



Fukuoka REIT Corporation

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To help stakeholders better understand FRC and its operations, FRC is focusing efforts on its IR activities. FRC uses its website to post press releases and various disclosure materials and provide information on its portfolio of investment properties and other items. In addition, FRC uses social media such as Facebook and X (formerly Twitter) to disseminate a wide range of information on the Fukuoka and Kyushu areas, including information on these regions' economies, real estate markets, retail facilities, tourist attractions, and much more. We invite you to make use of these information resources.



Fukuoka REIT Corporation
Integrated Report 2023

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Editorial Policy

We have issued our Integrated Report since fiscal 2019 with the aim of imparting knowledge concerning the value creation process of the Investment Corporation and the Asset Management Company. The Report has been positioned as an important tool for engaging with our unitholders, investors, and other stakeholders. The International Reporting Framework recommended by the IFRS Foundation and the



Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation have been referenced in the preparation of this Report to ensure ease of understanding.

Through this Report, we aim to increase understanding of our efforts to enhance corporate value based on the basic philosophies of the Investment Corporation and the Asset Management Company as well as the value we create in working to realize a sustainable society. We will continue striving to make the Report an effective tool for facilitating constructive dialogue.

International Initiatives We Focus On

Sustainable Development Goals (SDGs)

The SDGs refer to the international goals set forth in the 2030 Agenda for Sustainable Development adopted at the United Nations Summit in September 2015 as the successor to the Millennium Development Goals (MDGs) established in 2001. Given the medium- to long-term expectations stakeholders have for the resolution of these challenges, our priority issues (materiality) were established in September 2019 with reference to the SDGs.



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Positioning of This Report



Period covered by the report

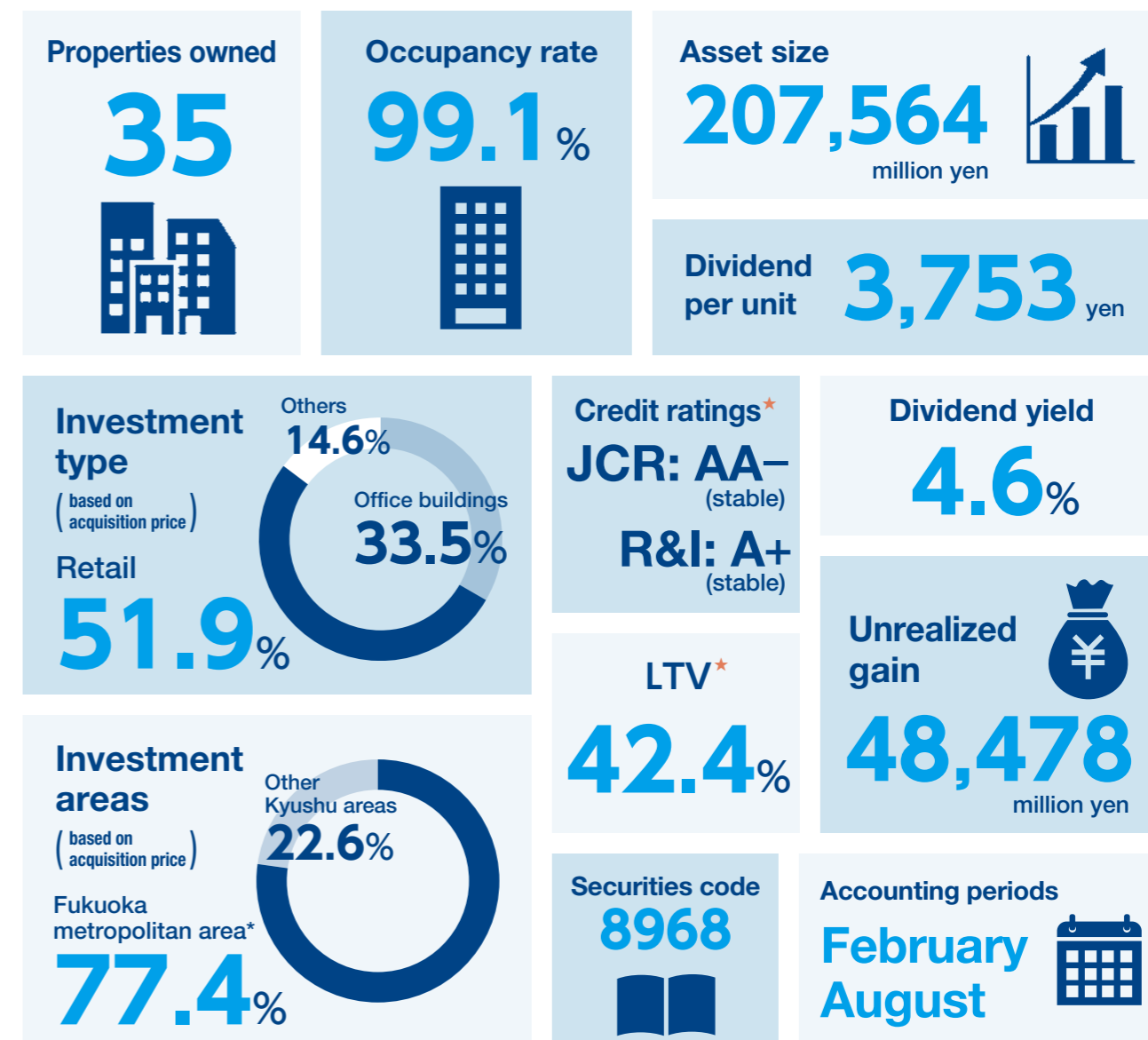
From September 1, 2022, to August 31, 2023
(Some recent activities after the period covered are included.)

Principles for Responsible Investment (PRI)

PRI comprises an international network of financial institutions working to realize six principles for the finance industry with the aim of encouraging the incorporation of environmental, social, and governance ("ESG") issues into investment decision-making processes. Fukuoka Realty Co., Ltd., endorsed and became a signatory of PRI in September 2018 to promote the consideration of ESG issues in real estate investment management operations and practices that conform to international standards.



Fukuoka REIT Corporation in Numbers



* The Fukuoka metropolitan area includes Fukuoka City, Chikushino City, Kasuga City, Onojo City, Munakata City, Dazaifu City, Koga City, Fukuoka City, Itoshima City, Nakagawa City, Umi Town, Sasaguri Town, Shime Town, Sue Town, Shingu Town, Hisayama Town, and Kasuya Town. As of August 31, 2023

Glossary Credit rating

A grade that reflects the safety and creditworthiness of a company and its ability to pay the principal and interest of bonds issued by the company based on an analysis of the company's performance and financial condition.

LTV

An abbreviation for Loan to Value and an indicator of a company's borrowing ratio as well as a measure of stability in borrowing. The lower the value, the greater the degree of safety against redemption of debt.
[Calculation method] LTV (%): (Interest-bearing debt / Total assets) × 100

Task Force on Climate-related Financial Disclosures (TCFD)

Cognizant of the fact that climate change is a major issue facing the international community, in September 2022 we became a signatory of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB), having endorsed the recommendations of the TCFD that were announced in June 2017. We will strive to disclose the impact of climate change and implement specific measures based on the recommendations of the TCFD in addition to continuing to reduce environmental impact and contribute to the local community.



These materials might contain future performance projections, plans, management targets, and strategies. These forward-looking descriptions are based on present assumptions on future events and trends in the business environment, but such assumptions might not necessarily be accurate. Actual results could differ materially due to various factors. Neither Fukuoka REIT Corporation nor Fukuoka Realty Co., Ltd., shall be liable for the accuracy, rationality, and completeness of information contained in these materials, whether they were prepared by Fukuoka REIT Corporation or Fukuoka Realty Co., Ltd., or provided by a third party.

Note that all information in this document is current at the time of preparation and is subject to change without prior notice.

These materials have not been prepared to entice investment.

When applying to purchase investment units issued by Fukuoka REIT Corporation, do so based on your own judgment and responsibility.

Any unauthorized reprinting, use, reproduction, distribution, or modification of all or part of the content contained in this Report is expressly prohibited.

Note: Regarding amount, percentage, and ratio rounding: Unless otherwise noted, in these materials, monetary amounts are rounded down to the nearest whole unit, and percentages and ratios are rounded off to one decimal place.

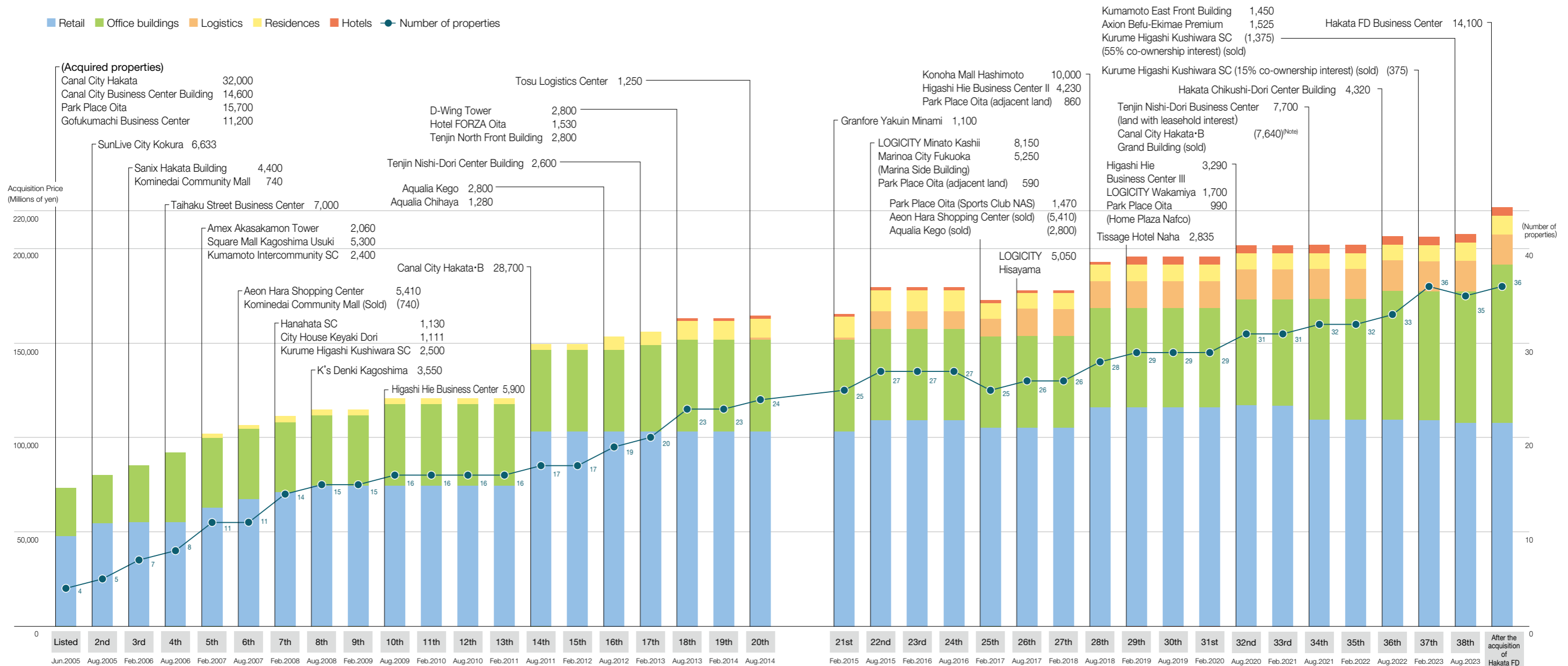
Overview of Fukuoka REIT Corporation/History of Asset Portfolio Expansion

FRC was listed as the first region-specific REIT in Japan on June 21, 2005, based on our intention to draw funds to the region by introducing excellent properties in Fukuoka and Kyushu to investors locally and around the world. We capitalize on distinctive regional features, a characteristic of the real estate industry, centering our operations on Fukuoka and the broader Kyushu region, as well as Yamaguchi and Okinawa prefectures. Our portfolio primarily comprises retail facilities and office buildings. Driven by the core philosophy of "Act Local, Think Global," our mission is to pursue the best interests of unitholders.

Name	Fukuoka REIT Corporation	Asset manager	Fukuoka Realty Co., Ltd.
Representative	Zenji Koike, Executive Director	Sponsors (Shareholders of the Asset Management Company)	Fukuoka Jisho Co., Ltd. Kyushu Electric Power Co., Inc. SAIBU GAS HOLDINGS CO., LTD. THE BANK OF FUKUOKA, LTD. Kyudenko Corporation Kyushu Railway Company THE NISHI-NIPPON CITY BANK, LTD. Development Bank of Japan Inc. Nishi-Nippon Railroad Co., Ltd.
Security code	8968		
Listed date	June 21, 2005 (Tokyo Stock Exchange, Fukuoka Stock Exchange)		
Fiscal periods	February and August		

Trends in Asset Size (based on acquisition price)

■ Retail ■ Office buildings ■ Logistics ■ Residences ■ Hotels ● Number of properties



* Amounts indicate acquisition price.
Note: FRC has co-ownership interest in the amount of 88.28%, and the amount indicates the appraisal value at the time of transfer.

FRC's Characteristics

FRC has the following five main strengths.

- 1 Japan's first region-specific REIT**
Asset management leveraging our in-depth knowledge of the real estate environment of the Fukuoka and Kyushu areas
- 2 Excellent portfolio centered on the Fukuoka metropolitan area**
A portfolio of carefully selected investments in the high growth area of Fukuoka City, which is gaining attention in Japan and abroad
- 3 Solid support from a sponsor company involved in property development**
Asset portfolio expansion and high occupancy rates facilitated through coordination with our sponsors
- 4 Establishment of a stable financial base**
Conservative control of the interest-bearing debt ratio and long-term diversification of repayment deadlines
- 5 Stable dividends and steady NAV* growth since listing**
Appropriate management of real estate investments

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

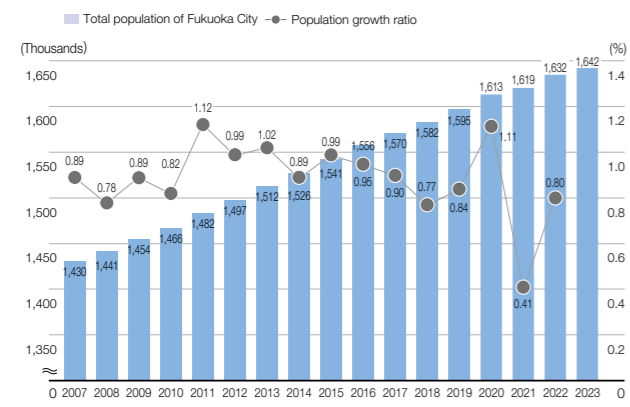
Macroeconomic Environment around Fukuoka

Fukuoka City, where population concentration is increasing, is expected to continue developing. Compared to the national average, it has a high proportion of young people and working-age population, which leads to demand for office buildings and residences, making it a promising area for investment.

Population Continues to Grow in Fukuoka City

The total population of Fukuoka City has increased consistently since 1985, and as of May 1, 2020, the estimated population exceeded 1.60 million. This total population makes the city the fifth most populous among government-designated cities, following Yokohama, Osaka, Nagoya, and Sapporo. According to estimates from the National Institute of Population and Social Security Research, the population of Fukuoka City is expected to continue growing until 2035.

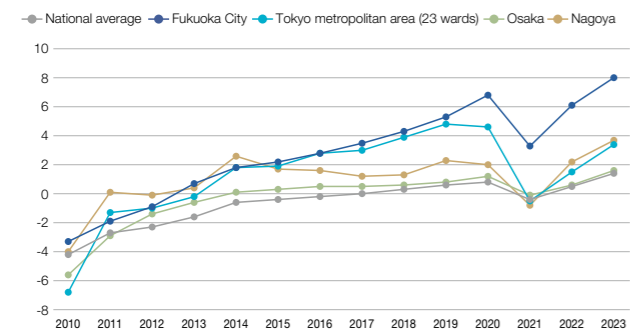
Total Population and Population Growth Ratio of Fukuoka City



Note: Total population figures from 2007 to 2022 are based on figures as of December 1 each year. The total population figure for 2023 is based on the figure as of October 1, 2023.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Fukuoka City Estimated Population and Fukuoka City Registered Population, published by Fukuoka City

Residential Land: Year-on-Year Rates of Change in Publicly Announced Prices

Demand for residential land has been strong, particularly in highly convenient areas, due to robust housing demand amid ongoing improvement in the employment and income environment. According to annual fluctuation rates in official land prices in residential areas announced by the Ministry of Land, Infrastructure, Transport and Tourism for 2023, the national average was 1.4%, the second consecutive year of positive growth. In Fukuoka City, land prices began to rise in 2013 due to strong housing demand brought about by population inflow, and the rate of land price increase has risen every year up until 2023.

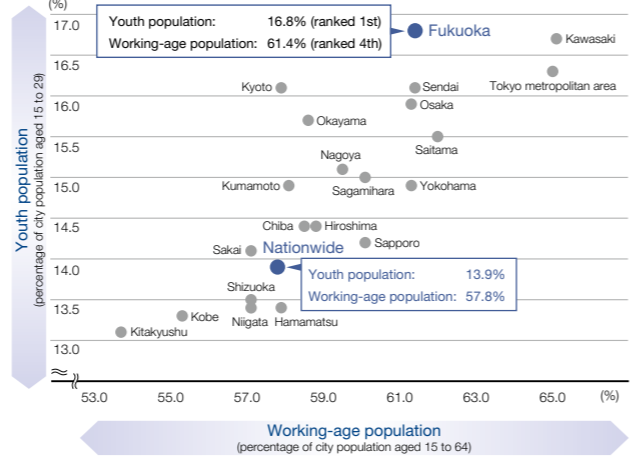


Note: The publicly announced price indicates the land price disclosed by the Ministry of Land, Infrastructure, Transport and Tourism as of January 1 of each year.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Ministry of Land, Infrastructure, Transport and Tourism Land Price Survey 2010-2023.

