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Notice Concerning Formulation of Green Finance Framework and
Acquisition of Green Finance Framework Evaluation

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) announces the formulation of its green finance framework (hereinafter called the “Framework”) and the acquisition of the highest Overall Evaluation of Green 1 (F) from the Japan Credit Rating Agency, Ltd. (hereinafter called “JCR”) for the Framework.

1. Purpose and Background of the Framework

JHR and Japan Hotel REIT Advisors Co., Ltd. (hereinafter called “JHRA”), the asset management company of JHR, believe that sound management that enables co-living and co-existence with society and the environment contributes to the enhancement of unitholders’ value over the medium to long term, and are working to improve sustainability through consideration of ESG (Environment, Social, and Governance).

JHR and JHRA jointly formulated the Sustainability Policy in December 2017 and have been promoting a series of ESG-related activities, such as reducing environmental impact and considering stakeholders. In December 2021, JHR identified the Materiality to enhance its ESG initiatives further and is promoting measures to address each issue. JHR also believes that appropriately disclosing its initiatives and fostering trust with stakeholders will contribute to JHR's medium- to long-term growth.

Given these considerations, JHR believes that implementing green bonds or green loans (hereinafter called the “Green Finance”) will not only strengthen JHR’s financing base by expanding financing from the investors who are interested in ESG investments but also contribute to expanding the ESG investment market. JHR has, therefore, formulated the Framework as the basic policy for implementing the Green Finance.

2. Overview of the Framework

JHR has formulated the Framework in accordance with the Green Bond Principles 2021 (Note 1), Green Loan Principles 2023 (Note 2), Green Bond Guidelines 2022 (Note 3), and Green Loan Guidelines 2022 (Note 4) to implement the Green Finance. Details of the Framework are as follows:

(1) Use of funds procured through the Green Finance

JHR will allocate the funds procured through the Green Finance to the following three purposes that meet the Eligibility Criteria below: (1) for the acquisition of green buildings or refinancing of the funds used for the acquisition, (2) for renovation work, and (3) for the acquisition or installation of renewable energy generation equipment.

<Eligibility Criteria>

(I) Green building

Properties that have obtained or renewed certification from any of the following third-party certification organizations or properties that intend to obtain or renew such certification:

- DBJ Green Building Certification : 3-star, 4-star or 5-star ratings
- CASBEE Certification
(including Municipal CASBEE) : B+, A, or S rank
- BELS Certification : 3-star, 4-star or 5-star ratings (based on FY2016)
- LEED Certification : Silver, Gold, or Platinum
- BREEAM Certification : Very good, Excellent, or Outstanding

(II) Renovation work

Renovation work that meets any of the following:

- Renovation work that has the effect of reducing any of the following: CO₂ emissions, energy consumption, or water consumption by 30% in real estate owned by JHR
- Renovation work intended to improve one or more stars or ranks of certification by third-party certification organizations as defined in the Eligibility Criteria (I)

(III) Renewable energy

Acquisition or installation of the following renewable energy power generation equipment

- Solar power generation
- Onshore wind power generation (limited to equipment with output of less than 20kW)
- Biomass power generation (limited to equipment where fuel is sourced from its location or adjacent prefectures)

(2) Process for project evaluation and selection

JHRA's Finance Group and ESG Team will select project candidates for which the procured funds will be used, and decisions will be made by the Investment and Operation Committee, the Board of Directors, and JHR's Board of Directors.

(3) Management of procured funds

JHR will promptly allocate the total procured funds to projects that meet the Eligibility Criteria. Until the allocation of the procured funds is determined, the procured funds will be managed in cash or cash equivalents.

JHR will set the maximum amount of the Green Finance as the total of the following (hereinafter called the "Eligible Green Debt Amount") and will manage the balance of the Green Finance so that it does not exceed the Eligible Green Debt Amount:

- The amount calculated by multiplying the total acquisition price of green buildings held by JHR that meet the Eligibility Criteria (I) by the interest-bearing debt ratio (LTV) at the end of the fiscal period that can be calculated at the time of confirmation
- The expenditures required for renovation work that meets the Eligibility Criteria (II)
- Funds for the acquisition and installation of renewable energy power generation equipment that meets the Eligibility Criteria (III)

(4) Reporting

<Fund Allocation Status Reporting>

JHR will disclose the information annually on its website or through publicly available materials to the extent practicable until all funds are allocated to the projects that meet the Eligibility Criteria.

- Allocation status of the procured funds
- The balance of any unallocated funds, if any, scheduled allocation time, and fund management method during the unallocated period
- Ensuring that the balance of the Green Finance does not exceed the Eligible Green Debt Amount as long as the balance exists

If any unallocated funds arise due to significant changes subsequently made to the initial allocation status of the procured funds, JHR will disclose the information on its website or through publicly available materials.

<Impact Reporting>

JHR will disclose the following information annually on its website or through publicly available materials to the extent practicable.

(I) Reporting on green building

- Property name and number of properties
- Total floor area
- Type of certification
- Certification rank
- CO₂ emissions (t-CO₂), electricity consumption (MW/h), and water consumption (m³) of all subject properties

(II) Reporting on renovation work

- Subject project or property name
- The value or reduction rate of CO₂ emissions (t-CO₂), electricity consumption (MW/h), or water consumption (m³) before and after the renovation work

(III) Reporting on renewable energy

- Estimated annual power generation (t-CO₂) and CO₂ emission reduction (MW/h)

(Note 1) The Green Bond Principles 2021 refer to the guidelines for issuing green bonds established by the Green Bond Principles and Social Bond Principles Executive Committee, a private organization with the International Capital Markets Association (ICMA) serving as its secretariat.

(Note 2) The Green Loan Principles 2023 refer to the guidelines for loans that are restricted to the environmental sector established by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA), and the Loan Syndications and Trading Association (LSTA).

(Note 3) The Green Bond Guidelines 2022 refer to the guidelines formulated and published by the Ministry of the Environment in March 2017 and revised in March 2020 and July 2022. The guidelines aim to further promote green bonds in Japan by providing examples of specific responses and interpretations suited to the characteristics of Japan that can be used as a reference when other market participants consider specific responses to green bonds while giving due consideration to consistency with the Green Bond Principles 2021.

(Note 4) The Green Loan Guidelines 2022 refer to the guidelines formulated and published by the Ministry of the Environment in March 2020 and revised in July 2022. The guidelines aim to further promote the use of green loans in Japan while taking into consideration the consistency with the Green Loan Principles 2023, and provide examples of specific measures and interpretations that are consistent with the characteristics of the Japanese market that can be used as a reference when borrowers, lenders, and other market participants consider specific responses to green loans.

3. Evaluation by External Organization

Evaluation agency	Evaluation subject	Evaluation	
JCR	Green Finance Framework	Overall Evaluation	Green 1 (F)
		Greenness Evaluation (Use of Proceeds)	g1 (F)
		Management, Operation and Transparent Evaluation	m1 (F)

* For details, please refer to JCR's news release and website.

Website of JCR: <https://www.jcr.co.jp/en/greenfinance/news/>

* Website of Japan Hotel REIT Investment Corporation: <https://www.jhrth.co.jp/en/>