

JCR 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 Sekisui House Reit, Inc.

Issuer/Borrower : Sekisui House Reit, Inc. (Security Code: 3309)
Subject : Green Finance Framework of Sekisui House Reit, Inc.

<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

Sekisui House Reit, Inc. (the “Investment Corporation”) is a J-REIT listed on the Tokyo Stock Exchange (Real Estate Investment Trust Stock Exchange) in December 2014. With an effective date of May 1, 2018, the Investment Corporation merged with Sekisui House Residential Investment Corporation to convert to a comprehensive REIT with residential and office buildings as its core assets, and the asset size greatly expanded. The construction of a stable and high-quality portfolio centered on the properties developed by Sekisui House Group has progressed, and the stable track record has been accumulated in the management aspect. The current portfolio is composed of 120 properties, with an asset size of JPY554.4 billion. The composition ratio by asset type based on acquisition price is 48.8% for residential, 48.1% for office buildings, and 3.1% for hotels. The Investment Corporation defines high-quality residential and commercial real estate and other properties located in strategic locations as “prime properties” and prioritizes investments in such properties. The Investment Corporation has positioned residential and office buildings as core assets in its portfolio and plans to invest in hotels with growth potential.

The asset management company is Sekisui House Asset Management, Ltd. (the “Asset Management Company”), and its shareholder is Sekisui House, Ltd. (the “Sekisui House”) (stake: 100%). The Investment Corporation is promoting external growth through agreements with Sekisui House regarding a sponsor support agreement and preferential negotiation rights with Sekisui House Real Estate Companies, and internal growth utilizing the collective strength of Sekisui House Group.

The Investment Corporation carries out asset operation business with the aim of maximizing investor value, providing high-quality social capital, and a REIT that leads the way into an era of the 100-year lifespan with a vision of “managing assets to better provide for people, society and the future”. In December 2022, the Investment Corporation set a long-term target of carbon neutrality in 2050 in order to keep pace with the sponsor's Sustainability Vision 2050 and has clarified its stance of further environmental consideration going forward.

The subject of this evaluation is the Green Finance Framework (the “Framework”) of the Investment Corporation to procure funds through green bonds or green loans (green finance). JCR evaluates whether the Framework complies with the Green Bond Principles¹, the Green Loan Principles², the Green Bond Guidelines³ and the Green Loan Guidelines⁴. These principles, among others, are the principles or guidelines voluntarily published by the International Capital Markets Association (ICMA), Loan Market Association (LMA), Asia-Pacific Loan Market Association (APLMA), Loan Syndication and Trading Association (LSTA), and the Ministry of the Environment, which are not regulations with legal backing, but JCR evaluates the Framework by referring to these principles and guidelines as unified standards at home and abroad.

Within the Framework, the Investment Corporation has designated green buildings with a certification level above a certain level for the use of proceeds. Eligibility Criteria are properties that have acquired or are expected to acquire either 3 stars or more in DBJ Green Building Certification, B+ Rank or higher in CASBEE Real Estate Certification, or 3 stars or more in BELS Evaluation, or ZEH/ZEB. JCR evaluated that the Eligibility Criteria set by the Investment Corporation covers projects with environmental improvement effects.

The Investment Corporation intends to procure green finance based on clear environmental targets. The selection process and the management of procurement funds through green finance are also set appropriately, and transparency is also secured based on the predetermined reporting content. Based on the above, JCR evaluated the management/operation system of the Investment Corporation as appropriate and highly 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 “Green1 (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.

¹ LMA (Loan Market Association), APLMA (Asia Pacific Loan Market Association), Loan Syndications and Trading Association (LSTA) Green Loan Principles 2021
<https://www.lma.eu.com/>

² LMA (Loan Market Association), APLMA (Asia Pacific Loan Market Association), Loan Syndications and Trading Association (LSTA) Green Loan Principles 2021
<https://www.lma.eu.com/>

³ Ministry of the Environment Green Bond Guidelines 2022
<https://www.env.go.jp/content/000062495.pdf>

⁴ Ministry of the Environment Green Loan Guidelines 2022
<https://www.env.go.jp/content/000062495.pdf> (pp.81-)

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

Evaluation Phase 1: Greenness Evaluation

Based on the current status described below and JCR's evaluation of the subject, JCR evaluated that the use of proceeds was 100% for green projects and assigned the highest rank of “g1(F)” for Phase 1: Greenness Evaluation.

