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The Story of the Daiwa House Group's Value Creation



What! Daiwa House built all this?

That's right. Everything you see is by Daiwa House.

In line with its motto “a group that co-creates value for individuals, communities, and people’s lifestyles,” Daiwa House operates in a wide variety of business areas.

These include businesses in the three broad fields of Housing (single-family houses, rental housing, condominiums, renovation, and more), Business (commercial facilities, logistics facilities, medical and nursing care facilities, real estate development, environment and energy, and others), and Life (resort hotels, home centers, fitness clubs, etc.).

Daiwa House creates new value for society through its activities in these three business fields, which go far beyond the Company's original categorization as a builder of single-family houses.

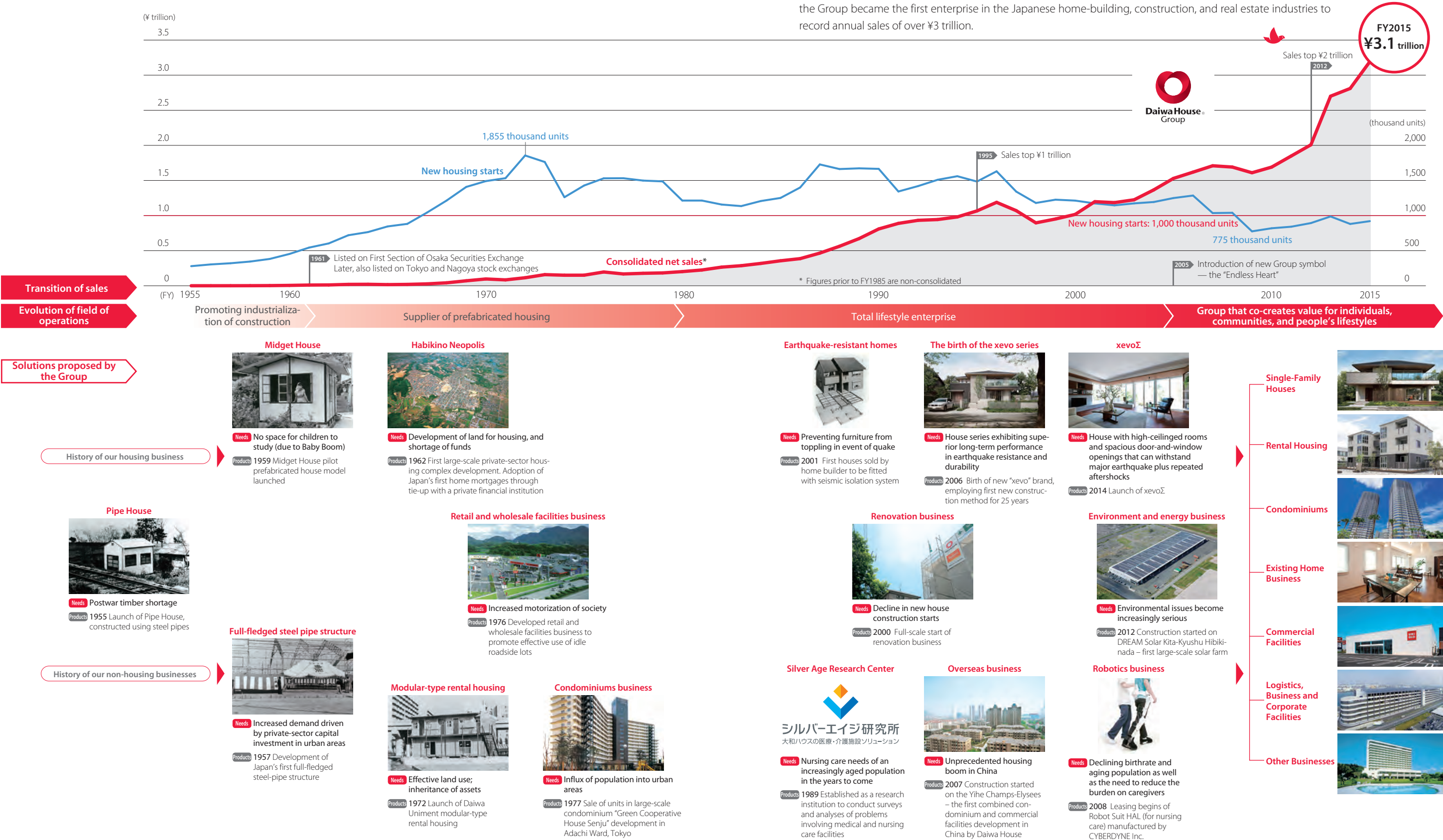


What sort of things does the Daiwa House Group do?

We are called the “Daiwa House Group,” but we don’t just build houses.
We operate businesses in a wide range of areas, continually seeking to create new products and services that meet the changing needs of the times.

