Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2020 2Q
(For the fiscal year from April 1, 2020 to September 30, 2020)

Date & time: From 16:00 to 17:00, Wednesday, November 11, 2020

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【Q1】

You've already released statements that you are considering establishing a private core fund targeting investments in domestic logistics facilities and that you will engage in the data center business. Are these plans reflected in your most recently released targets? Also, please tell us about your approach to next fiscal year and beyond.

【A】

-We will establish a private core fund, the Daiwa House Logistics Core Fund, before the end of the year. The sale of property we are planning in the second half has been reflected in our full-year targets.

-As for data centers, the first project will be a contracted construction project. In the month of October, we recorded orders received for the sale of land and building construction. Full-scale construction will begin next fiscal year but, on a percentage of completion basis, will contribute to sales and income for the current fiscal year. Moving forward, we have plans to develop up to 15 units in Chiba New Town.

【Q2】

Please tell us about sales and operating income of the second quarter for Stanley-Martin Communities, LLC and the Rawson Group Pty., Ltd., and the companies' revised targets for the full year.

Also, both Japan and overseas appear to have demand related to stay-at-home measures as a result of COVID-19. What are your thoughts on futures orders received?

【A】

-Stanley-Martin Communities, LLC (USA)

Results of 2Q

Net Sales: 70 billion yen (YoY +29.6 billion yen *1)

Operating Income: 6.3 billion yen (YoY +3.2 billion yen)

(*1: Includes 13.0 billion yen in increased sales from the takeover of Essex Homes)

Revised Forecasts

Net Sales: 149.2 billion yen (YoY +44.2 billion yen)

Operating Income: 14 billion yen (YoY +5.2 billion yen)

-Rawson Group Pty., Ltd. (Australia)

Results of 2Q

Net Sales: 8.9 billion yen (YoY -8.7 billion yen)

Operating Income: -900 million yen (YoY -900 million yen)

Revised Forecasts

Net Sales: 21 billion yen (YoY -15.8 billion yen)

Operating Income: -1.2 billion yen (YoY -1.6 billion yen)

-Orders received in the USA are favorable thanks to lower mortgage rates and an increase in time spent at home due to COVID-19 driving higher-than-normal demand for pleasant, spacious suburban housing. While not on the same level as the US market, we are seeing similar trends in Japan. With the progressing shift towards telecommuting, demand is increasing for suburban built-for-sale housing in areas such as Hachioji over urban areas where rents are high and space is limited. However, this demand is not so high that it is not driving an overall increase. In fact, first half housing construction projects started decreased approx. 14% and we intend to reevaluate orders received targets based on future trends.

【Q3】

What are your thoughts on operating income for next fiscal year?

(Reference) Financial Highlights: P.10 “Business performance forecasts for FY2020 (1) Revised forecasts (year on year change)”

【A】

-This fiscal year we conducted an upward revision to 258.0 billion yen, which includes 15.0 billion yen as losses on actuarial differences related to retirement benefit liabilities. At present, we are only

including losses on accounting differences and do not forecast operating gains / losses. As of the end of September, gains on investing activities were approx. 11.0 billion yen.
Our initial goal of 405.0 billion yen for next fiscal year will be difficult. This is because although October construction orders received are up 70%, overall orders received for the first half declined dramatically, down 42%. This is also the case for Fujita. With typical construction projects, the major general contractors are reducing estimates so much that it is increasing competition. As a result, next fiscal year it will be difficult to generate significant sales growth and there is a lack of transparency due to a significant impact on second half orders received. As such, at present we are assuming operating income of around 300.0 billion yen.

【Q4】

The 70% increase for October orders received includes the first data center construction project but on how many projects will you begin construction in the next 2-3 years?

【A】

-Plans for the Chiba New Town Data Center Park project include total floor area construction of 330,000 square meters so we are assuming sales on the scope of 100.0 billion yen. However, we have not finalized any plans concerning the start of future construction.

【Q5】

Income from sales of development properties was 66.0 billion yen (down 3.0 billion yen YoY) in your revised plans. Is this a conservative target?
(Reference) Financial Highlights: P.12 “Business performance forecasts for FY2020 (3) Sale of development properties”

【A】

-We added 40.2 billion yen in net sales to our revised forecast for sales of development properties. This includes sales to the newly established private core fund. While there is a possibility of additional properties being sold, this figure will not increase significantly.