(1) JCR's Key Consideration in This Factor

In this section, JCR first confirms whether the proceeds set out in the Framework are used for green projects that have clear environmental improvement effects. Next, 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 avoidance and mitigation. Finally, JCR confirms the consistency with the Sustainable Development Goals (SDGs).

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

<The Framework for Use of Proceeds>

Funds raised through green finance will be allocated to fund the acquisition of existing or new assets that meet the following Eligibility Criteria (the “Eligible Green Project”), to refinance loans required to acquire Eligible Green Project, and / or to fund the redemption of investment corporation bonds required to acquire Eligible Green Project.

Eligibility Criteria

On the borrowing or payment date of green finance, assets that retain evaluations in any of the following effective third-party certifications or assets that are scheduled to acquire evaluations in any of the following third-party certifications in the future, shall be Eligible Green Project.

In addition, at the time of reporting, an asset that retains any of the following third-party certifications in effect as of the end of March of each year shall be Eligible Green Project.

- 3-stars, 4-stars or 5-stars in DBJ Green Building Certification

- B+, A or S Rank in CASBEE Real Estate Certification

- 3-stars, 4-stars or 5-stars in BELS Certification

- Following evaluation of ZEH, ZEB in BELS Certification

- ZEH-M, Nearly ZEH-M, ZEH-M Ready and ZEH-M Oriented

- ZEB, Nearly ZEB, ZEB Ready and ZEB Oriented

At present, DBJ Green Building certification is valid for 3 years from the date of certification and CASBEE Real Estate Assessment certification for 5 years from the date of certification. (For BELS certification, there is no expiration date.)

When acquiring a new certification and reacquiring certification in the future, the above effective period may change.

<The Framework for Use of Proceeds>

a. **Environmental Improvement Effects of the Project**

- i. **The use of proceeds is the acquisition or refinancing of buildings (green buildings) that have already or are scheduled to acquire regional, national or internationally recognized certifications at the certification level up to the top three categories, and high environmental improvement effects are expected.**

DBJ Green Building certification

Certification system provided by DBJ (Development Bank of Japan) to evaluate real estate 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”. It evaluates three major categories: “Ecology (environmental),” “Amenity (comfort) and Risk Management (crime prevention and disaster prevention),” “Community (regional and landscape)” and “Partnership (stakeholder collaboration).” Each is represented by five stars (one of the highest domestic excellence), four stars (extremely excellent), three stars (very excellent), two stars (excellent), and one star (sufficient). Although this is not an evaluation specializing in environmental performance, the evaluation is highly recognized in Japan, and it also has certain evaluation items regarding environmental performance. As a result, JCR also evaluates this certification as equivalent to “standards and certifications recognized regionally, nationally or internationally” in the green project classification defined in the Green Bond Principles. However, since the certification is not limited to the environmental performance, it is considered desirable to confirm the evaluation for the environmental performance individually.

DBJ Green Building certification is based not only on the environmental performance of the property being evaluated, but also on a comprehensive assessment that includes the comfort of tenant users, risk management such as disaster prevention and crime prevention, consideration for the surrounding environment and community, and cooperation with stakeholders. Since the scoring design is based on the aggregation of specific “excellent initiatives” for the environment and society, there are many properties in the real estate market that do not reach the target of evaluation. In order to acquire a high evaluation, it is necessary to be a building that is appropriately considered not only for the environment but also for all stakeholders related to buildings.

The level of DBJ Green Building certification is assumed to be the top 20% of all domestic income-producing properties in “Environmental and Social Considerations⁵.” In addition, each evaluation up to three stars covers an aggregate of the top 10% (five stars), the top 30% (four stars) and the top 60% (three stars) of properties that exceed the certification level. Accordingly, JCR evaluates that the use of proceeds by the Investment Corporation is narrowed down to properties with high environmental performance among buildings aiming to acquire certification.

CASBEE (Comprehensive Building Environmental Performance Assessment System)

CASBEE is the acronym of Comprehensive Assessment System for Built Environment Efficiency. It is a method for evaluating and rating the environmental performance of buildings. In April 2001, with the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism, the Comprehensive Environmental Evaluation Research Committee for Buildings was established as a joint project between industry, government, and academia, and since then development and maintenance have been continuously conducted. Evaluation tools include CASBEE for Buildings and CASBEE for Urban Development, as well as CASBEE for Real Estate developed to show environmental performance in an easy-to-understand manner for the real estate market.

