Second-Party Opinion

H&R REIT Green Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the H&R REIT Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Energy and Resource Efficiency, Renewable Energy, Clean Transportation, Climate Change Adaptation, Pollution Prevention & Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 11, and 12.

PROJECT EVALUATION AND SELECTION H&R's internal process for evaluating and selecting projects is managed by the Company's Green Financing Working Committee ("GFWC"), chaired by the President and comprises senior members from the finance, sustainability, operations, development and legal teams. The GFWC will meet at least annually to evaluate all eligible projects. Additionally, the Framework states that the GFWC will be responsible for the assessment and mitigation of environmental and social risks associated with eligible projects. Sustainalytics considers the project selection process in line with market practice.

MANAGEMENT OF PROCEEDS H&R's process for management of proceeds is supervised by the GFWC, and the Company intends to fully allocate proceeds within 36 months of issuance. Pending allocation, the Company may invest unallocated proceeds to repay debt or temporarily invest, in cash or cash equivalents, in accordance with the Company's general liquidity management processes and no association with carbon-intense assets or activities. This is in line with market practice.

REPORTING H&R intends to report on the allocation of proceeds on its website on an annual basis until full allocation. The allocation reporting will include the total amount of proceeds allocated to eligible assets, remaining balance of any unallocated funds, and the proportion of proceeds used for financing and refinancing. In addition, H&R REIT is committed to reporting on relevant quantitative and qualitative impact metrics. Sustainalytics views H&R's allocation and impact reporting as aligned with market practice.

Second-Party Opinion
Reviewed by: MORNINGSTAR | SUSTAINALYTICS

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Report Sections

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Introduction

Headquartered in Toronto, Ontario, H&R REIT ("H&R" or the "Company") is an owner, operator, and developer of residential and industrial properties across North America. As of September 30, 2022, the Company's portfolio consisted of 25 office, 73 industrial, 284 retail and 24 residential properties totaling over 28.7 million square feet of space, with a total asset value of CAD 11.7 billion.

H&R has developed the H&R REIT Green Financing Framework (the "Framework") under which it intends to issue green bonds and loans and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that aim to reduce the carbon footprint of its portfolio and contribute to improving the energy performance of buildings in Canada and the United States. The Framework defines eligibility criteria in six areas:

1. Green Buildings
2. Energy and Resource Efficiency
3. Renewable Energy
4. Clean Transportation
5. Climate Change Adaptation
6. Pollution Prevention & Control

H&R engaged Sustainalytics to review the H&R REIT Green Financing Framework, dated November 2022, and provide a Second-Party Opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)[1] and the Green Loan Principles 2021 (GLP).[2] This Framework has been published in a separate document.[3]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[4] opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.12, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of H&R's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. H&R representatives have confirmed (1) they understand it is the sole responsibility of H&R to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and H&R.

[1] The Green Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.
[2] The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at https://www.lsta.org/content/green-loan-principles/
[3] The H&R REIT Green Financing Framework is available on H&R REIT's website at: https://www.hr-reit.com/
[4] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, H&R is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that H&R has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the H&R REIT Green Financing Framework

Sustainalytics is of the opinion that the H&R REIT Green Financing Framework is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of H&R's Green Financing Framework:

- Use of Proceeds:
  - The eligible categories – Green Buildings, Energy and Resource Efficiency, Renewable Energy, Clean Transportation, Climate Change Adaptation, Pollution Prevention & Control – are aligned with those recognized by the GBP and GLP.
  - H&R has established 36 months as the look-back period for its refinancing activities. Sustainalytics considers this to be in line with market practice.
  - Under the Green Buildings category, H&R may finance the following:
    - The construction, acquisition, development and maintenance of residential, commercial and office buildings. The Company intends to invest in buildings that meet one of the following criteria: (i) certified with reputable third-party certifications with minimum standards of LEED Silver,[5] BOMA BEST Silver,[6] Energy Star with a score of 85,[7] National Green Building Standard Certification Silver for residential buildings,[8] Canada Green Building Council's ("CaGBC") Zero Carbon Building Standard ("ZCB") (Design and Performance),[9] or Toronto Green Standard Tier 2;[10] or (ii) belong in the top 15% of performers in terms of emissions intensity in their respective regions based on third-party assessments. Sustainalytics considers the criteria for financing green buildings to be aligned with market practice and notes the following:
      - For the acquisition of existing residential and commercial buildings certified under LEED or BOMA Best, Sustainalytics considers it market practice for the buildings to achieve a minimum level of Gold. In the case of buildings with LEED Silver or BOMA BEST Silver certifications, H&R has committed to ensuring that the buildings will achieve a 20 to 30% energy efficiency improvement or carbon emissions reduction, over a relevant baseline.