【Q6】

You conducted an upward revision to your full-year plan for non-consolidated orders received from

the original plan of an 18.8% year-on-year decrease to a decrease of 10.2%. You disclosed cumulative results through October as -16%. First half conditions were severe but is your outlook for next fiscal year that performance will improve?
(Reference) Financial Highlights: P.20 “Orders Received by Business Segment (Non-Consolidated)”

【A】
-Current conditions do not lend towards forecasting a significant improvement in orders received. In particular, market conditions for Logistics, Business & Corporate Facilities are difficult. Although the department engages in data center and logistics, conditions for normal construction projects such as factory and office building construction remain severe.

【Q7】
Looking at hotels operated by Group companies, what is the status of occupancy rates and what has been the effect of the Go To Travel campaign?
(Reference) Financial Highlights: P.18 “Commercial Facilities Business”

【A】
-October occupancy rates were 49.3% for city hotels (Roynet Hotel) and 43.5% for resort hotels (Royal Hotel). For example, Roynet Hotel Sendai has an occupancy rate exceeding 80%. We hope the Go To Travel campaign will have a favorable impact moving forward and have reflected those expectations slightly in our revised earnings forecast.

【Q8】
How are current orders received for the Rental Housing Business?
As for rental management, in the past occupancy rates have dropped during poor economic periods but now occupancy rates improved by 1 point year on year. What factors caused this improvement?
(Reference) Financial Highlights: P.16 “Rental Housing Business”

【A】
-The environment for orders received varies from month to month but our analysis of conditions since restarting face-to-face sales activities in June is that the demand for inheritance tax measures remains strong regardless of COVID-19. However, we have had to make adjustments to our sales and

client development methods, including shifting from in-person seminars to webinars and other online events.

-Our initial assumption was that occupancy rates would decline by 1 point and plans for Daiwa Living included 6.0 billion yen in decreased income. However, we have conducted an upward revision. We believe one factor behind this increase may be that people are moving and otherwise relocating at less-than-average numbers. Also, while we had instituted a rent deferral program for tenants due to COVID-19, the number of applicants was minimal. As such, tenant-related factors also may have had an impact. In either case, we are feeling the benefits of our stable leasing capabilities.

【Q9】

Are there changes in the market environment for occupancy rates or sales in the Rental Housing Business in the USA?

【A】

There is no change in occupancy rates or the cap rate at time of sale. This is an off-demand year but leasing activities are steady and there is no change in our policy of the gradual sale of properties.

【Q10】

Looking at operating income from Other Business, despite first half earnings of 7.4 billion yen, full year plans call for operating losses of 2.0 billion yen. Why will earnings decline in the second half?

(Reference) Financial Highlights: P.5 "Business Segment Information (1) Results"

Financial Highlights: P.13 "Business performance forecasts for FY2020 (4) Business Segment-YOY-"

【A】

-For the health & leisure business, the first half resulted in operating losses of 9.4 billion yen and we are planning on losses of 23.4 billion yen for the full year. One factor is that we recorded extraordinary losses for the first half in the form of provisional expenses attributable to COVID-19 as a result of personnel and other expenses incurred during the temporary closure of resort hotels and sports clubs. The majority of the recorded 7.5 billion yen was personnel expenses that normally would be treated as costs or SG&A expenses. Since the resumption of facility operations, we are conducting normal accounting treatments for these expenses. Furthermore, although we do expect a mild recovery for the

resort hotel business, we are assuming conditions will remain severe for the sports club business.
-In addition, demand driven by stay-at-home measures was a factor behind increased first half income for the home center business but we are not assuming this demand will continue for the second half. We also are making conservative assumptions about the energy business. Overall, a number of various factors are influencing forecasts.

【Q11】

On the subject of actuarial differences for retirement benefits, please comment on the status of stock investment management.

【A】

The pension fund position in stocks is approx. 20%, roughly 10% each for domestic and overseas stocks. Pension assets were approx. 378.0 billion yen as of the end of September. Current figures include accounting differences. As of the end of September, gains on investing activities were approx. 11.0 billion yen. At present, we do not know what impact this will have in March.

