

MCUBS MidCity Investment Corporation

The 25th fiscal period Asset Management Report

July 1, 2018 – December 31, 2018



MCUBS MidCity Investment Corporation

I. ASSET MANAGEMENT REPORT

Outline of asset management operation

1. Operating results and financial position

Fiscal period		21 st	22 nd	23 rd	24 th	25 th
As of /for the six months ended		December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Operating revenues	(Millions of yen)	7,005	8,025	7,610	7,924	10,798
(Rental business revenues)	(Millions of yen)	(6,897)	(7,360)	(7,472)	(7,788)	(8,369)
Operating expenses	(Millions of yen)	4,453	4,875	4,627	4,555	5,470
(Rental business expenses)	(Millions of yen)	(3,780)	(3,924)	(3,879)	(3,786)	(4,128)
Operating income	(Millions of yen)	2,551	3,150	2,983	3,368	5,327
Ordinary income	(Millions of yen)	1,977	2,527	2,400	2,769	4,621
Net income	(Millions of yen)	1,976	2,527	2,405	2,767	4,620
Total assets	(Millions of yen)	225,916	248,821	248,837	272,674	280,790
(Period-on-period change)	(%)	(-0.8)	(10.1)	(0.0)	(9.6)	(3.0)
Net assets	(Millions of yen)	117,220	127,675	127,737	139,404	141,257
(Period-on-period change)	(%)	(0.1)	(8.9)	(0.0)	(9.1)	(1.3)
Interest-bearing liabilities	(Note 1) (Millions of yen)	94,100	104,975	104,975	115,975	122,875
Unitholders' capital	(Millions of yen)	115,243	125,148	125,148	136,452	136,452
Number of units issued and outstanding	(Units)	266,025	296,625	296,625	1,643,125	1,643,125
Net asset value per unit	(Note 2) (Yen)	440,635	86,085	86,127	84,840	85,969
Total distributions	(Millions of yen)	1,976	2,343	2,405	2,767	4,181
Distribution per unit	(Yen)	7,431	7,900	8,110	1,684	2,545
(Profit distribution per unit)	(Yen)	(7,431)	(7,900)	(8,110)	(1,684)	(2,545)
(Distribution per unit in excess of profit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Ratio of ordinary income to total assets	(Notes 3 and 4) (%)	0.9 (1.7)	1.1 (2.1)	1.0 (1.9)	1.1 (2.1)	1.7 (3.3)
Return on unitholders' equity	(Notes 3 and 5) (%)	1.7 (3.3)	2.1 (4.2)	1.9 (3.7)	2.1 (4.2)	3.3 (6.5)
Ratio of net assets to total assets	(Note 6) (%)	51.9	51.3	51.3	51.1	50.3
(Period-on-period change)	(%)	(0.5)	(-0.6)	(0.0)	(-0.2)	(-0.8)
Ratio of interest-bearing liabilities to total assets	(Note 7) (%)	41.7	42.2	42.2	42.5	43.8
Payout ratio	(Note 8) (%)	100.0	92.7	100.0	100.0	90.5
Additional information:						
Number of investment properties	(Note 9) (Properties)	18	19	19	22	22
Total leasable area	(Note 10) (m ²)	330,999.31	349,595.39	349,515.43	368,099.75	368,250.14
Number of tenants	(Note 11) (Tenants)	313	394	394	413	427
Occupancy ratio	(Note 12) (%)	97.7	97.5	97.0	98.1	98.5
Depreciation	(Millions of yen)	1,288	1,279	1,256	1,328	1,325
Capital expenditures	(Millions of yen)	733	445	817	597	582
Rental net operating income (NOI)	(Note 13) (Millions of yen)	4,406	4,715	4,850	5,330	5,566

- Note 1 "Interest-bearing liabilities" represents the total amount of short-term loans payable, long-term loans payable and investment corporation bonds (including current portion of each liability).
- Note 2 As the Investment Corporation executed a five-for-one unit split (the "Unit Split") with December 31, 2017 as the record date and January 1, 2018 as the effective date for the Unit Split, net asset value per unit in the above table shows pro forma per unit information which has been adjusted to reflect the Unit Split as if it had been effective on January 1, 2017.
- Note 3 Figures in parenthesis have been annualized using the number of days for each fiscal period.
- Note 4 $\text{Ordinary income} \div \{(\text{Total assets at beginning of period} + \text{Total assets at end of period}) \div 2\} \times 100$
- Note 5 $\text{Net income} \div \{(\text{Net assets at beginning of period} + \text{Net assets at end of period}) \div 2\} \times 100$
- Note 6 $\text{Net assets at end of period} \div \text{Total assets at end of period} \times 100$
- Note 7 $\text{Interest-bearing liabilities at end of period} \div \text{Total assets at end of period} \times 100$
- Note 8 $\text{Distribution per unit} \div \text{net income per unit (not adjusted to reflect the Unit Split)} \times 100$
Payout ratio for the 22nd and the 24th fiscal period is calculated using the following formula because new investment units were issued.
 $\text{Total distributions (excluding distributions in excess of profit)} \div \text{Net income} \times 100$
Payout ratio for the 23rd fiscal period is calculated using actual net income per unit (not adjusted to reflect the Unit Split).
- Note 9 Number of investment properties does not include investments in Tokumei Kumiai (silent partnership) agreements.
- Note 10 "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.) For the properties in which the Investment Corporation owns partial share of the trust beneficial

- interest, the leasable area calculated multiplying the total leasable area of each property by the share of quasi-co-ownership.
- Note 11 “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 occupies multiple properties under each agreement, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property, the count is as one tenant. For a pass-through master leased property, the tenant is counted on an end-tenant basis assuming that all of end-tenants have agreed that the lessee of the pass-through master lease agreement is lessor for them. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.
- Note 12 “Occupancy ratio” is the figure obtained by dividing the total leased area of respective properties at the end of each fiscal period by the total leasable area, and is expressed as a percentage.
- Note 13 Operating income from property leasing activities (Rental business revenues – Rental business expenses) + Depreciation + Loss on disposal of property

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, MCUBS MidCity disposed MID REIT Kyobashi Bldg. in the Osaka metropolitan area as well as 55% of quasi co-ownership in Matsushita IMP Bldg. (total disposition price: ¥16,550 million) and acquired Yokohama i-land Tower in the Tokyo metropolitan area (acquisition price: ¥22,100 million) with funds procured through the disposition and new borrowings as asset replacement. As of the end of the fiscal period under review (December 31, 2018), the portfolio of MCUBS MidCity was comprised of 23 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥267,619 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 25th fiscal period, GDP for the July to September 2018 period saw negative growth for the first time in two quarters against the backdrop of sluggish personal consumption, decline in capital investment and other factors. However, as the impact of the temporary economic slowdown caused by natural disasters which occurred one after another across Japan was significant, the economy is expected to continue to be generally brisk, backed by the expansion of capital investment and improvement in the employment/income environment due to strong corporate results and response to the improvement in work environment. On the other hand, it is necessary to pay close attention to the trend of trade issues, uncertainty in overseas economies and fluctuation in the financial market.

In the real estate investment market, the investment motivation of investors remains strong against the backdrop of a favorable environment for fund procurement. However, investment yield remains low and investment target properties continue to be scarce. According to the Ministry of Land, Infrastructure, Transport and Tourism's Land Value LOOK Report for the third quarter of 2018 (July 1 to October 1), the land price of intensively used land of major cities in Japan increased in 96 of the 100 districts, remained flat in 4 and decreased in 0, while the land price trend continues to be on an upward trend.

In the office leasing market, improvement in vacancy rate and the upward trend of rent levels continues. As for new supply of large-scale buildings in Tokyo scheduled in 2019, there are also buildings with tenants informally contracted and relocation of office buildings for the purpose of floor expansion and locational improvement continue to be seen. Therefore, the supply-demand balance of office buildings is expected to remain tight.

In the J-REIT market, the TSE REIT index temporarily exceeded 1,800 points from the beginning of the 25th fiscal period which started at a level of 1,758 points, but was later impacted by deterioration of investors' state of mind due to increasing concerns over the slowdown regarding the future of the global economy to end at 1,774 points at the end of the fiscal period. The domestic interest rate continues to remain low due to the difference in monetary policy from that of Europe and the U.S. where interest rates continues to increase. On the other hand, the balance of outstanding loans granted by financial institutions to real estate businesses reached the highest level ever, and close attention must be paid to the future trend of interest rates as well as the change in lending attitudes.

(b) Asset management performance

<Investment performance>

During the 25th fiscal period, with an aim to improve profitability of the portfolio and improve stability through diversification, MCUBS MidCity acquired Yokohama i-land Tower in the Tokyo metropolitan area (acquisition price: ¥22,100 million) and disposed MID REIT Kyobashi Bldg. and 55% of quasi co-ownership in Matsushita IMP Bldg. (Note 1) (total disposition price: ¥16,550 million) in the Osaka metropolitan area as a strategic asset replacement in September. As for Yokohama i-land Tower, MCUBS MidCity has avoided excessive acquisition competition through acquisitions based on PRE proposal (Note 2) for the first time, utilizing the sponsor network. On the other hand, by capturing the favorable timing for disposition against the backdrop of the brisk real estate transaction market, MCUBS MidCity disposed 2 properties in the Osaka metropolitan area at the total price, generating gain from the dispositions.

As a result, MCUBS MidCity's portfolio as of the end of the 25th fiscal period was comprised of 23 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 97.1% (of which Tokyo metropolitan area accounting for 56.7%, Osaka metropolitan area 38.6% and Nagoya metropolitan area 1.8%) in the three major metropolitan areas and 2.9% in other areas, and are distributed in terms of property type with 88.4% being office buildings and 11.6% being others.

(Note 1) The remaining 45% of quasi co-ownership in Matsushita IMP Bldg. is scheduled to be disposed in

March 2019.

(Note 2) “PRE proposal” indicates a proposal of optimal and efficient use of public real estate (PRE), with an aim to promote proper and efficient management and operation thereof based on the public interest purposes.

<Performance of management of portfolio assets>

In the 25th fiscal period, amid 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. Although there were some tenant exits, an occupancy rate of 98.5% was maintained at the end of the fiscal period under review as a result of attracting new tenants and improving the satisfaction level of existing tenants, surpassing that at the end of the previous fiscal period (98.1%).

