

Building trust: Daiwa House Group steps up global expansion on vibrant domestic sales.



Daiwa House
Group

www.daiwahouse.com/English

Despite a challenging domestic operating environment, Daiwa House Industry Co., Ltd., Japan's largest homebuilder, property developer and construction company, has followed a brilliant upward trajectory which looks set to continue.

For homebuilders and developers in Japan, the past two decades have not been, to put it mildly, an easy operating environment. Years of persistent deflation, a steady decline of construction investment, and a shrinking population with decreasing new housing starts have cast shadows and undermined confidence.

Despite this gloom, Daiwa House has followed a brilliant upward trajectory.

The group's net sales, which were at 1 trillion yen in FY1995, surpassed 2 trillion yen in FY2012 and then topped 3 trillion yen only three years later. For the year ending in March of 2017, the company booked sales of 3.51 trillion yen (US\$31.3bn) generating record operating income of 310bn yen. This marks the seventh straight year of sales and operating income growth. Investors have been duly rewarded. Daiwa House has maintained a dividend payout ratio above 30 per cent while its share price has roughly tripled since 2011.

Maintaining momentum, the company has stepped up investments into residential, commercial, and logistics properties in Japan as well as overseas, primarily in the US, Australia, and South East Asia. It plans to spend a hefty 700bn yen (100bn of it abroad) in real estate development investments in the three-year period of its 5th Medium-term Management Plan which ends in FY2018.

Naotake Ohno, president of Daiwa House, explains how the company has thrived and how it will sustain this ascent.

"We have continually adapted to changing needs and diversified into new businesses, developing land for a variety of uses by mediating between landowners, tenants, and client companies," says President Ohno.

"But the key point is that we focus on building enduring relationships of trust with customers. Our business doesn't end after building a home or facility and handing it over, but continues long after. This strategy is what fuels and will continue to fuel our growth."

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Diversified and sustainable platform of growth

In recent years, the Japanese giant has diversified considerably from the main business of building residential homes. Three areas—rental housing, commercial facilities, and logistics/business and corporate facilities segments—together comprise roughly 70 per cent of sales and 80 per cent of operating income for the group.

The first, rental housing, has steadily grown thanks to Daiwa House's comprehensive services that cover site assessment through to planning, design, construction, and management of apartments.

A similar comprehensive approach has pushed up sales for commercial facilities such as convenience stores, shopping centres, and chain stores. For example, Daiwa House has maintained a strong relationship with Fast Retailing, owner of the Uniqlo clothes brand, since it first began expanding chain stores in the 1990s. Currently, Daiwa House is the largest builder of Uniqlo shops.

The company has also been busy notching up orders for logistics centres, factories, and offices. A surge in online shopping and accompanying revolution in logistics requirements have particularly helped in this segment.

"By applying our comprehensive land-use approach, we hope to capture more of the urgent demand for medical



Naotake Ohno
President and COO
Daiwa House

and nursing care facilities in Japan," explains President Ohno. "There is also a shortage of logistic centres with increasingly sophisticated requirements which we hope to fill."

Elsewhere, the company has been active in developing solar, wind, and hydro-electric power generation facilities. Daiwa House also has a successful chain of hotels which has benefitted from the surge of inbound tourists into Japan in recent years.

Sure and steady strategy overseas

The group's robust and diverse domestic businesses provide a firm foundation, both in know-how and funds, to accelerate overseas expansion. Daiwa House currently generates around 3 per cent of group sales from its overseas operations across 17 overseas markets, but it is targeting a much larger figure.

"Essentially, we want to do everything overseas, from residential, rental, commercial, logistics and corporate facilities," says President Ohno. "But right now we are focusing on learning as much as we can about each country's markets and finding strong local partners."

President Ohno is adamant about avoiding hasty investments and being committed to any market the company enters. The slow and steady approach is bearing fruit. The company is on target to hit 250bn yen in overseas sales by FY2018 and to increase its overseas real estate investments to 100bn yen compared to 60bn yen achieved in an earlier three-year period.

In February 2017, the company acquired Stanley Martin, a major home seller in the US East Coast. Earlier in 2014, it entered into a joint venture with Lincoln Property Company, which manages the second-largest number of rental properties in the US, to provide upscale rental apartments around Chicago, Dallas, and Seattle, among other areas. Other overseas projects are under way, including the construction of luxury condominiums near Sydney, Australia, with local partners.



The Japanese company is stepping up its overseas business which includes the Chicago North Clark Project, an up-scale rental condominium development in the US.

Daiwa House also has a strong presence in ASEAN countries, providing serviced-apartments, industrial park development, factory rentals, as well as construction services. Notably, the company plans to quadruple rental factories it offers at an industrial park it manages in southern Vietnam by FY2018.

In the medium to long term, the company plans to more than double its overseas sales target to 500bn yen. President Ohno envisions as much as 30 per cent of group sales to be from abroad in the future, including from European markets which the company is carefully studying.

