

MCUBS MidCity Investment Corporation

The 21st fiscal period Asset Management Report

July 1, 2016 – December 31, 2016



I. ASSET MANAGEMENT REPORT

Outline of asset management operation

1. Operating results and financial position

Fiscal period		17 th	18 th	19 th	20 th	21 st
As of /for the six months ended		December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016
Operating revenues	(Millions of yen)	5,173	5,265	6,579	6,824	7,005
(Rental business revenues)	(Millions of yen)	(5,173)	(5,265)	(6,468)	(6,697)	(6,897)
Operating expenses	(Millions of yen)	3,634	3,582	4,072	4,361	4,453
(Rental business expenses)	(Millions of yen)	(3,123)	(3,122)	(3,471)	(3,646)	(3,780)
Operating income	(Millions of yen)	1,538	1,683	2,507	2,462	2,551
Ordinary income	(Millions of yen)	1,087	1,239	1,937	1,889	1,977
Net income	(Millions of yen)	1,093	1,237	1,936	1,888	1,976
Total assets	(Millions of yen)	168,823	174,117	226,099	227,686	225,916
(Period-on-period change)	(%)	(0.0)	(3.1)	(29.9)	(0.7)	(-0.8)
Net assets	(Millions of yen)	91,466	94,045	117,180	117,131	117,220
(Period-on-period change)	(%)	(-0.1)	(2.8)	(24.6)	(-0.0)	(0.1)
Interest-bearing liabilities	(Millions of yen)	65,300	67,675	94,350	95,725	94,100
Unitholders' capital	(Millions of yen)	90,372	92,808	115,243	115,243	115,243
Number of units issued and outstanding	(Units)	183,625	192,025	266,025	266,025	266,025
Net asset value per unit	(Yen)	498,116	489,757	440,484	440,304	440,635
Total distributions	(Millions of yen)	1,094	1,237	1,936	1,888	1,976
Distribution per unit	(Yen)	5,958	6,444	7,281	7,100	7,431
(Profit distribution per unit)	(Yen)	(5,958)	(6,444)	(7,281)	(7,100)	(7,431)
(Distribution per unit in excess of profit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Ratio of ordinary income to total assets	(Notes 1 and 2) (%)	0.6 (1.3)	0.7 (1.5)	1.0 (1.9)	0.8 (1.7)	0.9 (1.7)
Return on unitholders' equity	(Notes 1 and 3) (%)	1.2 (2.4)	1.3 (2.7)	1.8 (3.6)	1.6 (3.2)	1.7 (3.3)
Ratio of net assets to total assets	(Note 4) (%)	54.2	54.0	51.8	51.4	51.9
(Period-on-period change)	(%)	(-0.0)	(-0.2)	(-2.2)	(-0.4)	(0.5)
Ratio of interest-bearing liabilities to total assets	(Note 5) (%)	38.7	38.9	41.7	42.0	41.7
Payout ratio	(Note 6) (%)	100.0	100.0	100.0	100.0	100.0
Additional information:						
Number of investment properties	(Note 11) (Properties)	12	13	18	18	18
Total leasable area	(Note 7) (m ²)	277,516.98	284,330.63	331,034.57	331,015.96	330,999.31
Number of tenants	(Note 8) (Tenants)	244	249	309	310	313
Occupancy ratio	(Note 9) (%)	97.7	98.5	97.6	98.2	97.7
Depreciation	(Millions of yen)	1,133	1,150	1,251	1,281	1,288
Capital expenditures	(Millions of yen)	514	394	244	443	733
Rental net operating income (NOI)	(Note 10) (Millions of yen)	3,182	3,294	4,249	4,332	4,406

Note 1 Figures in parenthesis have been annualized.

Note 2 Ordinary income ÷ {(Total assets at beginning of period + Total assets at end of period) ÷ 2} × 100

Note 3 Net income ÷ {(Net assets at beginning of period + Net assets at end of period) ÷ 2} × 100

Note 4 Net assets at end of period ÷ Total assets at end of period × 100

Note 5 Interest-bearing liabilities at end of period ÷ Total assets at end of period × 100

Note 6 Payout ratio for the 18th and 19th fiscal periods is calculated using the following formula as new investment units were issued during the period.

Payout ratio = Total distributions (excluding distributions in excess of profit) ÷ Net income × 100

Note 7 "Total leasable area" represents the total leasable floor space as of the end of each fiscal period. (Figures are for leasable units only and exclude the floor space for storage, halls, parking, etc., but include the floor space for common areas and parking, etc. when leased to tenants.)

Note 8 "Number of tenants at end of period" represents the number of tenants based on lease agreements that are valid at the end of each fiscal period. (Figures are for leased units only and exclude the tenants who rent only the floor space for storage, halls, parking, etc.). When a single tenant rents multiple units in a single property and the billing of the rent for these units is consolidated, the count is as one tenant. When a single tenant occupies multiple properties, the tenant is counted for each property and subtotaled and totaled. When a master lease agreement is concluded, the count is of the number of end-tenants who are subleasing from the lessee on the master lease agreement based on the assumption that consent of all end-tenants has been obtained for the lessee on the master lease agreement to serve as the lessor. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 9 "Occupancy ratio" is the figure obtained by dividing the total leasable area of respective properties at the end of each fiscal period by the total leasable area, and is expressed as a percentage.

Note 10 Operating income from property leasing activities (Rental business revenues - Rental business expenses) + Depreciation + Loss on disposal of property

Note 11 Number of investment properties does not include investments in Tokumei Kumiai (silent partnership) agreements.

2. Outline of asset management operation

(1) Brief background to MCUBS MidCity

MCUBS MidCity Investment Corporation (hereafter “MCUBS MidCity”) was established by MCUBS MidCity Inc. (hereafter, the “Asset Management Company”) on June 1, 2006 under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereafter, the “Investment Trusts Act”), and listed on the Tokyo Stock Exchange, Inc.’s Real Estate Investment Trust Section (Securities Code: 3227) on August 29, 2006.

During the fiscal period under review, both net income and distribution per unit increased from the previous fiscal period contributed by various operating expenses reduction effects in addition to the increase of operating revenue caused by the rent from new tenants, etc.

As of the end of the fiscal period under review (21st fiscal period: July 1, 2016 to December 31, 2016), the portfolio of MCUBS MidCity comprised of 19 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥217,104 million.

MCUBS MidCity conducts asset management under the portfolio building policy of focusing on office properties and investments in the three major metropolitan areas, which are the Tokyo metropolitan area (Tokyo, Kanagawa, Chiba and Saitama Prefectures), Osaka metropolitan area (Osaka, Kyoto and Hyogo Prefectures) and Nagoya metropolitan area (Aichi Prefecture) (the same shall apply hereinafter).

(2) Investment environment and management performance

(a) Investment environment

In the 21st fiscal period, the Japanese economy continued to recover moderately as the preliminary figures of the GDP for the July to September 2016 period remained positive for three consecutive quarters against the backdrop of growing exports and steady residential investment. Although there are uncertain factors such as the policy of the new U.S. President, Brexit, and the elections scheduled to be conducted at European countries this year, the global economy is generally strong centering on the U.S. and the Japanese economy is expected to continue to be generally brisk, backed by the steady employment situation, recovery in real wages, etc.

In the real estate investment market, the real estate transaction amount is considered to have slightly decreased compared to the previous year, but the transaction price continues to be on an upward trend. According to the Ministry of Land, Infrastructure, Transport and Tourism’s Land Value LOOK Report for the third quarter (July 1 to October 1) of 2016, the land price of intensively used land of major cities in Japan increased in 82 of the 100 districts, remained flat in 18 districts and decreased in none of the districts. Accordingly, the land price trend continues to be on an upward trend.

In the office leasing market, as office demand is increasing against the backdrop of active corporate activities, the improvement of vacancy rate and the increase of rent level are continuing. Demand for office floors is expected to remain solid against the backdrop of steady corporate performance.

The J-REIT market remained rather weak from the beginning of the 21st fiscal period at TSE REIT index 1,849 points but turned to a recovery trend again after the election of the U.S. President and was at 1,855 points at the end of the fiscal period about the same level as the beginning. The J-REIT market is expected to remain strong against the backdrop of relatively stable Japanese politics and economy. In addition, the interest rate is still at a low level but close attention will be paid to its change as it is on a slight upward trend after bottoming out in the summer of 2016.

(b) Asset management performance

<Investment performance>

During the 21st fiscal period, MCUBS MidCity did not acquire or sell any properties, etc.

As a result, MCUBS MidCity's portfolio as of the end of the 21st fiscal period was comprised of 19 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 98.9% (of which Tokyo metropolitan area accounting for 37.1%, Osaka metropolitan area 59.6% and Nagoya metropolitan area 2.3%) in the three major metropolitan areas and 1.1% in other areas, and are distributed in terms of property type with 85.6% being office buildings and 14.4% being others.

<Performance of management of portfolio assets>

MCUBS MidCity has strived to maintain and enhance occupancy rates and rents by closely working together with sponsor companies, property management companies and office leasing brokers, creating tenant attraction plans for each property that match the respective location and characteristics and promoting the heightening of tenant satisfaction levels in seeking to attract new tenants and making its relationship of trust with existing tenants even stronger.

In the 21st fiscal period, in an environment showing recovery in office demand continuing on from the previous fiscal period, there were active tenant movements for reasons of integration of offices and improvement of location. Despite some tenant exits, with aggressive attraction of new tenants such as by making proposals to meet the tenant needs and capturing the needs of existing tenants for more space within the same building, a high occupancy rate of 97.7% was maintained at the end of the fiscal period. In addition, MCUBS MidCity was able to increase the average investment unit price of contracted rent for the portfolio partly due to the rent revision on which MCUBS MidCity is focusing.

