

Green Bond / Green Bond Programme

Independent External Review Form

Section 1. Basic Information

Issuer name:

Japan Hotel REIT Investment Corporation

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

12th Unsecured Corporate Bonds

Independent External Review provider's name:

Japan Credit Rating Agency, Ltd.

Completion date of this form:

July 1, 2019

Publication date of review publication:

July 1, 2019

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|--|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Japan Hotel REIT Investment Corporation (the "Investment Corporation") is a J-REIT specializing in hotels, whose sponsors are Rockrise Sdn Bhd (with 87.6% investment ratio, the main sponsor) of the SC CAPITAL PARTNERS Group, KYORITSU MAINTENANCE CO., LTD. (10.3%) and ORIX CORPORATION (2.1%). The Investment Corporation was established in November 2005 and listed on the Tokyo Stock Exchange (Real Estate Investment Trusts market) in June 2006. Japan Hotel REIT Advisors Co., Ltd. (the "Asset Management Company") is in charge of the asset management. As of June 30, 2019, the Investment Corporation has 43 assets with an aggregate amount acquisition price of JPY 374.5bn. The Investment Corporation has a basic policy to acquire competitive hotel real estates, etc. in areas that have potential to attract "demand by both domestic and inbound leisure customers" in the medium to long-term.

The Investment Corporation and the Asset Management Company are working on improving sustainability in consideration of Environmental, Social and Governance (ESG), based on the idea that healthy management enabling them to co-prosper and co-exist with environment and society will lead to medium- and long-term enhancement of shareholder value. To realize the initiative, they jointly have the "Sustainability Policy". In this policy, they declare to enhance environmental performance in their portfolio and to promote ESG in the value chain, as well as to utilize stakeholders' opinions for improving their initiatives.

To conduct the policy, the Asset Management Company established "ESG Promotion Meeting". The ESG Promotion Meeting consists of management including the president and staff with knowledge of ESG, and they review the goals and measures related to ESG. In addition, they hold medium- and long-term environmental goals, including reduction of energy use intensity based on Act on Rationalizing Energy Use and CO2 emissions intensity from energy use by over 1% in annual average, for entire portfolio as well as individual property, in 5 years from FY2018. They recognize environmental issues important and trying to solve the problems with the clear goals.

The bonds to be evaluated are unsecured bonds (the "Bonds") issued by the Investment Corporation. The proceeds will be used for refinancing funds to redecorate a hotel, and for renovating facilities, etc. within the expenses that meet the predetermined eligibility criteria.

In this project, equipment with high energy saving performance and high water saving capacity are introduced to reduce energy consumption. JCR has confirmed that there are few possibilities of serious negative impacts on the environment that outweigh the environmental improvement effect. Based on the above, JCR has evaluated that the use of proceeds of the Bonds will contribute to environmental improvements, including reduction in CO2 emissions and water consumption.

In addition, JCR has confirmed the project ensures appropriate management systems and transparency in consideration of its consistency with the Sustainability Policy, its process of issue of green bonds, its proper funds management of the green project based on the payment process subject to external audits by the audit firm, and its disclosures.

As a result, based on JCR Green Finance Evaluation Method, JCR assigns "g1" for the preliminary evaluation of the "Greenness Evaluation (Use of Proceeds)" and "m1" for the preliminary evaluation of the "Management, Operation and Transparency Evaluation." Consequently, JCR assigns "Green1" for overall "JCR preliminary Green Bond Evaluation" to the Bonds. The evaluation results are discussed in detail in the next chapter. The Bonds are considered to meet the standards for the items required by the Green Bond Principles and the Green Bond Guideline of the Ministry of the Environment of Japan.

<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. 100% of the proceeds are allocated for refinancing of the loan or for the construction funds, which are related to green projects with environmental improvement effect.
- ii. The use of proceeds falls under the category of "Energy efficiency" as defined in the Green Bond Principles or the Ministry of the Environment's Green Bond Guidelines.

b. Negative impact on Environment

In this project, since both the redecoration and the renovation may generate vibration and noise, the Investment Corporation takes avoidance and mitigation measures such as use of a low-noise generator and minimization of concrete dredging work. In addition, regarding the redecoration, since some tenants continued to operate during the construction, it was necessary to consider their businesses into considerations, and because the hotel was directly connected to the subway station, it was required to ensure the safety of general passenger traffic. JCR has confirmed through interviews that the construction was carried out with adequate curing as a response to these. Taking the above into consideration, JCR has judged that there is no negative impact that exceeds the environmental improvement effect in the Green Project.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input 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 Investment Corporation 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):

- a. The use of proceeds will be fully allocated for refinancing of the funds to redecorate Oriental Hotel Fukuoka Hakata Station and for the funds to renovate assets, not for any other project, as shown in this report.
- b. Of the proceeds of the issue of the Bonds, the funds to redecorate Oriental Hotel Fukuoka Hakata Station will be refinanced by promptly repaying the borrowings for the hotel. The funds to renovate other hotels will be segregated in the ledger under the following management system. After completion of the renovation which is the target of using funds, the general manager of the Public REIT Department confirms the completion of the construction. The accounting staff in charge issues payment instructions by obtaining approval from the general manager of the Accounting & Reporting Department after collating with the ledger. Thus, of the proceeds of the issue of the Bonds, the refinance will be implemented promptly after raising funds, but the funds for renovation need to be tracked and managed, and will be properly separated and managed in the ledger until the funds are allocated.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> : |

4. REPORTING**Overall comment on section** *(if applicable)*:

a. Reporting on proceeds allocation

The use of proceeds of the Bonds will be announced in the Supplemental Registration Document, the press release by the Investment Corporation and this evaluation report. In addition, the outlines of the unallocated funds related to the renovation will be disclosed once a year on the Investment Corporation's website. JCR considers that the situation will not change drastically, because the redecoration of Oriental Hotel Fukuoka Hakata Station was already completed in March, 2019, and because other renovations will be conducted by replacement of air conditioners, etc. in any project.

b. Impact reporting for environmental benefits

Regarding the redecoration of Oriental Hotel Fukuoka Hakata Station, water consumption, electricity consumption and CO₂ emissions of the entire building before and after the construction will be disclosed once a year on the website of the Investment Corporation. With regard to other renovations, it is planned to disclose the names of hotels that update air condition equipment etc. and the details of the update on the website of the Investment Corporation at any time.

Use of proceeds reporting:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Impact reporting:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Decrease in water use | <input type="checkbox"/> Other ESG indicators (please specify): |

Means of Disclosure

- | | |
|--|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):
Show on the website |
| <input type="checkbox"/> Reporting reviewed | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Sustainability activities by the Investment Corporation
<http://www.jhrth.co.jp/en/about/sustainability.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:

- | | |
|--|--|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Japan Credit Rating Agency, Ltd.

Date of publication:

July 1, 2019

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.