**Q&A at IR Teleconference for Analysts/Institutional Investors (Summary)**
**at Announcement of Financial Results for FY2017 2Q**
**(For the 6 months from April 1, 2017 to September 30, 2017)**

**Date & time: From 16:00 to 17:00, Thursday, November 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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[Q1]
Please tell us more about orders received in your three core growth drivers (Rental Housing, Commercial Facilities, and Logistics, Business & Corporate Facilities).

[A]
(Rental Housing Business)
・Every manufacturer, including Daiwa House, has been reporting fewer orders recently. With the revised Inheritance Tax Act, new housing starts for the rental housing market increased over the prior two year-period. This year, we are seeing the opposite effect, resulting in fewer orders.
・In October, we adopted stricter standards for recognizing orders, which resulted in a 17 percent decrease year on year.
(Commercial Facilities Business)
・October orders were 28 percent lower year on year, mainly due to a major ¥7.3 billion order last year, making year-on-year growth this year a high hurdle.
・While we are seeing fewer traditional merchandisers, we are receiving more orders from hotels, child care and education-related facilities, and other new tenants. Accordingly, we believe we will be able to meet our plan numbers.

(Logistics, Business & Corporate Facilities Business)

・Demand for logistics facilities remains active, and we believe demand will continue to grow.

・We plan to invest actively in the future.

[Q2]

Can you address the main factors behind the improved cost-of-sales ratio in your Single-Family Houses Business?

(Reference) Financial Highlights: p8 "Business Segment Information②"

[A]

・The gross margin ratio in our Single-Family Houses Business for the second quarter improved 2.2 points to 20.6 percent. One reason for this improvement was the 1.5-point improvement over the prior year in cost ratios when receiving orders. Other major reasons include cost-reduction activities related to construction and factories, as well as smoothing construction. We want to maintain our cost-of-sales ratio at around 20.6 percent.

[Q3]

Why did you raise your fiscal year operating income forecast for the Other Business segment by ¥3 billion?

(Reference) Financial Highlights: p11 "Business Performance Forecasts②"

[A]

・The main reason we raised our forecast is our Overseas Business. We are seeing strong sales at the two condominium projects in China, which leads us to believe both sales and profits will be higher than our original plan.

・Also, we completed the sale of the rental housing property we developed in Fort Worth, Texas at the end of September. We anticipate the sales gains here to have a positive impact.

[Q4]

Compared to your original plan, you revised rental management gross margin ratio higher for the Rental Housing Business and lower for the Logistics, Business & Corporate Facilities Business. Why did you make these revisions?

(Reference) Financial Highlights: p13 “Business Performance Forecasts④”

[A]

・Rental Housing Business: The main reasons we revised our forecast in this business is that Daiwa Living, which provides rental management services, is expanding into Internet-related business, electricity retailing, and other incidental businesses in addition to rent guarantee services. We believe this will lead to higher earnings.

・Logistics, Business & Corporate Facilities Business: We lowered our forecasts in this business due to the sale of comparatively profitable properties.

[Q5]

This year, the Rental Housing Business sold an office building. Will there be any other office building sales in the future?

[A]

・This year, we sold the Yokohama Minato Mirai office building. We are also considering selling a property in Ariake when the timing is right.

[Q6]

Tell us more about performance results at Fujita. Also, tell us why gross margins for construction in the Logistics, Business & Corporate Facilities Business improved.

(Reference) Financial Highlights: p8 “Business Segment Information②”

[A]

・First-half performance for Fujita

(Billions of yen)

| | 2016/9 | 2017/9 |
|---|---|---|
| Sales | 193.1 | 201.6 |
| Operating income | 11.4 | 9.2 |

・The improvement in gross margins in our Logistics, Business & Corporate Facilities Business is due mainly to better performance for Daiwa House on a non-consolidated basis. Gross margins at Fujita are declining. Gross margin was 14.2 percent for construction in the prior period and 13.3 percent in the current period. Civil engineering gross margin was 13 percent in the prior period and 11.7 percent in the current period.

[Q7]

Can you give us more details about the ¥31.1 billion in M&A costs? Also, it appears that real estate development investment is proceeding smoothly. Please give us an update.

(Reference) Financial Highlights: p14 "Status of Investment Plan"

[A]

・The M&A costs are related to acquisitions of Stanley-Martin Communities (home builder) in America and Waldorf (rental housing management) in Australia.

・The progress rate in our Commercial Facilities Business is 50 percent. The Rental Housing Business is struggling, owing to challenges in purchasing plots and competition with condominium sales. Rather than solely relying on winning bids, our Logistics, Business & Corporate Facilities Business is purchasing idle land owned by corporations, developing land by bringing land owners together, and engaging in other initiatives, the business is advancing at a pace outperforming plan.

・We believe building investments in our Logistics, Business & Corporate Facilities Business, including buildings purchased through this past financial year, may exceed the ¥360 billion planned for the three-year period.

[Q8]

Tell us more about first-half performance by region for your Overseas Business. Also, can you provide more background as to why you chose Lincoln as a partner in the United States, and why Lincoln chose you?

[A]

・First-half sales were ¥88.9 billion versus an annual ¥200 billion. Operating income was ¥2.9 billion versus an annual ¥10 billion. By area, sales were ¥27.5 billion in America, ¥20.0 billion in China, ¥10.9 billion in ASEAN, and ¥6.9 billion in Australia. Other areas account for the rest.

・The beginning of our relationship with Lincoln was an introduction received from a party with whom we became familiar through real estate development and other activities. Doing background research, we found that Lincoln was a tremendous company with an impressive track record, being a company we believed could be a very good business partner. While we are not exactly sure how Lincoln views our company, we have our own track record of success in single-family houses and rental housing, which I understand was attractive to them.

[Q9]

Is there an order transaction relationship between Daiwa House Industry (non-consolidated entity) and Fujita?

[A]

・In the beginning, our plan was to not make any construction orders to Fuijta. However, more recently, we have seen an increase in Logistics, Business & Corporate Facilities development projects for which we cannot handle all of the construction on our own. Accordingly, we have started ordering multi-tenant logistics facilities and other projects with Fujita and other general contractors.

[Q10]

What are your thoughts related to future top line results and profit ratios?

[A]

・The ratio of stores has fallen below 40 percent in our Commercial Facilities Business. We are also seeing a change in tenant makeup. For example, we have done a good job in bringing in hotels and other tenants with high demand, and we believe we still have room for improvement in the future.

・We plan to increase the volume of medium- and high-rise properties in our Rental Housing Business, where we have yet to capture any significant business, and we believe we can expand our top line.

(End)