SUMITOMO MITSUI TRUST HOLDINGS

SuMi TRUST
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ESG Real Estate

Sustainability Report

2022/2023

Through real estate, we aim to bring about a sustainable society together with our clients

Reason for existence (purpose)

Creating new value with the power of trusts and let prosperous future for our clients and society bloom

With our broad range of functions and flexibility, SuMi TRUST Group aims to balance the creation of both social and economic value by harnessing the power of trusts to help bring about a sustainable society.

We have long been a pioneer of ESG in real estate to create new value in order to bring about a prosperous future for our clients and society

SuMi TRUST Group initiatives and targets

ESG actions in society

2005

Start of initiatives
Awarded a prize for excellence for a paper entitled "A Note on Environmental Value Added for Real Estate" to commemorate the 10th anniversary of the Tokyo Association of Real Estate Appraisers

2006

Principles for Responsible Investment (PRI) established (dawn of ESG)

2010

First Japanese financial institution
Established a dedicated environmentally friendly property team

2014

No. 1 market share
Started handling CASBEE for Real Estate (as of end-Sep 2022/certification-supported basis)

"S" rank
SuMi TRUST Bank head office building accredited with CASBEE for Real Estate (certified in the first assessment in 2017)

2015

Paris Agreement adopted
SDGs adopted

First in Japan
Started decarbonization initiatives for entrusted properties

Switch to 100% renewable energy
SuMi TRUST Bank offices in Japan

2021

First in Japan
Started providing positive impact finance solutions to J-REITs

2022

2030

Attainment of SDGs

Net-zero GHG emissions in SuMi TRUST Group

2050

Attainment of carbon neutrality (Paris Agreement)

Net-zero GHG emissions in investment and loan portfolios

CO_2 emitted
from the construction and management of buildings accounts for
roughly 40%
all emissions in Japan

Environment

- Carbon neutrality
- Fighting climate change
- Biodiversity...etc.

Links between real estate and ESG

Social

- Health and comfort of buildings
- Community involvement
- Disaster preparation...etc.

Governance

- Rapid growth of ESG investing
- Disclosure of non-financial information
- Appropriate utilization of managerial resources (property)...etc.

SuMi TRUST Bank—a pioneer of environmentally friendly property

2005

Published a paper on added value generated by environment-friendly real estate

Submitted numerous proposals with a primary focus on demonstrating how environmental performance can create added value in easily understandable ways

2010

First Japanese financial institution to establish a section within the organization dedicated to environmentally friendly property

Pioneered a business aimed at popularizing environment-friendly real estate

2021

Set up a planning and promotion unit specializing in ESG in real estate

Provided total solutions geared towards solving ESG/SDG issues for clients

Main initiatives

Inception

A commemorative paper entitled "A Note on Environmental Value Added for Real Estate" for the 10th anniversary of the Tokyo Association of Real Estate Appraisers received a prize for excellence in 2005 (see page 32)

Initiatives related to CASBEE

- Lead organizer of a subcommittee examining CASBEE property appraisal since 2007 and chairperson since 2022; launched "CASBEE for Real Estate" certification system in 2013 (see page 13)

Organizing study groups

- Lead organizer of a sustainable real estate study group since 2007; released results of studies in 2009 and 2016
- Lead organizer of a smart city study group in 2013; released results of studies in 2016

Initiatives related to real estate appraisal and evaluation

- Chair of a working group on environmental added value, organized by the Japan Association of Real Estate Appraisers (JAREA), since 2007
- Member of an office building performance evaluation and display manual committee; released a manual on office building performance evaluation and display in 2017
- Released a report on examining assessments concerning ESG considerations in real estate appraisals (MLIT) in 2021

Initiatives linked to UNEP

- Member of a property working group organized as part of the United Nations Environment Programme Finance Initiative (UNEP FI) since 2007; successively released a collection of case studies and a handbook for Responsible Property Investment (RPI)

Initiatives with national and local authorities

- Member of an MLIT-sponsored study committee on the promotion and spread of environmentally friendly property; the committee was established in 2008
- Member of the Tokyo Metropolitan Government's low carbon partnership committee for small and medium-sized buildings; the committee was established in 2012 by the Tokyo Bureau of Environment
- Member of the Smart Wellness Office Research Committee, sponsored by the Japan Sustainable Building Consortium; announced results of a study on economic impact of buildings with CASBEE evaluations in 2015 (see page 33); discussed CASBEE-Wellness Office system, which started offering certifications in 2019 (see page 17)
- Member of an MLIT-sponsored study committee on the promotion of ESG investment for addressing social issues in the real estate sector since 2021

CONTENTS

We leverage our various real estate functions to help solve the challenges of our clients

ESG real estate

Initiatives of SuMi TRUST Holdings

SuMi TRUST Group is undertaking a number of initiatives related to ESG in real estate, beginning with the decarbonization of its own office buildings.

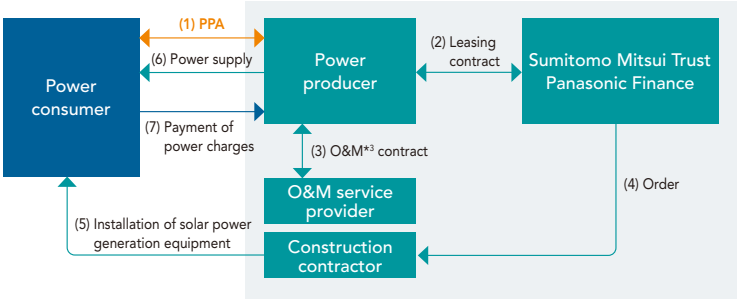
Contributing to decarbonization by procuring renewable energy

As part of the SuMi TRUST Group Carbon Neutral Commitment announced in October 2021, we aim to achieve net-zero greenhouse gas (GHG) emissions in the Group by 2030.

Since 2021 we have continued to switch to renewable energy sources for the power used at the Group's office buildings and branches. In fiscal 2022 we made steady progress toward net zero mainly by completing the adoption of 100% renewable energy for the electricity used at all SuMi TRUST Bank offices in Japan.

Particularly for two branches (Kyoto and Himeji) in the Kansai region, we are procuring electricity from solar power generation plants by making use of an offsite corporate PPA*1 scheme, with Sumitomo Mitsui Trust Panasonic Finance providing leasing to the power producers.

We will continue to set our sights on achieving net-zero GHG emissions in the Group with renewable energy sources and electricity purchased with the use of non-fossil fuel energy certificates*2.



*1 A corporate PPA (power purchase agreement) is a contract under which a consumer purchases renewable energy over the long term from a power producer. For this case, an offsite-type PPA model is employed to transmit power from remote power plants via an electricity distribution network to SuMi TRUST Bank branches.

*2 Non-fossil fuel energy certificates enable market participants to trade environmental value separated from sources of electricity generated without the use of fossil fuels in the form of certificates. 100% renewable energy can be effectively realized by purchasing both renewable energy and non-fossil fuel energy certificates.

*3 O&M stands for operation & maintenance. It refers to the business of operating and maintaining a solar power generation facility on behalf of its owner.

ESG information from the Group's think tank

Sumitomo Mitsui Trust Research Institute is a specialist think tank that undertakes research studies, submits proposals, and provides consulting services relating to cities and real estate. It also undertakes a wide range of ESG initiatives.

It surveys real estate and financial practitioners about their ESG awareness and behavior, conducts research into the economic value of environmental certifications, sits on governmental and industry body committees, and publishes reports and news columns about ESG on its website. Also, as part of its investment advisory service for investors, the institute evaluates and scores the ESG initiatives of all J-REIT stocks.

https://www.smtri.jp/en/

External evaluations

SuMi TRUST Bank head office building accredited with CASBEE for Real Estate "S" rank

The scope of CASBEE for Real Estate was expanded to include assessments of buildings with strata titles in December 2016 and the head office building (encompassing basement level 3 to floor 13) of SuMi TRUST Bank acquired an "S" rank in the very first assessment. Thus, the visualization of the environmental performance of our real estate holdings is being implemented even with our own office buildings.