[5] USBGC, "LEED Rating System", at: https://www.usgbc.org/leed#:~:text=Green%20building%20leadership%20is%20LEED,of%20sustainability%20achievement%20and%20leadership.
[6] BOMA Canada, "Levels of Certification", at: https://bomacanada.ca/bomabest/aboutbomabest/levels/
[7] Energy Star, "How the 1-100 Energy Star Score is Calculated", at: https://www.energystar.gov/buildings/benchmark/understand_metrics/how_score_calculated
[8] NGBS Green, "The NGBS Green Promise" at: https://www.ngbs.com/the-ngbs-green-promise
[9] CaGBC, "Zero Carbon Building Standards", at: https://www.cagbc.org/our-work/certification/zero-carbon-building-standard/
[10] City of Toronto, "Toronto Green Standard", at: https://www.toronto.ca/city-government/planning-development/official-plan-guidelines/toronto-green-standard/

        - Under the CaGBC ZCB standard, the buildings may be certified in compliance with the Performance Standard. H&R has confirmed that such buildings will achieve a 20% energy efficiency improvement over NECB 2015. Sustainalytics views this in line with market practice. While noting that retrofits that result in performance improvements of 20% will result in some environmental benefit, Sustainalytics considers it market practice to ensure that retrofits will achieve emissions or energy performance improvements of at least 30%.
    - Building improvement expenditures with an intent to i) improve energy efficiency by 20 to 30% over a pre-retrofit baseline and/or ii) achieve one of the abovementioned certifications in the next three years. H&R has confirmed to Sustainalytics that it intends to finance just the retrofitting expenditures under the Framework. While noting that retrofits that result in performance improvements of 20 to 30% will result in substantial environmental benefits, Sustainalytics considers it to be good practice to ensure that retrofits achieve energy performance improvements of at least 30%.
- In the Energy and Resource Efficiency category, H&R may finance investments that aim to improve energy efficiency by at least 20% in properties, calibrate the energy grid, or improve water efficiency.
    - Energy efficient products and technologies include LED (or other energy efficient lighting), smart meters, energy storage systems, and energy-saving technologies, HVAC systems, energy efficient roof improvements, and other energy efficient construction materials such as low U-value insulation products. Sustainalytics views these activities to be in line with market practice and notes the following:
        - The Framework excludes the financing of processes that are powered by fossil fuels.
        - Sustainalytics encourages H&R to choose the installation of building material with the lowest U-value possible and to report on the estimated or achieved energy efficiency gains, where feasible.
        - Sustainalytics also encourages recording and reporting of energy efficiency achieved with roof improvements implemented.
    - Water efficient technologies and equipment include xeriscaping and drought-tolerant landscaping, water infrastructure upgrades such as smart metering, rainwater harvesting systems, and other initiatives that lead to more than 15% reduction in water consumption. Sustainalytics notes the following:
        - Investments in xeriscaping and drought-tolerant landscaping may include sustainable drainage systems. H&R REIT will conduct a feasibility assessment to identify and specify how climate risks will be addressed. The Company will also evaluate appropriate drainage system solutions for properties that have been identified as high-risk for flooding.
        - Sustainalytics encourages H&R to report on the water and energy efficiency achieved with landscaping activities.
        - Sustainalytics views these activities and the specification of a reduction threshold to be aligned with market practice.
- Under the Renewable Energy category, H&R intends to invest in the acquisition, development, or installation of renewable energy, in particular electricity generation projects from photovoltaic solar, wind, and geothermal energy, to provide renewable energy to buildings or contribute to the energy grid. For geothermal energy projects, the Framework specifies a direct emissions intensity threshold below 100 gCO_2/kWh. In addition, H&R contemplates investments in integrating 90% renewable energy into the grid. Sustainalytics notes the criteria for financing renewable energy projects to be in line with market practice.
- Within the Clean Transportation category, H&R intends to invest in infrastructure projects which aim to improve connectivity, promote non-motorized methods of transport (such as cycling and walking), as well as infrastructure to accommodate electric vehicles including hybrid vehicles with emissions threshold below 50g CO_2/km until 2025.[11]
    - In addition, H&R contemplates financing of connectivity projects targeted at increasing access to public transport. This may include above-ground infrastructure that

