



Fukuoka REIT Corporation

Q&A Summary for the 34th Fiscal Period (Period Ended August 2021)

Earnings Briefing Session for Institutional Investors/Analysts

Date: October 18, 2021 (Mon.), 3:30 PM – 4:23 PM (web conference)

Q1 You said you intend to promote property acquisitions centering on office buildings and logistics facilities. At present, retail properties occupy more than half of the portfolio. What are the proportions of the portfolio by property type you envision for the future?

A1 We will work on external growth by acquiring non-retail properties, with a focus on office buildings and logistics facilities. This should result in a lower proportion of retail properties, and that is what we aim to achieve. A possible target in our mind is for the proportion of retail properties to be less than 50% through acquisition of non-retail properties equivalent to approximately 13 billion yen as a guide.

Q2 Under what conditions and at around what time do you expect the dividends will surpass the level achieved in the 31st fiscal period (ended February 2020) and earlier? Can you also tell me by what proportion internal growth and external growth will contribute to the recovery of dividends, respectively?

A2 As for internal growth, if the sales situation of Canal City Hakata returns to the level before the COVID-19 pandemic (excluding sales for foreign tourists), we believe that internal growth alone will be enough for the DPU to return to the level of the 31st fiscal period (ended February 2020) and earlier. However, it is difficult to assume when that will happen. In principle, therefore, we will work to expand the asset size through external growth so that the DPU will return to around 3,600 yen as early as possible. For now, we set 3,500 yen as the lower limit we aim to achieve.

Q3 What impact is the opening of LaLaport Fukuoka in the spring of 2022 likely to have (such as outflow of your major tenants)? To counter it, what strategy are you considering implementing (such as review of tenant composition, attracting duty-free shops and tenant replacement from goods-selling tenants to service-related tenants)?

A3 We anticipate being affected at the time of opening and have factored in the impact in our forecast. We hear that tenants to be housed in LaLaport Fukuoka have almost been determined and understand that there will be no outflow of our major tenants at present. We have launched a project team to study what countermeasures we can take. We presume there will be a certain impact at the time of opening, but subsequently, the impact will remain limited because 1) Canal City Hakata is an urban merchandising facility, in contrast to LaLaport Hakata which targets family household customers; 2) a



new subway station is about to open near Canal City Hakata; and 3) investigations are being made to reinforce Canal City Hakata's attractiveness, including enhancement of its entertainment factors.

Q4 With regard to the positive rent gap of Hakata Chikushi-Dori Center Building, how long do you anticipate it will take for the gap to be addressed upon such occasions as rent revision and tenant replacement?

A4 We would like to fill the gap as early as possible through negotiation for upward revision of rent upon contract renewal with respective tenants once every two years and rent increase upon tenant replacement, etc.

Q5 With regard to external growth, do you plan to focus on expanding the asset size going forward? Do you also intend to conduct asset replacement? When it is done, what asset types will be subject to disposition among your properties?

A5 We will focus on expanding the asset size. Since there are no properties that have unrealized losses for the moment, we do not assume proactively conducting asset replacement.

Q6 For rent reduction or exemption, do I understand correctly that your assumptions for the 35th and 36th fiscal periods are fairly conservative, although it may depend on the COVID-19 situation?

A6 With regard to rent reduction or exemption, we have factored in what we assume at present, and our assumptions are not conservative.

Q7 Compared with other regional cities, Fukuoka is fairly energetic, with Hakata Connected and Tenjin Big Bang underway. They are re-development projects, and Fukuoka Jisho, one of your sponsors, is involved in them. How do you see the prospect of acquiring such re-development properties in the future?

A7 Fukuoka Jisho, our major sponsor, is engaged in several re-development projects for Hakata Connected and Tenjin Big Bang. FRC is always positively investigating such acquisitions, and we plan to continuously discuss with the sponsor in a proactive manner.

Q8 For active retail properties, which are provided on page 11 of the briefing material, rather than increasing rent for existing tenants, you appear to be more focused on the occupancy rate when conducting tenant replacement. How are you going to negotiate for rent increase in the future? Also, how do you view the timing of when rent can be increased?



A8 For active retail properties, we will work to improve overall sales rather than raise rent, as percentage-of-sales rent linked to sales have been set for them. Such improvement should result in an increase in rent. That is what we have in mind. Therefore, we do not consider working to raise rent through negotiation for higher rent and other measures.

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