Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)
at Announcement of Financial Results for FY2016 1Q
(For the three months from April 1, 2016 to June 30, 2016)

Date & time: From 17:00 to 18:00, Tuesday, August 9, 2016

Presenters: Takeshi Kosokabe, Representative Director, Senior Managing Executive Officer and CFO
Yuji Yamada, Senior Executive Officer and General Manager of Finance and IR Departments

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● About the Status of Orders Received and Market Environment

[Q1]

Please provide figures for orders received by Daiwa House Industry (non-consolidated) during Q1/FY2016 excluding sales of development properties. In particular, figures for orders received in the Logistics, Business and Corporate Facilities business segment, which centers on logistics facilities, fell significantly. Please tell us the background behind this decline.

(Reference: Financial Highlights: p13 "Orders Received by Business Segment (Non-consolidated)")

[A]

-Orders received excluding sales of development properties are indicated below.

	Orders received	Net orders received excluding sales of development properties
Rental Housing	+0.1%	+7.9%
Commercial Facilities	+6.2%	+8.9%

Logistics, Business & Corporate Facilities	-35.6%	-12.0%
Total	-7.0%	+2.1%

-While there are multiple reasons why the Logistics, Business & Corporate Facilities business segment declined, one reason is that our development of multi-tenant type logistics facilities has increased compared to last fiscal year. In many cases, we create specific purpose companies (SPC) to manage the development of multi-tenant type logistics facilities and in those cases orders received are not recorded as figures for Daiwa House Industry (non-consolidated).*

-In the past, for BTS-type (Built-to-Suit/Order-Made type) logistics facility development we would execute a contract with the lease company that involved us receiving the order and conducting construction but lately the percentage of development projects being conducted internally is increasing. These types of projects are not reflected in orders received until construction is completed and the property is sold.

Added at later date

*When including orders received figures from SPC and other consolidated subsidiaries established for the purpose of real estate development, orders received for the cumulative first quarter (April through June) increases by 8.4% for the Logistics, Business & Corporate Facilities business segment and by 3.2% for all business segments.

[Q2]
Please tell us about the current market environment for Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities, the business segments that you have positioned as growth drivers.

[A]
-Because sales of development properties were concentrated into Q1 of the previous year, in order to account for the expected adverse effect, we set our original Order Received Forecasts for H1/FY2016 at an overall -4.4% YoY (Rental Housing business: -2.6%, Commercial Facilities business: +4.4%, Logistics, Business & Corporate Facilities business: -15.9%).
-As such, performance for the Rental Housing business and the Commercial Facilities business is progressing favorably against targets. We view the current market environment as continuing the firm trends we saw during the previous fiscal year.
-Although performance for Logistics, Business & Corporate Facilities business segment is below targets, as indicated in our response to [Q1], the number of projects that are under development but not being included in orders received is increasing. We are continuing to invest aggressively and the number of projects under development is increasing so it is not the case that market conditions have declined.

- **<u>About the Single-Family Houses Business Segment</u>**

[Q3]

There were changes in the economic policy such as another postponement of the consumption tax rate hike. As it relates to Single-Family Houses business, do you note any market trends such as a slowdown in contracts received?

[A]

-We have not seen a deceleration of contracts received since the re-postponement of the consumption tax rate hike and we have experienced no notable impact on housing showroom visitor numbers.

[Q4]

Please tell us the reasons why the gross profit ratio for Single-Family Houses business is declining.

(Reference: Financial Highlights: p8 “Business Segment Information (2)”)

[A]

-The impact of land valuation losses based on the lower of cost or market methods (inventories) (we recorded 500 million yen for a project in Kanagawa Prefecture) resulted in a 0.7 point decline in the cost-of-sales ratio.

-The impact of low-margin public housing for reconstruction areas and other projects resulted in a 0.4 point decline in the cost-of-sales ratio for end of period percentage of sales.

-Also, the indirect cost-of-sales ratio for custom-built houses declined by 0.5 points due to low sales during Q1/FY2016.

- **About the Rental Housing Business Segment**

[Q5]

There have been reports of an apartment oversupply. Please tell us about the current status of rental housing occupancy rates.