SuMi TREIM earns 3-star rating in GRESB Real Estate Assessment* for the second year running

In the 2022 GRESB Real Estate Assessment, Sumitomo Mitsui Trust Real Estate Investment Management (SuMi TREIM) earned a 3-star rating for one of the funds it manages as part of its asset management business. Going forward, SuMi TREIM will continue to employ proactive measures that incorporate environmental and social considerations based on its ESG property investment management policy.

GRESB ★★★☆☆ 2022

*GRESB is an annual benchmark assessment for measuring the ESG performance of real estate investment firms and funds. It is also the name of the organization that manages ESG benchmarks for the industry. It was founded in 2009 by a group of major European pension funds that spearheaded the development of the Principles for Responsible Investment (PRI). In 2022, 122 entities from Japan participated in the assessment, of which 57 were real estate investment trusts (J-REITs), which represents 99.3% of total J-REIT market capitalization.

New initiatives

Our Group has kicked off some new initiatives in order to support the ESG real estate measures of ours clients.

Going forward, we will continue to help clients find solutions to their problems through research activities and the communication of information.

New (1) Study on economic incentives of acquiring environmental certification

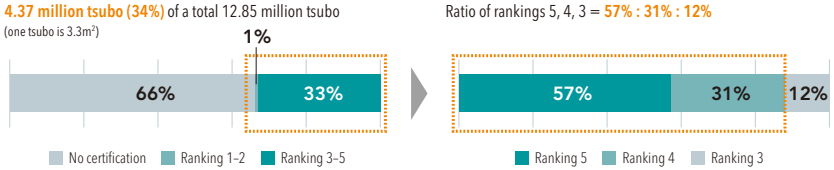
In a joint study with Sumitomo Mitsui Trust Research Institute, we examined the state of environmental certifications in the rental office market in Tokyo's five central wards.

Percentage of environmental certifications obtained

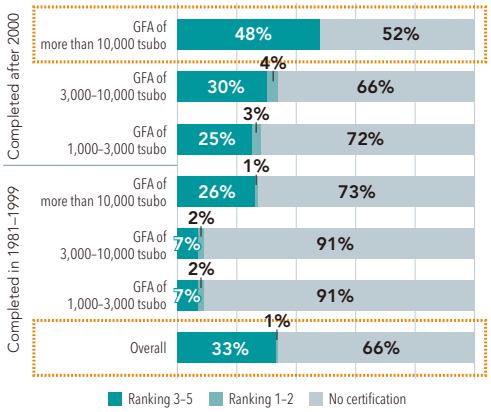
We learned that 34% (GFA basis) of all rental office buildings in Tokyo's five central wards have obtained an environmental certification and that the evaluation rankings are particularly high.

The study focused on an area in Japan where obtaining an environmental certification is relatively common. We think it could serve as an example of the ranking that companies should aim for when they consider acquiring an environmental certification in the future.

34% of all buildings have an environmental certification and the higher rankings of 5 and 4 make up 88%



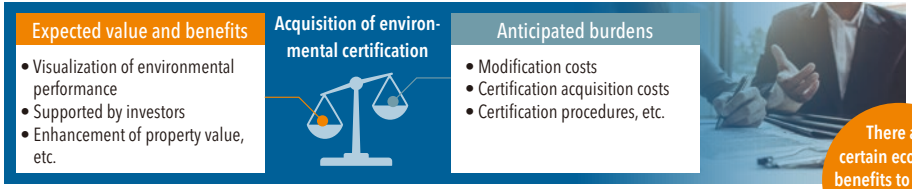
The percentage of environmental certifications tends to be higher among large scale buildings completed after 2000



Source: Prepared by Sumitomo Mitsui Trust Research Institute and partially modified by SuMi TRUST Group, based on the Office Building Database of Nikkei Business Publications and publicly available information

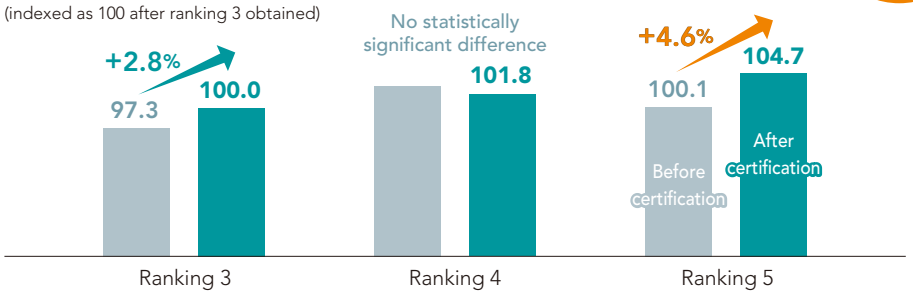
Economic benefits of environmental certification

Taking the environment into consideration does incur extra costs and requires more effort, but on the other hand, it is estimated that there are some economic benefits for properties certified with a high level of environmental performance.



There are certain economic benefits to obtaining environmental certification

Comparison of rent in the same building before and after obtaining certification



It is estimated that rent is boosted by 4.6% when comparing before and after an environmental certification (ranking 5) is obtained for the same building.

Going forward, we hope to conduct further research to demonstrate the economic benefits that an environmental certification can have on rent and contribute in some way to promoting the acquisition of environmental certification.

Please refer to pages 13 through 18 for information about our services supporting the acquisition of environmental certification.

Survey overview

- Survey targets: Rental office buildings completed after 1981 in Tokyo's five central wards (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya) with a minimum total GFA of 10,000 tsubo
- Rents: Expected rents for new contracts in SMTRI's office building data
- Environmental certifications: Collection and analysis of publicly announced certification results up until the end of December 2021 under the following three certification schemes: CASBEE (Comprehensive Assessment System for Built Environment Efficiency), DBJ Green Building Certification, and BELS (Building-Housing Energy-efficiency Labeling System)
- Rankings: Under the CASBEE for Real Estate scheme, a ranking of 5 corresponds to S rank, 4 corresponds to A rank, and 3 corresponds to B+ rank

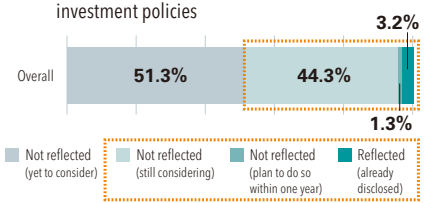
New (2) 2022 survey of ESG in real estate

ESG measures in the field of real estate investment management are wide-ranging and the stances and priorities of each company's initiatives vary. The purpose of this survey was to shed light on the state of ESG initiatives undertaken by property owners as part of their investment and management practices, and by aggregating the results, it will give us a better understanding of current ESG trends in real estate.

We have plans to conduct surveys on a regular basis up ahead so that we can grasp the changes in how ESG measures in real estate are implemented over time.