[11] H&R REIT confirms that construction of parking lots will not be financed under this category.

promotes active mobility and transit access,[12] such as tunnels through which the Issuer intends to help facilitate a shift away from the use of private vehicles.

  - In the Climate Change Adaptation category, H&R contemplates investments related to feasibility studies directed towards fostering resilience and adaptation of H&R's assets to extreme weather conditions or effects of climate change, including, flood defense, stormwater waste management, energy storage and building structural resilience.
    - The Company has confirmed that these feasibility studies are conducted as part of the development of projects to be funded under the Framework. H&R has also confirmed that all of the activities in this category will have undergone a vulnerability assessment along with an adaptation plan to demonstrate expected benefits prior to investment.
    - Based on the pre-assessment of the demonstrated impact of these activities prior to investment, and the direct relation of feasibility studies to projects funded under the Framework, Sustainalytics considers this to be in line with market practice.
  - Under the Pollution Prevention and Control category, H&R may finance projects related to onsite composting and recycling as well as soil remediation. H&R has confirmed that soil remediation projects are not related to contamination from activities within its operational control. Sustainalytics views these activities to be in line with market practice.
- Project Evaluation and Selection:
  - H&R's Green Financing Working Committee ("GFWC") will be responsible for evaluating and selecting projects in line with the eligibility criteria under the Framework. The GFWC is chaired by the President and comprised of senior members from the finance, sustainability, operations, development and legal teams.
  - The GFWC will meet annually to evaluate all eligible projects. The Framework states that the GFWC will conduct project assessments and internal reviews to assess and mitigate any environmental and social risks associated with all eligible projects. The environmental and social risk management processes are applicable to all allocation decisions made under the Framework. Sustainalytics notes that the Company is currently developing the processes through which such assessment will be conducted and encourages H&R to disclose further information in this regard. For additional details see Section 2.
  - Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - H&R's GFWC is responsible for the management and allocation of proceeds. H&R intends to reach full allocation of proceeds within 36 months of issuance. Pending allocation, net proceeds will be used for repaying debt or temporarily invested, in the form of cash and cash equivalents, in accordance with H&R's general liquidity management. H&R has confirmed that it will not refinance debt associated with carbon-intense assets or activities.
  - Based on these measures, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - H&R intends to report on the allocation and impact of its Green Instruments on its website until at least full allocation. The allocation reporting will include the total amount of proceeds allocated to Eligible Assets, remaining balance of any unallocated funds, and the proportion of proceeds used for financing and refinancing.
  - In addition, the Company is committed to reporting on relevant environmental impact metrics, which may include the level of green building certifications achieved, as well as qualitative metrics such as energy use reduced, avoided, or saved relative to a baseline, where feasible.
  - Based on these commitments to both impact and allocation reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics has determined that the H&R REIT Green Financing Framework aligns with the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

[12] H&R REIT has confirmed that mass public transportation vehicles may include light rail, metro, and bus with direct emissions threshold below 50g CO_2/ km.

Section 2: H&R's Sustainability Strategy

Contribution of framework to H&R REIT's Sustainability Strategy

Since the implementation of its Sustainability Policy in 2019, H&R has focused on the following three areas: i) resource efficiency; ii) climate change and carbon emissions; and iii) green building certifications.[13]

H&R has pursued resource efficiency with a focus on energy, water, and waste management. In its office buildings, the Company has implemented measures like submetering, advanced automation of HVAC systems, and the installation of LED lighting to monitor and optimize water and energy use.[14] In its Residential division, the Company is installing electric car charging stations to match usage needs and has adopted drip irrigation systems to reduce water usage.[15] From 2020 to 2021, H&R's building stock saw a reduction of 3.7% in energy use and 2% in water use.

