality. The price of REIT investment units (valuation) varies depending on the assessment of growth potential (growth expectation). So, if we see valuation as the growth potential for scale, then a slow real estate acquisition pace by FRC as a region-specific REIT will result in a negative market assessment when compared to a REIT that invests in the Tokyo metropolitan area.

Given our desire to contribute to a specific region through the assets that we own, however, simply considering growth in terms of asset scale alone would not match with our vision. Although we could increase investment opportunities by expanding our investment target to the Tokyo metropolitan and Kansai areas as a means of raising the growth potential demanded of investors, this would conflict with our direction. Which is why we instead intend to invest in high-quality real estate in the region of Kyushu and Okinawa, centered on Fukuoka, and manage the REIT with a firm idea as to how we can revitalize the region and contribute in other ways through real estate asset management.

Glossary **NAV**
NAV is an abbreviation for Net Asset Value at an investment trust. Net assets are defined as total investment trust balance sheet assets minus liabilities, with the base price based on the number of units. For REITs, the term *net assets* refers to net assets plus unrealized gains or losses reflecting the difference between the book value of the property owned and the appraised value.
[Calculation method] NAV: Net assets + Unrealized gains or losses – Dividends / Market net assets value per unit: NAV / Total number of units issued

We aim to expand business with a focus on development targeting future stable growth.

I myself have absolutely no intention of allowing the assessment of FRC to deteriorate among the J-REIT brands, which is why I naturally believe in the importance of following our Basic Policy as we actively engage in property acquisition or efforts to increase our market capitalization and our total asset value, all while prioritizing stable dividend distribution and the steady growth of NAV*. Given our uncompromising stance of remaining a region-specific REIT, however, we intend to contribute to the development of cities in the Kyushu region and Okinawa, centered on Fukuoka, as our business field.

I believe that large developers in the Tokyo metropolitan area are similarly involved in contributing to urban development and local communities with their own respective intentions. As one of our sponsors, Fukuoka Jisho Co., Ltd., also aims to increase the value of real estate by making cities more interesting and by helping them grow. And as real estate liquidity increases, developers will shift to considering real estate exit strategies.

In this sense, I see investment corporations and developers as inseparable. After all, REITs acquire properties developed by developers and manage these appropriately. Yet I believe that it is necessary to maintain a structure in which the Company and FRC act independently from each other. With the most recent revisions to the Asset Management Guidelines, we now have greater flexibility when investing in development properties. We made these revisions because we felt that engaging in development projects together with our sponsor companies and other developers will contribute to the growth potential of dividends. In other words, the portion equivalent to the capital gains for developers will help reduce the acquisition book value, which we expect to enable us to acquire properties with relatively high NOI.

Human resources for appropriate asset management and growth of owned real estate

The value of owned real estate varies depending on asset management after acquisition. Moreover, asset management requires a greater degree of manpower as the number of properties increases with an expanding asset scale. The

Company believes we can effectively address this issue through human resources growth based on previously accumulated experience, human resources development through training, and optimized personnel assignments.

The Company is now approaching the 20th anniversary of our founding. We therefore intend to enhance loyalty by providing continuous service awards to those employees who have reached their 15th year of employment. In terms of training, we have conducted overseas training to put Think Global into practice, including overseas training in North America and observation with training in Shenzhen depending on the demands of each employee's duties. We also offer an extensive lineup as part of our certification acquisition support system, through which many of our employees have acquired certifications related to real estate and finance, including becoming ARES Certified Masters and real estate brokers.

As a result of our past initiatives and track record, we were certified as a "Fukuoka 'Work Style Reform' Promotion Company" in 2018, and were registered as a Fukuoka City Well-Being & SDGs Registration System "Master" this year. We are currently advancing a range of work-style reforms, including eliminating all overtime, ensuring employees take annual paid leave, and supporting a balance between child raising and work. Developing human resources and making various considerations will continue to be important. And because we hope to expand the areas in which we do business going forward, we will strive to capture business opportunities for growth by strengthening our human resources and assigning personnel appropriately.

Setting sustainability targets and managing owned properties

Making sustainability-related disclosures is an urgent challenge. Looking back over the past year, we have established a data platform as the prerequisite for achieving the materiality related numerical targets for the properties we currently manage. Going forward, we will work together with our sponsors, and cooperate with each company in the Fukuoka Jisho Group as we shift in a direction that will allow us to store and manage data. In April 2021, we raised the targets of reducing CO₂ emissions by 35%, recycling 75% of waste, and achieving a Green Building Certification rate of 85% or higher, all by 2030. Moreover, in September 2022 we both publicly endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and joined the TCFD Consortium, an association of companies in Japan that has endorsed the recommendations.

