Fukuoka REIT Corporation
Q&A Summary for the 29th Fiscal Period (Period Ended February 2019)
Earnings Briefing Session for Institutional Investors/Analysts
Date: April 15, 2019 (Mon.), 3:30pm – 4:30 pm

Q1: Significant upward rent revisions are forecast in the 30th fiscal period. I would like to know if this pace is expected to continue given the situations of the office market.

A1: Upward rent revision so far has resulted in a rent increase of around 1 million yen per month, but the forecast figure is around 2 million yen. Previously, we revised rents of tenants who had moved in during economic recession at rents lower than the market rent as of late. However, as the market has improved, we have expanded the target tenants for rent revision. Although the outcome all depends on negotiations, this is something we would like to continue pursuing.

Q2: Although the initial forecast made at the beginning of the 29th fiscal period, which just ended, predicted sales figures of Konoha Mall Hashimoto would fall due to factors related to nearby retail properties, they turned out to be flat. Will the figures remain flat going forward, or do you expect them to increase?

A2: While some pointed out at the previous earnings briefing session that the forecast was too conservative, we successfully ended the period with a better-than-expected result. We are forecasting a decrease in sales of 3% this time, but would like to increase sales as much as possible by capitalizing on the property's strength as a community-based commercial facility. To this end, we will be planning tenant replacement and such as well.

Q3: As to the change in investment policy, was the change made to align with the current portfolio? Alternatively, is this representative of your determination to perform focused acquisition of office buildings in light of the strong market trends?

A3: Fukuoka Jisho Co., Ltd., the sponsor, owns other office buildings besides Tenjin Business Center, and is planning to rebuild some of the buildings going forward. Amid such, we would like to increase the number of office buildings in our portfolio by negotiating acquisitions with the sponsor.

Q4: There have been more REITs conducting property replacement, but Fukuoka REIT has not sold a major property since the sale of AEON Hara Shopping Center. Going forward, will there be no selling of properties because you see no necessity in such, or is it that you have no plans for conducting property replacement?

A4: All properties are currently with unrealized gain and there are no properties that need to be replaced immediately. However, we may conduct property replacement depending on the situations of the market in the future.

Q5: While dividend growth and external growth are linked, contribution of internal growth to dividend seems small. Can we expect to see internal growth going forward?

A5: As a matter of fact, I just explained that approximately half of the 130 yen forecast dividend increase for the 30th fiscal period is from external growth, while the other half is from internal growth. For us, there is no doubt that external growth is important, but we would also like to see a dividend increase from internal growth. We will pursue such through the reduction of utility expenses, etc. I mentioned, while continuing to increase percentage-of-sales rent at Active Retail category properties and implement upward rent revision at office buildings among other things.

Q6: At the beginning of the session, you explained that DPU in the range of 3,800 yen will be in sight as the medium-term goal. For achieving that target, you mentioned increase in sales of Active Retail properties such as Konoha Mall Hashimoto, as well as increase in rent of office buildings. Could you give us a breakdown of the 3,800 yen with regards to internal growth and external growth?

A6: The range of 3,800 yen we mentioned as dividend does not factor in external growth at this time. We will work towards this target through the accumulation of efforts on internal growth, including upward rent revisions at office buildings, increase of percentage-of-sales rent at Active Retail category properties, cost reduction such as reduction of utility expenses carried out this time and reduction of depreciation.

Q7: GOP-linked rent was additionally mentioned in the section for changes to the guidelines this time. Going forward, do you intend to increase the percentage of GOP-linked rent or variable rent for properties acquired through pipeline support or for existing buildings?

A7: Some of the properties we own already had GOP-linked rent, but we decided to newly state it in the guidelines because we included Tissage Hotel Naha in the portfolio under the investment type of hotel this time. Situations differ as to how we should treat acquisition of hotels from the sponsor. We will discuss that with the sponsor when performing acquisition from the sponsor, and will carefully consider which type will be beneficial to unitholders over the medium to long term when performing acquisition from outside parties.