Key point 1 More than 40% of respondents answered that they are thinking about evaluating prices of environment-friendly real estate more highly

Fig. 1 Reflection in environment-friendly real estate investment policies



Companies are reviewing their investment policies

Key point 2 Companies that seek to obtain environmental certification set themselves ambitious targets

Fig. 2 Setting of goal to obtain environmental certification

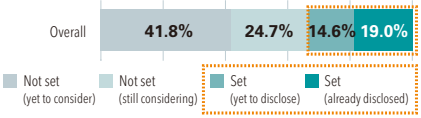
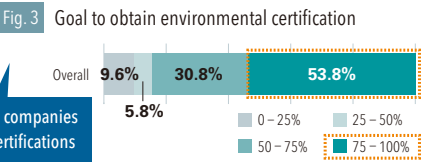


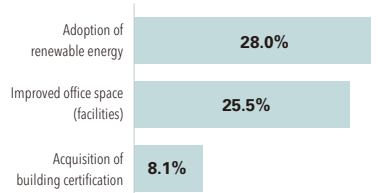
Fig. 3 Goal to obtain environmental certification



More and more companies are acquiring certifications

Key point 3 Approximately 30% of respondents have been asked by tenants to switch to renewable energy

Fig. 4 ESG requests from tenants



ESG requests from tenants are growing

Survey overview

- Survey period: Wednesday July 13, 2022 to Wednesday August 24, 2022
- Number of questions: 46
- Participating companies: 161 (major property holders in the real estate market, including asset managers, real estate firms, construction companies, and insurance companies)

New (3)

Supporting the decarbonization of entrusted properties

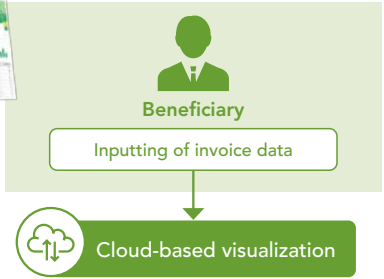
As the trustee of one of Japan's largest real estate securitization trusts, we started offering some new support services to promote the decarbonization of real estate together with our clients.

From the visualization of GHG emissions, the entry point to achieving decarbonization, right through to renewable energy conversion with the purchasing of non-fossil fuel energy certificates, we will support carbon-neutrality efforts at held and managed properties while reducing costs and time for beneficiaries.

Support on calculating GHG emissions

Supporting the "easy" calculation of GHG emissions of property holdings for beneficiaries

Image provided by Zeroboard Inc.

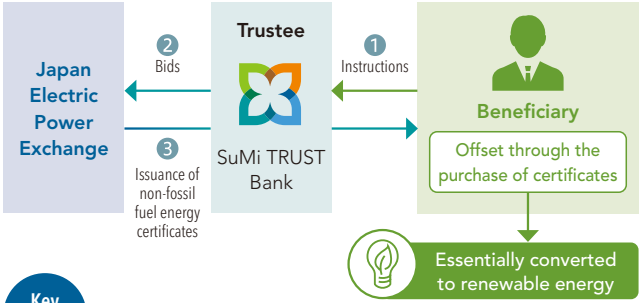


Key point

Streamlining aggregation tasks and supporting the reduction of GHG emissions

Service for beneficiaries to purchase non-fossil fuel energy certificates

Purchasing certificates at the instruction of beneficiaries and supporting their conversion to renewable energy



Key point

Easy conversion to renewable energy without amending electric power contracts

*Both services are provided to the properties entrusted to SuMi TRUST Group

Factors behind demand for ESG in real estate

ESG considerations are indispensable to the attainment of the Sustainable Development Goals (SDGs) and carbon neutrality by 2050. Companies are also required to take concrete action.

The amount of CO_2 emitted from the construction and management of buildings is said to account for approximately 40% of all CO_2 emissions in Japan, including indirect emissions. And given that humans spend a lot of time indoors, indoor environments affect the health and productivity of occupants. As such, real estate is the foundation that supports all kinds of activities in society, as well as people's lives, and has a significant impact on the three aspects of environment, society, and economy.

The Group aims to further promote the spread of environment-friendly real estate, such as energy- and resource-efficient cities and buildings, and buildings that contributes to improvements in productivity.

POINT

What is environment-friendly real estate?

It refers to real estate that takes environmental considerations into account and "delivers environmental value brought about by exceptional environmental performance and sound management."

As calls in society for environmental considerations and well-being have grown louder in recent years, environment-friendly real estate that provides comfortable spaces to users, is environmentally friendly, and is resilient enough to ensure business continuity even in the event of a disaster, is growing increasingly important in the real estate industry.

High level of environmental quality

High levels of comfort and productivity in places where people live or work

Low levels of environmental impact

Reduced burdens on the environment from, for example, global warming, resource exhaustion, heat island phenomenon, ozone layer depletion, air pollution, noises, vibrations, and offensive odors, loss of traditional streetscapes, and loss of biodiversity

Strong resilience

Enough sturdiness for a building to bounce back and recover from a disaster caused by a giant earthquake or abnormal weather event

ESG initiatives in the real estate sector and expected benefits

Tackling ESG issues in the real estate sector is expected to enhance corporate value and asset value for clients and solve management issues.

Environment

- Promoting greater energy savings
- Using renewable energy
- Promoting the use of recycled resources
- Addressing soil pollution
- Biodiversity

Social

- Enhancing health and comfort of buildings
- Guaranteeing safety (earthquake-resistance of buildings)
- Fighting COVID-19 and other infectious diseases
- Preparing for disasters (BCP measures)
- Contributing to regional communities and economies

Governance

- Ensuring transparency as a corporation, compliance, and internal controls
- Disclosing non-financial information in integrated reports
- Properly managing and utilizing property holdings (managerial resources)

Anticipated value creation

Cost reductions

- Lower utility costs owing to energy savings
- Lower repair costs and depreciation ratio due to longer building lifespans

Greater productivity

- Improved health and comfort and greater productivity thanks to improvement in workplace environment

Less likelihood of future risks

- Preparedness for more stringent regulations, such as future tax levies

Higher market valuation

- Higher property market valuations taking into account environmental factors

Enhancing corporate value and earning the support of stakeholders

Support from investors

Messages to investors that emphasize ESG

Support from employees

Improvements in employee health, intellectual productivity, and motivation, as well as potential advantages in hiring

Support from communities

Gaining positive recognition as a corporate citizen by enhancing local environments mainly by curbing the "heat island" effect and improving the landscape

Visualization of environmental performance

Through our consulting services that support the acquisition of environmental certifications, we are supporting the enhancement and visualization of the environmental performance of properties.

Scope of services	Environmental considerations in buildings	Environmental considerations in urban development	Focused on health and comfort of buildings	
	CASBEE for Real Estate	CASBEE for Urban Development	CASBEE-WO (Wellness Office)	WELL Building Standard™*

*Clients are referred to a partner company that supports the acquisition of this certification

About CASBEE (Comprehensive Assessment System for Built Environmental Efficiency)

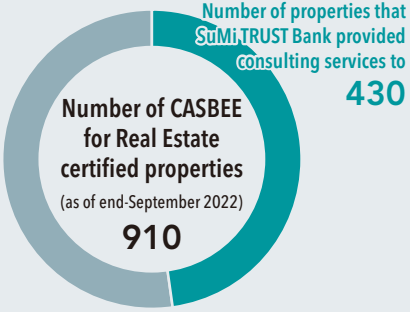
CASBEE is currently gaining traction in Japan as a system for evaluating the overall environmental performance of buildings. It was developed in 2001 under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Various tools have been released thus far—for example, CASBEE for New Construction, which can assist designers in the environmentally friendly design process or be utilized in reports submitted to local governments, and CASBEE for Real Estate, which is used widely in the property market mainly as a labelling tool.

To help with corporate initiatives aimed at solving sustainability issues, SuMi TRUST Bank offers consulting to support applications for CASBEE for Real Estate certification.

Number of CASBEE for Real Estate certified properties (as of end-September 2022): 910

Of these, the number of properties that SuMi TRUST Bank provided consulting services to: 430

(of which, 367 were for listed real estate investment corporations (J-REITs), 32 for private J-REITs, 14 for special purpose companies and the like, 11 for business corporations, and 6 for life insurers)

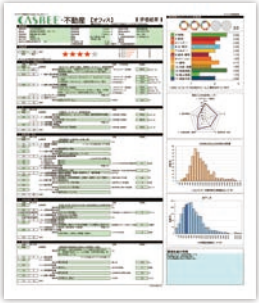


Consulting in support of CASBEE for Real Estate certification applications

We provide support at every stage of the certification process, from the selection of properties through to the evaluation and submission of applications to the certification body.