(3) Overview of fund procurement

(a) Issuance of new investment units

During the 25th fiscal period, MCUBS MidCity has made no fund procurement through additional issuance of new investment units. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 1,643,125 investment units.

(b) Debt financing

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

In the 25th fiscal period, MCUBS MidCity borrowed a total of ¥15,300 million on July 31, 2018, including loans with 10-year terms, the longest bank loan term for MCUBS MidCity, in order to refinance borrowings totaling ¥15,300 million due on July 31, 2018. Backed by the lowered interest rates of the monetary policy of the Bank of Japan, MCUBS MidCity has realized reduction of financial costs while further diversifying maturity dates, extending borrowing periods and fixing interest rates. In addition, MCUBS MidCity newly borrowed ¥6,900 million on September 12, 2018 to partly fund the new acquisition of Yokohama i-land Tower in September 2018.

As of the end of the 25th fiscal period, MCUBS MidCity had a balance of borrowings from 19 financial institutions in the amount of ¥114,875 million and had a balance of investment corporation bonds in the amount of ¥8,000 million. The ratio of interest-bearing liabilities to total assets stands at 43.8%, 94.4% of loans payable are long-term loans payable (including current portion of long-term loans payable) and 79.3% of loans payable are applied to fixed interest rates (including those for which interest rates have been fixed via interest rate swap agreements).

In the 25th fiscal period, the rating outlook by Rating and Investment Information, Inc. (R&I) changed from Stable to

Positive on October 5, 2018. The following is the status of MCUBS MidCity's issuer ratings as of the end of the 25th fiscal period.

Credit rating agency	Issuer rating	Rating outlook
Japan Credit Rating Agency, Ltd. (JCR)	A+	Positive
Rating and Investment Information, Inc. (R&I)	A	Positive

(4) Overview of business performance and distributions

As a result of the abovementioned asset management, MCUBS MidCity posted operating revenue of ¥10,798 million, operating income of ¥5,327 million, ordinary income of ¥4,621 million and net income of ¥4,620 million in its performance for the 25th 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 in excess of 90% of distributable earnings. In accordance with the policy, MCUBS MidCity reserved internally ¥439 million yen as reserve for reduction entry, which was part of gain on sale of Matsushita IMP Bldg. (Beneficiary interest ratio: 55%) disposed in September 2018, under unappropriated retained earnings of ¥4,621 million, and decided to distribute the remaining amount (¥4,181 million) after deducting the reserved amount. Accordingly, MCUBS MidCity declared distribution per unit of ¥2,545.

3. Changes in unitholders' capital

There was no change in unitholders' capital for the six months ended December 31, 2018. 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
February 28, 2017	Public offering	29,100	295,125	9,419	124,662	Note 7
March 27, 2017	Allocation of investment units to a third party	1,500	296,625	485	125,148	Note 8
January 1, 2018	Unit Split	1,186,500	1,483,125	—	125,148	Note 9
February 15, 2018	Public offering	152,000	1,635,125	10,738	135,887	Note 10
March 9, 2018	Allocation of investment units to a third party	8,000	1,643,125	565	136,452	Note 11

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

Note 7 New investment units were issued at a price of ¥335,400 per unit (subscription price of ¥323,704 per unit) through a public offering in order to raise funds for acquiring new real property.

Note 8 New investment units were issued at a price of ¥323,704 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on February 28, 2017

Note 9 The Investment Corporation implemented a split of its investment units on a five-for-one basis with December 31, 2017 as the record date and January 1, 2018 as the effective date for the unit split. Number of outstanding units of the Investment Corporation after the unit split is 1,483,125 units.

Note 10 New investment units were issued at a price of ¥73,125 per unit (subscription price of ¥70,650 per unit) through a public offering in order to raise funds for acquiring new property.

Note 11 New investment units were issued at a price of ¥70,650 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on February 15, 2018.

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	21 st	22 nd	23 rd	24 th	25 th
As of /for the six months ended	December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Highest price	377,000	359,000	397,500 Note 1 (76,200)	85,400	93,200
Lowest price	313,000	324,000	313,000 Note 1 (75,000)	73,300	77,300

Note 1 The Investment Corporation implemented a split of its investment units on a five-for-one basis with December 31, 2017 as the record date and January 1, 2018 as the effective date for the unit split. The market price on or after December 27, 2017 reflects the unit split. The figures in parenthesis show the market price on or after December 27, 2017.

4. Distributions

In accordance with the distribution policy in the Investment Corporation's articles of incorporation, the Investment Corporation decided to distribute all of unappropriated retained earnings at the end of the period after provision of reserve for reduction entry of property amounting to ¥439 million. As a result, cash distribution per unit for the six months ended December 31, 2018 amounted to ¥2,545.

Fiscal period		21 st	22 nd	23 rd	24 th	25 th
As of /for the six months ended		December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Retained earnings at end of period	(Thousands of yen)	1,976,966	2,527,166	2,405,786	2,768,133	4,621,836
Retained earnings carried forward	(Thousands of yen)	134	183,829	157	1,111	440,083
Total cash distributions	(Thousands of yen)	1,976,831	2,343,337	2,405,628	2,767,022	4,181,753
(Cash distribution per unit)	(Yen)	(7,431)	(7,900)	(8,110)	(1,684)	(2,545)
Profit distributions	(Thousands of yen)	1,976,831	2,343,337	2,405,628	2,767,022	4,181,753
(Profit distribution per unit)	(Yen)	(7,431)	(7,900)	(8,110)	(1,684)	(2,545)
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

Tokyo metropolitan area's office leasing market has continued to see a large volume of supply of large-scale buildings in central Tokyo since 2018. Meanwhile, the occupancy rate remains generally high in completed buildings, and some tenants have already been informally decided for buildings scheduled for completion in addition to secondary vacancies filling smoothly. Needs for floor expansion and relocation due to improvement in corporate earnings, increase in the number of employees, improvement in work environment, etc. remain strong. The vacancy rate is likely to remain stable at a low level to a certain degree and rent is also expected to remain stable.

In Osaka metropolitan area's office leasing market, new supply of large-scale buildings is declining and the vacancy rate continues to improve amid ongoing strong office demand. In Osaka City in particular, the vacancy rate is likely to remain stable at a low level and rent is expected to continue with a moderate rise, coupled with the unlikelihood of the supply of large-scale buildings, in 2019.

Under such circumstances, in view of maintaining and enhancing revenue for the medium and long term, MCUBS MidCity is, based on the following strategies, maintaining and improving rent revenue and occupancy rates.

<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, matters pointed out and requested by tenants, etc., the Asset Management Company instructs property management companies and building management companies, as well as considers and carries out repair and maintenance, value-enhancement and other construction work that fulfills tenant needs.

According to the results of the most recent survey conducted in November and December 2018 (13th survey), the level of satisfaction for properties surveyed for the first time was relatively low. However, the level improved for more than half of properties continuously surveyed in comparison with the previous survey. The Asset Management Company 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.

At Osaka Business Park (OBP) enjoying abundant greenery with Osaka Castle Park nearby, PR activities are being implemented at Twin 21 to pursue a favorable place to work from the viewpoint of office workers. MCUBS MidCity will continue to consider the improvement of the attractiveness of retail zones at Twin 21 in line with the increase in working population due to the reconstruction and new construction of office buildings in OBP.

<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 through proposals in line with tenant size and needs as well as development of strategies for attracting tenants including value-enhancement plans that lead to increased competitiveness of MCUBS MidCity's portfolio assets while taking advantage of excellent location and high specifications of the buildings. In addition, MCUBS MidCity has worked to improve competitiveness of properties in view of provision of comfortable office environments by conducting upgrading of facilities and renewal of interiors one after another, as necessary.

<Actions towards ESG>

Concerning its portfolio, MCUBS MidCity shares the view on sustainability, in particular ESG (Environment, Social, Governance) recently attracting attention, with the Asset Management Company striving to respond to responsibility concerning the environment and society based on the "Environment Charter" and "Basic Policy on Responsible Real Estate Investment," and proactively promotes such efforts together with the Asset Management Company.

In particular, with regard to environment, MCUBS MidCity received DBJ Green Building Certification and Certification for CASBEE for Real Estate as well as obtained Building-Housing Energy-efficiency Labeling System (BELS) Certification and Tokyo Low-Carbon Small and Medium-Sized Model Building notification for some of its properties, and plans to continue increasing the acquisition ratio of external certifications.

MCUBS MidCity has also been participating in real estate evaluation of Global Real Estate Sustainability Benchmark (GRESB) since 2016, and was designated as “Green Star,” the highest ranking, for three consecutive years and received 5 stars for the first time in “GRESB Rating” (5-star scale), which is a comparative assessment-based rating system, in 2018. In addition, it received “A” in the MSCI ESG Rating and has been included in the MSCI Japan ESG Select Leaders Index from December 2018.

(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, investment targets also include so-called “government-designated cities” as well as other major cities or their equivalent, 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 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

None.

7. Additional information

The Investment Corporation disposed following property in the six months ending June 30, 2019.

Property name: Matsushita IMP Bldg. (45% of quasi co-ownership interest)

Disposition price: ¥12,150 million (the sale price stated in the trust beneficiary interest transfer agreement, excluding property taxes, city planning taxes, consumption taxes, etc.)