In terms of creating value for our stakeholders, the tenants that occupy our properties, for example, each have their own set of values regarding the ESGs. And it is necessary for us to do what we can to address those values. Moreover, if a property does not meet the prerequisites of the tenants, they will no longer choose that property in some cases, so we must have a strong awareness of the demand for sustainability. This awareness, in other words, will necessarily have an impact on the earnings of our properties.

As the basis for accepting all our clients, we must also meet the required standards. The challenges differ in each case, however, where we must question the degree to which we have addressed sustainability in properties under development, or the degree to which we can address sustainability after the fact in properties that we have already acquired. At the very least, we must indicate the value that our properties create from the perspective of environmental action to our stakeholders, and primarily our tenants.

In conclusion: "Together with Local Communities and Cities"

One thing I often say to our employees during morning assemblies is that I want them to value our "focus on the

region" and our "close ties with the region" as a means of practicing Act Local, one of our missions. Although it is fairly difficult to connect these to economic value, I feel that one of our strengths is our ability to help plan and participate in various local activities and events. In 2022, the *Hakata Gion Yamakasa Kakiyama* was held for the first time in three years. I was also allowed to play a part in the festival, and rode the *Hachiban-yamakasa* as part of the *Oiyama* float race on the final day of the event.

Developers in large cities likely struggle when trying to delve deeply into a region from the stance of management once a property is developed. As the entity that manages properties after development, FRC and the Company consider our contributions to the local community together with those developers who work with real estate here in Fukuoka and Kyushu, which means we serve as landlords with deep roots in the community. This, I believe, is a strength of region-specific REITs. And I feel that this aspect is particularly important. In essence, real estate should be considered as a series of stages, beginning with thinking about why land needs to be developed and what kind of value can be offered through development, and ending

with thinking about what needs to be done in terms of asset management afterward to realize that value, and ultimately how to enhance that value. And I feel that being loved by the community and the city residents as a result of this approach will have a major impact on real estate development and post-development management.

FRC and the Company constantly think about this value and focus our energies on managing real estate that is loved by the region. I therefore humbly ask for your continued support.

Zenji Koike President and CEO Fukuoka Realty Co., Ltd.
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 F.J. Entertainment Works Ltd.)
- 2017 Appointed as Senior Executive Officer of Fukuoka Jisho Co., Ltd. Appointed as Chairman of Sunlife Co., Ltd.
- 2021 Joined Fukuoka Realty Co., Ltd. Appointed as President and CEO of Fukuoka Realty Co., Ltd. (current position)
- 2022 Appointed as Executive Director of FRC in May (current position)



Riding on top of a float (President Zenji Koike at far right) in the *Oiyama* float event of the Hakata Gion Yamakasa Festival on July 15, 2022

Column "What is Hakata Gion Yamakasa?"

Hakata Gion Yamakasa began when Shoichikokushi rode a *segakidana* and sprinkled perfumed holy water (honeydew water) to remove a pestilence from the city in 1241, which led to the Gion Faith for warding off calamities and ultimately developed into a *yamakasa* ritual. With its roots dating back to 1241, *Hakata Gion Yamakasa* was registered as a UNESCO Intangible Cultural Heritage in 2016, thereby bringing the festival worldwide recognition. This year, the festival was held for the 782nd time. There are two types of *yamakasa* portable shrines, *kazariyama* ornamental floats and *Kakiyama* floats. *Kazariyama* ornamental floats are not carried, but are instead displayed at specific locations in Fukuoka city every year during the festival from July 1 to July 15. The different *Kakiyama* float events begin on July 9 and culminate in the *Oiyama* float race as the climax of the *Hakata Gion Yamakasa*.

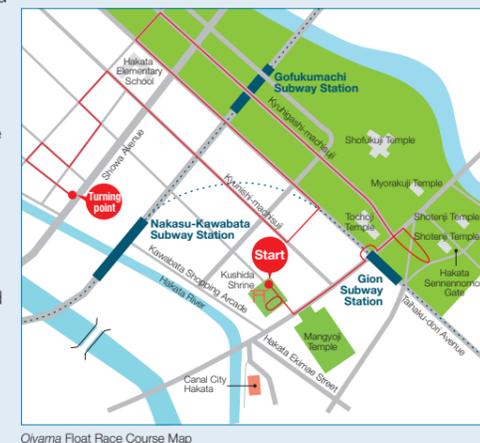
The *Kakiyama* float race was held for the first time in three years during 2022 due to COVID-19.