About CASBEE for Real Estate

CASBEE for Real Estate was developed in 2012 for the purpose of promoting the broader adoption in the property market of environmental performance assessments of managed buildings (offices, commercial facilities, logistics, apartment complexes). The items of assessment in CASBEE for Real Estate have been considerably narrowed down so they remain compatible with environmental performance assessments overseas whilst also remaining consistent with other tools in the CASBEE family, such as CASBEE for New Construction. Since 2021 it has been able to optionally assess the initiatives of buildings with regard to the SDGs. Owing to the fact that CASBEE for Real Estate can also be used in GRESB assessments, its use is quickly gaining momentum mainly among REITs and real estate companies that are sensitive to sustainability.



CASBEE for Real Estate evaluation sheet

Identifying problems with CASBEE for Real Estate and suggesting improvements

In addition to using CASBEE for Real Estate for property evaluations, we also make suggestions about how to identify problems and make improvements to environmental performance.

Table Evaluation items in CASBEE for Real Estate (In the case of office buildings)

Energy/Greenhouse gases	Target setting and monitoring/energy saving standards/O&M*3 system, usage and emissions intensity (calculated values), usage and emissions intensity (actual values), natural energy forms
Water	Target setting and monitoring/O&M system, water usage volume (calculated values), water usage volume (results)
Use of resources/Safety	Conforms to new earthquake resistance standards, high earthquake resistance/seismic isolation and vibration damping, etc., usage of recycled materials, service life of structure materials, necessary renewal interval for main equipment functions, higher self-sufficiency ratio (electricity, etc.), operation and maintenance
Biodiversity/Sustainable site	No use of invasive alien species, enhancement of biodiversity, soil environment quality, public transportation access, measures in preparation for natural disaster risks
Indoor environment	Attainment of building sanitation and environmental management standards, use of daylight, natural ventilation function, view

*1 Underlined items are prerequisites (they must be met to pass an evaluation). *2 Items in red are related to universal metrics the United Nations Environment Programme's Sustainable Buildings and Climate Initiative (UNEP SBCI) is studying.
*3 O&M: operation and maintenance

Visualization of environmental performance

Examples: Consulting to Support Applications for CASBEE for Real Estate Certification

Owners	Property	Rank	Certification date
Isetan Mitsukoshi Holdings Ltd.	Isetan Shinjuku Main Store	S	2021/7/9
AEON REIT Investment Corporation	AEONMALL YAMATOKORIYAMA	S	2022/3/15
DREAM Private REIT Inc.	MCUD Zama	S	2022/3/18
Suarez TMK	River Side SUMIDA	S	2022/4/28
Keyaki TMK and Kajima Private REIT, Inc.	World Business Garden	S	2022/5/23
Nippon Prologis REIT, Inc.	Prologis Park Osaka 2	S	2022/6/30
Japan Prime Realty Investment Corporation	Shinjuku Square Tower	S	2022/6/30
Nippon Building Fund Inc.	G-BASE TAMACHI	S	2022/7/29
Comforia Residential REIT, Inc.	COMFORIA OMIYA	S	2022/7/29
Sekisui House Asset Management, Ltd.	Prime Maison Shirokanedai Tower	S	2022/8/15
Otsuka Warehouse Co., Ltd.	CROSS DOCK HARUMI	S	2022/8/31
Japan Metropolitan Fund Investment Corporation	Machinoma Omori	S	2022/8/31
Starts Proceed Investment Corporation	Proceed Nishiarai (Artier)	S	2022/10/31

Isetan Shinjuku Main Store

World Business Garden

Prime Maison Shirokanedai Tower

River Side SUMIDA

CROSS DOCK HARUMI

Prologis Park Osaka 2

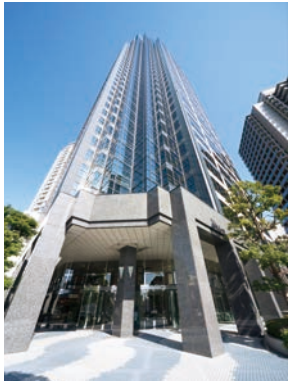
MCUD Zama

AEONMALL YAMATOKORIYAMA

G-BASE TAMACHI

Proceed Nishiarai (Artier)

Machinoma Omori



Shinjuku Square Tower

COMFORIA OMIYA

Visualization of environmental performance

Supporting applications for two certifications concerning the health and comfort of buildings

CASBEE-Wellness Office
Consulting in support of certification applications

We were involved in the development of CASBEE-Wellness Office through an MLIT study group tasked with promoting ESG investment and by sitting on its Smart Wellness Office Research Committee. We currently provide consulting services in support of certification applications.

About CASBEE-Wellness Office (WO)

Given the need for reforms aimed at improving health and productivity management and intellectual productivity, this new office model assessment system focuses on evaluating buildings in terms of health and comfort for office workers. More and more corporations are using it to promote their own positive impacts.

Consulting in support of applications for the WELL Building Standard™ certification

Developed by US-based Delos in 2014, the WELL Building Standard™ is a certification system for evaluating the performance of buildings and urban spaces with a focus on the health and well-being of people. We leverage a business alliance with Panasonic to provide support on WELL Building Standard™ applications.

Differences between CASBEE-WO and WELL Building Standard™

	CASBEE-WO	WELL Building Standard™
Regions	Within Japan	Worldwide
Building use	Offices	All uses
Assessment items	51	119 (selection options)
Certification period	5 years	3 years

Case Study A

Round-Cross Roppongi

An office building owned by ORIX JREIT. The fourth and fifth floors are serviced offices operated by Orix Real Estate. All of the building's common areas and facilities, along with its spaces dedicated to the serviced offices, were evaluated and certified under the CASBEE-Wellness Office system. The building's careful consideration of desk and seating arrangements to suit different situations in the office, as well as air quality control, were rated highly.

Consulting in support of CASBEE for Urban Development certification applications

We carry out environmental performance evaluations using CASBEE for Urban Development, and offers support services such as certification application advisory and review handling services.

About CASBEE for Urban Development

This tool assesses the environmental performance of urban development, including residential and commercial areas. It evaluates the quality of urban development environments from three angles—environment, society, and economy—and also assesses how well environmental impacts are minimized. It comprises assessment items that readily reflect initiatives related to the SDGs or ESG.

Case Study B

Suita Sustainable Smart Town

Suita Sustainable Smart Town, a multi-generation residential-type, health-oriented smart town currently being promoted by Suita City in Osaka Prefecture together with 15 partner companies, is the third sustainable smart town project of Panasonic Corporation. In March 2021 the town acquired the highest rank of "S" in the CASBEE for Urban Development evaluation certification.

The urban development characteristics of the town—namely, wellness, energy, mobility, security, and community—are also reflected in the CASBEE for Urban Development evaluation result.

Visuals are for illustrative purposes only.

Visualizing the value of smart towns and cities and supporting concept formulation

The development of smart towns and cities incorporating next-generation social systems at the regional level, with a complex combination of not only the effective use of electricity, but also the area-wide use of thermal and underutilized energy and the transformation of regional transportation systems and citizens' lifestyles, has become a key point in community development in recent years.

In order to make smart towns and cities a reality, economic added value commensurate with higher costs must be created whilst establishing clear targets from the basic planning stage onward for environmental, social, and governance issues.

We support projects for smart towns and cities on many fronts, such as devising frameworks that link various initiatives on environmental contributions to economic added value and formulating project concepts. Through our provision of financial functions such as home mortgages, we also help projects get executed.

Concept Diagram for Making the Value of Smart Towns Visible

Case Study C

Fujisawa Sustainable Smart Town

The Fujisawa Sustainable Smart Town is a project currently being carried out by Panasonic Corporation at the former site of Panasonic's Fujisawa factory.

The town's opening ceremony was held in spring of 2014 and 18 partner companies, including Panasonic Corporation, Fujisawa City, and SuMi TRUST Bank are currently furthering its development.