Fukuoka's Youthful Population

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

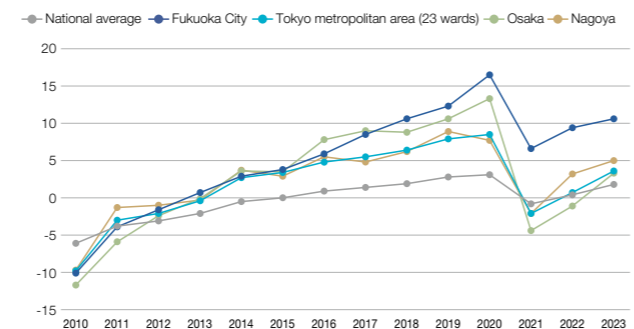
Youth and Working-Age Population Ratios Nationwide and in Major Cities (2020)



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

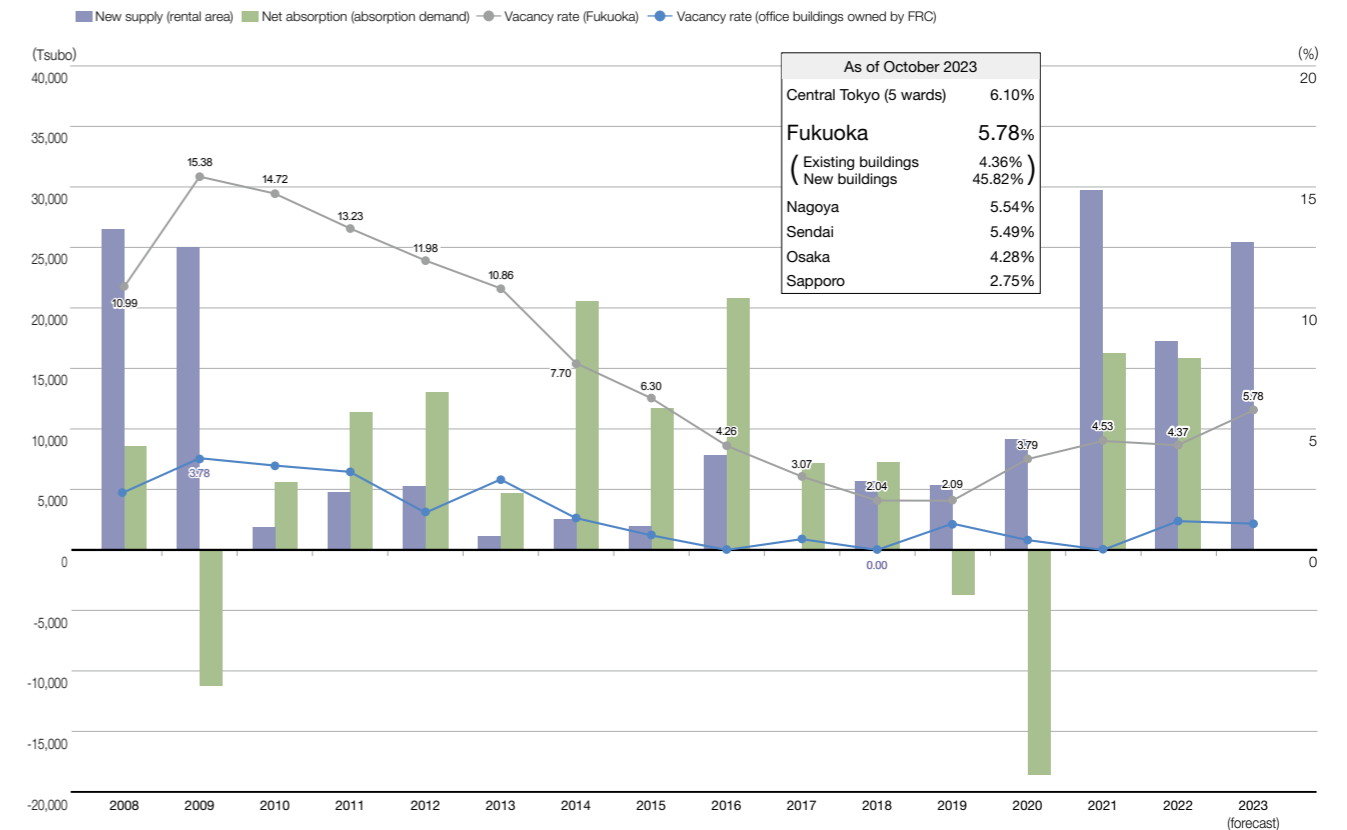
Commercial Land: Year-on-Year Rates of Change in Publicly Announced Prices

For commercial land, according to annual fluctuation rates in official prices announced by the Ministry of Land, Infrastructure, Transport and Tourism for 2023, the national average was 1.8%, representing a second consecutive year of positive growth. In Fukuoka City, land prices began to rise in 2013 ahead of other cities. Alongside the robust office market, progress has been made in redevelopment projects, and the rate of increase has exceeded that of other cities since 2018.



Note: The publicly announced price indicates the land price disclosed by the Ministry of Land, Infrastructure, Transport and Tourism as of January 1 of each year.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from the Ministry of Land, Infrastructure, Transport and Tourism Land Price Survey 2010-2023.

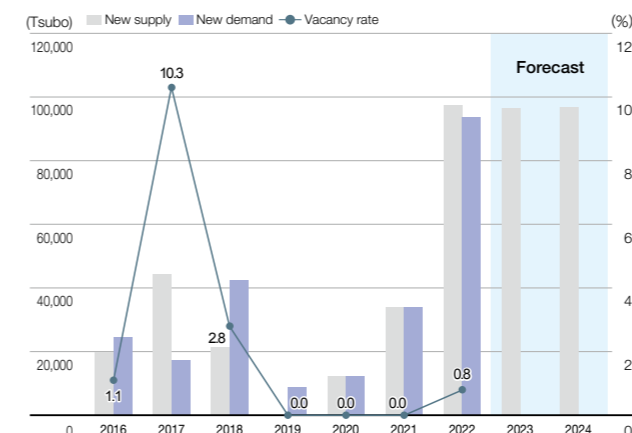
Fukuoka Business District: Vacancy Rates and Supply and Demand of Office Buildings



Notes:
1. The vacancy rates from 2008 to 2022 are based on the figures as of December 31. The vacancy rate in 2023 is based on the figure as of October 31, 2023.
2. The vacancy rate of office buildings owned by FRC in 2023 is based on the figure as of August 31, 2023.
3. Office building-related data for each city are the data for areas and buildings included in surveys conducted by Miki Shoji Co., Ltd.
4. Net absorption (absorption demand) shows the change in the occupied floor space during a specific period. It is calculated by subtracting the occupied floor space on December 31 of the applicable year from the occupied floor space on December 31 of the previous year. New supply (rental floor space) figures for 2023 have not been finalized, and the floor space and expected completion dates are subject to change.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from Miki Shoji Co., Ltd., Office Market Data

Supply/Demand and Vacancy Rates for Logistics Facilities

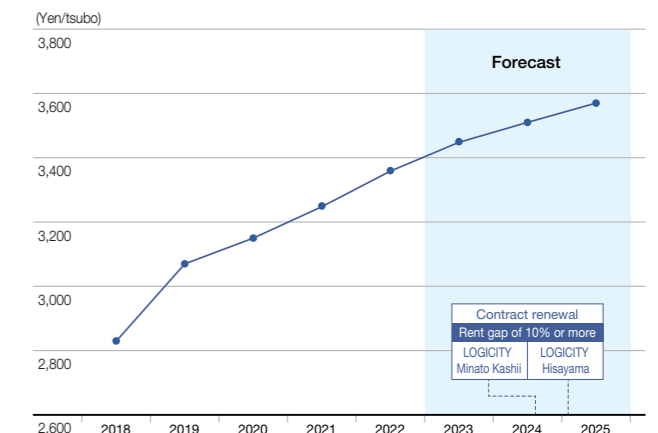
Demand is expected to remain steady in 2023 and 2024, despite substantial supply.



Note: Refers to medium and large logistics facilities with a total floor space of 5,000 m² or more in the Fukuoka metropolitan area.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from CBRE K.K.

Trend in Rent Unit Price

Demand is high in the vicinity of Fukuoka City, and rental prices are generally on the rise.



Note: Refers to large multi-tenant facilities with a total floor space of 5,000 tsubo or more in the Fukuoka metropolitan area.
Source: Prepared by Fukuoka Realty Co., Ltd., based on data from CBRE K.K.



As I enter my third year as President, I am acutely aware of how the COVID-19 pandemic has forced a reexamination of our values and conventional wisdom.

I have now been serving as the President of Fukuoka Realty Co., Ltd., the asset management company for Fukuoka REIT Corporation (FRC), for a full two years. When I initially took office, we were amid the COVID-19 pandemic. However, I am pleased to report that the situation is gradually returning to pre-pandemic levels. Throughout the pandemic, we observed divergent responses and measures on a country-by-country basis, leading to significant ramifications across various industries. Even in the real estate sector, it became imperative for us to reassess the magnitude of risks inherent in the rental property business. Notably, the hospitality and retail sectors bore the brunt of the pandemic's impact. Conversely, the residential and logistics facilities sectors experienced relatively minimal disruption. The logistics facilities segment, in particular, benefited from the surge in e-commerce, driving an increase in demand. The office buildings sector underwent a reevaluation as workstyles diversified and remote work gained prominence. This led companies to reconsider the need for expansive office spaces.

Moreover, the COVID-19 pandemic has led to a complete reset of all our values and conventional wisdom. The pace of structural changes in our business operations, consumer

mindset, and work practices has accelerated. This has given rise to shifts away from pre-COVID-19 norms, demanding a commitment to adapt to emerging information and evolving paradigms. As an example, the way consumption takes place and the perception of value in physical retail spaces have changed, and as such, we anticipate a range of changes in the value and functions sought after in urban areas. For us, this underscores the necessity of contemplating real estate acquisitions from a long-term ownership perspective and pondering how to effectively manage and enhance their value as properties cherished by the local community and the city's residents once they are in our possession.

Sales at Canal City Hakata are approaching pre-COVID-19 levels. However, the current status of inbound tourism reveals that while South Korean tourists have nearly fully rebounded, group tourists from mainland China have not yet returned. Inbound visitor numbers remain at approximately 60%–70% of their pre-COVID-19 levels, indicating a decline in this segment. Inbound tourism from mainland China heavily relied on cruise ship visitors, so a substantial recovery is anticipated once these group tourists are permitted to return. Nonetheless, there are lingering uncertainties about whether everything will return to the same levels of pre-pandemic prosperity, stemming from the perception that COVID-19 has altered our worldview, leading to shifts in consumption patterns and behavior.

Fukuoka's real estate market is robust, so we can expect to see internal growth. However, rising property prices have prompted a strategic reassessment for external growth.

The real estate market in Fukuoka City is showing resilience. In our property portfolio, we see potential for rent increases in office buildings, residences, and logistics facilities. According to Office Market Data issued by Miki Shoji Co., Ltd., the average vacancy rate for office buildings in the Fukuoka business district stood at 5.78% as of October. This can be attributed to the impact of newly constructed office buildings in areas such as Tenjin Big Bang, which were completed with vacancies. While the overall vacancy rate in Fukuoka City has been increasing, it is important to note that the rental rates have not experienced a decline. Historically, office rental rates in Fukuoka City have shown a consistent upward trend. In this sense, we believe that in properties owned, particularly those located in prime city-center locations with favorable specifications, there is room for rent increases, contributing to internal growth.

It appears highly likely that the 10-year Japanese government bond yields will increase to around 1%. We will carefully consider appropriate measures in response to this. In our refinancing efforts, we will focus on controlling the cost of financing by reviewing terms such as the loan duration and comparing them to the conditions before refinancing. Our aim is to minimize the impact of rising interest rates to the greatest extent possible. Our relationships with financial institutions, including our sponsor banks, are exceptionally strong, and we believe that we will continue to achieve stable funding in the future.

The challenges currently recognized by FRC and Fukuoka Realty Co., Ltd., center on the persistent upward trajectory of real estate prices in Fukuoka, resulting in a highly competitive acquisition landscape. We are currently navigating a demanding phase in achieving the conventional method of external growth for REITs, which involves the steady acquisition of new properties to expand our asset base. Moreover, there is a rising investor demand for sustainability-driven initiatives. As a result, we believe it is opportune to explore new growth strategies as a REIT, focusing not only on acquiring properties but also on property rotation at suitable valuations and realizing latent gains in existing properties to ensure the continuous and stable distribution of income to investors while aligning with evolving sustainability expectations.

To continue contributing to urban development and regional betterment in the Fukuoka and Kyushu regions, which we target for investment, it is essential to receive fair recognition as a REIT and to sustain our growth in the future. It is also necessary to undertake property rotations as needed and to embark on new initiatives. To achieve these objectives, it is

crucial to sustain dividend growth while contributing to the growth of key metrics such as the investment unit price, which in turn contributes to the growth of our market capitalization. This is essential to garner continued support from investors. We believe that internal growth in our properties owned is particularly achievable in the office building, residence, and logistics facility segments. In office buildings, there is a positive rental gap (difference from market rent) of 12.5% in the properties held by FRC, which we consider to be a promising source of future internal growth. In the continuously growing population of Fukuoka, we believe that there is still room for rent increases in the residential property market. The logistics facility market has seen a consistent upward trend in rental rates, so we anticipate room for growth in this segment. In the retail sector, our flagship property, Canal City Hakata, prompts considerations regarding the future recovery of inbound tourism and the impact of renovations. Nevertheless, we see potential for positive developments in this regard.

Sustainable management is imperative. Our future growth strategy necessitates proactive initiatives and new endeavors.

We recognize the urgency of addressing sustainability and believe it is crucial to act promptly and decisively. In terms of the impact on real estate, we anticipate changes that transcend conventional paradigms and norms, underscoring the necessity of mitigating associated risks. Our commitment to sustainability is a key issue (materiality) for FRC that we will continue to focus on. In June 2023, we strengthened our Sustainability Promotion Office and established a new framework. We appointed a dedicated female expert as the office manager, who previously served as the deputy manager of the Real Estate Management Department and has a deep understanding of the intricacies of our properties owned. This experienced manager is acutely aware of the significance of balancing costs and returns when advancing sustainability initiatives. At present, we are actively involved in both qualitative and quantitative analyses aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework, which we endorsed in September 2022. This includes an examination of financial impacts derived from climate change scenario analyses. We view endeavors such as these and transparent information disclosure as integral components of our operations.

We are dedicated to maintaining strong communication with all our stakeholders and embracing a customer-centric approach to our operations (fiduciary duty). We constantly reflect on what serves the best interests of our investors. Consequently, we believe it is vital to efficiently manage our operations internally, while also taking compliance into account, to serve the interests of our unitholders effectively.

The acquisition strategy of FRC is centered on the “act local” aspect of our mission, “Act Local, Think Global.” When looking at the entire Kyushu region, one example of this approach is our keen interest in the expansion of Taiwan Semiconductor Manufacturing Company into Kumamoto, as it holds potential for future growth. Our sponsor, Fukuoka Jisho Co., Ltd., shares our proactive approach to various real estate developments, and we plan to collaborate with them on various information gathering initiatives and long-term efforts as a REIT.

Recently, I visited three cities and towns in Kumamoto—Kikuyo Town, Otsu City, and Koshi City—inspired by our participation in hometown tax payments. The purpose was to extend support to municipalities across Kyushu as a REIT that focuses on Fukuoka and Kyushu. Last year, I had the opportunity to meet with the governors of Kumamoto and Kagoshima prefectures, when we exchanged views on urban development. While we own properties in the capitals of various Kyushu prefectures, we recognize that these connections alone might not provide us with a comprehensive understanding of the regional circumstances.

To foster future growth, engaging in direct dialogue with government officials and exchanging ideas about what is needed for urban development and regional contributions in Kyushu will be invaluable for us. In addition, it is crucial to extend our focus to regions not currently covered by our REIT investments. We maintain a strong relationship with our main sponsor, Fukuoka Jisho. We believe that it is essential to focus on gathering information, identifying local challenges, and understanding what kind of real estate the region requires over the long term for the locations that Fukuoka Jisho aims to develop. More specifically, this includes industrial properties such as factories, public facilities, and ventures in the agricultural sector that could potentially be integrated into our REIT scheme in the future. We believe it is essential to possess the capacity to thoroughly research these possibilities.

Strengthening human capital is crucial for the growth of FRC.

The essence of our business lies in our human capital. Our goal is to attract and retain talented individuals who contribute to the company and stay with us for the long term. However, in today's environment, talent mobility has increased significantly, and the barriers to changing jobs are lower than in the past. As a result, we understand that a certain level of employee turnover is unavoidable. On the other hand, in terms of new hires, we are fortunate to attract individuals with diverse experiences and are committed to bringing in fresh talent to strengthen our organizational capabilities. For this purpose, we are reviewing our human resources system to make it more aligned with current needs.

While the enhancement of human capital is garnering societal attention, we believe there is still much more for us to accomplish in this regard. To achieve this, it is essential to consistently implement measures such as creating a comfortable working environment, providing rewarding conditions and personnel systems, and investing in education and development for growth.

As we approach our 20th anniversary in December 2023, we are determined to foster a strong sense of loyalty and dedication among our employees. Our goal is to create an organization where individuals can achieve personal growth, career advancement, and a stable foundation for their lives. In the ever-changing landscape of society and technological advancements, including regenerative AI, it is crucial for each of us to stay well-informed and grounded, and identify how we can contribute through real estate, including our ESG initiatives. Sincerity and dedication are our guiding principles in approaching all endeavors. We emphasize the importance of enhancing the value of each individual real estate property, making informed decisions about new real estate investments, and pursuing investments that align with our capabilities.

We remain committed to diligent efforts for growth, adopting various functional strategies while maintaining fiscal responsibility.

I have learned many valuable lessons in my two years as president. Drawing from these experiences, my personal goal moving forward is to continue putting in more effort and striving for growth. This is a significant challenge that I have set for myself. I would like to express my sincere gratitude to all our stakeholders for their ongoing 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)

◎Approach to human capital at Fukuoka Realty Co., Ltd.

At Fukuoka Realty, human capital is recognized as the most important asset. Efforts are made to create a workplace where diverse values and expertise are enhanced, allowing each employee to make the most of their abilities and expertise, irrespective of age, gender, or career background.

For instance, steps are being taken to improve the office environment, with a focus on providing and promoting a comfortable working atmosphere, while personnel systems are undergoing reform. Furthermore, the education system for employees is being expanded, and qualification acquisition is actively encouraged to enhance the quality of operations.

Specific initiatives being undertaken are outlined below.

◎Extending the tenure of full-time officers and employees of the Asset Management Company

In 2018, Fukuoka Realty was certified as a “Fukuoka ‘Work Style Reform’ Promotion Company” and has since been committed to expanding and enhancing work-style reforms.

As of August 31, 2023

Number of full-time officers and employees*1	47
Average number of years of employment	8 years and 3 months

*1. The number of full-time officers and employees indicates the total number of directors and auditors, permanent employees, contract employees, temporary employees, secondees, etc., who are employed on a full-time basis at Fukuoka Realty Co., Ltd.

◎Ratio of male and female full-time officers and employees

In line with efforts to improve the workplace environment for both men and women and promote their active participation, personnel systems are being expanded, and a strategic shift in employee mindset is being fostered. Training programs tailored to respective positions are being conducted accordingly.

As of August 31, 2023

Full-Time Officers and Employees: Percentage of male and female employees*2	Male: 44.7% Female: 55.3%
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*2. The gender ratio is calculated as the ratio of males and females to the number of full-time personnel.

◎Increasing the percentage of qualified employees

To support employees in acquiring the skills and knowledge necessary for their tasks, a one-time bonus is provided for obtaining certifications recognized by the company. Furthermore, a variety of training programs are implemented through external organizations.

As of August 31, 2023

Number of credentialed personnel					
Real estate brokers:	23	CMAs:	3	MBA's:	2
ARES Certified Masters:	22	First-class registered architects:	3	Attorney:	1
Certified Building Administrators:	5	Real estate appraisers:	3	Licensed Representative of Condominium Management Company:	1

◎Systems supporting work-life balance (maternity, childcare, and caregiving)

In addition to organizational support, training programs are designed to assist employees in achieving a balance between work and family life. The objective is to prevent them from being compelled to leave their positions due to childcare or caregiving responsibilities by providing the essential skills to sustain their work, along with insights from experienced colleagues.

Past seminars
•Training to learn how to balance caregiving and work responsibilities
•Seminar for women working with time constraints, including those returning from childcare leave and using flexible hours (working mothers).



