(Translation only)

Q&A at IR Teleconference for Analyst/Institutional Investors (Summary) at Announcement of Financial Results for FY2015 2Q (For the six months from April 1, 2015 to September 30, 2015)

Date and time:	From 17:00 to 18:00, Friday, November 6, 2015
Presenters:	Takeshi Kousokabe, Representative Director and Senior Managing Executive Officer Yuji Yamada, Executive Officer and General Manager of Finance and IR Departments

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●About Single-Family Houses Business:

[Q1]

The revised forecasts for this fiscal year project increased net sales and operating income across all segments as well as improvement in the operating margin. For the Single-Family Houses Business in particular, you are planning for increased net sales of 5 billion yen, increased operating income of 9 billion yen, and nearly double the operating margin from the initial target of 2.4% announced in May to 4.7%. Please explain the factors behind this improvement.
(Reference: Financial Highlights: P12 "Business Performance Forecasts for FY2015 (2)")

[A]

- First half earnings for Single-Family Houses Business improved significantly, recording 9.1 billion yen in operating income and a 3.4 point YoY improvement in operating margin to 4.9%.
- The main factor was a 2 point improvement in the gross margin ratio. (See P9 "Single-Family Houses Business, Construction / Sales of housing subdivisions" of "Gross Margin Ratio" in "Business Segment Information (2)").
- The number of units sold for our luxury tier mainstay product xevoΣ is growing. We are receiving feedback from sales teams that xevoΣ is a product that can compete with competitor products. As a result, the per-unit price increased and is leading to an improved

cost-of-sales ratio at time of order received.

- Another factor was that we restructured personnel, offices, etc., for the Single-Family Houses Business segment to lower fixed expenses.
- The result of these factors was first half operating income of 9 billion yen, which was the full year amount in our previous forecast. First half orders also transitioned favorably and our order backlog is growing. As a result, we project being able to secure operating income during the second half that is largely unchanged from the first half and thus decided on an upward revision to 18 billion yen, double our previous forecast.

[Q2]

Please tell us about your forecast for Single-Family Houses Business for next fiscal year. Also, what are the differences between the existing xevo and xevoΣ?
(Reference: Financial Highlights: P8 "Business Segment Information (1)" and P12 "Business Performance Forecasts for FY2015 (2)")

[A]

- The features of the xevoΣ include the ability to design floor plans with wide open-air spaces and that high ceilings are standard. The ceiling height is 2 m 72 cm, the highest among prefabricated housing, with the option of extending this to 3 m 8 cm. These points have resonated very well with customers.
- Based on sales amount, the xevoΣ represented one-fourth of total sales during the first half and our longstanding mainstay product xevoE represents approximately one-third.
  Comparing the cost-of-sales ratio at time of order received for these two products, xevoΣ is 0.7 points better. Based on current orders, we have a higher ratio of order for xevoΣ than xevoE so we are expecting the operating margin for next year to improve as well.

●<u>About Costs:</u>

[Q3]

You have explained how the improvement in order profitability contributed to the operating margin upward revision. Can you also explain the details of cost factors in terms of material and labor expenses?
(Reference: Financial Highlights: P12 "Business Performance Forecasts for FY2015 (2)")

[A]

- Overall materials expenses declined. Based on data from the first half, we benefitted from approximately 1 billion yen in cost reductions total for prefabricated single-family houses and prefabricated rental housing.
- Rates for labor expenses for prefabricated single-family houses and prefabricated rental housing did not increase because we have established a national network of construction contractors. We are aware, however, that rates for general construction are climbing in certain regions.

●Status of Orders and Future Forecasts:

[Q4]

Orders are extremely favorable. On the other hand, we are beginning to see signs that economic conditions could turn unfavorable. Please tell us your future forecasts for Custom-built houses, Commercial Facilities, Logistics, Business & Corporate Facilities Businesses, etc.

(Reference: Financial Highlights: P14 "Orders Received by Business Segment (Nonconsolidated)")

[A]

- For Custom-built houses during the second half of this fiscal year, we think that sales of xevoΣ will exceed the first half of this year.

  While orders received (units) for the xevoΣ during all of last year was approximately 1,300 units, we received 1,370 orders during the first half of this fiscal year alone, indicating two-fold growth.

  We launched sales of the xevoΣ in January 2014 but sales did not go as expected due to initial issues with the production system and construction. Currently, the production system is producing 350 units per month and we have improved construction. As such, we think second half sales will outperform the first half of this fiscal year.