Some of the *yamakasa* are called the seven "Nagare," each of which is carried and compete for time during *Kushida-iri** and over the *Oiyama* float race course. The first *yama* to start the race is called

Ichiban-yama, and is the only *yamakasa* granted the privilege of singing the *Hakata Iwaiuta (Iwaimedeta)* during *Kushida-iri*, so each year the order changes. The *Hakata Iwaimedeta* overpowers as it reverberates throughout Kushida Shrine.

The race starts with the dedication of *Ichiban-yamakasa* upon beginning *Kushida-iri* at 4:59 in the morning, from which time all eight *yamakasa* perform *Kushida-iri* in succession before racing off into the city of Hakata in the dim morning light.

* *Kushida-iri* refers to the act of carrying a *yamakasa* onto the grounds of Kushida Shrine, circling a flag on the grounds, and leaving the grounds again.



Oiyama Float Race Course Map



A *Kazariyama* ornamental float is dedicated to Canal City Hakata every year.

External Environment (Initiatives of Fukuoka City)

Fukuoka City's Standing: From Regional City to an Asian Economic Metropolis



Blessed with a history and culture nurtured by the sea, an abundant natural environment, extensive urban functions, diverse human resources, and various other assets, Fukuoka City is recognized around the world as a livable city.

Under the "Fukuoka City Comprehensive Plan," the basic strategy for city management focuses on creating a virtuous cycle of "urban growth" and "greater quality of life." In aiming to become a "leading Asian city in which people, the environment, and urban vitality are harmonized," Fukuoka City is advancing urban planning that recognizes its presence within Asia as a compact, sustainable city that balances economic growth with a safe, secure, high quality of life.

Initiatives Aimed at Attracting Companies

Attracting International Financial Functions, TEAM FUKUOKA



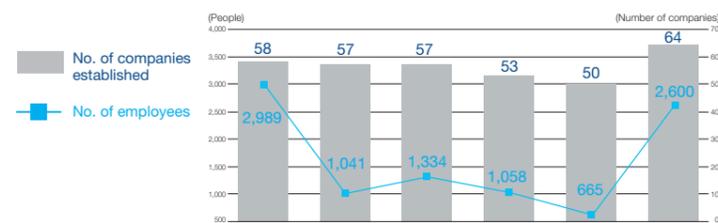
With the aim of attracting international financial functions to Fukuoka, TEAM FUKUOKA was launched to conduct promotional activities and create an environment that will generate momentum for the city as a whole by leveraging the characteristics of industrial, academic, and government partners (in September 2020).



M-DAQ, a globally expanding and Unicorn-class Singapore FinTech company offering financial services using foreign exchange, and E.SUN Bank, a leading financial institution in Taiwan that holds the largest share in financing for SMEs, have decided to open offices in Fukuoka City (in September 2022).

Change in the Number of Companies with Headquarters Functions/ in Growth Area Established in Fukuoka City

Strong Demand for Creative-Related Industries and Call Centers



(of which, main fields and functions)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Creative-related industries	28	40	38	38	30	41
Foreign/foreign-affiliated	18	13	14	15	12	15
Call center	12	9	7	2	8	8
Headquarters functions, etc.	3	1	7	6	0	7
International finance	-	-	-	-	-	6

Source: Prepared by Fukuoka Realty based on data from "Headquarters functions/in growth area" by the Fukuoka City Economy, Tourism & Culture Bureau.

Fukuoka City Tops List of Business Opening Rate in Japan for Three Consecutive Years



Source: Prepared by Fukuoka Realty based on data from "The general condition of the Fukuoka City Economy, March 2022" by the Fukuoka City Economy, Tourism & Culture Bureau.

Fukuoka City Special Zone for Global Start-Ups & Job Creation (National Strategic Special Zone)

Initiatives to support start-ups

- Tax Reduction for start-ups (municipal tax, national tax)
- Startup Visa
- Startup Café
- Fukuoka Growth Next
- Global Startup Center

Source: Prepared by Fukuoka Realty based on the section of Fukuoka City's official site featuring "National Strategic Special Zone for Global Start-Ups & Job Creation."

