

Think bold today for a brighter tomorrow.



# 25<sup>th</sup> Fiscal Period

July 1, 2018 to December 31, 2018

## Business Report

MCUBS MidCity Investment Corporation

MCUBS MidCity Investment Corporation

2-7-3 Marunouchi, Chiyoda-ku, Tokyo

<https://www.midcity-reit.com/en/>

Securities code: 3227

## Message from the Executive Director



**Katsuhiro Tsuchiya**  
Executive Director  
MCUBS MidCity Investment Corporation

We would like to express our sincere gratitude to our unitholders for your unwavering support.

MCUBS MidCity Investment Corporation (hereafter, “MCUBS MidCity”) recently settled its accounts for the fiscal period ended December 31, 2018 (the 25th fiscal period). We would like to extend our heartfelt appreciation to our unitholders as we recognize that this is again thanks to your support.

We ask our unitholders for your continued kind support going forward, as we implement measures to enhance unitholder value and strive in all our operations to meet unitholder expectations.

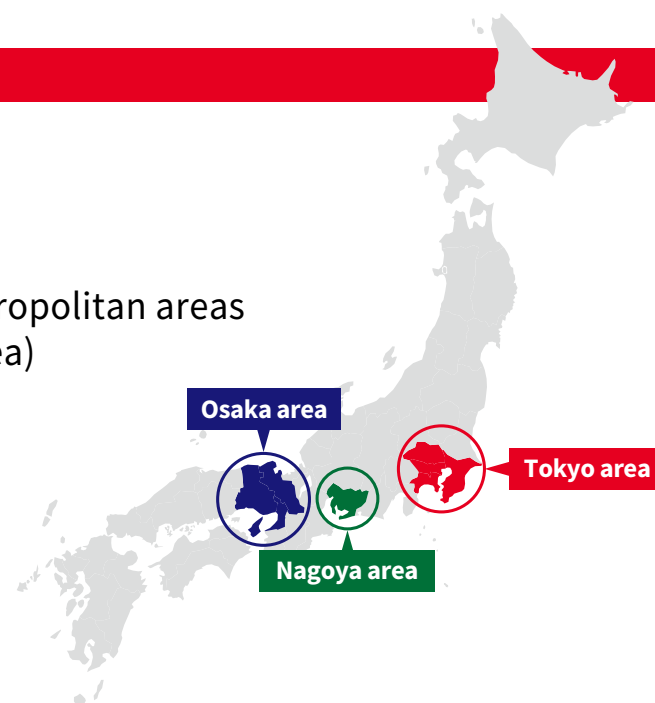
## Investment Policy

### Targeted Area:

Investment focused on three major metropolitan areas (Tokyo area, Osaka area and Nagoya area)  
Investment share of the three major metropolitan areas to be 70% or higher

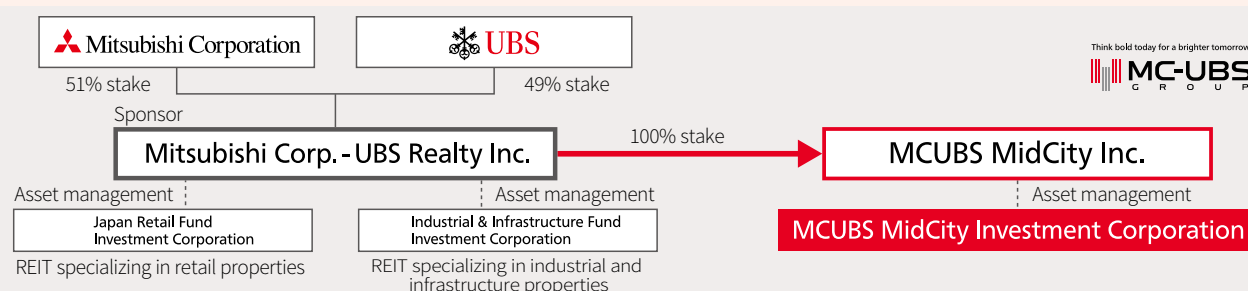
### Targeted Asset Type:

Investment focused on office properties  
Investment share of office properties to be 70% or higher



## MCUBS MidCity and Its New Relationships with Other Entities (as projected for April 1, 2019)

In April 2015, Mitsubishi Corp.-UBS Realty Inc. (MC-UBS) became involved with the Asset Management Company in the role of main sponsor. In April 2019, MC-UBS will acquire all of the shares held by sub-sponsor Kanden Realty & Development Co., Ltd., thereby becoming the only sponsor.



