

Green Bond Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces Post-issuance Review of its Green Bond Evaluation.

JCR Reviewed Green Bond Evaluation on Bonds of Daiwa House REIT Investment Corporation

Subject	:	Daiwa House REIT Investment Corporation's 9th Unsecured Investment Corporation Bonds (with limited inter-bond pari passu clause) (Green Bonds)
Type	:	Investment Corporation Bonds
Issue Amount	:	JPY 6 billion
Interest Rate	:	0.530%(per annum)
Issue Date	:	November 25, 2019
Redemption Date	:	November 22, 2029
Method of Repayment	:	Bullet
Use of Proceeds	:	Refinancing of fund to acquire an asset

<Green Bond Review Results>

Overall Evaluation	Green 1
Greenness Evaluation (Use of Proceeds)	g1
Management, Operation and Transparency Evaluation	m1

1. Overview

On November 15, 2019, JCR announced its "Green 1" overall evaluation of 9th unsecured investment corporation bonds issued by Daiwa House REIT Investment Corporation. The summary is as follows.

(Excerpted from the evaluation report on November 15, 2019)

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 billion¹ 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 issue are expected to be used 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.

(Excerpt ended)

JCR reviewed the use of proceeds of the bonds issue and confirmed that the three logistics facilities maintained effective environmental certification at the time of the review. JCR also confirmed that there have been no changes to the management and operation system from the initial plan and DHR appropriately discloses information to investors.

As a result, JCR maintained "g1" for "Greenness Evaluation (Use of Proceeds)" and "m1" for "Management, Operation and Transparency Evaluation." Consequently, JCR maintained "Green 1" overall evaluation results of the bonds. Details

¹ As of December 21, 2020, 228 properties for JPY 821.8 billion

of the evaluation is indicated in next Chapter. The bonds are considered to meet the standards for items required by the Green Bond Principles and the Green Bond Guidelines of The Ministry of Environment of Japan.²³

² ICMA(International Capital Market Association) Green Bond Principles 2018

<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

³ Ministry of the Environment Green Bond Guidelines 2017 years http://greenbondplatform.env.go.jp/pdf/greenbond_guideline2017.pdf

2. Post-Issuance Review Items

In this section, JCR describes the items to be confirmed in the post-issuance review. The review focuses on items whose content has changed compared with the previous evaluation periods.

(1) Use of Proceeds (Status of Appropriation)

JCR evaluates if the management of funds procured by the Bonds and the appropriation of funds procured for green projects has been properly carried out in a manner specified by the issuer at the time of assigning the Green Bond Evaluation.

(2) Appropriateness and Transparency Concerning Selection Criteria and Processes of the Use of Proceeds

JCR evaluates if there are any changes to the objectives to be achieved through the Bonds, the criteria for selecting green projects, the adequacy of the proceeds, and the series of processes to be implemented.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluates whether the proceeds have been certainly allocated for green projects or not. JCR also evaluates if there is a system and internal system in which the allocation status can be easily tracked and managed.

(4) Reporting

JCR evaluates if the environmental improvement effects resulting from the green project financed by the funds procured by the Bonds are appropriately calculated according to the method stipulated by the issuer at the time of assigning the Green Bond Evaluation.

(5) Organization's Environmental Activities

JCR evaluates if the issuer's management is continuing to regard environmental issues as a high priority issue.

3. Contents of Review

(1) Use of Proceeds (Status of Appropriation)

DHR fully appropriated the funds raised by the bonds issue for the refinancing of three logistics facilities immediately after the procurement. Details of the allocation is shown in the DHR's website. JCR has also confirmed that the properties under the refinancing have no negative impacts on the environment.

Based on the above, JCR evaluated that the funds were appropriately allocated.

