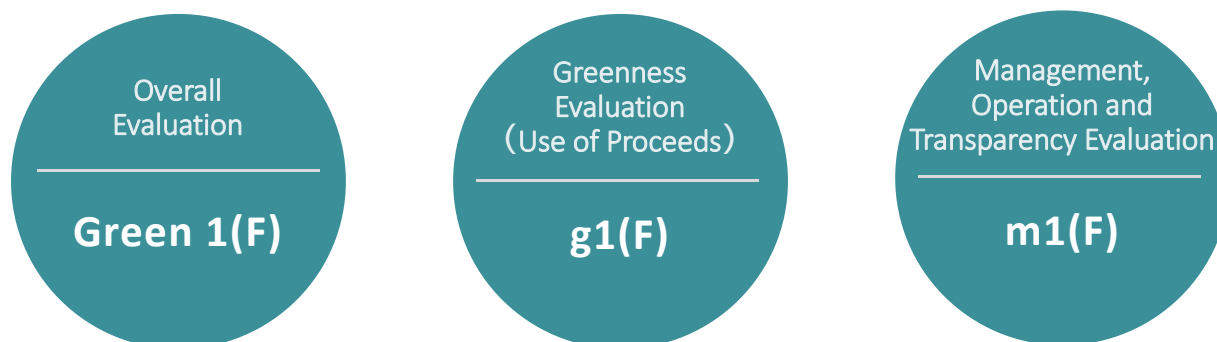


Japan Credit Rating Agency, Ltd. (JCR) announces the following Green Finance Framework Evaluation Results.

## Mori Hills REIT Investment Corporation

### Green Finance Framework

#### Assignment



Issuer/Borrower	Mori Hills REIT Investment Corporation (security code: 3234)
Subject	Green Finance Framework of Mori Hills REIT Investment Corporation

### Evaluation Overview

#### ▶▶▶ 1. Overview of Mori Hills REIT Investment Corporation

Mori Hills REIT Investment Corporation (MHR) is a comprehensive J-REIT sponsored by Mori Building Co., Ltd., which was established in 2006 and listed on the J-REIT Securities section of the Tokyo Stock Exchange in November of the same year. MHR aims to diversify and maximize investment opportunities by investing in residential properties and retail facilities, focusing on office buildings. These assets are managed by Mori Building Investment Management Co., Ltd. (MIM).

Currently, MHR manages a portfolio of 11 properties: eight office buildings, two residential properties, and one retail facility. The total acquisition price is JPY 406.1 billion. They are located in the central five wards of Tokyo, especially Minato Ward. Among them, MHR primarily invests in properties with certain advantages in terms of quality, scale, specifications, etc. MHR defines such properties as "Premium Properties," which exclude Roppongi View Tower in its portfolio.

## ▶▶▶ 2. ESG Management and Decarbonization Initiatives

Under the banner of its basic policy, "Investment in the city," MHR aims to achieve steady growth of its portfolio and to maximize unitholders' value by making selective investments that mainly target areas and properties that are believed to lead the lifestyle and work style of the 21st century as exemplified by the "Hills" brand. MHR's medium- to long-term vision to achieve the fundamental mission has three pillars, one of which is to deliver the highest ESG assessments. With that vision, MHR aspires to contribute to improving various social issues eventually to become "the highest-quality and highest-rated REIT."

## ▶▶▶ 3. Green Finance Framework

The subject of this evaluation is the Green Finance Framework (the "Framework") published by MHR to use the proceeds only to expenditures to the projects to improve environment. JCR evaluates whether this Framework aligns with the Green Bond Principles<sup>1</sup>, the Green Loan Principles<sup>2</sup>, the Green Bond Guidelines<sup>3</sup> and the Green Loan Guidelines<sup>4</sup>. These principles and guidelines are voluntarily published by the International Capital-Marketing Association (ICMA) Loan Market Association (LMA) and the Ministry of Environment, respectively, and are not legally regulated based on evidences. JCR however refers these principles and guidelines as they are referred to as unified standards domestically and globally.

According to the Framework, MHR invests the proceeds in green buildings rated above certain levels by certification systems (rank A or more by CASBEE, four stars or more by DBJ Green Building Certification, four stars or higher by BELS, and Gold or more by LEED). JCR values MHR's eligibility criteria as a project beneficial for better environment.

With clear environmental targets, MHR intends to raise funds through green financing. There are proper rules in place for managing the selection process and green financing. Further, its reporting contents are quite transparent. Based on the above, JCR has assessed that MHR's green financing management and operations are proper and transparent.

