

Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2015 3Q
(For the nine months from April 1, 2015 to December 31, 2015)

Date and time: From 17:00 to 18:00, Friday, February 5, 2016

Presenters: Takeshi Kousokabe, Representative Director and Senior Managing Executive Officer
Yuji Yamada, Executive Officer and General Manager of Finance and IR Departments

●About Operating Margin:

[Q1]

The operating margin for this nine-month period improved to 7.6%, compared to the 5.9% from the same period of fiscal 2014. However, the operating margin is down compared to the 8.5% recorded for the 1st half of FY2015. What are the reasons for this? (Reference: Financial Highlights: p. 7 "Business Segment Information (1)")

[A]

Main factors are as follows:

- (1) This can in part be attributed to the sale of development properties with good gross margin ratios during the first quarter by the Rental Housing Business and the Logistics, Business & Corporate Facilities Business.
- (2) Total net sales for all businesses during the third quarter (three-month period) were 706.7 billion yen and operating income was 39.5 billion yen, resulting in an operating margin of 5.6%. Sales tend to be lower for our Company during the first and third quarters when compared to the second and fourth quarters.

In fact, third quarter net sales of 706.7 billion yen were lower than the second and fourth quarters. On the other hand, fixed expenses such as indirect costs and SG&A expenses are mostly spread equally over all four quarters.

●State of Progress for Full-Year Plan:

[Q2]

In part because the operating margin for this nine-month period declined compared to the 1st half, there is some concern about the progress of the full-year plan. What are your thoughts?

(Reference: Financial Highlights: p. 7 "Business Segment Information", p. 11 "Business Performance Forecasts (2)")

[A]

-We view progress as going smoothly and according to plan.

●Current Status of the Single-Family Houses Business:

[Q3]

The January stock market was incredibly bearish and it would appear that consumer sentiment has declined. Amid this environment, have there been any changes in the ordering environment, such as housing showroom visitor numbers or length of time from showroom visit to contract finalization, for the Single-Family Houses Business?

[A]

-We do not think there have been any notable changes.

●About the Rental Housing Business:

[Q4]

Within the Rental Housing Business, gross margin from rental management was 9.1 billion yen in the first quarter, 8.6 billion yen in the second quarter, and 8.3 billion yen in the third quarter. Subtracting gross margin from the full-year plan leaves 11.4 billion yen for the fourth quarter.

Will gross margin from rental management increase during the fourth quarter?

(Reference: Financial Highlights: p. 12 "Business Performance Forecasts")

[A]

-We have not revised to our previously released forecasts but we realize there is a possibility that within the Rental Housing Business, rental management may fall short of targets in the current earnings forecasts for both net sales and gross margin. However, we feel that any lacking portion will be covered by the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business.

●About the Condominiums Business:

[Q5]

What is the sales status for condominiums?

I think Tokyo Metropolitan area properties are fine but are there any properties in rural areas that will require you to record valuation losses?

(Reference: Financial Highlights: p. 7 "Business Segment Information (1)")

[A]

-There are some properties for which sales are slow but there are none that will require recording a valuation loss.

●Non-Housing Businesses Environment:

[Q6]

In the non-housing businesses, have there been any changes in the operating environment? Have you noticed any trends such as signs of acceleration or pessimism on the market?

(Reference: Financial Highlights: p. 7 "Business Segment Information (1)")

[A]

-We do not think there have been any major changes in the operating environment. There was a newspaper article stating that "the supply of logistics facilities has increased and vacancies in the Tokyo Metropolitan area exceeded 6%," but our multi-tenant type logistics properties have not been impacted in any way. As such, we are not of the opinion that the operating environment is worsening.

●About the China Business:

[Q7]

Please explain the sales status for condominiums in China.

(Reference: Financial Highlights: p. 16 "Overseas Business")

[A]

-Condominiums in China - Units for sale (Oct. – Dec. 2015)

Dalian: Yihe Xinghai	45 units
Changzhou: The Grace Residence	59 units
Wuxi: Moonlit Garden	21 units

-Sales for the three-month period are as shown above. In Changzhou, we were able to increase sales prices slightly but, looking at the state of the Chinese economy, we do not think conditions are as such that we can have an optimistic view of the market.

[Q8]

For the China business, are you considering the same types of treatments (*) this fiscal year as you implemented during the previous fiscal year?

*In FY2014, the lower of cost or market methods (inventories) was applied for the Wuxi project to treat 4.3 billion yen as expenses.

[A]

-We think such a verification will be implemented for the Wuxi project and the Changzhou project.

-For Wuxi, last fiscal year we applied this treatment for 4.3 billion yen, mostly attributable to high-rise condominiums that were ready to be sold. We will verify the need for such treatment for low-rise condominiums and townhouses for this fiscal year.

-As for the Changzhou project, we have been able to raise unit sales prices gradually, but we are finding it very difficult to reach the sales prices originally projected.

As for higher-priced properties we plan to begin selling in the future, we will need to verify whether or not we can conduct sales at prices near our assumed figures.

If, based on this verification, we determine that treatment will be required, then we will implement this accordingly.

●About Rental Real Estates and Real Estate Development Investments:

[Q9]

The balance for rental real estates was 714.3 billion yen at the end of September and 717.1 billion yen at the end of December, an increase of 2.8 billion yen. On the other hand, during the third quarter (three-month period), you invested 16.8 billion yen in real estate development. Please explain the details of this difference.

(Reference: Financial Highlights: p. 9 "Breakdown of Rental Real Estates", p. 10 "Status of Investment Plan")

[A]

-In addition to advancing depreciation, the other major factor was the fact that a property sold in January 2016 already had been transferred to inventories as of December 2015.

[Q10]

At the second quarter earnings summary announcement (in November), you stated that the balance for rental real estates "would reach nearly 800 billion yen." Has there been any change in this forecast?

(Reference: Financial Highlights: p. 9 "Breakdown of Rental Real Estates")

[A]

-The 4th Medium-Term Management Plan outlines a real estate development investment budget of 500 billion yen and the remainder was 69.5 billion yen when you subtract the investment total through the end of December.

At present, even if we conduct investments as planned we do not think we will reach 800 billion yen.

●About the Real Estate Development Investment Environment:

[Q11]

How is the current real estate development investment environment?

Are you continuing to obtain property information, or have investments slowed because of rising prices? Are there any changes in past trends?

(Reference: Financial Highlights: p. 10 "Status of Investment Plan")

[A]

-No particular changes. We are continuing to obtain significant amounts of property information as before.

●About Market Impact:

[Q12]

How do you think changes in the market environment, including additional monetary easing such as negative interest, and an unstable stock market will impact business?

[A]

-With interest, we think there will be positive factors because it will result in lower interest rates for housing loans and apartment loans.

-The drop in stock prices has a negative wealth effect that could possibly have a negative impact on consumption trends and corporate capital investments.

(End)

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