Redevelopment Project



Note: Focus areas

Tenjin Big Bang

Redevelopment Projects

Name	Completion month
① Sumitomo Life Fukuoka Building/Nishi-dori Business Center Reconstruction Project (provisional name)	May 2025 (scheduled)
② Tenjin Business Center	September 2021
③ Fukuoka City Hall's Former North Annex Utilization Project	November 2025 (scheduled)
④ Tenjin 1-chome North 14th Block Building (provisional name)	March 2025 (scheduled)
⑤ New Fukuoka Building (provisional name)	December 2024 (scheduled)
⑥ Tenjin1-7 plan (provisional name)	March 2026 (scheduled)
⑦ Hulic Fukuoka Building Rebuilding Project (provisional name)	December 2024 (scheduled)
⑧ Fukuoka Daimyo Garden City	December 2022 (scheduled)

Source: Created by Fukuoka Realty based on each company's press release.

Main Deregulation in the Tenjin Big Bang Area (National Strategic Special Zone)

① Special permission to relax Civil Aeronautics Act-related building height regulations

- Around Fukuoka City Hall approx. 67m (15 floors)
- Tenjin Meiji-dori district (west of the center of Watanabe-dori) approx. 115m (26 floors)
- Tenjin Meiji-dori district (east of the center of Watanabe-dori) approx. 76m (17 floors) ~ approx. 100m (22 floors)
- Tenjin 1-chome district approx. 80m (18 floors) ~ approx. 96m (21 floors)

② Deregulation of floor space ratios (Fukuoka City original)

- Tenjin 1-chome south block 800%→1,400% (maximum)
- Tenjin 2-chome south block (along Meiji-dori Ave.) 700%→1,300% (maximum)
- Tenjin 1-chome north block (14th Block) 600%→1,250% (maximum)
- Tenjin 1-chome district north area 800%→1,400% (maximum)

Hakata Connected

Redevelopment Projects

Name	Completion month
⑨ The Nishi-Nippon City Bank Head Office Main Building Construction site	February 2025 (scheduled)
⑩ Fukuoka Higashi General Prefectural Office Building Site Utilization Project	March 2024 (scheduled)
⑪ Hakata East Terrace	August 2022
⑫ Hakata Fukami Park Building	February 2021
⑬ The Nishi-Nippon City Bank Administrative Head Office Building	September 2028 (scheduled)

Source: Created by Fukuoka Realty based on each company's press release.

Hakata Connected Bonus

Expand the system to relax the floor area ratio requirement (measure to facilitate renewal of city center functions)
Increase the floor area ratio (up to 50%) for buildings contributing to expand the bustle, such as creation of open spaces that generate connections and expanse.

Existing system to relax floor area ratio + New incentive Floor area ratio of up to **50%**

High-quality, high-value-added buildings

Provide floors for tenant relocation

Note: The projects are designed to solve problems specific to the area around Hakata Station (limited to the period of Hakata Connected)

Risks and Opportunities

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

● Measures to Address Risks ● Opportunities

Significant risks	Impact on stakeholders	Respond to risks and opportunities
Risks from Natural Disasters <ul style="list-style-type: none"> Response to climate change <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Consider that it is possible to purchase insurance at a relatively low cost compared to other areas; arrange earthquake insurance coverage for all properties 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) <p>See p.34</p>
Environment-Related Risks <ul style="list-style-type: none"> Reduction of environmental load Soil pollution and toxic substances <p>Related Materiality</p> <ul style="list-style-type: none"> Reduction of environmental load Maintenance and enhancement of environmental and construction performance 	<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 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 	<ul style="list-style-type: none"> Work to maintain and improve environmental performance through renovation opportunities for properties owned; acquire Green Building and other certifications to obtain the results of environmental/social initiatives in visual form and improve property competitiveness 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 Conduct thorough physical investigations at the time of property acquisition; acquire properties after confirming the presence or absence of toxic substances and taking appropriate measures <p>See p.35</p>
Human Resource Related Risks <ul style="list-style-type: none"> Deterioration in the caliber of human resources Dependence on human resources <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (asset management company) 	<ul style="list-style-type: none"> 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 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 	<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 a work-life balance and the stabilization of work through health management <p>See p.36</p>
Infectious Disease, Epidemic, and Other Related Risks <ul style="list-style-type: none"> Pandemic <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance Creation of pleasant workplaces (asset management company) Creation of pleasant workplaces (tenants) 	<ul style="list-style-type: none"> 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 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 	<ul style="list-style-type: none"> 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 Set up satellite offices at the asset management company and introduce a telework system with a view to ensuring business continuity <p>See p.36</p>
Property Concentration Risks <ul style="list-style-type: none"> Region (Fukuoka/Kyushu) Retail facilities <p>Related Materiality</p> <ul style="list-style-type: none"> Co-creation with the local community Contributions to boosting the attractiveness and revitalization of Fukuoka and Kyushu 	<ul style="list-style-type: none"> 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 Possibility of adverse effects on profits due to overall consumer consumption as well as other overall trends in the retail industry that reflect the nature of retail facilities as a main investment target 	<ul style="list-style-type: none"> Invest in various types of properties to reduce the risk of portfolio fluctuation by diversifying rental market cycles and tenant industries In retail facilities, such as Canal City Hakata/Canal City Hakata-B, operate bustling facilities by replacing tenants and providing new experiences and other value, thereby reducing the risk of profit fluctuation by dispersing tenants Revitalize the entire region and connect this growth to the growth of properties owned <p>See pp.12-13 See pp.42-43</p>

