

Green Finance Framework Evaluation by Japan Credit Rating Agency, Ltd.

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

JCR Assigns Green 1 (F) to the Green Finance Framework of Daiwa House REIT Investment Corporation

Subject : Daiwa House REIT Investment Corporation
Green Finance Framework

<Green Finance Framework Evaluation Results>

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

Chapter 1: Evaluation Overview

Daiwa House REIT Investment Corporation (“DHR”) is a diversified J-REIT sponsored by Daiwa House Industry Co, Ltd. It was established in June 2005 as a “BLife Investment Corporation” and was listed on the Tokyo Stock Exchange (Real Estate Investment Trust Stock Exchange) in March 2006. Following the absorption-type merger of New City Residence Investment Corporation in April 2010, DHR changed its name to (former) Daiwa House Residential Investment Corporation in December 2011, and then to (former) Daiwa House REIT Investment Corporation in September 2016. As of April 3, 2020, its assets totaled JPY 816.4 billion (based on acquisition prices) for a total of 227 properties. The Asset Management Company of DHR is Daiwa House Asset Management Co., Ltd. (“DHAM”), and DHR continues to promote external growth by utilizing the pipeline support from the Daiwa House Group, to which DHAM belongs.

The Daiwa House Group adopts the basic stance of “Creating Dreams, Building Hearts.” and aims to build a trust relationship with stakeholders and contribute to society through its business as a group that co-creates value for people, communities, and lifestyles, and to realize a sustainable society by taking on the challenge of “zero environmental impact.” DHAM shares the basic stance of the Daiwa House Group and believes that incorporating consideration for ESG contributes to ensure stable income over the medium to long term and steady growth of assets, which is the basic policy of DHR. DHAM formulates the “Sustainability Policy” and conducts business accordingly.

The scope of evaluation is the green finance framework (the “Framework”) established by DHR to limit proceeds green bonds or green loans (the “green finance”) to use of proceeds with environmental improvement effects. JCR evaluates whether the framework complies with the Green Bond Principles (2018 Edition), the Green Loan

Principles (2018 Edition), the Green Bond Guidelines (2020 Edition) and the Green Loan Guidelines and the Sustainability Linked Loan Guidelines (2020 Edition).¹²³

DHR defines Green Eligible Assets of eligible criteria to be invested in the green finance under the Framework as properties that have acquired or are scheduled to acquire DBJ Green Building certification for three stars or more, CASBEE for Real Estate certification for B+ or higher, or BELS certification for three stars or more. JCR evaluates that the definition of "Green Eligible Assets" set by DHR is for buildings that have an environmental improvement effect. Also, among eligible criteria, it defines renovations work as defined as those that can reduce either energy consumption, CO₂ emissions or water consumption by 10% or more. Although JCR does not see an ambitious target value for the above renovation work, JCR evaluates the work as having a certain environmental improvement effect.

DHAM has set annual targets (energy consumption and GHG emissions) and long-term targets for energy consumption, GHG emissions, water consumption and waste management, and is working to achieve their respective numerical targets. In light of these efforts, DHR has obtained the "A" rating, which is the highest rating among the five grades in GRESB Disclosure Evaluation. In addition, DHR has been awarded Green Star granted to companies that excel in both "management and policy" and "implementation and measurement," which are the two evaluation axes of sustainability assessment for the second consecutive year.

DHR is also promoting the acquisition of external certification and evaluation by third parties. DHR is actively addressing environmental issues, such as achieving the target of 50% or more of the total floor area of properties that it owns and that it has acquired external certification. As an environmental survey, DHAM obtained actual audits and engineering reports on properties to conduct due diligence on the status of hazardous substances (asbestos, PCBs, etc.), such as geological soil, reserves, and soil pollution. For audits, internal and external audits were conducted on a regular basis. For reporting, DHAM plans to disclose appropriate details on fund appropriations and environmental improvement effects on a regular basis. For these reasons, JCR confirmed DHR's strong management, operating system and high transparency.

