

For Immediate Release

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**Notice Concerning Issuance of Sustainability-Linked Bonds Featuring
 the World's First Annual Performance Structure in the Public Bond Market and Prepayment of Loans**

Daiwa House REIT Investment Corporation (“DHR”) hereby announces that it decided today to issue investment corporation bonds (the “Sustainability-Linked Bonds”) based on the comprehensive resolution at the board of directors’ meeting held on April 15, 2022 as described below.

(Note) Sustainability-linked bonds are bond instruments for which the terms may be changed according to whether the issuer achieves its predefined Sustainability Performance Targets (“SPT”).

1. Overview of the investment corporation bonds

(1) Name	Daiwa House REIT Investment Corporation 18th Unsecured Investment Corporation Bonds (with pari passu conditions among specified investment corporation bonds) (sustainability-linked bonds) (Nickname: DHR Sustainability-Linked Bonds)	
(2) Total issue amount	4,000 million yen	
(3) Form of bond certificate	No bond certificates for the Sustainability-Linked Bonds will be issued subject to the provisions of the Act on Book-Entry Transfer of Company Bonds, Shares, etc.	
(4) Issue price	100 yen per value of 100 yen of each bond	
(5) Redemption price	100 yen per value of 100 yen of each bond	
(6) SPT	To achieve the “A List” status (the highest evaluation) in the CDP Climate Change Program	
(7) Interest rate	Initial interest rate (applicable during the period from the day immediately following May 25, 2022 through May 25, 2023): 0.575% per annum Interest rate applicable after the SPT observation (applicable from the day immediately following May 25, 2023): The interest rate described in the table below will be applicable according to the degree of achievement of the SPT.	
	CDP score	Interest rate
	A	0.550% per annum (Initial interest rate -2.5 bp)
	A-	0.585% per annum (Initial interest rate +1 bp)
	B, B-, C, C-, D, D- or F	0.600% per annum (Initial interest rate +2.5 bp)

	Example: If DHR earns “A” score in the CDP Climate Change Program, an interest rate of 0.550%, which is 2.5 bp lower than the initial interest rate, will be applied to the Sustainability-Linked Bonds. The achievement of the SPT will be observed on the observation reference date every year and the interest rate will be changed according to the degree of achievement of the SPT.
(8) Observation Reference Date	The first observation reference date will be the last day of April 2023, and subsequent observation reference date will be the last day of April of each year until the redemption date.
(9) Denomination of each bond	100 million yen
(10) Offering method	Public offering
(11) Subscription period	May 12, 2022 (Thursday)
(12) Payment date	May 25, 2022 (Wednesday)
(13) Collateral and guarantee	No collateral or guarantee is provided for the Sustainability-Linked Bonds, and no asset is reserved as security specifically for the Sustainability-Linked Bonds.
(14) Redemption method and date	The total issue amount will be redeemed on May 25, 2029. The Sustainability-Linked Bonds may be retired by purchase at any time after the payment date unless otherwise stipulated by the depository.
(15) Interest payment date	May 25 and November 25 every year (In case such date is a bank holiday, the immediately preceding bank business day will be the interest payment date.)
(16) Financial covenants	Negative pledge clause is applicable.
(17) Credit rating	AA (Japan Credit Rating Agency, Ltd.)
(18) Fiscal, issuing and paying agent	Resona Bank, Limited
(19) Underwriter	Mizuho Securities Co., Ltd.
(20) Sustainability-Linked Bond Structuring Agent (Note)	Mizuho Securities Co., Ltd.

(Note) Sustainability-Linked Bond Structuring Agents are agents that support issuers in implementing sustainability finance through advice on designing bond instrument and obtaining a third-party evaluation concerning Sustainability-Linked Bonds.

2. Purpose and Background of the Issuance

The basic approach of the Daiwa House Group, which DHR’s sponsor Daiwa House Industry Co., Ltd. as well as DHR’s asset manager Daiwa House Asset Management Co., Ltd. (the “Asset Manager”) fall under, is “Creating Dreams, Building Hearts.” As a group that co-creates value for individuals, communities and people’s lifestyles, Daiwa House Group aims to build trust relationships with stakeholders and contribute to society through its businesses in addition to realizing a sustainable society by meeting the challenge of achieving “zero environmental impacts.”