⁵ Revision and Release of DBJ Green Building Certification Assessment Items (February 2019 DBJ Green Building Certification Website)

The evaluation results are divided into the following 5 stages: S rank (excellent), A rank (very good), B+ rank (good), B-rank (slightly inferior), and C-rank (inferior). Regarding CASBEE for Real Estate, they are divided into the following 4 stages: S rank (excellent), A rank (very good), B+ rank (good) and B-rank (satisfactory). In CASBEE for Buildings, BEE (Built Environmental Efficiency) is calculated by dividing the environmental quality of a building by the environmental load of the building. CASBEE for Buildings assigns a rating of B+ or higher to properties with a BEE value of 1.0 or higher, i.e., the environmental quality of the building exceeds its environmental load.

CASBEE for Real Estate that the Investment Corporation uses as Eligibility Criteria was developed to use the results of environmental assessments of buildings in CASBEE when evaluating real estate, and the standards have been formulated focusing on items that are strongly related to real estate evaluations. The 5 evaluation items for CASBEE for Real Estate are: 1. energy/greenhouse gases, 2. water, 3. resource use/safety, 4. biodiversity/site, and 5 indoor environments. The evaluation methods are as follows: (i) consistency of the weighting of the major global evaluation tools; (ii) adoption of the points-based method; (iii) making 100 points out of the 5 essential items and 16 points-based items; and (iv) exclusion of the evaluation if the essential items are not met.

For B+ or higher in CASBEE for Real Estate, which is set by the Investment Corporation as Eligibility Criteria, buildings with a score of 60 or higher that can be obtained by taking Level 3 (3 points) of the standard for all points added items are eligible, and this corresponds to B+ or higher in CASBEE-construction, etc. Therefore, JCR assessed that it has environmental benefits.

BELS (Building-Housing Energy-efficiency Labeling System)

BELS is the acronym of Building-Housing Energy-efficiency Labeling System. It is a system in which energy conservation performance is evaluated and certified by a third-party evaluation organization for new and existing buildings. External skin performance and primary energy consumption are subject to evaluation, and for high evaluation, it is required to have excellent energy-saving performance. The rating is expressed as the number of stars and ranked from one to five according to BEIs (Building Energy Index). BEI is a measure of energy conservation performance relative to the standard value, with the design primary energy consumption as the numerator and the standard primary energy consumption as the denominator. One star (primary energy consumption standard 1.1 or less) satisfies the existing energy saving standards, two stars (primary energy consumption standard 1.0 or less) satisfy the energy saving standards, and three stars (primary energy consumption standard 0.8 (non-residential use)/0.9 (residential use) or less) satisfy the guidance standards.

Buildings with three stars or more in BELS eligible by the Investment Corporation will have energy-saving performance (residential: BEI value 0.9 or less / non-residential: BEI value 0.8 or less) above the guidance standard, which JCR considers is appropriate as a use of proceeds.

ZEH and ZEB

ZEH is an abbreviation of Net Zero Energy House, and the Investment Corporation has established ZEH-M (Net Zero Energy House Mansion) that meet ZEH standards for apartment buildings as Eligible Criteria. In a broad sense, it is "a housing complex that achieves significant energy savings while maintaining the quality of the indoor environment by controlling energy loads through advanced architectural design, actively utilizing natural energy through the adoption of passive technologies, and introducing highly efficient equipment systems. The goal is to achieve an annual primary energy consumption balance of zero by introducing renewable energy sources. "

ZEH-M has 4 scales: (i) ZEH-M (a reduction in primary energy consumption of 100% or more from the standard primary energy consumption, in addition to renewable energy, etc.); (ii) Nearly ZEH-M (a reduction in primary energy consumption of 75% to 100% from the standard primary energy consumption, in addition to renewable energy, etc.); (iii) ZEH-M Ready (a reduction in primary energy consumption of 50% to 75% from the standard primary energy consumption, in addition to renewable energy, etc.); and (iv) ZEH-M Oriented (a reduction in primary energy consumption of 20% or more from the standard primary energy consumption, excluding renewable energy, etc.).

