

## Green Bond / Green Bond Programme

### Independent External Review Form

#### Section 1. Basic Information

Issuer name:

Daiwa House REIT Investment Corporation

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Daiwa House REIT Investment Corporation's 9th Unsecured Investment Corporate Bonds ("Green Bonds")

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

October 17, 2019

Publication date of review publication:

October 17, 2019

#### Section 2. Review overview

##### SCOPE OF REVIEW

*The following may be used or adapted, where appropriate, to summarise the scope of the review.*

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- |  |  |
|--|--|
| <input type="checkbox"/> Second Party Opinion    | <input type="checkbox"/> Certification             |
| <input type="checkbox"/> Verification            | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): |  |

*Note: In case of multiple reviews / different providers, please provide separate forms for each review.*

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Daiwa House REIT Investment Corporation (DHR) is a diversified J-REIT sponsored by Daiwa House Industry Co., Ltd. DHR was established in June 2005 as a BLife Investment Corporation and listed on the Tokyo Stock Exchange (Real Estate Investment Trust securities market) in March 2006. Following the absorption-type

merger of New City Residence Investment Corporation in April 2010, the Investment Corporation changed its name to the (former) Daiwa House Residential Investment Corporation in December 2011, and then to the (former) Daiwa House REIT Investment Corporation in September 2016. DHR's asset size as of September 2, 2019 is JPY 739.0 billion for a total of 223 properties (based on acquisition prices). DHR is continuing to promote external growth by utilizing the pipeline support provided by Daiwa House Group.

Daiwa House Group, to which DHR belongs, has adopted a basic stance of "Creating Dreams, building Hearts." Guided by this stance, as a group that co-creates value for individuals, communities, and people's lifestyles, Daiwa House Group aims to build relationships of trust with stakeholders and contribute to society through its businesses, and to make a sustainable society by taking on the challenge of zero environmental impact. Daiwa House Asset Management Co., Ltd. (DHAM), which is the asset management company of DHR, also thinks that sharing the basic stance of Daiwa House Group and incorporating consideration for ESG will contribute to ensure stable earnings over the medium to long term and steady growth of assets.

DHAM have formulated the "Sustainability Policy" and conducts business.

The bonds subject to evaluation is the Investment Corporation Bonds (the bonds) issued by DHR. The proceeds of the bonds are expected to use for refinancing the funds for the acquisition of the three environmentally certified logistics facilities (Green Building).

DHR defines its green eligible criteria as assets that DHR has acquired or plans to acquire any of three stars or more in DBJ Green Building certification, B+ rank or above in CASBEE for Real Estate Certification, or three stars or more in BELS certification. JCR evaluates that the definition of DHR's "Green Eligible Assets" targets buildings with environmental improvement effects.

JCR confirmed that the assets refinanced by the bonds meet the green eligible assets criteria defined in DHR's Green Finance Framework. According to the results of the environmental certification and interviews with DHAM, JCR confirmed that there is a low probability that the three logistics facilities subject to the evaluation will have a negative impact on the environment that exceeds the effects of environmental improvement effects. Based on the above, JCR evaluates that the use of proceeds of the bonds have environmental improvements effects, including reductions in CO2 emissions.

DHAM sets annual targets (energy consumption, greenhouse gas (GHG) emissions) and long-term targets for energy consumption, GHG emissions, water use, and waste management and works to achieve these targets. As a result of these efforts, DHR has received three star ratings for GRESB Real Estate Assessment, which DHR has participated in since 2017 and also received the highest "A" rating among the five points in the GRESB Disclosure Assessment. In addition, DHR has been awarded "Green Star" to companies that excel in both "management and policy" and "implementation and measurement," which are the two criteria for evaluating sustainability for two years in a row.

DHR is promoting the acquisition of external certification by third parties, and DHR has announced that it will raise the ratio of properties owned by DHR that have external certification (on a floor area basis) to more than 50% in the future. JCR has confirmed the solid management and operation system and high transparency of DHR. For example, JCR conducts due diligence on the status of hazardous substances (asbestos, PCBs, etc.), such as geological ground and reserves, and soil contamination, by obtaining on-site inspections of properties and engineering reports, etc. and also conducts internal and external audits regularly.