As a result, based on the JCR Green Finance Evaluation Methodology, JCR assigns "g1 (F)" for the "Greenness Evaluation (Use of Proceeds)" and "m1 (F)" for "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green 1(F)" for overall "JCR Green Finance Framework Evaluation." The evaluation results are described in detail in the next chapter. JCR also evaluates that the Framework meets the standards for requirements under the Green Bond Principles, the Green Loan Principles, the Green Bond Guidelines and the Green Loan Guidelines and the Sustainability Linked Loan Guidelines.

¹ ICMA(International Capital Market Association) Green Bond Principles 2018
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² LMA (Loan Market Association), APLMA (Asian Market Loan Association Green Loan Principles 2018
<https://www.lma.eu.com/>

³ Ministry of the Environment's Green Bond Guidelines 2020, Green Loan and Sustainability Linked Loan Guidelines 2020
<https://www.env.go.jp/press/files/jp/113511.pdf>

Chapter 2: Current Status of the Project on Each Evaluation Factor and JCR's Evaluations

Evaluation Phase 1: Greenness Evaluation

JCR assigns "g1 (F)", the highest grade, to "Evaluation phase 1: Greenness Evaluation."

Rationale: 100% use of proceeds under the Framework will be allocated to green projects

(1) JCR's Key Consideration in This Factor

In this section, JCR first assesses whether the proceeds will be allocated to green projects that have explicit improvement effects on environment. Next, JCR assesses whether an internal department/division which is exclusively in charge of environment issues or a third party agency prove it sufficiently and have taken necessarily workaround or mitigation measures, in case of possibility on use of proceeds have negative impact on the environment. Finally, JCR confirms consistency with the Sustainable Development Goals (SDGs).

(2) Current Status of Evaluation Targets and JCR's Evaluation

Overview of Use of Proceeds

a. On the environmental improvement effects of the project

<Framework for Use of Proceeds>

Daiwa House REIT Investment Corporation Green Finance Framework (excerpt)

Eligible criteria for investment in green finance

1. Green Eligible Assets

Properties that have acquired or plan to acquire any of the third-party certification described in (1)-(3) below

- (1) Three to five stars in DBJ Green Building Certification
- (2) B+ to S rank in CASBEE for Real Estate Certification
- (3) Three to five stars in BELS Certification

2. Renovation Work

Renovation work that can reduce at least 10% of one of three indicators; energy consumption, CO₂ emissions, or water-related consumption

<JCR's Evaluation of the Framework>

i. The funds are used to acquire or to refinance to acquire properties (green buildings) that have been or will be certified in the top three categories of regional, national, or internationally recognized certification levels. They are also used to do or to refinance to do renovation work that can reduce either energy consumption, CO₂ emissions, or water consumption by 10% or more. Therefore it is expected to be effective in improving the environment.

1. Evaluation of Certification System for Each Green Building

(1) DBJ Green Building Certification

A certification system provided by DBJ (Development Bank of Japan) that evaluates properties with environmental and social considerations. The evaluation results are expressed as the number of stars, and the evaluation axis is "Buildings with consideration for the environment and society." Each is represented by five stars (the best class in Japan), four stars (exceptionally high),

three stars (excellent), two stars (high), and one star (satisfactory). Although this is not an evaluation specializing in environmental performance, the recognition in Japan is high, evaluation items are revised in February 2019, such as the tightening of items for quantitatively evaluating energy conservation, and environmental performance has the same evaluation items as other environmental certifications. Therefore, JCR has evaluated this certification as equivalent to "Green Buildings with Recognized Standards and Certifications" in the Green Project Classification as defined in the Green Bond Principles. However, since the certification is not limited to environmental performance, JCR believes that it is desirable to confirm the evaluation of environmental performance individually.

DBJ Green Building certification is based not only on the environmental performance of the property, but also on comprehensive evaluations, including the comfort of tenants, risk management such as disaster prevention and crime prevention, consideration for the surrounding environment and communities, and cooperation with stakeholders. The scoring system integrates and designs specific "excellent initiatives" for the environment and society, and there are many properties that do not reach the evaluation target in the real estate market. High evaluation requires that buildings be designed with appropriate consideration not only for the environment but also for all stakeholders involved in buildings.