## 25th Fiscal Period Financial Highlights

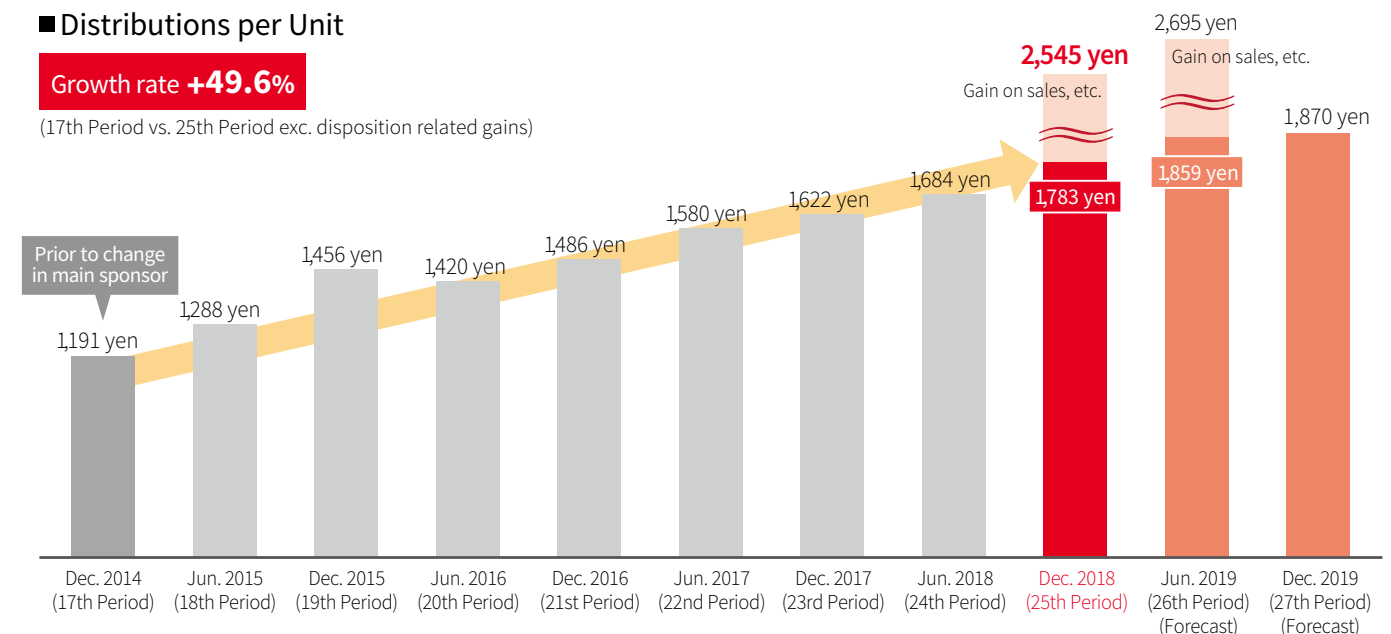
### Distributions per Unit

**2,545 yen** (up 861 yen period on period)

#### Distributions per Unit

Growth rate **+49.6%**

(17th Period vs. 25th Period exc. disposition related gains)



(Note) A five-for-one investment unit split was implemented with December 31, 2017 as the record date and January 1, 2018 as the effective date.

**Operating Revenue**  
**10,798 million yen**  
(up 36.3% period on period)

**Asset Size**  
**267.6 billion yen**  
(up 6.2 billion yen period on period)

**Operating Income**  
**5,327 million yen**  
(up 58.2% period on period)

**Number of Properties**  
**23**  
(unchanged period on period)

**Net Income**  
**4,620 million yen**  
(up 66.9% period on period)

**Occupancy Rate**  
**98.5%**  
(up 0.4 percentage point period on period)

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(Note) The contents of pages 1 to 12 reflect operating results from the end of the 25th fiscal period to the end of March 2019.

(Note) Values of less than a full unit are truncated, and percentages and number of years are shown rounded to the second decimal place. Accordingly, the sums of the various items may not match the total figures shown.