The history of the Daiwa House Group is one of overturning conventional wisdom through innovation that creates a “new normal.” As one generation has given way to the next, we have continued to anticipate the changing social and business environment, and to exhibit mental flexibility in creating a wide variety of new products and services, as well as developing new methods and systems.

Our very first product – the Pipe House – is a good example. Amid a severe shortage of homes and housing materials just after the end of the war, rather than rely on Japan's depleted timber resources, we hit on the idea of building houses with structural frameworks made of steel pipes. The pipes could be pre-processed at a factory and then simply assembled on site. This was the first realization of the “industrialization of construction,” and caused a revolution in the Japanese construction industry. Thereafter, the flexible thinking of Daiwa House staff led to the creation of a large number of products and services that were the first of their kind in Japan. Finally, in fiscal 2015 the Group became the first enterprise in the Japanese home-building, construction, and real estate industries to record annual sales of over ¥3 trillion.



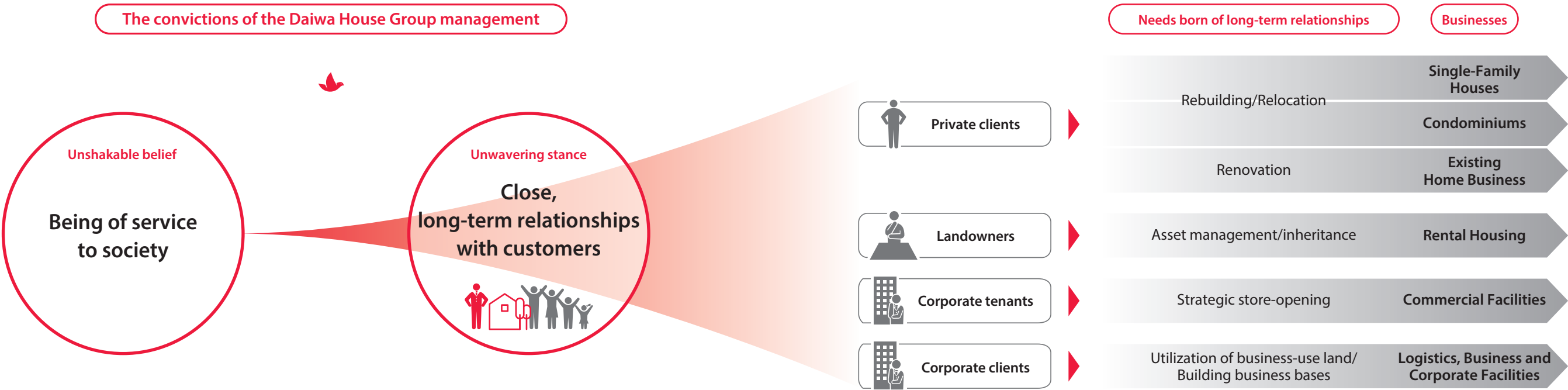
What convictions underlie the expansion of the Group's business operations?

It is our unshakable belief that we should be of service to society. In keeping with this, we do our utmost to improve people's daily lives and provide continuous, lifelong support for our customers.