The Asset Manager shares the Daiwa House Group’s basic approach, and considers that including environmental, social, and governance (“ESG”) considerations in its real estate investment management operations contributes to DHR’s basic policy of ensuring stable revenue and steady asset growth over the long term. Therefore, it has established the “Sustainability Policy” to guide its real estate investment management.

Amid increasing interest in sustainability such as ESG issues in recent years, the Asset Manager has established the Sustainability Committee to promote ESG-focused management based on the Sustainability Policy and implements various measures to achieve sustainability targets. Additionally, under the growth strategy announced in October 2021, DHR also focuses on enhancing its social value (Non-Financial Value) through its ESG strategy by promoting various initiatives.

DHR’s sustainability initiatives related to investment corporation bonds include the issuance of green bonds related to the “Environmental” elements starting in 2019 and sustainability bonds related to both “Environmental” and “Social” elements in 2021. This offering will be made as a new sustainability initiative in financing following the above issuances.

DHR will issue the Sustainability-Linked Bonds, with the aim of further promoting its sustainability initiatives and expanding the investor base to secure stable financing sources by responding to the growing demand from ESG investors.

3. Structure of the Sustainability-Linked Bonds

(1) Eligibility as sustainability-linked bonds

In order to issue the Sustainability-Linked Bonds, DHR has obtained an external review from Japan Credit Rating Agency, Ltd. (“JCR”) in alignment with the “Green Loan and Sustainability-Linked Loan Guidelines 2020” issued by the Ministry of the Environment of Japan (Note 1) and the “Sustainability-Linked Bond Principles 2021” issued by the International Capital Market Association (ICMA)(Note 2). For details, please refer to the news release dated today issued by JCR.

(Note 1) Green Loan and Sustainability-Linked Loan Guidelines 2020 are the guidelines formulated and published in March 2020 by the Ministry of the Environment of Japan.

(Note 2) Sustainability-Linked Bond Principles (2020 edition) are the principles published by the ICMA in June 2020 which provide guidelines that recommend structuring features, disclosure and reporting related to sustainability-linked bonds.

(2) Selection of Sustainability Performance Targets (SPT)

DHR and the Asset Manager set multiple ESG goals and develop/implement action plans for each goal. In measuring the achievement of the goals, DHR utilizes external ESG-related evaluations to ensure objectivity and multi-aspect assessments in addition to its internal review. Based on such approach, DHR has selected the CDP Climate Change Program’s scores as the SPT for the Sustainability-Linked Bonds, as it considers that using the CDP Climate Change Program recognized as quality external evaluations reflecting the latest global trends and various stakeholders’ requirements will contribute to enhancing DHR’s unitholders’ value through the sustainability initiatives. Additionally, in March 2022, DHR and the Asset Manager introduced a new asset management fee system, the “Sustainability Index-linked Fee,” for the first time as J-REIT and adopted the CDP Climate Change Program’s scoring as one of the sustainability indicators used in the system. DHR believes that selecting the CDP Climate Change Program’s scores as the SPT for the Sustainability-Linked Bonds will further strengthen DHR and the Asset Manager’s commitment to addressing the ESG issues and improve the governance.

SPT
To achieve the “A List” status, the highest evaluation, in the CDP Climate Change Program

The CDP Climate Change Program assesses the level of effort to address the climate change issues made by organizations such as corporations and city governments. CDP scores organizations’ responses to the questionnaires based on the qualitative and quantitative criteria and provides a final score in nine-tier score bands (A, A-, B, B-, C, C-, D, D- and F). In the CDP Climate Change Program in 2021, DHR was awarded the “A List” status for the first time as J-REIT. DHR will continue to promote its sustainability initiatives to achieve the SPT.