Based on JCR Green bond Evaluation Methodology, JCR assigns "g1" for the preliminary evaluation of the "Greenness Evaluation (Use of proceeds)" and "m1" for the preliminary evaluation of the "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green 1" for the overall "JCR Green Bond Preliminary Evaluation."

The Investment Corporation Bonds are considered to meet the standards for items required by the Green Bond Principles and the Ministry of the Environment's Green Bond Guidelines.

<https://www.jcr.co.jp/en/greenfinance/>

## Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

**Overall comment on section** (if applicable):

**a. On the environmental improvement effects of the project**

- i. 100% of the proceeds are refinancing acquired green eligible assets that has the environmental improvement effect.
- ii. Proceeds of the bonds are allocated for green projects defined in the Green Bond Principles or the Ministry of the Environment's Green Bond Guidelines, including "green buildings which meet regional, national or internationally recognised standards or certifications" and "energy efficiency."

**b. Negative impact on Environment**

When incorporating properties into a portfolio, DHAM conducts due diligence by obtaining on-site inspections of properties and engineering reports on the status of hazardous substances (asbestos, PCBs, etc.), such as geological grounds, reserves, and soil contamination, as an environmental survey. Through BELS Certification, DBJ Green Building Certification data, and interviews with DHAM, JCR confirmed that the likelihood of negative environmental impacts of the three logistics facilities, which are expected to be funded by the bonds, is small.

**Use of proceeds categories as per GBP:**

- |  |  |
|--|--|
| <input type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Overall comment on section** (if applicable):

DHR have clear environmental goal, project selection criteria and are to be disclosed in the amended supplementary shelf registration statement and the Supplementary Documents for Issuance and

Registration for the Issuance of the Bonds and the Summary of the Evaluation Report, in order to ensure the transparency to investors.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available       | <input type="checkbox"/> Other <i>(please specify)</i> :  |

### Information on Responsibilities and Accountability

- |   |   |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> :  |   |

## 3. MANAGEMENT OF PROCEEDS

#### Overall comment on section *(if applicable)*:

The proceeds of the bonds to be evaluated will be allocated for the refinancing of three logistics facilities (D Project Machida, D Project Hachioji and D Project Urayasu II) in full amount, and will not be used for any other purposes.

#### Tracking of proceeds:

- |  |
|--|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds   |
| <input type="checkbox"/> Other <i>(please specify)</i> :   |

#### Additional disclosure:

- |  |  |
|--|--|
| <input type="checkbox"/> Allocations to future investments only                  | <input type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" type="checkbox"/> Allocation to individual disbursements       | <input type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                     |

## 4. REPORTING

#### Overall comment on section *(if applicable)*:

##### a. Reporting on proceeds allocation

The proceeds of the bond will be immediately allocated to refinance the loans for the refinance of D

Project Machida, D Project Hachioji and D Project Urayasu II, so it is not currently assumed that the reports on unallocated proceeds will be made during the term.

b. Impact reporting for environmental benefits

In the future, DHR plans to report not only the number and type of environmental certification for acquisition assets but also water consumption, electricity consumption, and CO<sub>2</sub> emissions on its website in accordance with the Green Finance Framework.

**Use of proceeds reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Information reported:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify):      |  |

**Frequency:**

- |   |                                      |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual                  | <input type="checkbox"/> Semi-annual |
| <input checked="" type="checkbox"/> Other (please specify): |                                      |

*All the proceeds will be allocated to the projects promptly after issuing the bonds.*

**Impact reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Information reported (expected or ex-post):**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings  |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Other ESG indicators (please specify):<br><i>the number and type of environmental certification<br/>water consumption,<br/>electricity consumption</i> |

**Means of Disclosure**

- |  |   |
|--|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report                   |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):<br><i>Show on the website</i> |

☐ Reporting reviewed

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Sustainability practices of DHR

<https://www.daiwahouse-reit.co.jp/en/sustainability/index.html>

JCR's website about green bond evaluation methodology

<https://www.jcr.co.jp/en/greenfinance/>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

☐ Second Party Opinion

☐ Certification

☐ Verification

☒ Scoring/Rating

☐ Other (please specify):

**Review provider(s):**

**Date of publication:**

**Japan Credit Rating Agency, Ltd.**

**October 17, 2019**

## ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.