SuMi TRUST Bank is participating in various ways, such as designing smart town evaluation indicators (environmentally friendly property value) and creating project-specific product plans for environmentally friendly housing loans.

This project has also earned praise for its community-wide comprehensive CO_2 reduction efforts together with town management. It was selected for subsidies under the MLIT-led "leading projects" program for sustainable buildings (formerly known as the 2013 No.1 "leading projects for promoting CO_2 reduction" program for housing and buildings).

Main entrance

SQUARE Center

Central park

Streetscape

Helping clients make environmental considerations of construction

Construction consulting

We commercialized Japan's first land trust system in the 1980s and have been involved in developing and managing many building and condominium projects. As an expert on the client side, we leverage this business owner experience to provide advice about environmental considerations, such as a building's entire life cycle costs, the installation of energy-saving systems, ways to take into account landscapes and ecosystems, and extending building lifespans.

In recent times, there has been an increase in the number of properties aimed at acquisition of environmental performance certifications like ZEB*1 (net-zero energy building), as well as projects aimed at adoption in MLIT's leading projects program for sustainable buildings or in METI's net-zero energy building proof-of-concept pilot program.

Examples: Construction-phase support for environmental considerations

Company Name	Location	New construction/ renovation	Use	Number of Floors	GFA	CASBEE rank
Toyo Seikan Group Holdings, Ltd.	Tokyo	New construction	Office*2	2 basement floors, 21 floors above ground, 1 rooftop floor	Approx. 72,400 m²	S (acquired)
DAIKIN INDUSTRIES, LTD	Osaka	New construction	Office, R&D facility*2	1 basement floor, 6 floors above ground	Approx. 48,000 m²	S (self-evaluated)
HIROSHIMA MAZDA CO., LTD	Hiroshima	Renovation	Office, observation deck, product sales and dining facilities*2	2 basement floors, 14 floors above ground	Approx. 11,500 m²	A (notified)
Chugoku Labour Bank	Hiroshima	New construction	Office	14 floors above ground	Approx. 9,700 m²	S (acquired)
ANRITSU CORPORATION	Kanagawa	New construction	Office*3	7 floors above ground	Approx. 28,000 m²	S (self-evaluated)
THE SHIMANE BANK, LTD	Shimane	New construction	Central branch*2	1 basement floor, 13 floors above ground	Approx. 12,000 m²	S (self-evaluated)
Hamamatsu Iwata Shinkin Bank	Shizuoka	New construction	Office*2	Head office: 10 floors above ground; Main branch: 4 floors above ground	Approx. 16,000 m²	Head office: S (self-evaluated); Main branch: A (self-evaluated); WO: S (self-evaluated)

*1 Buildings aimed at realizaion of a comfortable indoor environment whilst balancing out the amount of primary energy used annually by the building to zero
*2 Selected for the MLIT-led "leading projects" program for sustainable buildings
*3 Selected for the METI-led "net zero energy building" proof-of-concept pilot program

Case Study D

HIROSHIMA ORIZURU TOWER

(case example of selection in MLIT's leading projects program for promoting CO_2 reduction in housing and buildings)

Situated adjacent to the Atomic Bomb Dome (Hiroshima Peace Memorial), this office building underwent full-scale renovations.

The existing framework was reused and the building enlarged to accommodate a higher level of earthquake resistance. A large canopy, louvers, and a "spiral slope" walking ramp were also built into the newly expanded sections. The building reduces its CO_2 footprint by utilizing various energy-saving features, including solar shading and cross ventilation.

Visitors to the building can access the HIROSHIMA HILL observation deck under the giant canopy on the roof, enjoy numerous activities in ORIZURU Square, and learn about its CO_2 reduction initiatives.

Case Study E

Global head office of Anritsu

(case example of selection in METI's net-zero energy building proof-of-concept pilot program)

With the aim of contributing to global decarbonization and the creation of a sustainable society, the Anritsu Group has plans to turn its head office and R&D site into a net-zero energy building (ZEB).

By improving heat insulation efficiency of exterior walls and windows, combined with the use of natural energy, such as natural lighting and ventilation, and the installation of highly efficient lighting fixtures and air-conditioners, Anritsu is endeavoring to achieve ZEB status by reducing energy consumption and generating its own energy with solar power.

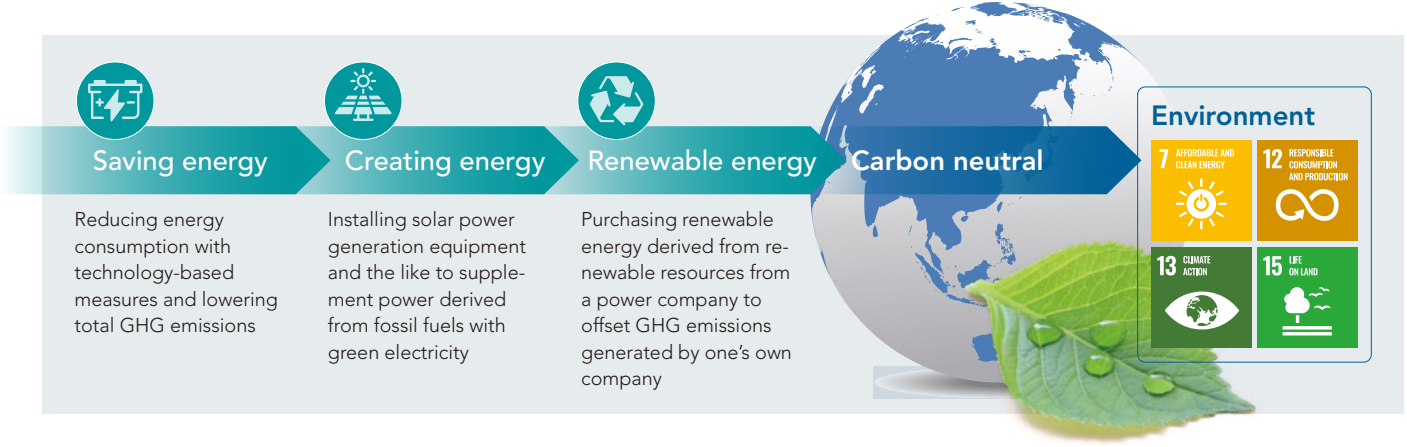
In addition, the adoption of energy that can be visualized is also helping foster an awareness of energy-saving among its users (employees).

Using less energy in existing buildings

Energy-saving consulting

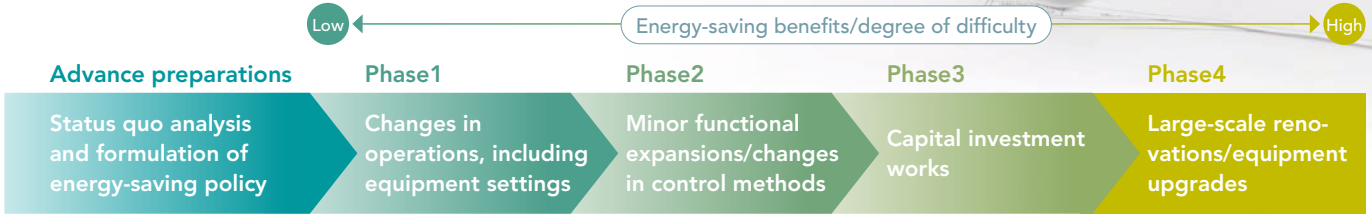
We offer an energy-saving consulting service that entails the planning of measures designed to reduce GHG emissions from buildings as part of our property administration business that supports the business activities of clients.

We aim to strike the right balance between higher profitability stemming from revised capex plans with reductions in total GHG emissions, lower utility costs, and limiting deterioration in equipment by achieving greater energy savings in existing buildings.