Promote Attractive Urban Development in the Fukuoka and Kyushu Areas



Related Stakeholders

Clients/Tenants
Total tenants in all properties: 1,018

- Customer satisfaction surveys at retail facilities
- Tenant satisfaction surveys

Region and Society
Population of the 6 prefectures we have properties in: Approx. 11,722,000

- Organizing community and other events utilizing facility common areas
- Active participation in the Hakata Town Planning Promotion Council's activities
- Announcement of financial results by the Fukuoka Stock Exchange

Employees
Number of full-time officers and employees: 47

- Various employee education systems
- Employee satisfaction surveys
- Career interviews with employees

Unitholders/Financial Institutions
No. of unitholders: 14,164
No. of financial institutions we deal with: 22

- General Meeting of Unitholders
- Results briefings for investors
- 1-on-1 meetings (Japan and overseas)

Sponsors
Sponsors: 9

- Contribution of excellent properties
- Ongoing information exchange
- Human resource exchanges

Environment/Nature
Property location/Six prefectures (Fukuoka/Saga/Kumamoto/Oita/Kagoshima/Okinawa)

- Environmental preservation (Electricity and water conservation)
- Green Building certification

Glossary **TSR**
An abbreviation for Total Shareholder Return. This can also be called total shareholder (investor) yield and reflects combined capital gains and dividends, reflecting the overall investment yield for investors. [Calculation method] TSR (%): ((Dividend per unit + Increase in investment unit price) / Initial investment unit price) X 100

Note: As of August 31, 2023



Investment Strategy [See p.20](#)

Management Strategy [See p.21](#)

Financial Strategy [See p.22](#)

Fund procurement (financing)

Information communication (IR/SR)

Research

Human resources who are familiar with the area and have built trusting relationships collect high-quality information on properties from sponsors and the community

Strengths and characteristics of the value-creation process

- Property appraisal skills unique to a local person
- Robust network
- Market research and analysis

Related capital

- Intellectual capital (information-gathering ability)
- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation and collaboration)

Challenges and initiatives to further strengthen value creation

- Employment of exceptional human resources required for suitable business execution
- Asset portfolio expansion and realization of high occupancy rates

[See p.20](#)

Acquisition

Acquisition of excellent real estate in the Fukuoka and Kyushu areas through sponsor companies and local communities

- Discovery and acquisition of properties that can generate stable cash flow
- Improvement of property value

- Financial capital (financing ability)
- Manufacturing capital (excellent properties)
- Human capital (discerning eye, expertise)

- Diversification in fund procurement
- Discovery of excellent properties using networks we created

[See p.20](#)

Management

Constant forward-looking management with an attention to detail unique to a region-specific REIT

- Stable cash flow
- Derive maximum value from our real estate portfolio over the long term

- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation and collaboration)
- Natural capital (natural environment)

- Maintenance of NOI in existing properties
- Essential environmental initiatives

[See p.21](#)

Management, Valuation, and Sales/Replacement

Portfolio management from a medium- to long-term perspective and appropriate financial strategies

- Sound financial position
- Realization of stable distributions and dividends

- Financial capital (management know-how/performance)
- Human capital (know-how)
- Social relationship capital (relationships of trust, cooperation, and collaboration)

- Management focused on long-term fixed interest rate entities and financial stability
- Management that emphasizes the best interests of unitholders

[See p.22](#)

Related Stakeholders

Clients/Tenants
Total tenants in all properties: 1,018

- Customer satisfaction surveys at retail facilities
- Tenant satisfaction surveys

Region and Society
Population of the 6 prefectures we have properties in: Approx. 11,722,000

- Organizing community and other events utilizing facility common areas
- Active participation in the Hakata Town Planning Promotion Council's activities
- Announcement of financial results by the Fukuoka Stock Exchange

Employees
Number of full-time officers and employees: 47

- Various employee education systems
- Employee satisfaction surveys
- Career interviews with employees

Unitholders/Financial Institutions
No. of unitholders: 14,164
No. of financial institutions we deal with: 22

- General Meeting of Unitholders
- Results briefings for investors
- 1-on-1 meetings (Japan and overseas)

Sponsors
Sponsors: 9

- Contribution of excellent properties
- Ongoing information exchange
- Human resource exchanges

Environment/Nature
Property location/Six prefectures (Fukuoka/Saga/Kumamoto/Oita/Kagoshima/Okinawa)

- Environmental preservation (Electricity and water conservation)
- Green Building certification

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

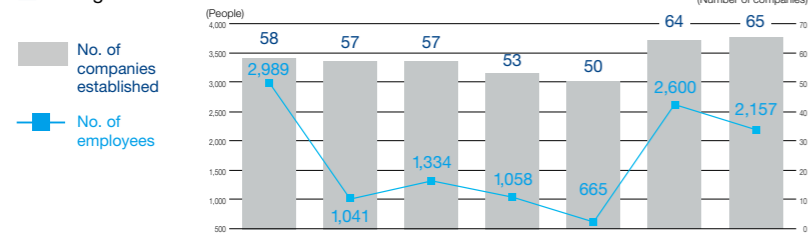


Fukuoka City launched TEAM FUKUOKA with the aim of attracting international financial functions to the city by conducting promotional activities and creating an environment that will generate momentum for the city (in September 2020).

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 established offices in Fukuoka City. The E.SUN Bank's Fukuoka Branch and NN Life Insurance Co., Ltd.'s Technology Operations Center Fukuoka were opened on September 1, 2023.

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	FY2022
Creative-related industries	28	40	38	38	30	41	47
Foreign/foreign-affiliated	18	13	14	15	12	15	12
Call center	12	9	7	2	8	8	6
Headquarters functions, etc.	3	1	7	6	0	7	5
International finance	-	-	-	-	-	6	7

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

Note: The breakdown of figures for companies established includes some overlapping data.

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



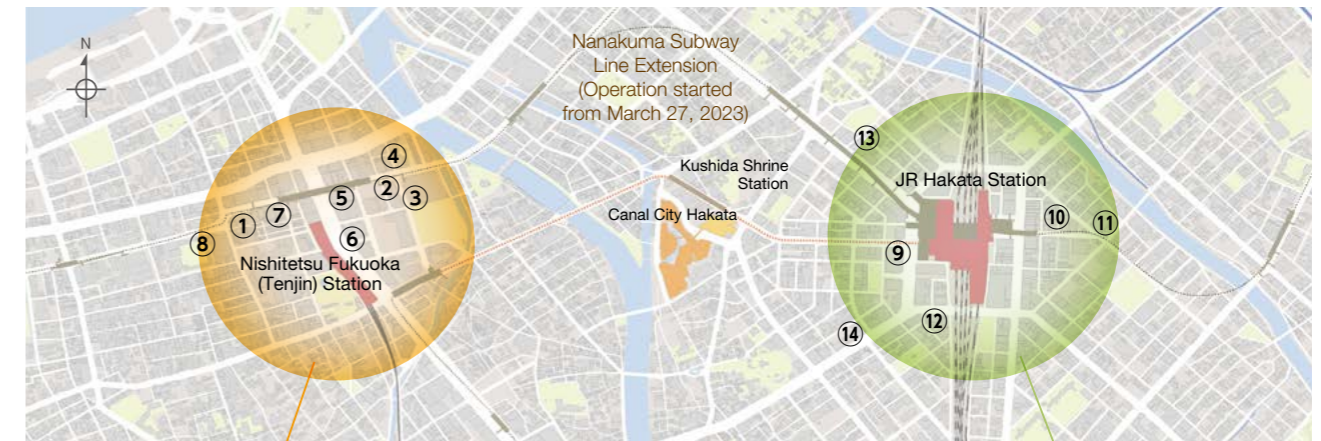
Source: Prepared by Fukuoka Realty based on data from "The general condition of the Fukuoka City Economy, March 2023" by the Fukuoka City Economy, Tourism & Culture Bureau.

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/Tenjin Nishi-dori Business Center Reconstruction Project (provisional name)	May 2025 (scheduled)
② Tenjin Business Center	September 2021
③ Tenjin Business Center Phase 2 Project (provisional name)	June 2026 (scheduled)
④ Tenjin 1-chome North 14th Block Building (provisional name)	March 2025 (scheduled)
⑤ New Fukuoka Building (provisional name)	December 2024 (scheduled)
⑥ Tenjin 1-7 plan (provisional name)	March 2026 (scheduled)
⑦ Hulic Fukuoka Building Rebuilding Project (provisional name)	December 2024 (scheduled)
⑧ Fukuoka Daimyo Garden City	March 2023

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

② Deregulation of floor space ratios (Fukuoka City original)

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

Hakata Connected

Redevelopment Projects

Name	Completion month
⑨ The Nishi-Nippon City Bank Head Office Main Building Reconstruction Project	February 2025 (scheduled)
⑩ CONNECT SQUARE HAKATA	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)
⑭ Hakata Ekimae 3-chome Project (provisional name)	June 2025 (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 expansion of 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 experience 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.30</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.31</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
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.2-3 See pp.40-41</p>

● Measures to Address Risks ● Opportunities

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 pp.22-23</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 the Asset Management Company.

Investment Strategy

Investment
Department



Executive Officer and
General Manager of the
Investment Department
Hideya Kanno

In this context, leveraging our local expertise in information gathering and property assessment, we successfully acquired three properties after March 2023: an existing office building, Kumamoto East Front Building; a new rental apartment, Axion Befu-Ekimae Premium; and a newly built A-class office building, the Hakata FD Business Center. The Hakata FD Business Center is a newly built office building that we acquired from our sponsor, Fukuoka Jisho Co., Ltd. We have demonstrated our leasing capabilities by attracting high-quality tenants and have initiated operations with an occupancy rate that surpasses our initial expectations, with a promising future occupancy rate ahead. The Kumamoto East Front Building is a strategically located office building in Kumamoto City, and we have high expectations for its future value appreciation, considering the potential for new industrial developments and urban revitalization in Kumamoto. In addition, the new rental apartment, Axion Befu-Ekimae Premium, is conveniently situated near Befu station of the subway Nanakuma Line, which has been extended to Hakata Station, and is constructed to condominium specifications. This strategic location enables us to promptly capitalize on the potential upside resulting from the improving environmental changes. Through these investments, we believe we can expand our portfolio, further diversify risk, and achieve stability in medium- to long-term real estate operations.

Furthermore, we are actively researching new industrial developments and associated facility investments in the Kyushu region as part of our future investment plans. Our efforts also extend to exploring potential property acquisitions, which involve gaining in-depth insights into prime location conditions through on-site assessments. In addition, we actively collaborate with experts to conduct research on the competitiveness of various industries in the Kyushu region, their future trends, and the ripple effects on other sectors. These efforts aim to facilitate preparatory investments for acquiring excellent properties in the future while avoiding excessive competition.

We are also proactively addressing another recent concern: the environmental performance of real estate. Alongside supporting major initiatives, we focus on researching properties with strong sustainability prospects and enhancing their environmental performance post-acquisition. We also monitor the increasing environmental consciousness among tenants.

We will continue our investment activities with the aim of achieving stable medium- to long-term growth for our investors and contributing to the economic revitalization of various regions through our investments and operations.

The Investment Department's goal is to acquire excellent properties that generate stable cash flow over the medium to long term, which is a feat not easily achievable through investments from outside the region. We achieve this by focusing on information gathering, building relationships with local communities, and conducting property observations rooted in our investment target areas, leveraging the unique advantages of a region-specific REIT.

The real estate market in the Kyushu region, especially in Fukuoka City, continues to see active investment. This can be attributed to ongoing urban development, including large-scale redevelopment projects and the opening of new subway station, as well as positive macroeconomic indicators and stable demand for rental properties. In addition, there is a surge in facility investments in related industries, primarily driven by the establishment of semiconductor factories in Kumamoto. This has led to active investment in various parts of Kyushu, including residential development, logistics facility construction, and new factory projects. However, rising land prices due to active real estate transactions, increasing construction costs caused by supply-demand imbalances, and anticipated interest rate hikes could pose challenges in ensuring the profitability of future real estate development projects. In this environment, acquiring investment properties that can generate sufficient returns is becoming increasingly difficult each year.

Management Strategy

Real Estate
Management
Department



General Manager of the
Real Estate Management
Department
Kuniaki Mishima

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.

While real estate prices in the market continue to exhibit strength, the REIT market has shown a somewhat weaker trend, compounded by the onset of rising interest rates, creating a challenging external growth environment. Consequently, prioritizing a strategy centered on medium- to long-term internal growth becomes imperative. In 2023, as the impact of the COVID-19 pandemic gradually subsides and our overall portfolio transitions toward normal operations, we executed a range of initiatives aimed at preserving and enhancing the long-term value of our property portfolio.

In Canal City Hakata's South Building, where renovations have taken place since January 2023, Alpen FUKUOKA,

Park Place Oita



Canal City Hakata Alpen FUKUOKA

the largest sports superstore in Western Japan, opened its doors in September. It commenced operations as a new cornerstone for expanding the local sports culture and invigorating the sports community. Moreover, as the next step based on our medium- to long-term business strategy, we are actively advancing renovation plans for the B1F dining zone in the Grand Building, aiming to elevate the overall culinary experience of the facility. Meanwhile, at Konoha Mall Hashimoto, we initiated restroom renovations, prioritizing environmental enhancements and upgrades, resulting in the refreshing of selected restroom facilities. Across all our retail facilities, including Park Place Oita, we have reinstated customer engagement and promotional events to pre-pandemic levels, bringing delight to a diverse array of visitors.

In our office buildings, we promptly completed planned backfilling in existing properties following the departure of certain major tenants in the previous year. For office buildings acquired this fiscal year, we are engaged in planned leasing efforts aimed at achieving full occupancy in a timely manner. From both construction and environmental performance perspectives across all asset types, we are advancing updates in essential facilities, including water supply, drainage, and air-conditioning systems, and transitioning to LED lighting and making external wall improvements. Our commitment lies in ensuring the safety and security of our facilities, enhancing their performance, and pursuing energy conservation measures to maintain their competitiveness.

From an ESG perspective, we have implemented flexible operating hours and store closure policies in some of our retail facilities to improve the working conditions for our tenants aimed at providing a comfortable environment for tenant employees. We plan to continue placing even greater emphasis on sustainability and further promoting environmental initiatives within our portfolio. This includes ongoing efforts to assess and reduce greenhouse gas emissions and waste.

Finance Department



Executive Officer and General Manager of the Finance Department
Hiroyuki Ayabe

perspective of building a solid financial base. The interest-bearing debt ratio at the end of August 2023 was 42.4%. 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 the yield curve. Specifically, as we continue to diversify our repayment schedules, we will implement measures such as 1) adjusting financing periods, 2) optimizing the fixed-to-floating interest ratio, and 3) securing lower spreads to effectively manage our financing costs. Furthermore, we are committed to diversifying our funding sources while maintaining strong relationships with our three sponsor banks, regional banks primarily in Kyushu, and major financial institutions, including mega banks.

Moreover, we are actively incorporating considerations for SDGs and ESG challenges from a financial perspective, contributing to the resolution of environmental and social issues. Our past financial activities are as follows.

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
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
September and October, 2023	Secured a 12.4 billion yen green loan to fund the acquisition of the Hakata FD Business Center in September 2023

The capital strategy for a J-REIT is to target external growth, one of our key drivers, by identifying trends and timing in the securities markets and raising capital accordingly to capitalize on opportunities. We will carefully consider the balance between the growth of distributions after capital raising and LTV control, aiming to ensure high-quality management of both capital and debt.

Investor Relations (IR) Activities

In addition to compiling various types of information crucial for investment decisions, our primary focus is on providing a consistent flow of timely, equitable, accurate, and easily comprehensible information, which forms the core principle of our IR activities. Specifically, we aim to enhance our content by proactively disclosing more non-financial information that goes beyond income statements or balance sheets. This includes

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 shareholders relations (SR) and public relations) activities to convey FRC's situation in a timely, fair, and accurate manner.

The reclassification of COVID-19 from Category 2 to Category 5 under the Infectious Diseases Control Law has led to a reduced impact on the real estate sector. As of August 2023, the stock market has seen significant positive performance, with all 33 sectors experiencing increases of more than 10% compared to the beginning of the year. In contrast, the Tokyo Stock Exchange REIT Index has remained relatively stable, showing little change since the beginning of the year.

While the Bank of Japan is expected to continue its price stability target of 2% and quantitative and qualitative monetary easing with yield curve control policies, the markets are pricing in future interest rate hikes. As such, I believe that it is necessary to practice financial management with an ongoing 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

showcasing our strengths as a REIT specializing in regional properties and highlighting the real estate landscape in Kyushu and Fukuoka. I believe that these efforts will foster a deeper mutual understanding with all unitholders, establish trust-based relationships, and pave the way for attracting external investment funds from various regions of Japan and abroad into Kyushu and Fukuoka.

Before the COVID-19 pandemic, we conducted more than 200 face-to-face meetings with institutional investors each year. However, in the current environment, we have transitioned to a hybrid approach for our IR activities, which includes a combination of in-person, web-based, and telephone meetings, aiming to maintain the number of interactions.

In June 2023, we held an in-person briefing session for individual investors in our local Fukuoka area for the first time in four years, with 44 participants joining us. In December, we will conduct a similar briefing session for individual investors in Tokyo. We also participated in conferences organized by securities firms and held a total of 15 face-to-face meetings with overseas investors in November, marking the first such meetings in four years.

To ensure the best interests of our investors, we will continue to work on financial and capital strategies with a long-term perspective. We will also strive to communicate our efforts clearly through our website, financial briefing documents, integrated report, and other materials.

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 3.7% 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.

Table 1 and Figure 2 show the total shareholder return (TSR), taking into account FRC's dividends and capital gains. TSR performance has been 9.9% annually over the past 10 years. In contrast, returns have remained flat over the past year as the TSE REIT Index weakened.

Figure 1. Past Dividends and Dividend Yields

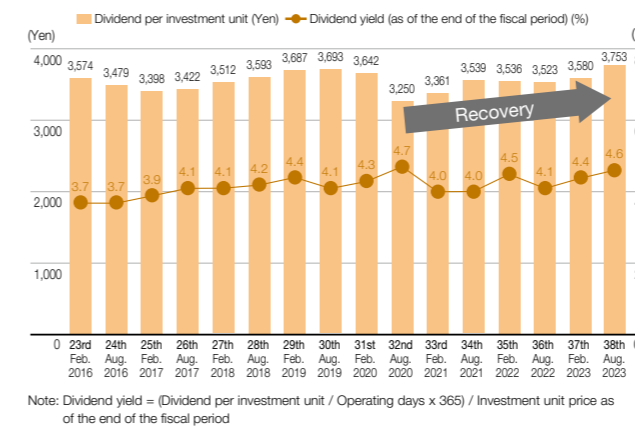
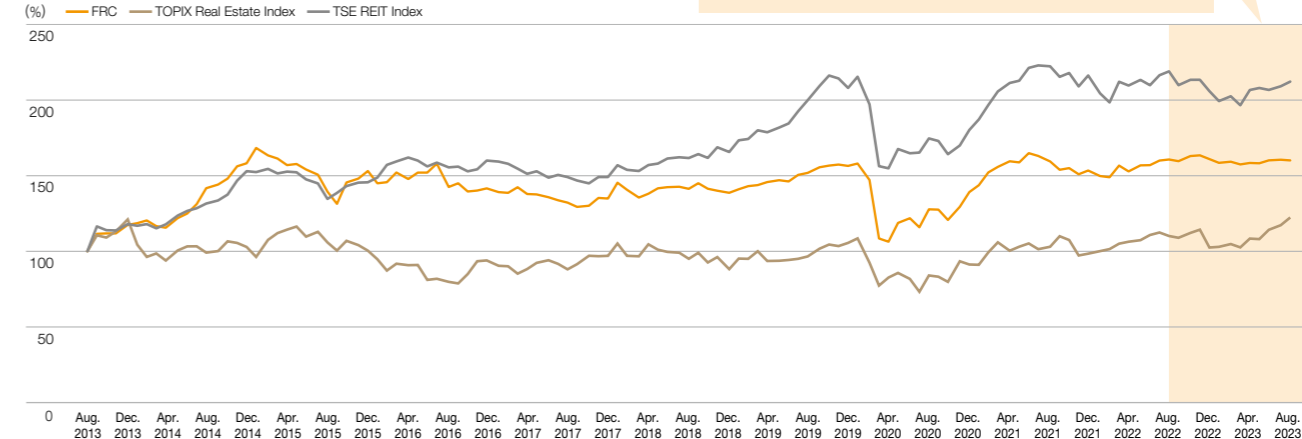


Table 1. TSR Over the Past 10 Years

	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	-0.5%	39.4%	11.7%	16.0%	3.0%	60.1%	9.9%
TOPIX Real Estate Index	11.1%	45.6%	13.3%	28.7%	5.2%	22.4%	4.1%
TSE REIT Index	-3.1%	21.5%	6.7%	31.3%	5.6%	112.2%	16.2%

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

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, 2013, 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, 2023. 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, 2022, as 100.

