

Leopalace21 Aims To Realize Our Long-Term Vision by  
Re-Examining the Purpose, or Our Raison d'Être and by Taking  
Action Every Day While Embracing Our Corporate Philosophy

The diagram features a blue background with a white line connecting two circles. The left circle is labeled 'Purpose' and the right circle is labeled 'Corporate Philosophy'. A large white circle in the center contains the text 'Creating New Value'. The background of the entire page is an aerial view of a city with a blue overlay.

### ○ Purpose

Create new value and  
provide better living  
solutions based on  
the theme of housing

### ○ Corporate Philosophy

**Creating  
New Value**



## ○ Long-Term Vision

**Ensure competitive advantage in our business, with the provision of rental housing as social infrastructure at its core, and achieve sustainable growth along with stakeholders**



## Message from the President

*We will resolve the construction defects problem by the end of the year and transform from a "company-centered" to an "employee-centered" organization*

President and CEO

*B. Allington*

## Leopalace21's Social Value and Past Initiatives

In Japan today, it is said that there are about 5.4 million single-person rental housing units. The approximately 550,000 units managed by Leopalace21 account for about 10% of that total. In addition, approximately 300,000 units of our properties are used by companies as company-leased housing. In all respects, we are a company that provides indispensable social infrastructure, and we are aware that our social responsibility is also very heavy. Despite this obligation, the construction defects problem came to light in 2018, putting the very existence of Leopalace21 in jeopardy and causing significant damage to various stakeholders, including property owners, employees, and shareholders.

Today, the top-down organizational culture that was the root cause of the problem has been fundamentally reformed, and we have worked to improve the Company's earnings structure and financial soundness by implementing a variety of painful business structural reforms while at the same time ensuring that the highest priority is placed on compliance. As a result, performance has recovered to a level higher than in fiscal year 2017 before the construction defects problem, and with respect to the construction defects problem itself, we are on track to completely eliminate obvious defects by the end of 2024.

Here, I would like to explain not only the business results and outlook, but also the improvement of the company's financial soundness and the future of the Leopalace21 Group.

## Fiscal Year 2023 Review

In fiscal year 2023, we recorded net sales of JPY 422.6 billion, operating profit of JPY 23.3 billion, and net income of JPY 42.0 billion. As a result, both operating profit and net income have remained in the black for three years in a row. This was due to higher unit rent prices and the curbing of SG&A expenses, even though the occupancy rate was slightly lower than planned.

The reason for the occupancy rate falling below the plan is believed to be due to the adoption of a price-focused strategy that emphasizes the new contract profitability. In our price-focused strategy, we are trying to curb low-profit monthly contracts to focus on profitability. As a result, the occupancy rate for general rental housing was up by 2.16 percentage points year-on-year, while the occupancy rate for monthly contracts was down by 0.19 points as of March 31. The impact of this curtailment of monthly contracts resulted in an overall occupancy rate that was lower than planned.

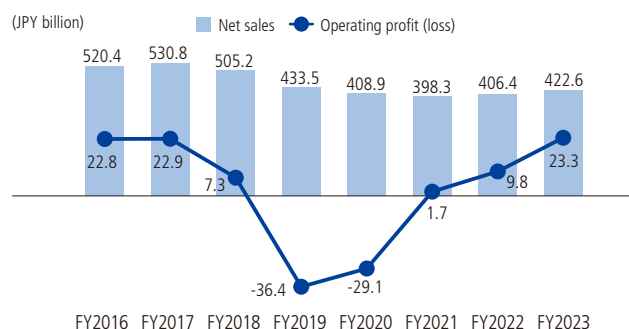
The operating profit of JPY 23.3 billion slightly exceeds the figure for fiscal year 2017, which was just before the disclosure of the construction defects problem. Fiscal year 2017 was the highest ever profit

since we launched our focus on the leasing business in the aftermath of the global financial crisis following the Lehman Brothers collapse.

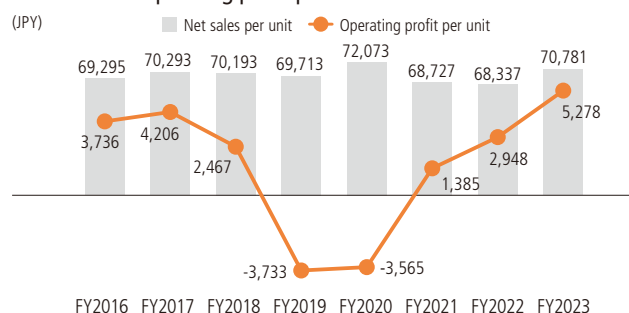
Despite the fact that operating profit was roughly the same in fiscal year 2017 and fiscal year 2023, net sales declined by approximately JPY 100 billion in the same period, from JPY 530.8 billion in fiscal year 2017 to JPY 422.6 billion in fiscal year 2023. Over the past seven years, we have made significant improvements in our earnings structure, mainly due to a reduction in fixed costs due to the halving of the number of employees from 7,690 to 3,853. As for occupancy rates, comparing fiscal year 2017 and fiscal year 2023, in fiscal year 2017, the average occupancy rate was 90% and the figure at the end of the year was nearly 93%-94%, while in fiscal year 2023, the average occupancy rate was 85% and the figure at end of the year was 88%, 5 percentage points lower. Considering the patterns of move-ins and move-outs during the year, in fiscal year 2017, the operating profit was raised to such a level where it could not be increased any further, but in fiscal year 2023, with a little more leeway in occupancy, we managed to generate operating profit exceeding that of fiscal year 2017, so I believe we are making steady progress in strengthening profitability, including by raising unit rent prices.

I believe that achieving these profit figures for fiscal year 2023, which surpassed those of fiscal year 2017, has enabled us to clear a significant hurdle in our business recovery.

