



Fukuoka REIT: Fulfilling Global Investment Demands from a Regional Japanese Base

Following a successful IPO in June 2005, Fukuoka REIT Corporation (TSE Code: 8968; FRC) has implemented measures to raise unit-holder value including proactive tenant management and new property acquisitions. FRC Executive Officer Masatoshi Matsuo, also president and chairman of the board of FRC's asset manager Fukuoka Realty, outlines the REIT's plans below.

Matsuo: "Fukuoka REIT, as the first "regional" J-REIT, is primarily focused on the Fukuoka and Kyushu markets for the steady growth potential and strong property portfolio they provide, the unprecedented investment and support of local blue chip companies, and the risk diversification and solid returns these markets provide investors."

Fukuoka is the center of the regional Kyushu economy and the fourth largest metropolitan area in Japan. A vibrant economic zone with a GDP on par with South Korea, the metropolitan area of Fukuoka continues to grow, with forecasts calling for the growth to continue through 2030, far later than the national peak of 2006. The private and public sectors in the region are aggressively striving to expand the economy and reinforce its foundation, with efforts taking shape in the opening of the New Kitakyushu Airport next year that will further enable it to leverage Asia and the opening of Toyota's "second" head office in the region.

To date, most REITs in Japan have concentrated their investments on the Tokyo metropolitan area, as it was the sole driver in the economic recovery of Japan. However, this presents many inherent difficulties, particularly excessive competition over a limited number of blue chip properties and a poor defense against increasingly frequent natural disasters assailing cities and countries. Fukuoka REIT addresses these difficul-

ties, as our investments are in a region other than the Tokyo metropolitan area, and strong local ties through our network of sponsors and secure footing in the region provides us with preferential access to property and tenant information, as well as the ability to reach decisions quicker on acquisitions and risk. However, while FRC more than addresses the difficulties inherent in most REITs in Japan, it should not be viewed purely as an alternative investment to other REITs. It is also a first choice investment opportunity for investors seeking to diversify their portfolio, particularly their REIT and real estate investment portfolio.

Matsuo: "Achieving solid investment performance through a market-attuned combination of internal and external growth."

FRC's investment strategy is notable on two fronts. The first is its ability to achieve both internal and external growth. Internal growth is being secured through the optimal combinations of fixed and revenue-based rents, environmental measures that increase energy efficiency and lessen water consumption, creation of additional retail space that raises asset value far in excess of costs, active tenant management that brings prominent global brands to the properties and the creation of distinct sales promotion tools.

External growth through investments in these market-leading properties is possible because of our strong sponsorship network, robust relationships with local financial institutions and extensive, rich relationship with local real estate developers. These factors construct our competitive advantage over others and are definitive of our regional strength. Since our IPO we have applied these skills to acquire the Sanix Hakata Building and to conclude

a purchase option on a new multi-use property in the Kagoshima region of Kyushu that has a pre-arranged lease contract with leading retailer PARCO for 20 years.

The investment strategy is also striking on a second front: its clear positioning of asset classes. FRC's strategy calls for its portfolio to feature properties that are young and have low PMLs, and for a portfolio mix of 60-80% of its investments to be in retail properties, 20-40% in office buildings and the remaining in hotels, residential properties, etc. Presently, 64.3% of the portfolio is in retail and 35.7% in office buildings.

Matsuo: "We have applied our local knowledge, and our global educations and careers to mark out a distinct market position and distribute strong dividends to our investors"

FRC has recently paid out its first dividends since listing with a 1000% over-subscribed offering. The REIT's performance has exceeded expectations. Originally, the REIT announced a dividend projection of 18,116 yen at the beginning of its financial period ended in August 31, 2005 (365-day period) but proactive management of its portfolio has raised the actual dividend to 19,001 yen. As for the coming third business period of 182 days that ends on February 28, 2006, original projections indicated a dividend of 16,316 yen, but the aforementioned efforts have led to an upward revision to 16,700 yen. FRC's efforts at managing its portfolio and raising the return to investors are paying off. FRC will continue to return solid dividends to its investors as it proactively achieves both internal and external growth based on its strong competitive advantages backed by Standard & Poor's A- rating for the new J-REIT.

Matsuo: "We have launched an amazing start towards our goal of returning reliable dividends to our investors while rapidly growing our assets under management to 160 billion yen by 2008. Our competitive advantages are sure to help us realize these objectives."

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