

DragonCor's Vision for Full Coverage on Green Lease from Joint Efforts with Tenants

What is Green Lease?

Green lease has become visible to players in China's real estate market due to the increasing emphasis the international community placed on new challenges such as climate change and health and safety risks as well as the introduction of China's sustainable development policies and the continuous improvement of enterprises and individuals' awareness of green issues. A survey report¹ issued by Jones Lang LaSalle in 2021 pointed out that green lease has been applied for 48% of the tenants in current China's real estate market, and another 35% of tenants plan to adopt relevant practices by 2025.

A green lease refers to a lease that incorporates clauses newly added or adjusted upon the agreement between the owner and the tenant with regards to sustainability goals such as environmental protection and health and safety, based on the standard lease clauses. Such clauses are generally called green clauses, which define the obligations and responsibilities of both owners and tenants in terms of sustainable development. They provide various financial or non-financial incentive clauses for both parties, thus promoting their cooperation and improving sustainability of relevant properties in lease, operation management, among others.

At present, there is no unified standard for the form or content of green lease clauses in the market. Nevertheless, different industry organizations or statutory organizations are still actively developing green lease standards in the UK, Australia, Singapore and other jurisdictions. In the UK and Australia, industry organizations such as Better Buildings Partnership have promoted the establishment of green lease norms; in Singapore, the Building and Construction Authority has put in place a series of standard lease clauses related to sustainable design, management and welfare. In addition, the Building Owners and Managers Association International (BOMA), an international industrial organization in the commercial real estate industry, has also prepared green lease guidelines for industry stakeholders for reference.

DragonCor's Green Lease Policies and Targets

Green lease was rated by our shareholders as one of the most material ESG (environment, society and governance) issues in the stakeholder survey conducted by DragonCor. The expectations of shareholders and other stakeholders are clearly visible, encouraging us to work closely with tenants for a greener world in our daily operations. In order to better respond to the expectations, we promise to apply green lease more widely, and set the target of achieving **100% signing rate of green lease clauses for all applicable asset** by 2025 in DragonCor's first ESG three-year roadmap. From January 1, 2023, all new and renewal contracts are required to add the green lease clauses.

At present, we have concluded green lease agreements with some tenants. During the negotiation and conclusion of the green lease agreement, both parties reached a consensus on the intention to promote and improve the environmental performance of the leased property, with respective responsibilities in terms of **data sharing, meter-based measurement, upgrading and reconstruction clearly stipulated.**

1. Data Sharing

Both parties agree to share their own environmental performance data related to the leased property without affecting the tenant's trade secrets (if applicable). Data sharing mainly covers energy, water, waste, greenhouse gas emissions and so forth. DragonCor can better control the data on Scope 3 emissions (value

chain) through data sharing, and study how to provide better property facilities or services for tenants through data analysis, so as to help tenants minimize the negative impacts on the environment.

2. Meter-based Measurement

Both parties agree that DragonCor may install appropriate equipment (such as price meter, sub-meter and detection meter) to measure the supply of natural gas, electricity and other energy or resources delivered to the leased property. The meter-based measurement helps us accurately record the energy and resource consumption and related expenditures of public areas and individual tenants. Relevant data can improve our energy and resource management in the public area of the property, provide tenants with their energy and resource consumption details, and help them achieve the goal of energy conservation and emission reduction.

3. Upgrading and Reconstruction

After signing the green lease agreement, both parties agreed to cooperate on improving the environmental performance of the leased residence and center to identify appropriate strategies. For example, the tenant agrees that DragonCor has the right to upgrade and reconstruct other buildings, structures, facilities and equipment in the leased property during the lease term to improve the environmental performance of the leased property; at the same time, DragonCor promises to carry out reasonable upgrading and reconstruction work as far as possible without affecting the tenants.

In the multifamily sector, we also prepared the Green Residence Pledge for tenants, and put forward guidelines and requirements for low-carbon life from multiple scenarios such as clothing, food, housing and transportation, to help tenants develop and practice low-carbon lifestyle, and reduce the environmental footprint during their occupancy.

Experience Sharing on DragonCor Green Lease

Through the efforts on green lease, DragonCor integrates sustainable development elements into the whole leasing cycle. From interaction with tenants, data measurement and sharing to hardware upgrading and reconstruction, our team is committed to supporting and guiding tenants to achieve the goal of sustainable development. We fully understand that, in addition to the efforts of the DragonCor team, the understanding and cooperation of tenants are also essential for effective promotion of green lease. Therefore, in order to appeal to tenants to support the practice of green lease, DragonCor has developed detailed green lease guidelines for all asset leasing and management teams. These guidelines introduce the core content of the green lease clauses and tenants' relevant FAQs. The legal team and the ESG department of the DragonCor empower the front-end business departments to promote green lease to tenants by issuing and updating the green lease guidelines from time to time. So far, remarkable achievements have been made by management teams across all asset classes in promoting the signing of green leases. Among them, about 70% of the existing leasing contracts in the logistics sector have been successfully upgraded with green leases.

1. In the process of promoting green lease, DragonCor has a keen insight into the strategic focus of enterprise tenants on sustainable development. We plan to carry out future cooperation in areas of converging interests covering sustainable construction, clean energy, green transportation facilities, waste recycling and so forth; for the tenants who have just embarked on their sustainability journeys, the DragonCor's leasing and asset management team also publicized the concept of low-carbon operation and green development to such tenants in the communication process, providing sources of inspiration for relevant practices;

2. For those who want to promote green lease in the future, we suggest to consider the following approaches:
 - a. The owner issues the green lease guidelines: include sustainability-related requirements or suggestions in the decoration and operation guidelines. These guidelines are uniformly applicable to all or the vast majority of tenants, but they are generally recommendations without binding effects.
 - b. Memorandum of understanding between the owners and tenant: similar to the green lease guidelines, the MOU is generally not binding. However, different from the green lease guidelines, such MOU is usually concluded by the owner and each tenant individually, and the specific contents and terms are drawn up according to the results of the negotiation agreement between the two parties. Therefore, even if one party to the contract is the same owner, the terms of the MOU concluded with different tenants may be different.
 - c. Revise the standard lease clauses: the owner may consider incorporating sustainability-related requirements and responsibilities into the standard lease clauses as part of the formal lease contract. As both the owner and tenant have the legal responsibility to abide by the lease contract, these sustainability-related clauses will be binding on both owner and tenant.

Future Outlook

In the future, green lease will serve as an indispensable element of DragonCor's sustainable development. We will strengthen the interaction with tenants, conduct in-depth exchanges around green themes such as energy, resources and waste, actively explore the possibility of carrying out cooperation in different forms, and continue to promote the concept of green lease and low-carbon operation. Meanwhile, we will promote external cooperation in the spirit of openness, call on peer partners and industry organizations to engage in communication and exchanges, establish industry-wide alliance partnerships, and continue to promote the concept and practice of green lease in the real estate sector for a low-carbon industry.

Reference

¹ [JLL releases its latest Sustainable Real Estate report \(joneslanglasalle.com.cn\)](https://www.joneslanglasalle.com.cn)