### Results Trends



### Net sales and operating profit per unit\*



\*Net sales (operating profit) per unit = leasing segment net sales (operating profit) / total number of occupied units per year



## Message from the President

### Share Price Trends and Shareholder Return

Our share price, which is one indicator of how outsiders view the Company, has nearly doubled over the past year. I am grateful for this acknowledgment that our profitability, which had hit rock bottom, is now recovering thanks to various initiatives. However, while the operating profit for fiscal year 2023 is on par with fiscal year 2017, the share price is still not performing well, and this is because the damage from the construction defects problem has not been fully resolved. Going forward, with regard to the construction defects problem, we will definitely eliminate obvious defects by the end of 2024, and at the same time, I intend to be proactive in disseminating information that will help restore the Company's credibility.

Meanwhile, in terms of shareholder return, we finally managed to resume dividend payments in fiscal year 2023. In fiscal year 2023 we also carried out an acquisition of treasury stock after taking into consideration our financial soundness and share price level. Going forward, we plan to focus primarily on dividends, and for fiscal year 2024, we aim to increase dividends based on profit growth. After that, we will set medium- to long-term targets, including profitability targets, for the following fiscal year, which is when the construction defects problem ought to be resolved. In this context, I would like to explain our medium- to long-term shareholder return policy, including the dividend policy.

### Progress on Construction Defects Problem

Since the construction defects problem came to light, we have been working to inspect the properties and undertake repair work. We have been inspecting vacant rooms, and in the case of occupied rooms, we have used postal mail, SMS, phone calls, and other means to ask for tenants' cooperation with inspections in terms of permission to enter and temporary relocation. As a result, as of the end of April 2024, we completed repairs on 68,320 of the 94,284 units that were identified as having obvious construction defects and classified as number of rooms requiring repairs.

What remains are the 14,018 units classified as number of rooms requiring repairs where defects have already been identified through inspections, and approximately 2,390 uninspected units where defects are predicted based on previous inspection results, totaling around 16,400 units that are considered to need repairs. If you calculate backwards from the time remaining, it is necessary to proceed with repair work at a pace of over 2,000 units per month, and to that end, we are taking steps to augment our repair capabilities beyond the current level.

For the future of the Company, resolving the construction defects problem is the number one priority. We will steadily undertake the repair of construction defects, and will work to eliminate obvious defects by the end of 2024, which is the target deadline.





### Number of construction defects (as of April 30, 2024)

Apartment Series	Total number of buildings	No. of buildings containing obvious defects	No. of all rooms which corresponds to No. of buildings containing obvious defects	No. of rooms requiring repairs	No. of rooms with repairs completed and equivalent
<i>Nail series/Six series</i> *1	15,283	7,508	117,964	68,059	54,744
Other series*2	23,802	3,763	58,266	26,225	13,576
Total	39,085	11,271	176,230	94,284	68,320

\*1 *Nail series/Six series*: Product series prioritized for inspection

*Gold Nail*                      *New Gold Nail*  
*Gold Residence*            *New Silver Residence*  
*New Gold Residence*      *Special Steel Residence*  
*Better Steel Residence*    *Con Grazia*

\*2 Other series: Product series in addition to *Nail series* and *Six series*

This refers to 42 series of properties constructed by Leopalace21 that are subject to our inspections, excluding properties that are subject to priority inspections.

## Future Outlook for Rental Housing

When considering the Company's future, we cannot ignore Japan's demographic trends. Japan's population has been declining since peaking in 2018, and it is estimated that the population will fall below 100 million by 2030. Although the overall population is declining rapidly, the number of single-person households, which our rental properties cater to, is predicted to decline at a slower rate than the population.

Furthermore, even as the decline continues, it has been uneven across regions, with some areas seeing large declines of 20% or 30%, while others are expected to remain roughly unchanged. We believe that the immediate impact of the population decline will be relatively small, as we primarily target the Tokyo metropolitan area and other areas where the population decline is less pronounced.

Furthermore, in view of the shortage of workers in various industries such as construction and caregiving, and the growing acceptance of foreign workers to do these jobs, we believe that there will be a sufficient need for single-person residences such as our apartments to accommodate these workers.

Taking all of these factors into consideration, I believe it is inevitable that the number of rental housing units we manage will decrease from the current 550,000. However, I also believe that the rate of decrease will be small, and that in some areas the number of units may actually increase in the future.

## Resumption of Construction Contracting

We have 550,000 units under management, and some of these properties are beginning to exceed 25 years old. For these older properties, several options are anticipated, including transitioning to properties managed by the owners themselves, and Leopalace21 rebuilding the properties is one of those options. In the future, when the construction defects problem has been resolved, we are considering resuming the Development Business, which builds apartment buildings. I believe the rebuilding of older properties is a promising target for the Development Business.

For these older properties, the owners are aging and the time for a generational change is approaching. Going forward, while of course respecting the property owner's wishes, I would like to approach the next generation to clearly communicate the benefits of Leopalace21's rental management in the hope that they will choose us for their rebuilding needs, treating this as a sales activity that is just as important as new sales.

## Introduction of Regional Branch Office System

Since the construction defects problem came to light, in parallel with the repair works aimed at eliminating the problem, Leopalace21 has been promoting reform of its corporate culture to address the issues that led to the construction defects problem in the first place, including the prevalence of top-down management and the lack of inter-departmental cooperation due to siloed thinking within a vertically structured organization.

As the final step in our corporate culture reform, we are considering the introduction of a regional branch system. We envision a system where business operations can be basically completed within the regional branch office, with local personnel handling sales to individuals, corporate sales, property management, communication with property owners after contract conclusion, and those who are engaged in design and construction.

Although we have explored regional autonomy in the past, the final decision-making authority ultimately rested with the head office. Going forward, we will establish clear rules for the top managers in each region and delegate significant decision-making authority to them, thereby strengthening our efforts to focus on profits in each region. This focus on regional profitability will eliminate the drawbacks of acting on top-down directives regardless of regional conditions and lead to greater awareness of the profitability of individual properties we handle. I also think that the regional branch system is a good fit for the new Leopalace21 as it will lead to a transformation into an organization where employees can think individually about how to improve profits.



## Message from the President

### Outlook for Fiscal Year 2024

Our goal for fiscal year 2024 is to increase both sales and profit for the fourth consecutive fiscal year, reaching net sales of JPY 428.6 billion and operating profit of JPY 26.6 billion through a profit optimization strategy centered on increasing occupancy rates and rent unit prices.

