Meeting Minutes from the Corporate Strategy Conference Q&A Session (Summary)
(First Six Months of FY2014)

Date and time: From 16:00 to 17:00, Tuesday, November 11, 2014
Location: Daiwa House Industry Co., Ltd., Tokyo Head Office
Presenters: Takeo Higuchi, Chairman and CEO
Naotake Ohno, President and COO
Tetsuji Ogawa, Executive Vice President and CFO
Takeshi Kousokabe, Director and Managing Executive Officer

[About orders]

Q: Can you tell us why you did not revise your full-year net sales forecast despite orders during the first six months exceeding targets?

A: ・The reason for not revising sales forecast is the lack of clarity regarding how a hike in the consumption tax rate to 10% would impact our business.
・The Single-Family Houses market continues to face a difficult environment but sales in other businesses are performing favorably.

[About business]

Q: Can you tell us your thoughts on the medium to long-term business environment for the Single-Family Houses Business assuming a hike in the consumption tax rate to 10%? What strategies would you employ to achieve profit improvement?

A: ・We imagine that overall the Single-Family Houses market would trend toward contraction. However, Single-Family Houses Business is one of our core businesses and we will continue to implement initiatives aimed at improving revenues.
・Despite competition from other companies, our premium-priced product line for Single-Family Houses, xevoΣ, is achieving success based on the strengths of its competitive advantages. At present, the line is performing well with sales of approximately 140 units per month. Moving forward, we will conduct capital investments that will help enhance our production system.
・On the other hand, in September we also introduced a line of low-priced house and land packages to meet customer needs.
・We are steadily embarking on company-wide cost reduction initiatives, mainly in the Technology Division. This includes a far-reaching review to curtail the total number of parts used in a single product.

Q: Can you tell us your opinion on the imposition of consumption tax on residential housing?

A: We view the residential housing industry to be very diverse and as having a significant impact on the Japanese economy. In certain foreign countries, residential housing is not necessarily viewed as a consumable asset and often is subject to tax breaks or tax-free status. We will continue to stress to the government that Japan also must consider the introduction of such measures.

Q: As real estate prices continue to rise, have you seen an increase in land sales?

A: ・We do not think there has been an increase in land sales by private owners.
・Corporations and local municipalities sometimes sell land as a part of restructuring efforts so we will continue to pour effort into information gathering aimed at land acquisition.

Q: Can you tell us why the Commercial Facilities Business recorded significant net sales and operating income yet saw a decline in the operating margin? Can you tell us about the correlation between the roadside storefront business and sales costs?

A: ・The reason for the decline in operating margin despite strong performance by the Commercial Facilities Business is due to increased indirect costs resulting from the additional hiring of engineering personnel to address increased construction volume.
・The roadside storefront business model entails a landowner building a store on his/her own land and then lending that store to a tenant. We believe tenants will consider opening shops if rent rates are tied to sales and other profitability factors.

Q: Can you tell us about the logistics business collaboration with Fast Retailing Co., Ltd.?

A: ・As was announced on October 14, we will build a dedicated logistics center for Fast Retailing Co., Ltd.
・This project marks the first time Daiwa House will lead a privately solicited REIT. This partnership involves capital procurement for the acquisition and development of land for multifunction logistics centers specifically for Fast Retailing Co., Ltd. and the provision of construction services using that acquired land.

・We also will partner with Fast Retailing Co., Ltd. in the joint capitalization of a logistics corporation, through which we will develop and build new logistics schemes.

・Although no specific has been decided at this time, we have been consulting with Fast Retailing Co., Ltd. concerning their desire to explore joint ventures overseas as well and we will put forth every effort possible to help realize their vision.

Q: Can you explain the status of your businesses providing services for the aging population, including your Medical and Nursing Care Facilities Business?

A: ・The scope of our business dedicated to addressing population aging is vast and diverse. In addition to building construction contracts, this business includes rental housing management, commercial facilities operations, and a robotics business, among others. The scope of this business for the group overall is approximately 160 billion yen annually.