Regarding its buildings' carbon emissions, the Company has expanded its utility data collection coverage from 22% of its total building stock in 2018 to 67% in 2021.[16] Based on its reporting to the Carbon Disclosure Project, H&R's emissions decreased by 10.3% from 2019 to 2020.[17]

To improve the energy efficiency of its building stock, H&R is pursuing third-party green building certifications, including LEED and BOMA Best. As of 2021, 71% of the H&R REIT office portfolio is LEED, BOMA, Best and/or ENERGY STAR certified. In addition, 88% of the Company's Office Portfolio is tracked on ENERGY STAR's Portfolio Manager.[18]

While Sustainalytics recognizes H&R's commitment to key sustainability principles and environmental initiatives, Sustainalytics encourages the Company to set quantified, time-bound sustainability targets, and to provide robust reporting on its progress to further strengthen its sustainability practices.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include land use and biodiversity issues associated with large-scale infrastructure development, waste and effluents generated during construction and operation of commercial and/or residential properties, occupational health and safety, community relations and stakeholder engagement, and business ethics.

Sustainalytics is of the opinion that H&R is able to manage or mitigate potential risks through implementation of the following:

- H&R has a Health and Safety Policy in place that applies to its employees, contractors, customers, visitors, and all individuals on its premises. The policy defines internal responsibilities across various levels to promote workplace health and safety, with adequate communication, training, supervision, and inspections. Furthermore, each sizable office (20 or more staff) has a Joint Health and Safety Committee that inspects the office and convenes regularly to discuss health and safety concerns.[19] In addition, H&R complies with all applicable health and safety laws and regulations as part of its commitment to providing its employees with a safe and healthy work environment. In the US, this includes adhering to the Occupational Safety and Health Act of 1970, which requires employers to provide employees with safe and healthy working environments[20] In Canada this includes Canada's Labour Code, Part II, which provides a framework to prevent workplace accidents and injuries and ensure workers' health and safety.[21]

[13] H&R REIT, "Third Annual Sustainability Report", (2022), at: https://www.hr-reit.com/wp-content/uploads/2022/11/HR-REIT-2021-Sustainability-Report.pdf
[14] H&R REIT, "Third Annual Sustainability Report", (2022), at: https://www.hr-reit.com/wp-content/uploads/2022/11/HR-REIT-2021-Sustainability-Report.pdf
[15] Ibid.
[16] Ibid.
[17] Ibid.
[18] Ibid .
[19] H&R has shared its Health and Safety Policy with Sustainalytics confidentially.
[20] US Department of Labor, "Occupational Safety and Health Act of 1970", at: https://www.osha.gov/laws-regs/oshact/toc
[21] Government of Canada, "Summary of Part II of the Canada Labour Code", (2022), at: https://www.canada.ca/en/employment-social-development/services/health-safety/reports/summary.html

- H&R complies with its Code of Business Conduct and Ethics,[22] which mandates ethical behaviour with regard to conflicts of interest, fraud or theft, fair dealing, the confidentiality of information, human rights, discrimination, harassment, and anti-competitive practices.
- The Company has in place high-level environmental guidelines for its operations and acquisitions. H&R's operations in Canada and the US, which are recognized as Designated Countries under the Equator Principles, are subject to robust environmental and social governance, legislation systems and institutional capacity to mitigate common environmental and social risks associated with the activities financed under the Framework.[23]

Sustainalytics notes some of the Company's internal policies and processes to assess and mitigate potential risks are currently under development and encourages the Company to provide full disclosure regarding such policies and processes.

Section 3: Impact of Use of Proceeds

All six use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused on areas below where the impact is specifically relevant in the local context.