Based on JCR Green Finance Evaluation Methodology, JCR assigned "g1(F)" for "Greenness Evaluation (Use of Proceeds)" and "m1(F)" for "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green 1(F)" for the overall "JCR Green Finance Framework Evaluation."

The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines, and the Green Loan Guidelines.

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<sup>1</sup> Green Bond Principles 2021, ICMA (International Capital Market Association)  
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> Green Loan Principle 2023, LMA (Loan Market Association), APLMA (Asia Pacific Market Loan Association), and LSTA (Loan Syndications and Trading Association)  
<https://www.lsta.org/content/guidance-on-green-loan-principles-glp/>

<sup>3</sup> Green Bond Guidelines 2022, Ministry of the Environment  
<https://www.env.go.jp/content/000062348.pdf>

<sup>4</sup> Green Loan Guidelines 2022, Ministry of the Environment  
<https://www.env.go.jp/content/000062348.pdf>

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## I. The Overview of Use of Proceeds

### JCR's Key Consideration on This Factor

In this section, JCR first confirms whether the proceeds set out in the Framework is used for green projects that have clear environmental improvement effects. Then, in cases where the use of proceeds is expected to have a negative impact on the environment, JCR confirms whether the impact is fully examined by an internal specialist department or an external third party and whether necessary measures have been taken for its workaround and mitigation. Finally, JCR confirms the consistency with the Sustainable Development Goals (SDGs.)

### ▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

The use of proceeds is to finance the acquisition of green buildings, which have already been or are expected to be certified by certification systems recognized regionally, nationally, or internationally, at their top two categories, or to refinance such funds. JCR has assessed that they have potential to be highly beneficial for better environment.

### The Framework for Use of Proceeds

Any assets with the following valid certifications that have already been obtained or updated or are planned to be obtained or updated in the future, at green financing or at reporting:

- A or S Rank by CASBEE for Real Estate
- A or S Rank by CASBEE for Buildings
- Four or Five stars by DBJ Green Building
- Four or Five stars by BELS
- Gold or Platinum by LEED

## JCR's Evaluation for the Framework

### 1. Environmental Improvement Effects of the Project

#### **Comprehensive Assessment System for Built Environment Efficiency (CASBEE)**

CASBEE stands for Comprehensive Assessment System for Built Environment Efficiency, which is a system to evaluate and rate buildings in terms of their environmental performance. In April 2001, under the auspices of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism, a research committee (c.k.a. the Japan Sustainable Building Consortium or JSBC) was established as a project where industries, the government and academia joined forces. Ever since then, the system has been developed and reviewed. Its valuation tools include CASBEE for Real Estate developed to straightforwardly show environmental performance and to cater to the real estate market as well as CASBEE for Buildings and CASBEE for Cities.

The evaluation results are shown at five levels: S rank (excellent), A rank (very good), B + rank (good), B-rank (fairly poor) and C rank (poor). CASBEE for Real Estate also has four levels: S rank (excellent), A rank (very good), B + rank (good) and B rank (satisfying the essential items). As to CASBEE for Buildings, the environmental performance (BEE: Built Environmental Efficiency) of a building is calculated by dividing the environmental quality (Quality) by the environmental load (Load). Under CASBEE for Buildings, buildings with BEE of 1.0 or more, i.e. properties having environmental quality exceeding the environmental load they have, are rated B+ or more.

Buildings rated A or more based on MHR's eligibility criteria must have BEE of 1.5 or more and clearly outperform the environmental load. Although CASBEE for Real Estate does not apply BEE as a measurement standard, such buildings are A rank-equivalent properties based on conventional CASBEE for Buildings, etc. For this reason, JCR has assessed that they are environmentally beneficial.

### **DBJ Green Building certification**

DBJ Green Building Certification is a certification system provided by the Development Bank of Japan (DBJ) for assessing buildings in terms of consideration for environment and society. They are rated by the number of stars, and the point of evaluation is "whether the building is built with consideration for environment and society." The system evaluates them based on five major categories: "Energy and Resources (environmental performance of buildings)," "Amenity (comfort of tenant users)," "Resilience (responsiveness to crises)," "Community and Diversity (consideration for diversity and living environments) and Partnership (cooperation with stakeholders)." Each of them is rated by five (properties with the best class environmental & social awareness), four stars (properties with exceptionally high environmental & social awareness), three stars (properties with excellent environmental & social awareness), two stars (properties with high environmental & social awareness) and one star (properties with satisfactory environmental & social awareness). Although it is not a system focusing on environmental performance, the system is highly recognized in Japan and has a certain set of categories to evaluate environmental performance. Therefore, JCR has assessed that the certification corresponds to "standards or certifications recognized regionally, nationally, or internationally" in the green project category defined in the Green Bond Principles. Since the certification is not environmental performance-specific, however, receiving an environment performance rating from another system may be recommendable.