We gain an understanding of a building's energy performance by firstly analyzing its status quo. In other words, we conduct a building "health check." We can then establish some targets for reducing GHG emissions and the consumption of utilities and formulate an energy-saving policy. The extent of energy-saving benefits is more or less proportional to the degree of difficulty (investment costs, time, degree of impact on tenants, etc.). That is why it is important to undertake examinations beforehand when devising a plan.

Conceptual image of formulating and implementing an energy-saving policy

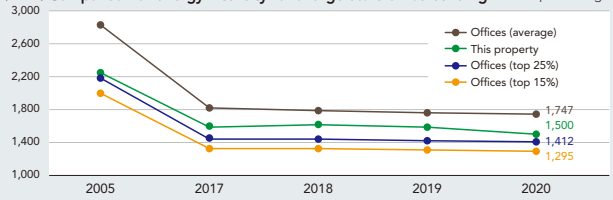


Advance preparations

Example of a comparison with benchmarks for an office building

After obtaining the emissions intensity for the client's building from the amount of energy it consumes, we compare and analyze it against benchmarks that match the building's characteristics, from figures such as published by the Tokyo Metropolitan Government's Bureau of Environment. Measuring the building's energy-saving performance gives a rough idea of its energy-saving potential.

(MJ/m²) **Comparison of energy intensity for a large-scale office building** Conceptual image



Case example of a client proposal

Energy-saving proposal for a production plant in the manufacturing industry

We analyzed the details of annual and daily fluctuations in the amount of energy consumed by equipment (excluding manufacturing equipment) incidental to production equipment at a client's production plant and proposed energy-saving operational approaches without the need for additional capital investment.

We also examined the impact it would have on production lines, the amount of reduced energy use if such measures were to be taken, and the possibility of cost reductions in an effort to help the client make a decision on whether or not they adopt our proposal.

Introduction of renewable energy sources

More and more clients are proactively considering the introduction of renewable energy in an effort to decarbonize their buildings.

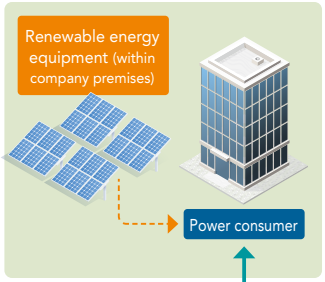
SuMi TRUST Bank appropriately gauges the decarbonization strategies of its clients (power consumers) and helps them select procurement methods that balance both environmental and economic performance.

In addition to collecting electricity retailers' bids on behalf of clients, the Bank supports the long-term, stable procurement of renewable energy by participating in more direct renewable energy creation models, such as captive consumption-type transactions and corporate PPA transactions.

Direct renewable energy procurement ⟵ ⟶ Indirect renewable energy procurement

(1) Self-consumption of renewable energy (within company premises)

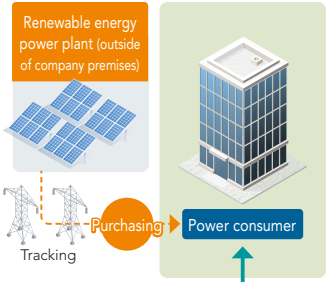
Renewable energy used directly and independently with equipment installed on rooftops or elsewhere



Leasing of renewable energy equipment by leasing subsidiary

(2) Corporate PPA (outside of company premises)

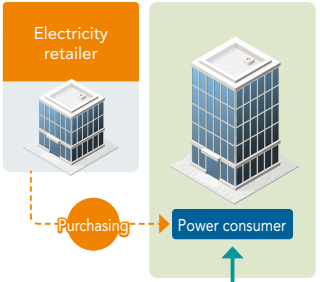
Electricity purchased under direct contract with power producer



Provision of know-how (having already implemented this scheme for SuMi TRUST Bank's buildings)

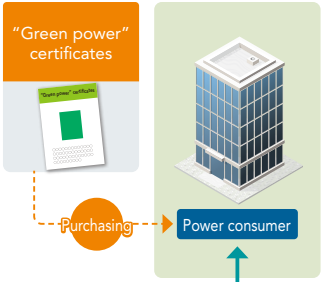
(3) Purchasing electricity from renewable energy sources

Electricity from renewable energy sources sold by electricity retailers



(4) Purchasing renewable energy certificates

Use of renewable energy certificates separated from electricity supply



Provision of proxy bidding services for electricity retailers

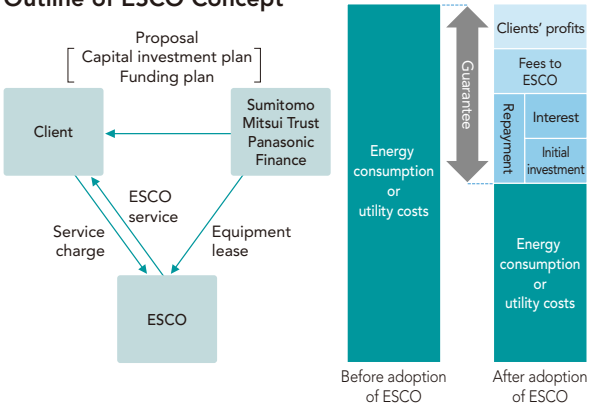
Energy support with the use of leasing schemes

ESCO services

An ESCO (energy service company) provides a comprehensive range of services to achieve energy savings, from the installation of energy saving equipment through its maintenance and management.

Sumitomo Mitsui Trust Panasonic Finance is partnering with ESCOs to offer energy-saving equipment leasing. The utilization of leasing means the upfront investment cost of replacing equipment can be eliminated, and in cases where certain conditions are met, subsidies can also be applied. With this service, Sumitomo Mitsui Trust Panasonic Finance can offer proposals that seek to protect the environment by saving energy whilst also lowering utility and maintenance costs.

Outline of ESCO Concept



*Case where a client adopts "Shared Model," one form of an ESCO scheme

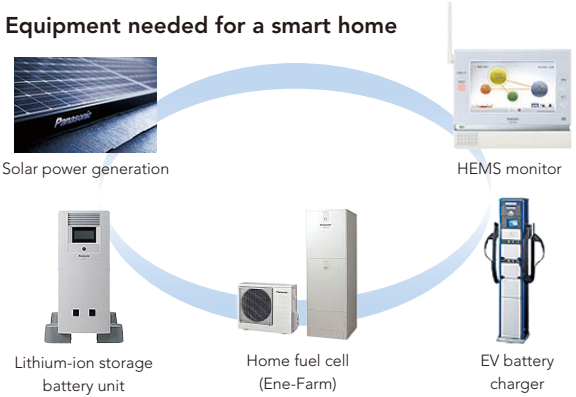
Home renovation loans for smart homes

A smart home is a residence in which overall power consumption can be optimally controlled and utilized by having home appliances and equipment connected to solar power generation or storage battery/thermal storage systems centering on a home energy management system (HEMS).

Sumitomo Mitsui Trust Panasonic Finance is supporting smart home conversions through the provision of home renovation loans. In partnership with construction contractors and vendors, we are helping households fight climate change mainly by promoting the uptake of household solar power generation equipment and the like.

External (conceptual) view of a smart home

Equipment needed for a smart home



Creating workplaces best suited to new-era working styles

Promoting the health of their employees is one key management issue in terms of the "social" component of ESG. In particular, companies are focusing on developments of the environment and functioning of offices where employees spend a great deal of time. These investments lead to greater corporate value as they have a positive impact on boosting the activity and productivity of organizations seeking to achieve well-being, as well as enhancing talent acquisition/retention and boosting employee engagement.

Recently, the role of offices has changed dramatically, especially with online meetings becoming popular due to spread of teleworking. Offices are now required to play roles that only offices can, enrich face-to-face communication, and serve as a hub of innovation.

SuMi TRUST Bank helps its clients improve the quality of their working styles and places of work by providing comprehensive support, from the formulation of strategies for developing office space environments and functions, right through to the practical business of moving office.