With respect to occupancy rates, we are aiming for improvements over the previous fiscal year of 2 percentage points, which would amount to an average annual occupancy rate of 87% and a year-end occupancy rate of 90%. To achieve these targets, we will focus on strengthening corporate sales and increasing the number of tenants of foreign nationality. With respect to increasing rental unit prices, we intend to achieve this by thoroughly reviewing and adjusting the rents on unprofitable properties. A representative example of what has been reviewed so far is the monthly contract. Monthly contracts were often signed with relatively low rents in order to maintain occupancy rates, which was a drag on efforts to improve profitability. Although reviewing monthly contracts sometimes resulted in contract termination and a decrease in the overall number of contracts, which in turn led to lower occupancy rates, reviewing contracts with an emphasis on profitability has led to increases in unit rent prices. Learning from the example of monthly contracts, we will proceed to review other contracts in the same way, taking into account rent per unit and other measures of profitability, rather than simply focusing on occupancy rates.

We are also considering revisiting our promotions related to attracting tenants in fiscal year 2024. These promotions sometimes include, for example, several months of free rent for tenants. We will analyze the merits and demerits of this free rent policy, which has remained in place as a matter of tradition, to see whether it is actually effective, taking into account factors such as the number of contracts and the length of the contracts. Combining the results of this analysis with the current impact of rising costs, we will consider the optimal promotion policies and review costs to ultimately improve profitability.

#### FY2024 Management Plan

1. Construction defects management	2. Strengthening profitability		
Complete repair of all obvious construction defects by the end of 2024	Execute profit optimization strategy <table> <tr> <td>● Occupancy rate plan Average: 87.00% Year-end: 90.00%</td><td>● Unit rent plan Ave. unit rent for new contracts: YoY +0.2% Ave. unit rent for all occupied units: YoY +2.5%</td></tr> </table>	● Occupancy rate plan Average: 87.00% Year-end: 90.00%	● Unit rent plan Ave. unit rent for new contracts: YoY +0.2% Ave. unit rent for all occupied units: YoY +2.5%
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3. Promotion of sustainability management	4. Building a framework for medium- to long-term growth		
DX promotion      Promotion of human capital management	Establishment of a framework for resuming the Development Business      Development of brand strategy		

### Sustainability Strategy

#### Initiatives to Promote Digital Transformation (DX)

In our management plan for fiscal year 2024, in addition to the complete repair of all obvious construction defects by the end of 2024, and execution of our profit optimization strategy to strengthen profitability, we will promote sustainability management. In terms of sustainability management, we will continue to advance the environmental initiatives in addition to promoting DX to improve productivity and promoting human capital management that will strengthen the human resources essential for the Company's sustainable value creation.

In the case of DX in particular, the previously unavoidable process of handing over room keys when renting housing has been replaced with smart locks that can be locked and unlocked using a smartphone or other device, which not only eliminates the need to change locks and hand over keys but also eliminates the need for keys for room inspections, among other benefits. It is estimated that the introduction of smart locks can reduce related administrative time by an average of 42 minutes per rental unit. We have already installed smart locks in 270,000 units, which means that we have saved approximately 180,000 hours of work per year.

Furthermore, in relation to promoting DX, last November we launched full-scale operation of contact centers that cover everything from room search to application and contracting. There are three such centers: a contact center responsible for finding rooms before moving in, a contract administration center handling move-in procedures, and a tenants support center for any problems that may arise during the tenancy. This allows us to handle everything from contract signing to move-in and post-move-in services for individual customers without face-to-face interaction. As a result, we have been able to consolidate our nationwide network of leasing offices from 109 to 70 locations.

#### Environmental Initiatives

As one of the environmental initiatives in our sustainability strategy, we have launched the *Leopalace Green LP Gas* service, which supplies LP gas with virtually zero CO<sub>2</sub> emissions to rental properties under management. This system uses LP gas supplied through Leopalace Green Energy, in which we have an equity stake. The supplied gas offsets greenhouse gases generated across the entire value chain with carbon credits obtained from environmental conservation projects, effectively rendering its CO<sub>2</sub> emissions from LP gas usage virtually zero. The cumulative supply from January 2023 to March 2024 amounted to approximately 470,000 m<sup>3</sup>, and the CO<sub>2</sub> emission reduction from this supply amounted to approximately 3,000 tons. Following on from the earlier launch of *Leopalace Green LP Gas*, in



June 2024 we also launched *Leoplace Green Electricity*, an electricity supply service that also features virtually zero CO<sub>2</sub> emissions. We hope to contribute to the environment by “greening” the energy sources that are essential to our daily lives.

### Establishment of Scholarship Program

As part of our efforts to create social value through the provision of housing, we have been considering how to contribute to society through the rental housing we manage. As one such initiative, we have established the Leoplace21 Scholarship Program, a scholarship program that includes the free rental of our properties to address soaring tuition fees and long-term repayment of scholarship funds, which have become important issues in Japanese society.

Under this program, students entering a university, junior college, or vocational school in Japan in April 2025 will be eligible to receive either a free rental in one of our properties or an annual scholarship of JPY 360,000, lasting the number of years of regular enrollment in the school, faculty, or department in which the student is enrolled. The scholarship is in the form of a grant that does not require repayment. We hope to help solve social challenges by utilizing the rental housing we manage to support people in choosing their career path freely without being limited by financial circumstances.

## In Conclusion

Since the press conference announcing our change in leadership in May 2019, we have been working to rebuild Leoplace21 with a strong determination to ensure it survives because of its important social value in supplying housing infrastructure for single people. Today, I feel that this rebuilding is finally being accomplished.

However, there would be no point in returning the Company to its original state. I think it is important to break away from the top-down approach that has led to undesirable outcomes in the past and transform from a “company-centered” to an “employee-centered” organization. To improve the value we deliver to society, I believe it is important to take ideas that have never been seen before and translate them into reality.

I would like to ask our stakeholders for their continued understanding and support of the Company’s management.





