

GREEN BOND / GREEN BOND PROGRAMME INDEPENDENT EXTERNAL REVIEW FORM

Section 1. Basic Information

Issuer name:	Daiwa House REIT Investment Corporation
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Daiwa House REIT Investment Corporation Green Finance Framework
Independent External Review provider's name:	Japan Credit Rating Agency, Ltd.
Completion date of this form:	May 12, 2020
Publication date of review publication:	May 12, 2020

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.

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).

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.”

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.

<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. 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.
- 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 Guidelines

b. Negative impact on 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.

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 | <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):

The Company has established clear environmental objectives, project selection criteria, and processes for the use of proceeds.

Such matters are disclosed in the JCR's evaluation report.

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 (please specify) : |

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 (please specify) : | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable) :

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 refinancer.

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.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (please specify):

Additional disclosure:

- ☐ Allocations to future investments only
- ☒ Allocations to both existing and future investments
- ☒ Allocation to individual disbursements
- ☐ Allocation to a portfolio of disbursements
- ☐ Disclosure of portfolio balance of unallocated proceeds
- ☐ Other (*please specify*):

4. REPORTING**Overall comment on section (if applicable):****a. Reporting on 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. Impact reporting for environmental benefits

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.

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):

Type and number of certifications

Water consumption, Electricity consumption

Means of Disclosure

- ☐ Information published in financial report ☐ Information published in sustainability report
- ☐ Information published in ad hoc documents ☒ Other (please specify):
- ☐ Reporting reviewed *Show on the website*

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.)

ESG initiatives by Daiwa House REIT

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

JCR's website about green bond evaluation methodology

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- ☐ Second Party Opinion ☐ Certification
- ☐ Verification ☒ Scoring/Rating
- ☐ Other (please specify):

Review provider(s): Japan Credit Rating Agency, Ltd.

Date of publication: May 12, 2020

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. 1.
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.