DBJ Green Building Certification comprehensively evaluates buildings in terms not only of environmental performance but also the comfort of tenant users, risk management such as crime/fire prevention, consideration for living environment and community and cooperation with stakeholders. Its scoring system is designed by compiling the data of specific "best practices" beneficial for environment and society, and there are many in the real estate market that fall short of the levels needed for evaluation. To obtain a higher rating, the building needs to be built with proper consideration for all its stakeholders as well as environment.

The level needed for acquiring DBJ Green Building Certification is assumed to be the top 20% or somewhere of all domestic income-producing properties in terms of consideration for environment and society.<sup>5</sup> The top three stars are assigned to the groups of such properties in the following percentages: five stars, the top 10%, four stars, the top 30%, and three stars, the top 60%. Accordingly, JCR has assessed that, in investing the proceeds, MHR focuses on properties with high environmental performance among those to acquire the certification.

### **Building-Housing Energy-efficiency Labeling System (BELS)**

BELS stands for Building-Housing Energy-efficiency Labeling System, which is the system, where the third-party evaluation organization evaluates and accredits energy-saving performance of new and existing buildings. To acquire higher ratings under the system, buildings need to have excellent energy-saving performance, which hinges on their skin performance and primary energy consumption. Building Energy Index (BEI) ranks buildings by the number of stars: one through five stars. BEI measures energy-saving performance relative to the standard value, which is calculated by dividing design primary energy consumption by standard primary energy consumption. One-star buildings meet the energy conservation standards for existing buildings, and two-star buildings meet the energy conservation standards for newly built ones.

JCR believes that the use of the proceeds is proper because buildings with four stars or more under BELS, which MHR has determined to be eligible, have energy-saving performance (non-residential: BEI of 0.75 or less).

### **LEED (Leadership in Energy and Environment Design)**

LEED is an environmental performance assessment system for the environment of buildings and cities developed and operated by the U.S. Green Building Council (USGBC), a not-for-profit organization. LEED stands for Leadership in Energy and Environmental Design, and a draft of the system was published in 1996 and has been updated once in several years.

There are six types of certifications: BD + C (building design and construction), ID + C (interior design and construction), O + M (building operations and maintenance), ND (neighborhood development), Homes and Cities.

The sum of the points acquired in the respective categories show the levels: Platinum (80+ points earned), Gold (60-79 points earned), Silver (50-59 points earned) and Certified (standard, 40-49 points earned). Receiving higher scores or achieving the goals of the energy-saving category is often the precondition of the evaluation. In order to acquire higher levels of the certification, it may be necessary to attain a high energy-efficiency score. Accordingly, Gold or more, which MHR defines as the eligible level, is considered to be the level that buildings with high-energy-efficiency can receive, and thus JCR has assessed that buildings with that level of the certificate are environmentally beneficial.

## **2. Use of Proceeds; Compliance with the Green Bond Principles, etc. and Significance**

The use of proceeds defined in the Framework falls under the categories of "green buildings which meet standards or are certified by certifications recognized regionally, nationally or internationally" in the Green Bond Principles and the Green Loan Principles and of "green building projects<sup>5</sup>" in the Green Bond Guidelines and the Green Loan Guidelines.

In October 2021, the Cabinet approved the Sixth Strategic Energy Plan, which discussed the following: revising the Building Energy Conservation Act, raising the Guidance Standards and the Standards of Judgment for Residential Construction Clients and lifting the energy conservation standards in phases, in order to "ensure the levels of energy-saving performance required by

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<sup>5</sup> The green building projects are defined as projects to newly build and renovate green buildings which cover a wide range of considerations, not only energy-saving performance but also water consumption and waste management, certified by environmental certification systems which meet domestic standards or are highly recognized among environmental certification systems, such as CASBEE and LEED

ZEH and ZEB standards for new houses and buildings to be built in and after FY2030." According to the growth strategy timeline for the housing and building industry in the "Green Growth Strategy through Achieving Carbon Neutrality in 2050" announced in December 2020, the government will move forward with energy-saving renovations and the wide penetration of ZEB and ZEH to achieve the above 2030 targets. Hence, investing in and financing green buildings is highly beneficial for improving environment. Therefore, it is consistent with Japan's energy conservation policy that MHR acquires and renovates buildings with high levels of environmental certifications.

