Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2021 1Q
(For the fiscal year from April 1, 2021 to June 30, 2021)

Date & time: From 16:00 to 17:00, Tuesday, August 10, 2021
Presenters: Takeshi Kosokabe, Executive Vice President, CFO
Yuji Yamada, Managing Executive Officer and General Manager of Finance and IR Departments

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【Q1】
Real estate for sale listed under Inventories increased by 221.2 billion yen from the end of March. Can you tell us the factors leading to this increase? Does this represent a transfer from property, plant and equipment to real estate for sale?
(Reference) Financial Highlights P.14 "Consolidated Balance Sheets Assets (2)"

【A】
-We transferred approximately 125.0 billion yen combined from Logistics, Business & Corporate Facilities Business and Commercial Facilities Business planned for sale in the second quarter or later. Logistics, Business & Corporate Facilities Business real estate for sale did increase significantly but the majority is due to this transfer. Property, plant and equipment decreased as a result.
-The 53.3 billion yen increase in Single-Family Houses Business compared to the end of March is mainly due to increases at Stanley-Martin and Trumark in the United States.
-In the Rental Housing Business, we are conducting land and building sales as part of our proposal of rental housing development projects as a solution for customers in need of inheritance tax mitigation. We are using a similar strategy for Commercial Facilities Business, and both segments have increased as a result.
-In the Condominiums Business, we are investing in new construction and construction in progress in China. In Japan, we are accelerating sales more than procurement.

【Q2】
Does the status of orders received for Commercial Facilities Business vary depending on the type of facility? You indicated that while conditions were difficult for hotels and multi-use commercial facilities, conditions were relatively favorable for drug stores and logistics facilities. Can you also discuss your future forecast?

【A】

Looking at orders received for Commercial Facilities Business, there were almost no hotel projects. There was a single order during the first quarter for 1.1 billion yen. During the previous fiscal year, first quarter orders received had declined year on year but still reached 22.4 billion yen. As such, the impact of this decrease was most significant. Drug stores and medical and nursing care facilities increased. Drug stores increased by 13% from the first quarter of the previous fiscal year. Inquiries for shipping centers are increasing and we expect them to increase moving forward.

【Q3】

You indicated that sales of development properties decreased compared to the first quarter of the previous fiscal year but what is your forecast moving forward?
(Reference) Financial Highlights P.23 “Business Performance Forecasts for FY2021 (4) Sale of development properties”

【A】

-Sales are largely progressing according to initial plans.
-Over the past several years, we have often seen sales concentrated in April but this fiscal year we also have sales planned for the second quarter or later. For the second quarter, we are looking to record sales on par with the previous year.
-We have already secured buyers for most of the properties we plan to sell. We will utilize various exits in addition to Daiwa House REIT, including Daiwa House Global REIT and Daiwa House Logistics Core Fund. We believe this will enable us to achieve our full-year plans.

【Q4】

Please discuss your thoughts on the construction gross margin ratio for the Logistics, Business & Corporate Facilities Business relative to full-year plans.
(Reference) Financial Highlights P.31 “Logistics, Business & Corporate Facilities Business”

【A】

First quarter progress is at 16.2%, up 1.2pt against full-year plans of 15%. We want to maintain this margin ratio.

【Q5】

The gross margin ratio for the Commercial Facilities Business is 26.8%, which is above full-year plans, when excluding hotel management recorded under construction. Do you think you will be able to maintain this high margin level during the second quarter and beyond? Also, during last year’s financial results, you indicated an increase in inquiries from national retail chains concerning roadside

shop openings but has there been any progress in that area?
(Reference) Financial Highlights P.30 “Commercial Facilities Business”

【A】

- The gross margin ratio for the Commercial Facilities Business indicated in announced plans reflected our forecast for a recovery in market conditions. Despite the severe market conditions for orders received, we still produced results during the first quarter that outperformed plans. As such, we hope to maintain this level of performance.
-As for inquiries about roadside shop openings, we are currently showing available sites to potential customers so we think it will take a while longer before these activities result in orders received.

【Q6】

Can you provide background on the M&A that resulted in acquiring equity in CastleRock Communities, L.P. in the United States and explain the competitive advantage provided by the company? Also, at 44.8 billion yen, this is a relatively large investment. Please discuss the adequacy of this amount and how you plan to procure investment capital considering your rising debt-equity ratio.