Date of the sale: March 8, 2019

Outline of the Investment Corporation

1. Investment unit

Fiscal period	21 st	22 nd	23 rd	24 th	25 th
As of	December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Number of units authorized (Units)	2,000,000	2,000,000	2,000,000	10,000,000	10,000,000
Number of units issued and outstanding (Units)	266,025	296,625	296,625	1,643,125	1,643,125
Unitholders' capital (Millions of yen)	115,243	125,148	125,148	136,452	136,452
Number of unitholders (People)	11,451	12,267	11,604	12,157	13,094

2. Unitholders

Major unitholders as of December 31, 2018 were as follows:

Name	Number of units owned (Units)	Ratio of number of units owned to total number of units issued (Note) (%)
The Master Trust Bank of Japan, Ltd. Trust Account	284,160	17.29
Japan Trustee Services Bank, Ltd. Trust Account	250,249	15.23
Trust & Custody Services Bank, Ltd. Trust Account	70,257	4.27
The Nomura Trust and Banking Co., Ltd. Trust Account	62,907	3.82
Kanden Realty & Development Co., Ltd.	46,000	2.79
SIX SIS LTD.	36,760	2.23
STATE STREET BANK WEST CLIENT - TREATY 505234	29,774	1.81
BNYM AS AGT/CLTS 10 PERCENT	24,989	1.52
STATE STREET BANK AND TRUST COMPANY 505012	22,171	1.34
Mitsubishi Corporation	21,000	1.27
Total	848,267	51.62

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, 2018 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2018 (Thousands of yen)
Executive Director	Katsuhiro Tsuchiya	M&A Sogo Law Office (Attorney at Law)	3,000
Supervisory Director	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	—	13,800

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 Executive Director and 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 Toyota Watanabe, 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 7th General Meeting of Unitholders held on June 2, 2017. On January 31, 2019, he resigned President & Representative Director of the Asset Manager and alternate executive director of the Investment Corporation.

Note 3 The compensation for the independent auditor includes ¥2,300 thousand fees for non-audit-service which isn't prescribed under Article 2, paragraph 1 of the Certified Public Accountants Act of Japan (Act No.103 of 1948, as amended) and the audit fees for the financial statements prepared in English.

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, 2018 were as follows:

Classification	Name
Asset manager	MCUBS MidCity Inc.
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
General administrator (regarding investment corporation bonds)	Mizuho Bank, Ltd.

Condition of investment assets

1. Composition of assets

Classification of assets	Investment category	Investment area		As of June 30, 2018		As of December 31, 2018	
				Total of net book value	Ratio to total assets	Total of net book value	Ratio to total assets
				(Note 1) (Millions of yen)	(Note 2) (%)	(Note 1) (Millions of yen)	(Note 2) (%)
Trust beneficial interest in real property	Office Building	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	105,954	38.9	128,616	45.8
			Osaka metropolitan area (Note 3)	110,081	40.4	95,376	34.0
		Other areas		5,587	2.0	5,586	2.0
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	23,724	8.7	23,615	8.4
			Osaka metropolitan area (Note 3)	2,376	0.9	2,357	0.8
		Other areas		2,120	0.8	2,101	0.7
	Sub-total			249,844	91.6	257,654	91.8
	Investments in Tokumei Kumiai agreement (Note 4)			5,085	1.9	5,085	1.8
Bank deposits and other assets			17,744	6.5	18,051	6.4	
Total assets			272,674	100.0	280,790	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 (top ten properties in net book value) as of December 31, 2018 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 (Note 4) (%)	Major use
Twin 21	65,856	82,304.84	80,816.42	98.2	28.6	Office
AEON MALL Tsudanuma	23,615	101,210.44	101,210.44	100.0	9.4	Retail facilities
Yokohama i-land Tower	22,867	25,460.50	24,996.48	98.2	4.8	Office
Cube Kawasaki	20,462	24,494.06	24,494.06	100.0	8.5	Office
Shibuya Sakuragaoka Square	17,403	6,379.66	6,379.66	100.0	4.4	Office
G-Square Shibuya Dogenzaka	12,186	5,010.68	5,010.68	100.0	3.4	Office
USC Bldg.	11,124	12,489.08	11,724.28	93.9	3.5	Office
Kitahama MID Bldg.	10,292	10,189.49	10,189.49	100.0	3.6	Office
Matsushita IMP Bldg. (Note 5)	9,994	16,833.37	16,272.03	96.7	7.6	Office
TOYOTA MOBILITY SERVICE Bldg.	9,550	6,123.81	6,123.81	100.0	(Note 6)	Office
Total	203,353	290,495.93	287,217.35	98.9	—	

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 AEON MALL Tsudanuma, in which entire buildings are leased) that is leasable as of December 31, 2018.

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 AEON MALL Tsudanuma, in which entire buildings are leased) that is leased under lease agreements valid as of December 31, 2018.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of December 31, 2018 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 “Rental revenues” are excluding other rental business revenues (Utilities, cancellation penalty and other).

Note 5 The Investment Corporation disposed 55% of co-quasi ownership in Matsushita IMP Bldg. on September 5, 2018 and has owned remaining 45% of trust beneficial interest in the property.

Note 6 “Ratio of rental revenue to total rental revenues” of the property is not disclosed because the consent from the tenants has not been obtained.

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, 2018 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	Three major metropolitan areas	Tokyo metropolitan area	Sumitomo Fudosan Ueno Bldg. No.6	5-24-8, Higashiueno, Taito-ku, Tokyo	Trust beneficial interest	8,520	7,577
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	15,100	12,186
			Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	19,400	17,403
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	8,180	7,033
			Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	22,500	20,462
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	3,090	2,847
			Sasazuka Center Bldg.	2-1-6 Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,090	9,067
			USC Bldg.	4-11-38 Toyo, Koto-ku, Tokyo	Trust beneficial interest	11,500	11,124
			Yoshiyasu Kanda Bldg.	2-1-15, Iwamotocho, Chiyoda-ku, Tokyo	Trust beneficial interest	4,270	4,199
			TOYOTA MOBILITY SERVICE Bldg.	2-12-4, Nihombashi Hamacho, Chuo-ku, Tokyo	Trust beneficial interest	10,200	9,550
			M-City Akasaka 1-chome Bldg.	1-11-28, Akasaka, Minato-ku, Tokyo	Trust beneficial interest	4,320	4,295
			Yokohama i-land Tower	6-50-1, Honmachi, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	23,700	22,867
		Osaka metropolitan area	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	56,700	65,856
			Matsushita IMP Bldg. (Note 3)	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	10,000	9,994
			MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,390	3,091
			Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	9,770	10,292
			MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,300	3,345
			Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	3,870	2,795
	Other area		Sendai Capital Tower	4-10-3 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficial interest	6,580	5,586
	Sub total					231,480	229,579
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	28,500	23,615
		Osaka metropolitan area	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,430	2,357
	Other area		Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	4,510	2,101
	Sub total					36,440	28,074
	Total					267,920	257,654

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, 2018 appraised by the real estate appraiser (JLL Morii Valuation & Advisory, K.K., 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 The Investment Corporation disposed 55% of co-quasi ownership in Matsushita IMP Bldg. on September 5, 2018 and has owned remaining 45% of trust beneficial interest in the property.

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

Operating results of each property for the six months ended June 30, 2018 and December 31, 2018 were as follows:

Investment category	Investment Area		Name of property	For the six months ended							
				June 30, 2018				December 31, 2018			
				Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)	Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)
Office Building	Three major metropolitan areas	Tokyo metropolitan area	Sumitomo Fudosan Ueno Bldg. No.6	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)
			G-Square Shibuya Dogenzaka	7	100.0	263,850	3.6	8	100.0	264,103	3.4
			Shibuya Sakuragaoka Square	4	100.0	344,172	4.7	4	100.0	345,290	4.4
			Yokohama Creation Square	39	91.8	287,763	4.0	41	91.9	305,952	3.9
			Cube Kawasaki	10	100.0	594,812	8.2	10	100.0	659,467	8.5
			Higashi-Nihombashi Green Bldg.	6	90.5	78,814	1.1	7	100.0	78,962	1.0
			Sasazuka Center Bldg.	8	89.6	238,643	3.3	9	100.0	260,820	3.4
			USC Bldg. (Note 7)	9	93.9	224,265	3.1	9	93.9	275,260	3.5
			Yoshiyasu Kanda Bldg.	6	100.0	75,485	1.0	6	100.0	101,495	1.3
			TOYOTA MOBILITY SERVICE Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
			M-City Akasaka 1-chome Bldg.	12	100.0	55,251	0.8	12	100.0	87,100	1.1
			Yokohama i-land Tower	—	—	—	—	6	98.2	375,142	4.8
		Osaka metropolitan area	Twin 21	106	98.1	2,078,356	28.6	107	98.2	2,218,637	28.6
			Matsushita IMP Bldg. (Note 8)	57	95.8	865,891	11.9	61	96.7	588,183	7.6
			MID REIT Kyobashi Bldg. (Note 9)	1	100.0	(Note 6)	(Note 6)	—	—	(Note 6)	(Note 6)
			MID Imabashi Bldg.	21	100.0	91,019	1.3	21	100.0	93,652	1.2
			Kitahama MID Bldg.	11	100.0	280,946	3.9	11	100.0	280,462	3.6
			MID Nishihommachi Bldg.	17	97.4	78,424	1.1	18	100.0	80,095	1.0
		Higobashi MID Bldg.	12	100.0	109,131	1.5	12	100.0	111,887	1.4	
		Other area		Sendai Capital Tower	80	93.5	243,734	3.4	78	91.5	247,457
	Sub total			409	97.2	—	—	423	97.9	—	—
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1	100.0	726,000	10.0	1	100.0	726,000	9.4
		Osaka metropolitan area	Konami Sports Club Kyobashi	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
	Other area		Dormy Inn Hakata Gion	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)
	Sub total			4	100.0	—	—	4	100.0	—	—
Total			413	98.1	7,258,435	100.0	427	98.5	7,764,585	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 under each agreement, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property, the count is as one tenant. For a pass-through master leased property, the tenant is counted on an end-tenant basis assuming that all of end-tenants have agreed that the lessee of the pass-through master lease agreement is lessor for them. 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 "Rental revenues" are excluding other rental business revenues (Utilities, cancellation penalty and other).

Note 4 Total of the rental revenues includes revenues from Sumitomo Fudosan Ueno Bldg. No.6, TOYOTA MOBILITY SERVICE Bldg., MID REIT Kyobashi Bldg., Konami Sports Club Kyobashi and Dormy Inn Hakata Gion.

Note 5 "Ratio of rental revenue to total rental revenues" is rounded to the nearest first decimal place.

Note 6 "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.

Note 7 The Investment Corporation acquired approximately 54% of co-quasi ownership in USC Bldg. on February 16, 2018 and has owned 100% of trust beneficial interest in the property.

Note 8 The Investment Corporation disposed 55% of co-quasi ownership in Matsushita IMP Bldg. on September 5, 2018 and has owned remaining 45% of trust beneficial interest in the property.

Note 9 MID REIT Kyobashi Bldg. was sold on September 4, 2018.

Note 10 Amounts of rental revenues less than one thousand yen are rounded down.