### 3. Negative Impacts on the Environment

By conducting due diligence at acquiring a property, MIM determines whether there is any negative impact on the property to be acquired. When any negative impact on the environment was found, corrective measures will be taken to avoid and mitigate the risk.

In conclusion, JCR affirmed that MHR pays proper attention to negative environmental impacts.

### 4. Consistency with SDGs

JCR evaluated the use of proceeds set out in the Framework contributes to the following SDGs' goals and targets in reference to ICMA's SDGs mapping.



#### **Goal 7: Affordable and clean energy**

Target 7.3. By 2030, double the global rate of improvement in energy efficiency



#### **Goal 9: Industry, Innovation and Infrastructure**

Target 9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities



#### **Goal 11: Sustainable cities and communities**

Target 11.3. By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries  
 Target 11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

## Evaluation Phase II: Management, Operation and Transparency Evaluation

m1(F)

### I. Selection Standards and Processes for Use of Proceeds

#### JCR's Key Consideration on This Factor

In this section, JCR confirms that the objectives to be achieved through green financing, the appropriateness of green project selection standards and processes, and whether or not a series of processes are properly disclosed to investors/lenders and others.

#### ▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has assessed that MHR's expert and management teams are properly involved in setting the criteria for selecting green goals and projects and its process in the Framework.

### 1. Goals

#### Framework for Goals

##### 1. Approach to Sustainability

- MHR and MIM, the asset manager, aim to contribute to the creation and development of cities by providing investment opportunities in high-quality urban assets to investors while maximizing unitholders' value through investment focused on the competitiveness and ability to create value of the "City," as stated in the Basic Policy and Company Mission of MHR and MIM.
- Society today is faced with various challenges, and companies are expected to contribute to solving these issues as they conduct business activities. MHR believes that working on these issues will in fact lead to increasing its competitiveness.
- MHR and MIM aim to contribute to the realization of a sustainable society and maximization of unitholders' value in the medium to long term by focusing on ESG (Environmental, Social and Governance) initiatives and investing in high-quality urban assets while striving to improve various social issues.

##### 2. Environment Initiatives

MHR's environment initiatives mainly include "Climate Change," "Resource Recycling (Water and Waste)," "Increasing Greenery and Biodiversity," and "Green Building Certifications." Details are as provided on MHR's website.

##### 3. Significance of Green Finance

MHR finances green projects through green financing in order to promote the above environment initiatives, contribute to the realization of a sustainable society and maximize unitholders' value in the medium to long term.



## JCR's Evaluation for the Framework

Aiming to solve issues for realizing a sustainable society and to maximize medium-to long-term investor value, MHR evaluates and prioritizes them through the two perspectives of "importance to MHR" and "importance to stakeholders," to identify important ESG issues (Materiality).