【A】

-Since we first entered the United States market, it has been our plan to use M&A to develop the Single-Family Houses Business. Our first acquisition was Stanley-Martin on the east coast, followed by Trumark on the west coast. As a final acquisition target, we were searching for an opportunity in the State of Texas as the link between both coasts. Excluding indirect subsidiaries, this acquisition represents a provisional conclusion to M&A plans for the Single-Family Houses Business in the United States.
-Reasons for searching for an M&A opportunity in Texas include the significant tax benefits of housing acquisition relative to other states and the remarkable growth of housing market in Texas. The state is experiencing both population growth and economic growth. Also, land in Texas is relatively inexpensive, with CastleRock home prices for averaging around 30 million yen per unit. As such, the region has an active market for primary owners and buyers upgrading their home for the first time. These market conditions are ideal for our business model.
-We also have a highly favorable view of CastleRock’s strong capital efficiency, so we have high expectations for their performance.
-Our 6th Medium-Term Management Plan includes an M&A budget of 100.0 billion yen, which we have now nearly reached with this acquisition. The acquisition price is based on a comprehensive evaluation of CastleRock’s business plans, our forecast for the markets in which the company operates, and stock market conditions in the United States. Based on this evaluation, we believe this to be an

adequate acquisition price.

【Q7】

What are operating conditions like for urban hotels and resort hotels? How are occupancy rates relative to plans?

【A】

First quarter results for both urban hotels and resort hotels are significantly below full-year plans for occupancy rates. However, we expect conditions will recover gradually from autumn onward as more people get vaccinated. As such, at present we are making no changes to our full-year plans.

【Q8】

Please discuss the current status of the property subject to compulsory liquidation in Dalian, China.

【A】

We conducted a fifth auction over two days on August 8-9. This auction resulted in a bid price that was higher than expected when we recorded provisions for losses during the previous fiscal year. While this will depend on future negotiations, the situation with the property is progressing.

【Q9】

What were the results for each company for the overseas Single-Family Houses Business? Also, what were earnings like for new M&A target CastleRock?

【A】

The results of each company are as follows.

(¥ 100 Million)	Sales			Operating income		
	20/6	21/6	Change	20/6	21/6	Change
Stanley-Martin (USA)	294	381	87	18	45	27
Trumark (USA)	3	29	25	-3	-4	-0
Rawson (Australia)	42	57	14	-4	-4	-0

-The result for FY 2020 of CastleRock was $484 million in sales and $75 million in operating income.

-Rawson had a brief period of operating losses so we conducted the lump-sum amortization of goodwill at the end of the previous fiscal year.

【Q10】

The first quarter gross margin ratio for the Single-Family Houses Business was 20.3%, a year-on-year improvement of 2.1pt. What were relevant factors behind this improvement? Also, what has been the impact of rising costs for raw materials such as lumber and steel?
(Reference) Financial Highlights P.26 “Single-Family Houses Business”

【A】

-On a non-consolidated basis, the gross margin ratio for Daiwa House improved by 0.5pt but single biggest factor behind consolidated performance was the 6.6pt improvement by Stanley-Martin. In addition to improved profit for housing sales, we also saw contributions from a year-on-year increase in sales for the highly profitable mortgage loan business.
-While there is a lack of transparency regarding whether or not we will be able to maintain this profitability over the full year, at the very least we believe we will be able to outperform the 17.4% outlined in our full-year plan.
-Although there was a temporary spike in lumber prices, currently the market has calmed down significantly. Also, the quite favorable conditions on the North American housing market have allowed weekly revisions to housing prices. As such, we are able to reflect cost increases in product prices and thus are not particularly concerned about the impact of raw material costs.

【Q11】

You are forecasting a year-on-year improvement in gross margin ratio from construction for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. At the same time, general contractors are indicating much less favorable forecasts. What are the reasons behind this difference in outlook?

【A】

-Daiwa House (non-consolidated) construction for the Logistics, Business & Corporate Facilities Business and the Commercial Facilities Business is based on a unique sales model. We provide customers with solutions for unused land; proposals that include tenant solicitation and rental revenue plans. We believe this enables us to secure a gross margin ratio that differs from typical construction projects.
-At the same time, our Logistics, Business & Corporate Facilities Business construction gross margin ratio includes significant contributions from Fujita, which operates as a general contractor.