Furthermore, at the Osaka Business Park (hereafter, "OBP") PR activities are being implemented to enhance the recognition and brand image of the OBP as a business area where "greenery" and "comfort" make it a favorable

place to work from the viewpoint of office workers. MCUBS MidCity has moved forward with revitalization of retail zones at Twin 21 and Matsushita IMP Bldg. in line with the reconstruction and new construction of office buildings in OBP.

(3) Overview of fund procurement

(a) Issuance of new investment units

During the 21st fiscal period, MCUBS MidCity has made no fund procurement through additional issuance of new investment units. The total number of investment units issued as of the end of the fiscal period under review was 266,025 investment units.

(b) Debt financing

MCUBS MidCity procures funds pursuant to its financial policy that considers the maintaining of a balance between fund procurement flexibility and financial stability, including keeping the LTV at a conservative level, reducing refinancing risks and mitigating interest rate fluctuation risks.

In the 21st fiscal period, MCUBS MidCity borrowed a total of ¥18,400 million from banks on July 29, 2016 and refinanced borrowings totaling ¥19,900 million which was due on July 29, 2016 by also using a part of the funds procured through the issuance of unsecured investment corporation bonds in May 2016. Backed by the lowered interest rates after the introduction of negative interest rates by the Bank of Japan and changes in the financial market environment, MCUBS MidCity has realized reduction of financial costs while further diversifying maturity dates, extending borrowing periods and fixing interest rates. In addition, MCUBS MidCity established its first commitment line at ¥15 billion (contract period of 3 years, execution period of 3 years) on August 18, 2016 and largely enhanced financial stability by securing a method to respond to unforeseen market environment.

As of the end of the 21st fiscal period, MCUBS MidCity had a balance of borrowings from 17 financial institutions in the amount of ¥91,100 million and had a balance of investment corporation bonds in the amount of ¥3,000 million. The ratio of interest-bearing liabilities to total assets stands at 41.7%, 100.0% of loans payable are long-term loans payable (including current portion of long-term loans payable) and 74.8% of loans payable are applied fixed interest rates (including those for which interest rates have been fixed via interest rate swap agreements).

A change in MCUBS MidCity's rating (upgrade) was announced by Rating and Investment Information, Inc. (R&I) on October 26, 2016. The following is the status of MCUBS MidCity's issuer ratings as of the end of the 21st fiscal period.

Credit rating agency	Issuer rating	Rating outlook
Rating and Investment Information, Inc. (R&I)	A	Stable

(4) Overview of business performance and distributions

As a result of the abovementioned asset management, MCUBS MidCity posted operating revenue of ¥7,005 million, operating income of ¥2,551 million, ordinary income of ¥1,997 million and net income of ¥1,976 million in its performance for the 21st fiscal period.

Concerning distributions, to ensure that distributions of retained earnings would be deductible for tax purposes based on application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, including amendments thereto) (hereafter, the “Act on Special Measures Concerning Taxation”), MCUBS MidCity decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution per unit that are less than ¥1. Accordingly, MCUBS MidCity declared a distribution per unit of ¥7,431.

3. Changes in unitholders' capital

There was no change in unitholders' capital for the six months ended December 31, 2016. The outline of changes in unitholders' capital for the previous periods was as follows:

Date	Capital transaction	Number of units issued and outstanding		Unitholders' capital (Millions of yen)		Note
		Increase	Balance	Increase	Balance	
June 1, 2006	Private placement for incorporation	200	200	100	100	Note 1
August 28, 2006	Public offering	180,000	180,200	88,587	88,687	Note 2
September 26, 2006	Allocation of investment units to a third party	3,425	183,625	1,685	90,372	Note 3
April 22, 2015	Allocation of investment units to a third party	8,400	192,025	2,435	92,808	Note 4
July 29, 2015	Public offering	70,000	262,025	21,222	114,030	Note 5
August 17, 2015	Allocation of investment units to a third party	4,000	266,025	1,212	115,243	Note 6

Note 1 The Investment Corporation was incorporated through private placement at a price of ¥500,000 per unit.

Note 2 New investment units were issued at a price of ¥510,000 per unit (subscription price of ¥492,150 per unit) through a public offering in order to raise funds for acquiring new real property.

Note 3 New investment units were issued at a price of ¥492,150 per unit through the allocation of investment units to Nomura Securities Co., Ltd. in connection with the public offering on August 28, 2006.

Note 4 New investment units were issued at a price of ¥289,950 per unit through the allocation of investment units to Mitsubishi Corporation and UBS AG.

Note 5 New investment units were issued at a price of ¥313,462 per unit (subscription price of ¥303,174 per unit) through a public offering in order to raise funds for acquiring new real property.

Note 6 New investment units were issued at a price of ¥303,174 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on July 29, 2015

Fluctuation in market price of the investment unit:

The market price of the investment unit issued by the Investment Corporation listed on Tokyo Stock Exchange REIT Market fluctuated during each fiscal period as follows:

(Yen)

Fiscal period	17 th December 31, 2014	18 th June 30, 2015	19 th December 31, 2015	20 th June 30, 2016	21 st December 31, 2016
As of /for the six months ended					
Highest price	310,000	390,000	384,000	386,000	377,000
Lowest price	234,000	281,100	273,300	299,700	313,000

4. Distributions

The Investment Corporation intends to distribute all of unappropriated retained earnings at the end of the period, except for fractional distribution per unit less than one yen, to be treated the distributions as a tax allowable deduction as defined in Article 67-15 of the Special Taxation Measures Act of Japan. As a result, cash distribution per unit for the six months ended December 31, 2016 amounted to ¥7,431.

Fiscal period	17 th	18 th	19 th	20 th	21 st
As of /for the six months ended	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016
Retained earnings at end of period (Thousands of yen)	1,094,046	1,237,489	1,936,952	1,888,832	1,976,966
Retained earnings carried forward (Thousands of yen)	9	80	24	55	134
Total cash distributions (Thousands of yen)	1,094,037	1,237,409	1,936,928	1,888,777	1,976,831
(Cash distribution per unit) (Yen)	(5,958)	(6,444)	(7,281)	(7,100)	(7,431)
Profit distributions (Thousands of yen)	1,094,037	1,237,409	1,936,928	1,888,777	1,976,831
(Profit distribution per unit) (Yen)	(5,958)	(6,444)	(7,281)	(7,100)	(7,431)
Unitcapital refunds (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit) (Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from provision for temporary difference adjustment (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit from provision for temporary difference adjustment) (Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from deduction of unitcapital under tax rules (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit from deduction of unitcapital under tax rules) (Yen)	(—)	(—)	(—)	(—)	(—)

5. Management policies and issues

(1) Internal growth strategy

In the Osaka metropolitan area's office leasing market trend, where more than half of MCUBS MidCity's portfolio assets are located, decrease in new supply while office demand remained strong leads to continuous improvement in vacancy rates. As a result, improvement in new-contract lease terms and conditions are seen and the market rent is turning to a moderate recovery trend.

In the Tokyo metropolitan area's office leasing market, the vacancy rate continues to improve even when there are new supplies. Although a large amount of new supply is expected in the future, vacancy rate is likely to remain stable at a low level to a certain degree going forward, and a rising trend is expected to continue not only in new-contract rent but also in ongoing-contract rent.

Under such circumstances, in view of maintaining and enhancing revenue for the medium and long term, MCUBS MidCity is working on heightening the tenant satisfaction levels of existing tenants through the provision of comfortable office environments and services to maintain and improve rent revenue and occupancy rates through

initiatives for attracting new tenants.

<Strategy on existing tenants to maintain high occupancy rates>

As an initiative for capturing the needs and heightening the satisfaction levels of existing tenants, the Asset Management Company has been conducting surveys of tenant satisfaction levels on the tenants of multi-tenant buildings in MCUBS MidCity's portfolio since the first fiscal period. Based on the results of the surveys, it will instruct property management companies and building management companies, as well as consider and carry out repair and maintenance, value-enhancement and other construction work that fulfills tenant needs. It will maintain such initiatives to listen to the "voice of office workers," aiming to enhance satisfaction levels of existing tenants and the value of portfolio assets.

<Strategy on leasing to attract new tenants>

As for assets that have relatively large vacant space and scheduled vacant space among MCUBS MidCity's portfolio assets, aggressive efforts will be continuously made to attract new tenants by making proposals in line with tenant size and needs while taking advantage of excellent location and high specifications of the buildings.

Leveraging the strengths of having Mitsubishi Corp.- UBS Realty group and the Kanden Realty & Development group as its sponsors, the Asset Management Company conducts market analyses by utilizing tenant information, etc. that property management companies have acquired in working closely with the site and, based on the results, will develop strategies for attracting tenants, including value-enhancement plans that lead to increased competitiveness of MCUBS MidCity's portfolio assets in order to facilitate effective attracting of new tenants.

<Enhance property competitiveness>

MCUBS MidCity conducts upgrading of facilities and renewal of interiors one after another in view of provision of comfortable office environments and enhancement of leasing capacity. MCUBS MidCity will also carry out such initiatives as systematic upgrading that reflect the tenant satisfaction survey results, matters pointed out and requested by tenants, etc.

<Address energy saving and CO₂ reduction>

MCUBS MidCity shares the view on sustainability with the Asset Management Company that strives to respond to the environment and social responsibility based on the "Environment Charter" and "Basic Policy on Responsible Real Estate Investment," implements environmental and energy saving measures, streamlines energy use, and appropriately responds to environmental consideration and reduction of environmental burden.

In addition, MCUBS MidCity is proactively making efforts in external evaluation and certification systems concerning the environment, and was designated by the GRESB (Global Real Estate Sustainability Benchmark) Real Estate Assessment in 2016 as "Green Star," the highest ranking for the first time participation. Also, MCUBS MidCity newly obtained Building Housing Energy-efficiency Labeling System (BELS) certification established by the Ministry of Land, Infrastructure, Transport and Tourism in addition to DBJ Green Building certified by the

Development Bank of Japan (DBJ) and CASBEE certification for some of its portfolio assets.