	Materiality	Item	Target	
<b>E</b> Environment 	<ul style="list-style-type: none"> <li>● Response to sustainability certifications</li> </ul>	<ul style="list-style-type: none"> <li>● Green building certification</li> </ul>	(Short-term) Maintain a certified property rate of 90% or more (by FY2024, based on acquisition price)  (Long-term) Maintain a certified property rate of 90% or more (by FY2030, based on acquisition price)	
	<ul style="list-style-type: none"> <li>● Reduce greenhouse gas emissions</li> <li>● Promote energy saving at owned properties</li> </ul>	<ul style="list-style-type: none"> <li>● Reduction in greenhouse gas emissions (vs. FY2019)</li> </ul>	(Medium-term) 50% reduction (by FY2030, based on total amount)  (Long-term) Net-Zero (by FY2050, based on total amount)	
	<ul style="list-style-type: none"> <li>● Use of renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>● Usage of renewable energy</li> </ul>	(No quantitative target: item to be verified)	
	<ul style="list-style-type: none"> <li>● Coexist with nature</li> </ul>	<ul style="list-style-type: none"> <li>● Green ratio (key facilities)</li> </ul>	(No quantitative target: item to be verified)	
	–	<ul style="list-style-type: none"> <li>● Reduction in water use (vs. FY2013)</li> </ul>	10% reduction (by FY2030, based on intensity)	
	–	<ul style="list-style-type: none"> <li>● Recycling rate</li> </ul>	75% or more (by FY2030)	
	<b>S</b> Social 	<ul style="list-style-type: none"> <li>● Talent development</li> </ul>	<ul style="list-style-type: none"> <li>● Training hours</li> <li>● Subsidy system for qualifications</li> </ul>	(No quantitative target: item to be verified)
<ul style="list-style-type: none"> <li>● Increase employee's satisfaction</li> </ul>		<ul style="list-style-type: none"> <li>● Employee satisfaction survey (by third-party organizations)</li> </ul>	Overall satisfaction level: 3.5 or more per year (max. = 5.0)	
<ul style="list-style-type: none"> <li>● Promote diversity</li> </ul>		<ul style="list-style-type: none"> <li>● Diversity-related training for all employees</li> <li>● Ratio of female managers</li> </ul>	Once every 2 years  (No quantitative target: item to be verified)	
<ul style="list-style-type: none"> <li>● Respect for human rights</li> </ul>		<ul style="list-style-type: none"> <li>● Training on human rights, bullying, and harassment</li> <li>● Number of cases reported on labor issues, discrimination and harassment</li> </ul>	Once every 2 years  (No quantitative target: item to be verified)	
<ul style="list-style-type: none"> <li>● Promote a healthy and comfortable work environment and improve employee's work/life balance</li> </ul>		<ul style="list-style-type: none"> <li>● Health check participation rate</li> <li>● Paid leave usage rate</li> <li>● Overtime hours</li> </ul>	100% every year 85% or more every year Less than 15 hours per month (annual average)	
<ul style="list-style-type: none"> <li>● BCP measures (disaster prevention and building resilience)</li> </ul>		<ul style="list-style-type: none"> <li>● Portfolio PML</li> <li>● General disaster-readiness training</li> </ul>	(No quantitative target: item to be verified) Twice a year	
<ul style="list-style-type: none"> <li>● Tenants' health, comfort and convenience</li> </ul>		<ul style="list-style-type: none"> <li>● Tenant satisfaction survey</li> </ul>	<ul style="list-style-type: none"> <li>● Office: once every 2 years</li> <li>● Residential: once every year</li> </ul>	
<ul style="list-style-type: none"> <li>● Mutual communication with stakeholders</li> </ul>		<ul style="list-style-type: none"> <li>● IR-Activities and HP external evaluation</li> </ul>	(No quantitative target: item to be verified)	
<b>G</b> Governance 		<ul style="list-style-type: none"> <li>● Strive for fair and effective corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>● Ratio of female executives</li> <li>● Board meeting attendance rate</li> </ul>	Maintain 30% or more  (No quantitative target: item to be verified)
		<ul style="list-style-type: none"> <li>● Adhere to compliance and corporate ethics</li> </ul>	<ul style="list-style-type: none"> <li>● Compliance training</li> </ul>	(No quantitative target: item to be verified)
	<ul style="list-style-type: none"> <li>● Fraud/corruption-related</li> </ul>		(No quantitative target: item to be verified)	
	<ul style="list-style-type: none"> <li>● Number of cases of whistleblowing</li> </ul>		(No quantitative target: item to be verified)	

Figure 1: MHR's Materiality<sup>6</sup>

<sup>6</sup> Source: MHR's Website

MHR develops the Framework and uses the proceeds from green financing to fund projects that meet the eligibility criteria, which will help solve the issue of "Response to sustainability certifications," " E. Environment Materiality."

Thus, JCR has assessed that MHR's green financing under the Framework is consistent with its goals.

## 2. Selection criteria

The eligibility criteria for this framework are described in Evaluation Phase 1 of this report. JCR assesses that the selection criteria for the project are appropriate.

## 3. Processes

### The Framework for Processes

MHR will set eligible criteria to select projects that contribute to environmental initiatives it promotes and allocate the proceeds from green financing to projects that meet these criteria.

MIM's Sustainability Committee selects the projects that meet the eligibility criteria, and the President & CEO makes final decisions. Members of the Committee are MIM's President & CEO as Chairperson, Managing Director, all general managers and some members of Planning Department.

### JCR's Evaluation for the Framework

MHR's Financial Department verifies the conformance of a green project with the eligibility criteria and the allocation of proceeds. After that, President & CEO gives a green light to the project, and the Investment Committee approves it. Given the involvement of its management, JCR has determined that MHR's selection process is properly defined.