Who We Are

Growth Strategy

Sustainability

Data Section

Role of the Planning Department

The Planning Department oversees matters related to corporate policies, general affairs and human resources, accounting, and sustainability as its delegated responsibilities. Understanding the overall activities of the Asset Management Company and guided by the fundamental principle of “Act Local, Think Global,” we believe it is essential to create an environment where all employees can contribute to regional revitalization and the creation of an attractive community.

Organizational Approach to Sustainability

In 2018, to promote sustainability through consideration for environmental, social, and governance (ESG) factors, FRC established the Sustainability Policy and Regulations Concerning Sustainability Management. We also formed the Sustainability Promotion Committee, consisting of full-time directors, executive officers, and department heads, to oversee these efforts. The committee is responsible for

establishing internal structures, collaborating with external stakeholders, considering specific goals and measures related to information disclosure policies, and monitoring the progress of implementation initiatives. The practical responsibilities for goals determined by the committee are held by the Sustainability Officer, with the general manager of the Planning Department overseeing the role.

Sustainability Initiatives and GRESB

Since going public, we have been actively pursuing sustainability initiatives, including obtaining DBJ Green Building certification. In our overseas investor relations activities in 2017, we began to receive increasing inquiries from investors about ESG. Recognizing the need to align with global standards, we decided to participate in GRESB in 2017 to further promote our initiatives in sustainability.

In our efforts to set goals for sustainability initiatives, we sought to deepen our understanding of ESG and sustainability with various stakeholders, including inviting investors, analysts, and issuers engaged in innovative practices to an IR workshop held with the Japan Investor Relations Association to impart knowledge on non-financial information disclosure. We have also endorsed the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21).

Through such initiatives, we will continue to conduct asset management with a focus on sustainability, aiming to contribute to the promotion of urban development and revitalization of the local economy in Fukuoka and the Kyushu region as Japan’s first region-specific REIT.

In our first GRESB Real Estate Assessment in 2018, we earned a 4-star rating, maintaining GRESB evaluations annually since. In 2023, as in 2022, we achieved a 4-star rating in the GRESB Real Estate Assessment, along with a Level A rating in the GRESB Disclosure Assessment.



In 2023, marking the sixth year, we conducted a comprehensive organizational review and fortified our framework in order to advance sustainability through consideration for environmental, social, and governance (ESG) for the realization of a sustainable society. Over the past five years, we have undertaken a range of activities to drive our sustainability agenda forward. These activities include (1) identifying materiality (key issues) and establishing goals and KPIs for each materiality; (2) obtaining external certifications from organizations such as GRESB, DBJ Green Building, and CASBEE; (3) demonstrating our commitment to sustainability by endorsing initiatives such as the Principles for Responsible Investment (PRI), the Principles for Financial Action for the 21st Century (PFA21), and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations; (4) pursuing sustainability finance; (5) engaging in community activities rooted in the Fukuoka region; and (6) implementing initiatives directed toward our employees and tenant staff.

I was involved in the property management of retail facilities until I assumed my position at Fukuoka Realty in June 2023. In Kitakyushu’s retail facilities, we actively participated in sustainability initiatives, including waste sorting into 14 categories for recycling. In Fukuoka and Oita, we implemented on-site measures, such as reusing kitchen wastewater and rainwater, along with the adoption of LED lighting to enhance our energy efficiency efforts. In addition, we organized activities such as clothing collection, food drives, and the sale of non-standard vegetables at on-site events in retail facilities. I look forward to continuing our sustainability efforts from an on-site perspective.

FRC is a region-specific REIT with strong ties to Fukuoka and Kyushu. In identifying materiality, we have incorporated an emphasis on contributing to the local community. Our commitment to fostering connections with the local community is evident through active participation in area management organizations such as the Hakata Town Planning Promotion Council, as well as involvement in local events such as the Hakata Gion Yamakasa Festival and the Hakata Dontaku Festival. In the Kyushu region, we have consistently implemented the corporate version of the hometown tax program since fiscal 2020, extending our participation beyond Fukuoka to include Saga Prefecture, Oita Prefecture, Kumamoto Prefecture, Kagoshima Prefecture, and Okinawa Prefecture every year.

Our current primary focus is on addressing climate change risks. In September 2022, we expressed our support for the TCFD and concurrently joined the TCFD Consortium. We are now organizing disclosures based on the TCFD recommendations, which encompass Governance, Strategy, Risk Management, and Metrics and Targets. We are also setting climate-related scenarios, conducting impact assessments for each scenario, and actively considering strategies to address them. Given the significant changes in recent abnormal weather patterns, we recognize this as a crucial issue.

In this integrated report, we disclose our CO₂ emissions (Scope 1 + 2). In terms of reducing CO₂ emissions, we have set a goal to achieve a 35% reduction by 2030 (compared with 2019 levels). Calculating emissions within FRC’s supply chain is a complex endeavor, and as we transition into the phase of implementing

Planning
Department



Executive Officer in charge of Planning
Department and General Manager of
Sustainability Promotion Office

Keiichi Shimoda

emission reduction measures, it becomes imperative to engage multiple business partners and affiliated companies in these efforts. We acknowledge that the challenges are multifaceted, as this is not a task that can be solely accomplished within our organization. Regarding materiality, we identified issues that are deemed highly important for both society and stakeholders, as well as critical for business continuity through discussions at the management level, validation, and approval of their relevance. Moving forward, we aim to assess the changes in the social and environmental landscape, consider the current evaluations, and explore the items subject to materiality review. We will continue to proactively engage in activities that prioritize sustainability.

Chronology of FRC Initiatives

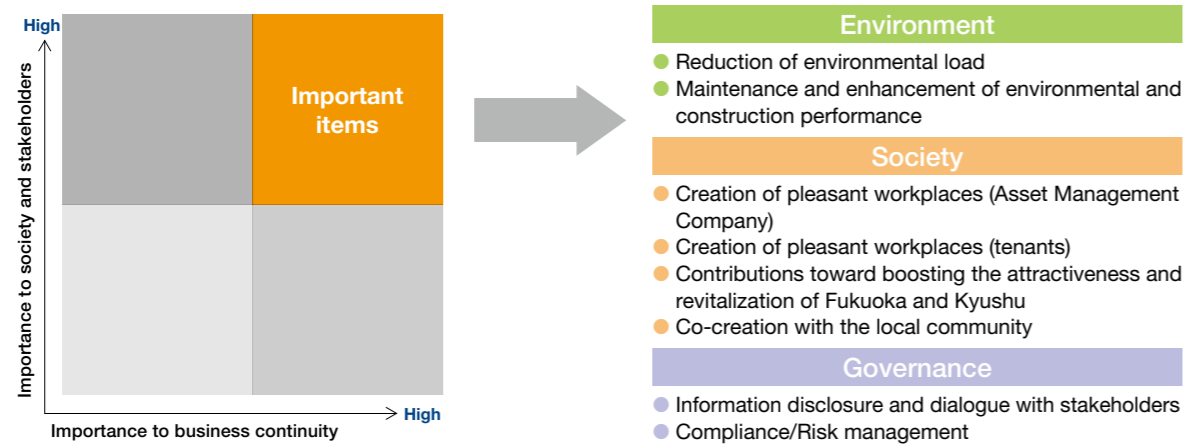
2018	Establishes Sustainability Policy Creates Sustainability Promotion Committee Announces GRESB evaluation results Signs and registers with PRI Signs and registers with PFA21 Certified as a "Fukuoka 'Work Style Reform' Promotion Company"
2019	Issues integrated report Identifies materiality Implements sustainability finance
2022	Registers as a "Master" in the Fukuoka City Well-Being & SDGs Registration System Endorses TCFD recommendations Joins TCFD Consortium
2023	Registers with the Fukuoka Prefecture SDGs Registration System

Fukuoka REIT Corporation and Fukuoka Realty Co., Ltd., consider it essential to take into account environmental, social, and governance (ESG) factors in addition to pursuing profitability to achieve the best interests of unitholders over the medium to long term. Accordingly, we strive to respond to various ESG-related issues within our real estate investment and management processes.

Identifying Materiality

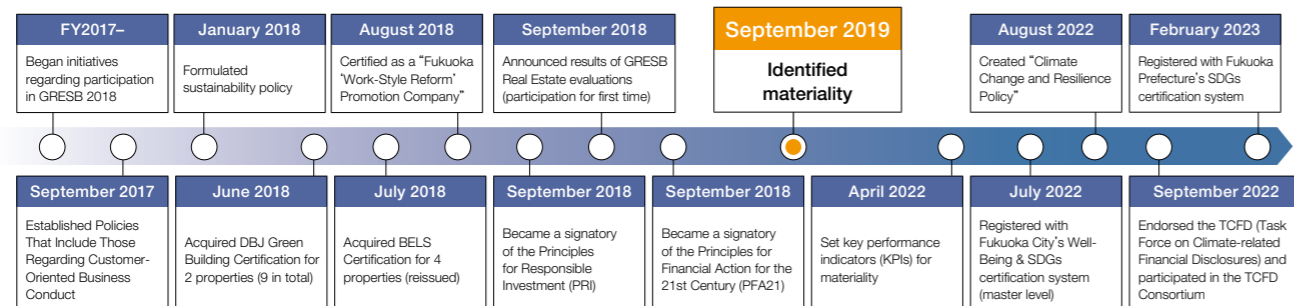
Fukuoka Realty, the Asset Management Company, has identified materiality (important issues to address) in its sustainability initiatives based on the demands and expectations of stakeholders and the expected impact on and importance to FRC's business.

Mapping of Issues

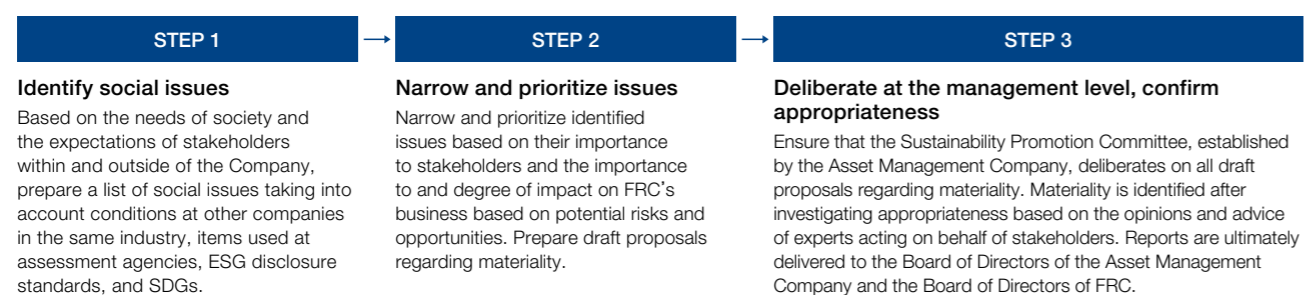


We have identified eight material issues through the process below from environmental, social, and governance perspectives that are of high importance to society and stakeholders and to business continuity.

Historical Background to Identification of Materiality



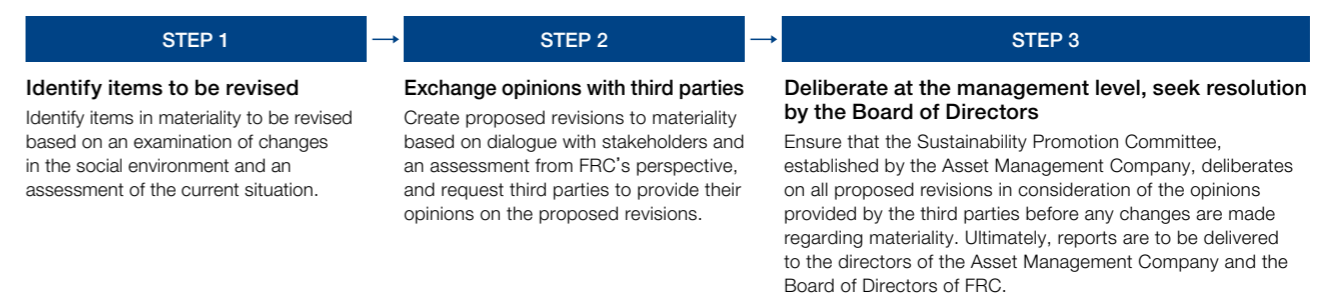
Process for Identifying Materiality



Materiality

	Materiality	Policies and targets	KPIs and targets	Related SDGs
Environment	Reduction of environmental load	<ul style="list-style-type: none"> Coordinate with Property Management and Building Management on promotion of management and reduction of energy consumption, greenhouse gas emissions, water consumption, and waste output See p.24 See p.28 	<ul style="list-style-type: none"> (by 2030) 35% reduction in CO₂ emissions (compared with 2019, basic unit), 75% waste recycling rate 	
	Maintenance and enhancement of environmental and construction performance	<ul style="list-style-type: none"> Carry out performance and function evaluation of properties on a regular basis and ameliorate any deterioration in performance Maintain and improve competitiveness by acquiring green building certifications and through visual representation of building performance See p.31 	<ul style="list-style-type: none"> (by 2030) 85% Green Building Certification rate or higher 	
Society	Creation of pleasant workplaces (Asset Management Company)	<ul style="list-style-type: none"> Improve quality of operations by enhancing and expanding employee education systems and promoting acquisition of qualifications Continue to improve office environments and work on providing pleasant working environments Give consideration to a work-life balance and boost employee satisfaction 	<ul style="list-style-type: none"> Training per employee (number of times) Improve office environment (number of cases) 	
	Creation of pleasant workplaces (tenants)	<ul style="list-style-type: none"> Promote improvement of employee satisfaction and work toward increasing job satisfaction of tenant employees See p.36 	<ul style="list-style-type: none"> Conduct regular tenant satisfaction surveys (all properties) 	
	Contributions toward boosting the attractiveness and revitalization of Fukuoka and Kyushu	<ul style="list-style-type: none"> Enhance dissemination of information regarding strengths and charms of Fukuoka and Kyushu Support research and studies on the local economy and industries and promote attractive urban development in collaboration with local business circles See p.37 	<ul style="list-style-type: none"> Join and participate in local economic organizations Host local community events (number of times) 	
	Co-creation with the local community	<ul style="list-style-type: none"> Deepen dialogue and collaboration with local communities through participation in community activities and various initiatives using properties under our management to grow and develop together with the local community 	<ul style="list-style-type: none"> Join and participate in area management organizations Continued participation in activities that contribute to the community (number of times) 	
Governance	Information disclosure and dialogue with stakeholders	<ul style="list-style-type: none"> Disclose financial and non-financial information to stakeholders in an appropriate and timely manner Build relationships of trust through proactive dialogue with stakeholders and reflect stakeholder feedback in the management strategy See p.38 	<ul style="list-style-type: none"> Dialogue with investors (number of times) Employee ESG training (number of times) 	
	Compliance/Risk management	<ul style="list-style-type: none"> Ensure thorough compliance including compliance with laws and ordinances and elimination of conflicts of interest with interested parties, and develop and operate an appropriate internal risk management system to maintain and improve corporate value See p.39 	<ul style="list-style-type: none"> Compliance training (number of times) 	

Process for Revising Materiality



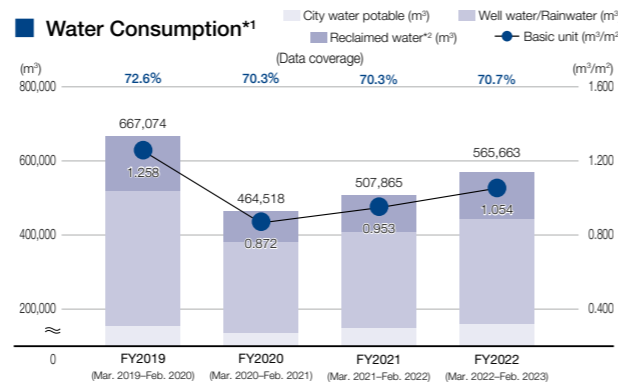
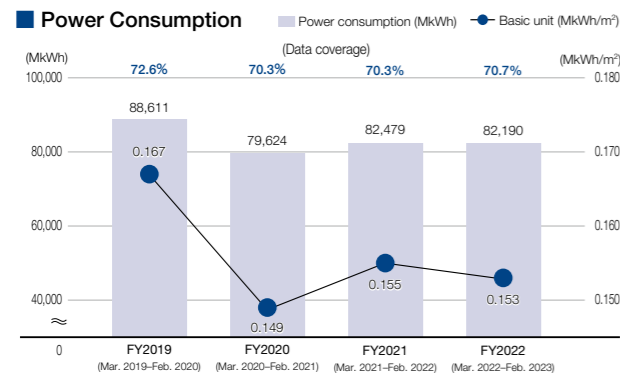
Related Materiality
 • Reduction of environmental load

Environmental Performance Data

GHG Emissions (Scope 1 + 2)	FY2019	FY2020	FY2021	FY2022
CO ₂ emissions intensity (t-CO ₂ /m ²)	0.0517	0.0466	0.0458	0.0439
Scope 1 + 2 (t-CO ₂)	11,059	9,986	9,260	8,815
Scope 1 t-CO ₂	60	64	53	53
Scope 2 t-CO ₂	10,999	9,923	9,207	8,762

For the fiscal period ended February 2023, CO₂ emissions were reduced by 15.1% compared with the fiscal period ended February 2019.

* The properties covered by Scope 1 + 2 include 21 buildings, comprising five retail facilities, nine office buildings, two logistics facilities, and five residential properties.
 * The emissions intensity for the entire Scope 1 + 2 portfolio is calculated by dividing the total emissions of the covered properties by their total floor area (common areas).



For fiscal 2022, power consumption was reduced by 8.3% and water consumption was reduced by 16.2% compared with fiscal 2019.

Note: Total value for 15 properties, including five retail facilities, nine office buildings, and one logistics facility. Basic unit is calculated by adjusting the total floor area (m²) by the occupancy rate. Data coverage is the area ratio of properties subject to data aggregation as compared to all properties in the portfolio (excluding land) as is calculated at the end of the period. The figure for Canal City Hakata, Canal City Hakata-B, and Canal City Business Center Building reflects total power and water consumption for the entire Canal City Hakata complex, including power and water consumption for certain theater and hotel areas not owned by the Investment Corporation. The figure for Park Place Oita covers only the main building section and excludes the section for independently run stores. The figure for Taihaku Street Business Center covers only the office tower and excludes the residential tower. Water consumption excludes some well water volumes for which data cannot be obtained.

*1. Includes treated water volume.
 *2. Includes externally purchased greywater.

Environmental Initiatives

Retail facilities

Natural Environment Conservation and Creation

At Canal City Hakata and Park Place Oita, we are making efforts to coexist with various natural environments by providing green space in communal areas, installing aquatic spaces, and creating shaded spaces. We are creating habitats for wild fauna and flora that contribute to the preservation of biodiversity, as well as providing places where employees and visitors can relax and interact with nature.



Retail facilities

Greywater Plant (kitchen drainage reuse system)

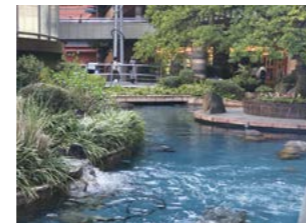
At Canal City Hakata and Konoha Mall Hashimoto, kitchen wastewater discharged by restaurants is collected and processed as reclaimed water. It is then used as tap water in on-site restrooms.



Retail facilities

Canal Water Filtration System (rainwater reuse system)

Canal City Hakata's symbolic canal has both a recreational function and is a source of water to fight fires in the case of an emergency. At all times, this canal holds roughly 1,200 tons of water, and rainwater is used to conserve resources.



Retail facilities

Introducing Renewable Energy Equipment

At Konoha Mall Hashimoto, we have installed solar panels on the rooftops to generate renewable energy and contribute to the formation of a recycling-based society.



Office buildings

Energy-Saving Measures by Switching to LED lighting

We are focusing on shifting to LED-based lighting in each property to reduce energy consumption.

