Fukuoka REIT Corporation
Q&A Summary for the 38th Fiscal Period (Period Ended August 2023)
Earnings Briefing Session for Institutional Investors/Analysts
Date: October 19, 2023 (Thu.), 15:30 – 16:21 (web conference)

Q1 You said you are actively pursuing property acquisition, but for a comprehensive REIT, retail facilities seem to be limited. Are you prioritizing offices, logistics facilities, hotels, or residences?

A1 Logistics facilities and residences in particular are high priorities, and offices are still going to perform steadily in Fukuoka, so we view these three asset types as the areas where we should focus our efforts. With hotels recovering from the pandemic, there is scope to consider acquiring them, but at present, we judge that they are highly volatile and have dropped them to low priority. Regardless of the property type, we will actively consider acquiring high-quality assets within the area.

Q2 Renovation of Canal City Hakata is believed to be progressing well. Much is expected from the opening of Alpen FUKUOKA as well. Are you planning other work in the future following the renovation of the Grand Building that is currently under way?

A2 Alpen FUKUOKA was opened on September 15 as planned and is off to a successful start. For the renovation of the restaurant zone on B1F of the Grand Building, although it is taking some time to consider matters such as the new design, we plan to start the work in 2024 with the aim of opening it around one year later. We view thoroughly completing B1F of the Grand Building, which will undergo large-scale renovations, as our first priority. After that, we will complete leasing for sections that are not in operation and prioritize profit recovery.

Q3 You are targeting a dividend of 3,800 yen, including gain on sale. Which properties are candidates for selling?

A3 In terms of measures to achieve our current targets in normal operation, we view the use of gain on sale as one method among several strategies. As of now, we have not confirmed any candidates for selling. We will continue to make comprehensive judgments by taking into account age, cap rate, future repairs and maintenance, gain on sale, etc.

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Q4 What do you anticipate will be the main drivers raising the dividend to the target dividend in normal operation of 3,800 yen?

A4 As indicated in the specific measures on page 3 of the Analyst Meeting Materials, we ideally view robust external growth as the main engine, but now we believe internal growth at our existing properties alone would be sufficient to reach the target dividend level, including obtaining rent revenue with the inbound recovery and renovations at Canal City and increased revenue due to normal operation at Hakata FD Business Center, as well as renewing office and logistics properties leases with higher rents. We will flexibly consider other measures as well, including the use of gain on sale and internal reserves.

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Q5 The LTV upper limit is now 50% rather than the normalized level of 45%. Does that mean there is little need to lower the LTV?

A5 We intend to manage the LTV level as before, with the normalized level at 35% to 45% and an upper limit of 50%. With our recent property acquisition, it slightly exceeded 45%, but at present, we don't see the level as a problem and consider it to be within a range that we can manage adequately. The ideal level remains 45% or less, so it is not the case that there is little need to lower it.

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Q6 You say you intend to control LTV within a range with an upper limit of 50%. Does that imply you may raise the level up to the limit with property acquisition? Or are you also considering lowering it?

A6 Our borrowing capacity until reaching the LTV upper limit of 50% is around 20 billion yen after acquiring Hakata FD Business Center, but for future property acquisitions, we intend to make comprehensive decisions based on various options, without limiting ourselves to borrowing.

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Q7　For Canal City Hakata, are the costs of the renovation plan for the restaurant zone in B1F of the Grand Building incorporated into the forecasts up to the fiscal period ending August 2024? Or will the increase in costs be included in the forecast for the fiscal period ending February 2025 or afterward, which has not yet been disclosed?

A7　They were mainly incorporated into CAPEX for the fiscal period ending August 2024.

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