(2) External growth strategy

MCUBS MidCity strives to improve the risk-return profile of its portfolio via acquiring assets under management in view of mitigating risks of fluctuations in revenue with the effects of diversifying its portfolio of assets under management, etc. Upon acquisition, MCUBS MidCity aims to realize external growth by utilizing the property sourcing capacity of its sponsors, proactively leveraging the pipeline support.

As for the targeted investment region, MCUBS MidCity examines acquisitions of assets under management with a focus on office properties in the three major metropolitan areas. In addition, from the standpoint of securing more opportunities for property acquisition and diversified investment, its investment targets also include so-called “government-designated cities” – cities with populations of over 500,000 – as well as other major cities and abroad, outside of the three major metropolitan areas. Furthermore, as for the investment target in terms of property type, although MCUBS MidCity invests primarily in office properties, from the standpoint of securing more opportunities for property acquisition and diversified investment, MCUBS MidCity's investment targets also include real estate other than office properties. (However, it states that no new investment shall be made as to retail properties and industrial properties.)

(3) Financial strategy

Ongoing efforts will be made at keeping the LTV at a conservative level, stable fund procurement, diversifying maturity dates for interest-bearing liabilities and promoting the addition of lending financial institutions with the goal of maintaining financial stability. In addition, measures will be taken to hedge against interest rate fluctuation risks by fixing interest rates depending on interest rate trends.

6. Subsequent events

Issuance of new investment units

The Board of Directors of the Investment Corporation, at its meeting held on February 14, 2017, resolved to issue new investment units as follows. The offering price per unit or other conditions will be otherwise resolved at the end of February 2017.

(a) Issuance of new investment units through public offering

Number of new investment units to be issued: 29,100 units

(b) Issuance of new investment units through third-party allotment

Number of new investment units to be issued: 1,500 units
Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

(c) Use of proceeds

The Investment Corporation used the net proceeds from the issuance of new investment units through the public offering for acquiring additional specified assets. Net proceeds from the third-party allotment will appropriate for acquisition of specified assets in the future.

Please refer to “Notice Concerning Issuance of New Investment Units and Secondary Offering of Investment Units” announced on February 14, 2017 for further information.

Acquisition and disposition of properties

The Investment Corporation acquired (or decided to acquire) following properties for the six months ending June 30, 2017.

Name of property	Acquisition price (or planned acquisition price) (Millions of yen) (Note 1)	Acquisition date
Properties acquired:		
Shibuya Sakuragaoka Square (additional acquisition) (Note2)	¥12,130	February 1, 2017
Sendai Capital Tower	¥5,500	February 1, 2017
Properties to be acquired:		
Sasazuka Center Bldg	¥8,700	Scheduled on March 22, 2017
USC Bldg (Note 3)	¥5,000	Scheduled on April 6, 2017
Total	¥31,330	

Note 1: “Acquisition price (or planned acquisition price)” indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

Note 2: The Investment Corporation already invests 40% quasi co-ownership interest of Shibuya Sakuragaoka Square (land with leasehold interest), and then has owned all the land and building of this property by the additional acquisition of 60% quasi co-ownership interest of the land with leasehold interest and the building of this property.

Note 3: The investment Corporation will acquire 50 over 108 quasi co-ownership interest of the building and land of USC Bldg.

The Investment Corporation decided to dispose following properties for the six months ending June 30, 2017.

Name of property	Planned disposition price (Millions of yen) (Note 1)	Scheduled date of disposition
Midosuji MID Bldg.	¥9,000	March 27, 2017
MID MidosujiKawaramachi Bldg	¥1,700	March 27, 2017
Total	¥10,700	

Note 1: "Planned disposition price" indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

New debt financing

The Investment Corporation obtained following debt financing for acquiring new properties stated above.

	Lender(s)	Amount outstanding	Debt term	Interest rate	Contract date	Borrowing date	Method of borrowing, repayment of principal	Maturity date
Loan 1	Mizuho Bank, Ltd.	¥10,000 million	0.5 years	Floating rate (JBA 1-month yen TIBOR) + 0.150%	January 26, 2017	January 31, 2017	Unsecured and unguaranteed, lump sum repayment	July 31, 2017
Loan 2	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Development Bank of Japan, Inc. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥4,000 million	5 years	Fixed rate 0.64691%				January 31, 2022
Loan 3	Same as above	¥4,000 million	7 years	Fixed rate 0.80938%				January 31, 2024

Outline of the Investment Corporation

1. Investment unit

Fiscal period		17 th	18 th	19 th	20 th	21 st
As of		December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016
Number of units authorized	(Units)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Number of units issued and outstanding	(Units)	183,625	192,025	266,025	266,025	266,025
Unitholders' capital	(Millions of yen)	90,372	92,808	115,243	115,243	115,243
Number of unitholders	(People)	13,703	11,795	12,517	11,665	11,451

2. Unitholders

Major unitholders as of December 31, 2016 were as follows:

Name	Number of units owned (Units)	Ratio of number of units owned to total number of units issued (Note) (%)
Japan Trustee Services Bank, Ltd. Trust Account	57,071	21.45
The Master Trust Bank of Japan, Ltd. Trust Account	33,473	12.58
Trust & Custody Services Bank, Ltd. Trust Account	20,759	7.80
The Nomura Trust and Banking Co., Ltd. Trust Account	11,273	4.23
Kanden Realty & Development Co., Ltd.	9,200	3.45
SIX SIS LTD.	8,001	3.00
Mitsubishi Corporation	4,200	1.57
STATE STREET BANK AND TRUST COMPANY 505223	3,795	1.42
CBNY DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	2,780	1.04
The Fukui Bank, Ltd.	2,541	0.95
Total	153,093	57.54

Note Ratio of number of units owned to total number of units issued is calculated by rounding to the nearest second decimal place.

3. Officers

Officers, etc. as of December 31, 2016 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2016 (Thousands of yen)
Executive Director (Note 1)	Katsura Matsuo	President & CEO & Representative Director of MCUBS MidCity Inc.	(Note 2) —
Supervisory Director (Note 1)	Haruo Kitamura	Chief of KITAMURA & CO. (Certified public accountant)	2,850
	Osamu Ito	Partner of UNITED FUSO LAW OFFICE (Attorney at Law)	2,850
Independent auditor	KPMG AZSA LLC	—	10,000

Note 1 There is no investment unit of the Investment Corporation held by the Executive Director nor the Supervisory Directors in their own name or that of others. Although Supervisory Directors may have additional post in other company than listed above, there is no conflict of interests between those companies including listed above and the Investment Corporation.

Note 2 There was no compensation for the Executive Director.

Note 3 Naoki Suzuki, Deputy President & Representative Director of MCUBS MidCity Inc. (the Asset Manager of the Investment Corporation), was appointed as alternate executive director for a vacancy of the executive director by the 6th General Meeting of Unitholders held on June 16, 2015. Also, Yonetaro Ori was appointed as alternate supervisory director for a vacancy of the supervisory director by the 6th General Meeting of Unitholders held on June 16, 2015.

Note 4 The Investment Corporation shall dismiss independent auditor in accordance with the Act on Investment Trusts and Investment Corporation of Japan, if necessary, considering audit quality, fees or other various factors.

4. Name of asset manager and other administrator

Asset manager, custodian and general administrators as of December 31, 2016 were as follows:

Classification	Name
Asset manager	MCUBS MidCity Investment Corporation
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (regarding book keeping)	Sumitomo Mitsui Trust Bank, Limited
General administrator (regarding investor registration and distribution payments to unitholders, etc.)	Mitsubishi UFJ Trust and Banking Corporation

Condition of investment assets

1. Composition of assets

Classification of assets	Investment category	Investment area	As of June30, 2016		As of December 31, 2016	
			Total of net book value (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)	Total of net book value (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)
Trust beneficial interest in real property	Office Building	Three major metropolitan areas				
		Tokyo metropolitan area (Note 3)	55,400	24.3	55,396	24.5
		Osaka metropolitan area (Note 3)	121,855	53.5	121,454	53.8
	Other	Three major metropolitan areas				
		Tokyo metropolitan area (Note 3)	24,182	10.6	24,067	10.7
		Osaka metropolitan area (Note 3)	2,448	1.1	2,431	1.1
	Other areas	2,198	1.0	2,178	1.0	
Sub-total			206,085	90.5	205,528	91.0
Investments in Tokumei Kumiai agreement (Note 4)			5,085	2.2	5,085	2.3
Bank deposits and other assets			16,515	7.3	15,303	6.8
Total assets			227,686	100.0	225,916	100.0

Note 1 Amounts less than one million yen are rounded down.

Note 2 "Ratio to total assets" is calculated by rounding to the nearest first decimal place.

Note 3 The Tokyo metropolitan area consists of Tokyo, Kanagawa, Chiba and Saitama prefectures; the Osaka metropolitan area consists of Osaka, Kyoto and Hyogo prefectures.

Note 4 Investments in Tokumei Kumiai agreement is 40% equity interest of silent partnership with R40 Godo Kaisha whose investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

Note 5 Construction in progress in trust is included in "Bank deposits and other assets".