ZEB stands for Net Zero Energy Building. In a broad sense, ZEB is "a building that achieves significant energy savings while maintaining the quality of the indoor environment by controlling energy loads through advanced building design, actively utilizing natural energy through the adoption of passive technologies, and introducing highly efficient equipment systems. The building is designed to achieve a balance of zero annual primary energy consumption by introducing renewable energy sources, thereby increasing energy independence as much as possible." The following four levels are indicated according to the degree of energy independence and the amount of saved energy. In particular, in the design stage of ZEB, the hierarchical approach to design concept is important, which maximizes the use of building planning methods (passive methods) such as thermal insulation, solar shading, natural ventilation, and daylight utilization, while upgrading the energy-saving performance of the building envelope, which has a long lifespan and is difficult to renovate, and overlapping the upgrading of building facilities. The hierarchical approach to design is important. ZEB has 4 scales: (i) ZEB (100% or more for primary energy consumption reduction by energy conservation (50% or more) and energy creation), (ii) Nearly ZEB (75% or more for primary energy consumption reduction by energy conservation (50% or more) and energy creation), (iii) ZEB Ready (50% or more of primary energy consumption reduction), (iv) ZEB Oriented (satisfy requirements by use for buildings with a total area of 10 thousand square meters or more⁶).

Both the residences with ZEH-M and the buildings with ZEB (the 4 scales of (i) to (iv) above, respectively) which the Investment Corporation defined as Eligibility Criteria are required a reduction of 50% or more from the standard primary energy consumption. Therefore, the both buildings will have BEI eligible for 5 stars in BELS, which JCR considers are appropriate as use of proceeds.

Based on the above, JCR evaluated that the Framework's use of proceeds has a strong environmental impact.

ii. The use of proceeds falls under the "green buildings which meet regional, national or internationally recognized standards or certifications" and "energy efficiency" among use of proceeds exemplified in the Green Bond Principles and Green Loan Principles and "Green Building Project" and "Energy Conservation Project" exemplified in the Green Bond Guidelines and the Green Loan Guidelines

In the Sixth Strategic Energy Plan approved by the Cabinet in October 2021, it was mentioned that revision of the Building Energy Conservation Law, raising of guidance standards and housing top runner standards, and the implementation of a step-by-step increase in the level of energy conservation standards were implemented in order to "aim to ensure the level of energy conservation performance of the ZEH

⁶ Subject to the qualitative requirements of a. and b. below

a. Reduction primary energy consumption specified from the standard primary energy consumption for each of the following uses (excluding renewable energy)

i) Offices, schools, factories, etc.: 40% or more

ii) Hotels, hospitals, department stores, restaurants, etc.: 30% or more

b. Introduction of unevaluated technologies (technologies not currently evaluated in WEBPRO) as "measures for realizing further energy conservation"

and ZEB standards for new houses and buildings to be constructed in and after fiscal year 2030” following the Fifth Strategic Energy Plan. In addition, in the “Green Growth Strategy Associated with Carbon Neutral 2050” announced in December 2020, the growth strategy schedule for the housing and building industries is to promote energy-saving renovations and expand the popularization of ZEB and ZEH in order to achieve the above goals for 2030. Since this, investment and financing for green building has a high environmental improvement effect. Therefore, it is consistent with the Government’s energy conservation policy that the Investment Corporation develops and maintains buildings with a high level of environmental certification.

b. Negative Impacts on the Environment

The Asset Management Company implements due diligence upon acquisition of a survey document from outside experts, such as an engineering report, and identifies and manages significant potential environmental and social risks associated with Eligible Green Project at the Sustainability Committee and Risk Management Conference. Acquisitions of properties are carried out after confirming that there is no significant impact on the environment.

Based on this, JCR confirmed that the Investment Corporation gives appropriate consideration to possible negative environmental impacts.

c. 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.



Goal7 : Affordable and clean energy

Target7.3 By 2030, substantially increase the share of renewable energy in the global energy mix



Goal9 : Industry, innovation and infrastructure

Target9.4 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



Goal11 : Sustainable cities and communities

Target11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries

Target11.6 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 2: Management, Operation and Transparency Evaluation

Based on the current situation described below and JCR's evaluation of the subject, JCR evaluated that the management and operational systems have been well developed, that transparency is very high and that it can be fully expected for the project to be implemented as planned and for the proceeds to be adequately allocated. In Phase 2, JCR evaluated the management, operation and transparency to be the highest level of “m1 (F)”.