MHR plans to disclose the targets and the selection criteria and its process set forth in the Framework through any of the following: MHR's website and press release, the supplementary documents to the shelf registration, the Evaluation Report, etc. This ensures transparency to investors, etc.

## II. Management of the Proceeds

### JCR's Key Consideration on This Factor

It is usually assumed that the management of the proceeds varies widely depending on issuers/borrowers. JCR confirms whether the proceeds are surely appropriated to the green project and whether a mechanism and internal system are in place to make tracking easy.

JCR also focuses on whether the proceeds are scheduled to be used for a green project at an early stage and on the management and operation methods for unallocated funds.

### ▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has assessed that MHR's system to manage the proceeds is properly established and that its way of managing them, which is disclosed in this evaluation report, is highly transparent.

## The Framework for Management of the Proceeds

### Process of tracking proceeds from green financing

MIM's Financial Department appropriates and manages the proceeds on its internal electronic files.

When the proceeds from green financing are not immediately allocated to eligible assets, the unappropriated amount will be specified and the equivalent amount will be managed in cash or cash equivalents until it is allocated to eligible green assets.

Unappropriated funds temporarily on hand will be managed as an asset under portfolio management, if the green assets where the proceeds were supposed to be invested are sold, fall short of the green asset requirements, etc. after all the proceeds are allocated. Portfolio management is a method of managing the balance of the green finance not to exceed Green Eligible Debt, which are calculated by multiplying the sum of the acquisition prices of green assets by the ratio of interest-bearing debt to the total assets (LTV) at the end of the preceding fiscal year. Should it exceed green debts, MIM will manage the amount equivalent to the unappropriated funds in cash or cash equivalents.

### How funds raised are managed until they are allocated to eligible green projects

Until the allocation of the proceeds is determined, they will be managed in cash or cash equivalents, which will be disclosed at statutory or timely disclosure of the shelf registration supplementary documents, etc. at green financing.

### JCR's Evaluation for the Framework

As the proceeds from green financing will be promptly allocated to the green projects, in principle, there will be no unappropriated funds. The tracking and management system for the proceeds has been established properly. MIM's Head of Finance Department goes through the project file managed by Finance Department at each allocation or on an annual basis and annually reports the status of its funds management to the Sustainability Committee.

MIM's Compliance Department conducts an internal audit of its green financing management, while the overall process of accounting is subject to an external audit. Accordingly, an appropriate control system has been established. Documents related to green funds management, etc. are stored for a certain period of time after the redemption/repayment.

MHR will restructure its portfolio to manage the unappropriated funds, if it sells the green assets it manages prior to the redemption/repayment or if such assets no longer meet the requirements for eligible green assets. More specifically, the balance of the proceeds from green financing is managed not to exceed the amount of Green Eligible Debt. The Green Eligible Debt is calculated by multiplying the sum of the acquisition costs of the properties that meet the eligible criteria by LTV ratio (Loan to Value / interest-bearing debt ratio) at the end of the prior fiscal period. JCR finds no problems with MHR' green portfolio management, given that other investment corporations also do it in the same way and that it is in alignment with market conventions.

Based on the above, JCR has assessed that MHR's fund management is proper and highly transparent.

### III. Reporting

#### JCR's Key Consideration on This Factor

In this section, JCR evaluates whether the disclosure system for investors before and after the issuance of green bonds/loans, which is implemented with reference to the Framework, is planned in detail and in an effective manner.

#### ▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has assessed that MHR plans to properly report both the progress of the appropriation and benefits from better environment.

#### The Framework for Reporting

How the progress in appropriating the proceeds from green financing is to be disclosed

As long as the green finance balance exists, the total acquisition price of eligible green assets, the appropriation amount, and the green finance balance will be annually disclosed on MHR's website.

Even after the appropriation is completed, if there is a material change in the appropriation status, that will be disclosed on MHR's website.

Where and how often to disclose the benefits from better environment as a result of green project

That will be disclosed on MHR's website on an annual basis.

KPIs to show the benefits of the environment improved by eligible green projects

To the extent that the green finance balance exists, the following indicators will be disclosed on MHR's website:

(To the extent possible under practical operations in all cases)

- Names of eligible green properties and kinds and levels of certifications for eligible green assets

- CO<sub>2</sub> emissions [t-CO<sub>2</sub>]

(Scope 1, Scope 2, Scope 3 and intensity)

- Energy consumption (GJ)

#### JCR's Evaluation for the Framework

##### Reporting on the allocation status of the proceeds

MHR plans to disclose on its website the progress in allocating proceeds until all the funds raised through green financing are allocated and any unappropriated funds before the redemption/repayment.