Significant risks	Impact on stakeholders	Respond to risks and opportunities
Risks from Changes in Business Conditions <ul style="list-style-type: none"> Increase in vacancy rates Decrease in rent <p>Related Materiality</p> <ul style="list-style-type: none"> Creation of pleasant workplaces (tenants) 	<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 a lessee's financial situation 	<ul style="list-style-type: none"> Consider extending lease agreement terms, fixing of such items as rent, 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 items including rent delinquency; collateral by such means as guarantor companies 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
Market-Related Risks <ul style="list-style-type: none"> Increase in interest rates Fluctuations in the investment unit price <p>Related Materiality</p> <ul style="list-style-type: none"> Information disclosure and dialogue with stakeholders 	<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 might 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 Conduct proactive IR activities <p>See p.27</p>
Risks from Property Degradation, Deterioration <ul style="list-style-type: none"> Increase in repair and maintenance expenses Decline in property competitiveness <p>Related Materiality</p> <ul style="list-style-type: none"> Maintenance and enhancement of environmental and construction performance 	<ul style="list-style-type: none"> 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 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 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
Regulatory Risks <ul style="list-style-type: none"> New laws and regulations Changes in the tax system <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> 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 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 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
IT-Related Risks <ul style="list-style-type: none"> Information leaks <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> Risk of leakage of personal and confidential information due to delays in strengthening cybersecurity 	<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 cybersecurity and information management Enable property differentiation by introducing advanced technologies into properties owned
Compliance Risks <ul style="list-style-type: none"> Violations of organizational laws and regulations Conflicts of interest* <p>Related Materiality</p> <ul style="list-style-type: none"> Compliance/Risk management 	<ul style="list-style-type: none"> 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 Potential conflict of interest issues with sponsor 	<ul style="list-style-type: none"> 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 Improve employee awareness of compliance by conducting regular compliance trainings <p>See p.39</p>

Glossary **Commitment lines**
This refers to the upper loan limit a borrower can receive at any time without going through a defined review, within a range agreed upon in advance with the bank. Commitment in this case indicates a contracted promise. The borrower can secure stable working capital regardless of business conditions.

Conflicts of interest
In general, this refers to when an act is in one's own interest, while at the same time disadvantageous to the interests of another. For a J-REIT, this often refers to a conflict between a unitholder and the interests of the investment corporation or asset management company.



The Investment Department leverages its capabilities in information gathering, relationship building with local communities, and property observation that are unique to a region-specific REIT to acquire excellent properties that generate stable cash flow over the medium to long term, a goal that cannot be realized with investment from outside the region.

The real estate market in the Kyushu area remains brisk on the back of rising land prices and construction costs, solid rental demand, and robust investment demand. In Fukuoka City, real estate values continue to rise amid positive macroeconomic indicators. Against this backdrop, it is becoming increasingly difficult each year to acquire investment properties with an emphasis on yield. We are therefore striving to secure investment opportunities for premium real estate by swiftly attaining useful information through community-based management and our community ties so we can make informed decisions on investment potential.

Recently, FRC signed an agreement with Fukuoka City to acquire a site on Island City, an artificial island in Hakata Bay, Fukuoka City, that has benefits from a logistics perspective, jointly with Fukuoka Jisho Co., Ltd., one of our sponsors. The project will enable us to avoid excessive competition and secure investment opportunities in the Fukuoka market, where we forecast ongoing competition in the investment property sector. This is expected to contribute to the stable external growth of FRC. It is also anticipated that the project will help improve logistics operations in the Fukuoka metropolitan area and facilitate the distribution of goods while also providing new employment opportunities and thus revitalizing the region.

