



Fukuoka REIT Corporation

Q&A Summary for the 36th Fiscal Period (Period Ended August 2022)

Earnings Briefing Session for Institutional Investors/Analysts

Date: October 20, 2022 (Thu.), 11:30 AM – 12:34 PM (web conference)

Q1 As a recovery in inbound tourism is currently expected, are there any facilities similar to LAOX at Canal City Hakata—which experienced brisk business before the COVID-19 pandemic—where customer attraction and percentage-of-sales rent can be expected? Furthermore, with regard to the evolution of Canal City, will we be seeing any additions related to inbound tourism?

A1 There are currently no facilities specializing in inbound tourism similar to LAOX. However, we believe that recognition of our properties among foreign tourists is still high and thus have great expectations for the recovery of demand from inbound tourists in the future.

In the project to evolve Canal City Hakata, we are aware of the demand from inbound tourists and seek to realize a facility connecting Fukuoka and Asia given the proximity.

Q2 Will the decrease in rent revenue at Canal City Hakata in the fiscal periods ending February and August 2023 be caused by sluggish sales attributable to the intensified competitive environment? Or will it be due to the impact of the renovation?

A2 The decrease in rent revenue will occur due to the impact of downtime caused by the renovation.

Q3 Is your plan to allocate the proceeds from the sale of Kurume Higashi Kushiwara SC to capital expenditure, etc., and not to acquisition of new properties?

A3 Yes, we plan to allocate the proceeds mainly to the capital expenditure associated with the renovation of Canal City Hakata. As of now, there are no plans to allocate the proceeds to acquisition of new properties.



Q4 When is the project to evolve Canal City Hakata expected to start and when is it expected to finish? Furthermore, how much will rent revenue and NOI decrease during that period and by how much will those items recover afterward?

A4 The project will start in the fiscal period ending February 2023 when a downtime is scheduled to occur due to the renovation. It will not finish after one or two years. Instead, renovation of each zone will occur in phases over several years. As for the effects after the renovation, we aim to bring NOI back to a level similar to when the effects of inbound tourism were seen.

Q5 We expected Canal City Hakata to be impacted by LaLaport Fukuoka in the fiscal period ended August 2022, but instead real estate leasing revenue increased from the previous fiscal period. What is the cause of the increase?

A5 Although Canal City Hakata was impacted by LaLaport Fukuoka in the fiscal period ended August 2022, sales exceeding the assumption were recorded for the property based on the recovery trend from the time of spread of COVID-19 infection. However, we are not optimistic and intend to continue differentiating the property from competing facilities.

Q6 What is the reason behind the successful leasing of Higashi Hie Business Center?

A6 We were able to successfully lease Higashi Hie Business Center because the location with a direct connection to a station, the building specifications, the wide floor area on each floor and other features were very well received. We fielded many inquiries from IT companies that were considering establishing new a base in Fukuoka.



Q7 We understand the concept behind the renovation of Canal City Hakata, but what exactly will you do?

A7 Specifically, we intend to provide new communities through business categories combining goods consumption and experiential consumption and experience value as well as enhance places that produce a mixed culture of Asia and Fukuoka and restaurants.

Q8 As for the project to evolve Canal City Hakata, how much investment effect do you expect economically? Moreover, how long will the negative impact of the renovation on business performance continue for?

A8 We would like to continue achieving the revenue that was recorded in around 2019 when there was high demand from inbound tourists. We plan to conduct renovation in each zone, and although a negative impact on business performance is forecast over several fiscal periods, we intend to absorb it with external and internal growth.

Q9 It seems that remote work has not spread as widely in Fukuoka as it has in Tokyo. For what reason, then, is vacancy rate for office buildings in Fukuoka increasing?

A9 We think that the vacancy rate has increased temporarily in line with the timing of supply of new office buildings. However, vacancies are gradually filled also at new office buildings albeit after completion. In that respect, we believe that the vacancy rate in Fukuoka is at a level lower than that in Tokyo.

Q10 The decrease in revenue at Canal City Hakata is forecast to continue until the fiscal period ending August 2023. Do you think that it is a temporary decrease due to the opening of LaLaport Fukuoka and expect rent to recover gradually based on the future vision? Or is such sales level expected to continue constantly in the future?



A10 The decrease in revenue is not due to the impact of LaLaport Fukuoka but instead the impact of downtime caused by the renovation. After the renovation, it is assumed that new tenants will move in and sales will recover. We do not think that there will be a constant negative impact.

Q11 How large will the impact on rent be if the sales of Canal City Hakata recover to the same level as that in 2019?

A11 In 2019, there were some tenants meeting the demand of inbound tourists, and tenant composition was different from the current composition. Although comparison is difficult, we believe that rent will return to a level close to that in 2019.

Q12 We recognize that Canal City Hakata was a retail facility with a high ratio of sales driven mainly by inbound tourists from South Korea before the COVID-19 pandemic. Is there any information on the future trend after the resumption of inbound tourism to Fukuoka from South Korea following the lifting of the restriction on the maximum number of foreign nationals allowed to enter Japan this month?

A12 Before the COVID-19 pandemic, there was strong demand from inbound tourists, mainly from South Korea as well as China and Taiwan. At present, about three flights are operated between Fukuoka and Seoul every week, and there are sometimes empty seats. We have heard that flights will be operated almost daily and that a considerable number of reservations have been made. Therefore, we are expecting a recovery of demand from inbound tourists from South Korea.

Q13 Do you plan to offset the decrease in revenue caused by the renovation of Canal City Hakata after the fiscal period ending February 2024 with the gain from additional property sales?

A13 The split sale of Kurume Higashi Kushiwara SC will take place in the fiscal period ending



February 2024, and the decrease in revenue is scheduled to be offset by a part of the gain on sale from that transaction. After that, we aim to complete the renovation while stabilizing distributions through external growth and recovery in the portions of Canal City Hakata where renovation has been completed.

Q14 Do you not think that you will fail to capture the demand from inbound tourists if you implement renovation when inbound tourism starts to recover? Furthermore, do you plan to renovate Washington Hotel as well?

A14 We understand that there will be a negative impact on the section(s) subject to renovation. However, as shown in the future vision, we believe that it is necessary to implement the project to evolve Canal City Hakata simultaneously over the medium to long term.

Furthermore, plumbing work at Washington Hotel has already been carried out, and the hotel has been renovated in order to capture demand once inbound tourism recovers.

Q15 Do you plan to continue selling properties and support DPU during the renovation of Canal City Hakata even after the fiscal period ending August 2024? In such case, will you set a lower limit of DPU?

A15 We do not plan to sell properties at this stage. We intend to support DPU through external and internal growth during the renovation. We mentioned that the lower limit is 3,500 yen in the analyst meeting for the previous fiscal period, but we would also like to increase distributions as we will enter a growth phase from now on.



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