Workplace consulting

Clients' issues

Real estate-related issues
- Need to reduce real estate-related costs
- Considering reorganization of business bases
- Decline in office capacity utilization due to spread of teleworking

×

Office space-related issues
- Not sure how to go about implementing work-style reforms...
- Improving employee engagement with the use of office functions
- As a branding tool to secure talented personnel

Our solutions

Gauging in-house needs / understanding requirements → Searching for new premises (brokerage for sale/purchase and leasing) → **Formulating workplace strategies** → Selecting design / construction firm / cost evaluation / general coordination → Office management support / support of refurbishment to original state after departure

Expected benefits
- Reduction in real estate-related costs owing to optimization of business base allocation
- Realization of diverse working styles according to needs and improved productivity
- Enhancements of employee health and comfort
- Establishment of facility-driven branding

Strengthening governance by improving real estate management systems

Real estate is one key part of a management foundation that underpins the business activities of a corporation. Upholding corporate ethics, ensuring transparency in decision-making and execution processes, and undertaking fair and honest transactions are also important topics in terms of strengthening the "governance" component of ESG.

SuMi TRUST Bank provides facility management services with an extensive lineup of corporate real estate (CRE)-related systems and menus to meet its clients' needs.

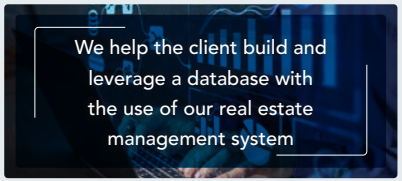
Facility management services

We help clients formulate and execute measures that contribute to improvements in the governance of their real estate management system in accordance with their issues.

Visualization of real estate information

Examples of client issues

- Property information is interspersed
- Data is old and obsolete
- Formulation of CRE strategy



Supporting management system development

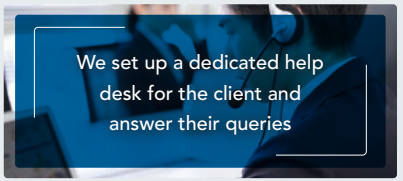
Examples of client issues

- Lack of in-house resources
- Concerns about decision-making processes related to external contractors

Help desk

Examples of client issues

- Not enough know-how and resources to solve problems about real estate



Building maintenance support/aiding longer lifespans

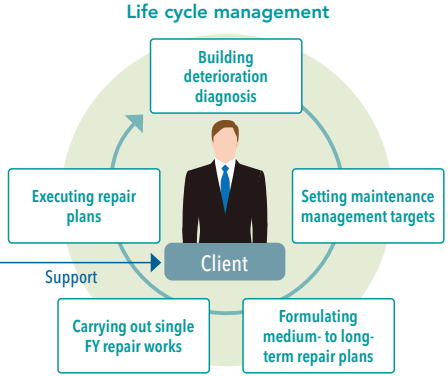
Adequately managing properties to prevent such trouble as malfunctions or fires caused by building deterioration, maintaining building safety, and developing business continuity plans, are all vital from a real estate risk management perspective.

Preventive maintenance is not only a key factor to keep lower repair costs and extend the lifespan of a building, but also effective in lowering the building's carbon footprint. At the same time, properly carrying out maintenance over the life cycle of a building is quite burdensome on the owner, despite being very important. SuMi TRUST Bank offers support to clients concerns related to all kinds of building maintenance.

SuMi TRUST Bank offers support to clients worried about issues related to building upkeep and maintenance.

Examples:

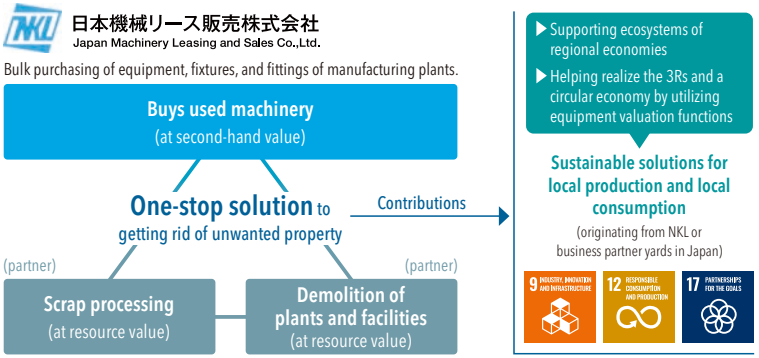
- ▶ Support on diagnosing building deterioration
- ▶ Evaluation of building degradation with the use of quantitative evaluation indicators
- ▶ Formulation of medium- to long-term repair plans
- ▶ For repair works:
  - Selection of construction contractor
  - Cost evaluation
  - Management



Disposing of building waste and contributing to a circular economy

Japan Machinery Leasing and Sales ("NKL" in Japanese), a wholly owned subsidiary of Sumitomo Mitsui Trust Panasonic Finance, harnesses its strengths and knowledge of buying and selling used machine tools, as well as the know-how of its business partners in recycling, scrap processing, and wrecking to provide one-stop solutions for disposing of building waste and other articles/equipment that arise when plant operations are reorganized, relocated, or closed down.

In doing so, it supports the ecosystems of regional economies, promotes the 3Rs, and helps bring about a circular economy.



Sustainable finance

Through sustainable finance, SuMi TRUST Bank helps its clients achieve sustained improvements in corporate value and asset value.

Main examples of sustainable finance

Green finance
Supports businesses that adapt to, or mitigate, climate change. For example, renewable energy, energy efficiency improvements, and green buildings

Finance based on ESG/SDGs assessment
Positive impact finance (PIF) and sustainability-linked loans (SLL)

World's first PIF*

36 PIF transactions
14 SLL transactions
(as of Oct. 2022)

Transition finance
Supports initiatives for transitioning to decarbonization or a low-carbon business approach in industries that are unlikely to achieve net-zero GHG emissions in the near term

First in Japan

First in Asia

First in Asia to sign onto the Poseidon Principles

Social finance
Supports employment creation, elimination of poverty, nurturing of startup firms, regional revitalization, basic infrastructure, and essential services

ESG-related derivatives
Schemes in which interest rates or foreign currency exchange rates fluctuate depending on the achievement of sustainability performance targets

*Type of loan agreement with a business in which the use of loaned funds is unspecified.

Case study

Positive impact finance (PIF) transactions with J-REIT

In May 2022, SuMi TRUST Bank concluded a PIF loan agreement with Sekisui House REIT based on the Principles for Positive Impact Finance of the United Nations Environment Programme Finance Initiative (UNEP FI). We are identifying and evaluating what kind of impacts the REIT will have on the environment, society, and the economy as it seeks to contribute to the attainment of the SDGs, and we will be supportive of the practical measures it takes to achieve its goals.

PIF × SuMi TRUST

Topics	(1) Fighting climate change	(2) Addressing resources and environmental issues	(3) Providing safe, secure, and comfortable spaces to residents and tenants
Targets and KPIs	(a) Reduction in CO_2 emissions (b) Reduction in energy consumption (c) Increase in percentage of green certifications	(a) Reduction in waste generated (b) Reduction in water usage	Improvement in safety, security, and comfort for residents and tenants
Relevant SDGs	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION	6 CLEAN WATER AND SANITATION, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	3 GOOD HEALTH AND WELL-BEING, 11 SUSTAINABLE CITIES AND COMMUNITIES

Delivering value 1

Added value derives from property profitability

It is often said environmental friendly property "costs more than usual and is difficult to invest in," but price theory in real estate investment suggests such buildings are able to generate added value equal to or greater than their additional cost.

From the perspective of profitability (how much and how long do properties generate steady profits), a property's price derives from net income (revenue minus costs) divided by the real estate capitalization rate. The greater gross income including rents is, and the lower the costs of utilities, maintenance, and building management are, the higher net income is, and so the higher the valuation of a property. In addition, stable properties with less income fluctuation risk are awarded higher valuations as investors require a lower yield from them.