FRC revised the methods for acquiring investments within our management guidelines in 2022 to ensure adequate diversification. As a result, even as a REIT, FRC can now consider certain other development projects in addition to the acquisition of buildings that have been completed, premised on defined risk management and collaboration with business partners. Diversifying property acquisition methods in this way is expected to lead to further investment opportunities. FRC plans to increase the proportion of projects that allow involvement from the development stage to around 10% of all acquired properties.

We are also targeting other regions in Kyushu to invest in based on a careful analysis of conditions and changes in the business environment in each region. The local government is currently implementing policies to attract companies to the Kyushu area, and there has been a marked uptick in activity by companies that have entered as well as by businesses associated with them. FRC intends to take advantage of this trend to enhance our portfolio, diversify risk, and drive continued internal growth, pursuant to our investment criteria. We also recognize sustainability as a key factor that needs to be considered when acquiring property. Although recently constructed properties have few issues in this regard, it can be relatively difficult to obtain environmental certification for older properties, and this might not be sufficiently reflected in the CAP rate.

Even though the real estate market is mildly overheated at present, we remain committed to realizing stable growth for our unitholders over the medium to long term and contributing to the revitalization of regional economies through our investments and operations.



The Real Estate Management Department draws up plans for asset management with the aim of ensuring long-term and stable expansion in profits from the assets held by FRC. The Fukuoka metropolitan area, our primary destination for investing, manifests potential for growth due to a rising population and an increasing number of companies locating operations there. Accordingly, as a comprehensive REIT, we are investing in the region in a diverse range of asset types. REITs consist of two types of growth: external growth in which we aim to increase dividends through investment, and internal growth in which we strive to enhance the profitability of the assets in our portfolio. The Real Estate Management Department seeks to maximize the value of our property portfolio over the long term through renovations and other innovative operational initiatives that enhance the appeal of our assets.

Although the business environment remained extremely difficult for a portion of our portfolio in 2022 due to the lingering effects of the COVID-19 pandemic, we implemented various measures to maintain and improve the long-term value of all the properties we own.

At Park Place Oita, we overhauled the outdoor environment with Shangri-la, a playground for children that stimulates their curiosity for play and introduced large new stores to enhance our ability to attract customers. At Canal City Hakata, we signed an agreement with a major new retail tenant and embarked on a plan to systematically overhaul the premises based on a medium- to long-term business strategy drafted with a view to co-creation with the local community. At Konoha Mall Hashimoto, we endeavored to ensure that tenants and visitors can utilize our facilities with peace of mind by continuing to take measures to prevent the spread of COVID-19 infections and providing a safe and hygienic environment throughout.

Efforts included upgrading the food court, introducing a large new store (GU), and replacing certain drinking and eating establishments with Komeda's Coffee and other stores.

In terms of office building tenants, we are making steady progress in planned backfilling in line with the closure of certain large-scale tenants. We are also striving to maintain and improve environmental and construction performance, not only in commercial facilities but also in hotels, office buildings, and other assets to maintain their competitiveness. We are upgrading critical facilities such as water supply, drainage, and air conditioning as well as gradually shifting to LED lighting. Other efforts are focused on ensuring a safe and hygienic environment and pursuing energy conservation.

We will strive to effectively identify greenhouse gas and waste emissions and implement measures to reduce these to further emphasize our stance toward sustainability and promote environmental preservation in the real estate sector. We also intend to take steps to enhance the work and business environments for tenants and employees.



April 2022



Executive Director and 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 investor relations (IR; including shareholder relations (SR) and public relations) activities to convey FRC's situation in a timely, fair, and accurate manner.

Although the Tokyo Stock Exchange (TSE) REIT Index temporarily saw a precipitous decline at the start of 2021 and again in June of that year, it has since returned to a level exceeding 2,000 points, the pre-COVID level, as of September 2022, amid signs of a gradual recovery

following the impact of the pandemic. While the low interest rate environment is forecast to continue due to the ongoing monetary easing policy of the Bank of Japan, the markets are pricing in future interest rate hikes. As such, I believe that it will be necessary to practice financial management with an even greater awareness of the risks posed by rising interest rates.

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

Financial Strategy/Capital Strategy

Regarding our financial strategy, we will first and foremost maintain a conservative interest-bearing debt ratio from the perspective of building a solid financial base. The interest-bearing debt ratio at the end of August 2022 was 41.7%.

Next, from the perspective of ensuring flexibility and agility in financing, we have set a commitment line with a maximum amount of 13 billion yen. We have also decided on a three-year commitment period, enabling us to address unexpected deterioration in the financing environment.