The role of Green Buildings in reducing GHG emissions in Canada and the US

The buildings sector is an important contributor to GHG emissions in Canada. Although the energy intensity of buildings in Canada has fallen in recent years, absolute energy demand has increased by 8% for residential buildings and 35% for commercial buildings between 1990 and 2015.[24] In 2022, 13% of GHG emissions in Canada came from the buildings sector, making it the third-largest emitting sector, after oil and gas, and transportation.[25] Buildings in Canada have relatively high energy intensity compared to other countries,[26] mainly due to climatic conditions. Space heating, which is primarily powered by fossil fuels,[27] consumes the largest share of a building's energy (61%), followed by water heating (19%), appliances (14%), lighting (4%) and space cooling (3%).[28]

As a signatory to the Paris Agreement, Canada has committed to achieving net zero GHG emissions by 2050.[29] In 2021, Canada updated its Nationally Determined Contribution (NDC) to reduce its GHG emissions by 40-45% below 2005 levels by 2030.[30,31] In line with the climate targets, as part of the Canada Green Buildings Strategy, Canada has set targets of achieving a 37% emission reduction in the buildings sector from 2005 levels by 2030 and net-zero emissions by 2050.[32] The country has identified complementary actions to reduce GHG emissions, which include strengthening codes to ensure new buildings are more energy efficient, incentivizing the retrofitting of existing buildings, encouraging fuel switching, improving the efficiency of appliances and equipment, and supporting mandatory energy labelling and disclosure.[33] According to the

[22] H&R REIT, Code of Business Conduct and Ethics, (2018), at: https://www.hr-reit.com/wp-content/uploads/2019/09/HR-Code-of-Business-Conduct-and-Ethics.pdf
[23] Equator Principles, "Designated Countries", (2022), at: https://equator-principles.com/designated-countries/
[24] Standing Senate Committee on Energy, the Environment and Natural Resources, Reducing Greenhouse Gas Emission from Canada's Built Environment, (2018), at: https://sencanada.ca/content/sen/committee/421/ENEV/reports/ENEV_Buildings_FINAL_e.pdf
[25] Government of Canada, "Green Buildings", at: https://www.nrcan.gc.ca/energy-efficiency/green-buildings/24572
[26] Ibid.
[27] Standing Senate Committee on Energy, the Environment and Natural Resources, Reducing Greenhouse Gas Emission from Canada's Built Environment, (2018), at: https://sencanada.ca/content/sen/committee/421/ENEV/reports/ENEV_Buildings_FINAL_e.pdf
[28] Natural Resource Canada, "Heating equipment for residential use", at: https://www.nrcan.gc.ca/energy-efficiency/energy-efficiency-products/product-information/heating-equipment-residential-use/13740
[29] Government of Canada, "Progress towards Canada's greenhouse gas emissions reduction target", at: https://www.canada.ca/en/environmentclimate-change/services/environmental-indicators/progress-towards-canada-greenhouse-gas-emissions-reduction-target.html
[30] UNFCCC, "Canada's 2021 Nationally Determined Contribution Under the Paris Agreement", (2021), at: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Canada%20First/Canada%27s%20Enhanced%20NDC%20Submission1_FINAL%20EN.pdf
[31] Government of Canada, "Net-Zero Emissions by 2050", (2022), at: https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050.html
[32] Government of Canada, "The Canada Green Buildings Strategy", at: https://www.rncanengagenrcan.ca/en/collections/canada-green-buildings-strategy
[33] Government of Canada, "Complementary actions to reduce emissions", at: https://www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework/complementary-actions-reduce-emissions.html#3_2

Canada Green Building Council, Canada can reduce GHG emissions from its building sector by 17% from a 2005 baseline by constructing all new large buildings to zero carbon standards between 2017 and 2030.[34]

Similarly, in the case of the US, buildings are responsible for a large share of the total energy consumption. In 2021, residential and commercial buildings together accounted for approximately 39% of the total US energy consumption.[35] Despite the COVID-19 pandemic, the Global Alliance for Buildings and Construction found that spending on energy efficiency in the buildings sector rose by an unprecedented 11.4% in 2020 to approximately USD 184 billion compared to 2019. This is, however, still a small share of the USD 6 trillion spent globally in the buildings and construction sector that same year.[36]