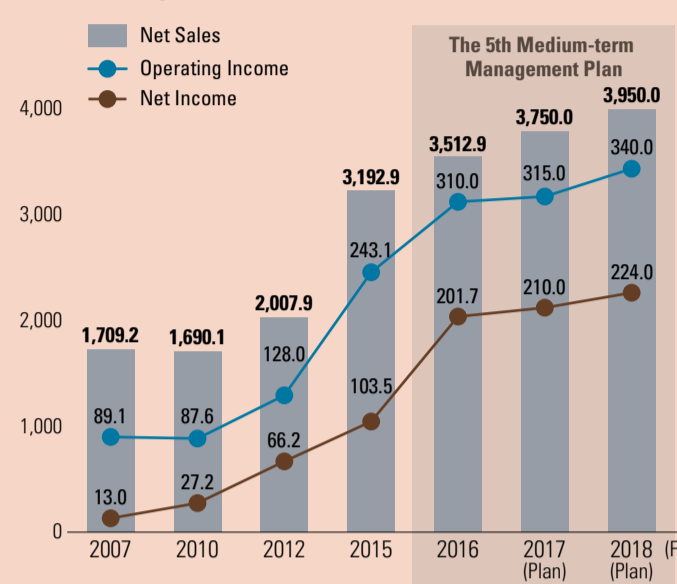
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Bringing Made in Japan to the world

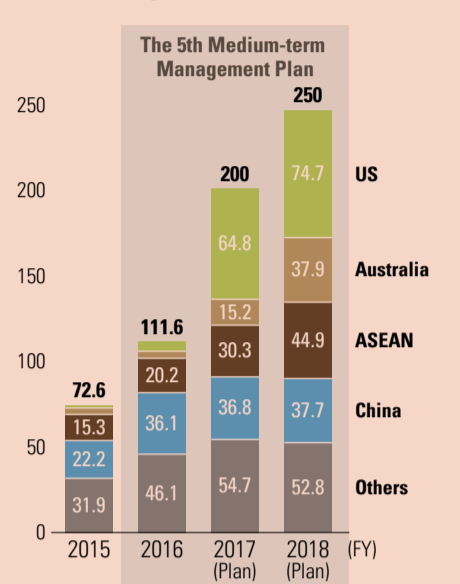
"I believe that our attention to detail and quality would be appreciated in many countries and wish for customers all over the world to have a chance to experience 'Made in Japan' properties," says President Ohno.

Despite the astonishing speed in which the Japanese home builder has diversified and thrived, its corporate philosophy remains rooted: nurturing long-term relations with customers in businesses that benefit society at large. Though a formidable rival for other developers, investors and customers can look forward to enduring support wherever next the Japanese giant lands.

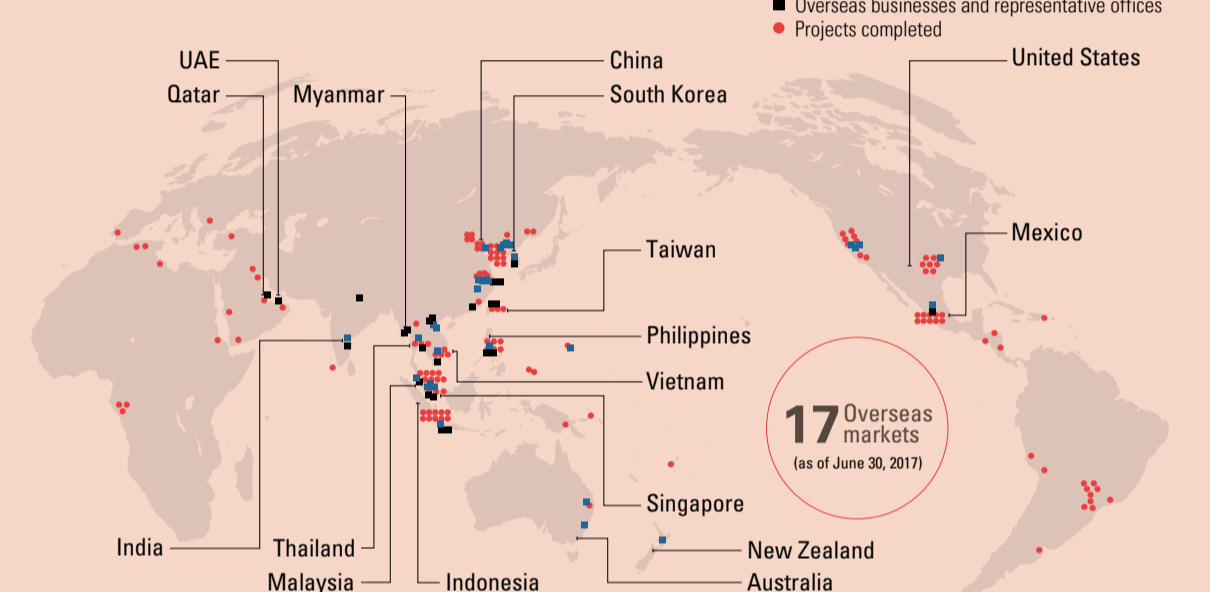
Net sales, operating income and net income (¥bn)



Overseas operation's sales (¥bn)



Overseas business areas



Daiwa House: a pioneer in diverse services involving land-use

PRIVATE

- Single-Family Houses
- Condominiums
- Existing Home Business

LANDOWNER

- Rental Housing

CORPORATE

- Commercial Facilities
- Logistics, Business & Corporate Facilities

OTHER BUSINESS

- Environment and Energy Business
- Robotics



The Long Duc Industrial Park in Vietnam, built and managed by Daiwa House, is one of the company's growing projects in ASEAN countries.