<Office buildings already converted to LED>

- Gofukumachi Business Center (e.g., interior shared spaces, some external areas, exterior wall lighting)
- Sanix Hakata Building (interior recessed lighting)
- Taihaku Street Business Center (e.g., entrance, interior shared spaces)
- Tenjin North Front Building (common spaces)



Example of shifting to LED lighting at Sanix Hakata Building

Others (logistics facilities)

Introducing Renewable Energy Equipment

At LOGICITY Minato Kashii and LOGICITY Hisayama, we have installed solar panels on the rooftops to generate renewable energy and contribute to the formation of a recycling-based society.



Solar panels



LOGICITY Hisayama

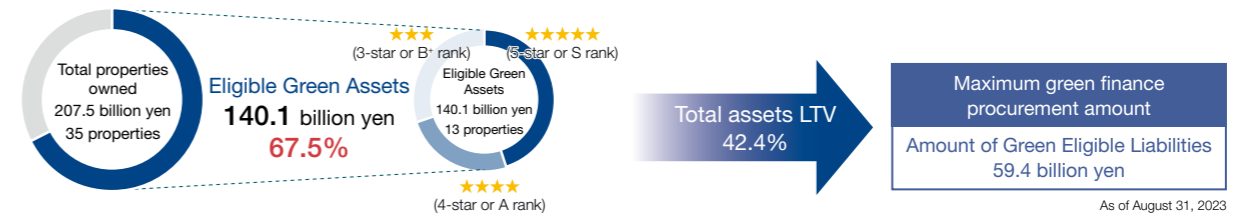
Green Finance

With the goal of further promoting ESG activities and expanding financing options through an enhanced investor base, FRC established the Green Finance Framework in 2019 in line with the Green Bond* Principles 2018, the Green Bond* Guidelines 2017 from the Ministry of the Environment, and the Green Loan Principles to ensure implementation of green financing, including sustainability linked loans* and green loans*. The funds procured through green finance will be allocated toward the acquisition of Eligible Green Assets, the repayment

of borrowings required in the acquisition of Eligible Green Assets, or the redemption of Investment Corporation bonds issued and outstanding.

Eligible Green Assets are specified assets held by FRC that have received or are scheduled to receive one of the following certifications from third-party organizations at the time of procurement or the reporting date.

- (1) DBJ Green Building certification of 3, 4, or 5 stars
- (2) CASBEE certification of S, A, or B+ rank
- (3) BELS evaluation of 3, 4, or 5 stars



After procuring green finance, FRC will announce the total amount of Eligible Green Assets, the amount of related liabilities, and the amount of funds from green finance as of the end of each fiscal period (February and August each year). FRC will also announce the following indicators related to Eligible Green Assets as of the end of February each year.

• The number of properties classified as Eligible Green Assets, and the number and type of environmental certifications obtained.

Sustainable Finance (Actual)

Type	Lender	Amount (Millions of yen)	Interest rate	Procurement date	Term	Summary
Long-term loan (green loan)	Mizuho Bank, The Bank of Saga, Higo Bank	2,200	0.52100%*1	July 31, 2019	10 years	Green loan assessment: Green 1 ²
Long-term loan (donation loan)	Juhachi-Shinwa Bank	1,000	0.59000%	March 31, 2021	10 years	A portion of the interest is donated as funds for research on the development of a new coronavirus vaccine at Nagasaki University.
Long-term loan (green loan)	Sumitomo Mitsui Banking Corporation	1,600	0.72625%	June 30, 2022	7 years	Green loan assessment: Green 1 ²
Long-term loan (sustainability linked loan)	Development Bank of Japan, The Nishi-Nippon City Bank, The Bank of Fukuoka	4,900	0.91875%*3	August 31, 2022	10 years	Third-party opinion on sustainability linked loan*4
Long-term loan (green loan) NEW	Sumitomo Mitsui Trust Bank	900	0.50100%	July 31, 2023	5 years	Green loan assessment: Green 1 ²
Long-term loan (green loan) NEW	Sumitomo Mitsui Trust Bank	600	0.82900%	July 31, 2023	8 years	Green loan assessment: Green 1 ²
Long-term loan (green loan) NEW	Development Bank of Japan	2,000	0.83750%	August 31, 2023	6 years	Green loan assessment: Green 1 ²
Long-term loan (green loan) NEW	Development Bank of Japan	2,000	0.90689%	August 31, 2023	6.5 years	Green loan assessment: Green 1 ²

*1. FRC has concluded a swap agreement to establish a fixed interest rate on debt. The indicated interest rate reflects the effects of the swap agreement.
 *2. FRC has received the highest "Green 1" rating from Japan Credit Rating Agency for our adherence to the Green Loan Principles.
 *3. In case the CO₂ reduction target is achieved, the preferential interest rate from the initial borrowing will be applied from August 2031 until the repayment date.
 *4. FRC has obtained a third-party opinion from Japan Credit Rating Agency.

Glossary
Sustainability linked loan
 A loan that encourages the borrower to achieve ambitious Sustainability Performance Targets (SPTs).
Green loan
 A loan in which the use of funds is limited to environmentally friendly businesses.

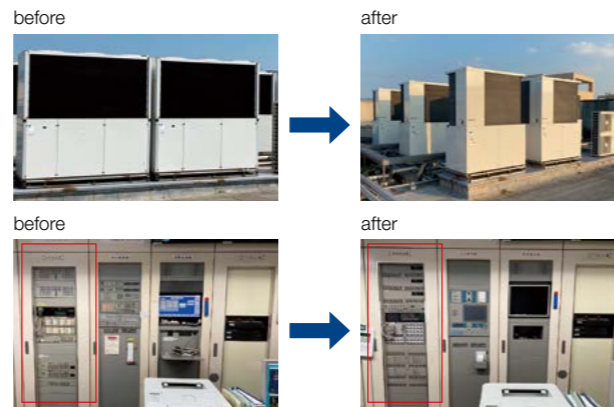
Green bonds
 Bonds issued by companies and local governments in order to raise the funds for green projects in Japan and overseas.

Initiatives for Facility and Building Management

Individual Facility Initiatives

Retail facilities GHP air-conditioning system update NEW

In Park Place Oita, the update to an energy-efficient GHP air-conditioning system contributed to the reduction of running costs and CO₂ emissions.



Office buildings Disaster prevention amplifier update NEW

At the Gofukumachi Business Center, we have upgraded the disaster prevention amplifier, specifically updating the automatic fire alarm receiver (emergency broadcast panel). This enhancement enables early detection and evacuation guidance through audible alerts in the event of a fire, playing a crucial role in ensuring the safety and security of tenants.

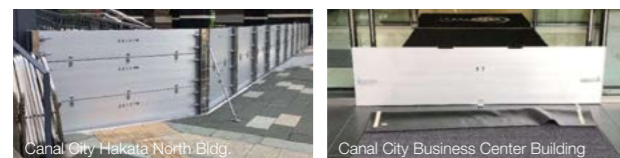
Initiatives for Disaster Risk

Countermeasures to Flooding Risks

Severe damage from flooding in Fukuoka City on June 29, 1999, contributed to the formulation of the Storm Water Management Action Plan and the upgrading of rainwater drainage facilities in the areas where the flooding was particularly harsh. Ongoing efforts to implement antiflooding measures have greatly improved flood safety within the city limits.

Replacing and Installing New Water Stops (July 2020)

We reviewed the specifications and installation locations of existing water stops throughout the Canal City Hakata premises and either repaired or installed equipment as part of our countermeasures to river flooding as a result of typhoons and locally heavy rains, which appear likely to come more frequently and increase in severity due to global warming.



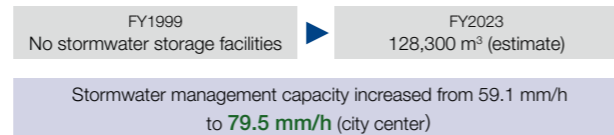
Earthquake Risk Countermeasures

Fukuoka Prefecture is an area in which there are relatively few earthquakes. According to the probabilistic earthquake prediction map from the Office of the Headquarters for Earthquake Research Promotion, Earthquake and Disaster-Reduction Research Division, Research and Development Bureau, Ministry of Education, Culture, Sports, Science and Technology, the probability of an earthquake with an intensity of six or greater over the next 30 years is lower in Fukuoka Prefecture than in the Kanto, Chubu, and Kansai areas. FRC establishes the insurance value of each property based on its replacement value, earthquake PML* value, and other factors, and maintains earthquake insurance for all its properties (buildings). In addition, FRC continues to conduct annual property surveys through external organizations to estimate earthquake damage to properties based on various scenarios.

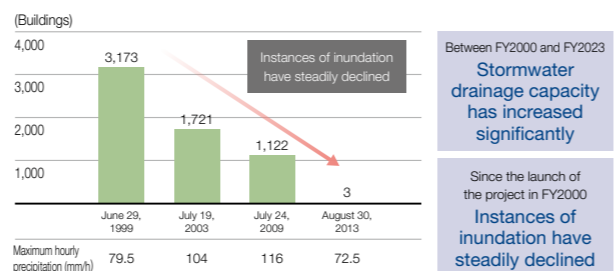
Glossary Earthquake PML

Refers to the probable maximum loss as a percentage of the expected maximum damage (Probable Maximum Loss) caused by an earthquake. The higher the PML value, the higher the building's seismic risk.
[Calculation method] PML = Expected maximum damage / Replacement cost

Capacity of Stormwater Storage Facilities of Fukuoka City



Inundation Instances of Fukuoka City



Source: Prepared by Fukuoka Realty based on data from the "Storm Water Management Action Plan 2026" pamphlet about the Fukuoka City StormWater Emergency Control Plan.

Other Disaster Prevention Measures

Emergency Drills

We have conducted comprehensive disaster drills at Canal City Hakata since 2017, with all tenants participating (not held in 2020 or 2021 due to COVID-19). The drills were conducted in November 2023.



Initiatives We Support and External Certifications

FRC makes continuous improvements through feedback on the results it receives from acquiring external certifications.

Endorsement of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

In September 2022, we announced our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB) to examine climate-related disclosures and how financial institutions should respond.

At the same time, we became a member of the TCFD Consortium, a group of companies in Japan that support the TCFD.



Other Initiatives We Support

In September 2018, Fukuoka Realty Co., Ltd., endorsed the basic philosophies of the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21) and became a signatory to these initiatives. Through ESG-conscious asset management, the company is contributing to the achievement

of a sustainable society.

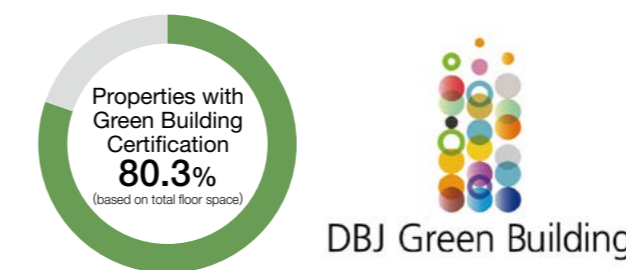
Signatory of:



Ratio of Properties Certified as Green Buildings

As of September 1, 2023, the ratio of properties within the entire portfolio certified as green buildings was 80.3%.

The DBJ Green Building Certification is a third-party certification system established by the Development Bank of Japan for real estate properties that feature excellent environmental and social considerations. FRC has acquired certification for 13 of its properties owned that exhibit environmental and social awareness (including six properties that were recertified in March 2022).



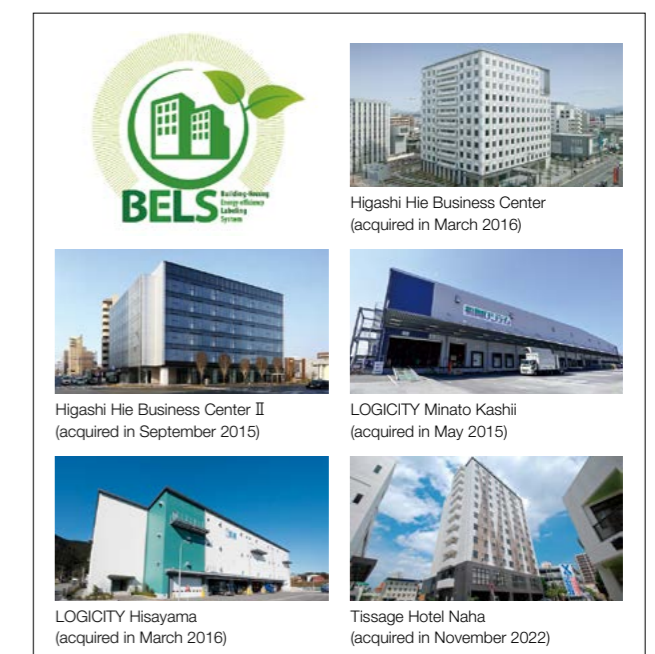
- ★★★★★ Canal City Hakata (2021)
Canal City Hakata-B (2021)
- ★★★★★ Park Place Oita (2021)
Konoha Mall Hashimoto (2020)
- ★★★★★ Hakata FD Business Center (2023)
Canal City Business Center Building (2021)
Gofukumachi Business Center (2021)
Higashi Hie Business Center (2021)
LOGICITY Minato Kashii (2020)
LOGICITY Hisayama (2020)
Higashi Hie Business Center II (2020)
- ★★★★ SunLive City Kokura (2019)
Marinoia City Fukuoka (Marina Side Building) (2019)

Participation in GRESB Assessment 2023

The Global Real Estate Sustainability Benchmark (GRESB) was established in 2009, primarily by leading European pension fund groups that endorse the Principles for Responsible Investment (PRI). GRESB serves as the annual benchmark assessment for measuring environmental, social, and governance (ESG) considerations in real estate companies and funds. The organization conducting and overseeing this assessment is also named GRESB. In the GRESB Real Estate Assessment conducted in 2023, FRC achieved a rating of 4 Stars and Green Star. In addition, we obtained the highest level, A Level, in the GRESB Public Disclosure Assessment.



In addition, the Building Energy-Efficiency Labeling System (BELS) is a system in which third parties evaluate, indicate, and certify the energy conservation performance of non-residential buildings, based on the Evaluation Guidelines for the Building Energy-Efficiency Labeling System for Non-Residential Buildings (2013). FRC has acquired certification for five of its properties owned.



FRC's Recognition of Climate Change

In the Asset Management Company, we acknowledge the scientifically proven progression of climate change, as outlined in the Paris Agreement (2015), the IPCC Special Report (2018), and the IPCC Sixth Assessment Report (Working Group I, 2021). We recognize climate change as a significant (material) challenge that brings about dramatic changes to the natural environment and social structures, exerting a profound impact on the management and overall business of FRC. Based on this recognition, the Asset Management Company established the Policy on Climate Change and Resilience in August 2022. This policy outlines our approach to responding to risks and opportunities associated with climate change, as well as initiatives to ensure the resilience (strength and buoyancy) of operations and strategies relative to climate-related issues.

Governance

System for Promoting Sustainability

The Asset Management Company has established a Sustainability Policy and related internal regulations as specific practical guidelines to consistently and systematically promote sustainability initiatives, as well as the Sustainability Promotion Committee. This Committee meets at least twice a year in principle to examine goals and measures related to climate change issues and determine the progress of initiatives. It comprises President and CEO, Executive Officers, and the general managers of each division. President and CEO makes final decisions regarding sustainability, while the general manager of the Planning Department holds the role of Sustainability Officer.

In addition, to streamline the execution of sustainability initiatives, we have established the Sustainability Promotion Office. Comprising sustainability representatives from diverse departments, this office operates in accordance with decisions made by the ultimate authority on sustainability. This structure enables the effective implementation of activities associated with sustainability promotion.

The Asset Management Company positions climate-related issues as one of its sustainability challenges and has established the following governance structure to address climate-related risks and opportunities associated with FRC.

President and CEO holds the highest authority for climate-related issues, serving as the ultimate decision-maker for sustainability. The executive overseeing climate-related matters is the general manager of the Planning Department, responsible for the supervision of sustainability promotion.

This executive consistently reports to President and CEO within the Sustainability Promotion Committee, covering various aspects such as identifying and assessing the impacts of climate change, managing

Strategy

The Asset Management Company has established a process to identify, assess, and manage the impacts of climate-related risks and opportunities on its business activities, strategies, and financial plans. Ongoing analyses are being conducted.

TCFD Endorsement (and Participation in the TCFD Consortium)

The Asset Management Company expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) in September 2022 to promote disclosure of information related to climate-related issues. Alongside this endorsement, we are also a member of the TCFD Consortium. Within this consortium, which includes numerous companies and organizations endorsing TCFD in Japan, discussions take place on how information on climate-related issues should be disclosed and used.

risks and opportunities, providing updates on initiatives related to adaptation and mitigation, and reporting on climate change responses, including the establishment of indicators and goals. The Sustainability Promotion Committee deliberates on each agenda item with the participants, and final decisions rest with President and CEO.

Role of Management

President and CEO serves as the chairperson of the Sustainability Promotion Committee and, as the ultimate decision-maker for sustainability (also the highest authority for climate-related issues), makes final decisions regarding the implementation of related measures.

President and CEO also periodically reports on specific targets, proposals, and progress on sustainability initiatives determined by the Sustainability Promotion Committee to the Board of Directors of both the Investment Corporation and FRC.

Oversight by the Board of Directors

President and CEO serves as the chair of the Board of Directors for the Asset Management Company.

The Board of Directors is responsible for making the final decision on the formulation and revision of the Sustainability Policy, which represents the specific operational guidelines for sustainability for the Asset Management Company.

Furthermore, the Board of Directors monitors and supervises the sustainability initiatives of the Asset Management Company by receiving reports from the Sustainability Promotion Committee and offering guidance as necessary.

The Asset Management Company, in conjunction with its commitment to the TCFD in September 2022, released the results of its first scenario analysis. It subsequently conducted a second scenario analysis, reassessing risks and opportunities.

Scope of Analysis

In the most recent scenario analysis, the focus is on FRC's real estate leasing business. The analysis timeline is set for 2030 (medium term) and 2050 (long term).

