



Fukuoka REIT Corporation

Q&A Summary for the 37th Fiscal Period (Period Ended February 2023)

Earnings Briefing Session for Institutional Investors/Analysts

Date: April 17, 2023 (Mon.), 15:30 – 16:25 (web conference)

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Q1 With the recent recovery of demand from inbound tourists, which stores at Canal City Hakata saw improvement in sales due to such effect?

A1 Demand from mainly inbound tourists from South Korea in particular is recovering. Sales are increasing at all restaurants including Ramen Stadium and stores such as Matsumoto Kiyoshi.

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Q2 According to Miki Shoji's data on vacancy rates, the vacancy rate in Fukuoka increased to 5.9% in March 2023. Did this have an impact on the properties owned by Fukuoka REIT?

A2 As mentioned on page 8 of the Analyst Meeting Materials, the office buildings owned by Fukuoka REIT have not been impacted. The increase in the vacancy rate in Fukuoka is attributable to the fact that new office buildings were completed with vacancies. We believe that demand will absorb such vacancies in time. As for existing buildings, the vacancy rate as of March 2023 was 4.28% and has increased notably.

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Q3 What can be expected at the portions of Canal City Hakata owned by Fukuoka REIT as a result of the redevelopment of Canal City Hakata East Building described on page 10 of the Analyst Meeting Materials?

A3 With regard to the redevelopment of Canal City Hakata East Building, a press release has been issued by our sponsor and owner of the building Fukuoka Jisho Co., Ltd. Fukuoka Jisho is considering developing the lower floors as retail facilities, and we believe such would have high affinity with the portion of Canal City Hakata owned by Fukuoka REIT. In addition, Fukuoka Jisho is considering establishing residences, etc. on the middle and upper floors, and we believe that an increase in new demand from residents can be expected.

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Q4 The acquisition cap rate for Axion Befu-Ekimae Premium is believed to be at a relatively low level of 3.4%. What will be the benchmark for the future property acquisition cap rate?



A4 We are using cap rate after depreciation as one of the benchmarks. The cap rate for Axion Befu-Ekimae Premium is low, but the level of the total average cap rate for the three properties to be newly acquired this time was also used in our decision. In addition, we recognized the points of the property being a two-minute walk from Befu Station on the Fukuoka City Subway Nanakuma Line, which was extended recently, and that it is located in an area where growth potential as a residential area is expected in the future.

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Q5 At the Analyst Meeting, you explained that “LTV will increase temporarily, but is expected to decline to the normalized level through future management.” Are you considering increasing capital to lower the LTV? Or are you considering repaying borrowings by selling properties?

A5 Currently, we are not discussing anything specific. We will seek all options to lower the LTV including property sales and financing.

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Q6 Will the rent revenue of Canal City Hakata be normalized in the fiscal period ending August 2024 (40th fiscal period) when the gain on sale of Kurume Higashi Kushiwara SC disappears?

A6 As-needed renovation of Canal City Hakata is being considered and will continue going forward. Therefore, the rent revenue of Canal City Hakata is not expected to be normalized in the fiscal period ending August 2024 (40th fiscal period).

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Q7 What level of actual dividend do you expect when gain on sale of Kurume Higashi Kushiwara SC disappears?

A7 We were able to increase dividend per unit from the previous 3,500-yen range to 3,600 yen in the forecasts for the fiscal period ending August 2023 (38th fiscal period) and the fiscal period ending February 2024 (39th fiscal period). As for the future normalized level, we aim to maintain a level of 3,600 yen or higher as well since newly acquired properties are also expected to contribute to revenue.



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Q8 Sales at Canal City Hakata seem to have recovered to about 80% of the pre-COVID level due to the recovery of inbound tourism. When do you think the figure will return to 100%?

A8 Currently, the number of inbound tourists from South Korea is particularly on a recovery trend, but the number of inbound tourists from China still has not recovered. We believe that sales of facilities will increase when the number of inbound tourists from China recovers in the future. It is difficult to predict when this full recovery will occur as the standard for 100% differs depending on the period before COVID-19 used in the comparison and simple comparison cannot be made due to the replacement of stores.

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Q9 How long is the free rent period for Higashi Hie Business Center, which saw favorable leasing?

A9 The lease contracts were concluded with a free rent period of about three to four months, which is said to be the market standard in Fukuoka.

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Q10 What are your thoughts on the likelihood of future rent increase at office buildings FRC owns?

A10 The positive gap with the market rent is still 13.3%. We will continue to increase rent upon tenant replacement and contract renewal.

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Q11 What is the factor of increase in repair and maintenance expenses in the fiscal period ending August 2023 (38th fiscal period)?

A11 The main factor is repair and maintenance expenses due to the renovation of Canal City Hakata.

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Q12 For the fiscal period ending August 2024 (40th fiscal period) onward, how much downtime and cost do you assume from continuous renovation of Canal City Hakata?

A12 The increase in downtime and cost that will occur in the future are attributable to the



renovation of the restaurant zone on B1F of the Grand Building shown on page 10 of the Analyst Meeting Materials. We will examine the expenses, etc. from now on.

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