(3) Observation of the achievement of SPT and the application to changes in interest rates

The Sustainability-Linked Bonds have the structure where the achievement of SPT will be observed every year until the redemption date and the interest rate will be changed according to the degree of achievement of the SPT. More specifically, if DHR earns an “A” score in the CDP Climate Change Program, the interest rate applicable during the

one-year period subject to the observation result will be reduced by 0.025% from the initial interest rate. In the event of failure to achieve the SPT, the applicable interest rate will be raised by 0.010% from the initial rate if DHR has earned “A-” score and will be raised by 0.025% from the initial rate if DHR has earned “B” or lower score. As of the date of the announcement, such structure in which the SPT is assessed annually and the interest rate changes according to the SPT will be the world’s first case in the public bond market. In the case of conventional sustainability-linked bonds, there is a step-down type in which the interest rate of the bond decreases if the SPT is achieved and a step-up type in which the interest rate of the bond increases if the SPT is not achieved. In both cases, the interest rate changes in only one direction. DHR believes that the application of the sustainability-linked bonds will contribute to the stronger promotion of sustainability initiatives by issuers while ensuring fairness for both issuers and investors. For further details regarding the structure of the sustainability-linked bonds, please refer to "Supplementary Material for Issuance of Sustainability-Linked Bonds Featuring the World’s First Annual Performance Structure in the Public Bond Market" released today.

(4) Timeline for observing the achievement of the SPT

The achievement of the SPT is scheduled to be observed in April every year until the redemption date based on the CDP’s scoring results.

4. Amount of funds to be procured, use of proceeds and scheduled outlay period

(1) Amount of funds to be procured (approximate net proceeds)

3,976 million yen

(2) Use of proceeds and scheduled outlay period

The proceeds will be allocated to part of the funds for the prepayment to be made on May 31, 2022 for the loan of 2,000 million yen due on August 31, 2022 and the loan of 2,000 million yen due October 31, 2022 (total amount: 4,000 million yen). The balance of 24 million yen between the amount of loans to be prepaid of 4,000 million yen and the net proceeds of 3,976 million yen will be paid by cash on hand.

5. Investors who declared investment in the Sustainability-Linked Bond

The investors who have declared investment in the Sustainability-Linked Bonds as of the date of this announcement are listed as follows.

- The Dai-ichi Life Insurance Company, Limited
- The Dai-ichi Frontier Life Insurance Co., Ltd.

6. Overview of the loans to be prepaid

Lender	Balance before prepayment (million yen)	Prepayment amount (million yen)	Balance after prepayment (million yen)	Interest rate (Floating)	Borrowing date	Repayment due date	Prepayment date
Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation MUFG Bank, Ltd. Mizuho Bank, Ltd.	2,000	2,000	0	0.25545% (Note)	March 27, 2019	August 31, 2022	May 31, 2022
Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited MUFG Bank, Ltd. Mizuho Bank, Ltd.	2,000	2,000	0	0.30545% (Note)	April 10, 2019	October 31, 2022	May 31, 2022
Total	4,000	4,000	0				

(Note) The stated interest rate is applicable for the period from April 28, 2022 to May 31, 2022.

7. Status of interest-bearing debt after the issuance of the Sustainability-Linked Bonds and prepayment of the loans

(Unit: million yen)

	Before (As of May 12, 2022)	After (As of May 31, 2022)	Increase (Decrease)
Short-term loans	—	—	—
Current portion of long-term loans	35,900	35,900	—
Long-term loans	333,650	329,650	(4,000)
Total loans	369,550	365,550	(4,000)
Current portion of investment corporation bonds	—	—	—
Investment corporation bonds due after one year	38,000	42,000	4,000
Total investment corporation bonds	38,000	42,000	4,000
Total interest-bearing debt	407,550	407,550	—

8. Other

For the risks concerning issuance and redemption, etc. of the Sustainability-Linked Bonds, there are no changes from the Japanese language securities report submitted on November 25, 2021.

* DHR's website: <https://www.daiwahouse-reit.co.jp/en/>