・Although the level of recognition for our Medical and Nursing Care Facilities Business remains relatively low, the business has received 4,217 orders in construction totaling 715 billion yen in sales (Daiwa House, non-consolidated as of September 30, 2014).

・Today, senior citizens over the age of 65 accounts for 25.9% of the population. We believe this market will grow significantly moving forward and we will continue with initiatives to expand this business.

Q: Can you tell us about initiatives aimed at achieving operating income of 200 billion yen?

A: ・Achieving operating income of 200 billion yen will require that we focus not only on existing core businesses, but also on new businesses. This ties to our founder's vision of achieving "net sales of 10 trillion yen by our 100th anniversary." We are committed to working as a united group toward achieving this goal.

・Robot suit development CYBERDYNE went public 10 years after its establishment when we first invested in the company and it has been nine years since we first invested in lithium battery developer ELIIY Power. Today, the company produces products that fulfill globally recognized safety standards. This is an example of the growth we have achieved in new businesses.

・We also have brought two parking garage companies into the Group as part of our business expansion efforts.

・We will continue with our efforts to develop new products that benefit societies throughout the world.

[About Real Estate Development Business]

Q: The book value of your rental real estate assets exceeds 600 billion yen and places you squarely among the major real estate corporations. Can you tell us about your strategies concerning the sale of real estate and future real estate investment and development?

A: ・At present, the NOI yield of existing real estate assets is strong thanks to a bustling real estate market but the acquisition of land for development is becoming more difficult.

・Our Medium-Term Management Plan outlines real estate investments of 400 billion yen over the three-year plan and we forecast investing 320 billion yen of that amount in a two-year period. However, at this point no specific investment amount has been set for the upcoming fiscal year.

・With an awareness of the future need to expand into the logistics facility business as well as the need to supply properties to support the growth of our two listed JREIT corporations, the sale of real estate is something that will be explored during the upcoming fiscal year and beyond. We will incorporate a diverse range of strategies flexibly, including JREIT, private funds, and private REIT as we work to increase profitability.

Q: Can you tell us about your policies for future financing leverage?

A: ・Our financing strategy entails maintaining our current rating (Rating and Investment Information Center: AA-, Japan Credit Rating Agency: AA). As such, we have established financing rules outlining a DE ratio of 0.5.

・At present, we are focused on investments and thus as of the end of September the DE ratio was 0.46. Investment recovery will be based on an approach that gives due consideration to the balance of (1) Company earnings, (2) status of cash flow, and (3) our commitment as a sponsor company to the growth of our JREIT ventures.

[Overseas business]

Q: Can you tell us about the current status of overseas businesses and plans for future business development?

A: ・Our forecast this year for overseas businesses is net sales of 57.3 billion yen and net income of 74 million yen. This has not increased compared to the previous year but we are moving cautiously on various fronts, including personnel hiring.

・The addition of Fujita to the Group has made it possible to establish a foothold in various markets for our overseas business. Despite risks specific to each country, we believe our overseas business to be a promising source of revenue in the future. We will focus on respecting local customs and culture while working to build connections and take the next steps toward business expansion.

・Several years have passed since we first launched overseas operations and gradually we have been able to increase personnel. We even have been able to hire a small number of staff with prior experience at merchant companies. In our overseas operations as well, we will remain committed to the aggressive hiring of strong local candidates while also exploring beneficial alliances when warranted.

Q: Can you tell us about progress in your overseas businesses for each region?

A ・China: Although not completely in line with assumptions, sales activities are being conducted within the scope of a certain investment level.

・U.S.A.: We formed an alliance with major real estate developer Lincoln and are working to expand business with a focus on the rental housing business.

・Australia: Working with a local developer on development projects.

・Vietnam/Indonesia: Progressing with the construction of industrial parks, factories, and logistics facilities.