## Reporting on environmental improvement effects

MHR discloses on its website the progress in obtaining green building certifications and quantitative indicators, such as CO<sub>2</sub> emissions and energy consumption. Any of these indicators selected is appropriate for understanding the effectiveness of the projects.

Based on the above, JCR has assessed that MHR's reporting is proper. As of January 31, 2023, MHR had four green bonds. JCR has confirmed that their progress in allocating the proceeds and items related to environmental improvements are disclosed on its website as required by the Framework.

## IV. Organization's Sustainability Initiatives

### JCR's Key Consideration on This Factor

In this section, JCR evaluates whether the management of the issuer/borrower positions sustainability issues as a high priority for management and whether the sustainability policy, process and selection criteria for green projects are clearly positioned through the establishment of a department specializing in environmental issues or in collaboration with external organizations.

#### ▶▶▶ Current Status of Evaluation Targets and JCR's Evaluation

JCR has assessed that MHR considers sustainability issues to be critical issues with priority and promotes sustainability initiatives, taking in the expertise of MIM's Sustainability Committee and external experts.

#### The Investment Corporation's Approach to Sustainability

Under the banner of its basic policy, "Investment in the city," MHR aims to maximize unitholders' value by paying close attention to the competitiveness of the "City" and the portfolio's ability to create value and contribute to the creation and development of cities by providing investors with opportunities to invest in quality urban assets. Closely working together with the Mori Building Group, which has executed numerous large-scale redevelopment projects in central Tokyo, MHR focuses on investing in Premium Properties<sup>7</sup>, including Roppongi Hills Mori Tower, and has the highest ratio of properties in central Tokyo among J-REITs on an acquisition price basis.

In addition, MHR sets forth a medium- to long-term vision to achieve this fundamental mission, which is comprised of three pillars, including "the highest ESG assessment." MHR aims to become the highest-quality and highest-rated REIT, helping improve social issues.

#### MHR's Medium- to Long-Term Vision



Figure 2: Mori Hills REIT Investment Corporation's Medium-to Long-Term Vision<sup>8</sup>

<sup>7</sup> MHR defines Premium Properties as properties located mainly in the central five wards of Tokyo and in their vicinity among which maintain their competitiveness over years in terms of quality, scale, and specifications, etc.

<sup>8</sup> Source: MHR's Integrated Report

As part of its environmental initiatives, MHR aims to "maintain the green building certificates coverage ratio at 90% or more (on an acquisition price basis)." As of January 31, 2023, the ratio was 93.5%. Besides, MHR sets a target to reduce CO<sub>2</sub> emissions (total amount: Scope 1, 2 and 3) "by 50% by FY 2030" when compared with FY 2019 as the baseline year and to achieve "net-zero emissions by FY 2050" in order to further reduce greenhouse gas emissions. More specifically, MHR strives to achieve the target by introducing renewable energy electricity to the properties it owns, and contributes to realizing the decarbonized society. Also, in order to realize "coexistence with nature," which is one of its Materiality goals, MHR promotes greenery and protects biodiversity in its ongoing efforts. Through such efforts, MHR has successfully increased the "green ratio" by proactively undertaking the landscaping of open spaces and rooftops and created surface microenvironments where humans live in harmony with nature. As a result, the green coverage ratios of its several properties exceed 30% relative to 21.8% of the Minato Ward as a whole. Other efforts include environmental activities, such as promoting energy-saving by introducing high-efficiency air-conditioning system and forming resource-recycling cities by moving forward with 3R activities (Reduce, Reuse, Recycle) related to water resources, wastes, materials.

In the 2022 GRESB Real Estate Assessment, MHR received a "5Stars" in GRESB Rating, which is based on GRESB Overall Scores. It also won a "Green Star" designation for the eleventh consecutive year by achieving high performance both in "Management Component" and "Performance Component" that are the two axes of ESG assessment. These ratings indicate that third parties highly value MHR's sustainability initiatives.