The level of DBJ Green Building certification is expected to be approximately 20% of all income-generating real estate in Japan in terms of environmental and social considerations. In addition, each evaluation up to 3 stars covers the aggregate of top 10% (5 stars), top 30% (4 stars) and top 60% (3 stars) of the properties exceeding the certification level. Accordingly, JCR evaluates that DHR's eligible criteria are limited to properties with high environmental performance among the buildings that aim to acquire certification.⁴

(2) CASBEE (Comprehensive Assessment System for Built Environment Efficiency)

This is a method for evaluating and rating the environmental performance of buildings. In April 2001, the Comprehensive Environmental Evaluation Research Committee for buildings was established as a joint project with industry, government, and academia with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. Since then, the committee has been continuously conducting development and maintenance. In addition to CASBEE for New Construction and CASBEE for Urban Development, assessment tools include CASBEE for Real Estate developed to provide easy-to-understand environmental performance to the real estate market.

The ratings for CASBEE for New Construction are divided into five stages: S rank (excellent), A rank (very good), B+ rank (good), B-rank (slightly inferior), and C rank (inferior). The evaluation method is a reconfiguration and quantification of the performance in the four fields of energy consumption, resource recycling, regional environment, and indoor environment in buildings from the viewpoints of environmental quality of buildings (Q = Quality) and environmental burden of buildings (L = Load). Evaluation is based on the value of BEE (Built Environment Efficiency) with L as the denominator and Q as the numerator. High evaluation requires Comprehensive high quality of building such as energy efficiency and the use of materials and equipment with low environmental impact, in addition to give consideration to indoor comfort and landscape.

⁴ Revision and Disclosure of DBJ Green Building Certification Evaluation Items (DBJ Green Building Certification Website, February 2019)

CASBEE for Real Estate used by DHR as eligible criteria was developed with the aim of making use of the results of the environmental evaluation of buildings in CASBEE for the purpose of real estate evaluation. The evaluation standards have been established with a focus on items that are strongly related to real estate evaluation. CASBEE for Real Estate is evaluated in four levels: S rank (excellent), A rank (very good), B+ rank (good), and B rank (satisfactory). CASBEE for Real Estate are evaluated in five categories: 1. energy/greenhouse gases, 2. water, 3. materials, 4. biodiversity/sustainable site, and 5 indoor environments.

Evaluation methods are as follows: (1) Consistency of weighting of major global evaluation tools; (2) Added point method; (3) 5 essential items and 16 added points, with a score of 100 at the time of full score; and (4) Not eligible for evaluation unless mandatory items are met.

B+ grade or above, which DHR has recently set as eligible criteria, are subject to buildings with a score of 60 or more obtained by taking the standard level 3 (3 points) for all additional items, which corresponds to B+ for CASBEE for New Construction. Therefore, although the standard for measurement is not BEE, it covers properties equivalent to or higher than B+ in CASBEE for New Construction is evaluated as having the effect of improving the environment.

(3) BELS

BELS is English acronym for Building-housing Energy-efficiency Labeling System. BELS is a building energy efficiency performance indicator system under which third-party assessment bodies evaluate and accredit the energy efficiency performance of new and existing buildings. The outer skin performance (performance standards and specification standards) and primary energy consumption (performance standards and specification standards) are subject to evaluation, and the evaluation results are expressed in stars according to the achievement values of the energy efficiency standards. High evaluation requires excellent energy-efficiency performance. In BELS, the number of stars is ranked from one to five by Building Energy Index. BEI is a measure of energy efficiency performance that uses the designed primary energy consumption as the molecular weight and the standard primary energy consumption as the denominator, and is compared with the standard value. One star is the existing energy saving standard, two stars are the current energy saving standard, and three stars are the guidance standard. Buildings with BELS three star or higher specified by DHR as eligible criteria are considered appropriate based on energy efficiency performance (Non-Residential: BEI value of 0.8 or less) that exceeds the guidance standard.

2. Evaluation of Renovation

It is stipulated that renovation work can reduce energy consumption, CO₂ emissions, or water consumption of the subject property by 10% or more. JCR evaluates that a target of at least 10% reduction in energy consumption, CO₂ emissions, or water consumption in renovations that are eligible criteria is not an ambitious target, but an initiative with certain environmental benefits.

