

Green Bond Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces the Annual Review of its Green Bond Evaluation.

JCR Reviewed Green Bond Evaluation on Bonds of Kenedix Office Investment Corporation

Subject	:	Kenedix Office Investment Corporation 10th Unsecured Investment Corporation Bonds (Green Bonds)
Type	:	Specified Investment Corporation Bonds
Issue Amount	:	JPY 2 Billion
Interest Rate	:	0.390%
Issue Date	:	February 15, 2019
Redemption Date	:	February 15, 2024
Method of Repayment	:	Bullet
Use of Proceeds	:	Refinancing of funds to acquires green buildings

<Green Bond Review Results>

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

1. Overview

On February 8, 2019, JCR announced its "Green 1" overall evaluation of the investment corporation bonds issued by Kenedix Office Investment Corporation (the "Investment Corporation") for the purpose of refinancing funds for green buildings. The main summary is as follows.

The Investment Corporation is a J-REIT whose main investment targets are medium-sized office buildings in the Tokyo economic zone. It was established on May 6, 2005 and listed on the Tokyo Stock Exchange (Real Estate Investment Trusts Market) on July 21, 2005. As of February 7, 2020, it has 99 assets with a total acquisition price of JPY 432.8bn. The Investment Corporation is one of the largest J-REIT companies mainly targeting medium-sized office buildings. The sponsor of the Asset Management Company, Kenedix Real Estate Investment Management (the "Asset Management Company"), is Kenedix, a real estate asset management company.

The bonds subject to evaluation are 10th unsecured investment corporation bonds issued by the Investment Corporation in February, 2019 (the “Bonds”). The proceeds of the Bonds are allocated to refinance the funds for acquisition of the two building (Green Building) acquired by the Investment Corporation.

The Investment Corporation sets the Green Bond Framework (the “Framework”) and defines “Green Eligible Assets” as properties that have obtained or are expected to obtain either three stars or more in DBJ Green Building Certification, B+ or higher in CASBEE Certification, three stars or more in BELS Certification. JCR confirmed that the assets subject to the refinance by the Bonds are Green Eligible Assets defined by the Framework. JCR evaluated through the environmental evaluation report and the interview from the Asset Management Company that the subjects of the use of proceeds of the Bonds are green projects which are classified as green building which acquires environmental certifications with CO₂ emission reduction effects.

JCR conducted a review on the Bonds, and confirmed that the Investment Corporation still holds the two buildings which are the subject of the use of proceeds. JCR also confirmed that the buildings don’t have negative impact on the environment. The management and operation system don’t change and the disclosures have been made as originally planned.

As a result, JCR maintains "g1" for the "Greenness Evaluation (Use of Proceeds)" and "m1" for the "Management, Operation and Transparency Evaluation." Consequently, JCR maintains "Green 1" as an overall “JCR Green Bond Evaluation” to the Bonds. Detailed evaluation is discussed in the next chapter. The Bonds 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.¹²

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

² Ministry of the Environment Green Bond Guidelines 2017 years http://greenbondplatform.env.go.jp/pdf/greenbond_guideline2017.pdf

2. Post-issuance Review Items

In this section, JCR describes the items to be confirmed in the post-issuance review. The review focuses on items whose content has changed compared with those at the time of assigning the final evaluation.

(1) Use of Proceeds (Status of Appropriation)

JCR evaluates if the fund management procured by the Bonds and the appropriation of funds procured for green projects has been properly carried out in a manner specified by the issuer at the time of assigning the final evaluation.

(2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

JCR evaluates if there are any changes to the objectives to be achieved through the Bonds, the criteria for selecting green projects, the adequacy of the process, and the series of processes to be implemented.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluates whether the proceeds have been certainly allocated for green projects or not. JCR also evaluates if there is a system and internal system in which the allocation status can be easily tracked and managed.

(4) Reporting

JCR evaluates if the environmental improvement effects resulting from the green projects financed by the funds procured by the Bonds are appropriately calculated according to the method stipulated by the issuer at the time of assigning the final evaluation.

(5) Organization's Environmental Activities

JCR evaluates if the issuer's management is continuing to regard environmental issues as a high priority issue.

3. Contents of Review

(1) Use of Proceeds (Status of Appropriation)

The buildings which the proceeds of the Bonds were allocated are KDX Kobayashi Doshomachi Building and KDX Toranomom 1-chome Building.