# Management Message



**Toyota Watanabe**  
President & CEO, MCUBS MidCity Inc.

## 25th Fiscal Period Financial Results

During the fiscal period ended December 31, 2018 (“the period under review”), we executed a strategic replacement of assets by effecting the acquisition of one property in the Tokyo area and disposition of two properties in the Osaka area. Accordingly, in addition to posting gains on the sales of property as a result of the abovementioned replacement, revenues from four properties acquired during the previous period made a full contribution in the period under review, leading to operating revenue of 10,798 million yen (up 36.3% period on period) and operating income of 5,327 million yen (up 58.2% period on period). Net income was 4,620 million yen (up 66.9% period on period). Net income of 439 million yen was retained internally for the reserve for reduction entry, and distributions per unit were 2,545 yen, an increase of 51.1% period on period.

## 25th Fiscal Period Asset Management

Against the backdrop of a favorable office rental market, the occupancy rate was 98.5% at the end of the period under review, an improvement over the 98.1% recorded at the end of the previous period, and the trend of upward rent revisions also continues. The real estate market has also remained active, which we saw as an excellent opportunity for dispositions, and led to the execution of the strategic replacement of assets. In the case of Yokohama i-land Tower, which is connected directly to Bashamichi Station, we were able to perform the acquisition while avoiding excessive competition by using a PRE\* proposal (the first for MCUBS MidCity) that leveraged our sponsor’s network. In addition, of the two properties disposed, we disposed 55% of the quasi-co-ownership of the Matsushita IMP Bldg. during the period under review, and the remaining 45% is scheduled to be disposed during the 26th fiscal period (ending June 30, 2019). By conducting the disposition of the property in two parts, our plan is to return the gain on sales to unitholders over two fiscal periods. (For further details on the asset replacement, please refer to pages 4 and 5.)

\* “PRE proposal” refers to a proposal of optimal and efficient use of public real estate (PRE) properties, with the aim of promoting proper and efficient management and operation thereof based on the public interest.

## 25th Fiscal Period Financial Activities

During the period under review, we refinanced 15,300 million yen that was due for repayment in July 2018, an effort that included the use of loans with terms of 10 years, the longest such bank loans available to MCUBS MidCity. Accordingly, we achieved a reduction in financial costs while further extending borrowing periods and increasing fixing interest rates. Moreover, to secure partial funds for

the acquisition of Yokohama i-land Tower, we borrowed a further 6,900 million yen in short-term loans in September 2018.

## Inclusion in the Indices

During the period under review, MCUBS MidCity was included in two indices for the first time. One of these is the FTSE EPRA/NAREIT Global Real Estate Index Series, inclusion in which had been our target since our change in sponsor. This index is used by many institutional investors all over the world as a benchmark for international real estate investment. The other is the MSCI Japan ESG Select Leaders Index, which is also used by the Government Pension Investment Fund (GPIF). This index is composed of companies, selected by MSCI Inc., that have superior Environmental, Social and Governance (ESG) performance, and we feel that our inclusion is a validation of the ESG activities in which we have been actively engaged. (For specific details of ESG activities, please refer to pages 10 and 11.) We expect membership in these indices to contribute to the expansion of our investor base and to increased liquidity for unitholders.

## Changes in Credit Ratings, and Future Growth

In March 2019, the long-term issuer rating assigned by the Japan Credit Rating Agency, Ltd. (JCR) was raised from A+ to AA-. Gaining an AA rating had been our long-term target, and we believe this achievement reflects the positive reception of the initiatives we have implemented in the three and half years since our change in sponsor. Furthermore, the outlook for the issuer rating assigned by Rating and Investment Information, Inc. (R&I) was raised to Positive. Going forward, we will work to further improve our creditworthiness by enhancing the stability of the portfolio through higher

Rating and Investment Information, Inc. (R&I)	Japan Credit Rating Agency, Ltd. (JCR)
A (Stable) → <b>A (Positive)</b> (October 2018)	A+ (Positive) → <b>AA- (Stable)</b> (March 2019)

profitability and diversification, and implement practices designed to strengthen our financial foundations. We forecast distributions per unit of 2,695 yen for the 26th fiscal period (ending June 30, 2019). These distributions include the gain on sales of the Matsushita IMP Bldg. Excluding this one-off factor, they would be 1,783 yen (up 5.9% period on period) for the period under review, and 1,859 yen (up 4.2% period on period) in the 26th fiscal period. In addition, distributions per unit for the 27th period (ending December 31, 2019) are expected to be 1,870 yen, due to peeling-off of gains on the sales of real estate. We aim to achieve continued steady growth in distributions, net of the impact of gains on sales.