(Reference: Financial Highlights: p15 “Rental Housing Business”)

[A]

-The rental housing occupancy rate was 97.4% as of the end of March 2016, and down 1.5% to 95.9% as of the end of June 2016. However, this is only down 0.2% from the end of June 2015, when the occupancy rate was 96.1%, and we do not view this as a significant change. We have been told that none of the properties managed by our Group are experiencing the types of high vacancy rates being reported by some media outlets. As such, this is not a point of concern for us.

- <u>About the Logistics, Business and Corporate Facilities Business Segment</u>

[Q6]

Please tell us the factors behind increased construction income from Logistics, Business and Corporate Facilities business.

(Reference: Financial Highlights: p8 "Business Segment Information (2)")

[A]

-One factor is an improved cost-of-sales ratio. Also, the gross margin ratio improved by 8.9 points for Daiwa House Industry (non-consolidated) and by 1.9 points for construction projects at Fujita Corporation.

-For Daiwa House Industry, an improved cost-of-sales ratio (up 2.6 points) at time of order received was a contributing factor. Gross margin ratio improved because during Q1/FY2016 saw the completion and transfer of numerous large-scale properties, which resulted in a drop in costs recorded as a percentage of completion when payments were settled.

[Q7]

Please tell us about D&F Logistics REIT, Inc., the privately solicited REIT established specifically for FAST RETAILING CO., LTD. logistics facilities. What was your original AUM (assets under management) plan and what are your current targets for investment scale? Please include information on the current status of development.

[A]

-The current investment scale is limited to the 69.2 billion yen for the logistics facility completed in Ariake, Tokyo.

-We have heard there is a need for multiple logistics facilities in Japan other than Ariake. Of those, Sapporo and Sendai will be completed this year and will be sold to D&F Logistics REIT, Inc. based on the appropriate timing.

-As for overall AUM, we are assuming a scale exceeding a total of 100 billion yen.

[Q8]

Please tell us the net sales and operating income for Fujita for Q1/FY2016.

[A]

-Fujita Group net sales were 91.1 billion yen with operating income of 4.8 billion yen.

- <u>**About Overseas Business**</u>

[Q9]

Please tell us about net sales and operating income for the Overseas business during Q1/FY2016. Also, please tell us about your full-year targets and income drivers.
(Reference: Financial Highlights: p16 "Overseas Business")

[A]

-Net sales for Q1/FY2016 were 22.9 billion yen with operating income of 1.6 billion yen. FY2016 net sales were 72.6 billion yen with an operating loss of 8.5 billion yen due to having recorded 8.9 billion yen as a valuation loss based on the lower of cost or market methods (inventories) for our China business. For FY2016, we are targeting net sales of 140 billion yen and operating income of 6 billion yen.
-In the current fiscal year, we think the sale of developed properties by our Rental Housing business in America will result in increased income.
-We also forecast that orders received by the Fujita Group for large-scale projects such as an automotive plant in Mexico and a railway base in Qatar will drive income for the Overseas business.
-As for China business, while we have been able to increase the price of sale somewhat, there has been no significant change in the business environment.

- **About Planned Investments and Capital Investments**

[Q10]

Beginning from the current fiscal year, you revised the recording method for planned investments from contract-based to payment-based. What level of impact will this have on the investment amount for Q1/FY2016?

(Reference: Financial Highlights: p16 “Status of Investment Plan” (Real estate development: 31 billion yen))

[A]

-If converted to the former contract-based recording method, this would result in an increase of 4.7 billion yen.

[Q11]

Please tell us about your plans and status of progress for capital investments.

(Reference: Financial Highlights: p16 “Status of Investment Plan”)

[A]

-We are planning on 50 billion yen for the current fiscal year and conducted investments totaling 9.8 billion yen during Q1/FY2016.

- **<u>Other</u>**

[Q12]

You are forecasting 5 billion yen as the amortization of actuarial loss for employees' retirement benefits but what impact have changes in economic conditions had on this amortization amount?

(Reference: Financial Highlights: p10 "Business Performance Forecasts for FY2016" (Non-operating expenses))

[A]

-The amortization amount may change due to factors such as the rate of salary increases or death rates but at present this is the amount we are forecasting.

-We presently do not anticipate changes in the amortization amount based on macro factors such as changes in economic conditions.

(End)