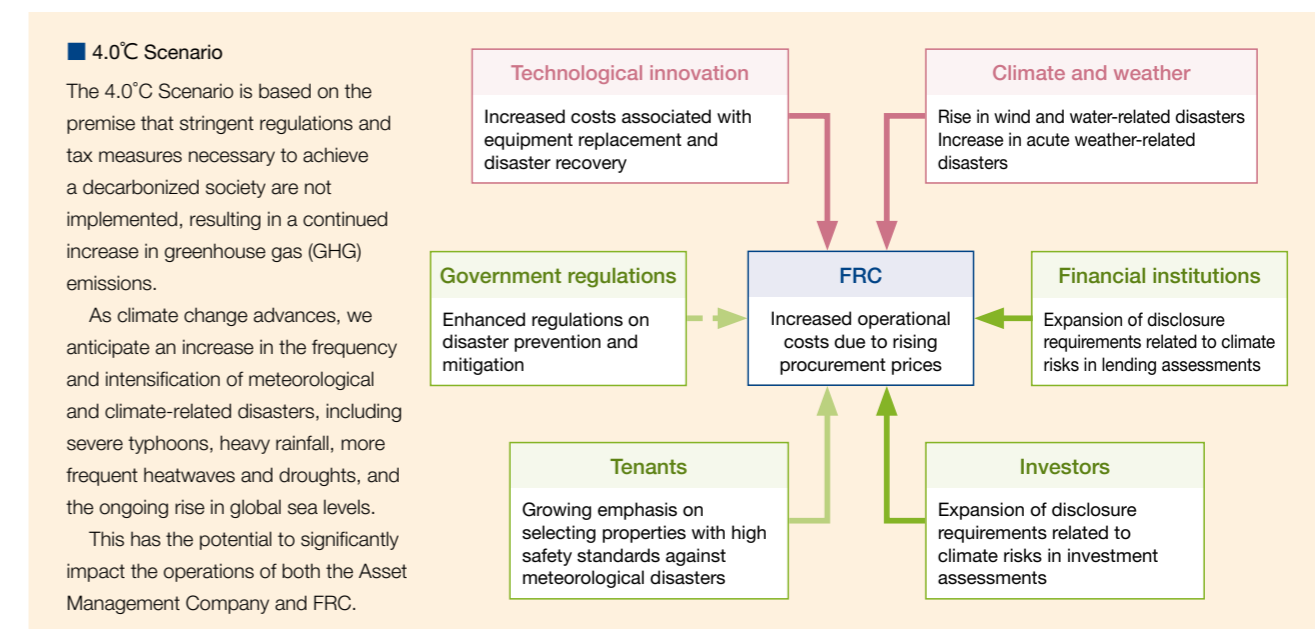
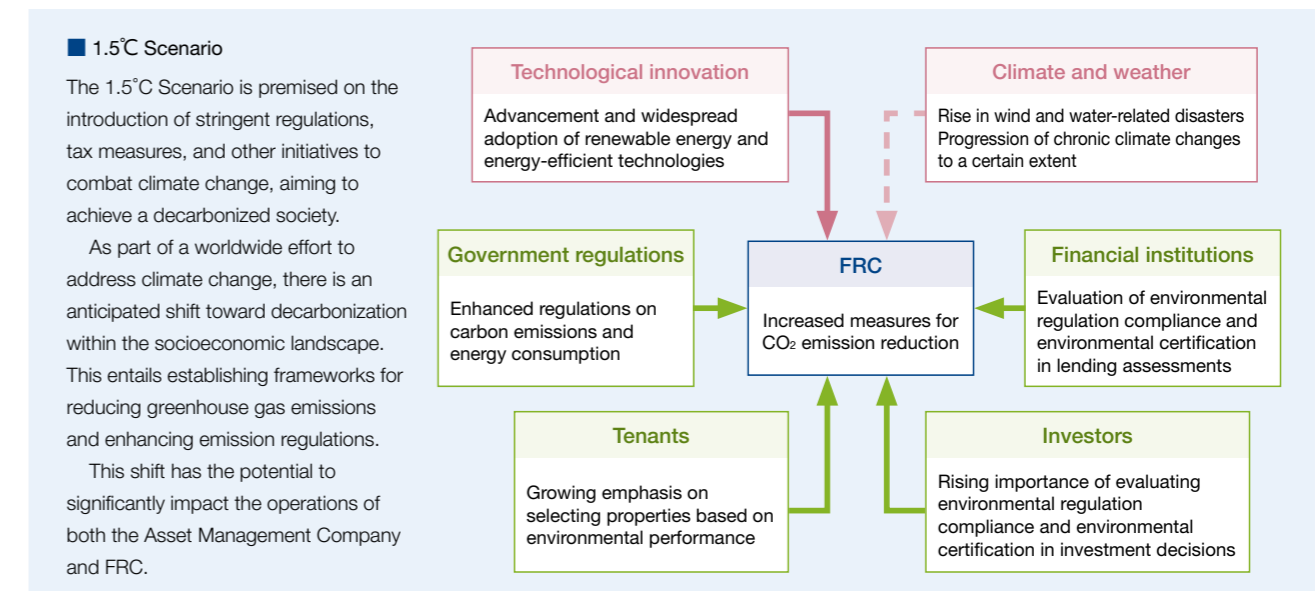
External Scenario Referenced

In accordance with the TCFD recommendations, it is advisable to articulate the resilience of one's own strategy, taking into account multiple scenarios, including those aligning with the goal of limiting global warming to below 2°C. The scenarios referenced by the Asset Management Company in conducting the scenario analysis as shown on the right.

Risk type	Source	1.5°C Scenario	4.0°C Scenario
Transition risk	International Energy Agency (IEA) World Energy Outlook 2020	IEA NZE2050	IEA STEPS
Physical risk	Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report	IPCC RCP2.6	IPCC RCP8.5

Envisioned Worldview in Each Scenario

Based on each scenario, the Asset Management Company envisions the following worldview.



Identification of Risks and Opportunities

The Asset Management Company has identified risks and opportunities based on scenarios and assessed their impact on business as outlined below. For the financial impact, we conducted both qualitative and quantitative assessments, referring to the aforementioned scenarios and literature provided by industry associations.

Qualitative Analysis Results of Climate-Related Risks and Their Financial Impact

Risks and Opportunities

Note: Items for which evaluation or calculation is difficult are indicated with "-".

Risk and opportunity factors and financial impacts		Importance		Response to risks and opportunities	
		2030	2050		
Transition risk	Policy and legal	The introduction of carbon pricing results in an increased carbon tax burden.	Low	Medium	Advancement of CO ₂ reduction goals/Energy-efficient renovations/Introduction of renewable energy/Efficient energy management
	Technology	Expenses increase for energy-saving and energy-creating measures for existing properties, including energy conservation, energy storage, ZEB/ZEH conversion, and solar power generation.	High	High	Establishment of long-term renovation plans considering the useful life span/Utilization of subsidies/Improvement of portfolio environmental performance through acquisition of ZEB/ZEH properties
	Market	Market preferences lead to an increase in vacancy rates and a decline in rents for properties not aligned with decarbonization.	Low	Low	Promotion of environmental certifications/Understanding of tenant needs through satisfaction surveys/Advocacy of Green Lease agreements/Promotion of green initiatives/
	Reputation	Delayed adoption of decarbonization measures results in a decline in investment unit prices and missed opportunities for external growth.	-	-	Appealing to investors who prioritize environmental issues/Improvement of portfolio environmental performance through property replacement
Physical risk	Acute	Increased frequency of disasters results in a rise in damage costs and disaster recovery expenses.	High	High	Risk monitoring of property locations/Implementation of disaster preparedness measures (e.g., installation of water stoppers, waterproofing of central monitoring, reinforcement of power receiving and transforming facilities)/Conducting BCP training/Insurance coverage for damages/Conducting hazard risk assessments at the time of property acquisition
		Increased frequency of disasters leads to a rise in disaster preparedness expenses.	Low	Medium	
	Chronic	The rise in air-conditioning usage due to increasing temperatures results in higher utility costs.	Low	Low	Implementation of air-conditioning efficiency improvement renovations/Efficient energy management
Opportunities	Resource efficiency	Implementation of energy-saving measures leads to a reduction in energy procurement costs.	Low	Low	
	Energy sources	As the transition to clean energy progresses, the carbon tax burden decreases.	Low	Low	Energy-efficient renovations/Introduction of renewable energy/Improvement of portfolio environmental performance through acquisition of ZEB/ZEH properties/Decrease in the cost of high-efficiency equipment
	Products and services	The increased supply of ZEB properties in the market leads to an increased opportunity for acquiring such properties.	-	-	
	Market	Market preferences lead to an increase in vacancy rates and a decline in rents for properties not aligned with decarbonization.	Low	Medium	Promotion of acquisition of environmental certifications/Understanding tenant needs through satisfaction surveys and other measures
		The success of decarbonization measures leads to an expansion of lending partners and opportunities.	Low	Low	Utilization of green finance
	Resilience	The success of decarbonization measures opens up new investor segments.	-	-	Appealing to investors who prioritize environmental issues
		The success of disaster preparedness measures results in a reduction in damage costs and disaster recovery expenses.	Medium	Medium	Risk monitoring of property locations/Implementation of disaster preparedness measures (e.g., installation of water stoppers, waterproofing of central monitoring, reinforcement of power receiving and transforming facilities)/Risk mitigation through insurance coverage

Qualitative Analysis Results of Climate-Related Risks and Their Financial Impact

Financial Impact (Millions of yen)

Note: Items not yet calculated are represented as "-".

Scenario	Details of financial impact	1.5°C	4.0°C	Additional information	
Transition risks and opportunities	Carbon tax burden increases.	Risk	-352	-	Increase in carbon tax burden
		Countermeasure effects	188	-	Reduction through energy-saving and energy-generating (on-site) renovations
	Increased costs for energy-efficient retrofitting and energy-generating on-site renovations for existing properties.	Risk	-783	-	
		Opportunity			Reflected in the effects of carbon tax countermeasures, energy procurement costs, and opportunities in the real estate leasing business
Transition risks and opportunities	Energy procurement costs decrease with renovations.	Countermeasure effects and opportunity	119	-	Reduction through energy-saving and energy-generating (on-site) renovations
	Vacancy rates increase and rents decline for properties not aligned with decarbonization.	Risk	-91	-	Decrease in real estate leasing business income if no measures are taken
		Opportunity	329	-	Increase in real estate leasing business income with the implementation of energy-saving and energy-generating (on-site) renovations
Physical risks and opportunities	Damage costs and disaster recovery expenses increase due to water damage.	Risk	-56	-169	Increased probability of heavy rainfall leading to direct damages from floods and indirect losses such as business interruptions
		Countermeasure effects	13	38	Risk mitigation through insurance for direct and indirect damages from flooding Effects of reducing risk by implementing flood prevention measures
	Expenses for water damage prevention measures increase.	Risk	-65	-103	Increase in insurance premiums Rise in CAPEX investment for flood prevention projects
	Utility costs increase due to the rise in air-conditioning usage.	Risk	-3	-14	Utility costs increase due to the rise in air-conditioning usage
		Countermeasure effects	2	-	Reduction through energy-saving and energy-generating (on-site) renovations
Expenses for addressing the impacts of rising sea levels increase.	Risk	-	-	At present, no significant impact has been identified regarding the depreciation of asset values or the incurrence of costs for properties in flood-prone areas due to rising sea levels.	

This simulation reflects only the aspects deemed calculable at present and does not assess all climate-related risks associated with FRC. Moving forward, we will strive to evolve our analysis in response to developments in global and Japanese climate-related risks.

The simulation was conducted by considering FRC's existing financial information, taking into account information provided by

climate-related scenarios and literature. The unit is primarily in the form of impact amounts (millions of yen) per year on a cash basis, and the time frame assumes the year 2050. Note that the accuracy of the calculations cannot be guaranteed at present. In addition, the assumed countermeasures are based on simulation and are not decisions or plans that have been executed.

Concrete Initiatives in Response to Risks and Opportunities

We aim to achieve the current CO₂ reduction targets associated with transition risk. We will pursue energy-efficient upgrades, including LED conversions, and enhance energy efficiency during facility updates. In addition, we will explore initiatives such as the integration of solar power generation and consider transitioning ZEB and ZEH.

Furthermore, we will look into the greening of externally sourced energy.

We are currently mitigating physical risk through insurance coverage. We will also conduct ongoing risk monitoring, including the review of hazard maps, and implement necessary measures as required. By conducting BCP exercises and addressing various operational aspects, our goal is to effectively mitigate risks.

Risk Management

The process by which the Asset Management Company manages climate change-related risks is as follows.

Process of Identifying and Evaluating Risk

The risks and opportunities related to climate change are addressed through a climate-related working group. This group, led by the executive responsible for climate-related issues, convenes representatives from various departments believed to be necessary for the identification and assessment of climate-related risks. The process involves listing and identifying risk items, qualitatively assessing business impacts, and evaluating risk significance. The outcomes are then deliberated and assessed, and subsequently presented to the Sustainability Promotion Committee for consideration.

The Sustainability Promotion Committee deliberates on climate-related risks identified by the working group that need to be prioritized based on the likelihood of occurrence and impact and draws up risk management responses in order of priority. The Committee also deliberates on climate-related opportunities and establishes prioritization for business strategy.

Furthermore, the Committee reports on the deliberation and review process to the Board of Directors.

Process of Managing Risks

The executive with ultimate responsibility for climate-related issues designates responsible departments or individuals and instructs the formulation of countermeasures for climate-related risks and

opportunities of high priority in business and financial planning, as deliberated in the Sustainability Promotion Committee.

The countermeasure plans formulated by the designated departments or individuals are reviewed and approved in internal forums such as the Sustainability Promotion Committee, depending on their content, before being implemented.

Regular progress reports on the implemented measures are submitted to the Committee, where the advancement of responses to risks and opportunities is monitored and verified.

Integration into Comprehensive Risk Management

In the Asset Management Company, based on the Risk Management Regulations, each department head is designated as a risk management officer. A Risk Management Committee has been established to monitor the risk management status overseen by these officers. The Committee convenes at least once every three months in principle, focusing on identifying, understanding, and managing various potential risks.

The executive with ultimate responsibility for climate-related issues instructs the inclusion of significant climate-related risks in business and financial planning within the existing company-wide risk management program through the executive in charge of climate-related issues. This directive aims to integrate the process of identifying, assessing, and managing risks within the Risk Management Committee.

Metrics and Targets

The Asset Management Company has established key performance indicators (KPIs) and goals to manage and monitor risks and opportunities. These metrics, targets, and results are outlined below.

Reduction of Environmental Load

•35% reduction in CO₂ emissions by 2030 (compared with 2019, basic unit) [See p.28](#)

Maintenance and Enhancement of Environmental and Construction Performance

•85% Green Building Certification rate or higher by 2030 [See p.31](#)

Reference: <https://www.fukuoka-reit.jp/en/about/sustainability.html>

Related Materiality

- Creation of pleasant workplaces

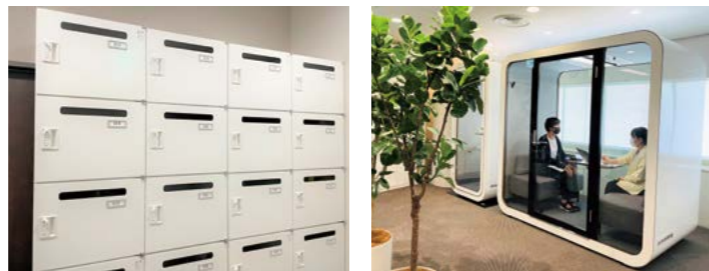
Initiatives for Employees and Tenants

Initiatives for Employees AMC

<p>Fukuoka Realty: Numbers of credentialed personnel As of August 31, 2023</p> <p>The average number of years of continuous service of permanent employees</p> <p>8 years and 3 months</p> <p>Full-time personnel</p> <p>47 (Male: 21 Female: 26) Gender ratio Male: 44.7% Female: 55.3%</p> <p>Employees seconded from sponsors: 3 Employees seconded to a sponsor: 9</p> <p>Number of credentialed personnel (total number of people)</p> <table border="1"> <tr><td>Real estate brokers:</td><td>23</td></tr> <tr><td>ARES Certified Masters:</td><td>22</td></tr> <tr><td>Certified Building Administrators:</td><td>5</td></tr> <tr><td>CMAs:</td><td>3</td></tr> <tr><td>First-class registered architects:</td><td>3</td></tr> <tr><td>Real estate appraisers:</td><td>3</td></tr> <tr><td>MBA:</td><td>2</td></tr> <tr><td>Attorney:</td><td>1</td></tr> <tr><td>Licensed Representative of Condominium Management Company:</td><td>1</td></tr> </table>	Real estate brokers:	23	ARES Certified Masters:	22	Certified Building Administrators:	5	CMAs:	3	First-class registered architects:	3	Real estate appraisers:	3	MBA:	2	Attorney:	1	Licensed Representative of Condominium Management Company:	1	<p>Support for flexible work styles</p> <ul style="list-style-type: none"> • Child-rearing support (maternity leave, childcare leave system) • Nursing care leave • Leave for voluntary work • Employee welfare (e.g., 401K, cumulative investment system) • Encouraging use of paid holidays etc. <p>Training for employees</p> <ul style="list-style-type: none"> • Regular lectures by Kyushu Economic Research Center • Compliance training • ESG training • Nursing care training • In-house recreation etc. <p>Career development support</p> <ul style="list-style-type: none"> • Employee satisfaction survey • Self-assessment system • Career interview • Secondment system (dispatching employees to sponsor companies) • Promotion from contract employee to permanent employee status etc. • Offering of training programs tailored to each management level • System for supporting acquisition of qualifications (e.g., Real Estate Transaction Agent, Real Estate Securitization Master) • Support for language learning
Real estate brokers:	23																		
ARES Certified Masters:	22																		
Certified Building Administrators:	5																		
CMAs:	3																		
First-class registered architects:	3																		
Real estate appraisers:	3																		
MBA:	2																		
Attorney:	1																		
Licensed Representative of Condominium Management Company:	1																		

Health management/Improvement of office environment

- Initiatives to prevent infectious diseases such as influenza (Implementation of influenza vaccination and full coverage of vaccination costs)
- Mandatory health checkups and comprehensive medical examinations
- Health counseling by public health nurses
- Application system to restrict excessive overtime work
- Assistance for use of sports clubs
- Installation of personal booths, meeting booths, plants, etc.
- Installation of personal lockers
- Installation of ceiling-mounted projectors



Installation of personal lockers

Meeting booths

A Comfortable Working Environment AMC

<p>Certified as a "Fukuoka 'Work-Style Reform' Promotion Company" (August 2018)</p>	<p>Registration with Fukuoka City Well-Being & SDGs Registration System (July 2022)</p>	<p>Registration with Fukuoka Prefecture SDGs Registration System (February 2023)</p>
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Initiatives for Tenants IC

With a focus on the health and comfort of tenant employees, we are improving the employee lounge environments within retail facilities and renovating office building common areas. Moreover, FRC is engaging in a variety of initiatives for tenants as a part of efforts to promote sustainability.

- Improvement of employee lounge
- Implementation of tenant satisfaction surveys
- Distribution of sustainability guidebooks
- ESG training etc.

Related Materiality

- Contribute to increased attractiveness and vitalization of Fukuoka and Kyushu
- Involvement in local community

Initiatives for Local Communities

Initiatives for Local Communities IC AMC

<p>Annual Events</p> <p>At Canal City Hakata, employees of the Asset Management Company participate in events that involve sprinkling water on sidewalks to cool them down and promote well-being as part of efforts to enhance the environment.</p>	<p>Participation in Clean-Up Days</p> <p>Asset Management Company executives and employees actively participate in cleanup activities, of which there had been 313 as of October 19, 2023.</p>	<p>Participation in Community Events (Hakata Gion Yamakasa)</p> <p>After a four-year hiatus, employees participated in the regular Hakata Gion Yamakasa Oiyama event (Hachiban Yamakasa, Kamikawabata Shopping Arcade).</p>
<p>Safety Town Council</p> <p>At Park Place Oita, we established a "Safety Town Council" that partners with related institutions and groups to conduct crime-prevention patrols.</p>	<p>Various Events Held</p> <p>At Canal City Hakata, we held events such as Flea Maniacs' SAKE and a recycling process experience using discarded plastic, known as SDGs WEEK.</p>	

Gatherings for Real Estate, Finance, and the Economy AMC

We have held gatherings annually since 2008 with the cooperation of the Japan Real Estate Institute (not held in 2020 due to concerns over the COVID-19).

Local real estate companies, financial institutions, and government agencies participate in the conference, which contributes to networking and further stimulation of the local economy.

It has been designated as a continuing education course for The Association for Real Estate Securitization (ARES) masters.



The Kyushu Economic Research Center AMC

Fukuoka Realty Co., Ltd., and the Kyushu Economic Research Center have concluded a memorandum of understanding in a bid to promote increased cooperation in macroeconomic analysis of the Kyushu economy. Through this initiative, both signatories to the memorandum will share information on the current state of the Fukuoka-Kyushu economy as well as issues to be faced, thereby revitalizing economic activity throughout the region. In addition, study groups on seasonal topics that are specific to Fukuoka and Kyushu are held on a regular basis.



Other Activities AMC

- **Kyushu IR Group**

The Kyushu IR Group, which entered its 13th year in 2023, was established in cooperation with the Japan Investor Relations Association. The Group assists in learning about the latest IR trends with IR employees of companies located in Fukuoka and Kyushu and fosters the forming of networks between participating companies. Impacted by COVID-19, the study groups have been held in a hybrid style that combined online tools with face-to-face interaction.