## Message to Unitholders

On February 1, 2019, Katsura Matsuo was appointed President & CEO & Representative Director of MCUBS MidCity Inc. (the Asset Management Company). On April 1, 2019, Mitsubishi Corp.-UBS Realty Inc. (MC-UBS), the Asset Management Company’s main shareholder, is scheduled to acquire all of the Asset Management Company’s shares held by Kanden Realty & Development Co., Ltd., its other main shareholder. As a result, MC-UBS will become the sole sponsor of the Asset Management Company, but the Asset Management Company and Kanden Realty & Development are expected to continue to provide information to each other going forward in relation to real estate that they own and that is available for sale. We ask our unitholders for their kind support going forward, as the Asset Management Company continues to strive in all its operations to achieve ongoing improvements to unitholder value.

# External Growth Strategy

## Executed Strategic Asset Replacement with Best Timing

### Property acquired in the 25th Fiscal Period Yokohama i-land Tower



#### Features of the property

- Large-scale office building with direct connection to Bashamichi Station
- Yokohama City's new city hall scheduled to complete on a neighboring plot of land
- Steady rental income expected based on the long-term lease agreement
- Acquisition through MCUBS MidCity's first PRE proposal

Acquisition Price	22.1 billion yen	Appraisal Value	23.7 billion yen
Location	6-50-1 Honcho, Naka-ku, Yokohama, Kanagawa		
Access	Direct connection to Bashamichi Station on the Minatomirai Line Approx. 5-minute walk from Sakuragi-cho Station and Kannai Station on the JR/Yokohama Municipal Subway		
Total floor area	41,154.75 m <sup>2</sup>	Completion date	February 2003

#### Properties disposed in the 25th and 26th Fiscal Periods



#### Matsushita IMP Bldg.

Disposition price	27.0 billion yen
Location	Chuo-ku, Osaka
Disposition date	September 5, 2018 (55% quasi co-ownership) March 8, 2019 (planned) (45% quasi co-ownership)