<Target projects that have been funded>

<Property 1>

Project Name	D Project Machida
Location	1-6, Oyamagaoka 2-chome, Machida, Tokyo
Principal Uses	Logistics facility
Land Area	33,860.49m ²
Total Floor Area	50,490.34m ²
Number of Stories	Five stories above ground level
Building Year, Month	Oct. 2006
Acquisition value	JPY 9.2 billion
Environmental Certification	Four stars for DBJ Green Building Certification, Five stars for BELS Certification
Features and Environmental Performance	A logistics facility for delivering goods to wide areas primarily to the southeastern part of the Tokyo metropolitan area. It is located near Route 16 linked to the Tomei Expressway "Yokohama-Machida" IC and the Chuo Expressway "Hachioji" IC. In addition to having a large-scale greenery area on its premises, it employs water-retentive pavement on its roadways as measures against heat island effects. LED lighting is also adopted for the entire warehouse as energy-saving measures.

<Property 2>

Project Name	D Project Hachioji
Location	21-1, Minami-Osawa 3-chome, Hachioji, Tokyo
Principal Uses	Logistics facility
Land Area	45,285.43m ²
Total Floor Area	58,678.15m ²
Number of Stories	Four stories above ground level
Building Year, Month	December 2008
Acquisition Value	JPY 15.4 billion
Environmental Certification	Four stars for DBJ Green Building Certification
Features and environmental performance	A logistics facility for delivering goods to suburban of Tokyo metropolitan area. It is located near Route 16, which is linked to the Tomei Expressway "Yokohama-Machida" IC and the Chuo Expressway "Hachioji" IC. It has implemented disaster prevention measures in both the hardware and software aspects such as newly introducing seismic dumpers on the occasion of the Great East Japan Earthquake, maintaining close communication with tenants regarding BCPs in the event of a disaster, etc.

	<p>It concerns energy-saving of the building facilities that includes using LED lightings for more than half of the warehouse, operating control systems to switch off and reduce lights using human sensors, installing automatic faucets, and other measures.</p> <p>In June 2020, all lightings were replaced with LED lightings for the entire property that reduced the amount of energy consumption.</p>
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<Property 3>

Project Name	D Project Urayasu II
Location	11-5 Chidori, Urayasu, Chiba
Principal Uses	Logistics facility
Land Area	38,456.00m ²
Total Floor Area	72,320.01m ²
Number of Stories	Five stories above ground level
Building Year, Month	April 2007
Acquisition price (Note)	JPY 26.0 billion
Environmental Certification	Three stars for DBJ Green Building Certification
Features and Environmental Performance	<p>A logistics facility located 2 to 3 kilometers away from the Bayshore route of Shuto Expressway and the Route 357. It is also located approximately 20 kilometers from Tokyo Port, thereby is suitable for distribution of import goods.</p> <p>It concerns energy saving of the building facilities and the recycling of garbage, such as the operation of switching off and reducing lights using human sensors, installation of automatic faucets, and introduction of waste packaging compressors.</p>

(2) Appropriateness and Transparency Concerning Selection Criteria and the Processes of the Use of Proceeds

JCR evaluated the criteria for selecting the use of proceeds and the process as appropriate at the time of the previous evaluation. Since JCR interviewed DHAM and confirmed that only the name has changed due to the reorganization (before the change: Financial management Department, after the change: Fund Management Department), JCR judged that the selecting criteria for use of funds and the processes are appropriate.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluated the fund management system of DHR as appropriate at the time of the previous evaluation.

In the review, JCR confirmed that there are no changes other than the organizational name changes described in (2) above. In addition, as mentioned above, at the time of this review, DHR has fully allocated the 6 billion yen raised through the issuance of the bonds to the three logistics facilities, which are targets of the fund allocation. Accordingly, JCR evaluates that fund management continues to be appropriate.

(4) Reporting

a. Reporting on the proceeds allocation

The appropriation of funds at the time of this evaluation is disclosed in the DHR's website together with the other Green Bond issued by DHR. The disclosures are consistent with those set forth in the framework by DHR. As a result, JCR has determined that the disclosure for the appropriation of funds is appropriate.

b. Reporting on environmental improvement effects

DHR stated in the Green Finance Framework that the following items shall be disclosed related to environmental improvement effects.

- Number and type of environmental certification of acquisition assets
- Water consumption, electricity consumption, and CO₂ emissions

In the review, JCR observed the DHR's website and confirmed that the aforementioned reporting items were properly disclosed.