2. Major property

The principal properties as of December 31, 2016 were as follows:

Name of property	Net book value (Millions of yen)	Leasable area (Note 1) (m ²)	Leased area (Note 2) (m ²)	Occupancy ratio (Note 3) (%)	Ratio of rental revenue to total rental revenues (%)	Major use
Sumitomo Fudosan Ueno Bldg. No.6	7,710	6,858.16	6,858.16	100.0	(Note 5)	Office
G-Square Shibuya Dogenzaka	12,300	5,013.55	4,179.23	83.4	3.4	Office
Shibuya Sakuragaoka Square (land with leasehold interest)	5,058	1,200.08	1,200.08	100.0	1.3	Office
Yokohama Creation Square	7,120	12,739.42	11,995.63	94.2	4.9	Office
Cube Kawasaki	20,391	24,462.29	22,286.19	91.1	8.9	Office
Higashi-Nihombashi Green Bldg.	2,815	3,256.64	3,256.64	100.0	1.3	Office
Twin 21 (Note 4)	66,471	82,304.85	80,399.97	97.7	33.4	Office
Matsushita IMP Bldg.	22,749	37,406.94	36,983.20	98.9	15.4	Office
Midosuji MID Bldg.	8,379	10,461.32	9,902.14	94.7	4.0	Office
MID REIT Kyobashi Bldg.	2,106	4,833.88	4,833.88	100.0	(Note 5)	Office
MID Imabashi Bldg.	3,138	4,277.64	4,028.16	94.2	1.2	Office
MID Midosujikawaramachi Bldg.	1,909	3,110.49	3,110.49	100.0	0.9	Office
Kitahama MID Bldg.	10,440	10,189.49	10,057.37	98.7	4.7	Office
MID Nishihommachi Bldg.	3,375	3,877.38	3,633.88	93.7	1.2	Office
Higobashi MID Bldg.	2,883	4,655.57	4,260.28	91.5	1.7	Office
AEON MALL Tsudanuma	24,067	101,210.44	101,210.44	100.0	10.5	Retail facilities
Konami Sports Club Kyobashi	2,431	9,586.26	9,586.26	100.0	(Note 5)	Retail facilities
Dormy Inn Hakata Gion	2,178	5,554.91	5,554.91	100.0	(Note 5)	Hotel
Total	205,528	330,999.31	323,336.91	97.7	100.0	

Note 1 “Leasable area” refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leasable as of December 31, 2016.

Note 2 “Leased area” refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leased under lease agreements valid as of December 31, 2016.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of December 31, 2016 by the leasable area. In addition, the figures in the “Total” rows are presented as percentages that are obtained by dividing the sum of the leased area of each property group by the sum of the group’s leasable area.

Note 4 Including the trust beneficiary interest of Twin 21 (partial ownership of leased land).

Note 5 “Ratio of rental revenue to total rental revenues” of the properties are not disclosed because the consent from the tenants has not been obtained.

Note 6 In addition to properties stated above table, the Investment Corporation invests in 40% equity interest of silent partnership with R40 Godo Kaisha whose investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

Note 7 Amounts less than one million yen are rounded down. Percentages are rounded to the nearest first decimal place.

3. Details of property

The details of investment properties held by the Investment Corporation as of December 31, 2016 were as follows:

Investment category	Investment Area		Name of property	Location (Note 1)	Form of ownership	Appraisal value at end of period (Note 2) (Millions of yen)	Net book value (Millions of yen)	
Office Building	Tokyo metropolitan area		Sumitomo Fudosan Ueno Bldg. No.6	5-24-8, Higashiueno, Taito-ku, Tokyo	Trust beneficial interest	7,970	7,710	
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	14,100	12,300	
			Shibuya Sakuragaoka Square (land with leasehold interest)	109-7 and other, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	5,320	5,058	
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,750	7,120	
			Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	21,800	20,391	
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	2,930	2,815	
	Three major metropolitan areas	Osaka metropolitan area		Twin 21 (Note 3)	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	49,500	66,471
				Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	19,900	22,749
				Midosuji MID Bldg.	4-3-2 Minamisenba, Chuo-ku, Osaka-shi	Trust beneficial interest	7,310	8,379
				MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	1,420	2,106
				MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,210	3,138
				MID Midosujikawaramachi Bldg.	4-3-7 Kawaramachi, Chuo-ku, Osaka-shi	Trust beneficial interest	1,490	1,909
				Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	8,760	10,440
				MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,160	3,375
				Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	3,450	2,883
	Sub total						156,070	176,850
	Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	27,800	24,067
Osaka metropolitan area			Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,300	2,431	
Other area			Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	3,300	2,178	
Sub total						34,400	28,677	
Total						190,470	205,528	

Note 1 "Location" means the location indicated in the residence indication (if not available, in the land registry book).

Note 2 "Appraisal value at end of period" shows the value as of December 31, 2016 appraised by the real estate appraiser (Morii Appraisal & Investment Consulting, Inc., Tanizawa Sōgō Appraisal Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and Japan Real Estate Institute) in accordance with the methods and standard of assets valuation as stipulated in the Articles of Incorporation of the Investment Corporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

Note 3 Including the trust beneficiary interest of Twin 21 (partial ownership of leased land).

Note 4 Amounts less than one million yen are rounded down.

Operating results of each property for the six months ended June 30, 2016 and December 31, 2016 were as follows:

Investment category	Investment Area		Name of property	For the six months ended							
				June30, 2016				December 31, 2016			
				Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Note 3) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 4) (%)	Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Note 3) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 4) (%)
Office Building	Three major metropolitan areas	Tokyo metropolitan area	Sumitomo Fudosan Ueno Bldg. No.6	2	100.0	(Note 5)	(Note 5)	2	100.0	(Note 5)	(Note 5)
			G-Square Shibuya Dogenzaka (Note 6)	8	79.5	191,997	2.9	8	83.4	236,590	3.4
			Shibuya Sakuragaoka Square (land with leasehold interest) (Note 6)	1	100.0	90,633	1.4	1	100.0	90,633	1.3
			Yokohama Creation Square (Note 6)	37	92.4	317,836	4.7	39	94.2	340,604	4.9
			Cube Kawasaki (Note 7)	9	100.0	589,248	8.8	9	91.1	614,324	8.9
			Higashi-Nihombashi Green Bldg. (Note 8)	8	100.0	85,440	1.3	8	100.0	88,644	1.3
	Osaka metropolitan area	Twin 21	107	98.0	2,255,041	33.7	106	97.7	2,303,927	33.4	
		Matsushita IMP Bldg.	59	97.6	1,015,718	15.2	60	98.9	1,058,809	15.4	
		Midosuji MID Bldg.	8	98.8	285,206	4.3	7	94.7	278,853	4.0	
		MID REIT Kyobashi Bldg.	1	100.0	(Note 5)	(Note 5)	1	100.0	(Note 5)	(Note 5)	
		MID Imabashi Bldg.	16	85.6	85,097	1.3	19	94.2	86,050	1.2	
		MID Midosujikawaramachi Bldg.	13	100.0	55,946	0.8	13	100.0	62,994	0.9	
		Kitahama MID Bldg.	11	100.0	319,304	4.8	10	98.7	323,134	4.7	
		MID Nishihommachi Bldg.	15	89.6	77,428	1.2	16	93.7	85,379	1.2	
	Higobashi MID Bldg.	11	95.0	118,199	1.8	10	91.5	116,236	1.7		
Sub total				306	97.2	—	—	309	96.4	—	—
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1	100.0	726,000	10.8	1	100.0	726,013	10.5
		Osaka metropolitan area	Konami Sports Club Kyobashi	1	100.0	(Note 5)	(Note 5)	1	100.0	(Note 5)	(Note 5)
	Other area	Dormy Inn Hakata Gion	2	100.0	(Note 5)	(Note 5)	2	100.0	(Note 5)	(Note 5)	
	Sub total				4	100.0	—	—	4	100.0	—
Total				310	98.2	6,697,429	100.0	313	97.7	6,897,186	100.0

Note 1 "Number of tenants" represents the number of tenants based on lease agreements that are valid at the end of each fiscal period. (Figures are for leased units only and exclude the tenants who rent only the floor space for storage, halls, parking, etc.). When a single tenant occupies multiple properties, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property and the billing of the rent for these units is consolidated, the count is as one tenant. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 2 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area by the leasable area at the end of each fiscal period. In addition, the figures in the "Subtotal" and the "Total" rows are presented as percentages that are obtained by dividing the sum of the leased area of each property group by the sum of the group's leasable area and rounded to the first decimal place.

Note 3 Amounts less than one thousand yen are rounded down.

Note 4 "Ratio of rental revenue to total rental revenues" is rounded to the nearest first decimal place.

Note 5 "Rental revenues" and "Ratio of rental revenue to total rental revenues" of the properties are not disclosed because the consent from the tenants has not been obtained.

4. Details of investment securities

The details of investment securities as of December 31, 2016 were as follows:

Name	Classification of assets	Quantity	Net book Value (Thousands of yen)		Fair value (Note1) (Thousands of yen)		Unrealized gains (or losses) (Thousands of yen)	Remarks
			Per unit	Amount	Per unit	Amount		
Equity interest of Tokumei Kumiai (silent partnership) agreement backed by the trust beneficiary interest for co-ownership interest of Nagoya Lucent Tower	Investment in Tokumei Kumiai agreement	—	—	5,085,027	—	5,085,027	—	—
Total			—	5,085,027	—	5,085,027	—	

Note 1 Fair value represents net book value of the equity interest of Tokumei Kumiai agreement.

5. Details of specified transaction

The details of specified transaction as of December 31, 2016 were as follows:

Classification	Transaction	Notional contract amount (Thousands of yen)		Fair value (Note 1) (Thousands of yen)
			Over 1 year	
Over-the-counter	Interest rate swaps (Floating-rate to fixed-rate interest)	41,400,000	31,100,000	(283,860)
Total		41,400,000	31,100,000	(283,860)

Note 1 The fair value is estimated by the counterparty to the interest rate swaps contracts using market interest rates and other assumptions.

6. Other assets

Real property and trust beneficial interests in real property are included the above tables in “3. Details of property.”

7. Investment assets by country or area

There is no investment asset other than Japan.