1. Appropriateness and Transparency Concerning Selection Standards and Processes for Use of Proceeds

(1) JCR's Key Consideration in This Factor

In this section, JCR confirms 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 and others.

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

a. Goals

The Asset Management Company has formulated and disclosed the “Sustainability Policy” as a guideline for the sustainability initiatives of the Investment Corporation and the Asset Management Company itself.

Sekisui House Reit, Inc. Sustainability Policy (excerpt)

1. Complying with ESG-Related Laws and Regulations
We implement in-house training for the purpose of enhancing knowledge with regard to ESG-related laws and regulations and abide to such laws and regulations when conducting real estate investment management with considerations given to ESG.
 2. Responding to Climate Change
We strive to reduce CO₂ emissions and actively promote the efficient use of energy toward the realization of a decarbonized society.
 3. Water and Resource Saving Measures
We will actively contribute to the creation of a recycling-based society by promoting measures and public awareness activities for reducing water use and implementing the three Rs (reduce, reuse and recycle) in relation to resources.
 4. Biodiversity
In accordance with the *Gohon no ki* (“five trees”) Project promoted by Sekisui House, we aim to realize harmony with nature and the surrounding environment by conducting maintenance and management of planting and other greenery measures, centering on tree species with consideration given to the native vegetation and other ecosystem matters.⁷
 5. Comfort and Safety
We will provide high-quality housing where residents can lead their lives in comfort and safety.
We will also provide convenient, safe, and comfortable spaces that contribute to enhancing the productivity of tenant companies.
 6. Contributing to Regions and Communities
We will create liveliness in the region and work to coexist with and revitalize the region and community.
 7. Cooperating with Stakeholders
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⁷ https://www.sekisuihouse.co.jp/library/company/sustainable/download/2022/value_report/all.pdf#page=113

In order to implement initiatives based on the Sustainability Policy, we will strive to cooperate with stakeholders including property management companies and other business partners, residents, tenant companies and facility users.

8. Initiatives for Directors and Employees

By respecting diversity, personality and individuality, and promoting work-life balance, we aim to create an organizational culture in which each employee can work in a healthy and lively manner.

We will also strive to develop the abilities of our directors and employees, maximize their abilities, and secure diverse and talented human resources.

9. Supply Chain Management

In order to promote environmental and social considerations throughout the supply chain, we seek the understanding and cooperation of property management companies and other business partners.

10. Disclosing Information and Acquiring External Certifications

We will proactively disclose ESG-related information to our stakeholders.

We will also continue to acquire environmental certification and assessment from external evaluation organizations.

The Investment Corporation's development of the Framework and the use of green finance to fund projects that meet Eligibility Criteria will contribute to the “2. Response to Climate Change” and “10. Information Disclosure and Acquisition of External Certification” of the Sustainability Policy.

Thus, JCR assesses that the implementation of green finance under the Framework is consistent with the Investment Corporation's goals.

b. Selection criteria

JCR has assessed that the qualifying criteria in the Framework have environmental improvement effects, as confirmed in Phase 1 of the assessment.

c. Processes

<The Framework for Processes >

Application of Eligibility Criteria in Project Selection

Eligible Green Project is evaluated and selected by the Sustainability Committee, which is chaired by the President and CEO of Sekisui House Asset Management, Ltd. (SHAM) and involves all full-time directors, based on investment policies (or growth strategies), sustainability policies and Eligibility Criteria.

<JCR's Evaluation for the Framework>

When implementing green finance, the treasurer of the Asset Management Company shall first check the greenness of the properties subject to the use of proceeds and the maximum amount of green finance in portfolio management. The decision making of each green bond or green loan is conducted after the Finance Department obtains approvals from their board members. In addition, the selection criteria and processes set forth in the Framework will be disclosed on the Investment Corporation's website and on this Evaluation Report, etc.

Thus, JCR evaluated that it specifies the process for selecting projects for which the Investment Corporation will use funds, and ensures transparency to investors, etc.

