Fukuoka REIT Corporation

Q&A Summary for the 39th Fiscal Period (Period Ended February 2024)

Earnings Briefing Session for Institutional Investors/Analysts

Date: April 17, 2024 (Wed.), 15:30 – 16:17 (web conference)

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Q1 Sales of Canal City Hakata increased. Do you expect sales to continue to expand in the future, rather than it being due to the special demand from the opening of Alpen FUKUOKA?

A1 Although there was an impact of the opening, we expect the trend will continue as sales of Alpen FUKUOKA were also much better than expected. No other store in the area has such a large floor space that handles sports products in general, so it has a competitive advantage and is also functioning to accommodate the inbound demand. Therefore, we expect sales of the facility to stay strong. Further upside can be expected if the inbound flow from China returns.

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Q2 Do you already have some concrete plans in mind for future asset expansion?

A2 There is no change in our policy of acquiring mainly logistics facilities, residences, and offices with a superior location and high specifications. Since the stock of development properties of the sponsors is also expanding, we believe we can continue to have positive discussions in the future. In addition, we leverage our unique sourcing capability to collect information. In particular, for logistics, TSMC in Kumamoto plans to continue to expand, resulting in new properties other than those of the sponsors also emerging from Fukuoka to Kumamoto areas, so we believe there will be opportunities for acquisition. Rather than starting research from now, we think an important point is how we will acquire specific projects going forward.

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Q3 You said Alpen FUKUOKA of Canal City Hakata continues to be performing well. What kind of products are selling, including for inbound demand?

A3 We understand there are many wealthy Korean customers, in particular, and expensive golf equipment is selling better than expected. We hear some customers go to golf courses directly with the golf clubs they have just bought at Alpen FUKUOKA. The boom in outdoor products has subsided a little as the COVID-19 pandemic settled down; however, running shoes and apparel, etc. are selling well mainly among inbound customers from Asia due in part to the effect of the weaker yen.

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Q4 What are the characteristics of the tenant occupancy trend in office properties?

A4 As Tenjin Big Bang and Hakata Connected bring a large supply of new offices, taking an example of Hakata FD Business Center which was newly acquired during the 39th fiscal period, we feel there is a strong positive demand for new bases, expansion, relocation and others. Properties in a good location with price competitiveness are performing strongly, and rents for existing buildings are being raised as a result of the new opening of buildings with a unit price per *tsubo* (3.3 square meters) of 30,000 yen. We should not be overly optimistic about the market, but we think the properties owned by Fukuoka REIT will remain solid because there is room for an increase in rent.

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Q5 How about the effect of renovation of La Festa in Canal City・OPA around last fall?

A5　By changing the business type in such a way to fully capture inbound demand, it recorded the highest ever sales for the zone as a whole, and an increase in the number of customers has had a ripple effect on the food and drinks zone and others. Together with Alpen FUKUOKA, we view the renovations as having been successful so far. In particular, it has added stores that inbound customers would prefer, such as subcultures, to differentiate itself from the competitors. We believe this is also an advantage.

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Q6　What are your thoughts on the introduction of CPI-linked and tiered rents, etc. for logistics facilities to deal with inflation?

A6　We believe that there is still a rent gap of 10% or more in current rents, so we are in fairly strong negotiations about increasing rents at the time of contract renewal. We should be able to achieve a firm increase in rents. On the other hand, we think that going as far as switching to CPI-linked contracts still poses a high hurdle. We will work to raise rents steadily for internal growth.

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Q7　What do you think of acquiring new properties to compensate for absence in NOI as a result of the disposition of the buildings in Marinoa City Fukuoka?

A7　The 40th and 41st fiscal periods are forecasted to be impacted by a decrease in NOI as a result of the disposition of the buildings, but we expect the impact will not be as large if the land lease business is able to collect full rents. Since we divested the buildings only this time, we will consider how to put the sales proceeds, including cash on hand, at work in the future. If there is a good property, we will consider acquiring it as an alternative. That said, there are no immediate plans to buy something directly from the sponsors in exchange for the transaction.

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Q8　Is the impact of the sale of Marinoa City Fukuoka the only reason why the planned timing of reaching DPU of 3,800 yen shifted from previously announced 2026 to 2027? Or, are there any other effects?

A8　It is solely due to the impact of the sale of Marinoa City Fukuoka. There have been no particular negative factors from the previous briefing. Rather, positive factors have been accumulating a little bit more. Due to the large impact of a decrease in NOI during the development period, we had to postpone the timing of reaching the target dividend in normal operation of 3,800 yen slightly from what was previously announced. On the other hand, there still remains the positive factor of internal growth as a driver, so we plan to use it as well to achieve 3,800 yen early.

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