4. Details of investment securities

The details of investment securities as of December 31, 2018 were as follows:

Name	Classification of assets	Quantity	Net book Value (Thousands of yen)		Fair value (Note 2) (Thousands of yen)		Unrealized gains (or losses) (Thousands of yen)	Remarks
			Per unit	Amount	Per unit	Amount		
Equity interest of TK agreement managed by R40 Godo Kaisha (Note 1)	Investment in Tokumei Kumiai agreement	—	—	5,085,027	—	5,085,027	—	—
Total			—	5,085,027	—	5,085,027	—	

Note 1 The 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 2 “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, 2018 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)	32,600,000	28,600,000	(210,867)
Total		32,600,000	28,600,000	(210,867)

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, 2018 was as below. The amounts of estimated cost shown in the below table can be 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, 2018	Total of advanced payment
Twin 21	Chuo-ku, Osaka-shi	Repair of South Plaza	March 2019 to May 2019	83	—	—
Twin 21	Chuo-ku, Osaka-shi	Renewal of drainage pipe	December 2018 to June 2019	70	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of Park Avenue	July 2019 to October 2019	63	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioning system at standard floor	June 2018 to February 2019	61	—	—
Sendai Capital Tower	Aoba-ku, Sendai-shi	Renewal of automatic control panel	March 2019 to June 2019	60	—	—

2. Capital expenditures for the six months ended December 31, 2018

Maintenance expenditures on property for the six months ended December 31, 2018 were totaling to ¥999 million consisting of ¥582 million of capital expenditures stated as below and ¥417 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Twin 21	Chuo-ku, Osaka-shi	Renewal of drainage pipe	May 2018 to December 2018	79
Twin 21	Chuo-ku, Osaka-shi	Renewal of escalator	December 2017 to November 2018	54
Twin 21	Chuo-ku, Osaka-shi	Renewal of heat source secondary pump	April 2018 to November 2018	53
Yokohama i-land Tower	Naka-ku, Yokohama-shi	Renewal of power monitoring board and charging system equipment	July 2018 to December 2018	36
Twin 21	Chuo-ku, Osaka-shi	Repair of top light at lower floors	October 2018 to December 2018	34
Other properties, etc.	—	Other capital expenditures	—	323
Total				582

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.

(Millions of yen)

Fiscal period	21 st	22 nd	23 rd	24 th	25 th
As of /for the six months ended	December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Reserved funds at beginning of period	1,232	1,546	1,539	1,581	389
Increase	801	851	817	298	12
Decrease	488	858	775	1,490	401
Reserved funds at end of period	1,546	1,539	1,581	389	—

Note The Investment Corporation had decided not to reserve funds for future expenditures on maintenance based on a long-term maintenance plan from the 25th fiscal period.

Condition of expenses and liabilities

1. Details of asset management expenses

(Thousands of yen)

Fiscal period	24 th	25 th
For the six months ended	June 30, 2018	December 31, 2018
(a) Asset management fees	643,427	789,078
(b) Asset custody fees	5,862	5,961
(c) Administrative service fees	36,945	36,548
(d) Directors' compensations	8,700	8,700
(e) Independent auditor fees	12,000	11,500
(f) Other operating expenses	61,970	62,380
Total	768,906	914,168

Note The amount of asset management fees for the six months ended June 30, 2018 does not include ¥232,050 thousand of asset management fees related to acquisition capitalized as part of the acquisition cost of properties. Also, the amount of asset management fees for the six months ended December 31, 2018 does not include ¥221,000 thousand of asset management fees related to acquisition capitalized as part of the acquisition cost of properties and ¥165,500 thousand of asset management fees related to disposal charged to income as expenses relating to sales of properties.

2. Loans payable

Please refer to “Note 9—Loans Payable” in the accompanying financial statements.

3. Investment corporation bonds

Please refer to “Note 11—Investment Corporation Bonds” in the accompanying financial statements.

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.

(Millions of yen)

Name of real property, etc.	Acquisition		Disposal			
	Date of acquisition	Acquisition cost (Note 1)	Date of disposal	Disposal amount (Note1)	Net book value	Gain (loss) on disposal (Note2)
Yokohama i-land Tower	September 14, 2018	22,100	—	—	—	—
MID REIT Kyobashi Bldg.	—	—	September 4, 2018	1,700	2,056	(427)
Matsushita IMP Bldg. (Note 3)	—	—	September 5, 2018	14,850	12,261	2,263
Total	—	22,100	—	16,550	14,317	1,835

Note 1 “Acquisition cost” or “Disposal amount” indicates contracted amount of property in purchase/disposal agreement excluding related expenses (brokerage fee, taxes, etc.).

Note 2 “Gain (loss) on disposal” is calculated by deducting net book value and relating expenses from the disposal amount..

Note 3 The Investment Corporation sold 55% of co-quasi ownership in Matsushita IMP Bldg.

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

(Millions of yen)

Acquisition/ Disposal	Form of ownership	Name of property	Date of acquisition/disposal	Acquisition cost/ Disposal amount (Note 1)	Appraisal Value (Note 2)	Appraiser	Date of appraisal
Acquisition	Trust beneficial interest	Yokohama i-land Tower	September 14, 2018	22,100	23,700	Tanizawa Sōgō Appraisal Co., Ltd.	July 1, 2018
	Total			22,100	23,700	—	—
Disposal	Trust beneficial interest	MID REIT Kyobashi Bldg.	September 4, 2018	1,700	1,460	Tanizawa Sōgō Appraisal Co., Ltd.	June 30, 2018
	Trust beneficial interest	Matsushita IMP Bldg.	September 5, 2018	14,850 (Note 3)	12,265 (Note 3)	Tanizawa Sōgō Appraisal Co., Ltd.	June 30, 2018
	Total			16,550	13,725	—	—

Note 1 “Acquisition cost / Disposal amount” indicates contracted amount of property in purchase/disposal agreement excluding related expenses (brokerage fee, taxes, etc.).

Note 2 As an amendment of Article 201 of the Act on Investments Trusts and Investment Corporation of Japan had been effective on November 24, 2011, the Investment Corporation obtains appraisal value of the specified assets prescribed under Article 201, Paragraph 1, the Act on Investments Trusts and Investment Corporation of Japan (land or building, leasehold rights and superficies of land as well as trust beneficiary interest only consist of these assets (limited to interest held by a single investor) by real estate appraiser (but not interested party) when the specified asset is acquired or disposed. The appraisal value above is based on “Paragraph 3 – Appraisal of Securitized Real Estate” of the Real Estate Appraisal Standards of Japan.

Note 3 The appraisal value of Matsushita IMP Bldg. represents the amount equivalent to 55% disposal of co-quasi ownership in the property.

(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, 2018. For other expenses, the Investment Corporation paid ¥342,259 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 financial statements.

2. Changes in depreciation method

None

3. Changes in valuation method of real property

None

Other information

1. Notice

The Board of Directors Meeting

There was no execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended December 31, 2018.

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.



Independent Auditor's Report

To the Board of Directors of
MCUBS MidCity Investment Corporation:

We have audited the accompanying financial statements of MCUBS MidCity Investment Corporation (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at December 31, 2018 and June 30, 2018, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for the six months ended December 31, 2018 and June 30, 2018 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MCUBS MidCity Investment Corporation as at December 31, 2018 and June 30, 2018, and their financial performance and cash flows for the six months ended December 31, 2018 and June 30, 2018 in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the six months ended December 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the financial statements.

KPMG AZSA LLC

March 13, 2019
Tokyo, Japan

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of June 30, 2018 and December 31, 2018

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash and bank deposits (Notes 3 and 18)	¥ 11,789	¥ 12,094	\$ 108,954
Cash and bank deposits in trust (Notes 3 and 18)	4,729	4,872	43,891
Rental receivables	174	180	1,621
Income taxes receivable	26	33	297
Consumption tax refundable	251	—	—
Prepaid expenses	37	68	612
Other	—	0	0
Total current assets	17,008	17,248	155,387
Noncurrent assets:			
Property and equipment, at cost (Notes 5 and 7):			
Buildings in trust (Note 4)	82,352	80,908	728,900
Structures in trust	139	116	1,045
Machinery and equipment in trust	7	5	45
Tools, furniture and fixtures in trust (Note 4)	635	563	5,072
Land in trust	190,332	197,324	1,777,693
Construction in progress in trust	14	22	198
Total property and equipment	273,482	278,941	2,512,981
Less: Accumulated depreciation	23,623	21,265	191,576
Total net property and equipment	249,859	257,676	2,321,405
Intangible assets (Note 6):			
Software	3	2	18
Trademark right	0	—	—
Total intangible assets	3	2	18
Investments and other assets:			
Investment securities (Note 8 and 18)	5,085	5,085	45,810
Lease and guarantee deposits	10	10	90
Long-term prepaid expenses	560	645	5,810
Deferred tax assets (Note 16)	0	0	0
Total investments and other assets	5,655	5,740	51,711
Total noncurrent assets	255,518	263,419	2,373,144
Deferred charges:			
Investment corporation bonds issuance costs	67	61	549
Investment unit issuance costs	79	59	531
Total deferred charges	146	121	1,090
TOTAL ASSETS	¥ 272,674	¥ 280,790	\$ 2,529,639

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of June 30, 2018 and December 31, 2018

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
LIABILITIES			
Current liabilities:			
Operating accounts payable	¥ 412	¥ 581	\$ 5,234
Short-term loans payable (Notes 9 and 18)	—	6,900	62,162
Current portion of long-term loans payable (Notes 9 and 18)	15,300	15,200	136,936
Accounts payable	766	1,007	9,072
Accrued expenses	149	143	1,288
Distribution payable	11	12	108
Consumption taxes payable	—	129	1,162
Advances received	1,227	1,102	9,927
Other	1,005	698	6,288
Total current liabilities	18,873	25,775	232,207
Noncurrent liabilities:			
Investment corporation bonds – unsecured (Notes 11 and 18)	8,000	8,000	72,072
Long-term loans payable (Notes 9 and 18)	92,675	92,775	835,810
Tenant leasehold and security deposits (Note 18)	13,721	12,341	111,180
Tenant leasehold and security deposits in trust (Note 18)	—	639	5,756
Total noncurrent liabilities	114,396	113,756	1,024,828
TOTAL LIABILITIES	133,269	139,532	1,257,045
NET ASSETS (Note 12)			
Unitholders' equity:			
Unitholders' capital, 10,000,000 units authorized; 1,643,125 units as of June 30, 2018 and December 31, 2018 issued and outstanding	136,452	136,452	1,229,297
Surplus:			
Voluntary reserve			
Reserve for reduction entry of property	183	183	1,648
Total voluntary reserve	183	183	1,648
Retained earnings	2,768	4,621	41,630
Total surplus	2,951	4,805	43,288
Total unitholders' equity	139,404	141,257	1,272,585
TOTAL NET ASSETS	139,404	141,257	1,272,585
TOTAL LIABILITIES AND NET ASSETS	¥ 272,674	¥ 280,790	\$ 2,529,639