At first sight, there seems to be no connection between any one of our businesses and the others. In fact, they all have two things in common. The first is that they are all based on the unshakable conviction that we should engage in certain businesses not because they will be profitable, but because they will be of service to society. The second point in common is that our basic mission of working to improve people's daily lives and provide our customers with continuous, lifelong support – which we initially developed in our housing business – has similarly become the core of *all* our businesses. A home is the most expensive purchase the average person will make in his or her lifetime, and for many of our customers it is a “dream” they have been looking forward to for many years. Our job is to help them make this dream come true, and to do this we form close relationships with our customers and exert our full efforts to be of service to them. The basic business stance of Daiwa House – to precisely meet the unique needs of each customer – manifests itself in our reputation for trustworthiness: this is the bedrock of all our operations and the ultimate driving force behind our business growth.

“Whatever issue you have related to daily life, Daiwa House will propose a solution.”

The aspiration to permanently remain indispensable to our customers lies at the core of all our business activities.



The Daiwa House Group – ever-closer relationships with our customers

Organization and human resources – the power behind the Daiwa House Group

Above all else, we place priority on a hands-on management approach, focusing on what is actually happening at the “front line” of our operations. The leading item in our corporate creed is “the cultivation of people through our businesses.” In line with this, since the founding of Daiwa House it has been our firm belief that the only truly correct way to perform our jobs is to personally examine the actual products on the factory floor or at the building site, and thereby confirm the reality of the situation with our own eyes. We are convinced that the best way to nurture the human resources we need is to have our staff persistently address issues until they find a solution.

Turning to the form of corporate organization best suited to nurturing such human resources, while pursuing the unique business value of each of our businesses, we delegate authority appropriately to the heads of our branches, and have adopted a system of management for each place of business that abolishes barriers between different business divisions. We practice management that is deeply rooted in each community where we operate, and is capable of swift decision-making.

By means of the practical, on-site training we give our employees, and through the combined use of various training systems – including educational texts that ensure that our staff understand the values for which the Group stands, and that the spirit of our founder is passed on to them, as well as our Daiwa House Juku management staff training school – we are able to produce staff who can drive our business operations in the right direction.

Educational texts which ensure that the spirit of our founder is passed on



The Future of the Daiwa House Group
Author: Nobuo Ishibashi



Passing on the Spirit of Our Founder
Author: Takeo Higuchi

Staff training system includes separate courses for all promotion levels and job categories



The Daiwa House Juku, a training course aimed at discovering and nurturing future senior management staff

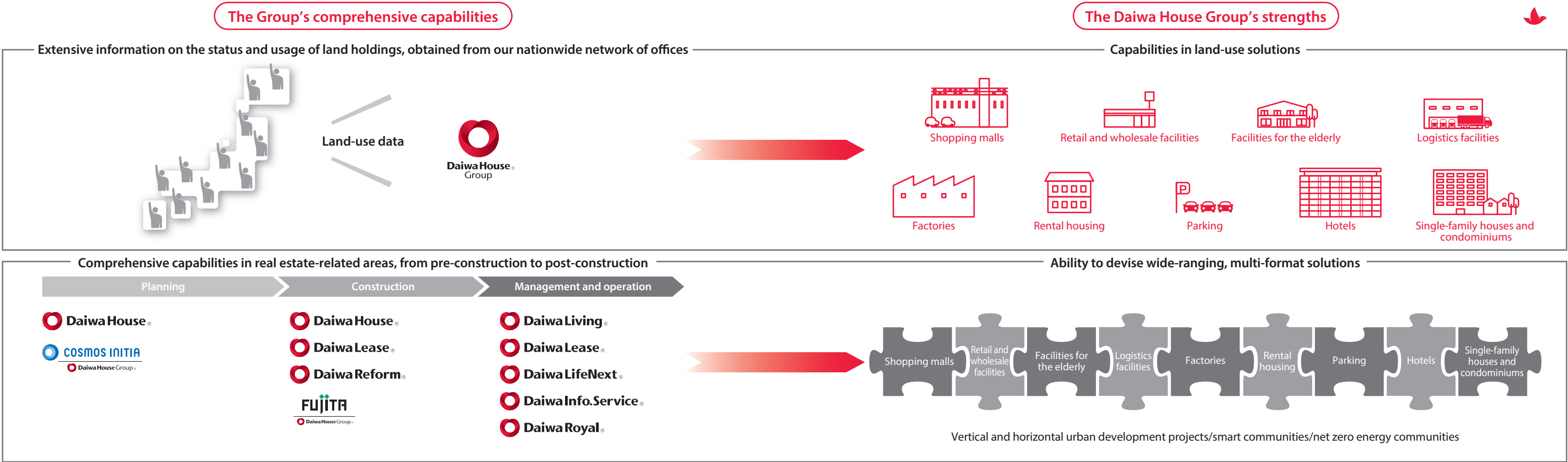
What are the strengths that lie behind the continued growth of the Daiwa House Group?