# Dialogue Between Outside Director and Outside Audit &

*The completion of repairs at the end of 2024 will mark the beginning of the resolution to the construction defects problem, but the true test will come when construction contracting resumes.*



Yutaka Nakamura  
Outside Director

## Background of the construction defects problem and the essential problems that Leopalace21 must solve

**Yoshino:** I think we need to start with some background information to help readers of this Integrated Report understand how Leopalace21 is currently undertaking reforms and why these reforms were necessary. I believe it is appropriate for me to discuss this matter, as I have had a long-standing relationship with the Company and am serving as a full-time Audit & Supervisory Board Member from outside the Company.

Leopalace21 is a company that expanded rapidly thanks to a single idea from its founder. Subsequently, the bursting of Japan's bubble economy and the global financial crisis led to the bankruptcies of independent condominium developers and homebuilders. However, owing to self-help efforts, we managed to survive without receiving debt forgiveness from the bank or anything like that. This fact deserves to be adequately appreciated today. I believe that the key to our revival at that time was the overwhelming speed we achieved by focusing on sales. To halt the deterioration of business performance, speed is required above all else. It might even be said that our vertical organization, with the founder at the top, and a corporate culture of orders coming down from above, were well suited to situations that demanded such speed.

At the same time, however, such a focus on speed makes it difficult to stop and think when there is a problem, and past successes can sometimes lead to overconfidence. The construction defects problem in question is not just about resolving the defects themselves. We also need to resolve important issues related to corporate culture, compliance approach, and governance that are at the heart of the Company.

**Nakamura:** I was appointed as an outside director after the construction defects problem came to light and the response to it had begun. I therefore don't know the details of what happened when the problem was discovered, but looking at Leopalace21's response from the outside, I honestly thought, "This is not good."

At the time, I was working for a housing manufacturer while also serving as chairman of the customer service quality committee at

# Supervisory Board Member

*The construction defects problem has prompted widespread reforms in corporate culture, compliance, governance, and more.*

the Japan Prefabricated Construction Suppliers and Manufacturers Association, an industry organization for prefabricated housing. In 2005, when an apartment building was discovered that had falsified structural calculations and was problematic under the Building Standards Act, every company in the construction industry, including the housing industry, was conducting comprehensive inspections out of concern that structural issues with buildings might spread to other companies in the future. However, it appeared that Leoplace21 was not conducting such inspections.

Honestly, I had a feeling this was going to be a big problem, and that was exactly what happened. Later, when I joined the Company, I realized that the founder's influence was too great, there was a tendency for sales to take priority over technology, and there was no exchange of information with other companies, so when problems arose it was impossible to determine whether they were serious or not. I recognize that the reforms we are currently undertaking are an effort to clean up those past negative aspects of Leoplace21 and to fundamentally change the Company, not just to resolve construction defects.

**Yoshino:** We have received reports on the progress regarding the resolution of the construction defects, and we are on track to complete the repairs by the end of this year. Starting now, we will be moving into a phase where we can achieve results on the underlying Company issues that led to the construction defects problem and make people understand that Leoplace21 has changed.

## **The only way to prove whether the construction defects problem has been resolved is to resume construction contracting**

**Nakamura:** With regard to the construction defects problem, although the repair work on the obvious defects is scheduled to be completed by the end of 2024, I personally don't believe it ends just by fixing the cases where problems occurred. Rather, I believe that the real test will come when we resume our construction contracting business to build apartments, which is expected to happen in the



**Jiro Yoshino**

Full-time Outside Audit & Supervisory  
Board Member



## Dialogue Between Outside Director and Outside Audit & Supervisory Board Member



*Going forward, we need to find a balance between thorough quality control and corporate competitiveness*

near future. It is essential that no issues arise during the construction work, and it can be said that Leopalace21 has truly overcome the construction defects problem only when the constructed buildings are maintained without problems for many years.

While it is important to prepare to avoid any defects, it is also true, based on my long experience working for a housing manufacturer, that overpreparation can be a problem. The compliance check framework proposed as a recurrence prevention measure is built on a theoretical ideal state, and if the entire framework were actually implemented, it would be considered excessive by industry standards. In that case, it may be difficult to expand the construction contracting business in the future competitive landscape. In the future, it will be important to strike a balance between safety and economic rationality by keeping only the necessary checks while firmly sorting out what is truly necessary and what is not, based on criteria that can withstand external scrutiny. The first project after resuming construction contracting will be crucial for that purpose and will serve as a touchstone to determine what is truly necessary.

### **Reforming our compliance approach, which is the root of the problem, must be implemented carefully and concretely**

**Yoshino:** The starting point of reforming our compliance approach, which is considered to be the root cause of the construction defects problem, goes back to May 29, 2019, the day when an external investigation committee report by attorneys at the law firm Nishimura & Asahi called upon the Company to fundamentally reform its corporate culture and restructure its compliance and risk management system to prevent the recurrence of construction defects. Even then, the Company's structure included Risk Management Committee and Compliance Committee, but as the report pointed out, they were not

functioning effectively and the compliance and risk management system needed to be restructured. We proceeded to review the 50 items based on the three pillars, including the fundamental reform of our corporate culture and the revision of the construction contracting business framework, and this review has now been completed.

This review is quite detailed. To give an example, previously, the department that inspects the properties that were built was located within the business division; in other words, the same person was in charge of stepping on the gas pedal and the brake. We therefore decided to separate them by moving the inspections to the compliance department. Today, as we carefully proceed with revisions like these that are deemed necessary for strengthening compliance, I can feel an attitude emphasizing compliance and risk management gradually taking hold, bringing significant changes to the system.

### **To prevent recurrence, we must not only change the system, but also seriously reform our corporate culture**

**Nakamura:** Thanks to compliance reforms, I believe our current system makes it less likely for problems such as construction defects to occur. However, it is also true that any organization or system depends on the people who run it. Changing the corporate culture is therefore just as important as changing the system. Some aspects of our corporate culture that may have been considered good in the past need to change; for example, the attitude found in top-down organizations where nobody cares about matters outside their own responsibilities, the sales-first mindset, and the absolute obedience to orders from superiors.

