Overview of Business Strategies

- Expand business based on the real estate value chain
- Realize balanced growth by expanding the stable revenue base
- Enhance the asset management business to expand fee-business and promote joint investment with outside investors

Segment Performance

Segment revenues remained flat year on year at ¥217,590 million compared to ¥215,001 million during the previous fiscal year due to increases in real estate sales resulting from the increase in the number of condominiums delivered and operating lease revenues from enhanced leasing, offset by a decrease in revenues resulting from lower average balances of installment loans and investment securities (including specified bonds) in the real estate finance business and the absence of a gain from the sale of a large property in the current year like that which was recorded in the previous fiscal year.

Segment expenses were flat year on year as provisions for doubtful receivables and probable loan losses, interest expense and selling, general and administrative expenses decreased despite an increase in write-downs on long-lived assets.

Segment profits for the fiscal year were ¥54 million compared to ¥138 million during the previous fiscal year.

Segment assets were down 8% to ¥1,539,814 million compared to March 31, 2010 due to decreases in installment loans, investment in securities (including specified bonds) and real estate under operating leases.

Operating Environment

Despite trends of recovery in the residential condominium market such as contract completion rates surpassing the key benchmark level of 70% in the Tokyo and Osaka metropolitan areas, worsening consumer sentiment resulting from the Great East Japan Earthquake is cause for concern.

Vacancy rates have increased and rental rates are decreasing in the office building market as a result of new buildings supplied to the market. The impact of the earthquake must also be taken into consideration, and it is difficult to forecast when market conditions will hit bottom.

The scale of the real estate finance market shrank as a result of a decrease in investor risk appetite and significant decline in real estate transactions due to the effects of the global economic slowdown that was triggered by the Lehman shock in September 2008. However, financial institutions’ stance toward lending is improving.

Operating Strategy

Even in a sluggish real estate market, ORIX expects to secure stable revenue sources by managing and reducing business risks through capitalizing on our expertise in the areas of diversified small and medium-sized property investment, cash flow focus and risk sharing with business partners through joint ventures.

This segment will capitalize on and further expand its wide-ranging real estate-related expertise to increase the value of its held assets while promoting the provision of new value. The segment will also aim to make full use of its value chain through such means as joint investments with outside investors. Furthermore, ORIX aims to realize balanced growth by controlling asset size and by swiftly es-
tablishing a stable revenue base through the further pursuit of businesses such as the real estate operating business that are not directly influenced by the real estate market.

In the real estate development and rental business, this segment will strive to improve occupancy rates and rental income by leveraging the characteristics of its small and diversified rental property portfolio and leasing capabilities. Although real estate transactions have not seen a full-scale recovery, the segment will pursue various exit strategies such as sales to overseas investors to promote asset turnover.

In the residential condominium development business, the segment has reduced its supply since the second half of 2007, ahead of its competitors. The segment is now carefully researching the market as customer demand recovers and will focus on those condominiums mainly within a price range that meets customer needs.

In the facilities operation business, the segment will establish a unique position in the market by developing a wide range of unique services in response to diversified needs and aging customers. The segment will continue to diversify its customer base and increase profitability by setting a clear customer target and concept for each operating facility including Japanese inns, golf courses and aquariums.

The asset management business targets increased fee-based revenue by addressing asset management needs outside the Group in addition to managing Group assets.

The real estate finance business will continue to take its project-by-project approach. It will reduce asset levels by actively monitoring the terms and conditions as well as backing assets for each project and maximizing collections.

The segment will also create new value by promoting large-scale projects such as the North Yard, a redevelopment project next to Osaka Station.

Cross Garden Kawasaki (Kawasaki, Kanagawa Prefecture) is an eco-friendly ORIX Real Estate commercial complex opened in March 2011. The facility has 17 specialty stores including a supermarket, electronics store and medical mall, as well as a car sharing station operated by ORIX Auto. The facility also includes energy efficient construction such as solar panels and street lights with wind turbines, and has received a CASBEE Kawasaki (Comprehensive Assessment System for Building Environmental Efficiency) rating of A. ORIX capitalized on its Group-wide departments with expert know-how, cooperating with the Corporate Financial Services Eco Products Promotion Business Department in the implementation of solar panels.

Despite Kawasaki City participating in rolling blackouts following the Great East Japan Earthquake, the street lights surrounding the facility were able to remain lit even overnight due to the electricity provided by the wind turbines, providing a sense of safety to the surrounding residents.

ORIX Real Estate will continue to capitalize on ORIX Group know-how to develop facilities that are loved by patrons and local residents.