An extensive database on land usage in Japan, and the ability to propose a diverse range of complex solutions. This is made possible by the Group's comprehensive capabilities.

The Daiwa House Group has cultivated its strengths through the expansion of its business operations.

The Group's greatest competitive advantage is its extensive database on land ownership and usage in Japan, and the ability to propose effective solutions to customers' issues based on that information. Daiwa House brings together landowners who want to put their holdings to effective use, and prospective tenants corporations that are looking to build retail outlets, offices, or logistics facilities as part of their business expansion plans. This business model allows us to find optimum solutions to all our customers' needs, and it functions effectively because of the wide web of relationships based on trust that the Daiwa House Group has built up through the day-to-day efforts of its marketing staff, who are based at offices located all over Japan.

Another important strength possessed by the Group is its ability to propose "composite" solutions that cut across traditional business-sector boundaries. In addition to our core business fields of home building and non-residential construction under contract, we also operate a wide range of businesses covering pre-construction and post-construction activities such as in-house real estate development and the management of completed facilities. We make maximum use of our comprehensive capabilities in projects such as energy self-sufficient "smart" communities, "horizontal" urban development (single-family houses and other low-rise structures with a low population density) and "vertical" urban development (multi-unit dwellings, which have a high population density, plus commercial and other facilities), to make the sort of complex, multi-level proposals that are possible only for the Daiwa House Group, thanks to its nature as an organization operating in many different sectors.



The Daiwa House Group – ever-closer relationships with our customers

The Daiwa House Group – focusing comprehensive strength to create new communities

An overcrowded residential area in the Makishi-Asato district of Naha City, Okinawa Prefecture was confronted with a number of thorny problems. Many of the houses were becoming dilapidated, and the residents faced great difficulties in independently pursuing rebuilding plans. Meanwhile, the adjoining commercial area was going downhill, and the Asato River, which runs through the district, had many times burst its banks after heavy rains.

The Daiwa House Group, whose staff possess considerable expertise in civil engineering works, embarked on a project to redevelop the whole community while simultaneously conducting flood-prevention work on the Asato River. This was the first instance in Japan of flood-control work being undertaken as part of an urban redevelopment scheme rather than as a separate public works project.

The Daiwa House Group was able to undertake an entire urban development project independently, thanks to its ability to offer a package comprising the construction of condominiums, hotels, and commercial facilities, as well as flood-control work. The Group's proposal had the additional attraction of being designed to precisely meet the needs of the local landowners and promise the most effective use of the land involved. This is the kind of composite development project that only the Daiwa House Group is capable of implementing in Japan.



