Q&A at IR Teleconference for Analysts/Institutional Investors (Summary) at Announcement of Financial Results for FY2016 3Q

(For the nine months from April 1, 2016 to December 31, 2016)

Date & time: From 16:00 to 17:00, Thursday, February 9, 2017

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 Earnings

[Q1]

Can you tell us the main consolidated subsidiaries that contributed to the increase in operating income for the first nine months?

(Reference: Financial Highlights: p. 1 "Summary of Account Settlement in FY2016 3Q")

[A]

- The biggest contributor to the increase in operating income was the Fujita Group, which accounted for a YOY increase of 9.6 billion yen.
- The Daiwa Royal Group, which mainly operates city hotels, recorded increased operating income of YOY 1.8 billion yen.

[Q2]

Comparing operating income results through 3Q against full-year targets, it appears that progress is slow for the Single-Family Houses Business and the Condominiums Business. How are you viewing this progress?
(Reference: Financial Highlights: p. 7 "Business Segment Information (1)")

[A]

- With the Single-Family Houses Business, the majority of houses are completed in March so sales tend to be concentrated in 4Q. About the Condominiums Business, completion periods are determined in advance, with there being multiple properties scheduled for completion in 4Q. As such, we feel that full-year targets are achievable for both segments.

[Q3]

Although you did not revise your full-year business performance forecasts, is there a possibility that operating income will exceed your target of 280 billion yen? What are your thoughts on business performance forecasts for next fiscal year and beyond?
(Reference: Financial Highlights: p. 10 "Business Performance Forecasts for FY2016 (1)")

[A]

- Looking at past transitions in earnings, it is possible that full-year performance could outperform targets. Of course, this would elevate our performance targets for next fiscal year, but considering we have development properties we can sell, we will continue aiming for annual increases in net sales and income.

●About Business Segment Information

[Q4]

Looking at construction, the gross profit ratios for the Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities improved YOY by 1.5 points, 1.1 points, and 2.2 points, respectively. Can you tell us about the factors behind these improvements? Also, do you think these segments still have room for improvement next year and beyond?

(Reference: Financial Highlights: p. 8 "Business Segment Information (2)")

[A]

- We are highly competitive in the three segments of Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities. As such, even if costs rise, to a certain extent we have been able to reflect those price fluctuations into sales prices. With costs, while we are hearing that the cost of materials has declined slightly, labor expenses remain at a high level so we are working in each segment to reduce costs.
- As for next year, the labor shortage on the general construction market is expected to become more significant, suggesting that it will be difficult to achieve the same level of improvements recorded this year.

[Q5]

Please tell us why the gross profit ratio for Single-Family Houses declined by 0.7 points.

(Reference: Financial Highlights: p. 8 "Business Segment Information (2)")

[A]

- The impact of public reconstruction housing, which has a high cost-of-sales ratio, was 0.5 points and the impact of loss on valuation of land inventories was 0.2 points. Regarding the business environment, there are no significant changes from our 2Q announcement.

[Q6]

The status of Rental Housing Business orders received for the month of January was +1% for the month but a cumulative -0% for 2H thus far (October to January), suggesting that growth is slowing down. You are forecasting +5.2% for the full year but do you think this is achievable?

Also, occupancy rates were 95.1% as of end of December 2016, a YOY decline of 0.4%. Is the occupancy rate declining because of a slight decline in demand for suburban apartments?

(Reference: Financial Highlights: p. 15 "Rental Housing Business")

[A]

- The status of orders received for the month of January was +10% when you exclude the sale of a large-scale development property from the previous year. We also believe our full-year order received forecasts are achievable.
- One of the reasons occupancy rates declined was due to the leveling of construction. Demand for rental housing is highest in March but we schedule construction to avoid a concentration of projects at the end of the fiscal year. Thus, we have newly constructed properties that are completed during quiet periods, which results in a decline in occupancy rates. In no way does this indicate a breakdown in our supply and demand balance and we believe that occupancy rates will rise to normal levels by the end of March 2017.

●About Investment Plans

[Q7]

Progress seems slow when comparing planned investments outlined in the 5th Medium-Term Management Plan to cumulative actual investment for the current year.

Regarding domestic real estate development, do you have target properties for 4Q or have real estate prices risen to a point where you are unable to find profitable properties? Also, compared to your M&A plans, which outlines investments of 50 billion yen over three years but actual M&A investments are currently at 1 billion yen. Are there no suitable prospects or are you gauging the market in light of currency and global economic conditions?

(Reference: Financial Highlights: p. 10 "Status of Investment Plan")

[A]

- Considering we are planning large-scale land acquisitions in 4Q, we actually think investments for domestic real estate development are progressing ahead of schedule. Full-year cumulative actual should reflect favorable investment results when comparing this fiscal year to the first fiscal year of our three-year plan.
- The investment results from our acquisition of the US homebuilder we released in October 2016 are not reflected in M&A figures. We are planning to complete equity acquisition in February 2017(*), which we will add approximately USD 250 million to our 4Q investment results. As such, this will mean investments of approximately 27 to 28 billion yen for the initial fiscal year.

Supplemental information: *Completed acquisition of membership interests on February 13, 2017.

http://www.daiwahouse.com/English/ir/ir_news/pdf/dh_irnewsE170214.pdf

[Q8]

What is your current area of focus for investments for logistics facility development? Also, what is your current construction composition for BTS-type (BUILD TO SUIT) and multi-tenant-type logistics facilities?

[A]

- We continue to focus our investments on the Tokyo Metropolitan area but demand for logistics facilities in rural areas is increasing and we will continue aggressive development activities.
- Currently, 80 to 90% of the logistics facilities we operate are BTS-type logistics facilities. There is no change in our policy of focusing on the development of BTS-type facilities but recently we also are advancing the development of multi-tenant-type logistics facilities. As such, our current composition is 70% BTS-type facilities and 30% multi-tenant-type facilities.

[Q9]

Can you tell us about the construction progress and leasing status for iias Takao, the multi-use commercial facility under construction in Hachioji-shi, Tokyo?

[A]

- iias Takao is scheduled to open in June 2017 and currently nearly all tenants have been determined.

●About the Medium-Term Management Plan

[Q10]

Regarding the 5th Medium-Term Management Plan, you are on track to achieve targets for operating income and net income attributable to owners of the parent during the first year of the plan but do you intend to review only earnings goals or will you draft a new 3-year plan? Please tell us about the status of the current plan.

[A]

- Currently, we are not considering releasing a new Medium-Term Management Plan. We plan to reevaluate earnings targets but there will be no changes to our management policies and business strategies.

(End)