Based on the above, JCR evaluates that the eligible criteria indicated in the Framework are appropriate and have the environment improving effect.

ii. The use of proceeds fall under the green category of "Green Buildings Which Meet Regional, National or Internationally Recognised Standards or Certifications" and "Energy Efficiency" in the Green

Bond Principle and the Green Loan Principle and "Green Building Projects" and "Energy Efficiency Projects" in the Green Bond Guidelines and the Green Loan Guidelines and the Sustainable Linked Loan Guidelines⁵

According to a survey conducted by the World Green Building Council, carbon dioxide emissions from buildings account for 39% of total emissions. As a measure to prevent global warming in Japan, it is important to further promote green buildings with high energy efficiency performance that reduce CO₂ emissions from buildings. In addition, the New Strategic Energy Plan decided by the Cabinet of Japan in July 2018 stipulates that new housing and buildings is obligated to comply with the Energy Efficiency Standards in stages by 2020. Therefore, it is consistent with Japan's energy efficiency policy that DHR actively acquire and its maintenance and management with high environmental certification levels.

b. Negative impact on the environment

DHAM conducts due diligence on the incorporation of properties into its portfolio by conducting environmental surveys, including on-site inspections of properties and acquiring engineering reports on the status of hazardous substances (asbestos, PCBs, etc.) such as geological and deposits, soil contamination, etc. Through interviews with DHAM, JCR confirmed that there is little possibility of a negative impact on the environment from the properties owned by DHR. JCR also confirmed that, if there is a concern about a negative impact on the environment, as a means of avoiding or mitigating the impact, the seller must make a correction as an acquisition condition.

c. Consistency with SDGs goals and Targets

These projects are a green project defined in the Green Bond Principles and the Green Loan Principles, classified as "Energy Efficiency" and "Green Buildings Which Meet Regional, National or Internationally Recognised Standards or Certifications." They are also in the Ministry of the Environment's Green Bond Guidelines and Green Loan Guidelines and Sustainability Linked Loan Guidelines, classified as "Energy Efficiency Projects" and "Green Buildings Projects." While referring to ICMA's SDGs mapping, JCR evaluated the projects as contributing to the following SDGs goals and targets.



Goal 7: Ensure access to affordable, reliable, sustainable and modern energy

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



Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation

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: Make cities inclusive, safe, resilient and sustainable

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

⁵ A project to acquire and renovate green buildings that meet not only energy-saving performance but also a wide range of considerations such as water consumption and waste management, and that meet domestic standards or demonstrate high-performance environmental certification under environmental certification systems such as CASBEE certification and LEED certification.

Evaluation Phase 2: Management, Operations and Transparency Evaluation

Based on the current status described below and the JCR's evaluation, JCR assessed that the management and operation system was well established, that the transparency was extremely high, and that the implementation of projects as planned and the appropriation of funding could be sufficiently expected. JCR assigned "m1 (F)" as the highest ranking to the evaluation phase 2: Management, Operation, and Transparency Evaluation.

1. Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

(1) JCR's Key Consideration in This Factor

In this section JCR confirms the goals to be achieved through green bonds, the selection criteria for green projects and the appropriateness of the process, and whether the process is properly disclosed to investors and others.

(2) Current Status of Evaluation Targets and JCR's Evaluation

a. Goals

<The Framework for Green Bond Issuance Goals>

(Green investment policy based on long-term vision)

DHAM, the asset management company of DHR, shares of the Daiwa House Group's basic stance of "Creating Dreams, Building Hearts." DHAM incorporate consideration for the environment, society and governance into the real estate investment management business that will contribute to securing stable income over the medium to long term and steady growth of assets, which is the basic policy of the DHAM. DHAM formulates "Sustainability Policy" and invests in real estate based on the policy.

Fund procurement based on the Green Finance Framework is considered to be particularly conducive to (1) Prevention of global warming, (2) Harmony with the environment (preservation and biodiversity), (3) Conservation of natural resources (reducing waste, protecting water resources), and (7) Promotion of communication through information disclosure.

DHAM also believes that it will contribute to achieving the "sustainability targets" (reducing energy consumption intensity and CO₂ emissions intensity by 10% for individual properties over the 10-year period from 2018 to 2027) stipulated by the DHR.