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the six months ended June 30, 2018 and December 31, 2018

	For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Operating revenues			
Rent revenues—real estate (Note 14)	¥ 7,258	¥ 7,764	\$ 69,945
Other rental business revenues (Note 14)	530	604	5,441
Dividends income	135	165	1,486
Gain on sales of property and equipment (Note 15)	—	2,263	20,387
Total operating revenues	7,924	10,798	97,279
Operating expenses			
Expenses related to rental business (Note 14)	3,786	4,128	37,189
Loss on sales of property and equipment (Note 15)	—	427	3,846
Asset management fees	643	789	7,108
Asset custody fees	5	5	45
Administrative service fees	36	36	324
Directors' compensations	8	8	72
Other	73	73	657
Total operating expenses	4,555	5,470	49,279
Operating income	3,368	5,327	47,990
Non-operating income			
Interest income	0	0	0
Reversal of distribution payable	0	0	0
Interest on refund	0	1	9
Other	0	0	0
Total non-operating income	0	2	18
Non-operating expenses			
Interest expenses	410	431	3,882
Interest expenses on investment corporation bonds	17	22	198
Borrowing related expenses	137	138	1,243
Amortization of investment corporation bonds issuance costs	4	5	45
Amortization of investment unit issuance costs	28	19	171
Other	0	89	801
Total non-operating expenses	599	708	6,378
Ordinary income	2,769	4,621	41,630
Extraordinary gain			
Subsidy income	50	—	—
Total extraordinary gain	50	—	—
Extraordinary loss			
Reduction entry for property	50	—	—
Total extraordinary loss	50	—	—
Income before income taxes	2,769	4,621	41,630
Income taxes (Note 16):			
Current	1	0	0
Deferred	(0)	0	0
Total income taxes	1	0	0
Net income	2,767	4,620	41,621
Retained earnings brought forward	0	1	9
Unappropriated retained earnings (Note 13)	¥ 2,768	¥ 4,621	\$ 41,630

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
For the six months ended June 30, 2018 and December 31, 2018

	Unitholders' equity						
	Surplus						
		Voluntary reserve				Total unitholders' equity	
	Unitholders' capital	Reserve for reduction entry of property	Total voluntary reserve	Retained earnings	Total surplus		Total net assets
				(in millions of yen)			
Balance as of December 31, 2017.....	¥ 125,148	¥ 183	¥ 183	¥ 2,405	¥ 2,589	¥ 127,737	¥ 127,737
Changes during the period							
Issuance of new investment units.....	11,304	—	—	—	—	11,304	11,304
Dividends from surplus	—	—	—	(2,405)	(2,405)	(2,405)	(2,405)
Net income.....	—	—	—	2,767	2,767	2,767	2,767
Total changes during the period.....	11,304	—	—	362	362	11,666	11,666
Balance as of June 30, 2018.....	¥ 136,452	¥ 183	¥ 183	¥ 2,768	¥ 2,951	¥ 139,404	¥ 139,404
Changes during the period							
Dividends from surplus	—	—	—	(2,767)	(2,767)	(2,767)	(2,767)
Net income.....	—	—	—	4,620	4,620	4,620	4,620
Total changes during the period.....	—	—	—	1,853	1,853	1,853	1,853
Balance as of December 31, 2018.....	¥ 136,452	¥ 183	¥ 183	¥ 4,621	¥ 4,805	¥ 141,257	¥ 141,257

	Unitholders' equity						
	Surplus						
		Voluntary reserve					
	Unitholders' capital	Reserve for reduction entry of property	Total voluntary reserve	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
	(in thousands of U.S. dollars)						
Balance as of June 30, 2018.....	\$ 1,229,297	\$ 1,648	\$ 1,648	\$ 24,936	\$ 26,585	\$ 1,255,891	\$ 1,255,891
Changes during the period							
Dividends from surplus	—	—	—	(24,927)	(24,927)	(24,927)	(24,927)
Net income.....	—	—	—	41,621	41,621	41,621	41,621
Total changes during the period	—	—	—	16,693	16,693	16,693	16,693
Balance as of December 31, 2018.....	\$ 1,229,297	\$ 1,648	\$ 1,648	\$ 41,630	\$ 43,288	\$ 1,272,585	\$ 1,272,585

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2018 and December 31, 2018

	For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes.....	¥ 2,769	¥ 4,621	\$ 41,630
Depreciation and amortization	1,328	1,325	11,936
Amortization of long-term prepaid expenses.....	97	97	873
Amortization of investment unit issuance costs.....	28	19	171
Amortization of investment corporation bonds issuance costs	4	5	45
Interest income.....	(0)	(0)	(0)
Interest expenses	428	454	4,090
Subsidy income.....	(50)	—	—
Reduction entry for property	50	—	—
Changes in assets and liabilities:			
Decrease (increase) in operating accounts receivable.....	(10)	(5)	(45)
Decrease (increase) in consumption taxes refundable.....	(251)	251	2,261
Increase (decrease) in consumption taxes payable	(305)	129	1,162
Increase (decrease) in operating accounts payable	(95)	168	1,513
Increase (decrease) in accounts payable.....	67	85	765
Increase (decrease) in advances received.....	142	(125)	(1,126)
Decrease (increase) in prepaid expenses	5	(31)	(279)
Payments of long-term prepaid expenses	(85)	(182)	(1,639)
Decrease in property, plant and equipment in trust due to disposition.....	—	14,317	128,981
Other, net.....	(21)	1	9
Subtotal.....	4,102	21,133	190,387
Interest income received	0	0	0
Interest expenses paid	(410)	(460)	(4,144)
Income taxes paid	(0)	(7)	(63)
Net cash provided by operating activities	3,691	20,665	186,171
Cash flows from investing activities:			
Purchases of property and equipment in trust.....	(24,815)	(23,306)	(209,963)
Purchases of intangible assets	—	(0)	(0)
Proceeds from tenant leasehold and security deposits.....	1,527	404	3,639
Proceeds from tenant leasehold and security deposits in trust	214	32	288
Payments of tenant leasehold and security deposits	(147)	(1,428)	(12,864)
Payments of tenant leasehold and security deposits in trust.....	(57)	(19)	(171)
Proceeds from restricted bank deposits in trust	378	19	171
Payments for restricted bank deposits in trust.....	(214)	(708)	(6,378)
Other, net.....	(0)	—	—
Net cash used in investing activities.....	(23,114)	(25,007)	(225,288)
Cash flows from financing activities:			
Proceeds from short-term loans payable.....	—	6,900	62,162
Proceeds from long-term loans payable.....	11,000	15,300	137,837
Repayments of long-term loans payable.....	(2,000)	(15,300)	(137,837)
Proceeds from investment corporation bonds – unsecured.....	1,981	—	—
Proceeds from issuance of investment units	11,250	—	—
Dividends paid	(2,402)	(2,765)	(24,909)
Other, net.....	—	(34)	(306)
Net cash provided by (used in) financing activities	19,828	4,100	36,936
Net change in cash and cash equivalents.....	404	(241)	(2,171)
Cash and cash equivalents at the beginning of period.....	16,113	16,518	148,810
Cash and cash equivalents at the end of period (Note 3).....	¥ 16,518	¥ 16,277	\$ 146,639

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the six months ended June 30, 2018 and December 31, 2018

Note 1 — Organization

MCUBS MidCity Investment Corporation (the “Company”), a real estate investment corporation, with initial capital of ¥100 million, was incorporated on June 1, 2006, under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”) and listed on the J-REIT section of the Tokyo Stock Exchange on August 29, 2006.

The Company is externally managed by a registered asset management company, MCUBS MidCity Inc. (the “Asset Manager”). The Asset Manager is currently owned by Mitsubishi Corp. - UBS Realty Inc. and Kanden Realty & Development Co., Ltd.

The Company was formed to invest primarily in office properties in Japan. The Company raised ¥88,587 million through an initial public offering of 180,000 investment units on August 28, 2006 and acquired trust beneficiary interest in entrusted real estate (trust beneficiary interest in real estate) for nine properties on August 31, 2006 for an aggregate purchase price of ¥146 billion by utilizing net proceeds from the initial public offering and loans payable from banks.

The total assets managed by the Company at the end of the 25th fiscal period (December 31, 2018) amounted to ¥267.6 billion (US\$2,410 million) (the total acquisition price of 23 properties).

Note 2 — Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company maintains its accounts and records in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Investment Trust Act, the Companies Act of Japan, the Financial Instruments and Exchange Act, and other related regulations, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a translation of the financial statements of the Company, which were prepared in accordance with Japanese GAAP and filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act. In preparing the accompanying financial statements, certain information in the notes has been added to the financial statements issued domestically for the convenience of the readers outside Japan.

The financial statements are not intended to present the financial position and the results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company’s fiscal period is a six-month period which ends at the end of June and December of each year.

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥111.00 = US\$1, the effective rate of exchange prevailing at December 31, 2018. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended December 31, 2018 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

Amounts less than ¥1 million and US\$ 1 thousand have been rounded down. As a result, the total shown in the financial statements and notes thereto does not necessarily agree to the sum of individual account balances.

The Company does not prepare consolidated financial statements as it has no subsidiaries.

(b) Cash and Cash Equivalents

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.