  Due to these contributions, we feel that orders for custom-built houses will remain strong.
- Continuing a trend from the previous period, orders for Commercial Facilities Business are firm on large-scaled properties such as local supermarkets and automobile showrooms. We think this trend will continue into the second half.

- Orders for the Logistics, Business & Corporate Facilities Business are favorable on large-scale logistics facilities as well as office construction resulting from corporate office restructuring, and we think this strong trend will continue into the second half.

●About Rental Housing:

[Q5]

Your full-year revised forecasts indicate an upward revision for operating margin for each segment but the revision to the Rental Housing Business segment forecast was only a minor increase of 0.1 points. Can you tell us the reasons for this? Also, please tell us your future forecast for Rental Housing Business.

(Reference: Financial Highlights: P12 "Business Performance Forecasts for FY2015 (2)")

[A] **(Reference: P13, "Business Performance Forecasts for FY2015 (3)")**

- Our sales targets for Rental Housing Business outlined increases of 35.6 billion yen for construction and 64.5 billion yen for rental management. As you can see, the growth rate for rental management is higher. However, this forecast is based on the rental management having a lower gross margin ratio compared to construction.
- Rental Housing Business is favorable. Demand resulting from the increase in inheritance tax remains strong and I think we are succeeding in conducting sales activities that correspond to this market environment.

●About Rental Management:

[Q6]

Why did you revise the total gross margin for the four segments indicated on P13 Rental Management from the 92.7 billion yen at the beginning of the year upward to 99.1 billion yen?

(Reference: Financial Highlights: P13 "Business Performance Forecasts for FY2015 (3)")

[A]

- This is a result of the upward revision for Rental Housing Business sales.
- The Logistics, Business & Corporate Facilities Business opened three development properties and rent income increased as a result.
- For Commercial Facilities Business, NOI increased due to new facilities and improvement at existing facilities.

●Gross Margin Ratio Forecast for Commercial Facilities and Logistics, Business & Corporate Facilities Businesses:

[Q7]

Please tell us your future forecast for the gross margin ratio for construction in Commercial Facilities and Logistics, Business & Corporate Facilities Businesses.

I think the reason why the gross margin ratio for general contractors is extremely high is due to orders received last year and prior when costs were higher. Orders were received at those higher unit prices to reflect the rise in costs but now there is a gap because current costs are lower, resulting in the increase in the gross margin ratio.

With costs beginning to fall, will the unit price for orders not rise in the future to result in the current gross margin ratio continuing for the foreseeable future, or are current conditions outperforming to a point that require a more conservative outlook for the upcoming fiscal year and beyond? Please tell us your future forecast.

(Reference: Financial Highlights: P13 "Business Performance Forecasts for FY2015 (3)")

[A]

- That might turn out to be the case with basic construction.
  However, many of the projects in our Commercial Facilities Business and our Logistics, Business & Corporate Facilities Business involve connecting the land owner with tenant businesses. Contract amounts are influenced by land owner revenues from tenant rents. This is not a bad market and we think we can maintain this margin ratio for the time being.

●Sales and Forecast for Next Fiscal Year of Development Properties:

[Q8]

Please tell us your thoughts about sales of development properties for next fiscal year and beyond. Some areas of the real estate market seem a bit overinflated and there appears to be an increase in REIT taking a caution approach to property acquisition. In light of such conditions, can you comment as to if there is still potential for the cap rate to fall and your view on buyer demand?

(Reference: Financial Highlights: P13 "Business Performance Forecasts for FY2015 (3)")

[A]

- As a sponsor, we have a responsibility to drive the growth of our Group's two J-REIT. To achieve this, our basic policy is to sell development properties to these two J-REIT. We also feel that REIT-side procurement demand is strong.
- In terms of how we will meet that demand, this is determined based on our earnings and cash, as well as how you view REIT growth.
- This fiscal year, we have had 53.9 billion yen in sales and income of 24.5 billion yen but this was attributable to a high-margin property that had advanced depreciation. We do not forecast the next fiscal year achieving income on a level recorded this fiscal year.

[Q9]

Does this mean that property sales next fiscal year will decline compared to this year but overall income will increase?