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 and including

regional banks that operate primarily in Kyushu and the megabanks—we will strive to diversify our procurement sources.

We will also actively incorporate consideration for the United Nations Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) issues from a financial perspective and look to contribute to the resolution of all related challenges.

The ratio of sustainable finance to total borrowings was 11.6%.

Regarding our capital strategy, we will look for the best timing relative to market conditions to raise capital alongside external growth, which is one of the drivers of growth for FRC. We will also adequately consider the balance between increasing dividends after capital procurement and LTV control as well as other factors.

July 2019	Procured funds through green finance, a first for FRC
March 2021	Procured funds 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 →Newly borrowed 2 billion yen from The Juhachi-Shinwa Bank that was donated to Nagasaki University
June 2022	Procured funds through green finance (1.6 billion yen in refinancing from Sumitomo Mitsui Banking Corporation) See p.33
August 2022	Procured funds through a syndicated sustainability-linked loan from the three sponsor banks of our asset management company, a first for a J-REIT (4.9 billion yen from the Development Bank of Japan, The Nishi-Nippon City Bank, and The Bank of Fukuoka)*1

*1. A 35% reduction in CO₂ emissions (basic unit) compared with 2019 has been set as a sustainability performance target (SPT) to be attained by 2030, and the achievement of the target will be linked to the conditions of the loan. When the SPT is achieved, the contract will offer a preferential interest rate from the interest rate determined at the time of borrowing from August 2031 until the repayment date, as an incentive.

Investor Relations (IR) Activities

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. As one measure, 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.

Before the COVID pandemic, we held meetings in person with more than 200 institutional investors each year. Due to restrictions placed on face-to-face IR activities, we are continuing our IR activities with the highest priority placed on preventing the spread of COVID-19 infections.

Specifically, we are incorporating innovative ideas, such as making full use of a range of Internet tools to hold efficient meetings. In-person meetings are gradually becoming possible again, and I would like us to consider actively holding briefing sessions for individual investors as well. In addition, we are very particular about the stories and visuals we use in our financial briefing documents for unitholders so that they can fully grasp the appeal of a region-specific REIT. FRC has been highly praised for our efforts over the years, winning the IR Excellent Company Encouragement Award in 2014*2 and the IR Good Visual Award in 2017 and 2019*3. Our website was recognized as outstanding in general and industry rankings in fiscal 2021.

In closing, I believe that taking a long-term view in proactively working to raise the level of sustainability will be indispensable to ensure the best interests of unitholders. 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.

*2. Hosted by the Japan Investor Relations Association
*3. All Japanese Listed Companies' Website Ranking by Nikko Investor Relations Co., Ltd.

FRC's IR Activities

	September 2019– August 2020	September 2020– August 2021	September 2021– August 2022
Results briefings	2	2	2
IR in Japan*4	147	166	184
IR overseas*4	40	38	22
IR for individual investors*5	6	7	5

*4. Includes telephone conferences
*5. Includes results briefings for individual investors

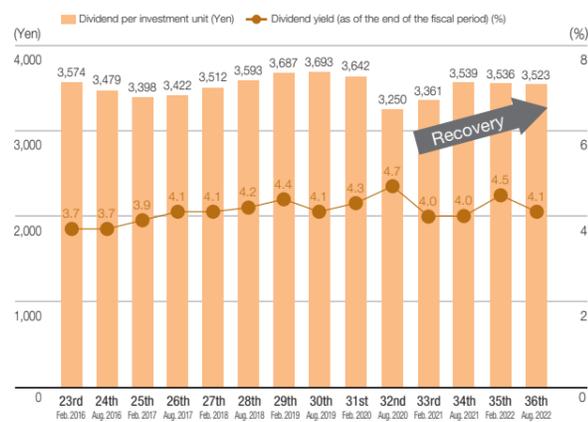


Dividends and TSR

Figure 1 shows FRC's past dividends and dividend yields. Among listed REITs, our dividends are extremely stable.