We have been working to reform our corporate culture to make it easier for anyone to speak up, for example by introducing a whistleblowing system and establishing a mechanism for employees to

report anything that does not seem right. Our young employees used to think it was enough to just do what their superiors told them to do, but that is no longer the case. By looking at their behavior, I feel that more people are starting to practice so-called self-propelled compliance, which involves thinking from their respective positions when performing their jobs. I cannot say that the old corporate culture has been completely eliminated, but it is certainly and steadily changing.

## Governance reform initiatives and future expectations

**Yoshino:** Speaking of the points that were identified as needing to be changed, I would also like to talk about our efforts at governance reform. Because I was appointed as an outside Audit & Supervisory Board Member in June 2017, I have seen the situation before and after the management team was replaced after the construction defects problem was discovered. From that standpoint, I feel that under the new management system, the Board of Directors meetings have changed from simple debriefing sessions, which they were before, to a venue where real discussions can be held. As a result, each proposal is now carefully scrutinized, and in some cases, it is approved conditionally and sent back for further review. I believe that with proper checks by outside directors, we are steadily making progress toward greater management transparency, which is an important aspect of governance.

**Nakamura:** At the Board of Directors meetings, the executive directors (internal directors) mainly report and explain matters, and there is a tendency that they go along with the opinions made by the

non-executive directors, so-called outside directors. When we submit a proposal that we believe will contribute to putting the Company on the right track, it is necessary to speak up and argue persuasively in order to get it passed. In that sense, I would like the executive directors to become more self-propelled and autonomous for the sake of governance reform.

**Yoshino:** By reforming our corporate culture, we aim to improve employees' ability to think and make decisions for themselves, but certainly the same is necessary for those engaged in execution.

## To provide value to society in a sustainable manner

**Nakamura:** As we are currently working on, there are still a number of challenges we need to solve. I believe that the rental housing provided to single person households by Leopalace21 is of high social value and has a significant competitive advantage. I believe the theme for the future is how we can change our own business while responding to the changes and demands of society. One possibility might be to shift to a more region-based management system (regional branch office structure) that is better positioned to meet the needs of society.

To bring about such changes, it is necessary for the front-line employees who are closest to the information collected to be empowered to think and make decisions on their own. In that sense, I believe the reforms to corporate culture, compliance, and governance triggered by the construction defects problem will lead not only to resolving the defects, but also to strengthening the human capital of employees to shape the future of Leopalace21.

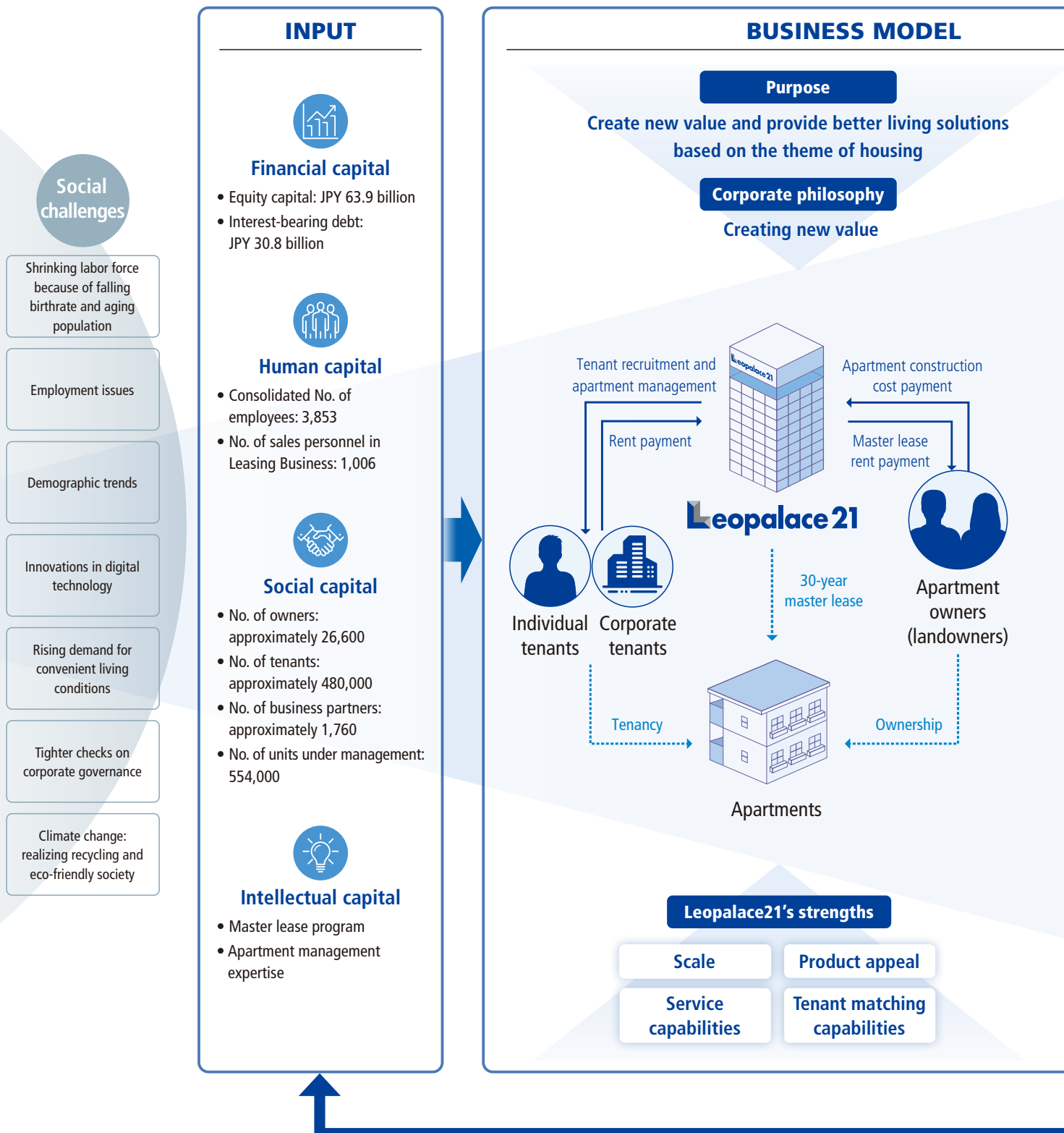
*Compliance reforms are being implemented with a focus on even the smallest details*