(5) Organization's Environmental Activities

Daiwa House Group, to which DHR belongs, has adopted a basic approach of "Creating Dreams and Building Hearts". It aims to make social contributions through strengthening relations with stakeholders under the Group's social long-term vision, which indicates that it co-creates value for individuals, communities and people's lifestyles, and build trust relationships with stakeholders to contribute to society through its businesses. In addition, under the Group's environmental long-term vision of "Challenge ZERO 2055", it sets out that it aims to meet the challenge of achieving zero environmental impact by 2055, the 100th anniversary of Daiwa House Industry, Co., Ltd. It indicates its stance for contributing society over medium to long term. DHAM also considers that sharing the Group's basic approach and including the consideration for ESG in its operation will contribute to DHR's basic policy of ensuring stable earnings and steady growth of assets over the medium to long term. Therefore, it has formulated the above-mentioned "Sustainability Policy" and conducts its business.

In order to promote the ESG based on the Sustainability Policy, DHAM has established the Sustainability Promotion System Regulations and is working to ensure an appropriate sustainability promotion system. The Sustainability Committee of DHAM generally holds meetings at least once every three months for the purpose of formulating action plan for environmental measures, reporting and others. JCR confirmed that the GRESB evaluation and the sharing of environmental issues with Daiwa House Industry were taken up as agenda.

DHAM recognizes energy conservation, reduction of greenhouse gas (GHG) emissions, water consumption, etc. in asset management operations as important environmental issues. As for energy consumption, GHG emission, water consumption and waste management, it sets annual target (for each of energy consumption and GHG emission) and long-term targets, and is working to achieve each of numerical target.

DHR actively promotes the acquisition of external certifications and evaluations by third parties with the aim of improvement objectivity and reliability in its efforts to reduce the environmental impact of its real estate holdings and enhancing asset value over the medium to long term. As of September 2020, 50.6% (based on total floor space) of DHR's properties had acquired external certification and evaluation. JCR confirms that the DHR is continuing to acquire external certification by third parties and is aiming to raise it to around 60% in the future.

In addition, DHR, together with Daiwa House Industry Co., Ltd., is working with tenant companies to determine the amount of energy consumption and to conclude green lease contracts aimed at reducing the environmental impact of

real estate, such as by converting lighting to LED. It is steadily advancing the initiatives indicating that DHR increased the number of properties under the green lease contracts to 72 as of the end of September 2020, which is an increase of 16 properties from the end of March 2020. JCR has confirmed DHR's intention to conclude the green lease agreements with tenants for all of its properties.

DHR has been working on environmental initiatives cooperating with its sponsor group shown as that DHR has adopted LED lighting and large-sized windows to get daylight as countermeasures for energy-saving, large-scale greenery, rooftop greening, exterior greening and permeable pavement as measures against greening and heat island effects, and also possesses properties equipped with solar power generation systems.

Since 2017, DHR has been participating in GRESB Real Estate Assessment. In 2020, DHR received 4 stars as a result of improvement in the assessments by one notch for two consecutive years. DHR has received the highest rating of "A" in the five-level assessment for its superior disclosures of ESG initiatives in GRESB Disclosure Assessment. JCR confirmed that the progress of the green lease contracts, which substantially reduced energy consumption of the properties held by DHR has contributed to the upgrade the GRESB real estate assessment by one notch for this fiscal year. For the third consecutive year, DHR has been awarded "Green Star", which is given to companies that excel in both the two major assessment perspectives of ESG assessment, the "Management Component" and the "Performance Component."⁴

As for ESG-related activities, DHAM has a CASBEE evaluator within the company, and collaborates with relevant departments of the Daiwa House Group, which is the sponsor of DHR. In addition, DHR has been working with internal and external specialists to carry out its operation seen as it employs an external consulting company for its employees' ESG-related training and obtaining GRESG certification.

Based on the above, JCR evaluated that the management of DHR recognizes these environmental issues as one of the important and high priority issues for them, and also the Sustainability Committee clearly involves in the process of selecting green projects, etc. as an organization.

