Q&A at IR Teleconference for Analyst/Institutional Investors (Summary) at Announcement of Financial Results for FY2014-1Q (from April 1, 2014 to June 30, 2014)

Date: From 17:00 to 18:00, Friday, August 8, 2014

Location: Daiwa House Industry Co., Ltd., Headquarters

Presenters: Tetsuji Ogawa, Executive Vice President and CFO
Takeshi Kousokabe, Director and Managing Executive Officer
Yuji Yamada, Executive Officer and General Manager, IR Department

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Q: Can you tell us about orders received in the Single-Family Houses Business, Rental Housing Business, and Commercial Facilities Business.

Reference: Financial Highlights: P13 "Orders Received by Business Segment (Non-Consolidated)"

A: ・The April increase in consumption tax rates was a factor leading to a year-on-year decline of 11.0% in our Custom-Built Houses.We were able to limit year-on-year declines in our Housing Development Projects and Housing Business overall to single digits, at -3.8% and -8.0%, respectively. This was due in part to our advance preparation of land for housing development projects.

・We reported year-on-year growth in our Rental Housing Business of 2.2%, while our Commercial Facilities Business enjoyed a 6.2% year-on-year improvement, driven by heavy interest in retail store (drug stores and convenience stores) and new roadside store (auto showrooms, etc.) construction.

Q: Can you tell us about current performance versus plan for orders received.

Reference: Financial Highlights: P13 "Orders Received by Business Segment (Non-Consolidated)"

A: ・ As you can see toward the bottom of P13 in our Financial Highlights, we did not make any changes to our full-year forecast this quarter. However, our cumulative July monthly orders (+8.0%) significantly outperformed our first-half forecast (-2.4%) and full-year forecast (+1.0%). Because of this, we are making solid progress.

・ By segment, the Single-Family Houses Business and Condominiums Business experienced major declines at -8.0% and -18.8%, respectively, compared to the same period in the prior fiscal year. However, we were on par with first-half forecast (-7.4% in Single-Family Houses Business; -23.2% in Condominiums Business), while the Rental Housing Business, the Commercial Facilities Business, and the Logistics, Business & Corporate Facilities Business experienced only a limited impact from increased consumption tax rates. As such, our results are slightly better than forecast.

Q: Can you tell us more about the circumstances surrounding lower year-on-year gross profit ratios for Custom-Built Houses and Houses in Housing Development Projects?

Reference: Financial Highlights: P8 "Segment Information ②"

A: ・ In our Single-Family House Business, we have focused on promoting housese that include 10KW solar power generation equipment. Since our goal was to promote unit sales by including built-in large-scale solar power generation, we didn't intend to create significant profits on the equipment itself.

・ Ratios were lower in our Rental Housing Business and Commercial Facilities Business, due to higher indirect costs (mainly personnel costs), rather than the impact of increased direct costs related to labor costs or raw materials costs.

・ Our Condominiums Business felt the negative impact of consolidating our subsidiary Cosmos Initia, while Daiwa House Industry was actually up 1.1 points on a nonconsolidated basis.

・ We saw significant improvement in our Logistics, Business & Corporate Facilities Business, with Fujita Corporation up 6.2 points and Daiwa House Industry up 6.4 points on a nonconsolidated basis.

Q: Can you tell us about the future strategy of your Single-Family House Business.

A: At present, we are trailing our competitors in the large Tokyo metropolitan market. We are looking to reallocate sales staff to better sell our high-value-added, premium-priced xevoΣ ("xevo-sigma") product and our five-story urban products. We are working to improve market share and profit ratios by building a stronger sales structure, particularly in the Tokyo metropolitan and other major urban areas.

Q: Do you expect orders in your Rental Housing Business to suffer in the wake of higher inheritance tax rates after January 2015?

A: I believe that higher inheritance tax rates will actually boost apartment building construction demand by wealthy individuals—even after January of next year. Further, the decrease in the standard deduction for inheritance taxes means that it's likely those living in single-family houses in the heart of Japan's larger cities may be subject to inheritance tax payments as well. We plan to use inheritance tax seminars and other means to uncover untapped demand, serving rental housing and single-family housing customers through consultative sales.

Q: There are differences in the type of earnings growth for the Commercial Facilities Business and the Logistics, Business & Corporate Facilities Business. Are there also differences in demand and focus?

A: Higher net sales in our Logistics, Business & Corporate Facilities Business stemmed from the April sale of a total 12.7 billion yen in logistics facilities to a REIT. On the other hand, we saw lower net sales in our Commercial Facilities Business owing to the sale of a large-scale commercial facility during the first quarter of the previous fiscal year. Our Commercial Facilities Business and our Logistics, Business & Corporate Facilities Business have enjoyed continued strong demand for construction work, both representing growth areas for the group.

Q: Earnings of your consolidated subsidiary Fujita improved. Do you think this will push year-long profits upward?

A: The gross margin ratio for Fujita was 6.0% during the first quarter of the previous fiscal year and 12.2% for the current fiscal year. As seen with other general contractors, this improvement in the gross margin ratio was the result of selecting profitable projects. At present, we anticipate that full-year profit will be on par with our original plan.

Q: Could you tell me about ongoing developments in overseas business, including sales trends in China.

A:
- At the end of July, all contracts for units in the Suzhou condominium were finalized and sales completed. We reduced capital by 6.0 billion yen and those funds arrived in Japan in June.
- Heading into this year, condominium sales in China were weak but heading into July we are beginning to see a slight recovery in condominium sales in Dalian.
- In Wuxi, the timeline for completion is unknown due to delays in government infrastructure construction projects, including roads, water and sewage, and electricity construction. As a result condominium sales are currently on hold.
- In America, we have a positive outlook on the potential rental housing market and have launched our first project.
- In Southeast Asia, we are working aggressively on developing industrial parks targeting Japanese corporations.

Q: What are investment balances for overseas businesses?

A: For China businesses, as of the end of March 2014 the investment balance was 75.6 billion yen. As we conducted a capital decrease for our Suzhou affiliate to return 6.0 billion yen to Japan, the investment balance for China businesses was 69.7 billion yen as of the end of June. Excluding China, overseas investments were 23.1 billion yen, which includes plans for the current fiscal year. Including China, total overseas investments were 92.9 billion yen.

Q: What was the amount of capital investments for Logistics, Business & Corporate Facilities, Commercial Facilities, and Rental Housing during the first quarter?

A: ・49.9 billion yen overall for capital investments

・Breakdown: Rental Housing: 3.1 billion yen, Commercial Facilities: 12.8 billion yen, Logistics, Business & Corporate Facilities: 19.7 billion yen.

Q: What was the cause of the improvement in NOI yield for real estate available for sale and profit-earning real estate?
Reference: Financial Highlights P9 "Breakdown of Rental Real Estates"

A: NOI yield improved as a result of book value declines due to depreciation, and the renovation of commercial facilities.

Q: The 4th Medium-Term Management Plan (FY2013-2015) outlines real estate development investments of 400.0 billion yen over the three-year period. What is the current investment balance and what is your investment recovery policy?

A: During FY2013, real estate development investments totaled approximately 157.0 billion yen. The investment balance as of the end of June 2014, which includes investments conducted during the first quarter of the current fiscal year, totaled approximately 200.0 billion yen. Investment recovery is based on a comprehensive evaluation of the following three points:

(1) Creation of profit through the sale of developed properties

(2) Capital recovery policy through the sale of properties

(3) The need to support the growth of two listed J-REIT companies as their sponsor

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