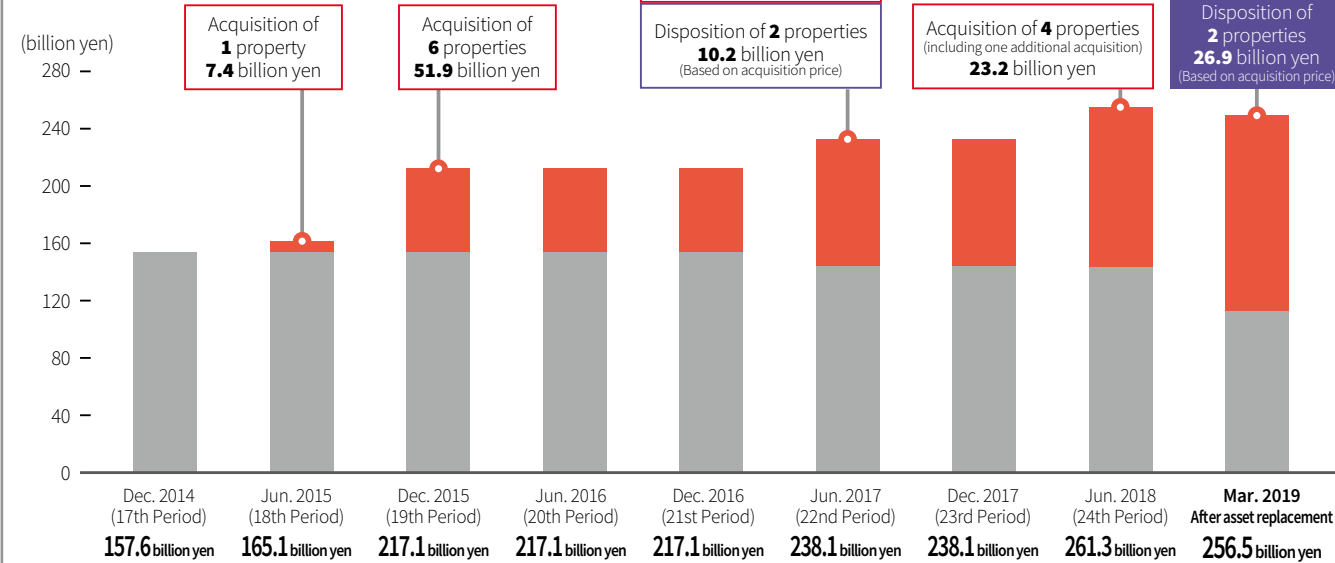


#### MID REIT Kyobashi Bldg.

Disposition price	1.7 billion yen
Location	Miyakojima-ku, Osaka
Disposition date	September 4, 2018

## Track Record of Sustained Growth

- Assets acquired after change in main sponsor (based on acquisition price)
- Assets acquired before change in main sponsor (based on acquisition price)



## Significance of This Asset Replacement

### Enhancement in Portfolio Profitability

Improve NOI yields after depreciation through a combination of disposing low-profitability assets and acquiring a high-profitability asset.

	Jun. 2018 (24th Period)	2 properties disposed	1 property acquired	Dec. 2019 (27th Period) (forecast)
Average NOI yield	4.3%	4.1%	5.0%	4.4%
Average NOI yield after depreciation	3.2%	1.8%	4.0%	3.5%

### Improvement in Portfolio Risk

Reduce the area concentration risk of the Osaka Business Park (OBP) area



### Strategic Utilization of Gain on Sales

Raise unitholder return and accumulate internal reserve over two fiscal periods by disposing the Matsushita IMP Bldg. in two parts

	Dec. 2018 (25th Period)	Jun. 2019 (26th Period)	
Total gains/losses on sales	+1.8 billion yen	Gains/losses on sales +1.9 billion yen	Total gains/losses on sales +3.8 billion yen
Payout as distributions	1.3 billion yen	Payout as distributions 1.5 billion yen	Total payout as distributions 2.9 billion yen
Reserve for reduction entry	0.4 billion yen	Reserve for reduction entry 0.4 billion yen	Total reserve for reduction entry 0.9 billion yen

### Policy for Using the Reserve for Reduction Entry

Use to carry out a stable distribution in the event of a temporary decrease in resources for distributable income in the future

#### For securing stability

- Temporary decrease in revenue due to cancellation of major tenant
- Loss on sale of real estate
- Temporary expense due to natural disaster, etc.

+

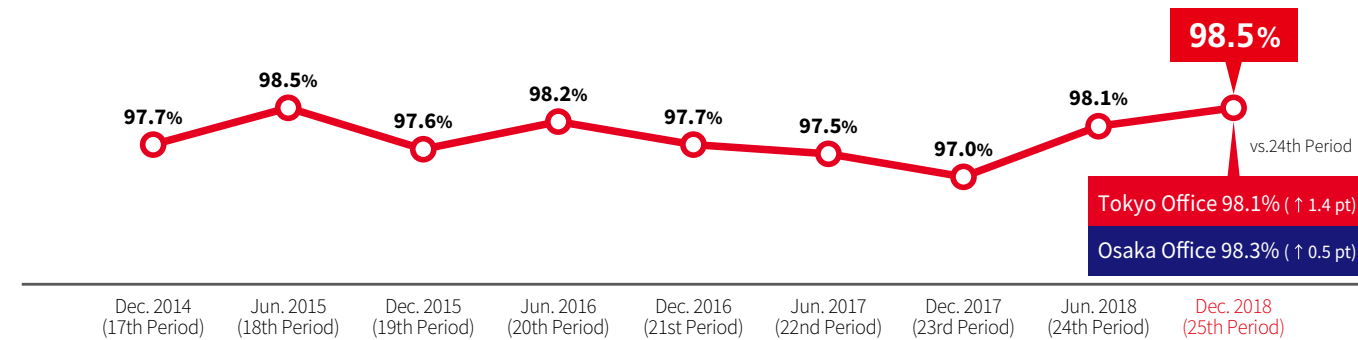
#### For growth strategy

- Losses due to growth investments such as large-scale renovation and reconstruction
- Temporary distribution dilution associated with offering during the fiscal period