Saion Square, Naha, Okinawa

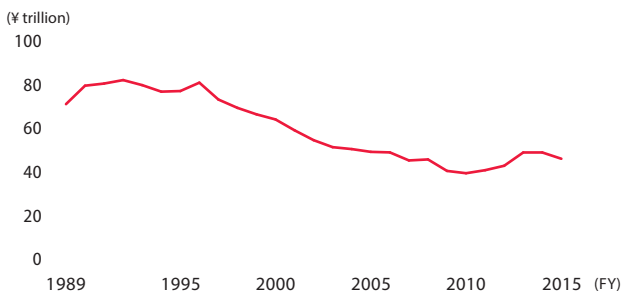
What is your future vision of the Daiwa House Group?

Our vision is of a corporate entity that continues to address new issues thrown up by social change.

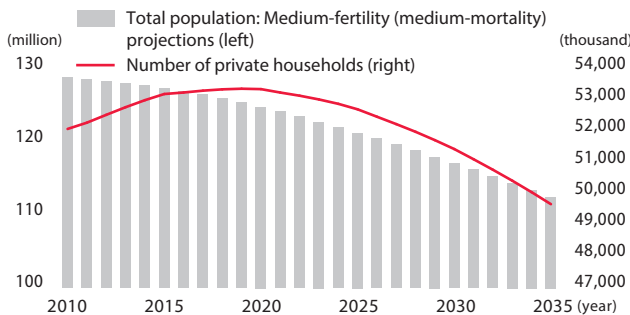
Not all the factors comprising the Daiwa House Group's operating environment are positive. The decline in Japan's population has already begun, and this means that we will also soon see a decrease in the number of households, which have shown constant growth up to now. Investment in construction, including non-residential construction, has already fallen to around 60% of its peak, and it is difficult to imagine any future expansion beyond the current level. It is also feared that the next increase in the consumption tax rate – scheduled for 2019 – may cause a downturn in consumer confidence and negatively impact the economy.

The operating environment of the Daiwa House Group

Estimate of Construction Investment*1



Trends in total population and number of private households in Japan*2



Further growth by the Daiwa House Group

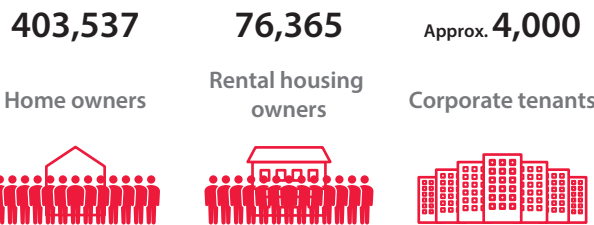
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Exploring business opportunities in the

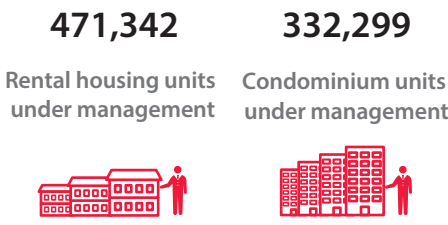


Creating new businesses by leveraging our existing customer base and gaining new customers

Daiwa House Group customer base



(as of March 31, 2016)



(as of March 31, 2016)



(aggregate figures as of March 31, 2016)

Against this background, we believe that the Group can maintain a stable level of business operations by providing continuous, lifelong support for the customers for whom we have built homes, for the owners of rental housing and commercial facilities that we have constructed, and for the corporate tenants of such facilities. And in the same way that we have expanded our operations in a wide range of sectors up to now, from here onward, too, we will enlarge our sphere of activities in promising growth areas in line with our catchphrase *Asu Fukaketsuno*. This catchphrase is composed of the initial syllables of the Japanese words for safety & comfort, speed & stock (in the sense of the stock of existing housing), welfare (in the sense of nursing care), the environment, health, information-communication technology, and agriculture.

We will also leverage the experience and know-how we have acquired in the course of doing business in Japan to expand our operations across the globe, and aim to achieve further growth through our efforts to improve the lives of people worldwide.