(Reference) GRESB Real Estate Assessment

GRESB is an acronym for Global Real Estate Sustainability Benchmark. GRESB is a benchmark established in 2009 that measures and evaluates the degree of consideration given to ESG by companies that holding and manages real estate and infrastructure. From 2016, the evaluation-results are shown on a five-star scale (five stars, four stars, three stars, two stars, and one star). Companies that have made excellent efforts are given "Green Star" separately from the five-star evaluation. As of 2020, 46 investment corporations have participated in the evaluation from J-REIT.

⁴ From 2020, it has changed from the previous "Management and Policies" and "Implementation and Measurement"

4. Conclusion

As a result of confirmation described in the previous section, JCR confirmed that the proceeds of bonds has been appropriated 100% to the Green Project, which was originally assumed to be used , and the assets subject to fund appropriation sufficiently realized the initially assumed environmental improvement effects.

[JCR Green Bond Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1	m2	m3	m4	m5
Greenness Evaluation	g1	Green 1	Green 2	Green 3	Green 4	Green 5
	g2	Green 2	Green 2	Green 3	Green 4	Green 5
	g3	Green 3	Green 3	Green 4	Green 5	Not qualified
	g4	Green 4	Green 4	Green 5	Not qualified	Not qualified
	g5	Green 5	Green 5	Not qualified	Not qualified	Not qualified

■ Subject

Issuer: Daiwa House REIT, Inc. (Security code: 8984)

[Review]

Subject	Issue Amount	Issue Date	Redemption Date	Interest Rate	Evaluation
9th Unsecured Investment Corporation Bonds (with limited inter-bond pari passu clause) (Green Bonds)	JPY 6 billion	November 25, 2019	November 22, 2029	0.530%	JCR Green Bond Evaluation :Green1 Greenness Evaluation :g1 Management, Operation and Transparency Evaluation :m1

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Important explanation of this Green Bond Evaluation

1. Assumptions, Significance, and Limitations of JCR Green Bond Evaluation

JCR Green Bond Evaluation, which is granted and provided by the Japan Credit Rating Agency (JCR), is a comprehensive expression of JCR's current opinion on the extent to which the funds procured from the issuance of green bonds, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation system, and transparency of the use of green bonds are ensured. JCR Green Bond Evaluation does not fully indicate the extent to which the funds procured from such green bonds are allocated and the management, operation, and transparency of the use of the funds are ensured.

JCR Green Bond Evaluation assesses the plan or status of the appropriation of funds at the time of the green bond issuance plan or at the time of issuance, and does not guarantee the status of the appropriation of funds in the future. In addition, JCR Green Bond Evaluation does not prove the environmental effects of green bonds and is not responsible for their environmental effects. JCR confirms that the effects of the funds procured from the issuance of green bonds on the environment are measured quantitatively and qualitatively by the issuer or by a third party requested by the issuer, but in principle it does not directly measure the effects.

2. Method used to conduct this evaluation

The methods used in this evaluation are listed on JCR's website (Sustainable Finance & ESG in <https://www.jcr.co.jp/en>) as JCR Green Finance Evaluation Methodology.

3. Relationship with Acts Concerning Credit Rating Business

JCR Green Bond Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

4. Relationship with Credit Ratings

The evaluation differs from the credit rating and does not promise to provide or make available for inspection a predetermined credit rating.

5. Third-Party Evaluation of JCR Green Bond

There is no conflict of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

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■Glossary

JCR Green Bond Evaluation: JCR Green Bond Evaluation evaluates the extent to which the funds procured from the Green bond are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Bond are ensured. Evaluations are graded on a scale of 5, beginning with the top, using the Green1, Green2, Green3, Green4, and Green5 symbols.

■Status of registration as an external assessor of green finance

- Ministry of the Environment's external green bond reviewer registration
- ICMA (registered as an observer with the International Capital Markets Association)

■Status of registration as a credit rating agency, etc.

- Credit Rating Agency: the Commissioner of the Financial Services Agency (Rating) No.1
- EU Certified Credit Rating Agency
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