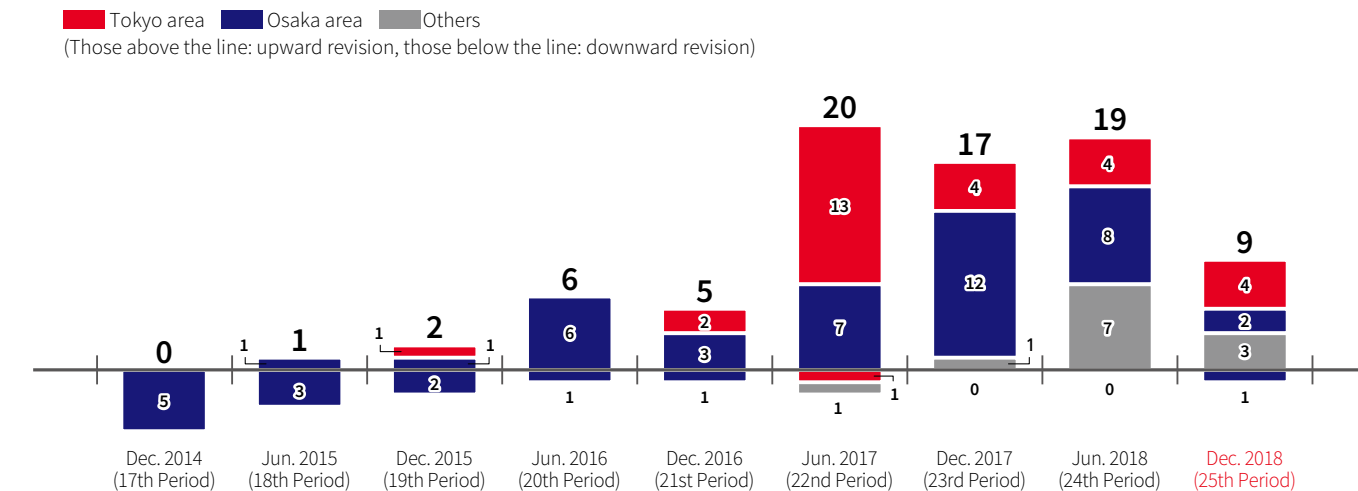


# Internal Growth Strategy

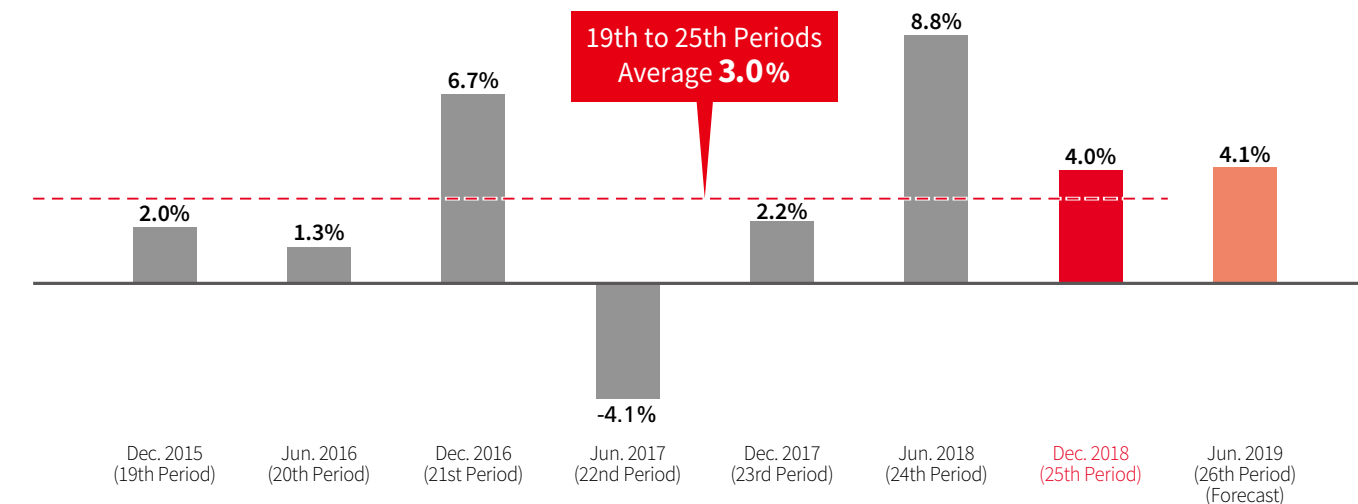
## Occupancy Rate



## Number of Rent Revisions in Lease Agreements



## Annualized LFL NOI Growth



(Note) LFL (like-for-like) NOI Growth is an annualized change of total NOI from all properties owned for past two full periods. Unrecognized real estate taxes are adjusted for newly acquired properties.

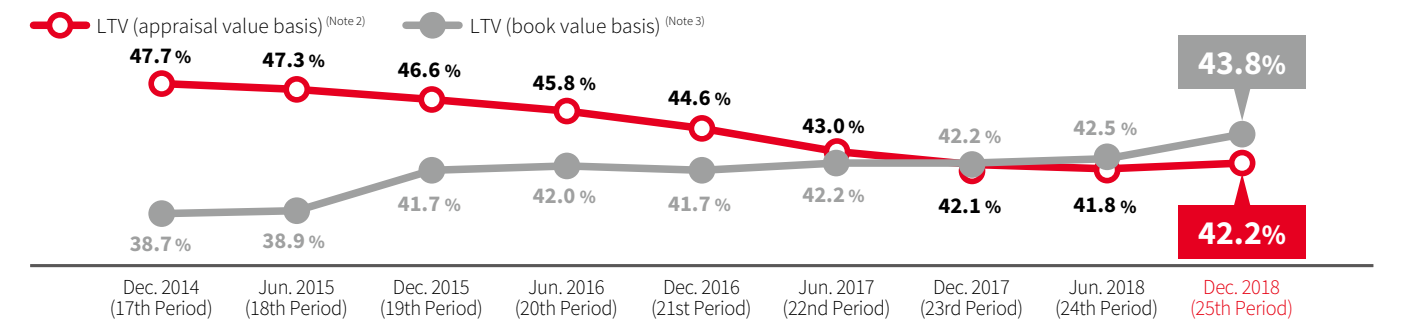