【Q12】

You raised your dividend forecast from 90 yen to 110 yen. Please indicate your thoughts, including as it relates to the dividend payout ratio, for next fiscal year.
(Reference) Financial Highlights: P.11 "Business performance forecasts for FY2020 (2) Compared to previous forecasts"

【A】

Normally, the best situation is one in which an increase in dividends is the result of a significant increase income with a dividend payout ratio slightly above 30%. However, I think that will be difficult. We are proceeding under the assumption that next fiscal year's earnings will not grow significantly. We will use the 110 yen of this forecast and a goal dividend payout ratio of 30% or higher as we consider next fiscal year.

【Q13】

Of the maximum 15 units planned for construction at the Chiba New Town data center, one unit will be based on contracted construction but does this mean that the remaining will be treated similar to logistics facilities where the properties are retained as profit-earning real estate and sold to a REIT, etc. based on optimal timing? Also, other than Chiba New Town, do you already possess land that is appropriate for development as a data center or do you have land earmarked for future investment plans?

【A】

There are no specific projects similar to logistics where we keep the property on our balance sheet throughout development but I believe we will use such methods to engage in projects in the near future. As for land, there is land that could be appropriate for such development but we are not currently acquiring large plots of land for data center development.

【Q14】

Do you think there is a high barrier to entry for players capable of data center development?

【A】

The first unit will be based on contracted construction but this will be a collaboration with multiple companies. We are still in a stage of acquiring knowledge about data center development. I think there are only a few players in Japan capable of developing data centers. Management of the first unit will be conducted by AirTrunk, which has experience overseas. We will sell the land and received the contract for project construction.

【Q15】

Please discuss the status of sales activities for the Rental Housing Business. Are you able to individually visit landowners who are potential customers? Or, are you avoiding in-person visits and instead focusing on online sales and other methods?

【A】

During FY 2020, orders from existing owners represented nearly 50% of all orders but this dropped by roughly 5 points for the first half of the current fiscal year. Many of these landowners are elderly persons so our refraining from in-person sales may have been a factor in this drop. We think this will be resolved once COVID-19 subsides further.

【Q16】

Please indicate the split between the private core fund and listed REITs.

【A】

Thus far, we have managed the Daiwa House REIT Investment Corporation and the Daiwa House Global REIT Investment Corporation. However, to further strengthen our capital procurement environment for logistics facilities, we will establish the private core fund as a product that meets the needs of corporate pensions and financial institutions for long-term, stable investment options. The highest priority for providing property information is the listed REIT, the only entity with which we have a pipeline support contract. In June of this year, we revised plans for the sale of real estate during the 6th Medium-Term Management Plan upward to 670.0 billion yen. However, the listed REIT alone cannot handle this volume so we will also sell properties to the private global REIT and the newly established private core fund based on careful considerations of timing and strategy.

【Q17】

Will the majority of data centers be BTS-type facilities or will they be based on a multi-tenant scheme like logistics facilities? Also, will target tenants be different from conventional clients?

【A】

Fundamentally, we are considering BST-type facilities. This does not mean that we cannot develop multi-type facilities and, in fact, I think there is demand but due to the large scale of the servers and other equipment, we do not think these facilities will have a large number of tenants like you would see with a logistics facility. As for target tenants, we will also look at conventional clients. However, with data center development, securing power is a bigger issue than finding appropriate land. Chiba New Town development was possible in part through cooperate with TEPCO.

【Q18】

On a non-consolidated basis, it appears that the impact of COVID-19 is subsiding in the second half. Do you think COVID-19 will continue to impact business next fiscal year and beyond?

(Reference) Financial Highlights: P.20 “Orders Received by Business Segment (Non-Consolidated)”

【A】

Our plans call for orders received exceeding 1 trillion yen in the second half but there is a possibility orders could be stronger than forecasts next fiscal year and beyond. For the Commercial Facilities Business, the impact of COVID-19 makes it difficult to project new orders for hotels so we will focus on facilities such as nursing care facilities and drug stores to capture new orders. Orders for the Logistics, Business & Corporate Facilities Business decreased significantly this year but we will strengthen proposals for projects involving existing tenants. Plans call for development property sales of 670.0 billion yen over three years but, as mentioned earlier, we also have exit strategies for each of those projects so I think we have room to increase this further.

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