(c) Property and Equipment (Including Trust Assets)

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

Buildings	2-65 years
Structures	2-50 years
Machinery and equipment	11 years
Tools, furniture and fixtures	2-15 years

(d) Intangible assets

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

(e) Long-term Prepaid Expenses

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

(f) Accounting Treatment of Trust Beneficiary Interests in Real Estate Trusts

For trust beneficiary interests in real estate trusts, which are commonly utilized to obtain ownership in investment properties in Japan and through which the Company 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 Company 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 sheets of the Company.

(g) Accounting Treatment of Investments in Tokumei Kumiai

Investments in Tokumei Kumiai ("TK"), which are presented as investment securities in the balance sheets, are accounted for using the equity method of accounting. Under the equity method, the initial and additional subsequent investments in a TK are recorded at cost and the carrying amount at the balance sheet date is adjusted for the Company's share of the undistributed earnings or losses and distributions received from the TK.

(h) Hedge Accounting

In accordance with the Company's risk management policy and its internal rules, the Company uses derivative instruments for the purpose of hedging risks that are prescribed in the Company's articles of incorporation. The Company 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 rate swap contracts can be recognized and added to or deducted from any interest earned or incurred on the hedged asset or liability, as appropriate, and the fair value of the interest rate swaps 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) 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.

(j) Investment Unit Issuance Costs

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

(k) Income Taxes

Deferred tax assets and liabilities are computed based on the temporary differences between the financial statement and income tax basis of assets and liabilities using the applicable statutory tax rate.

(l) Consumption Taxes

Consumption taxes withheld and consumption taxes paid are not included in the statements 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.

(m) Taxes on Property and Equipment

Property 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 Japanese GAAP. In subsequent calendar years, half of such taxes on property and equipment for each calendar year are charged as operating expenses in each fiscal period.

Taxes on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥86 million and ¥64 million (US\$576 thousand) for the six months ended June 30, 2018 and December 31, 2018.

(n) Revenue Recognition

Revenues from the leasing of properties includes fixed rental revenues, variable rental revenues, sales-based rental revenues, recoveries of utility charges and other miscellaneous income, which are all recognized in a pattern appropriate for each revenue stream.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents shown in the statements of cash flows consist of the following balance sheet items.

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 11,789	¥ 12,094	\$ 108,954
Cash and bank deposits in trust	4,729	4,872	43,891
Restricted bank deposits in trust ⁽¹⁾	—	(689)	(6,207)
Cash and cash equivalents	¥ 16,518	¥ 16,277	\$ 146,639

Note:

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

Note 4 – Reduction Entry of Property

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

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Reduction entry by:			
Government subsidies received			
Buildings in trust	¥ 54	¥ 54	\$ 486
Tools, furniture and fixtures in trust	7	7	63
Insurance income			
Buildings in trust	68	68	612

Note 5 – Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended June 30, 2018 and December 31, 2018, respectively.

For the six months ended June 30, 2018:

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance (in millions of yen)			
Buildings in trust.....	¥ 78,072	¥ 4,280	¥ —	¥ 82,352	¥ 23,139	¥ 1,302	¥ 59,212
Structures in trust	137	1	—	139	34	3	104
Machinery and equipment in trust.....	7	—	—	7	3	0	4
Tools, furniture and fixtures in trust.....	585	50	—	635	445	22	190
Land in trust	169,977	20,355	—	190,332	—	—	190,332
Construction in progress in trust....	4	10	—	14	—	—	14
Total	¥ 248,784	¥ 24,698	¥ —	¥ 273,482	¥ 23,623	¥ 1,328	¥ 249,859

For the six months ended December 31, 2018:

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance (in millions of yen)			
Buildings in trust.....	¥ 82,352	¥ 8,257	¥ 9,700	¥ 80,908	¥ 20,830	¥ 1,299	¥ 60,078
Structures in trust	139	0	23	116	31	3	85
Machinery and equipment in trust.....	7	—	2	5	2	0	3
Tools, furniture and fixtures in trust.....	635	5	78	563	401	22	162
Land in trust	190,332	15,189	8,197	197,324	—	—	197,324
Construction in progress in trust....	14	9	1	22	—	—	22
Total	¥ 273,482	¥ 23,462	¥ 18,003	¥ 278,941	¥ 21,265	¥ 1,325	¥ 257,676

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance (in thousands of U.S. dollars)			
Buildings in trust.....	\$ 741,909	\$ 74,387	\$ 87,387	\$ 728,900	\$ 187,657	\$ 11,702	\$ 541,243
Structures in trust	1,252	0	207	1,045	279	27	765
Machinery and equipment in trust.....	63	—	18	45	18	0	27
Tools, furniture and fixtures in trust.....	5,720	45	702	5,072	3,612	198	1,459
Land in trust	1,714,702	136,837	73,846	1,777,693	—	—	1,777,693
Construction in progress in trust....	126	81	9	198	—	—	198
Total	\$ 2,463,801	\$ 211,369	\$ 162,189	\$ 2,512,981	\$ 191,576	\$ 11,936	\$ 2,321,405

Note 6 – Intangible Assets

The following tables show the summary of movement in intangible assets for the six months ended June 30, 2018 and December 31, 2018, respectively.

For the six months ended June 30, 2018:

	At cost			Ending balance (in millions of yen)	Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease				
Software	¥ 6	¥ 0	¥ —	¥ 6	¥ 3	¥ 0	¥ 3
Trademark right.....	1	—	—	1	1	0	0
Total	¥ 7	¥ 0	¥ —	¥ 7	¥ 4	¥ 0	¥ 3

For the six months ended December 31, 2018:

	At cost			Ending balance (in millions of yen)	Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease				
Software	¥ 6	¥ 0	¥ —	¥ 6	¥ 3	¥ 0	¥ 2
Trademark right.....	1	—	—	1	1	0	—
Total	¥ 7	¥ 0	¥ —	¥ 7	¥ 5	¥ 0	¥ 2

	At cost			Ending balance (in thousands of U.S. dollars)	Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease				
Software	\$ 54	\$ 0	\$ —	\$ 54	\$ 27	\$ 0	\$ 18
Trademark right.....	9	—	—	9	9	0	—
Total	\$ 63	\$ 0	\$ —	\$ 63	\$ 45	\$ 0	\$ 18

Note 7 – Fair Value of Investment and Rental Properties

The following table shows the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended June 30, 2018 and December 31, 2018.

	As of / For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of the period.....	¥ 226,485	¥ 249,844	\$ 2,250,846
Net increase (decrease) during the period ⁽¹⁾	23,359	7,809	70,351
Balance at the end of the period	¥ 249,844	¥ 257,654	\$ 2,321,207
Fair value⁽²⁾	254,600	267,920	2,413,693

Notes:

(1) For the six months ended June 30, 2018:

Changes in the net book value are mainly due to the following transactions and other capital expenditures offset by depreciation.

	Increase in net book value (in millions of yen)
Acquisitions:	
TOYOTA MOBILITY SERVICE Bldg.	¥ 9,619
M-City Akasaka 1-chome Bldg.	4,276
Yoshiyasu Kanda Bldg.	4,190
USC Bldg. (additional acquisition)	6,003

For the six months ended December 31, 2018:

Changes in the net book value are mainly due to the following transactions and other capital expenditures offset by depreciation.

	Increase (decrease) in net book value (in millions of yen)
Acquisition:	
Yokohama i-land Tower	¥ 22,870
Dispositions:	
Matsushita IMP Bldg. (partial disposition)	(12,261)
MID REIT Kyobashi Bldg.	(2,056)

(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, 2018 and December 31, 2018, please refer to “Note 14 - Rental Business Revenues and Expenses.”

Note 8 – Investments in Tokumei Kumiai

The Company invests in real estate properties by entering into TK agreements as a Tokumei Kumiai investor (“TK investor”) with Japanese special purpose companies known as Tokumei Kumiai operators (“TK operators”), which are the property holding entities. Such TK transactions are a common method of investing and holding real estate properties in Japan. The relationship between the TK operators and the TK investors is governed by TK agreements, whereby the TK investors provide funds to the TK operators in return for the prorated portion of the income derived from the investments in properties held by the TK operators. Information on investments in TK as of June 30, 2018 and December 31, 2018 is as follows:

As of June 30, 2018:

Name of TK operator	Carrying amounts	The value of TK ⁽¹⁾ (in millions of yen)	Unrealized gains (or losses)
R40 Godo Kaisha ⁽²⁾	¥ 5,085	¥ 5,085	¥ —
Total	¥ 5,085	¥ 5,085	¥ —

As of December 31, 2018:

Name of TK operator	Carrying amounts	The value of TK ⁽¹⁾ (in millions of yen)	Unrealized gains (or losses)	Carrying amounts	The value of TK ⁽¹⁾ (in thousands of U.S. dollars)	Unrealized gains (or losses)
R40 Godo Kaisha ⁽²⁾	¥ 5,085	¥ 5,085	¥ —	\$ 45,810	\$ 45,810	\$ —
Total	¥ 5,085	¥ 5,085	¥ —	\$ 45,810	\$ 45,810	\$ —

Note:

- (1) The value of TK represents carrying amounts because it is too difficult to estimate fair value based on reasonable future cash flow.
- (2) The 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 9 – Loans Payable

The following tables show the details of loans payable as of June 30, 2018 and December 31, 2018.