<JCR's Evaluation of the Framework>

The Daiwa House Group, to which DHAM belongs, adopts the basic stance of "Creating Dreams, Building Hearts" and aims to build trust relationship with stakeholders and contribute to society through its business as a group that co-creates value for people, communities, and lifestyles, and to realize a sustainable society by taking on the challenge of "zero environmental impact." DHAM shares the basic stance of the Daiwa House Group and considers that incorporating consideration for ESG contributes to ensure stable income over the medium to long term and steady growth of assets, which is the basic policy of the Investment Corporation, and formulates the "Sustainability Policy" and conducts its business.

- (1) Prevention of global warming
 - (2) Harmony with the environment (preservation and biodiversity)
 - (3) Conservation of natural resources (reducing waste, protecting water resources)
 - (4) Prevention of chemical pollution
 - (5) Establishment of internal framework and initiatives for employees
 - (6) Building trust relationships with external stakeholders
 - (7) Promotion of communication through information disclosure
 - (8) Compliance with laws and regulations, and risk management
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DHR believes that the implementation of Green Finance will contribute to the achievement of the goals of (1) Prevention of global warming, (2) Harmony with the environment (preservation and biodiversity), (3) Conservation of natural resources (reducing waste, protecting water resources), and (7) Promotion of communication through information disclosure.

Funds for the green finance under the Framework is used for green building or renovation work to reduce energy consumption, CO₂ emissions or water consumption by at least 10%, and JCR evaluates that it is appropriate to set the above targets to be achieved by implementing green financing.

b. Selection Criteria

The eligible criteria for investments in the green finance by DHR in the Framework are properties with DBJ Green Building certification of three stars or more, CASBEE for Real Estate certification of B + Rank or higher, and BELS certification of three stars or more and renovation works that reduce energy consumption, CO₂ emissions, or water consumption by at least 10%. As detailed in Evaluation Phase 1, JCR evaluates the selection criteria have environmental improvement effects.

c. Processes

<The Framework for Selection process>

1. Eligible Criteria Selection Process

In DHAM, the eligible criteria for the green finance shall be first deliberated by the Sustainability Committee, which consists of the President of DHAM, the executive officer in charge of the Finance, IR and Planning Department, all the full-time directors, the general managers, the Compliance Officer, and selected officers and employees. Then they shall be determined by the Management and Finance Committee, which consists of the Finance Director, Directors, Department Managers, and the Compliance Officer.

2. Project Selection Participants

Projects that are subject to the use of proceeds will be used for funding will be reviewed, evaluated and selected by the Manager of the Financial Planning Department of DHAM for compliance with eligible criteria evaluation by the Sustainability Committee.

3. Project Selection Process

Implementation of the green finance is planned by the person in charge of the Financial Planning Department, deliberated by the Sustainability Committee, and decided by the Board of Directors.

<JCR's Evaluation of the Framework>

In DHAM, the eligible criteria for the green finance shall be first deliberated by the Sustainability Committee, which consists of the President of DHAM, the executive officer in charge of the Finance, IR and Planning Department, all the full-time directors, the general managers, the Compliance Officer, and selected officers and employees. Then they shall be determined by the Management and Finance Committee, which consists of the Finance Director, Directors, Department Managers, and the Compliance Officer.

Regarding the decision-making process for issuing green bonds, first, the person in charge of the Financial Planning Department of DHAM review and evaluate whether the proceeds are aligned with eligible criteria and drafted. After deliberation by the Sustainability Committee, decisions are made by the Board of Directors.

DHAM's Sustainability Committee was established in 2017 and consists of the chief executive officer, president of DHAM, executive officer, full-time director, general manager, compliance officer, and selected officers and employees. The Sustainability Committee is open to discuss sustainability objectives and other topics, and the content of discussions by the Sustainability Committee is reported twice a year to DHR's Board of Directors. In principle, the Sustainability Committee meets once every three months, but JCR confirms that the committee is active, for example, by holding meetings once every two months through interviews.

The goals, selection criteria, and processes of DHR set out in the Framework will be disclosed to the lenders and investors at the time of the green finance implementation under the Framework through the press releases of DHR, the agreements or amendments to the issue registration documents, the issue registration supplementary documents, and the outlines of the Preliminary Evaluation Report and the Evaluation Report, thereby ensuring transparency to lenders and investors.