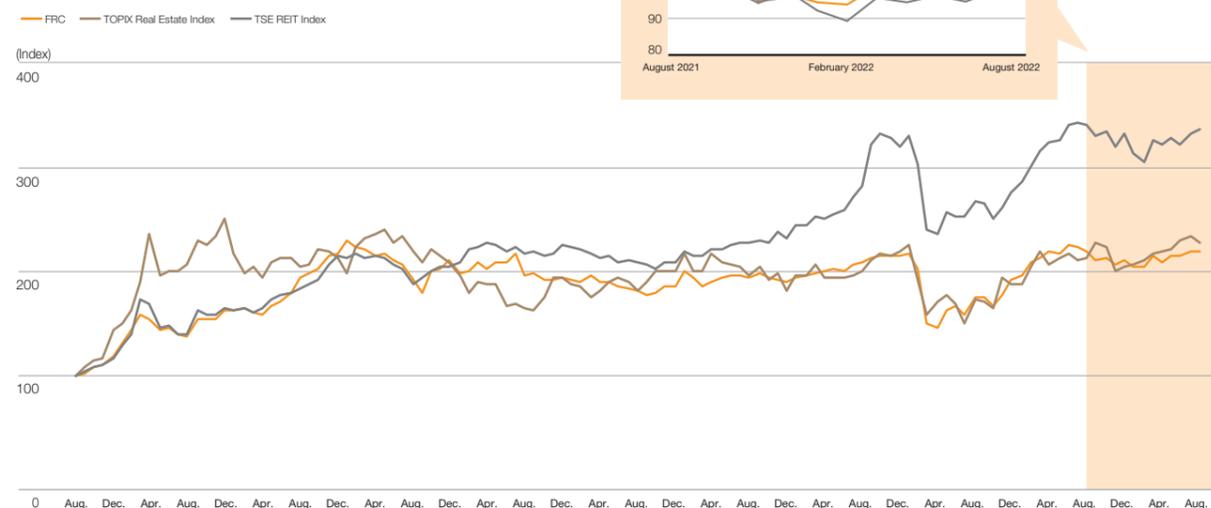
In contrast, the dividend yield has fluctuated between 3.8% and 4.7% over the past eight years, indicating that investment unit prices have shifted due to changes in the stock market, interest rate trends, and fluctuations in market supply and demand.

Figure 1. Past Dividends and Dividend Yields



Note: Dividend yield = (Dividend per investment unit / Operating days x 365) / Investment unit price as of the end of the fiscal period

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



Note: FRC's investment unit price performance is expressed as an index, using the investment unit price as of August 31, 2012, as 100. TSR over the past 10 years considers dividends and investment unit prices in indicating the profitability of investments made on August 31, 2012, as of August 31, 2022. 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, 2021, as 100.

Table 1 and Figure 2 show the total shareholder return (TSR), taking into account FRC's dividends and capital gains. TSR performance has been 8.1% annually over the past 10 years. In contrast, returns have remained flat over the past year as the TSE REIT Index weakened.

Table 1. TSR Over the Past 10 Years

	Past 1 year	Past 3 years		Past 5 years		Past 10 years	
		Cumulative total	Annual rate	Cumulative total	Annual rate	Cumulative total	Annual rate
FRC	(0.9)%	7.2%	2.3%	25.2%	4.6%	118.6%	8.1%
TOPIX Real Estate Index	6.9%	14.0%	4.5%	25.0%	4.6%	126.5%	8.5%
TSE REIT Index	(1.5)%	19.3%	6.1%	60.0%	9.9%	232.3%	12.8%

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



Planning Department



General Manager of the Planning Department and General Manager of Sustainability Promotion Office
Keishi Tamura

The Role of the Planning Department

The Planning Department is in charge of matters relating to management policy, general affairs, personnel affairs, accounting, and sustainability. We believe in the importance of creating an environment in which all employees can fulfill their potential in order to contribute to regional revitalization and the development of attractive communities, based on an understanding of the activities of our asset management company and under the basic policy of Act Local, Think Global.

Framework for Sustainable Initiatives

In 2018, FRC established the Sustainability Policy and Regulations Concerning Sustainability Management to promote sustainability in consideration of environmental, social, and governance (ESG) issues and set up the Sustainability Promotion Committee comprised of full-time directors, executive directors, and general managers. The committee establishes internal organizations, collaborates

with outside parties, examines specific goals and measures relating to information disclosure policy and other matters, and identifies the progress made in measures being implemented. Sustainability officers are responsible for practical matters relating to achieving the goals set by the committee with the General Manager of the Planning Department providing general oversight.

Sustainability Initiatives and GRESB

FRC has been conducting sustainability initiatives since our listing that include obtaining DBJ Green Building Certification. ESG-related inquiries from investors started to increase in 2017 at investor relations activities overseas.

We believe it is necessary to make efforts in line with global standards, and in 2017 we decided to take part in the Global Real Estate Sustainability Benchmark (GRESB) system to further promote our sustainability initiatives.