

## Green Bond / Green Bond Programme

### Independent External Review Form

#### Section 1. Basic Information

Issuer name:

Advance Residence Investment Corporation

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

Advance Residence Investment Corporation's Green Finance Framework

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

June 26, 2019

Publication date of review publication:

June 26, 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)

Advance Residence Investment Corporation ("ADR") was established on March 1, 2010 through a new merger between the former Advance Residence Investment Corporation and Nippon Residential Investment Corporation. It is listed on the Tokyo Stock Exchange Real Estate Investment Trust (J-REIT) Market on March 2, 2010. The Asset Manager of ADR is AD Investment Management Co., Ltd. ("ADIM"), and the shareholders

of ADIM are ITOCHU Corporation (capital contribution ratio: 80.58%) and ITOCHU Property Development, Ltd. (capital contribution ratio: 19.42%).

The basic management policy of ADR is "Realize a Stable Long-Term Dividend". Aiming to secure stable earnings and grow assets under management over the medium to long term, ADR is investing in all types of rental housing located nationwide in Japan while diversifying its portfolio. Currently, ADR's portfolio comprises more than 70% of properties located in Tokyo's 23 special wards (based on acquisition prices) by area and less than 60% of single-person properties (based on the number of units) by type, taking into account of rental demand and other factors. Properties under the RESIDIA brand are the core of ADR's portfolio. As of January 2019, ADR has assets of JPY 448.1 billion (based on acquisition-price), 264 properties, and 21,286 rentable units. ADR has the largest asset size in Japan as a rental housing-specific J-REIT.

ADR established the Sustainability Policy in March 2015. Based on this policy, ADR is working to contribute to the realization of a sustainable society and further improve of unitholder value by promoting a variety of sustainability activities.

The scope of evaluation is the Green Finance Framework (the "Framework") established by ADR in order to limit proceeds through investment corporation bonds or loans (Green Finance) to the use of proceeds that have an environmental improvement effect. JCR assesses whether the Framework conforms to the International Capital Markets Association (ICMA) Green Bond Principles 2018, the Loan Markets Association (LMA) and the Asia Pacific Loan Markets Association (APLMA) Green Loan Principles and the Green Bond Guidelines 2017.

In the Framework, eligibility criteria of the proceeds are defined as projects that meet "Eligible Criteria 1" (properties that have obtained third-party environmental certification at a certain level or higher) or "Eligible Criteria 2" (works to contribute to energy efficiency and environmental improvement, renovation of facilities, etc.). Projects covered by ADR are renovations of facilities (which have a 10% or more reduction in consumption compared to conventional projects) aimed at improving the environment, such as energy efficiency, water consumption efficiency, of properties or Building will be certified under DBJ Green Building certification for three stars or more, CASBEE certification for B+ rank or higher and BELS certification for three stars or more. JCR evaluates the definition of projects as having environmental improvement effects.

ADIM's management established appropriate project approval structure for both selection criteria and actual selection of projects. ADIM's each division will receive the report. In proceeds management, ADR uses portfolio management to manage the balance of Green Finance during the remaining period of Green Finance and to respond to the occurrence of unallocated funds. ADR defines the "Scale of Eligible Green Projects" as aggregate amount acquisition price of properties that meet "Eligible Criteria 1" and the total (planned) amount of construction and renovation expenditures that meet "Eligibility Criteria 2."

In reporting, JCR evaluates the disclosure before and after the implementation of green finance is appropriate. From the above, JCR confirmed the management system and transparency of ADR as appropriate.

As a result, JCR assigns "g1 (F)" for "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1 (F)" for overall "JCR Green Finance Framework Evaluation" to the Framework. JCR also evaluated that the framework meets the criteria for the standards for Green Bond Principles, Green Loan Principles and 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. Eligible criteria set out in the Framework for the use of proceeds include the acquisition and construction of buildings ("Green Buildings") or refinancing of such buildings, which have already obtained or are planning to acquire environmental certification for up to the top three certification levels recognized by the region, country, or internationally, and are expected to contribute to environmental improvement.

ii. The use of proceeds falls under the category of "Green Buildings which meet regional, national or international recognised Standards and Certification" and "Energy Efficiency" among the green projects defined in the Green Bond Principles, the Green Loan Principles, or the Ministry of Environment of Japan's Green Bond Guidelines.

**b. Negative impact on Environment**

ADIM conducts due diligence when considering the acquisition of properties, and avoids and mitigation risks by, for example, not acquiring properties or undertaking additional construction if there is a risk of a negative impact on the environment.

JCR confirmed that the implementation of due diligence by ADIM and measures to address risks provide a framework for appropriate risk avoidance and mitigation measures for target projects for use of proceeds.

**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):

JCR evaluates that all of the eligibility criteria presented in the evaluation phase 1 for the use of proceeds to be green projects with an environmental improvement effect, as discussed in evaluation phase 1. IADR have clear environmental goal, project selection criteria and process to determine the proceeds, which will be in the Shelf Registration Supplements for the issuance of the bonds and in the this evaluation report composed by JCR.

### 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)*:

JCR confirmed these factors that funds procured through the Green Finance will be allocated to the green project appropriately, proceeds from the Green Finance will be managed in the ADIM in an appropriate manner, internal management system have been developed and ADIM will manage the balance of Green Finance by so-called portfolio management.

JCR evaluates the appropriateness and transparency of the proceeds management of ADR as suitable.

#### 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 checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input 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

ADR will disclose to lenders and investors the status of allocation of the proceeds once a year until the full amount of the proceeds is allocated.

#### b. Impact reporting for environmental benefits

ADR intends to disclose to lenders or investors once a year the impact reporting on the environmental improvement effects of projects for which proceeds have been allocated, after approval by the general Manager of the Finance and Accounting Division, the general manager of the Public Relations and Investor Relations Division and the general manager of the Human Resources and General Affairs Division.

### Use of proceeds reporting:

☒ Project-by-project

☐ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):

#### Information reported:

☒ Allocated amounts

☐ Green Bond financed share of total investment

☐ Other (please specify):

#### Frequency:

☒ Annual

☐ Semi-annual

☐ Other (please specify):

### Impact reporting:

☒ Project-by-project

☐ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):

#### Frequency:

☒ Annual

☐ Semi-annual

☐ Other (please specify):

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

☒ GHG Emissions / Savings

☐ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify):

Energy-consumption

Water consumption

Weight of Waste

Status of Environmental Certification Acquisition

### Means of Disclosure

☐ Information published in financial report

☐ Information published in sustainability report

- |  |  |
|--|--|
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):<br>Disclose to the lender (loan)<br>Show on the website (Bond) |
| <input type="checkbox"/> 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 activities by ADR  
<https://www.adr-reit.com/en/company/sustain/>

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:**

- |  |  |
|--|--|
| <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): |  |

**Review provider(s):**

**Japan Credit Rating Agency, Ltd.**

**Date of publication:**

**June 26, 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.