Recent efforts to reduce the energy consumption in the buildings sector in the US have been undertaken largely by the private sector, with organizations such as the US Green Building Council promoting sustainable building design, construction and operation through LEED.[37] In August 2022, the US federal government announced the Climate Smart Buildings Initiative.[38] By setting and meeting emission-reduction targets for buildings, this initiative aims to bring in more than USD 8 billion of private sector investments and achieve up to 2.8 million tonnes of GHG reductions annually by 2030.[39] Furthermore, in its NDC, the US has also set a net-zero target for 2050 with an intermediate goal of reducing emissions by 50%-52% by 2030 below 2005 levels.[40,41]

Based on the above, Sustainalytics is of the opinion that eligible green building projects financed under the Framework have the potential to provide substantial environmental benefits for Canada and the US' built environment, while also contributing to the countries' national GHG reduction targets.

Importance of Financing Renewable Energy Projects in Canada and the US

In 2020, the electricity sector in Canada was the sixth largest source of GHG emissions, accounting for 8.4% of total GHG emissions in the country.[42] In addition, the GHG emissions from electricity generation declined from 118 Mt CO_2eq to 56 Mt CO_2eq between 2005 and 2020 due to the growth of low-GHG-emitting electricity generation.[43] In this context, continuing to increase the share of renewable energy generation has the potential to have a significant impact on meeting the country's climate goals. A study from the IEA and the International Renewable Energy Agency supports this assessment, estimating that 65-70% of worldwide primary energy demand would need to be met by low-carbon energy sources by 2050 to meet the 2°C target. The proportion of electricity derived from renewable sources in Canada grew from 62.8% in 2010 to 66.2% in 2018. [44]

In the US, the electricity sector is the second largest source of GHG emissions, accounting for 25% of total GHG emissions in 2020.[45] As of 2020, 60% of US electricity generation comes from fossil fuels, such as natural gas, coal and petroleum, and 20% comes from nuclear energy.[46] Although renewable energy generation in the US has experienced significant growth since 2008, it only accounted for approximately 20% of the country's total electricity generated in 2021.[47,48] While the projections show that renewable sources are likely to provide approximately 33% of the total US electricity generation in 2030, these figures still fall short of the US

[34] Canada Green Building Council, "Canada's Green Building Engine – Market Impact and Opportunities in a Critical Decade, (2020) at: https://portal.cagbc.org/cagbcdocs/advocacy/CaGBC_CanadasGreenBuildingEngine_EN.pdf
[35] U.S. Energy Information Administration, "How much energy is consumed in U.S. buildings?", (2022) at: https://www.eia.gov/tools/faqs/faq.php?id=86&t=1
[36] Global Alliance for Buildings and Construction, "2021 Global Status Report for Buildings and Construction", (2021), at: https://globalabc.org/sites/default/files/2021-10/GABC_Buildings-GSR-2021_BOOK.pdf
[37] US Green Building Council, "Mission and Vision," (2022), at: https://www.usgbc.org/about/mission-vision
[38] The White House, "FACT SHEET: White House Takes Action on Climate by Accelerating Energy Efficiency Projects Across Federal Government", (2022), at: https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/03/fact-sheet-white-house-takes-action-on-climate-by-accelerating-energy-efficiency-projects-across-federal-government/
[39] Ibid.
[40] Climate Action Tracker, "USA – Targets Overview" at: https://climateactiontracker.org/countries/usa/targets/
[41] UNFCCC, "The United States of America Nationally Determined Contribution", (2022), at: https://unfccc.int/sites/default/files/NDC/2022-06/United%20States%20NDC%20April%2021%202021%20Final.pdf
[42] Government of Canada, "Greenhouse gas emissions", (2022), at: https://www.canada.ca/content/dam/eccc/documents/pdf/cesindicators/ghg-emissions/2022/ghg-emissions-en.pdf
[43] Ibid.
[44] Canada Energy Regulator, "Prairie Provinces to lead Canada in renewable energy growth", (2021), at: https://www.cer-rec.gc.ca/en/about/news-room/news-releases/2021/prairie-provinces-to-lead-canada-in-renewable-energy-growth.html
[45] US Environmental Protection Agency, "Sources of Greenhouse Gas Emissions", at: https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#electricity
[46] US Energy Information Administration, "Electricity Explained", at: https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php
[47] US Energy Information Administration, "U.S. primary energy consumption by energy source", (2020), at: https://www.eia.gov/energyexplained/us-energy-facts/
[48] US Energy Information Administration, "What is U.S. electricity generation by source", at: https://www.eia.gov/tools/faqs/faq.php?id=427&t=3

government's goal of having 80% electricity from renewable sources by the end of 2030.[49] Consequently, significant investments in renewable energy in the US are required in order to meet the Paris Agreement climate target of limiting temperature increases to well below 2°C.[50]