Capital expenditures for property

1. Schedule of capital expenditures

The significant plan for capital expenditures on property maintenance as of December 31, 2016 was as below. The amounts of estimated cost shown in the below table are including expenses which will be charged to income.

Name of property	Location	Purpose	Scheduled term for construction or maintenance	Estimated cost (Millions of yen)		
				Total	Payment for the six months ended December 31, 2016	Total of advanced payment
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Repair of elevator	May 2016 to August 2017	187	—	—
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Repair of rest room at lower floors	May 2017 to December 2017	95	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of rest room at lower floors	April 2017 to November 2017	93	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of electrical substation equipment	August 2016 to March 2017	74	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioner	June 2017 to October 2017	70	—	—

2. Capital expenditures for the six months ended December 31, 2016

Maintenance expenditures on property for the six months ended December 31, 2016 were totaling to ¥969 million consisting of ¥733 million of capital expenditures stated as below and ¥235 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Renewal of elevator	May 1, 2015 to November 30, 2016	242
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Repair of elevator	February 26, 2016 to November 15, 2016	78
Twin 21	Chuo-ku, Osaka-shi	Renewal of air-cooling chiller	August 10, 2016 to December 20, 2016	72
Twin 21	Chuo-ku, Osaka-shi	Renewal of elevator	March 15, 2016 to November 28, 2016	67
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioner	July 15, 2016 to November 23, 2016	65
Other properties, etc.	—	Other expenditures	—	207
Total				733

3. Reserved funds for long-term maintenance plan

The Investment Corporation had reserved funds as below to appropriate for future expenditures on maintenance based on a long-term maintenance plan.

Fiscal period	(Millions of yen)				
	17 th	18 th	19 th	20 th	21 st
As of /for the six months ended	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016
Reserved funds at beginning of period	580	702	577	781	1,232
Increase	440	458	550	801	801
Decrease	317	583	346	350	488
Reserved funds at end of period	702	577	781	1,232	1,546

Condition of expenses and liabilities

1. Details of asset management expenses

(Thousands of yen)

Fiscal period	20 th	21 st
For the six months ended	June 30, 2016	December 31, 2016
(a) Asset management fees	551,658	559,474
(b) Asset custody fees	10,834	5,556
(c) Administrative service fees	54,264	32,025
(d) Directors' compensations	5,700	5,700
(e) Independent auditor fees	10,000	10,000
(f) Other operating expenses	82,202	60,010
Total	714,659	672,767

2. Loans payable

Loans payable as of December 31, 2016 were as follows:

Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾ (%)	Maturity date	Repayment method	Use of proceeds	Remarks	
			(Thousands of yen)							
Long-term loans payable	Term loan (6 years 11 months) (Notes 4 and 7)	Development Bank of Japan Inc.	August 31, 2010	3,625,000	3,500,000	1.795	July 31, 2017 (Note 5)	(Note 5)	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2, 4)	Mizuho Bank, Ltd. Development Bank of Japan Inc.	July 29, 2011	4,000,000	—	1.364	July 31, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2, 3 and 7)	Sumitomo Mitsui Trust Bank, Limited Aozora Bank, Ltd.	July 31, 2012	4,300,000	4,300,000	1.141	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (7 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2012	1,700,000	1,700,000	1.524	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (3 years) (Note 2)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd. THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd.	July 31, 2013	15,900,000	—	0.663	July 29, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd.	July 31, 2013	4,800,000	4,800,000	1.297	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (7 years) (Notes 2 and 4)	Development Bank of Japan Inc. THE MINATO BANK, LTD.	July 31, 2013	1,800,000	1,800,000	1.709	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (3 years) (Notes 2, 3 and 7)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd.	July 31, 2014	6,000,000	6,000,000	0.707	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Resona Bank, Limited	July 31, 2014	4,000,000	4,000,000	0.962	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (6 years) (Notes 2 and 3)	Mizuho Bank, Ltd. The Hiroshima Bank, Ltd. Sony Bank Incorporated	July 31, 2014	2,000,000	2,000,000	1.240	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (7 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Aozora Bank, Ltd.	July 31, 2014	1,800,000	1,800,000	1.478	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (4 years) (Note 2)	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd. The Nanto Bank, Ltd.	July 31, 2015	9,500,000	9,500,000	0.560	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (6 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 31, 2015	4,500,000	4,500,000	1.034	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed

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Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾	Maturity date	Repayment method	Use of proceeds	Remarks
			(Thousands of yen)		(%)				
Term loan (8 years) (Note 3)	Mizuho Bank, Ltd.	July 31, 2015	1,000,000	1,000,000	1.384	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years) (Note 2)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. THE NISHI-NIPPON CITY BANK, LTD. Mizuho Trust & Banking Co., Ltd. The Hyakugo Bank, Ltd.	July 31, 2015	10,500,000	10,500,000	0.460	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Trust & Banking Co., Ltd.	July 31, 2015	9,300,000	9,300,000	0.865	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	1,200,000	1,200,000	0.908	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Aozora Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Trust & Banking Co., Ltd.	July 31, 2015	2,200,000	2,200,000	1.202	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	800,000	800,000	1.233	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Note 3)	Mizuho Bank, Ltd.	July 31, 2015	500,000	500,000	1.384	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	500,000	500,000	1.400	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	April 28, 2016	2,800,000	2,800,000	0.498	April 30, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Note 2)	Sumitomo Mitsui Banking Corporation Shinkin Central Bank	July 29, 2016	—	3,700,000	0.369	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Notes 2 and 4)	THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd.	July 29, 2016	—	2,250,000	0.373	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Note 4)	Sumitomo Mitsui Trust Bank, Limited	July 29, 2016	—	2,600,000	0.373	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (4 years 6 months) (Notes 2 and 4)	Mizuho Bank, Ltd. Development Bank of Japan Inc. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	—	2,500,000	0.451	January 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 4)	Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	—	2,650,000	0.494	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation	July 29, 2016	—	4,700,000	0.735	July 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
	Subtotal		92,725,000	91,100,000					
	Total		92,725,000	91,100,000					

- Note 1 The average interest rate indicates a weighted average of interest rate for each six-month period, rounded to the third decimal place. The average interest rates of loans payable which were hedged by interest rate swaps are calculated adjusting the effect of the interest rate swaps.
- Note 2 These term loans are syndication loan.
- Note 3 These term loans are hedged by interest rate swaps.
- Note 4 Interest rates of these term loans are fixed rate.
- Note 5 The principal is repaid on the end of January and July of each year from January 31, 2011 at an amount of ¥125,000 thousand, and the remaining balance (¥3,375,000 thousand) is repaid on July 31, 2017.
- Note 6 The use of proceeds was acquisition of trust beneficiary interest in real estate, etc.
- Note 7 Current portion of these term loans (6 years 11 months, 5 years and 3 years) is shown as current portion of long-term loans payable in the balance sheets.

3. Investment corporation bonds

Investment corporation bonds as of December 31, 2016 were as follows:

Name of bonds	Issuance date	Balance as of		Interest rate (%)	Maturity date	Repayment method	Use of proceeds	Remarks
		Beginning balance (Thousands of yen)	Ending balance (Thousands of yen)					
The 1 st Unsecured Investment Corporation Bond	May 23, 2016	1,500,000	1,500,000	0.340	May 21, 2021	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 2 nd Unsecured Investment Corporation Bond	May 23, 2016	1,500,000	1,500,000	0.810	May 22, 2026	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
Total		3,000,000	3,000,000					

4. Short-term investment corporation bonds

None

5. Investment unit warrants

None

Condition of investment transactions

1. Transactions of property and asset-backed securities, etc.

None

2. Transactions of other assets

Other assets than property or asset-backed securities, etc. are bank deposits and bank deposits in trust.

3. Research for specified assets value, etc.

(1) Property

None

(2) Asset backed securities

None

(3) Other transaction

None

4. Transactions with interested parties

(1) Outline of transactions

None

(2) Amounts of fees paid and other expenses

There were no fees to interested parties for the six months ended December 31, 2016. For other expenses, the Investment Corporation paid ¥387,786 thousand of utilities to The Kansai Electric Power Company, Incorporated during the period.

5. Transactions with asset manager relating to other business than asset management

None

Financial information

1. Financial position and operating results

Please refer to the accompanying balance sheets, statements of income and retained earnings, statement of changes in net assets, notes to financial information and statements of cash distributions.

2. Changes in depreciation method

None

3. Changes in valuation method of real property

None

Other information

1. Notice

Execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended December 31, 2016 was as follows:

Approval day	Item	Summary
August 16, 2016	Commitment line agreement	The Investment Corporation entered into a syndication commitment line agreement with Mizuho Bank, Ltd. on August 18, 2016.
December 22, 2016	Partial transfer of status as a party to commitment line agreement	The Investment Corporation consent to add Sumitomo Mitsui Trust Bank, Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd. to the lenders of the commitment line agreement on December 28, 2016.

2. Investment trust beneficiary interest of the Investment Corporation

None

3. Overseas real estate investment corporation and property held by the corporation

None

4. Other

Figures less than unit indicated in each statement have been rounded down for amounts and rounded for ratio unless otherwise indicated in this presentation. As a result, the total shown in this presentation do not necessarily agree to the sum of the individual items.