Environmentally friendly property can earn higher net income by reducing utility expenses via energy savings and maintenance and operating expenses via the enhanced durability of parts and materials. Furthermore, such buildings can also generate higher gross income on higher rents stemming from higher productivity enabled by their enhanced office environments and the cachet boost from their environmental credentials.

Furthermore, environmentally friendly property is less exposed to future environment-related tax hikes or tougher regulations, so the capitalization rate for such buildings factors in less environmental risk. A lower depreciation rate resulting from a longer life span as well as enhanced appeal as environmentally friendly can also lower the capitalization rate.

For the reasons above, SuMi TRUST Bank believes that environmentally friendly property will realize added value.

Conceptual diagram of environmental added value (1) Prices focused on the "profitability" of real estate

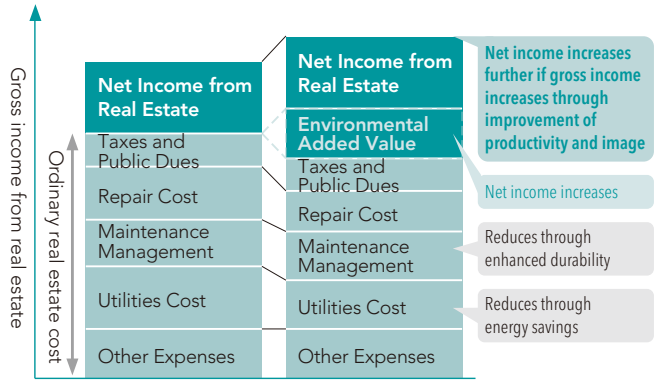
Property value*= Net income generated by the property / Property capitalization rate

Visualization of environmental performance

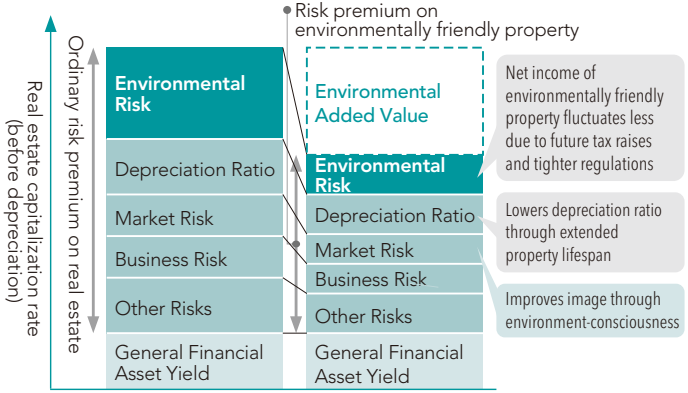
Net income generated by the property **increases** / Property capitalization rate **decreases**

*Direct capitalization method

Conceptual diagram of environmental added value (2) Reflection in net income



Conceptual diagram of environmental added value (3) Reflection in capitalization rate



Source: Partial revision of "A Note on Environmental Value Added for Real Estate," a commemorative paper written by Masato Ito in 2005 for the 10th anniversary of Tokyo Association of Real Estate Appraisers

Delivering value 2

Making added value visible

Given the paucity of research findings in Japan that demonstrate a correlation between a building's environmental performance and its economic impacts, for some time now SuMi TRUST Bank has participated in the research committees of the Japan Sustainable Building Consortium and the Japan Association of Real Estate Appraisers to conduct economic impact studies with the use of CASBEE® (Comprehensive Assessment System for Built Environment Efficiency).

Amount of rent increase for every point in the CASBEE scoring system

CASBEE for Real Estate

¥342 per month per tsubo (roughly 3.3m²)

A multiple regression analysis was performed on 90 office buildings that had acquired CASBEE for Real Estate certification, with the main explanatory variables being the CASBEE score, GFA, number of minutes (on foot) from the nearest station, and building age. The response variable was rent. The results of the analysis confirmed that rent tends to increase by ¥342 per month per tsubo for every one point increase in the assessment score (indexed to 100) for CASBEE.

CASBEE for Wellness Office

¥234 per month per tsubo

A multiple regression analysis was performed with the main explanatory variables being the CASBEE for Wellness Office score, GFA, and number of minutes (on foot) from the nearest station. The response variable was rent. The results of the analysis confirmed that the higher the CASBEE for Wellness Office score, the higher the rent.

Source: FY2020 report issued by the Japan Sustainable Building Consortium's SDG/Smart Wellness Office Research Committee

Impact of obtaining CASBEE on cap rate

Acquisition of CASBEE for Real Estate lowers the cap rate by around

2.4%

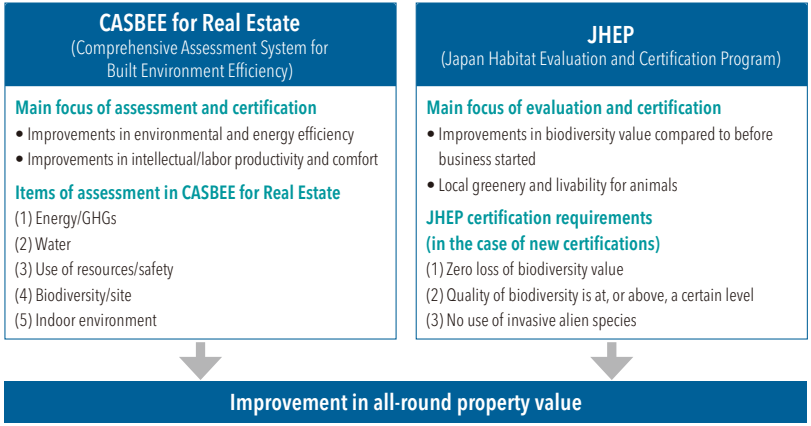
- The impact of CASBEE for Real Estate certification on property value was estimated with the use of a regression model. Assuming a standard cap rate of 5%, it would decline by roughly 0.12% to 4.88%.
- Panel data for J-REIT offices (properties in Tokyo's five central wards between 2001 and 2020) were used to conduct an analysis, with the explanatory variables being building grade, certification status, building age, real GDP, capacity utilization rate, and the CGPI.

Source: From a 2021 MLIT report on examining assessments concerning ESG considerations in property appraisals, conducted by the Japan Association of Real Estate Appraisers

Delivering value 3

Biodiversity and added value in real estate

The biodiversity crisis ranks alongside climate change as one of the most important topics of our time. The Task Force on Climate-related Financial Disclosures (TCFD) was set up to address climate change issues and companies listed on the TSE's Prime Market are now required to disclose information in line with the recommendations of the TCFD. Meanwhile, for biodiversity, the Taskforce on Nature-related Financial Disclosures (TNFD) has been established, and it is quite likely that companies will be required to disclose information similarly to the TCFD requirements.



It is thought that quantitative evaluations will be key to the disclosure of information about biodiversity.

The Japan Habitat Evaluation and Certification Program (JHEP) of the Ecosystem Conservation Society-Japan is one quantitative evaluation metric for biodiversity in Japan. The evaluation results of JHEP can also be utilized in the biodiversity/site assessment for CASBEE for Real Estate. The combined use of these two evaluation tools can help improve the all-round value of a property.

Reflecting environmental performance in property appraisals

Society now demands property appraisals that take ESG into account

In autumn 2021, our real estate appraisers—who hold CASBEE for Real Estate qualifications and other similar accreditations—issued our first-ever appraisal report that takes ESG factors into account. We are continuing to incorporate ESG-related factors into our appraisals. Factors include natural disaster risks, energy-efficient performance, BCP readiness, ventilation and other infection control measures, and work style reforms.

SuMi TRUST
SUMITOMO MITSUI TRUST HOLDINGS

SUMITOMO MITSUI TRUST HOLDINGS

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Real estate brokerage license
Minister of Land, Infrastructure, Transport, and Tourism, Registration No. 1

Member organizations
Member, The Real Estate Companies Association of Japan
Member, The Association of Real Estate Agents of Japan
Member, Real Estate Fair Trade Council