Canada is also a signatory to the Paris Agreement and has committed to becoming a net-zero emission economy by 2050.[51] In line with this, the country has set a target of producing 90% of its electricity from non-emitting sources by 2030.[52] In order to meet these commitments, Canada recently published a climate plan, A Healthy Environment and A Healthy Economy, outlining the government's plan to accelerate the growth of renewable energy usage across various industries.[53] For example, in June 2021, the federal government announced a CAD 964 million investment in a renewable energy programme to increase the number of smart energy and grid modernization projects that promote the use of clean technologies such as wind, solar and hydro energy.[54] In the context of the US, in 2021, the US government established targets to achieve 100% carbon-free electricity by 2035.[55] In the same year, the White House also announced its commitment to expand and modernize the American electricity grid to reliably transmit renewable energy and support the country's 2030 emission reduction targets submitted to the United Nations Framework Convention on Climate Convention.[56]

Sustainalytics expects H&R's financing in renewable energy projects to contribute positively to the energy transition in North America, which may also help meet global environmental objectives.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	11. Sustainable Cities and Communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
Energy & Resource Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special

[49] Renewables Now, "Renewables on track to provide 33-50% of US 2030 electricity, Biden's 80% goal still possible", (2021) at: https://www.renewablesnow.com/news/renewables-on-track-to-provide-33-50-of-us-2030-electricity-bidens-80-goal-still-possible-748426/
[50] International Renewable Energy Agency, "Renewable energy: a key climate solution", (2017) at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Nov/IRENA_A_key_climate_solution_2017.pdf?la=en&hash=A9561C1518629886361D12EFA11A051E004C5C98
[51] Government of Canada, "Progress towards Canada's greenhouse gas emissions reduction target", (2020), at: https://www.canada.ca/content/dam/eccc/documents/pdf/cesindicators/progress-towards-canada-greenhouse-gas-reduction-target/2020/progress-ghg-emissions-reduction-target.pdf
[52] Government of Canada, "Powering our future with clean electricity", at: https://www.canada.ca/en/services/environment/weather/climatechange/climate-action/powering-future-clean-energy.html
[53] Environment and Climate Change Canada, "A Healthy Environment and A Healthy Economy", (2021), at: https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/climate-plan/healthy_environment_healthy_economy_plan.pdf
[54] Natural Resources Canada, "Canada Invests Over $960-Million in Renewable Energy and Grid Modernization Projects", (2021), at: https://www.canada.ca/en/natural-resources-canada/news/2021/06/canada-invests-over-960-million-in-renewable-energy-and-grid-modernization-projects.html
[55] The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/
[56] The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/

		attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Climate Change Adaptation	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Pollution Prevention & Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Conclusion

H&R has developed the H&R REIT Green Financing Framework under which it may issue green bonds and loans and use the proceeds to finance environmental projects in areas such as green buildings, energy efficiency, renewable energy, and pollution prevention and control. Sustainalytics considers that the projects funded by the green finance proceeds are expected to provide positive environmental impacts.

The H&R REIT Green Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 11, and 12. Additionally, Sustainalytics notes that the Company is currently developing the processes through which environmental and social risk assessments and management will be conducted and encourages H&R to disclose further information in this regard.

Based on the above, Sustainalytics is confident that H&R is well positioned to issue green bonds and green loans and that the Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2021.