< Overview of Use of Proceeds >

Building Name	KDX Kobayashi Doshomachi Building
Location	4-4-10, Doshomachi, Chuo-ku, Osaka-shi, Osaka
Principal Uses	Offices and stores
Site Area	1,561.04m ²
Total Floor Area	10,723.83 m ²
Number of Stories	12 stories with one basement floor
Structure	Steel frame and reinforced concrete structure
Timing of Construction	July 2009
Environmental Certification	CASBEE Real Estate 2018 [S Rank] DBJ Green Building 2018 [three stars]
Environmental Performance	As a result of joint efforts with tenants to reduce energy consumption in the CASBEE evaluation items related to energy/greenhouse gases, this building has achieved to reduce the primary energy consumption intensity below the target value.

Building Name	KDX Toranomom 1-chome Building
Location	10-5, Toranomom 1-chome, Minato-ku, Tokyo
Principal Uses	Offices and stores
Site Area	1,564.12 m ²
Total Floor Area	11,212.05 m ²
Number of Stories	11 stories aboveground and 1 floor underground
Structure	Steel frame and reinforced concrete structure
Timing of Construction	October 2013
Environmental Certification	DBJ Green Building 2018 [five stars]
Environmental Performance	Thanks to the higher ranking in the useful life of the body at Grade 1, and a high level of energy saving performance due to its high heat insulate performance and the use of LEDs in all buildings. In addition, the PAL reduction rate and the energy saving performance (ERR) of the facility system, which represents the heat insulation property of the building, attained the highest level in grading of the Consideration Guideline revised in 2017, at stage 3, and the level of AAA in the evaluation standard of the performance evaluation report. From this, it received five stars in DBJ Green Building Certification due to high evaluation in "Ecology." Another characteristic is that the greening rate is 30% or more, which results in highly evaluated in the item of biodiversity.

JCR confirmed that the Investment Corporation still holds the buildings. No serious negative impact on the environment, such as noise and soil pollution or complaints from local residents, has been confirmed.

(2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

JCR evaluates the criteria and processes for Green Buildings of the Investment Corporation as appropriate at the time of last year's evaluation. At the reviewing, the criteria and processes of the Investment Corporation and the Asset Management Company have not been changed, and JCR considers these criteria to remain appropriate.

(3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluates fund management as appropriate at the time of assigning the final evaluation. The entire amount of the proceeds of the Bonds was allocated to refinance the fund for acquisition of KDX Kobayashi Doshomachi Building and KDX Toranomom 1-chome Building, and there are no unallocated funds.

(4) Reporting

a. Reporting on the proceeds allocation

The entire amount of the proceeds of the Bonds was allocated to refinance funds for the acquisition of the two buildings promptly after the issuance, and the buildings have not since been sold. As a result, there are no unallocated funds at the time of the review.

b. Reporting on environmental improvement effects

The Investment Corporation planned to disclose the following items as environmental improvement effects annually on its website.

(Eligible Criteria 1)

- The number of Eligible Green Assets and Certification
- Total floor area of Eligible Green Assets
- Energy consumption, water consumption, and CO2 emissions of Eligible Green Assets (limited to assets for which the Corporation has energy management authority)

(Eligible Criteria 2)

- Energy consumption, water consumption, and CO2 emissions of buildings that have been renovated to conserve energy and improve the environment

At the time of this review, JCR checked the disclosure matters on the website of the Investment Corporation and confirmed that all items relating to the above-mentioned environmental improvement effects were disclosed on the website of the investment corporation. JCR also evaluates that the disclosure details are appropriate.

(5) Organization's Environmental Activities

The Investment Corporation considers the improvement of sustainability with the aim of realizing a sustainable society, including environmental issues, to be an important management issue. As detailed below, JCR highly appreciates the appropriate organizational structure and staffing for the environment, as well as the fact that the content of periodic verification and disclosure of various initiatives has been enhanced.