II. Balance sheets

(Thousands of yen)

	As of	
	June 30, 2016	December 31, 2016
ASSETS		
Current assets:		
Cash and bank deposits	7,526,363	6,562,889
Cash and bank deposits in trust	8,121,692	7,867,449
Rental receivables	171,147	152,962
Income taxes receivable	25,156	21,207
Prepaid expenses	36,411	45,574
Deferred tax assets	14	15
Other	—	7,417
Total current assets	15,880,785	14,657,517
Noncurrent assets:		
Property, plant and equipment:		
Buildings in trust, at cost (Note 2)	73,232,515	73,954,970
Less: Accumulated depreciation	(19,378,133)	(20,640,675)
Buildings in trust, net	53,854,382	53,314,295
Structures in trust, at cost	119,205	119,205
Less: Accumulated depreciation	(26,244)	(28,260)
Structures in trust, net	92,960	90,945
Machinery and equipment in trust, at cost	7,916	7,916
Less: Accumulated depreciation	(2,047)	(2,375)
Machinery and equipment in trust, net	5,869	5,541
Tools, furniture and fixtures in trust, at cost (Note 2)	558,806	567,171
Less: Accumulated depreciation	(380,829)	(403,798)
Tools, furniture and fixtures in trust, net	177,977	163,372
Land in trust	151,954,124	151,954,124
Construction in progress in trust	4,298	4,298
Total net property, plant and equipment	206,089,612	205,532,578
Intangible assets:		
Software	4,655	4,182
Trademark right	288	224
Total intangible assets	4,944	4,406
Investments and other assets:		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	525,731	554,128
Total investments and other assets	5,620,758	5,649,156
Total noncurrent assets	211,715,315	211,186,141
Deferred assets:		
Investment corporation bonds issuance costs	31,190	28,900
Investment unit issuance costs	58,890	44,323
Total deferred assets	90,080	73,223
TOTAL ASSETS	227,686,181	225,916,881

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

(Thousands of yen)

	As of	
	June 30, 2016	December 31, 2016
LIABILITIES		
Current liabilities:		
Operating accounts payable	447,356	392,099
Current portion of long-term loans payable	20,150,000	13,800,000
Accounts payable – other	879,486	930,239
Accrued expenses	140,647	124,458
Distribution payable	8,343	9,547
Consumption taxes payable	283,571	39,956
Advances received	986,615	986,557
Other	469,220	621,955
Total current liabilities	23,365,240	16,904,815
Noncurrent liabilities:		
Investment corporation bonds – unsecured	3,000,000	3,000,000
Long-term loans payable	72,575,000	77,300,000
Tenant leasehold and security deposits	8,411,330	8,245,717
Tenant leasehold and security deposits in trust	3,202,707	3,246,312
Total noncurrent liabilities	87,189,038	91,792,030
TOTAL LIABILITIES	110,554,279	108,696,845
NET ASSETS		
Unitholders' equity:		
Unitholders' capital	115,243,069	115,243,069
Surplus:		
Retained earnings	1,888,832	1,976,966
Total surplus	1,888,832	1,976,966
Total unitholders' equity	117,131,902	117,220,036
TOTAL NET ASSETS (Note 4)	117,131,902	117,220,036
TOTAL LIABILITIES AND NET ASSETS	227,686,181	225,916,881

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

III. Statements of income and retained earnings

(Thousands of yen)

	For the six months ended	
	June 30, 2016	December 31, 2016
Operating revenue		
Rent revenue—real estate (Note 5)	6,229,038	6,388,006
Other rental business revenue (Note 5)	468,390	509,180
Dividends income	126,698	108,319
Total operating revenue	6,824,128	7,005,506
Operating expenses		
Expenses related to rental business (Note 5)	3,646,498	3,780,925
Asset management fees	551,658	559,474
Asset custody fee	10,834	5,556
Administrative service fees	54,264	32,025
Directors' compensations	5,700	5,700
Other	92,202	70,010
Total operating expenses	4,361,157	4,453,693
Operating income	2,462,970	2,551,813
Non-operating income		
Interest income	1,264	78
Reversal of distribution payable	881	279
Interest on refund	282	17
Total non-operating income	2,428	375
Non-operating expenses		
Interest expenses	438,576	394,632
Interest expenses on investment corporation bonds	1,843	8,624
Borrowing related expenses	118,551	152,875
Amortization of investment corporation bonds issuance costs	763	2,290
Amortization of investment unit issuance costs	14,566	14,566
Other	1,379	1,364
Total non-operating expenses	575,681	574,355
Ordinary income	1,889,716	1,977,833
Extraordinary income		
Subsidy income	7,279	—
Total extraordinary income	7,279	—
Extraordinary losses		
Reduction entry of property	7,279	—
Total extraordinary losses	7,279	—
Income before income taxes	1,889,716	1,977,833
Income taxes		
Current	908	923
Deferred	(0)	(0)
Total income taxes	908	922
Net income	1,888,808	1,976,910
Retained earnings brought forward	24	55
Unappropriated retained earnings	1,888,832	1,976,966

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

IV. Statements of changes in net assets

(Thousands of yen)

For the six months ended June 30, 2016

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
Balance as of January 1, 2016	115,243,069	1,936,952	1,936,952	117,180,022	117,180,022
<u>Changes during the period</u>					
Dividends from surplus	—	(1,936,928)	(1,936,928)	(1,936,928)	(1,936,928)
Net income	—	1,888,808	1,888,808	1,888,808	1,888,808
<u>Total changes during the period</u>	—	(48,119)	(48,119)	(48,119)	(48,119)
Balance as of June 30, 2016	115,243,069	1,888,832	1,888,832	117,131,902	117,131,902

For the six months ended December 31, 2016

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
Balance as of July 1, 2016	115,243,069	1,888,832	1,888,832	117,131,902	117,131,902
<u>Changes during the period</u>					
Dividends from surplus	—	(1,888,777)	(1,888,777)	(1,888,777)	(1,888,777)
Net income	—	1,976,910	1,976,910	1,976,910	1,976,910
<u>Total changes during the period</u>	—	88,133	88,133	88,133	88,133
Balance as of December 31, 2016	115,243,069	1,976,966	1,976,966	117,220,036	117,220,036

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

V. Notes to financial information

Note 1 – Summary of significant accounting policies

(a) Securities

Non-marketable securities held as available-for-sale are stated at cost determined by the moving average method. Investments in Tokumei Kumiai (silent partnership) agreements are accounted for by using the equity method of accounting.

(b) Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation of property, plant and equipment, except for land, is calculated on a straight-line basis over the estimated useful lives of the assets as stated below:

Buildings in trust.....	2-65 years
Structures in trust.....	10-50 years
Machinery and equipment in trust.....	11 years
Tools, furniture and fixtures in trust.....	3-15 years

(c) Intangible assets

Intangible assets are amortized on a straight-line basis. The estimated useful life of software is five years.

(d) Long-term prepaid expenses

Long-term prepaid expenses are amortized on a straight-line basis.

(e) Investment unit issuance costs

Investment unit issuance costs are capitalized and amortized on a straight-line basis over three years.

(f) Investment corporation bonds issuance costs

Investment corporation bonds issuance costs are capitalized and amortized on a straight-line basis over the maturity period of the investment corporation bonds.

(g) Taxes on property, plant and equipment

Property, plant and equipment are annually subject to various taxes, such as property taxes and urban planning taxes. An owner of a property is registered in the record maintained by the local government in each jurisdiction, and such taxes are imposed on the owner registered in the record as of January 1 of each year based on the assessment made by the local government.

Under the above tax rules, a seller of a property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes calculated from the acquisition date to the end of the calendar year is capitalized as a cost of the property in accordance with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). In subsequent calendar

years, half of such taxes on property, plant and equipment for each calendar year are charged as operating expenses in each fiscal period.

No taxes on property, plant and equipment were capitalized for the six months ended for June 30, 2016 and December 31, 2016.

(h) Hedge accounting

In accordance with the Investment Corporation's risk management policy and its internal rules, the Investment Corporation uses derivative instruments for the purpose of hedging risks that are prescribed in the Investment Corporation's articles of incorporation. The Investment Corporation hedges fluctuations in interest rates of loans payable through the use of interest rate swaps as hedging instruments and applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under such interest swap contracts can be recognized and added to or reduced from any interest earned or incurred on the hedged asset or liability, as appropriate, and the fair value of the interest rate swap is not required to be evaluated separately. An assessment of hedge effectiveness is not performed when the interest rate swaps meet the specific criteria required for such special treatment.

(i) Accounting treatment of trust beneficiary interests in real estate trusts

For the trust beneficiary interests in real estate trusts, which are commonly utilized to obtain ownership in investment properties in Japan and through which the Investment Corporation holds all of its real estate, all assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant balance sheet and income statement accounts of the Investment Corporation in proportion to the percentage interest that such trust beneficiary interest represents. Certain material accounts with respect to assets and liabilities in trust are presented separately from other accounts in the balance sheet of the Investment Corporation.

(j) Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the statement of income and retained earnings. The consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld are included in current assets and the excess of amounts withheld over payments are included in current liabilities as the case may be.

Note 2 – Reduction entry for property

Acquisition costs of certain buildings in trust were reduced by government subsidies received or insurance income. The accumulated amounts of such reduction were as follows:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2016	December 31, 2016
Reduction entry by:	—	
Government subsidies received	—	—
Buildings in trust	4,864	4,864
Tools, furniture and fixtures in trust	7,279	7,279
Insurance income		
Buildings in trust	68,700	68,700

Note 3 – Commitment lines

The Investment Corporation entered into committed lines of credit with Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd as follows:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2016	December 31, 2016
Total amount of committed lines of credit	—	15,000,000
Borrowing drawn down	—	—
Unused committed lines of credit	—	15,000,000

Note 4 – Unitholders' equity

(1) Number of units

	As of	
	June 30, 2016	December 31, 2016
Authorized	2,000,000 units	2,000,000 units
Issued and outstanding	266,025 units	266,025 units

(2) The Investment Corporation is required to maintain net assets of at least ¥50,000 thousand as required by Article 67-4 of the Act on Investment Trusts and Investment Corporations of Japan.