■ Details of the Study Group

Date	Theme and lecturer
1st workshop July 2023	Guiding Sustainable Evaluation in IR ~ Trends and Disclosure in IR for FY2023 ~ Yoshiko Sato, Executive Managing Director, Japan Investor Relations Association
2nd workshop November 2023	IR Activities at Yaskawa Electric (Expansion of Disclosure Information and Dialogue Opportunities) Corporate Branding Division, Public Relations & IR Department, Yaskawa Electric Corporation Daisuke Nakahara, Manager of IR Promotion Section



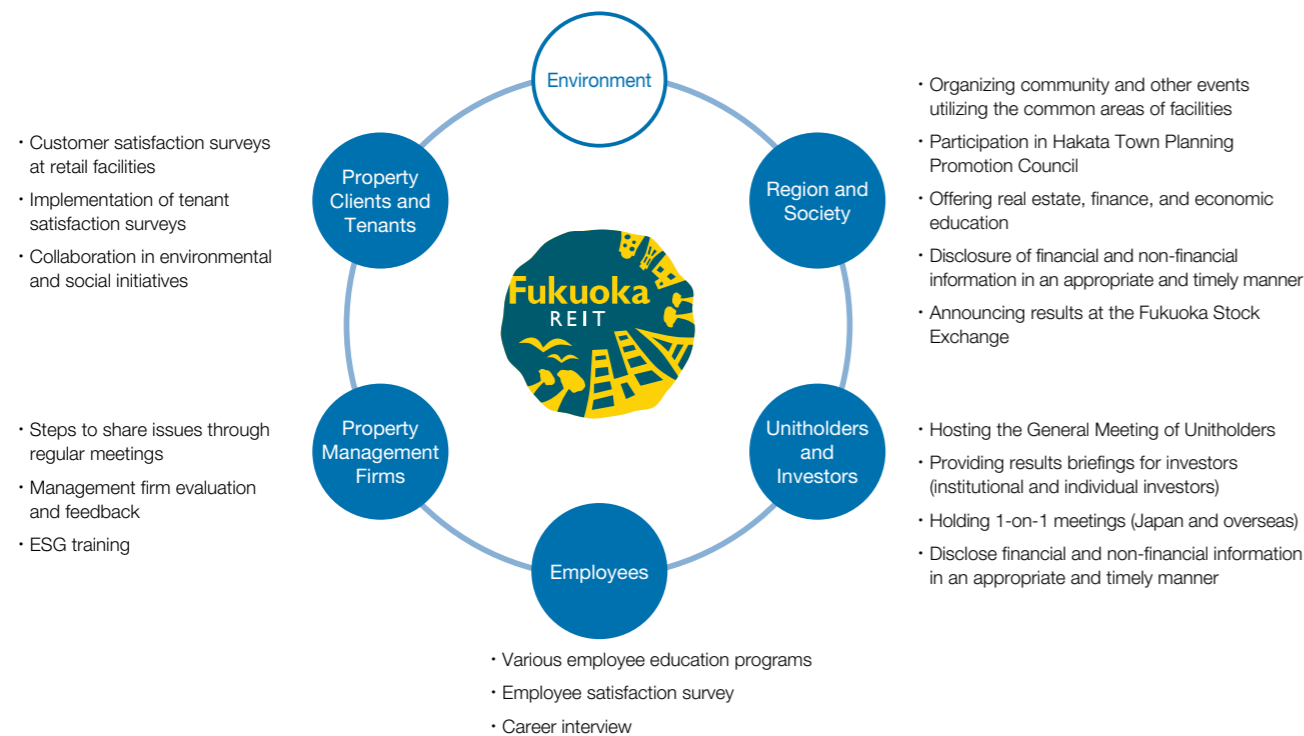
Note: Information on lecturers is current as of the time of the respective Kyushu IR Group meetings.

Related Materiality

- Information disclosure and dialogue with stakeholders
- Compliance/Risk management

Stakeholder Engagement

FRC engages in proactive dialogue with its various stakeholders aimed at sustainable growth and higher corporate value. At the same time, FRC recognizes that fulfilling its required social responsibilities leads to sustainable business activities. Valuing our relationships of trust with stakeholders, we will leverage this concept in our ESG initiatives.



Dialogue with Unitholders and Investors

FRC works to disclose information in a timely manner to reflect the importance of dialogue with its unitholders and investors. In our IR activities, we held an in-person financial results briefing for individual investors in Fukuoka for the first time since the onset of the COVID-19 pandemic.

- General Meeting of Unitholders (once every two years)
- Results briefings for analysts and institutional investors
- IR for overseas institutional investors
- IR for individual investors
- Enhanced IR tools, information disclosure, etc.



Dialogue with Employees

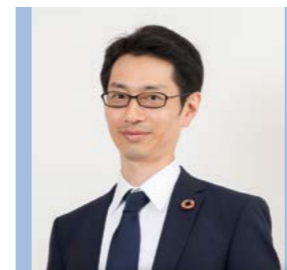
FRC and Fukuoka Realty Co., Ltd., recognize that human resources are our greatest asset. As part of our efforts to create comfortable and healthy workplaces, we are endeavoring to improve the efficiency of our operations by enhancing the office environment and our systems. In addition, we provide IR information internally and disseminate details of results announcements online as part of our efforts to facilitate internal communication.

- Employee satisfaction survey
- President interviews, career interviews
- Internal IR
- Counseling with public health nurses, etc.



Risk Management and Compliance Initiatives

As an asset management company for a listed REIT, we strive to enhance compliance and governance by building appropriate systems and conducting appropriate business operations in pursuit of unitholders' best interests.



General Manager
Compliance Department
Fukuoka Realty Co., Ltd.
Daisuke Yokoyama

In particular, we recognize that managing transactions between unitholders and a stakeholder such as a sponsor of FRC that might involve conflicts of interest in an appropriate manner and preventing such conflicts of interest are important issues to be addressed in governance.

We have established strict rules for transactions with stakeholders to prevent conflicts of interest and make decisions based on these rules. In addition, we verify the appropriateness of the decision-making process through internal audits and other means.

We also ensure objectivity by receiving advice and evaluations from outside specialists to avoid taking a self-righteous approach in our decisions.

Managing Conflicts of Interest

When a transaction such as the purchase and sale of a property between FRC and a stakeholder, including a sponsor, takes place, the Asset Management Company must address any possibility of prioritizing the interests of interested parties over investors. Fukuoka Realty Co., Ltd., has accordingly established the Basic Policy on Compliance, as well as compliance regulations and other internal rules to prevent any conflict of interest. Based on these rules, we obtain a preliminary assessment from the Compliance Department General Manager and ensure deliberations by the Compliance Assessment Committee, consisting of the Compliance Department General Manager and three outside experts in order to engage in the management of any conflict of interest pertaining to our dealings with stakeholders in an appropriate manner.

Fukuoka REIT Corporation, Directors

The term of office for all executive directors and supervisory directors was set as two years from May 29, 2022.



Supervisory Director **Yasuo Kawasho** Investment unit holdings: None
Executive Director **Zenji Koike** Investment unit holdings: 11
Supervisory Director **Takashi Tanabe** Investment unit holdings: None

Glossary **Engineering reports**
Reports outlining the results of a physical survey of a property. These often include surveys on building conditions, soil contamination, long-term repair and refurbishing costs, and earthquake risk.

The Asset Management Fee Structure

Asset management fees linked to unitholder interests

Management Fee 1*	Based on total assets
Management Fee 2	Based on operating revenues
Management Fee 3*	Based on distributable profit
Management Fee 4	Acquisition fee
Management Fee 5	Transfer fee

* We reduced the ratio of Management Fee 1 and increased the ratio of Management Fee 3 as of the fiscal period ended February 2021

Decision-Making Process*



Third-party assessment by external experts

- [Real estate appraisals]**
- Japan Real Estate Institute
 - The Tanizawa Sogo Appraisal Co., Ltd.
 - Daiwa Real Estate Appraisal Co., Ltd.
- [Market reports]**
- Analysis on trade areas and competition situation
 - Adequate rent levels, etc.
- [Engineering reports]***
- Law abidance and earthquake resistance
 - Check of soil contamination, toxic substance and use status
 - Replacement market price, expenses for long-term maintenance and repairs, etc.

* The prior consent of the Investment Corporation's Board of Directors is obtained in cases falling under the provisions of Article 201-2 (1) of the Act on Investment Trusts and Investment Corporations.

Training Records

	Oct. 2020– Sept. 2021	Oct. 2021– Sept. 2022	Oct. 2022– Sept. 2023
Compliance training (including e-learning)	6 times	6 times	7 times
Sustainability training	2 times	3 times	4 times

Fukuoka Realty Co., Ltd., Directors

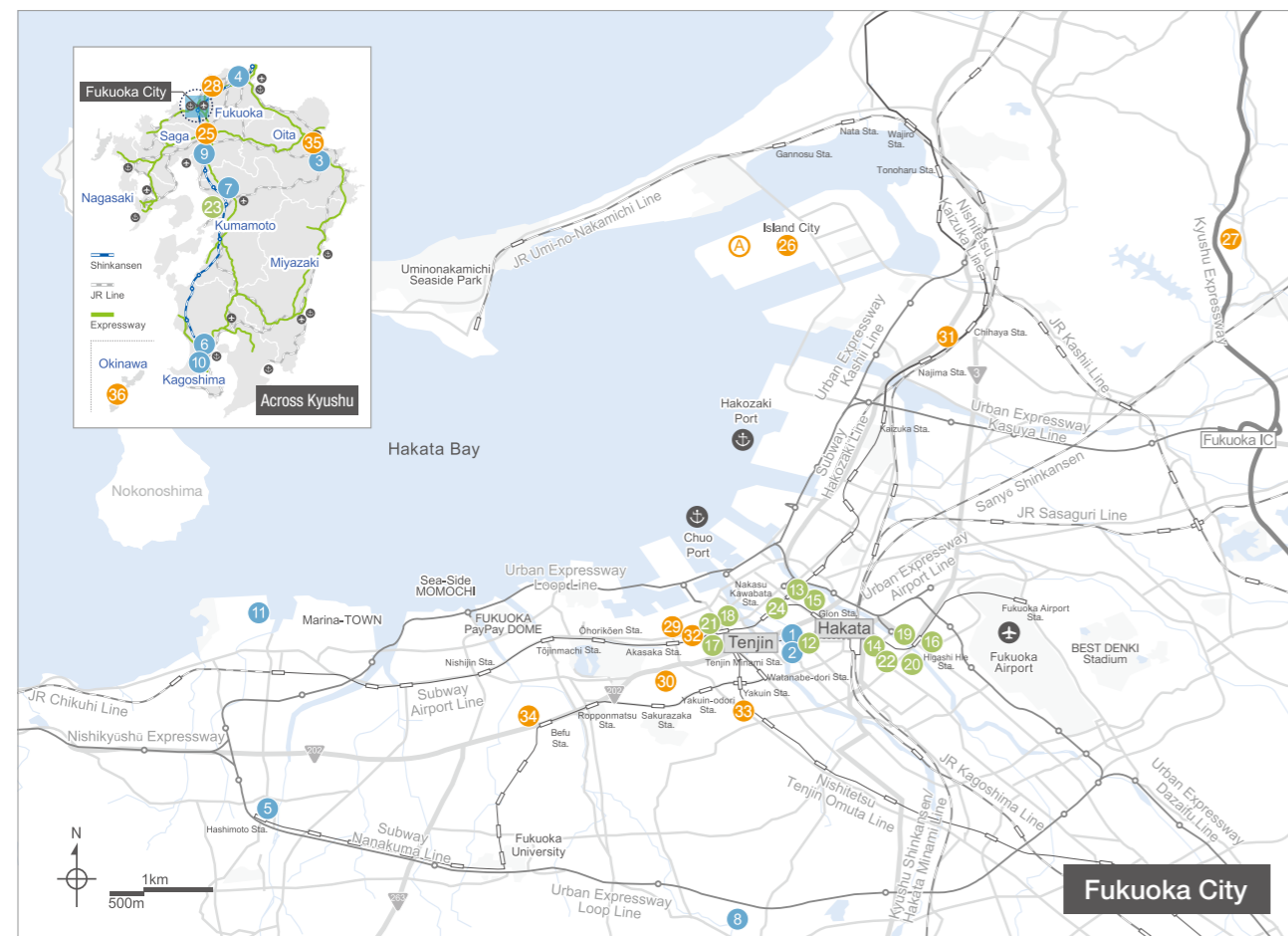
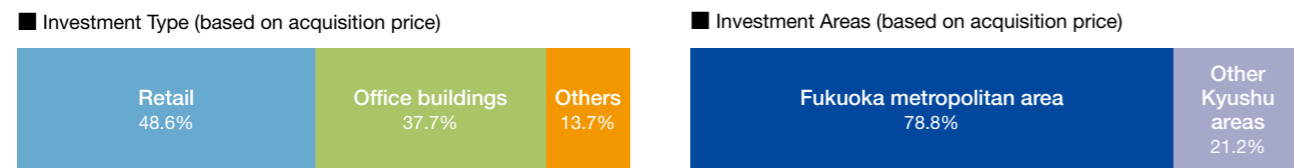


Vice President Board of Directors (Non-Executive) **Yukitaka Ohara**
Vice President Board of Directors (Non-Executive) **Hiroshi Shimuta**
President and CEO **Zenji Koike**
Vice President Board of Directors (Non-Executive) **Masanori Kozuma**
Corporate Auditor (Non-Executive) **Kazuomi Kamikawa**

Overview of Properties Owned

FRC carefully selects and invests in properties with the potential to generate stable cash flow over the long term. It owns properties with widely divergent uses, mainly retail and office buildings, to diversify risks within the region.

Asset Ratio (As of September 1, 2023)



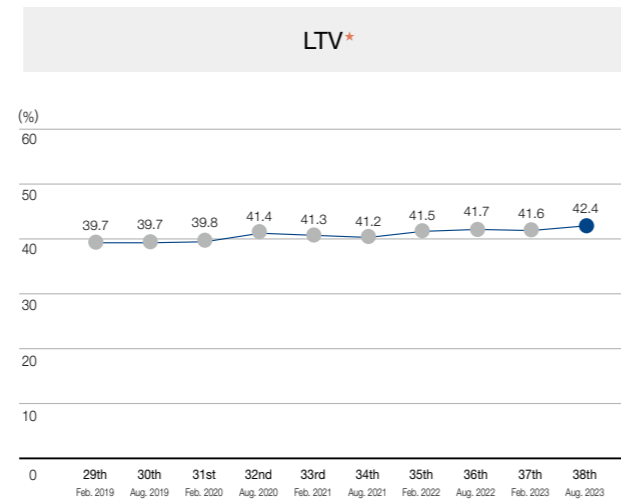
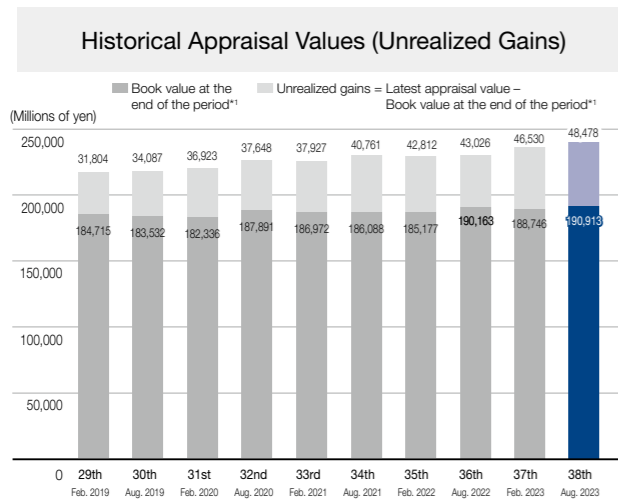
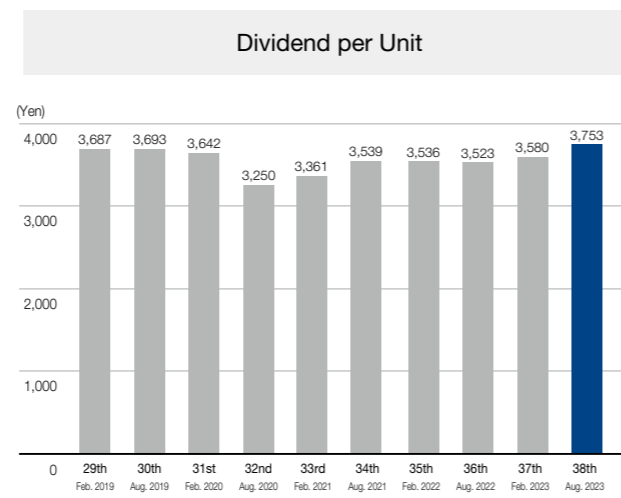
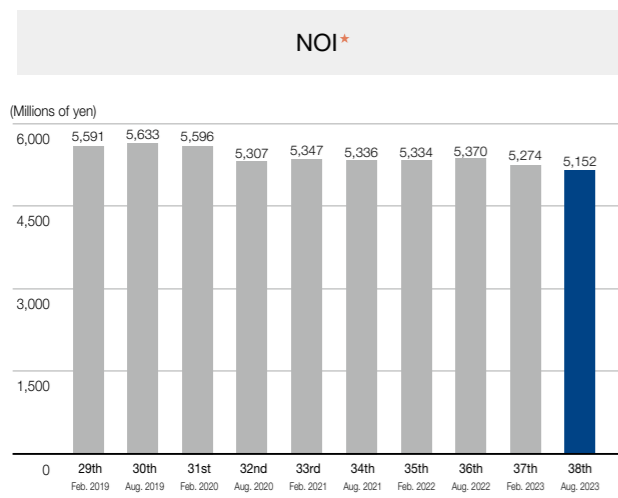
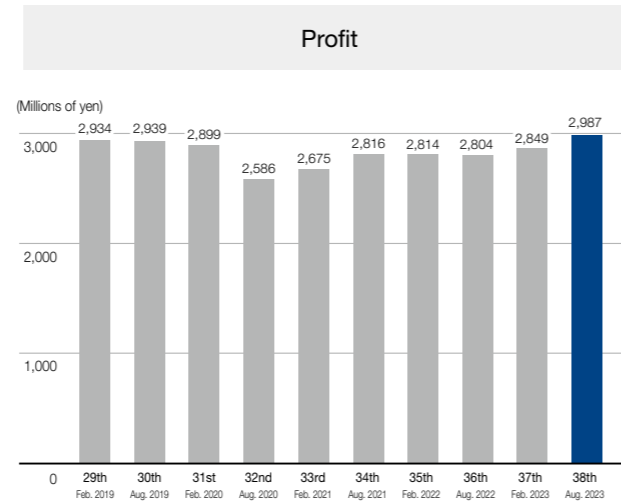
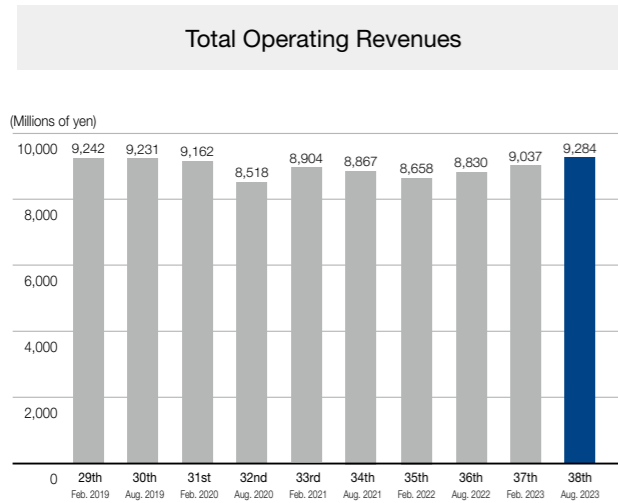
In terms of properties, as of September 1, 2023, we own 11 retail facilities, 13 office buildings, and 12 other properties (including logistics facilities, residences, and hotels).

In 2023, we acquired a total of three properties, namely Kumamoto East Front Building, Axion Befu-Ekimae Premium, and Hakata FD Business Center. In addition, we plan to acquire Island City Minato Bay related site with an acquisition date of March 31, 2029.