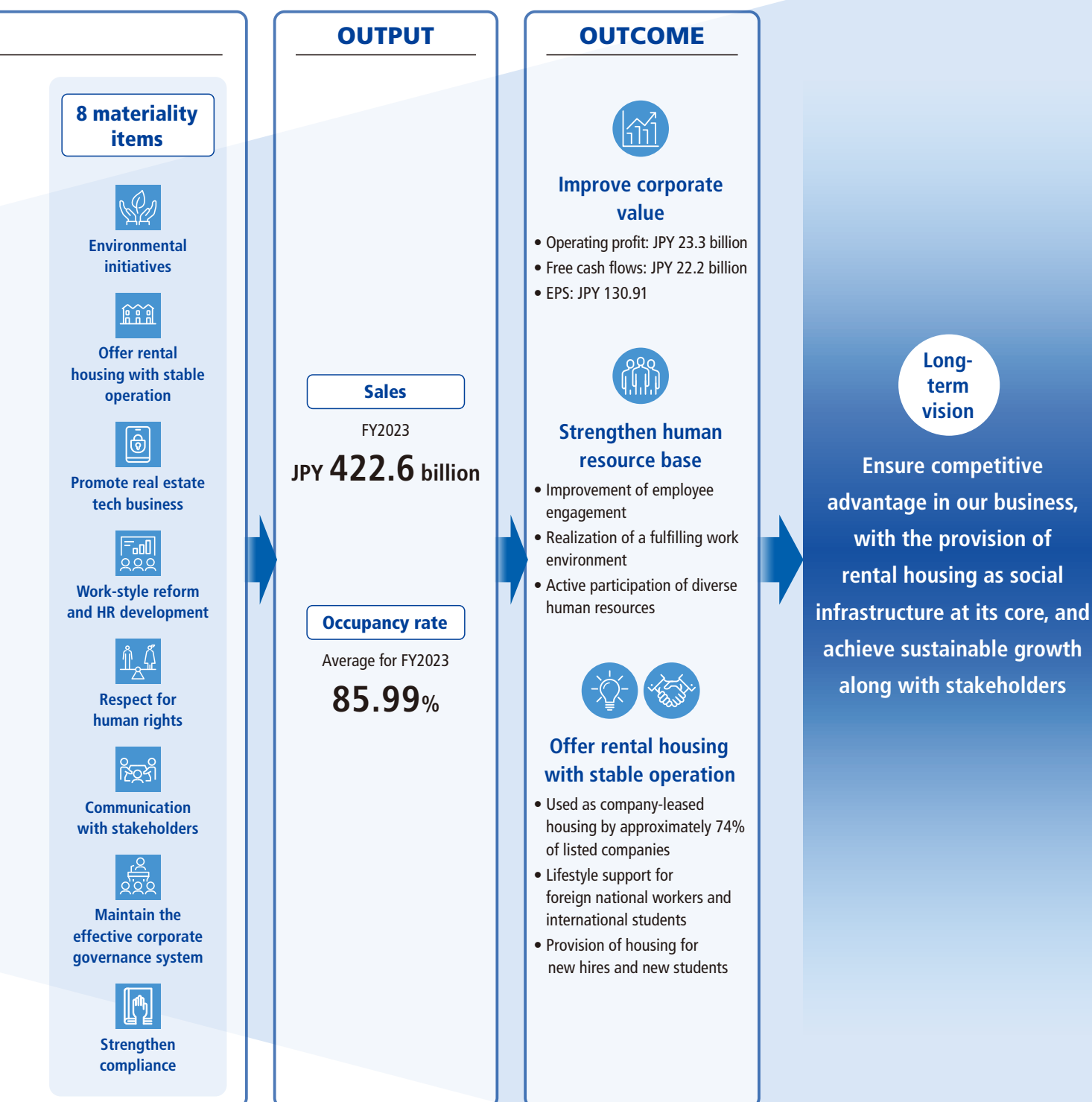




# Value Creation Process

We aim to solve social challenges and create new value in the housing sector, particularly the rental housing sector, by providing innovative services that meet the needs of the times, while simultaneously achieving sustainable growth (expansion of economic value) for Leopalace21.







# Business Model

## We have created a unique business model that combines the construction and leasing of apartments.

With real estate business expertise as its core competency, Leopalace21 has created a unique business model that combines apartment construction, leasing, and management.