Note 5 – Rental business revenue and expenses

Revenue and expenses related to property rental business for the six months ended June 30, 2016 and December 31, 2016 consist of the following:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2016	December 31, 2016
Rental business revenue:		
Rent revenue—real estate:		
Rental revenue	5,082,289	5,211,634
Common area charges	966,992	986,678
Other	179,756	189,694
Total rent revenue—real estate	<u>6,229,038</u>	<u>6,388,006</u>
Other rental business revenue:		
Utilities	431,643	452,686
Cancellation penalty	548	13,539
Other	36,199	42,954
Total other rental business revenue	<u>468,390</u>	<u>509,180</u>
Total rental business revenue	<u>6,697,429</u>	<u>6,897,186</u>
Expenses related to rental business:		
Property management fees	830,936	833,056
Utilities	634,147	686,059
Property-related taxes	578,081	647,248
Insurance	10,707	10,876
Repair and maintenance	239,843	235,800
Depreciation	1,281,377	1,288,489
Loss on disposal of property	—	1,824
Other	71,404	77,570
Total expenses related to rental business	<u>3,646,498</u>	<u>3,780,925</u>
Operating income from property leasing activities	<u>3,050,931</u>	<u>3,116,261</u>

Note 6 – Income taxes

Deferred tax assets consist of the following:

	(Thousands of yen)	
	As of	
	June 30, 2016	December 31, 2016
Deferred tax assets:		
Enterprise tax payable	14	15
Total	<u>14</u>	<u>15</u>
Net deferred tax assets	<u>14</u>	<u>15</u>

A reconciliation of the Investment Corporation's effective tax rates and statutory tax rates is as follows:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2016	December 31, 2016
Statutory tax rates	32.31%	31.74%
Deductible cash distributions	(32.29)	(31.72)
Other	0.03	0.03
Effective tax rates	<u>0.05%</u>	<u>0.05%</u>

On March 29, 2016, the Japanese government announced two acts to partially amend the Income Tax Act (Act No.15 of 2016) and the Local Tax Act (Act No.13 of 2016) which resulted in changes in the statutory tax rate from fiscal periods began on or after April 1, 2016. As a consequence of the effects of these Acts, the statutory tax rate changed from 32.31% to 31.74% for temporary differences which reversed in the six months ended December 31, 2016. The effects of this change in the

statutory tax rate were immaterial for the Investment Corporation.

Note 7 – Leases

None

Note 8 – Financial instruments

(a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

The Investment Corporation raises funds through loans payable or the issuance of investment corporation bonds for the acquisition of real estate properties, expenditures on property maintenance, payment of distributions, maintaining necessary working capital funds and/or repayment of existing debt.

(ii) Nature and extent of risks arising from financial instruments and risk management

The funds raised through loans payable or the issuance of investment corporation bonds are mainly used to acquire real estate properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable, investment corporation bonds and tenant leasehold and security deposits are managed by decentralizing maturity date of loans payable or investment corporation bonds and maintaining liquidity with preparing plans for funds.

Although loans payable with floating interest rates are subject to fluctuations in market interest rates, a certain portion of loans payable with floating interest rates is hedged by interest rate swaps. The Investment Corporation manages interest fluctuation risk by adjusting a ratio of floating rate debt to the total of loans payable in response to the current financial market condition

(iii) Supplemental information on fair value of financial instruments

The fair value of financial instruments is based on quoted market prices, if available. When quoted market prices are not available, fair value is estimated by using valuation techniques which contain various assumptions. If other valuation models or assumptions were used, the estimated fair value may differ.

(b) Quantitative information for financial instruments

The following table shows the carrying amounts, fair value and valuation differences of financial instruments for which fair value is available as of June 30, 2016 and December 31, 2016.

MCUBS MidCity Investment Corporation
The 21st fiscal period Asset Management Report

(Thousands of yen)

	As of					
	June 30, 2016			December 31, 2016		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	7,526,363	7,526,363	—	6,562,889	6,562,889	—
(2) Cash and bank deposits in trust	8,121,692	8,121,692	—	7,867,449	7,867,449	—
Total assets	15,648,055	15,648,055	—	14,430,339	14,430,339	—
(3) Current portion of long-term loans payable	20,150,000	20,154,779	4,779	13,800,000	13,872,255	72,255
(4) Investment corporation bonds – unsecured	3,000,000	3,024,600	24,600	3,000,000	2,977,050	(22,950)
(5) Long-term loans payable	72,575,000	73,657,253	1,082,253	77,300,000	78,028,898	728,898
Total liabilities	95,725,000	96,836,633	1,111,633	94,100,000	94,878,203	778,203
(6) Derivative instruments	—	—	—	—	—	—

Note (i): The methods and assumption used to estimate fair value are as follows:

(1) Cash and bank deposits and (2) Cash and bank deposits in trust

Because of their short maturities, the carrying amounts approximate their fair value.

(3) Current portion of long-term loans payable and (5) Long-term loans payable

Loans payable with floating interest rates changing within a short term period are stated at their carrying amounts as their carrying amounts approximate their fair values. The fair value of loans payable with fixed interest rates is determined based on the present value of contractual cash flows (when loans payable with floating interest rates are hedged by interest rate swaps which qualify for hedge accounting and meet special criteria, contractual cash flows in conjunction with the hedging interest rate swaps) discounted at current market interest rates which would be applicable to new loans payable under the same conditions and terms.

(4) Investment corporation bonds – unsecured

The fair value is the quoted price provided by financial market information provider.

(6) Derivative instruments

Derivative instruments are used only for hedging purpose and are subject to hedge accounting as following tables show.

As of June 30, 2016

(Thousands of yen)

Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	41,400,000	41,400,000	Note (a)	-

As of December 31, 2016

(Thousands of yen)

Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	41,400,000	31,100,000	Note (a)	-

Note:

(a) As disclosed in "Note 1 - Summary of significant accounting policies (h) Hedge accounting", the Investment Corporation applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under swap contracts, and not the fair value of the derivative, can be determined separately from the hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instrument and the long-term loans payable as the hedged item is calculated together as one. Please refer to above footnote ("Liabilities, (3) Current portion of long-term loans payable and (5) Long-term loans payable").

Note (ii): Financial instruments for which fair value is difficult to determine are as follows:

(Thousands of yen)

	As of	
	June 30, 2016	December 31, 2016
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	8,411,330	8,245,717
Tenant leasehold and security deposits in trust	3,202,707	3,246,312

The investment securities (equity interests in silent partner ship) are not traded in markets, and it is difficult to estimate reasonable fair value. Also, the above carrying amounts of tenant leasehold and security deposits are not publicly traded, and it is difficult to determine their fair value based on estimated future cash flows because the repayment dates of those deposits are not certain. Therefore, these financial instruments are not included in the above quantitative information.

Note (iii): Cash flows schedule of financial assets after the balance sheet date

(Thousands of yen)

As of June 30, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	7,526,363	-	-	-	-	-
Cash and bank deposits in trust	8,121,692	-	-	-	-	-
Total	15,648,055	-	-	-	-	-

(Thousands of yen)

As of December 31, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	6,562,889	-	-	-	-	-
Cash and bank deposits in trust	7,867,449	-	-	-	-	-
Total	14,430,339	-	-	-	-	-

Note (iv): Cash flows schedule of interest-bearing financial liabilities after the balance sheet date

(Thousands of yen)						
As of June 30, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long -term loans payable	20,150,000	13,675,000	15,300,000	15,200,000	17,100,000	11,300,000
Investment corporation bonds – unsecured	-	-	-	-	1,500,000	1,500,000

(Thousands of yen)						
As of December 31, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long -term loans payable	13,800,000	15,300,000	15,200,000	22,850,000	14,250,000	9,700,000
Investment corporation bonds – unsecured	-	-	-	-	1,500,000	1,500,000

Note 9 – Fair value of investment and rental property

The Investment Corporation has mainly office buildings as investment and rental properties which are located in Tokyo and Osaka metropolitan areas or other areas in Japan. The following table shows the net book value and the fair value of the investment and rental properties in aggregate for the six months ended June 30, 2016 and December 31, 2016.

	(Thousands of yen)	
	As of / For the six months ended	
	June 30, 2016	December 31, 2016
Net book value		
Balance at the beginning of the period	206,923,420	206,085,313
Net decrease during the period ⁽¹⁾	(838,106)	(557,034)
Balance at the end of the period	206,085,313	205,528,279
Fair value⁽²⁾	187,530,000	190,470,000

Notes:

- (1) Changes in the net book value for the six months ended June 30, 2016 and December 31, 2016 are mainly due to capital expenditures offset by depreciation.
(2) Fair value has been determined based on the appraisal value provided by independent real estate appraisers.

For rental revenues and expenses for the six months ended June 30, 2016 and December 31, 2016, please refer to “Note 5 – Rental business revenue and expenses.”