2. Appropriateness and Transparency of Management of the Proceeds

(1) JCR's Key Consideration in 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 enable easy tracking and management of the appropriation of funds.

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

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

<The Framework for Management of the Proceeds>

Sekisui House Reit Inc. (SHR) plans to use the proceeds from green financing for Green Eligibility Assets. SHR manages the green finance so long as the green financing balance exists, so that the green financing balance does not exceed the green eligible liability amount.

SHR reports that the total amount of funds raised through green finance has been fully allocated to Eligible Green Project, and internally tracks and manages funds appropriated on a portfolio-by-portfolio basis as long as there are green finance balances. If all or a portion of the proceeds raised through green finance are not immediately allocated to Eligible Green Project, SHR will manage all or a portion of the proceeds in cash or cash equivalents until such time as the unallocated funds are specifically allocated to Eligible Green Project.

※ **Green Eligibility Liabilities: Total Green Eligibility Assets × Total Asset LTV**

<JCR's Evaluation for the Framework>

Proceeds from green finance will be used to finance acquisitions of projects and refinancing of such funds, which will be allocated promptly, so that the unallocated funds will not accrue over time. Tracking management and management of green finance balances are performed by the Treasury Department of the Asset Management Company using a dedicated file.

As forms related to fund management, including green finance are subject to internal audits and accounting audits, an appropriate control system has been established. In addition, documents related to green finance are appropriately stored.

Prior to redemption/repayment of green finance, the Investment Corporation shall manage the unallocated funds through portfolio management in the event that unallocated funds arise from the sale of properties that are the subject of the use of proceeds. Specifically, the amount calculated by multiplying the total acquisition price (total amount of Eligible Green Project) of properties that satisfy eligible criteria as of the end of the most recent fiscal period by Total Asset LTV as of the end of the most recent fiscal period shall be managed as the maximum amount of green eligible liabilities so that the balance of green finance will not exceed the amount of green eligible liabilities.

Based on the above, JCR evaluated that the Investment Corporation's fund management is appropriate.

3. Reporting

(1) JCR's Key Consideration in This Factor

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

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

<This framework concerning Reporting>

Fund allocation status reporting

SHR will disclose on its website that the proceeds raised through green finance have been fully allocated to Eligible Green Project in accordance with SHR's Green Finance Framework and that the outstanding amount of green financing has not exceeded the amount of green eligible liabilities. To the extent balances of green finance exist, SHR will report green eligible debt and balances of green finance on an annual basis as of the end of March.

Impact reporting

SHR will annually disclose the following environmental performance indicators, etc. as of the end of March each year on the website of the Investment Corporation as long as the amount of green finance exists.

- Evaluation of the number of properties and certification acquired for Eligible Green Project
- Total gross floor area of green qualifying assets
- Green eligible liabilities (total amount of Eligible Green Project as of the end of March * Total Asset LTV as of the end of the most recent fiscal year)
- The following quantitative indicators related to Eligible Green Project (limited to properties for which SHR has energy-management authority as of the end of March):
 - Energy consumption
 - CO₂ Emissions
 - Water consumption

<JCR's Evaluation for the Framework>

a. Reporting on the allocation status of the proceeds

The use and appropriation of the proceeds from the Green Finance will be published on the Investment Corporation's website. In addition, if a significant event occurs, such as the sale of the property that is the subject of the use of funds, it is assumed that a statement to that effect will also be disclosed on the website, etc.

b. Reporting on environmental improvement effects

The Investment Corporation has issued 7 Green Bonds as of the end of November 2022, and disclosed the items to be disclosed in the impact reporting stipulated in the Framework on the website of the Investment

Corporation. The content and disclosure system set forth in the framework as the disclosure content are appropriate.

Based on the above, JCR assesses that the Corporation's reporting is appropriate.

4. Organization's Environmental Initiatives

(1) JCR's Key Consideration in This Factor

In this section, JCR evaluates whether the management of the issuer/borrower regards environmental issues as a matter of high priority for management and whether the green finance 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.

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

The Investment Corporation carries out asset operation business with the aim of maximizing investor value, providing high-quality social capital, and a REIT that leads the way into an era of the 100-year lifespan with a vision of “managing assets to better provide for people, society and the future”.