2. Appropriateness and Transparency of Management of the Proceeds

(1) JCR's Key Consideration in This Factor

Although it is generally assumed that cash management methods vary widely among issuers, JCR confirms whether funds procured under the framework are securely allocated to green projects and whether mechanisms and internal systems are in place to enable easy tracking and management of the allocation of funds.

In addition, JCR also emphasizes evaluating whether proceeds are scheduled to be used for green projects at an early stage, and the management and operation methods of unallocated funds.

(2) Current Status of Evaluation Targets and JCR's Evaluation

<The Framework for Proceeds Management>

(How to Link Proceeds to Assets)

Proceeds are deposited in an account, and then at the timing of refinancing of loans or bonds, the Financial Planning Department instructs the asset custodian to transfer funds, and thereafter, the asset custodian transfers funds to the acquirer or refinance destination.

(Method of Tracking and Management of Proceeds)

After procurement through the green finance, DHAM's Finance Planning Department will manage repayment dates, the use of proceeds, and balances via internal electronic files and other media.

(Internal and External Audits for Tracking Management)

The management of funds procured through the green finance will be conducted annually by the Audit Department of DHAM.

(Method of Management of Unallocated proceeds)

Until the funding is determined, the funds will be managed in cash or cash equivalents.

The amount calculated by multiplying the total acquisition price of Green Eligible Assets and the total amount of Proceeds for renovation work that satisfies Eligible Criteria 2 by the interest-bearing debt ratio (at the end of the most recent fiscal year) shall be defined as the "Green Eligible Liabilities" and shall be the maximum amount of procurement for Green Finance.

If Green Eligible Assets are sold or excluded from eligible criteria, confirm that Proceeds are within the procurement ceiling for the green finance.

<JCR's Evaluation of the Framework>

Proceeds under the Framework will be used to finance, refinance of Green Eligible Assets or renovation work, as described in this Evaluation Report, and will not be used for any other purposes.

With regard to account management, after procurement through Green Finance, the Financial Planning Department of DHAM confirms that repayment dates, the use of proceeds, and balances are managed via internal electronic files and other media. JCR confirmed that the proceeds would be promptly allocated to the acquisition of the target project, the refinancing of the acquisition fund, or the renovation of the target project. Therefore, JCR confirmed that it would be sufficient to conduct the tracking management at the time of the lump-sum allocation.

Regarding account management, after the fund procured is deposited into the account, the head of the Management Administration Department makes the actual remittance from the Finance Planning Department at

the timing of refinancing, such as loans procured to acquire the property. After that, the remittance is directed to the trust bank, which is the custodian of the asset, and the custodian then sends the remittance to the acquirer or refiner.

DHAM regularly conducts internal audits, and forms related to the green finance are also subject to audits. In addition, auditing firms conduct external audits to DHAM, so internal and external controls are functioning.

The Framework plans to conduct so-called portfolio management in which the amount of Green Eligible Liabilities is calculated from the total amount of acquisition of green-eligible assets and make it maximum amount of the green finance. If a property subject to the green finance is sold or does not meet the terms as Green Eligible Asset, the fund procured by the green finance will remain as a Green Finance if it is within the scope of the Green Eligible Liability. JCR considers that it is reasonable with the treatment of portfolio management for Green Eligible Liabilities because other investment corporations also manage their portfolios as the way DHR conducts and evaluates it as market practice. This is because JCR considers that there is no problem with the treatment of DHR because of the linkage of properties to which funds are allocated at the time of fund raising from green bonds.

JCR evaluates the appropriateness and transparency of the fund management of DHR as high.

3. Reporting

(1) JCR's Key Consideration in This Factor

In this section JCR assesses whether a detailed and effective system for disclosing information to investors before and after the implementation of green finance, which will be implemented with reference to framework, has been planned.

(2) Current Status of Evaluation Targets and Evaluation of JCR

<Framework for Reporting>

1. Reporting on the Status of Proceeds Allocation

In case of any unallocated funds at the time of the green finance implementation occurs, DHR will disclose the allocation status once a year on its website until the entire amount of such unappropriated funds is appropriated.

While the green finance exists, confirm twice a year that the outstanding amount of procurement through the green finance does not exceed the amount of Green Eligible Liabilities.

