Fukuoka REIT Corporation

Q&A Summary for the 28th Fiscal Period (Period Ended August 2018) Earnings Briefing Session for Institutional Investors/Analysts

Date: October 17, 2018 (Wed.), 5 pm – 6 pm

Q1: I understand that the number of cases and the total amount of upward rent revision for office buildings are as explained in the presentation material. As for specific cases in which upward rent revision was achieved, could you explain at what rates rent was increased? I would like to know if you have achieved or failed to achieve growth in rent in line with or even beyond that of the market.

A1: The tenants for whom we work to raise rent are those who pay rent that is less than market rent. As for the tenants for whom we have successfully raised rent, the amount of increase is roughly 1,000 yen per month per tsubo, or around 2,000 yen per month per tsubo on the upside. In some cases, it has been arranged that rent will be raised by 500 yen per month per tsubo each year. In successful cases of upward rent revision, the rate of increase is a little less than 10% of the existing rent, or around the latter half of the single digit level, as we understand. Meanwhile, the rate of increase in advertising rent in Fukuoka over the last 12 months has been approximately 5%. Compared with this, we believe we have achieved fairly good results in upward rent revision.

Q 2: With regard to Active Retail category properties Canal City Hakata and Canal City Hakata・B, it seems the rent trend has not shown a major change since 2014. Looking ahead, do you think you will be able to raise rent at retail properties? Or do you consider that it will remain stable going forward?

A2: For properties in the Active Retail category, we would like to increase the number of visitors and raise percentage-of-sales rent tied to the sales of stores. One measures for this was the renewal of water show facilities and introduction of projection mapping at Canal City Hakata conducted two years ago. As for inbound tourists, we have worked on the establishment of tax-free counters that facilitate easier shopping, among other measures. Going forward, we will continue our endeavors to increase the number of visitors with an aim to increase rental income.

Q3: If your office buildings in Fukuoka are performing well and you want to ride on the growth of Fukuoka, is there any consideration for increasing the investment ratio of office buildings, etc. to accelerate the growth of dividends?

A3: At present, the percentage of retail properties in our portfolio is sixty percent. In the future, there is a possibility that the investment ratio of retail properties will be decreasing as we consider investments in office buildings and other assets.

Q4: In terms of the appraisal cap rate, has the value dropped on the tail of the current market condition? Will the cap rate remain on its downward trend? Tell me how you see it.

A4: The transaction yield is decreasing because there are few properties for sale available on the market in contrast to the strong demand for buying properties in view of the potential of Fukuoka. Reflecting this situation, the cap rate of the properties we own is also decreasing. However, as some of the cap rate figures are at a level lower than before the global financial crisis, we believe that any further drop of the cap rate would be limited.

Q5: You’ve said the impact of the opening of MARK IS Fukuoka Momochi has been factored into the performance of Konoha Mall Hashimoto, but I wonder if its current earnings forecast is too conservative?

A5: When a new retail facility is built, early adopters in Fukuoka, or those who like new things, would like to visit it. Therefore, it is assumed that more people would go to the new facility after its opening. For Konoha Mall Hashimoto, we think this will have some initial impact on its sales. However, considering the fact that between Konoha Mall Hashimoto and the new facility there are only 8 shops where tenants are overlapped, among other factors, you may say our forecast of the impact is a bit too conservative.

Q6: Looking ahead, many hotels are planned to be supplied in the vicinity of Canal City Hakata. What impact do you think such a supply would have on the hotel and retail properties you own?

A6: Like Tokyo and Osaka, Fukuoka is also seeing a growing number of inbound tourists. Although the number of guest rooms increased by around 2,000 rooms in 2017 through the first half of 2018, the room occupancy rate of hotels in Fukuoka City has dropped only 1% in the first half of 2018 from the first half of 2017. We believe that location is the key factor for hotels. In this regard, Canal City Hakata should be able to take advantage of attracting many people including tourists, a strength that only multi-use retail properties can exert.

We believe we can respond to environmental changes, including addressing the labor shortage problem, by working to differentiate the property despite the increase in competition.