(Reference: Financial Highlights: P13 "Business Performance Forecasts for FY2015 (3)")

[A]

- That is our approximately view on next fiscal year but the problem is the year after that. A hike in the consumption tax rate is planned for April 2017 so the question is, how will that affect the market? And what about the fiscal year after that? We currently are in the process of evaluating what sales and income targets to set for the final fiscal year of our next Medium-Term Management Plan and whether or not three years of increased earnings is possible.

[Q10]

What is the status of the D Project Ariake?

(Reference: Financial Highlights: P13 "Business Performance Forecasts for FY2015 (3)")

[A]

- Construction of D Project Ariake is scheduled for completion in April 2016 and the sale of the property in May or June to a private REIT currently being formed has already been decided.

●About Rental Real Estates:

[Q11]

Rental real estate balances are increasing steadily. What amount do you expect this to be at the end of the fiscal year?

(Reference: Financial Highlights: P10 “Breakdown of Rental Real Estates”)

[A]

- If our investment plans progress smoothly, we think this will reach around 800 billion yen.

●The Progress of Planned Investments:

[Q12]

The 4th Medium-Term Management Plan outlined a three-year investment plan of 770 billion yen and the two and a half year investment total as of 2Q of this fiscal year was 645.6 billion yen. Considering future plans include the development of one of Japan’s largest logistics facilities in Nagareyama City, Chiba Pref. and a large-scale rental housing property development in the U.S.A., will you exceed the investment plan amount of 770 billion yen?

(Reference: Financial Highlights: P16 “Status of Investment Plan”)

[A]

- We think the investment amount will be roughly around 770 billion yen.
- We do expect overseas investments to go over budget of 50 billion yen but real estate development investments will be within the 500 billion yen budget.
- Land for the Nagareyama City, Chiba Pref. project has already been acquired and is included in the figures but investments in the building are forthcoming.

●Future Business Performance Forecasts:

[Q13]

You conducted an upward revision across all segments for earnings and forecasts.

To use an aviation metaphor, this appears partially due to a strong tailwind and in part because you increased speed but what are your thoughts on the current fiscal year?

The next two fiscal years are likely to see some turbulence and you could face a headwind. Will you look to rev up the engine or implement some other types of measures?

[A]

- We think the main segments benefitting from a tailwind are Rental Housing Business and Logistics, Business & Corporate Facilities Business, particularly logistics facilities. We feel that the growth achieved in Single-Family Houses Business and Commercial Facilities Business was not due to a tailwind, but the result of corporate efforts and product appeal.
- As for whether or not this tailwind will turn into a headwind next fiscal year, we do not believe this to be the case.
- As expected, the issue is how the consumption tax rate hike in two fiscal years will influence the market. In particular, there is concern this will lead to a decline in consumer demand on the Single-Family Houses market.

●Comparison with Competitor Trends:

[Q14]

With both Single-Family Houses Business and Rental Housing Business, the industry has been divided into companies performing well and companies performing poorly. Your company is performing well but do you see anything changes in this 2-3 years?

[A]

- Overall, our Group boasts the top sales and income in the industry but we are not NO. 1 in either Single-Family Houses Business or Rental Housing Business. Internally, we are committed to becoming NO. 1 in both of these segments.
- Our Single-Family Houses Business has a competitive product in the xevoΣ and earnings from Rental Housing Business also are growing steadily. We see it as a chance to aim for NO. 1 in both segments.

●About China Business:

[Q15]

Regarding the sales status for the China business, contract ratios for Dalian, Changzhou, and Wuxi all increased compared to 1Q. Can you explain current condominiums sales trends in China?

(Reference: Financial Highlights: P18 “Overseas Business”)

[A]

- We feel the sales status is more severe than the conditions we explained three months ago. While we are recording monthly sales, we realize that we are not in a situation where we gradually raise sales prices as originally planned.

●<u>About Dividends:</u>

[Q16]

I want to ask about dividends. With the upward revision in fiscal year income, you raised the per-share dividend from 70 yen to 80 yen, including the commemorative dividend of 10 yen. Do you feel order backlog and revenue sources will allow for an 80 yen dividend for next fiscal year as well? Is there a possibility that the dividend for next year could be lowered?

(Reference: Financial Highlights: P11 "Business Performance Forecasts for FY2015 (1)")

[A]

- Our principle approach to dividends is to achieve a dividend payout ratio of 30% and higher for normal dividends.
- For next fiscal year as well, we are planning on a dividend payout ratio of 30% and higher for normal dividends and will work to achieve this target.

End