2. Reporting on Environmental Improvement Effects

Annual disclosure is planned on DHR's website.

The KPIs for impact reporting are as follows.

- Number and type of environmental certification of acquisition assets
- Specific amounts (water, electricity, and CO₂ emissions)

JCR's Evaluation of the Framework

a. Reporting on the proceeds allocation

The use of proceeds will be made available to lenders and investors on DHR's website, various contracts or amended shelf registration documents, and issue registration supplementary documents. As confirmed in the previous section, Proceeds will be allocated immediately after the procurement for the acquisition of Green Eligible Assets, the refinancing of the acquisition funds, or the renovation funds. Therefore, no reporting is currently envisaged for unallocated funds during the term. In the event of a major change in circumstances, such as the occurrence of unallocated funds due to the sale of the study assets, the disclosure of funds to be allocated periodically (once a year is assumed) will include the said facts.

b. Reporting on environmental improvement effects

DHR plans to report on the website in accordance with the Green Finance Framework, the amount of water used, electricity used, and CO₂ emissions, as well as the number and type of environmental certification of acquisition assets.

JCR evaluates that the above reporting is planned to be disclosed appropriately to investors in terms of both the allocation of funds and the effects of environmental improvement.

4. Organization's Environmental Initiatives

(1) JCR's Key Consideration in This Factor

In this section JCR assesses whether the issuer's management considers environmental issues to be of high priority to management, and whether green finance procurement policies and processes and criteria for selecting green projects are clearly positioned through the establishment of a department that specializes in environmental fields or collaboration with external organizations.

(2) Current Status of Evaluation Targets and JCR's Evaluation

The Daiwa House Group, to which DHAM belongs, has adopted a basic stance of "Creating Dreams, Building Hearts." Guided by this stance, as a group that co-creates value for people, communities, and people's lives, The Group aims to build trust relationships with stakeholders and contribute to society through its businesses, and to build a sustainable society by taking on the challenge of zero environmental impact. In the "Challenge ZERO 2055" long-term environmental vision, Daiwa House Industry aims to reduce its environmental burden to zero by 2055, the 100th anniversary of its foundation, indicating its commitment to contributing to the environment and society over the medium to long term. DHAM shares the basic stance of the Daiwa House Group and believes that incorporating consideration for ESG contributes to ensure stable income over the medium to long term and steady growth of assets. Accordingly, DHAM formulates "Sustainability Policy" and conducts its business.

In order to promote consideration for ESG based on the "Sustainability Policy," DHAM has established the "Sustainability Promotion System Regulations" to ensure an appropriate system to promote sustainability. The Sustainability Committee of DHAM generally holds meetings at least once every three months for the purpose of planning and reporting on environmental measures. DHAM recognize energy conservation and reduction of GHG emissions as important environmental issues in asset management operations. DHAM have set annual targets (energy consumption, GHG emissions) and long-term targets for energy consumption, GHG emissions, water consumption, and waste management, and are working to achieve their respective numerical targets.

DHR is actively promoting the acquisition of external certification and evaluation by third parties in an attempt to improve objectivity and reliability of its efforts to reduce the environmental impact of real estate and to improve asset value over the medium to long term. As of March 2020, 53.9% of the properties held by DHR received external certification and valuation (on a total floor space basis), exceeding the 50% target set at the time of the previous valuation of its 9th unsecured investment corporation bonds. JCR confirms that DHR is continuing to acquire external certification by third parties and is aiming to raise it to around 60% in the future.

DHR is also working with Daiwa House Industry to have green lease contracts aimed at reducing the environmental impact of real estate. For example, DHR is introducing LEDs for lighting in cooperation with tenant companies. As of the end of March 2020, the number of such contracts had increased by 28 from the end of March 2019 to 56. In the property ownership, DHR have adopted LED lighting and daylight by adopting large-scale window surface as energy-saving measures, large-scale open space, rooftop greening, outdoor greening, and water-permeable pavement as measures for greening and heat island and properties with a photovoltaic power generation system. DHR is working with the sponsor group to take the environment into consideration.