Appendix

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	H&R REIT
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	H&R REIT Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 18, 2022
Publication date of review publication: **Original publication date *[please fill this out for updates]*:**	

Section 2. Review overview

SCOPE OF REVIEW

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

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

☒	Use of Proceeds	☒	Process for Project Evaluation and Selection
☒	Management of Proceeds	☒	Reporting

ROLE(S) OF REVIEW PROVIDER

☒	Consultancy (incl. 2nd opinion)	☐	Certification
☐	Verification	☐	Rating
☐	Other *(please specify)*:		

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

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

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Green Buildings, Energy and Resource Efficiency, Renewable Energy, Clean Transportation, Climate Change Adaptation, Pollution Prevention & Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 11, and 12.

Use of proceeds categories as per GBP:

☒	Renewable energy	☒	Energy efficiency
☒	Pollution prevention and control	☐	Environmentally sustainable management of living natural resources and land use
☐	Terrestrial and aquatic biodiversity conservation	☒	Clean transportation
☐	Sustainable water and wastewater management	☒	Climate change adaptation
☐	Eco-efficient and/or circular economy adapted products, production technologies and processes	☒	Green buildings
☐	Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP	☐	Other *(please specify)*:

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

H&R's internal process for evaluating and selecting projects is managed by the Company's Green Financing Working Committee ("GFWC"), chaired by the President and comprises senior members from the finance, sustainability, operations, development and legal teams. The GFWC will meet at least annually to evaluate all eligible projects. Additionally, the Framework states that the GFWC will be responsible for the assessment and mitigation of environmental and social risks associated with eligible projects. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

☒	Credentials on the issuer's environmental sustainability objectives	☒	Documented process to determine that projects fit within defined categories

☒ Defined and transparent criteria for projects eligible for Green Bond proceeds

☒ Documented process to identify and manage potential ESG risks associated with the project

☒ Summary criteria for project evaluation and selection publicly available

☐ Other *(please specify):*

Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification

☐ In-house assessment

☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

H&R's process for management of proceeds is supervised by the GFWC, and the Company intends to fully allocate proceeds within 36 months of issuance. Pending allocation, the Company may invest unallocated proceeds to repay debt or temporarily invest, in cash or cash equivalents, in accordance with the Company's general liquidity management processes and no association with carbon-intense assets or activities. This is in line with market practice.

Tracking of proceeds:

☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner

☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds

☐ Other *(please specify)*:

Additional disclosure:

☐ Allocations to future investments only

☒ Allocations to both existing and future investments

☐ Allocation to individual disbursements

☒ Allocation to a portfolio of disbursements

☒ Disclosure of portfolio balance of unallocated proceeds

☐ Other *(please specify)*:

4. REPORTING

Overall comment on section (if applicable):

H&R intends to report on allocation of proceeds on its website on an annual basis until full allocation. The allocation reporting will include the total amount of proceeds allocated to eligible assets, remaining balance of any unallocated funds, and the proportion of proceeds used for financing and refinancing. In addition, H&R REIT is committed to reporting on relevant quantitative and qualitative impact metrics. Sustainalytics views H&R's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

☐ Project-by-project
☒ On a project portfolio basis
☐ Linkage to individual bond(s)
☐ Other *(please specify):*

Information reported:

☒ Allocated amounts
☐ Green Bond financed share of total investment
☒ Other *(please specify):* Balance of unallocated proceeds; amount used for financing vs refinancing

Frequency:

☒ Annual
☐ Semi-annual
☐ Other (please specify):

Impact reporting:

☒ Project-by-project
☐ On a project portfolio basis
☐ Linkage to individual bond(s)
☐ Other (please specify):

Information reported (expected or ex-post):

☐ GHG Emissions / Savings
☒ Energy Savings
☐ Decrease in water use
☒ Other ESG indicators (please specify): the level of green building certification achieved, qualitative metrics such as energy use reduced, avoided, or saved relative to a baseline, where feasible.

Frequency

☒ Annual
☐ Semi-annual
☐ Other (please specify):

Means of Disclosure

☐ Information published in financial report
☐ Information published in sustainability report
☒ Information published in ad hoc documents
☐ Other (please specify):
☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

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

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☐ Consultancy (incl. 2nd opinion)
☐ Certification
☐ Verification / Audit
☐ Rating
☐ Other *(please specify):*

Review provider(s): **Date of publication:**

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

i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.

iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

Disclaimer

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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