Note 10 – Restriction on Asset Management

None

Note 11 – Related-party transactions

For the six months ended June 30, 2016:

Type of related-party	Company name	Business	Voting interest in the Investment Corporation (%)	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts (Note 2) (Thousands of yen)	Balance sheet account	Amounts (Note 2) (Thousands of yen)
Interested party	Mitsubishi Corporation Fashion Co., Ltd	Clothing manufacture	—	Rental business revenue (Note 1)	10,297	Advances received	1,725
						Rental receivables	107
						Tenant leasehold and security deposits	10,458
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,708	Advances received	1,295
						Rental receivables	15
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd. (Note 4)	Real estate business	3.46	Rental business revenue (Note 1)	5,236	Advances received	878
						Rental receivables	89
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	71,331	Advances received	9,362
						Rental receivables	952
				Utilities	371,092	Tenant leasehold and security deposits	104,029
						Operating accounts payable	71,236
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	58,951	Accounts payable—other	63,667
				Asset custody fee	16,920	Accounts payable—other	2,429
				Interest expenses	59,908	Accrued expenses	19,122
				Borrowing related expenses	6,321	Prepaid expenses	24,478

For the six months ended December 31, 2016:

Type of related-party	Company name	Business	Voting interest in the Investment Corporation (%)	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts (Note 2) (Thousands of yen)	Balance sheet account	Amounts (Note 2) (Thousands of yen)
Interested party	Mitsubishi Corporation Fashion Co., Ltd	Clothing manufacture	—	Rental business revenue (Note 1)	10,263	Advances received	1,725
						Rental receivables	120
						Tenant leasehold and security deposits	19,513
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,709	Advances received	1,295
						Rental receivables	17
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd.	Real estate business	3.46	Rental business revenue (Note 1)	6,015	Advances received	878
						Rental receivables	453
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	71,486	Advances received	9,362
						Rental receivables	799
				Utilities	387,786	Tenant leasehold and security deposits	104,029
						Operating accounts payable	61,405
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	29,984	Accounts payable—other	32,383
				Asset custody fee	7,653	Accounts payable—other	1,057
				Interest expenses	59,814	Accrued expenses	17,305
				Borrowing related expenses	5,960	Prepaid expenses	27,922

Notes:

- (1) Rental business revenue consists of rental revenue, common area charges, parking revenue, utilities, facility usage fee, etc.
- (2) The transaction amounts exclude consumption taxes and the balance amounts include those taxes.
- (3) The terms and conditions are decided based on third party transactions.
- (4) MID Urban Development Co., Ltd. merged with Kanden Fudosan Co., Ltd. on April 1, 2016 and the company name changed to Kanden Realty & Development Co., Ltd.

Note 12 – Per unit information

The net asset value per unit as of June 30, 2016 and December 31, 2016 was ¥440,304 and ¥440,635, respectively. Net income per unit for the six months ended June 30, 2016 and December 31, 2016 was ¥7,100 and ¥7,431, respectively.

Net income per unit is calculated by dividing the net income attributable to unitholders by the weighted average number of units outstanding during the six-month period. The Investment Corporation has no potentially dilutive units.

A basis of calculation of net income per unit is as follows:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2016	December 31, 2016
Net income	1,888,808	1,976,910
Amount not attributable to common unitholders	—	—
Net income attributable to common unitholders	1,888,808	1,976,910
Adjusted weighted-average number of units outstanding for the period	266,025 units	266,025 units

Note 13 – Subsequent events

Issuance of new investment units

The Board of Directors of the Investment Corporation, at its meeting held on February 14, 2017, resolved to issue new investment units as follows. The offering price per unit or other conditions will be otherwise resolved at the end of February 2017.

(a) Issuance of new investment units through public offering

Number of new investment units to be issued: 29,100 units

(b) Issuance of new investment units through third-party allotment

Number of new investment units to be issued: 1,500 units
Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

(c) Use of proceeds

The Investment Corporation used the net proceeds from the issuance of new investment units through the public offering for acquiring additional specified assets. Net proceeds from the third-party allotment will appropriate for acquisition of specified assets in the future.

Acquisition and disposition of properties

The Investment Corporation acquired (or decided to acquire) following properties for the six months ending June 30, 2017.

Name of property	Acquisition price (or planned acquisition price) (Millions of yen) (Note 1)	Acquisition date
Properties acquired:		
Shibuya Sakuragaoka Square (additional acquisition) (Note2)	¥12,130	February 1, 2017
Sendai Capital Tower	¥5,500	February 1, 2017

Properties to be acquired:		
Sasazuka Center Bldg	¥8,700	Scheduled on March 22, 2017
USC Bldg (Note 3)	¥5,000	Scheduled on April 6, 2017
Total	¥31,330	

Note 1: "Acquisition price (or planned acquisition price)" indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

Note 2: The Investment Corporation already invests 40% quasi co-ownership interest of Shibuya Sakuragaoka Square (land with leasehold interest), and then has owned all the land and building of this property by the additional acquisition of 60% quasi co-ownership interest of the land with leasehold interest and the building of this property.

Note 3: The investment Corporation will acquire 50 over 108 quasi co-ownership interest of the building and land of USC Bldg.

The Investment Corporation decided to dispose following properties for the six months ending June 30, 2017.

Name of property	Planned disposition price (Millions of yen) (Note 1)	Scheduled date of disposition
Midosuji MID Bldg.	¥9,000	March 27, 2017
MID MidosujiKawaramachi Bldg	¥1,700	March 27, 2017
Total	¥10,700	

Note 1: "Planned disposition price" indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

New debt financing

The Investment Corporation obtained following debt financing for acquiring new properties stated above.

	Lender(s)	Amount outstanding	Debt term	Interest rate	Contract date	Borrowing date	Method of borrowing, repayment of principal	Maturity date
Loan 1	Mizuho Bank, Ltd.	¥10,000 million	0.5 years	Floating rate (JBA 1-month yen TIBOR) + 0.150%	January 26, 2017	January 31, 2017	Unsecured and unguaranteed, lump sum repayment	July 31, 2017
Loan 2	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Development Bank of Japan, Inc. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥4,000 million	5 years	Fixed rate 0.64691%				January 31, 2022
Loan 3	Same as above	¥4,000 million	7 years	Fixed rate 0.80938%				January 31, 2024

VI. Statements of cash distributions

(Yen)

	For the six months ended	
	June 30, 2016	December 31, 2016
Unappropriated retained earnings	1,888,832,945	1,976,966,422
Cash distribution declared	1,888,777,500	1,976,831,775
<i>(Cash distribution declared per unit)</i>	<i>(7,100)</i>	<i>(7,431)</i>
Retained earnings carried forward	55,445	134,647

Note:

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Investment Corporation's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15 of the Special Taxation Measures Act of Japan and Article 39-32-3 of the Ordinance for Enforcement of the Special Taxation Measures Act for the fiscal period, cash distributions declared for the six months ended June 30, 2016 and December 31, 2016 were ¥1,888,777,500 and ¥1,976,831,775, respectively, which were all of retained earnings at the end of each period except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 2.

Note

Accompanying English financial information, comprising of balance sheets, statements of income and retained earnings, statements of changes in net assets, notes to financial information and statements of cash distributions, have been translated from the Japanese financial statements of the Investment Corporation prepared in accordance with the Act on Investment Trusts and Investment Corporations of Japan.

Under Article 130 of the Act on Investment Trusts and Investment Corporations of Japan, the Japanese financial statements for the six months ended December 31, 2016 have been audited by KPMG AZSA LLC, in accordance with auditing standards generally accepted in Japan. But, English translation of the Japanese language report of independent auditors is not attached herein because the accompanying English translation of balance sheets, statements of income and retained earnings, statement of changes in net assets, notes to financial information and statements of cash distributions are unaudited.

VII. Statements of cash flows (additional information)

(Thousands of yen)

	For the six months ended	
	June 30, 2016	December 31, 2016
Net cash provided by (used in) operating activities:		
Income before income taxes	1,889,716	1,977,833
Depreciation and amortization	1,281,377	1,288,489
Amortization of long-term prepaid expenses	109,039	100,943
Amortization of investment unit issuance costs	14,566	14,566
Amortization of investment corporation bonds issuance costs	763	2,290
Interest income	(1,264)	(78)
Interest expenses	438,576	394,632
Subsidy income	(7,279)	—
Loss on disposal of property	—	1,824
Reduction entry of property	7,279	—
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	(9,099)	18,184
Decrease in consumption taxes refundable	246,345	—
Increase (decrease) in consumption taxes payable	283,571	(243,614)
Increase (decrease) in operating accounts payable	81,716	(55,257)
Increase (decrease) in advances received	35,144	(57)
Decrease (increase) in prepaid expenses	6,285	(9,162)
Payments of long-term prepaid expenses	(18,144)	(129,340)
Other, net	(82,686)	54,414
Subtotal	4,275,912	3,415,668
Interest income received	1,264	78
Interest expenses paid	(441,070)	(410,821)
Income taxes refund	17,527	3,043
Net cash provided by operating activities	3,853,632	3,007,968
Net cash provided by (used in) investing activities:		
Purchases of property, plant and equipment in trust	(471,780)	(720,634)
Proceeds from tenant leasehold and security deposits	326,787	209,795
Proceeds from tenant leasehold and security deposits in trust	203,961	285,525
Payments of tenant leasehold and security deposits	(190,705)	(277,848)
Payments of tenant leasehold and security deposits in trust	(374,195)	(210,228)
Proceeds from restricted bank deposits in trust	47,408	433
Payments for restricted bank deposits in trust	(52,757)	(24,546)
Net cash used in investing activities	(511,282)	(737,504)
Net cash provided by (used in) financing activities:		
Increase in short-term loans payable	1,500,000	—
Repayments of short-term loans payable	(5,800,000)	—
Proceeds from long-term loans payable	2,800,000	18,400,000
Repayments of long-term loans payable	(125,000)	(20,025,000)
Proceeds from investment corporation bonds – unsecured	2,968,229	—
Dividends paid	(1,934,667)	(1,887,293)
Net cash provided by (used in) financing activities	(591,438)	(3,512,293)
Net change in cash and cash equivalents	2,750,912	(1,241,829)
Cash and cash equivalents at beginning of period	9,697,953	12,448,865
Cash and cash equivalents at end of period ⁽ⁱ⁾	12,448,865	11,207,036

Note:

- (i) Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid and readily convertible to cash, have a low risk of price fluctuation, and mature within three months from the date of acquisition. Cash and cash equivalents shown in the statements of cash flows consist of the following balance sheet items:

(Thousands of yen)

	As of	
	June 30, 2016	December 31, 2016
Cash and bank deposits	7,526,363	6,562,889
Cash and bank deposits in trust	8,121,692	7,867,449
Restricted bank deposits in trust ⁽¹⁾	(3,199,189)	(3,223,303)
Cash and cash equivalents	12,448,865	11,207,036

Note:

- (1) The usage of the bank deposits in trust is restricted to repayments of tenant leasehold and security deposits.