【Q12】

Your full-year plans outline a 10.6% increase in Rental Housing Business orders received but your orders received summary through July indicates orders received are up by 24%. What is driving such

favorable results and do you think these conditions will continue?
(Reference) Financial Highlights P.33 “Orders Received by Business Segment (Non-consolidated) (2)”

【A】

We are seeing firm demand for inheritance tax mitigation measures, and we have been able to fully respond to those needs. Overall, the market is showing signs of recovery. In addition to recording the first monthly increase in new rental housing construction in 31 months, the market also recorded consecutive year-on-year increases from March through June. We hope this indicates the Rental Housing Business is shifting back to being a growth segment.

【Q13】

Page 4 of your material of financial highlights for FY2021 1Q that operating income increased by 42% excluding sales of development properties. What if you exclude the impact of extraordinary losses recorded for one-time costs associated with COVID-19?

【A】

This equates to an 81% increase in operating income.

【Q14】

What factors caused the gross margin ratio for rental housing construction to decline by 2.3pt?
(Reference) Financial Highlights P.27 “Rental Housing Business (1)”

【A】

The gross margin ratio last year was 26.5% but this included highly profitable large-scale projects. Excluding the impact of those projects, the gross margin ratio was 23.3%. As such, first quarter gross margin ratio improved by 0.5pt if comparing last year’s results with the 23.8% from this year. For the full-year, we are aiming for 24.7% so we do recognize that we still have work to do.

【Q15】

What factors caused the NOI yield of Commercial Facilities Business’ real estate available for sale to decline?
(Reference) Financial Highlights P.18 “Breakdown of Investment Real Estate (2)”

【A】

In the first quarter, the country’s third emergency declaration forced certain large-scale commercial facilities to suspend operations. As a result, first quarter yield declined by 0.4pt compared to the previous fiscal year (April 2020 to March 2021: 5.3%, April 2021 to June 2021: 4.9%). However, this also represents a 0.8pt improvement when compared to the yield of 4.1% recorded during the same period of the previous fiscal year.

【Q16】

What is the current state of your initiatives related to data centers?

【A】

We recently started construction on the third building for the data center project underway in Inzai, Chiba. We are also engaged in negotiations for other sites, but those have yet to result in orders received. We are also engaged in received orders for contracted construction.

【Q17】

Past teleconference presentations have had more of a conservative tone but this time you seem to have an overall positive tone. Is this because earnings are favorable relative to plans? Also, did investors express any concerns?

【A】

I don’t think my tone has changed. However, we are seeing various positive factors, including improvement in cost-of-sales ratio, which had been on the decline for a prolonged period of time. Operating income was up by 14.5 billion yen and orders received through this month are up 17% year on year. Although we cannot rest easy as it is difficult to predict second half performance without confirming our orders received balance at the end of September, it does feel like things are progressing smoothly.

(Reference) Financial Highlights P.7 “Summary of Account Settlement in FY2021 1Q: Overview (3)”

【Q18】

Daiwa House non-consolidated full-year plans called for a 21.3 billion yen year-on-year increase in orders received for Logistics, Business & Corporate Facilities Business. However, you have already greatly surpassed this figure year-on-year with 44.6 billion yen in orders received for the first quarter. Can you discuss the operating environment for Daiwa House non-consolidated as well as current conditions for Fujita?

(Reference) Financial Highlights P.32,33 “Orders Received by Business Segment (Non-consolidated)”

【A】

There is a general belief that conditions are declining severely for general contractors. With the Olympics ending and construction work not yet started for Expo 2025 in Osaka, right now is considered something of down period. Also, the bigger super general contractors have lowered prices to compete with smaller businesses. I have heard from sales about how this is creating difficult conditions. I think now is the time for patience when it comes to straight-forward construction contracts. The reason our numbers appear to be growing is because of the timing for which we recorded sales of development properties.

【Q19】

What factors have driven improvements, both year-on-year and relative to full-year plans, in gross margin ratios for rental management in each segment?

【A】

-The Rental Housing Business is mainly driven by Daiwa Living, which in addition to starting strong initial occupancy rates, has been able to maintain high occupancy rates during June, when we typically see a drop in occupancy rates due to seasonable factors. As a result, Daiwa Living recorded 10.0 billion yen in operating income during the first quarter, an extremely strong start on full-year plans of 32.0 billion yen.

-Last fiscal year, the Commercial Facilities Business recorded a yield of 11.8% on profit-earning real estate but this has improved to 12.7% as of the end of June 2021. This improvement has had a significantly positive impact.

-As for Logistics, Business & Corporate Facilities Business, adding Modular Europe to the scope of consolidation led to overall an improvement in operating margin ratio. Another factor was the improvement in yield for retained properties.

(Reference) Financial Highlights P.18 “Breakdown of Investment Real Estate (2)”

End