Classification	Borrowing date	Maturity date	Average interest rate ⁽¹⁾	Balance as of		
				June 30, 2018	December 31, 2018	December 31, 2018
				(in millions of yen)		(in thousands of U.S. dollars)
Short-term loans payable	September 12, 2018	April 30, 2019	0.224	¥ —	6,900	\$ 62,162
	Short-term loans payable total.....			—	6,900	62,162
Long-term loans payable	July 31, 2012	July 31, 2019	(Note 3) 1.524	¥ 1,700	¥ (Note 4) 1,700	\$ 15,315
	July 31, 2013	July 31, 2018	(Note 2) 1.297	4,800	—	—
	July 31, 2013	July 31, 2020	(Note 3) 1.709	1,800	1,800	16,216
	July 31, 2014	July 31, 2019	(Note 2) 0.962	4,000	(Note 4) 4,000	36,036
	July 31, 2014	July 31, 2020	(Note 2) 1.240	2,000	2,000	18,018
	July 31, 2014	July 31, 2021	(Note 3) 1.478	1,800	1,800	16,216
	July 31, 2015	July 31, 2019	0.569	9,500	(Note 4) 9,500	85,585
	July 31, 2015	July 31, 2021	(Note 2) 1.034	4,500	4,500	40,540
	July 31, 2015	July 31, 2023	(Note 2) 1.384	1,000	1,000	9,009
	July 31, 2015	July 31, 2018	0.469	10,500	—	—
	July 31, 2015	July 31, 2020	(Note 2) 0.865	9,300	9,300	83,783
	July 31, 2015	July 31, 2020	(Note 3) 0.908	1,200	1,200	10,810
	July 31, 2015	July 31, 2022	(Note 2) 1.202	2,200	2,200	19,819
	July 31, 2015	July 31, 2022	(Note 3) 1.233	800	800	7,207
	July 31, 2015	July 31, 2023	(Note 2) 1.384	500	500	4,504
	July 31, 2015	July 31, 2023	(Note 3) 1.400	500	500	4,504
	April 28, 2016	April 30, 2021	(Note 2) 0.498	2,800	2,800	25,225
	July 29, 2016	January 31, 2020	0.379	3,700	3,700	33,333
	July 29, 2016	January 31, 2020	(Note 3) 0.373	2,250	2,250	20,270
	July 29, 2016	January 31, 2020	(Note 3) 0.373	2,600	2,600	23,423
	July 29, 2016	January 31, 2021	(Note 3) 0.451	2,500	2,500	22,522
	July 29, 2016	July 31, 2021	(Note 3) 0.494	2,650	2,650	23,873
	July 29, 2016	July 31, 2024	(Note 3) 0.735	4,700	4,700	42,342
	January 31, 2017	January 31, 2022	(Note 3) 0.647	4,000	4,000	36,036
	January 31, 2017	January 31, 2024	(Note 3) 0.809	4,000	4,000	36,036
	July 31, 2017	July 31, 2023	(Note 3) 0.680	1,900	1,900	17,117
	July 31, 2017	July 31, 2023	(Note 3) 0.688	1,000	1,000	9,009
	July 31, 2017	July 31, 2025	(Note 3) 0.856	3,975	3,975	35,810
	July 31, 2017	July 31, 2027	(Note 3) 1.040	3,900	3,900	35,135
	July 31, 2017	July 29, 2022	(Note 3) 0.524	2,900	2,900	26,126
	February 28, 2018	February 28, 2023	0.369	2,400	2,400	21,621
	February 28, 2018	February 28, 2025	(Note 3) 0.640	1,200	1,200	10,810
	February 28, 2018	February 28, 2025	(Note 3) 0.719	2,700	2,700	24,324
	February 28, 2018	February 27, 2026	(Note 3) 0.800	2,700	2,700	24,324
	July 31, 2018	July 31, 2028	(Note 2) 0.923	—	3,400	30,630
	July 31, 2018	July 31, 2028	(Note 3) 1.019	—	1,500	13,513
	July 31, 2018	July 31, 2026	(Note 2) 0.777	—	2,900	26,126
	July 31, 2018	July 31, 2026	(Note 3) 0.770	—	2,000	18,018
	July 31, 2018	July 31, 2026	(Note 3) 0.834	—	800	7,207
	July 31, 2018	July 31, 2025	(Note 3) 0.743	—	1,800	16,216
	July 31, 2018	January 31, 2023	0.344	—	2,900	26,126
	Long-term loans payable total.....			107,975	107,975	972,747
	Loans payable total.....			¥ 107,975	¥ 114,875	\$ 1,034,909

Notes:

- (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 are hedged by interest rate swaps are calculated adjusting the effect of the interest rate swaps.
- (2) These term loans are hedged by interest rate swaps.
- (3) Interest rates of these term loans are fixed rate.
- (4) Current portion of these term loans is shown as current portion of long-term loans payable in the balance sheets.

Annual repayments of long-term loans payable scheduled for next five years after each balance sheet date are as follows:

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year.....	¥ 15,300	¥ 15,200	\$ 136,936
1-2 years.....	23,750	22,850	205,855
2-3 years.....	19,600	14,250	128,378
3-4 years.....	12,950	9,900	89,189
4-5 years.....	8,300	10,200	91,891

Note 10 – Commitment line

As of June 30, 2018 and December 31, 2018, the Company entered into committed lines of credit with Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and MUFG Bank, Ltd. as follows:

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Total amount of committed lines of credit.....	¥ 15,000	¥ 15,000	\$ 135,135
Borrowings drawn down.....	—	—	—
Unused committed lines of credit.....	¥ 15,000	¥ 15,000	\$ 135,135

Note 11 – Investment Corporation Bonds

The details of the unsecured investment corporation bonds issued and outstanding as of June 30, 2018 and December 31, 2018 are as follows:

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
¥1.5 billion of 5-year bonds, issued on May 23, 2016, maturing on May 21, 2021 with a coupon of 0.340%	¥ 1,500	¥ 1,500	\$ 13,513
¥1.5 billion of 10-year bonds, issued on May 23, 2016, maturing on May 22, 2026 with a coupon of 0.810%	1,500	1,500	13,513
¥1 billion of 5-year bonds, issued on May 29, 2017, maturing on May 27, 2022 with a coupon of 0.260%	1,000	1,000	9,009
¥2 billion of 10-year bonds, issued on May 29, 2017, maturing on May 28, 2027 with a coupon of 0.670%	2,000	2,000	18,018
¥2 billion of 10-year bonds, issued on May 29, 2018, maturing on May 29, 2028 with a coupon of 0.590%	2,000	2,000	18,018
Total	¥ 8,000	¥ 8,000	\$ 72,072

Annual repayments on the investment corporation bonds scheduled for next five years after each balance sheet date are as follows:

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year.....	¥ —	¥ —	\$ —
1-2 years.....	—	—	—
2-3 years.....	1,500	1,500	13,513
3-4 years.....	1,000	1,000	9,009
4-5 years.....	—	—	—

Note 12 – Net Assets

The Company issues only non-par value units in accordance with the Investment Trust Act, and the entire amount of the issue price of new units is allocated to unitholders' capital within net assets. The Company is required to maintain net assets of at least ¥50 million (US\$450 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of units issued and outstanding are 1,643,125 units as of June 30, 2018 and December 31, 2018, respectively.

Note 13 – Appropriation of Retained Earnings

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Company's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in the Special Taxation Measures Act of Japan for the fiscal period, the Company generally intends to distribute all of distributable profit except for fractional distribution per investment unit less than one yen as regular distributions to unitholders with respect to its fiscal periods.

The following table shows the appropriation of retained earnings for the six months ended June 30, 2018 and December 31, 2018, respectively.

	For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Unappropriated retained earnings.....	¥ 2,768	¥ 4,621	\$ 41,630
Cash distribution declared.....	(2,767)	(4,181)	(37,666)
Provision of reserve for reduction entry of property	—	(439)	(3,954)
Retained earnings carried forward.....	¥ 1	¥ 1	\$ 9

For the year ended December 31, 2018, the Company transferred ¥439 million (US\$3,954 thousand) to provision of reserve for reduction entry of property from unappropriated retained earnings of ¥4,621 million (US\$41,630 thousand) at the end of the period.

Cash distributions per investment unit are ¥1,684 and ¥2,545 (US\$22) for the six months ended June 30, 2018 and December 31, 2018, respectively.

Note 14 – Rental Business Revenues and Expenses

Revenues and expenses related to property rental business for the six months ended June 30, 2018 and December 31, 2018 consist of the following:

	For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Rental business revenues:			
Rent revenues—real estate:			
Rental revenues.....	¥ 5,869	¥ 6,240	\$ 56,216
Common area charges	1,163	1,293	11,648
Parking lots	225	230	2,072
Total rent revenues—real estate.....	7,258	7,764	69,945
Other rental business revenues:			
Utilities.....	446	491	4,423
Cancellation penalty	6	24	216
Other.....	77	88	792
Total other rental business revenues.....	530	604	5,441
Total rental business revenues	¥ 7,788	¥ 8,369	\$ 75,396
Expenses related to rental business:			
Property management fees	¥ 875	¥ 888	\$ 8,000
Utilities.....	644	737	6,639
Property-related taxes	640	673	6,063
Insurance	9	9	81
Repair and maintenance	217	417	3,756
Depreciation.....	1,328	1,325	11,936
Other.....	70	77	693
Total expenses related to rental business.....	¥ 3,786	¥ 4,128	\$ 37,189
Operating income from property leasing activities.....	¥ 4,002	¥ 4,240	\$ 38,198

Note 15 – Analysis of Gain or Loss on Sales of Property and Equipment

Analysis of gain or loss on sales of property and equipment for the six months ended December 31, 2018 is as follows:

	Matsushita IMP Bldg.	MID REIT Kyobashi Bldg.	Matsushita IMP Bldg.	MID REIT Kyobashi Bldg.
	(in millions of yen)		(in thousands of U.S. dollars)	
Sale of property and equipment.....	¥ 14,850	¥ 1,700	\$ 133,783	\$ 15,315
Cost of property and equipment	(12,261)	(2,056)	(110,459)	(18,522)
Other sales expenses	(324)	(71)	(2,918)	(639)
Gain (loss) on sales of property and equipment, net	¥ 2,263	¥ (427)	\$ 20,387	\$ (3,846)

Note 16 – Income Taxes

The Company is subject to corporate income taxes in Japan. The Company may deduct from its taxable income the amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Act of Japan. Under this act, the Company must meet a number of tax requirements, including a requirement to distribute in excess of 90% of distributable profit for the fiscal period in order to be able to deduct such amounts. If the Company does not satisfy all of the requirements, the entire taxable income of the Company will be subject to regular corporate income taxes in Japan.

The Company has a policy of making distributions in excess of 90% of its distributable profit for the fiscal period to qualify for conditions set forth in the Special Taxation Measures Act of Japan to achieve a deduction of distributions for income tax purpose and it distributes approximately 100% of distributable profit. Hence, the Company has treated the distributions as a tax allowable deduction as defined in the Special Taxation Measures Act of Japan.