- The Asset Management Company has established a Sustainability Committee chaired by the Chief Operating Officer (COO), consisting of the General Managers of the Office REIT Division, the General Managers of the Financial and Accounting Division, and the Compliance Officers. The Committee confirms the latest social situation regarding sustainability, reviews the Basic Policy on Sustainability, and confirms the progress of various initiatives being implemented by each division. Specifically, it has obtained and renewed environmental certification, installed LEDs, provided locations for the UN UNHCR Association's fundraising activities, and preparation a disaster prevention handbook for tenants.
- Apart from the Sustainability Committee, the Asset Management Company has also established an "Energy Conservation Measures Review Committee" to reduce energy consumption by at least 1% per year on average over the past five years (total energy consumption (kl/year converted to crude oil)/total floor area (m²/year)) in accordance with the law, and to manage progress in achieving the medium-to-long-term targets and to ascertain the causes of the increase or decrease in energy consumption.
- The Asset Management Company actively incorporates the opinions of outside experts, such as advice on energy conservation measures and consulting on ESG initiatives. In addition, the Asset Management Division is responsible for implementing ESG-related initiatives, and it utilizes a wealth of internal and external specialists, such as CASBEE assessors and building management-related qualified personnel.
- The ratio of environmental certified properties in the Corporation is more than 50%. It is worth evaluating that it is highly transparent, as evidenced by the number of buildings with environmental certification and the area of floors being disclosed according to the type of environmental certification.
- Thanks to these positive efforts, the Investment Corporation has been awarded a Green Star rating for eight consecutive years in the 2019 GRESB Real Estate Assessment, which is given to participants who have made outstanding efforts in terms of both "management and policy" and "execution and measurement" related to sustainability. In addition, the Corporation is rated "4 Stars" (on a five-point scale) in the "GRESB Rating" category, which is based on global comparative evaluations of overall scores.

4. Conclusion

As a result of verifying the matters described in the previous section, JCR confirmed that 100% of the proceeds of the Bonds have been allocated for the green projects, which were originally assumed to be use of proceeds, and that the assets subject to use of proceeds have sufficiently performed the effects of environmental improvement that were originally assumed.

[JCR Green Bond Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1	m2	m3	m4	m5
Greenness Evaluation	g1	Green 1	Green 2	Green 3	Green 4	Green 5
	g2	Green 2	Green 2	Green 3	Green 4	Green 5
	g3	Green 3	Green 3	Green 4	Green 5	Not qualified
	g4	Green 4	Green 4	Green 5	Not qualified	Not qualified
	g5	Green 5	Green 5	Not qualified	Not qualified	Not qualified

■ Scope of Subject

Issuer: Kenedix Office Investment Corporation (Security Code: 8972)

[Review]

Target	Issue Amount	Issue Date	Redemption Date	Interest Rate	Evaluation
10th Unsecured Investment Corporation Bonds	JPY 2 Billion	Feb. 15, 2019	Feb. 15, 2024	0.390%	JCR Green Bond Evaluation: Green1 Green evaluation : g1 Management, operation, and transparency assessment : m1

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Important explanation of the Green Bond Evaluation

1. Assumptions, Significance, and Limitations of JCR Green Bond Evaluation

JCR Green Bond Evaluation, which is assigned and provided by Japan Credit Rating Agency (JCR), is a comprehensive expression of JCR's current opinion on the extent to which the proceeds of green bonds, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation, and transparency of the use of green bonds are ensured. This does not perfectly disclose all the efforts taken by the issuer/borrower to ensure the use of proceeds, administration, management of the proceeds and the transparency.

JCR Green Bond Evaluation is to evaluate the plan or status of the proceeds to green projects at the time of issuing green bonds or planning to issue, and does not guarantee the future actual allocation of the proceeds. JCR does not guarantee the positive environmental effects of green bonds nor is liable for their expected impacts. JCR confirms that the environmental impacts, which will be realized by the allocated proceeds, are calculated quantitatively and qualitatively by the issuer or by a third party requested by the issuer, but in principle JCR does not calculate them by itself.

2. Methodologies used in the conduct of this evaluation

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

3. Relationship with Acts Related to Credit Rating Business

JCR Green Bond 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 Evaluation differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

5. Third-party character of JCR

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 Bond Evaluation: JCR Green Bond Evaluation evaluates the extent to which the funds procured from the Green bond are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Bond are ensured. Evaluations are graded on a scale of 5, beginning with the top, using the Green1, Green2, Green3, Green4, and Green5 symbols.

■Status of registration as an external assessor of green finance

- Environment Ministry's Green Bond Issuance Registration
- Members of the Working Group on Social Bonds (ICMA)
- Members of the Working Group on UNEP FI Positive Impact Finance Principles
- CBI Approved Verifier

■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
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