Property name/Acquisition date/Acquisition price (Millions of yen)

Retail: 11	1 Canal City Hakata November 9, 2004/32,000	2 Canal City Hakata-B March 2, 2011/21,060	3 Park Place Oita November 9, 2004/19,610	4 SunLive City Kokura July 1, 2005/6,633	5 Konoha Mall Hashimoto March 1, 2018/10,000	6 Square Mall Kagoshima Usuki September 28, 2006/6,300
7 Kumamoto Intercommunity SC November 30, 2006/2,400	8 Hanahata SC September 3, 2007/1,130	9 Kurume Higashi Kushiwara SC February 1, 2008/2,500	10 K's Denki Kagoshima March 27, 2008/3,550	11 Marinoa City Fukuoka (Marina Side Building) May 1, 2015/5,250	Office Buildings: 13	12 Canal City Business Center Building November 9, 2004/14,600
13 Gofukumachi Business Center November 9, 2004/11,200	14 Sanix Hakata Building September 30, 2005/4,400	15 Taihaku Street Business Center March 16, 2006/7,000	16 Higashi Hie Business Center March 13, 2009/5,900	17 Tenjin Nishi-Dori Center Building February 1, 2013/2,600	18 Tenjin North Front Building March 28, 2013/2,800	19 Higashi Hie Business Center II March 1, 2018/4,230
20 Higashi Hie Business Center III May 29, 2020/3,290	21 Tenjin Nishi-Dori Business Center (land with leasehold interest) June 1, 2021/7,700	22 Hakata Chikushi-Dori Center Building March 1, 2022/4,320	23 NEW Kumamoto East Front Building March 28, 2023/1,450	24 NEW Hakata FD Business Center September 1, 2023/14,100	Other Properties (Logistics, Residences, Hotels): 12	25 Tosu Logistics Center (Logistics) March 28, 2014/1,250
26 LOGICITY Minato Kashi (Logistics) March 27, 2015/8,150	27 LOGICITY Hisayama (Logistics) June 1, 2017/5,050	28 LOGICITY Wakamiya (Logistics) June 30, 2020/1,700	29 Amex Akasakamon Tower (Residence) September 1, 2006/2,060	30 City House Keyaki Dori (Residence) December 20, 2007/1,111	31 Aqualia Chihaya (Residence) March 1, 2012/1,280	32 D-Wing Tower (Residence) March 1, 2013/2,800
33 Granfore Yakuin Minami (Residence) November 4, 2014/1,100	34 NEW Axion Befu-Ekimae Premium (Residence) April 27, 2023/1,525	35 Hotel FORZA Oita (Hotel) March 1, 2013/1,530	36 Tissage Hotel Naha (Hotel) December 7, 2018/2,835	Scheduled to be acquired: 1	A Island City Minato Bay related site (land with leasehold interest) (tentative) March 31, 2029/8,082	

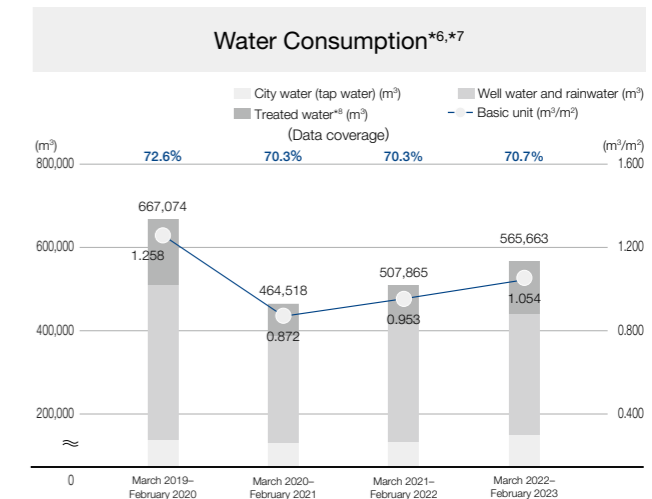
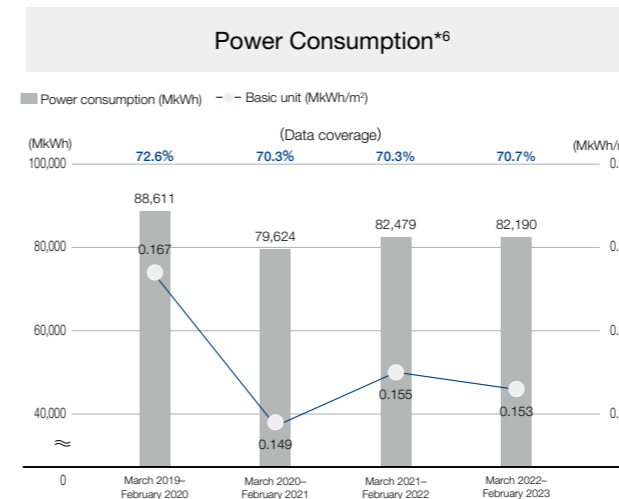
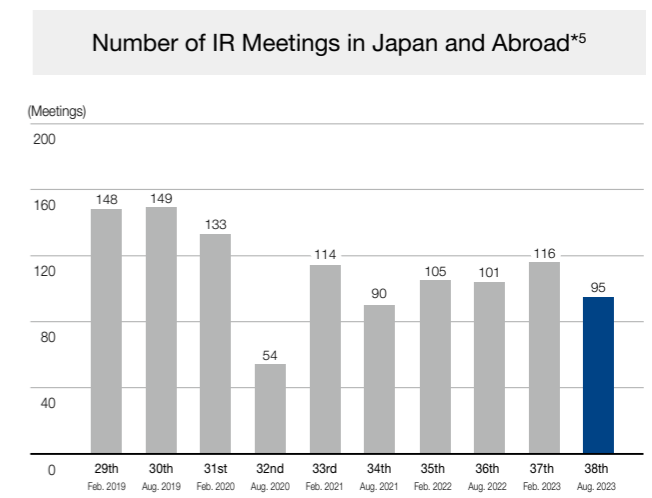
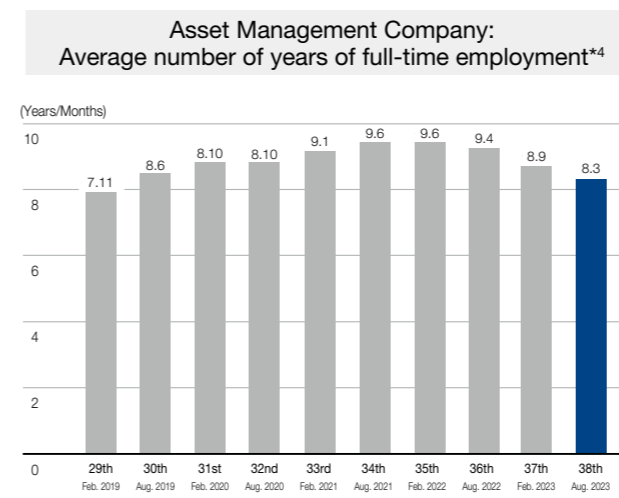
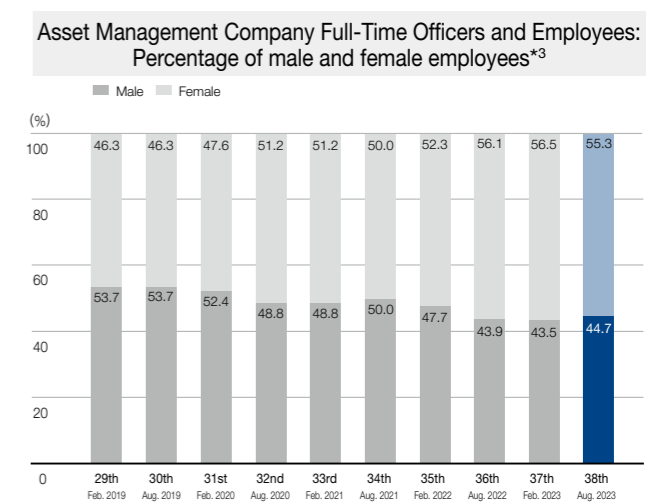
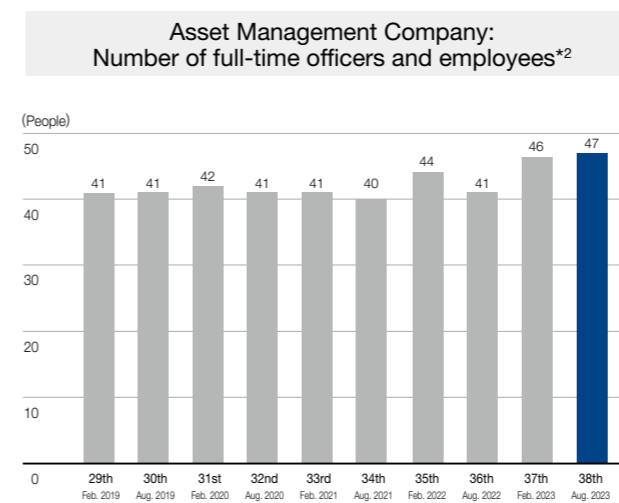
Financial Highlights



Glossary **NOI**
 An abbreviation for Net Operating Income. This reflects net income stemming from the real estate leasing and REIT business, deducting expenses such as administrative costs and property taxes from rents in a given fiscal period. Costs not related to cash expenditures, including depreciation, interest paid on borrowings, or taxes, are not deducted. This is used to assess real estate and REIT asset value and is similar to EBITDA, which focuses on operating cash flow in assessing corporate value. When determining the theoretical real estate property price, it is a common practice to divide NOI by the capitalization yield (cap rate).

LTV
 An abbreviation for Loan to Value and an indicator of a company's borrowing ratio as well as a measure of stability in borrowing. The lower the value, the greater the degree of safety against redemption of debt. [Calculation method] LTV (%) = (Interest-bearing debt / Total assets) × 100

Non-Financial Highlights



*1. Book value at the end of period does not include construction in progress.
 *2. The number of full-time officers and employees indicates the total number of directors and auditors, permanent employees, contract employees, temporary employees, secondees, etc., who are employed on a full-time basis at Fukuoka Realty Co., Ltd.
 *3. The gender ratio is calculated as the ratio of males and females to the number of full-time personnel.
 *4. Average number of years of employment is calculated as the average service years of permanent and contract employees of Fukuoka Realty Co., Ltd.
 *5. The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period. There were fewer face-to-face interviews in the 32nd fiscal period due to the impact of the COVID-19 pandemic.
 *6. Total value for 15 properties, including five retail facilities, nine office buildings, and one logistics facility. Basic unit is calculated by adjusting the total floor area (m²) by the occupancy rate. Data coverage is the area ratio of properties subject to data aggregation as compared to all properties (excluding land) and is calculated at the end of the fiscal period. The figure for Canal City Hakata, Canal City Hakata-B, and Canal City Business Center Building reflects total power and water consumption for the entire Canal City Hakata complex, including electricity and water consumption by some theater and hotel areas not owned by the Investment Corporation. The figure for Park Place Oita covers only the main building section and excludes the section for independently run stores. The figure for Taihaku Street Business Center covers only the office building and excludes the residential building. Water consumption excludes some well water volumes for which data cannot be obtained.
 *7. Includes treated water volume.
 *8. Includes externally purchased greywater.

Financial/Non-Financial Highlights (11-Year/22-Period Summary)

	17th Feb. 2013	18th Aug. 2013	19th Feb. 2014	20th Aug. 2014	21st Feb. 2015	22nd Aug. 2015	23rd Feb. 2016	24th Aug. 2016	25th Feb. 2017	26th Aug. 2017	27th Feb. 2018	28th Aug. 2018	29th Feb. 2019	30th Aug. 2019	31st Feb. 2020	32nd Aug. 2020	33rd Feb. 2021	34th Aug. 2021	35th Feb. 2022	36th Aug. 2022	37th Feb. 2023	38th Aug. 2023
Financial Information																						
Earnings (Millions of yen)																						
Operating revenue	7,200	7,565	7,574	7,779	7,789	8,423	8,343	8,234	9,730	8,122	8,194	9,178	9,242	9,231	9,162	8,518	8,904	8,867	8,658	8,830	9,037	9,284
Operating income	2,622	2,848	2,801	2,824	2,860	3,167	3,141	3,069	4,585	2,920	2,965	3,238	3,306	3,318	3,273	2,966	3,061	3,204	3,185	3,181	3,223	3,372
Ordinary income	2,005	2,272	2,239	2,263	2,370	2,663	2,670	2,616	4,199	2,562	2,624	2,861	2,935	2,939	2,900	2,587	2,677	2,817	2,816	2,805	2,851	2,988
Profit	2,004	2,271	2,238	2,262	2,369	2,661	2,669	938	4,198	2,556	2,623	2,860	2,934	2,939	2,899	2,586	2,675	2,816	2,814	2,804	2,849	2,987
NOI	4,444	4,751	4,732	4,800	4,829	5,229	5,237	5,164	5,010	4,998	5,079	5,493	5,591	5,633	5,596	5,307	5,347	5,336	5,334	5,370	5,274	5,152
Financial conditions (Millions of yen)																						
Total assets	160,574	167,857	167,492	167,824	167,369	181,597	181,445	179,513	175,063	178,063	177,283	193,112	195,433	195,106	194,795	199,004	199,559	199,804	198,745	201,223	201,442	203,868
Net assets	71,182	81,712	81,679	81,703	81,811	93,804	93,812	92,081	93,681	93,699	93,766	101,799	101,874	101,878	101,837	101,525	101,614	101,755	101,753	101,743	101,788	101,926
Interest-bearing debt	74,675	71,100	71,025	71,150	70,775	72,400	72,325	71,950	66,675	69,900	68,900	75,500	77,500	77,500	72,500	82,400	82,400	82,400	82,400	83,900	83,900	86,450
Interest-bearing debt ratio (%)	46.5	42.4	42.4	42.4	42.3	39.9	39.9	40.1	38.1	39.3	38.9	39.1	39.7	39.7	39.8	41.4	41.3	41.2	41.5	41.7	41.6	42.4
Depreciation and amortization expenses	1,268	1,343	1,354	1,387	1,390	1,458	1,471	1,470	1,455	1,474	1,500	1,602	1,622	1,651	1,660	1,686	1,623	1,552	1,486	1,514	1,499	1,531
Capital expenditures	431	612	848	740	328	445	630	665	1,789	741	600	657	947	476	465	790	687	445	600	1,946	385	1,602
Cash flow (Millions of yen)																						
Cash flow provided by (used in) operating activities	3,120	3,609	3,699	3,890	3,735	4,167	4,174	4,336	3,685	3,590	4,292	4,149	4,832	4,863	3,985	3,450	5,374	4,724	3,146	4,712	4,688	3,939
Cash flow provided by (used in) investing activities	(3,067)	(7,897)	(916)	(2,312)	(1,452)	(14,488)	(606)	(772)	4,220	(6,029)	(478)	(15,326)	(3,604)	(1,043)	(220)	(7,136)	(842)	(1,425)	(658)	(5,498)	(117)	(3,436)
Cash flow provided by (used in) financing activities	(666)	4,651	(2,359)	(2,115)	(2,635)	10,934	(2,747)	(3,043)	(7,872)	667	(3,555)	11,734	(859)	(2,933)	(2,938)	2,000	(2,586)	(2,674)	(2,816)	(1,314)	(2,803)	(298)
Cash and cash equivalents at year-end	7,024	7,387	7,810	7,273	6,920	7,533	8,353	8,873	8,905	7,134	7,392	7,950	8,319	9,205	10,032	8,348	10,293	10,917	10,588	8,488	10,255	10,459
Per-unit indicators (Yen)																						
Dividend per unit	3,257	3,291	3,243	3,278	3,435	3,563	3,574	3,479	3,398	3,422	3,512	3,593	3,687	3,693	3,642	3,250	3,361	3,539	3,536	3,523	3,580	3,753
EPS* per unit	3,257	3,291	3,243	3,278	3,434	3,563	3,573	1,256	5,621	3,422	3,512	3,593	3,687	3,692	3,642	3,249	3,361	3,538	3,536	3,523	3,580	3,752
BPS* per unit	115,696	118,423	118,376	118,410	118,567	125,574	125,585	123,267	125,410	125,434	125,524	127,888	127,982	127,987	127,936	127,544	127,656	127,833	127,831	127,818	127,875	128,048
NAV per unit	123,041	127,080	128,375	131,215	136,051	144,472	148,558	152,259	150,328	152,639	156,204	161,315	164,250	167,118	170,680	171,592	171,943	171,502	178,079	178,348	182,750	185,197
FFO* per unit	5,319	5,238	5,207	5,288	5,450	5,515	5,543	5,448	5,351	5,395	5,520	5,606	5,725	5,767	5,728	5,368	5,401	5,358	5,403	5,425	5,319	5,133
Investment unit information																						
Investment unit price (Yen)	153,600	145,000	171,400	199,000	227,000	188,700	194,200	186,100	177,100	164,300	173,100	170,400	169,300	178,300	167,900	136,500	168,500	175,500	156,800	170,300	164,600	162,100
Total number of investment units issued	615,250	690,000	690,000	690,000	690,000	747,000	747,000	747,000	747,000	747,000	747,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000	796,000
Non-Financial Information																						
Number of full-time officers and employees*1	36	40	40	34	35	38	41	39	40	38	38	39	41	41	42	41	41	40	44	41	46	47
Years of service (Years/Months)*1	5.7	6.1	6.2	7.1	7.5	6.0	6.2	6.5	6.9	6.11	7.7	7.10	7.11	8.6	8.10	8.10	9.1	9.6	9.6	9.4	8.9	8.3
Number of IR meetings (Japan and overseas)*2	—	—	—	—	122	154	147	106	126	116	169	129	148	149	133	54	114	90	105	101	116	95

Notes:

- Gains and losses on the sale of the Aeon Hara Shopping Center and Aqualia Kego, which were transferred in the 25th fiscal period, were handled in the following manner due to differing tax and accounting standards.
 - An amount equivalent to impairment losses on the Aeon Hara Shopping Center booked in the profit and loss statement in the 24th fiscal period was booked as an allowance for a temporary difference adjustment on the statement concerning the allotment of funds for the 25th fiscal period.
 - Gains on the sale of Aqualia Kego were recorded on the profit and loss statement for the 25th fiscal period.
 - The return of allowances for a temporary difference adjustment was booked on the statement concerning the allotment of funds for the 25th fiscal period.
 - Dividend per unit is calculated as follows.
 - 24th fiscal period: [Net profit] + [Reserve for temporary difference adjustment] - [Earnings carried forward to the next period]
 - 25th fiscal period: [Net profit] - [Return of reserve for temporary difference adjustment] - [Earnings carried forward to the next period]
 - The Investment Corporation undertook a five-for-one split effective March 1, 2014. Dividend and NAV per unit up to the 19th fiscal period have been retroactively adjusted to reflect this split.
 - The number of IR meetings in Japan and abroad shows the total number of IR meetings, based on the dates on which they were held, with institutional investors and analysts through interviews and telephone conferences generally regarding the results for the previous period.
- *1. The number of full-time officers and employees indicates the total number of directors and auditors, permanent employees, contract employees, temporary employees, secondees, etc., who are employed on a full-time basis at Fukuoka Realty Co., Ltd.
- *2. The number of IR meetings convened in Japan and abroad from the 17th to 20th fiscal periods is not recorded, as records do not exist for these periods.

Glossary

BPS

An abbreviation of Book Value per Share. This shows net assets per unit and is viewed as an indicator for stability.
[Calculation method] BPS: Net assets / Total number of units issued

EPS

An abbreviation of Earnings per Share. This shows net profit per unit and is viewed as an indicator of a company's ability to generate earnings.
[Calculation method] EPS: Net profit / Total number of units issued

FFO

An abbreviation of Funds from Operations. This shows how much cash flow is generated from rental income. The larger the FFO per unit, the greater the company's profitability.
[Calculation method] FFO: Net profit + Depreciation and amortization expenses + Impairment loss - Gains/losses from the sale of real estate
FFO per unit: FFO / Total number of units issued