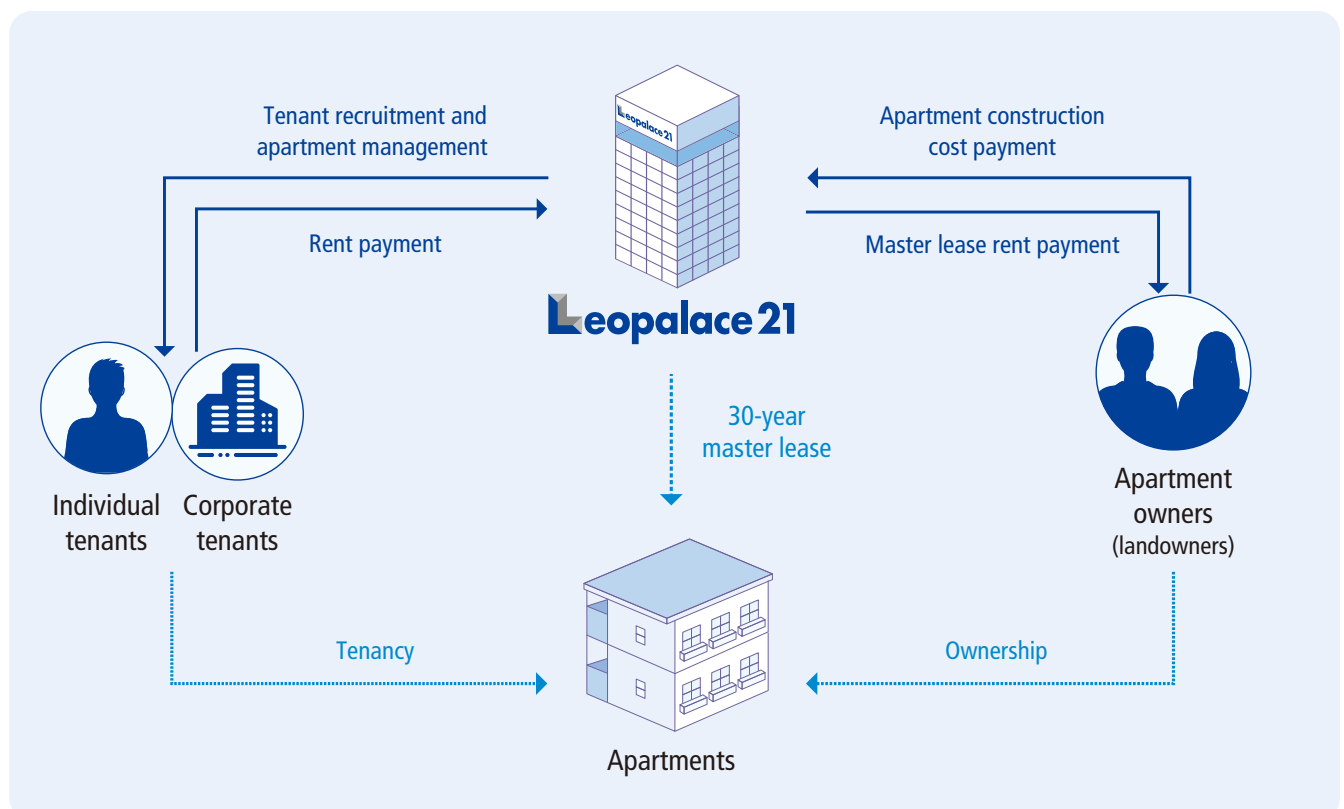
Our business model has two main components: the Development Business and the Leasing Business. We contract the construction of apartments for landowners who own idle land, and then rent the constructed apartments from the owners through the master lease program and handle all aspects of operation, including tenant recruitment and maintenance work.

Most of the properties we offer are for single persons and are characterized by the fact that they are furnished and equipped with home appliances and internet access as standard features. Tenants can move in immediately with one bag when starting new chapters of their lives, thus reducing the initial costs of moving and avoiding

the expense of disposing of furniture and home appliances, among other advantages.

The Leasing Business carries out an area intensive strategy which prioritizes to the regions where many single persons live and where many people are moving into due to economic growth and other factors, namely the regions of Kanto, Kansai, and Chukyo. In addition to these, we are strengthening initiatives to meet the needs of companies with a large volume of demand at one time, in particular the needs of company-leased housing, and as a result, corporate contracts account for about 60% of our tenants.

In recent years, we have focused on improving customer convenience and business efficiency by promoting DX and attracting foreign national human resources, which are on the rise, thereby continuing to refine our unique business model.



# Leopalace21 by the Numbers (As of March 31, 2024)



Net sales

JPY **422.6** billion



Operating profit

JPY **23.3** billion



EBITDA

JPY **27.9** billion



Net income

JPY **42.0** billion



EPS

JPY **130.91**



Equity ratio

**31.2%**



Units under management

**554,373**



Percentage of  
listed companies utilizing

Approx. **74%**



Occupancy rate

Average  
for FY2023 **85.99%**

End of FY2023 **88.03%**



No. of owners

Approx. **26,600**



No. of rooms installed with  
smart locks

Approx. **270,000**  
(As of July, 2024)



No. of employees

Consolidated **3,853**  
Non-consolidated **2,690**



# History of Leopalace21

Since its establishment in 1973, Leopalace21 has achieved many "industry firsts" and addressed various housing-related issues and needs.





**2004**  
Listed on First Section of  
Tokyo Stock Exchange



**2009**  
Number of units under management  
exceeds 500,000





# About the Construction Defects Problem

In 2018, we announced that there were construction defects in some of the properties built by the Company. We have vowed never to repeat the same mistake, and have committed the entire company to implementing measures to prevent recurrence while making full efforts to repair the properties with construction defects.

## Overview of the Construction Defects

### Background of the Issue

The construction defects problem came to light after receiving notice from two property owners, who informed us that the parting walls of attics depicted in construction certificate documents were not constructed in two apartment series *Gold Nail* and *New Gold Nail* (the "*Nail series*") developed and sold by the Company.

Also, during investigations of series other than the *Nail series*, we confirmed discrepancies between floor plans and construction manuals in the six series other than the *Nail series*: *Gold Residence*, *New Silver Residence*, *New Gold Residence*, *Special Steel Residence*, *Better Steel Residence*, and *Con Grazia*, which increased the likelihood that these parting walls were in violation of the Building Standard Act.

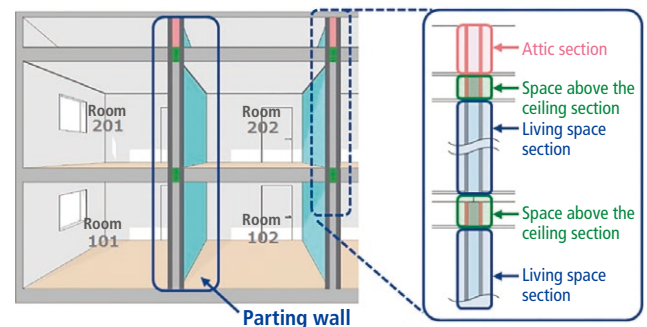
### Investigation and Repair Work

After consultation with specified administrative agencies, it was decided that the investigation and repair work for the properties with parting wall construction defects should be carried out by the Company at its expense and responsibility. For cases where use of the room is restricted due to repair work, we provided temporary housing

to the tenants living in the affected residences at their convenience. All related costs were borne by the Company.

### Parting Walls

Parting walls are walls that separate dwelling units in apartments. These walls must fulfill certain standards in terms of fireproofing and sound insulation that is specified by the Building Standards Act and other related laws and regulations, and must reach the attic or space above the ceiling.