Enriching lives around the world. Working together with individuals and society – our never-ending mission

Applying experience and know-how gained in Japan to the global market
fields for individuals, communities, and people's lifestyles

*1 Source: "Estimate of Construction Investment (Released on October 2, 2015)," Ministry of Land, Infrastructure, Transport and Tourism
*2 Source: "Population Projections for Japan (January 2012 estimate)," National Institute of Population and Social Security Research
*3 Includes projects at the planning stage

The Daiwa House Group – ever-closer relationships with our customers



Leveraging our customer base to create new businesses: From support for store openings to a joint logistics infrastructure project

To help landowners effectively utilize their assets, at the Daiwa House Group we operate our LOC (Land-Owner-Company) System, in which we find companies seeking suitable locations for their retail and wholesale outlets, and then undertake the construction of such properties. Thanks to this system, we have built firm, long-term bonds of trust with a number of retailers and wholesalers. These include Fast Retailing Co., Ltd. (which operates the well-known UNIQLO and GU chains), for whom we have supported the development of approximately 600 outlets.

In September 2013 we recommended to Fast Retailing a plot of land that we had newly acquired in Ariake, Tokyo. After receiving the go-ahead from them, we constructed a dedicated logistics facility for them, which was completed in 2016. This facility currently serves as a logistics hub for the Tokyo area, enabling faster goods distribution and cost cutting. In this way, we are supporting Fast Retailing's efforts to develop new logistics mechanisms to meet its diverse needs.

Going forward, we will continue to collaborate with Fast Retailing in jointly creating a new logistics infrastructure, and we also look forward to active developments in this direction in overseas markets.



Expanding business opportunities in our *Asu Fukaketsuno* fields: A floating solar power plant – one of the few examples in the world of a photovoltaic power generation facility utilizing the surface of a body of water

The Group has been pursuing the renewable energy business, focusing on the effective utilization of wind power, solar power, and hydropower. In August 2015 we completed installation of the DREAM Solar Float No.1 @Kohnoyama, a floating solar power plant, at the Hojiike reservoir in Kishiwada City, Osaka Prefecture. This is one of the few examples in the world thus far of a photovoltaic power generation facility that utilizes the surface of a body of water. We have signed a contract with the city to maintain and operate this facility for a 20-year period.

A portion of the income derived from the retail sales of the power generated is being plowed back into the reservoir's operating costs, such as the power fees for operation of pumps. The use of this solar farm format is helping protect the local agriculture-use environment, including watercourses and farm roads.

This project has come to fruition thanks to the concerted efforts of the government, the local community, and the Daiwa House Group to meet the needs of the coming generations by building the infrastructure of a society that makes extensive use of renewable energy, while at the same time helping preserve the local farming environment. In the future, too, we aim to devise a wide variety of projects, employing diverse technologies and leveraging the Group's ability to offer a start-to-finish service from construction through to operation and maintenance, to grow our renewable energy generation business.



Deploying experience and know-how acquired in the Japanese market on the global stage:

Group's rental housing business gets into full swing in the United States

In 2014 we teamed up with Lincoln Property Company, which holds the No.2 position in the United States in the number of rental housing units under management, and commenced the full-scale operation of a U.S. rental housing business jointly with Lincoln Property via our local subsidiary Daiwa House Texas.

Our first project in this business was the Berkeley Project, involving 716 housing units on a 100,000 square-meter site. Daiwa House Texas not only purchased this rental housing property from Lincoln Property, but also embarked on other development work on an adjacent site. The subsidiary has since been acquiring land for real estate development purposes from the American company, on which it has been building further rental housing properties.

At the Daiwa House Group, we plan eventually to extend our rental housing operations to the entire United States. To this end, in addition to the know-how we have built up and the technologies we have developed over our many years of experience in the Japanese rental housing and condominium markets, we are also taking steps to acquire know-how directly related to the U.S. rental housing market, via an asset management company established in November 2013. And to fully develop the U.S. market into a new earnings driver, we also plan to set up businesses handling logistics facilities and housing subdivision operations.