From its inception in 2014, the Investment Corporation acquired DBJ Green Building certification for properties it owned. In this way, the Investment Corporation was promoting environmental and other sustainability initiatives from an early stage. In terms of finance, in 2018 it developed the Green Bond Framework, the predecessor of the Framework, and has issued 7 Green Bonds.

The Asset Management Company has constructed a promotion system, including the Sustainability Committee, while also utilizing the knowledge of outside consultants. The Sustainability Committee is a council consisting of the President and Representative Director of the Asset Management Company as the Chief Executive Officer, the Director in charge of the ESG Promotion Office as the Executive Officer, the Managing Director, the Compliance Officer, and the general manager of all departments of the Asset Management Company as members. The committee is responsible for setting the materiality and targets of the Investment Corporation and for confirming the status of progress toward those targets. The materiality of the Investment Corporation shows that it brings benefits in all directions including environment, society and governance, and aims for sustainable growth through the realization of a sustainable society.

In addition, the Asset Management Company approves the recommendations of PRI (Principles for Responsible Investment) and TCFD (Task Force for Disclosure of Financial Information Related to Your Bank). Based on TCFD Recommendations, the Asset Management Company analyzes scenarios assuming a 4°C scenario and a 1.5°C scenario, and discloses them in ESG Report, etc.

In GRESB Real Estate Assessment for FY2022, the Investment Corporation received 3Stars rating for its GRESB ratings. For the sixth consecutive year, it received Green Star which has awarded high evaluations for the participants' environmental considerations and sustainability initiatives.

The structure for sustainability at the Investment Corporation and the Asset Management Company is also closely related to the cooperation with Sekisui House, the sponsor.

In 2008, Sekisui House Group, centered on Sekisui House, declared its 2050 Vision, which aims to achieve zero CO₂ emissions from homes. In FY2016, Sekisui House Group formulated Sustainability Vision 2050, a long-term vision for 2050 in a broader range of business domains in preparation for further environmental changes in the future, and has incorporated environmental and other sustainability into its management ahead of its competitors. The company has also identified “building a stock of high-quality housing,” “realizing a sustainable society,” and “diversity and inclusion” as materiality. KPI of “realizing a sustainable society” targets the number of units and the ratio of ZEH (ZEH-M in condominiums) in detached houses, apartments, and condominiums, which Sekisui House sees as strength. By leveraging priority negotiation rights under the Sponsor Support Agreement, the Investment Corporation has been able to have many high-quality properties handled by the sponsor, which is a solid foundation for promoting sustainability-conscious initiatives.

In December 2022, the Investment Corporation set a long-term target of carbon neutrality in 2050 in order to keep pace with the sponsor's 2050-year vision. The Investment Corporation has clarified its stance of giving further consideration to the environment in the future.

Based on the above, JCR evaluated that management positions environmental issues as a high-priority issue.

(Reference) GRESB Real Estate Assessment

GRESB refers to a benchmark established in 2009 that measures and evaluates the level of consideration for ESGs of companies that holding and manage real assets (real estate and infrastructures) and the organization that operates it. The acronym for Global Real Estate Sustainability Benchmark. Since 2016, the evaluation results are shown in five grades (5-stars, 4-stars, 3-stars, 2-stars, and 1-star). Companies that engage in excellent initiatives are given a "Green Star" separate from the five-point rating. As of 2022, 57 investment corporations have participated in the evaluation from J-REIT.

Evaluation Result

Based on 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 Guidelines, the Green Bond Guidelines and the Green Loan Guideline.

[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

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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 proceeds and other matters. Therefore, it 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, it is necessary to conduct a separate evaluation. 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 Finance 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 promise to provide or make available for inspection a predetermined credit rating.

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

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■ Glossary

JCR Green Finance Framework Evaluation: This evaluates the extent to which the funds procured through green finance are appropriated for green projects as defined by JCR and the degree to which the management, operation and transparency of the green finance 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
- NRSRO: JCR has registered with the following four of the five credit rating classes of the U.S. Securities and Exchange Commission's Nationally Recognized Statistical Rating Organization (NRSRO): (1) financial institutions, broker-dealers, (2) insurance companies, (3) general business corporations and (4) governments and municipalities. If the disclosure is subject to Section 17g-7 (a) of the Securities and Exchange Commission Rule, such disclosures are attached to the news releases appearing on the JCR website (<https://www.jcr.co.jp/en>).

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