

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

Note 5 Net income ÷ {(Net assets at beginning of period + Net assets at end of period) ÷ 2} × 100

Note 6 Net assets at end of period ÷ Total assets at end of period × 100

Note 7 Interest-bearing liabilities at end of period ÷ Total assets at end of period × 100

Note 8 Distribution per unit ÷ net income per unit (not adjusted to reflect the Unit Split) × 100

Payout ratio for the 22nd and the 24th fiscal period is calculated using the following formula because new investment units were issued.

Total distributions (excluding distributions in excess of profit) ÷ Net income × 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	Katsuhiko 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 (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)	Total of net book value (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)	
Trust beneficial interest in real property	Office Building	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	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
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
	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	3.2	
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.