

Results Briefing for the Six Months ended September 30, 2018

CEO Message and Q&A Session

Message from Mr. Eisei Miyama, CEO (excerpt)

First of all, we sincerely apologize for the distress and trouble caused by the problem concerning parting wall construction deficiencies. We are taking effort to resume new tenant recruitments of properties subject to top priority investigations as soon as possible, and aim for recovery in the next fiscal year.

Starting in the latter half of this fiscal year, we are implementing three new measures to support our future growth. The first is **full-scale entry into the “minpaku” (private lodging) business**. We currently offer “minpaku” (private lodging) of a company-owned apartment in Ohta-ku through operations by Rakuten LIFULL STAY. In a tailwind-environment of a growing number of foreign visitors coming to Japan and the Private Lodging Business Act enforced in June 2018, we have decided to enter the “minpaku” business as an operator. We will aim to growth this business as a “third option” of leasing in addition to general and monthly contracts. Since operation is limited to 180 days per year under the Private Lodging Business Act, we will rent out the remaining days as “monthly” contracts, utilizing a “hybrid operation (‘minpaku’ + monthly).” We will start with operations of company-owned apartments, and expand our portfolio by including vacant houses and old apartments, not necessarily managed by Leopalace21, and will “regenerate” properties to expand our minpaku business. In addition to profit from expansion of minpaku, the “regeneration (renovation)” of old existing properties and development of new properties will lead to a growth in the Development Business.

Our second measure is the **diversification of real estate development**. As announced in our press release on October 29, we have sold 120 company-owned buildings to a newly created apartment fund. In the future, apartments newly developed by Leopalace21 will be sold to this fund, as well as existing apartments owned by our apartment owners, and will be leased to tenants which we have attracted. In the past, the growth of our managed units was dependent on our construction subcontracting business, but recently our orders are suffering due to increased competitiveness and negative media reports concerning apartment construction. Going forward, we will utilize this new scheme to aim for re-growth of our Development Business,

as well as aim for further growth of our Leasing Business by continuing to manage properties sold to this apartment fund.

The third measure is **expansion of the International Business**. We currently operate 3 serviced apartments and 3 serviced offices (plus 1 office in Manila scheduled to open in February 2019) in the ASEAN region. In the next 10 years, we plan to invest 100 billion yen in real estate development in the ASEAN region, developing offices and condominiums through joint ventures with local companies, specifically concentrating in Vietnam and Indonesia. In the long-term, we target operating profit of the International Business to make up 25% of total operating profits. Lastly, due to the recording of a net loss in the first half of this fiscal year, we are reluctant to announcement that we will not be paying any interim dividends. Concerning term-end dividends, we will monitor earnings results as well as the progress of the parting wall investigations, and announce our decision at a later time.

Q&A Session

(Leasing Business)

Q1. When do you plan a full-scale resumption of tenant recruitment to properties subject to top-priority investigations? Will occupancy rates improve in the next fiscal year?

A1. We plan full-scale resumptions in February and March of this fiscal year, which is a busy season for leasing. There will be buildings remaining that need repair in the next fiscal year, but we plan completion of repair works at the end of October 2019. Since there will be some vacant units that will not have reopened at the start of next fiscal year, we believe an increase year-on-year in occupancy rates may be difficult during the first half of next fiscal year. However, we expect improvement at the end of next fiscal year after the busy season in the fourth quarter (January to March 2019).

Q2. Do you see any corporate clients terminating leasing contracts with Leoplace21?

A2. None of our major clients have terminated contracts with us. We manage apartments nationwide and have a competitive advantage of being equipped with furniture and home appliances. Therefore, corporations that do business nationwide have continued to stay in our apartments.

Q3. According to page 68 of the “Investor Meeting Presentation”, occupancy rates in Hokkaido and Hokuriku-Koshinetsu have dropped. Do you expect any improvements in these areas in the future?

A3. In areas which we see a significant drop in occupancy rates, we have stopped constructing new apartments after 2009. Therefore, there are many “6 series” apartments that are subject to top priority investigations, and the effect on occupancy rates is large due to the suspension of new tenant recruitments.

In Hokuriku, occupancy rates were formally 95%, of which a majority were corporate contracts. As property reopenings go forward, we expect these rooms to be occupied in a short period after becoming available.

(Development Business)

Q4. Why is there only a 10% decrease year-on-year in construction orders, despite negative effects from the parting wall deficiency problem and stricter restrictions on apartment loans?

A4. Although we see a decrease in orders due to the parting wall deficiency problem, the effect from restrictions on apartment loans is not significant, since the majority of our customers are landowners with high credibility. Also, orders of non-apartment buildings (ie. stores) are increasing, which is contributing to a reduction in the decrease in orders.

(New Measures)

Q5. Please explain the full-scale entry into the “minpaku (private lodging)” business.

A5. Since operation is limited to 180 days per year under the Private Lodging Business Act, we will rent out the remaining days as “monthly” contracts (short fixed term lease contracts), utilizing a “hybrid operation (‘minpaku’ + monthly).” Although we will need to renovate our existing apartments and replace interior facilities, the business will be operated by Leopalace21 and not any external operators. We will enter the business as a pioneer, and aim to build an image of “Minpaku = Leopalace21.”