MHR's operations connected to sustainability are promoted primarily by the Sustainability Committee established by MIM. The Committee members are MIM's President & CEO as Chairperson, Managing Director, all directors, and some planning department staff members. The Committee meets twice a year, formulates the annual Sustainability Promotion Program, monitors its progress, deliberates various suggestions from departments, etc. Moreover, sustainability-related efforts are reported periodically to the boards of directors of both MHR and MIM as well as to the Committee. And its operations connected to sustainability also include promoting the efforts, such as setting Materiality goals and receiving GRESB ratings and making the most use of the knowledge of outside experts when necessary.

Based on the above, JCR has assessed that MHR's management prioritizes environmental issues above all as critical issues.

#### (Reference) GRESB Real Estate Assessment

GRESB, which was established in 2009, is a benchmark to measure and evaluate how a company holding and managing physical assets (real estate and infrastructure) is conscious about ESG, and is an organization providing the benchmark. GRESB stands for Global Real Estate Sustainability Benchmark. The evaluation results are shown on a scale of one to five, starting in 2016 (five stars, four stars, three stars, two stars, and one star). Companies excellent in their initiatives receive "Green Star" separately from the five star rating. As of 2022, 57 investment corporations participated in the rating system.



**Evaluation phase III:  
Evaluation result(Conclusion)**
**Green 1(F)**

Based on its JCR Green Finance Evaluation Methodology, JCR assigned "g1(F)" for the "Greenness Evaluation (Uses of Proceeds)" and "m1(F)" for the "Management, Operation and Transparency Evaluation." As a result, JCR assigned "Green 1 (F)" for the "JCR Green Finance Framework Evaluation." The Framework meets the standards for the items required in the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan Guidelines.

		<b>Management, Operation, and Transparency Evaluation</b>				
		m1(F)	m2(F)	m3(F)	m4(F)	m5(F)
Greenness Evaluation	g1(F)	Green 1(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g2(F)	Green 2(F)	Green 2(F)	Green 3(F)	Green 4(F)	Green 5(F)
	g3(F)	Green 3(F)	Green 3(F)	Green 4(F)	Green 5(F)	Not qualified
	g4(F)	Green 4(F)	Green 4(F)	Green 5(F)	Not qualified	Not qualified
	g5(F)	Green 5(F)	Green 5(F)	Not qualified	Not qualified	Not qualified

(Responsible analysts for this evaluation) Rieko Kikuchi · Takuto Touda

## Important explanations of this Evaluation

### 1. Assumptions, Significance and Limitations of JCR Green Finance Framework Evaluation

JCR Green Finance Framework Evaluation, which is determined and provided by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Green Finance Framework, and expresses JCR's comprehensive opinion at this time regarding the appropriateness of the Green Project as defined by JCR and the extent of management, operation and transparency initiatives related to the use of funds and other matters. Therefore, JCR Green Finance Framework Evaluation is not intended to evaluate the effects of specific environmental improvements and the management, operation and transparency of individual bonds and borrowings, etc. to be implemented based on these policies. In the event an individual bond or individual borrowing based on this Framework is subject to a green finance evaluation, a separate evaluation is needed. JCR Green Finance Framework Evaluation does not prove the environmental improvement effects of individual bonds or borrowings implemented under this Framework, and does not assume responsibility for their environmental improvement effects. JCR confirms the environmental improvement effects of funds procured under the Green Finance Framework measured quantitatively and qualitatively by the issuer or by a third party nominated by the issuer, but in principle it does not directly measure such effects.

### 2. Method used to conduct this evaluation

The methodologies used in this assessment are described in "JCR Green Finance Evaluation" on the "Sustainable Finance ESG" section of the JCR website (<https://www.jcr.co.jp/en>).

### 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 its activities related to the credit rating business.

### 4. Relationship with Credit Ratings

The Evaluation is different from the Credit Rating and does not assure to provide or browse a predetermined credit rating.

### 5. Third-Party Evaluation of JCR Green Finance Framework Evaluation

There are no capital and/or personnel relationships that may result in a conflict of interests between the subject of this evaluation and JCR.

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#### ■ Glossary

JCR Green Finance Framework Evaluation: This evaluates the extent to which the funds procured through green Bond are appropriated for green projects as defined by JCR and the degree to which the management, operation and transparency of the green Bond are ensured. Evaluations based on a 5-point scale are given from top to bottom using the Green1 (F), Green2 (F), Green3 (F), Green4 (F), and Green5 (F) symbols.

#### ■ Status of Registration as an External Evaluator of Green Finance

- Registered as an External Reviewer of Green Bonds by the Ministry of the Environment
- ICMA (registered as an observer with the Institute of International Capital Markets)

#### ■ 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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