Since 2017, DHR has participated in GRESB Real Estate Assessment, and in 2019. It has gained 3 stars on a step higher than the previous year. In addition, it has received the "A" assessment, which is the highest of the five priorities due to the superior disclosure of information on ESG's efforts in GRESB Disclosure Assessment. In addition, it has been awarded "Green Star" for the second consecutive year, which is granted to companies that excel in both "management and policy" and "implementation and measurement," which are the two criteria for evaluating sustainability.

In terms of ESG initiatives, DHAM has in-house CASBEE evaluator and cooperates with related departments of the Daiwa House Group. DHAM also ask outside experts to provide consulting services on employee ESG training and GRESB assessment. DHAM cooperates with experts from inside and outside the company to conduct business operations.

Based on the above, JCR evaluates that management positions environmental issues as a high priority issue and that the Sustainability Committee is clearly involved in the selection process for green projects and other projects.

(Reference) GRESB Real Estate Assessment

Established in 2009, GRESB refers to benchmarks and organizations that measure and evaluate the asset of ESG consideration of companies that holding and operate real estate and infrastructure. GRESB is an acronym for Global Real Estate Sustainability Benchmark. 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. From J-REIT, 44 investment corporations have participated in the evaluation as of 2019.

■ Evaluation Result

As a result, based on the JCR Green Finance Evaluation Methodology, JCR assigns "g1 (F)" for the "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." The Framework is considered to meet the standards for items required by the Green Bond Principles, Green Loan Principles, the Green Bond Guidelines 2020 Edition, and the Green Loan Guidelines and the Sustainability Linked Loan Guidelines 2020 Edition.

[JCR Green Finance Framework Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		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

■ Subject

Issuer/Borrower: Daiwa House REIT Investment Corporation (Security code: 8984)

[Assignment]

Target	Evaluation
Green Finance Framework	JCR Green Finance Framework Evaluation: Green 1 (F) Greenness Evaluation :g1(F) Management, Operation and Transparency Evaluation :m1(F)

(Responsible analysts for this evaluation): Rieko Kikuchi and Kosuke Kajiwara

Important explanation regarding the evaluation of the Green Finance Framework

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

JCR Green Finance Framework evaluation, which is granted and provided by Japan Credit Rating Agency, Ltd. (JCR), covers the policies set out in the Green Finance Framework, and expresses the overall opinion of JCR at this time regarding the appropriateness of the Green Project as defined by JCR and the degree of management, operation and transparency initiatives related to the use of funds and other matters. Accordingly, it does not undertake specific environmental improvement effects, management and operation systems, and transparency assessments of the use of funds for individual bonds and borrows implemented in accordance with this policy. In the event that green finance assessments are granted for individual bonds or individual borrowings based on this framework, such assessments need to be conducted separately. Furthermore, the JCR Green Finance Framework Assessment does not demonstrate the improvement effect on the environment of individual bonds or borrows implemented under this Framework and does not assume any responsibility for the environmental improvement effect. In principle, JCR does not directly measure the environmental improvement effects of funds procured under the Green Finance Framework, although JCR confirms the quantitative and qualitative measures by the issuer or a third party requested by the issuer.

2. Methods used in the conduct of this evaluation

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

3. Relationship with Acts Related to Credit Rating Business

The JCR Green Finance Framework 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 Assessment differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Independence in JCR Green Finance Framework Assessment

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 Finance Framework Assessment is an assessment of the extent to which funds procured through Green Finance are appropriated for Green Projects as defined by JCR and the extent to which such funds are used for management, operation, and transparency of the Green Finance. Evaluations are performed on a five-point scale, from the top to the bottom using the Green1 (F), Green2 (F), Green3 (F), Green4 (F), and Green5 (F) 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)
- Climate Bonds Initiative Approved Verifier (Climate Change Initiative Accreditation Verification Organization)

■ 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
- NRSRO: JCR has registered with the following four of the five credit rating classes of the Securities and Exchange Commission's NRSRO (Nationally Recognized Statistical Rating Organization). (1) Financial institutions, broker dealers, (2) insurance companies, (3) general business corporations, and (4) government and local governments. If the disclosure is subject to Section 17 g-7(a) of the Securities and Exchange Commission Rule, such disclosure is attached to the news releases posted on the JCR website (<https://www.jcr.co.jp/en/>).

■ For further information, contact

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