2018	April	<ul style="list-style-type: none"> <li>It was discovered that some parting walls installed in the attic sections of apartments developed and sold by the Company were not constructed as depicted in the construction certificate documents.</li> </ul>
	May	<ul style="list-style-type: none"> <li>It was found that some apartments built by the Company between 1996 and 2009 may potentially violate the Building Standards Act.</li> </ul>
2019	February	<ul style="list-style-type: none"> <li>All-building investigations confirmed multiple new potential violations of laws and regulations.</li> </ul>
	March	<ul style="list-style-type: none"> <li>We further reinforced the frameworks for addressing the investigation of and repair work for apartments with parting wall construction defects.</li> </ul>
	May	<ul style="list-style-type: none"> <li>All-building investigations confirmed parting wall defects that were different from those already announced.</li> <li>The External Investigation Committee submitted an investigation report on the construction defects problem to the Company.</li> </ul>
	July	<ul style="list-style-type: none"> <li>Regarding the construction defects, it was confirmed that along with the Building Standards Act, there were risks of not complying with the standards of the Fire Service Act and Fire Prevention Ordinances.</li> <li>The External Investigation Committee submitted its final investigation report to the Company.</li> <li>Measures aiming to prevent recurrence of the construction defects and other initiatives were decided based on the content of the status report and the final investigation report by the External Investigation Committee.</li> </ul>
	October	<ul style="list-style-type: none"> <li>We announced the status of the all-building investigations regarding the construction defects and our policy on future repair work.</li> </ul>
2020	June	<ul style="list-style-type: none"> <li>After deliberating a fundamental restructuring of our business strategies, a decision was made to undergo structural reforms based on the results.</li> <li>We announced delays in repair work for apartments with construction defects and our policy on future repair work.</li> </ul>
	December	<ul style="list-style-type: none"> <li>We released a notice on the repair plan for apartments with construction defects.</li> </ul>

## Causes and Background of the Construction Defects

The External Investigation Committee chaired by Attorney Tetsuo Ito (Nishimura & Asahi) was established to conduct investigations on February 27, 2019. Based on the investigations and the investigation results of the External Investigation Committee announced on May 29, the Company believes that the fundamental causes of the construction defects, including those of the parting walls, can be attributed to the following three points.

### 1. A corporate culture that focused on meeting the intentions of top management and disregards laws and regulations

- a) A corporate culture with an atmosphere in which departments such as design and quality assurance are not able to voice their opinions to top management but focused on meeting management's intentions
- b) A mentality that prioritizes swift commercialization over legal compliance
- c) A corporate culture that prioritizes top management's management policy over legal compliance and construction quality

### 2. A lack of awareness on compliance with laws and regulations, including the Building Standards Act

- a) A mistaken interpretation that installation of attic parting walls was unnecessary for the Nail series was adopted
- b) The prepared confirmation drawings for construction applications did not accurately reflect the actual conditions
- c) Foam panels were adopted, despite it could be recognized that they do not conform to the Minister's certification
- d) There were failures to confirm legal compliance when developing new products
- e) The findings on legal compliance raised by specified administrative agencies after introducing new products were not taken seriously

### 3. Inadequate construction management and supervisory systems

- a) Construction management relied on self-inspections
- b) Most architects were not involved in construction supervision
- c) The construction management system was insufficient; it included inadequate process inspections and other factors due to a lack of licensed engineers
- d) The construction supervision system was inadequate due to factors such as architects neglecting on-site supervision

## Recurrence Prevention

As measures aiming to prevent recurrence of construction defects, the Company has committed itself to the following initiatives: 1. Fundamental Reform of the Corporate Culture, 2. Restructuring of the System for Compliance and Risk Management, and 3. Revision of the Construction Business Framework. The initiatives listed below had been completed by February 2022.

1. Fundamental Reform of the Corporate Culture	2. Restructuring of the System for Compliance and Risk Management	3. Revision of the Construction Business Framework
<ul style="list-style-type: none"> <li>Develop a customer-oriented corporate culture</li> <li>Establish a compliance-first policy</li> <li>Realize corporate culture reform through dialogue with stakeholders</li> <li>Establish a system for reporting violations of laws and regulations, and the like</li> <li>Implement training for corporate culture reform</li> <li>Review performance management systems (implement the institutionalized job rotation)</li> </ul>	<ul style="list-style-type: none"> <li>Establish the Compliance Management Division</li> <li>Establish the Construction Legal Department within the Compliance Management Division to examine and inspect legal compliance of new products, etc. from the perspective of outside of business divisions</li> <li>Review the operating methods of the Compliance Committee</li> <li>Review risk management methods</li> <li>Confirm legal compliance when starting new businesses or making changes to their content</li> <li>Review the system for assigning persons in charge of compliance</li> <li>Review the methods to address concerns related to legal violations</li> <li>Establish a system to collect and verify risk information</li> <li>Clarify the rules for storage and management of important documents</li> </ul>	<ul style="list-style-type: none"> <li>Improve development processes for new products and others</li> <li>Review the check system for confirmation drawings during the preparation stage</li> <li>Review the construction supervision system to implement appropriate construction supervision</li> <li>Ensure construction quality through appropriate construction management</li> <li>Inspections by the Construction Legal Department, the Compliance Management Division</li> <li>Implement training by the Construction Legal Department, the Compliance Management Division</li> </ul>

\*The Compliance Management Division has been renamed the Compliance Promotion Headquarters.

### Future Actions

After the construction defects came to the light, we conducted all-building investigations. As a result, after consulting with specified administrative agencies, we have proceeded to inspect and repair the apartments with parting wall construction defects.

The challenges we now face include tenants refusing to accept visiting their dwelling units or not responding to our communications; tenants not being satisfied with their temporary housing or relocation; property owners disagreeing with us about the repair methods; and difficulties in addressing property owners and tenants who are managed by other companies. Despite these various factors, we will persist with our visits and negotiations, and for difficult matters, we will consider the opinions of neutral third parties through activities including mediation; we will have the entire Company commit itself to resolving obvious defects by the end of 2024.