A reconciliation of the Company's effective tax rates and statutory tax rates are as follows:

	For the six months ended	
	June 30, 2018	December 31, 2018
	(Rate)	
Statutory tax rate	31.74%	31.51%
Deductible cash distributions	(31.71)	(28.51)
Provision of reserve for reduction entry of property	—	(2.99)
Other	0.02	0.01
Effective tax rate	0.05%	0.02%

Deferred tax assets consist of the following:

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)		(in thousands of U.S. dollars)
Deferred tax assets:			
Noncurrent:			
Enterprise tax payable.....	¥ 0	¥ 0	\$ 0
Total	0	0	0
Net deferred tax assets	¥ 0	¥ 0	\$ 0

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting (The Accounting Standards Board of Japan Statement No. 28 on February 16, 2018)" from the beginning of the six months ended December 31, 2018, and changed classification of deferred tax assets to investment and other assets from current assets.

As a result of this change, deferred tax assets amounting to ¥38 thousand as of June 30, 2018 which was classified in current assets in previous balance sheets has been reclassified to investment and other assets.

Note 17 – Leases

(a) Lease Rental Revenues

The Company leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of June 30, 2018 and December 31, 2018 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

	June 30, 2018	As of December 31, 2018	December 31, 2018 (in thousands of U.S. dollars)
	(in millions of yen)		
Due within one year	¥ 3,746	¥ 4,317	\$ 38,891
Due after one year	9,631	7,916	71,315
Total	¥ 13,378	¥ 12,234	\$ 110,216

(b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of June 30, 2018 and December 31, 2018 are as follows:

	June 30, 2018	As of December 31, 2018	December 31, 2018 (in thousands of U.S. dollars)
	(in millions of yen)		
Due within one year	¥ 6	¥ 6	\$ 54
Due after one year	10	7	63
Total	¥ 16	¥ 13	\$ 117

Note 18 – Financial Instruments

(a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

The Company raises funds through loans payable or the issuance of investment corporation bond 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.

Derivative instruments are used only for hedging purposes and not for speculation. Surplus funds are managed carefully through investment in financial instruments taking into account liquidity and safety.

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

The funds raised through loans payable are mainly used to acquire real estate properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable, tenant leasehold, security deposits and investment corporation bond are managed by decentralizing maturity date of loans payable and investment corporation bond 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 Company 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, 2018 and December 31, 2018.

	As of								
	June 30, 2018			December 31, 2018			December 31, 2018		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
	(in millions of yen)						(in thousands of U.S. dollars)		
Assets:									
(1) Cash and bank deposits	¥ 11,789	¥ 11,789	¥ —	¥ 12,094	¥ 12,094	¥ —	\$ 108,954	\$ 108,954	\$ —
(2) Cash and bank deposits in trust	4,729	4,729	—	4,872	4,872	—	43,891	43,891	—
Total assets	<u>¥ 16,518</u>	<u>¥ 16,518</u>	<u>¥ —</u>	<u>¥ 16,966</u>	<u>¥ 16,966</u>	<u>¥ —</u>	<u>\$ 152,846</u>	<u>\$ 152,846</u>	<u>\$ —</u>
Liabilities:									
(1) Short-term loans payable...	¥ —	¥ —	¥ —	¥ 6,900	¥ 6,900	¥ —	\$ 62,162	\$ 62,162	\$ —
(2) Current portion of long-term loans payable	15,300	15,314	14	15,200	15,236	36	136,936	137,261	324
(3) Investment corporation bonds – unsecured	8,000	8,006	6	8,000	8,028	28	72,072	72,324	252
(4) Long-term loans payable	92,675	93,371	696	92,775	93,856	1,081	835,810	845,549	9,738
Total liabilities	<u>¥ 115,975</u>	<u>¥ 116,692</u>	<u>¥ 717</u>	<u>¥ 122,875</u>	<u>¥ 124,021</u>	<u>¥ 1,146</u>	<u>\$ 1,106,981</u>	<u>\$ 1,117,306</u>	<u>\$ 10,324</u>
Derivative instruments	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —

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

Assets

- (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.

Liabilities

- (1) Short-term loans payable
Because of their short maturities and floating interest rates, the carrying amounts of short-term loans payable approximate their fair value.
- (2) Current portion of long-term loans payable and (4) 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.
- (3) Investment corporation bonds – unsecured
The fair value is the quoted price provided by financial market information provider.

Derivative instruments

Please refer to “Note 19 - Derivative Instruments” for further information.

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

	As of		
	June 30, 2018	December 31, 2018	December 31, 2018
			(in thousands of U.S. dollars)
	(in millions of yen)		
Investment securities	¥ 5,085	¥ 5,085	\$ 45,810
Tenant leasehold and security deposits	13,721	12,341	111,180
Tenant leasehold and security deposits in trust	—	639	5,756

The investment securities (equity interests in Tokumei Kumiai) are not traded in markets, and it is too difficult to estimate reasonable fair value. Also, it is difficult to determine fair values of tenant leasehold and security deposits 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 flow schedule of financial assets after the balance sheet date

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in millions of yen)					
As of June 30, 2018:						
Cash and bank deposits	¥ 11,789	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust	4,729	—	—	—	—	—
Total	<u>¥ 16,518</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>
As of December 31, 2018:						
Cash and bank deposits	¥ 12,094	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust	4,872	—	—	—	—	—
Total	<u>¥ 16,966</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of U.S. dollars)					
As of December 31, 2018:						
Cash and bank deposits	\$ 108,954	\$ —	\$ —	\$ —	\$ —	\$ —
Cash and bank deposits in trust	43,891	—	—	—	—	—
Total	<u>\$ 152,846</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in millions of yen)					
<i>As of June 30, 2018:</i>						
Long-term loans payable	¥ 15,300	¥ 23,750	¥ 19,600	¥ 12,950	¥ 8,300	¥ 28,075
Investment corporation bonds – unsecured	—	—	1,500	1,000	—	5,500
<i>As of December 31, 2018:</i>						
Short-term loans payable	¥ 6,900	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	15,200	22,850	14,250	9,900	10,200	35,575
Investment corporation bonds – unsecured	—	—	1,500	1,000	—	5,500
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of U.S. dollars)					
<i>As of December 31, 2018:</i>						
Short-term loans payable	\$ 62,162	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term loans payable	136,936	205,855	128,378	89,189	91,891	320,495
Investment corporation bonds – unsecured	—	—	13,513	9,009	—	49,549

Note 19 – Derivative Instruments

Information on derivative transactions undertaken by the Company as of June 30, 2018 and December 31, 2018 is as follows. Derivative instruments are used only for hedging purposes and subject to hedge accounting.

For the six months ended June 30, 2018:

Method of hedge accounting	Type of derivatives	Hedged item	Notional amounts ⁽²⁾		Fair value ⁽¹⁾
			Total	Over 1 year (in millions of yen)	
Special treatment for hedge accounting of interest rate swaps ⁽¹⁾	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 31,100	¥ 26,300	¥ —
Total			¥ 31,100	¥ 26,300	¥ —

For the six months ended December 31, 2018:

Method of hedge accounting	Type of derivatives	Hedged item	Notional amounts ⁽²⁾		Fair value ⁽¹⁾	Notional amounts ⁽²⁾		Fair value ⁽¹⁾
			Total	Over 1 year (in millions of yen)		Total	Over 1 year (in thousands of U.S. dollars)	
Special treatment for hedge accounting of interest rate swaps ⁽¹⁾	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 32,600	¥ 28,600	¥ —	\$ 293,693	\$ 257,657	\$ —
Total			¥ 32,600	¥ 28,600	¥ —	\$ 293,693	\$ 257,657	\$ —

Notes:

- (1) As disclosed in “Note 2 Summary of Significant Accounting Policies (h) Hedge Accounting”, the Company 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 hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instruments and the long-term loans payable as hedged items is calculated together as one and disclosed as such under Note (i) in “Note 18 Financial Instruments (b) Quantitative Information for financial instruments”.
- (2) The notional amounts do not represent the market risk exposure associated with the derivative instruments.

Note 20 – Related-Party Transactions

Information on related-party transactions for the six months ended June 30, 2018 and December 31, 2018 is as follows.

For the six months ended June 30, 2018:

Not applicable.

For the six months ended December 31, 2018:

Not applicable.

Note 21 – Per Unit Information

Following table shows the net asset value per unit as of June 30, 2018 and December 31, 2018 and net income per unit for the six months then ended.

	As of / For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(Yen)	(U.S. dollars)	(U.S. dollars)
Net asset value per unit	¥ 84,840	¥ 85,969	\$ 774
Net income per unit	1,727	2,812	25

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

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

	For the six months ended		
	June 30, 2018	December 31, 2018	December 31, 2018
	(in millions of yen)	(in thousands of U.S. dollars)	(in thousands of U.S. dollars)
Net income	¥ 2,767	¥ 4,620	\$ 41,621
Amount not attributable to common unitholders	—	—	—
Net income attributable to common unitholders	2,767	4,620	41,621
Weighted average number of units	1,602,373 units	1,643,125 units	

Note 22 – Segment Information

Segment information for the six months ended June 30, 2018 and December 31, 2018 is as follows:

(a) Operating Segment Information

Disclosure is omitted as the Company is comprised of a single reportable segment engaged in the property rental business.

(b) Enterprise-wide Disclosures

(i) Information about Products and Services

Disclosure is not required as revenues from external customers for the single segment are in excess of 90% of total revenues.

(ii) Information about Geographic Areas

Revenues from Overseas Customers:

Disclosure is not required as revenues from external customers attributable to Japan are in excess of 90% of total revenues.

Tangible Fixed Assets:

Disclosure is not required as tangible fixed assets located in Japan are in excess of 90% of total tangible fixed assets.

(c) Information about Major Customers

Name of Customer	Revenues for the six months ended			Related Segment
	June 30, 2018	December 31, 2018	December 31, 2018	
	(in millions of yen)	(in thousands of U.S. dollars)	(in thousands of U.S. dollars)	
Panasonic Corporation	¥ 972	¥ 1,061	\$ 9,558	Property rental business
AEON Retail Co., Ltd.	726	726	6,540	Property rental business

Note 23 – Subsequent events

None.

Note 24 – Additional information

The Company disposed following property in the six months ending June 30, 2019.

Property name: Matsushita IMP Bldg. (45% of quasi co-ownership interest)

Disposition price: ¥12,150 million (the sale price stated in the trust beneficiary interest transfer agreement, excluding property taxes, city planning taxes, consumption taxes, etc.)

Date of the disposition: March 8, 2019