# Financial Strategy

## Financial Highlights (as of December 31, 2018)

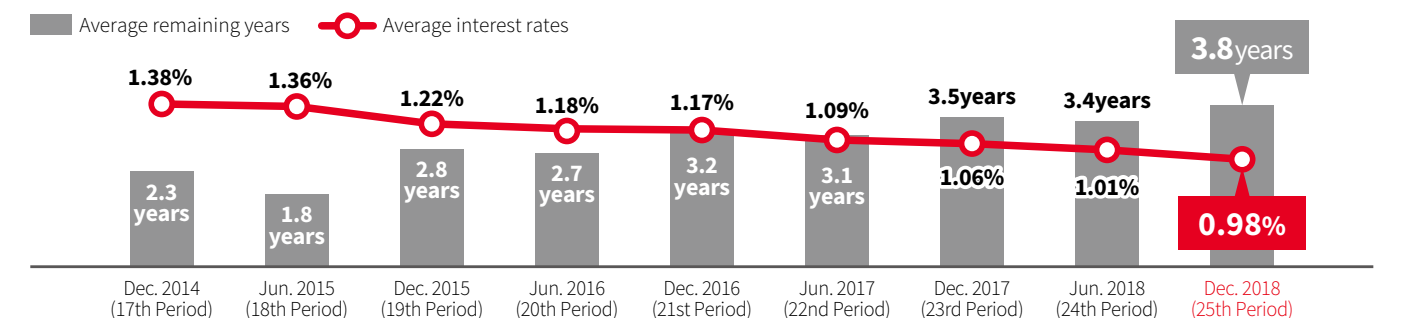
Short-term loans payable	6,900 million yen
Long-term loans payable <sup>(Note 1)</sup>	107,975 million yen
Investment corporation bonds	8,000 million yen
Total interest-bearing liabilities	122,875 million yen

Status of Issuer Credit Ratings (as of March 2019)	
Japan Credit Rating Agency, Ltd. (JCR)	AA- (Stable)
Rating and Investment Information, Inc. (R&I)	A (Positive)

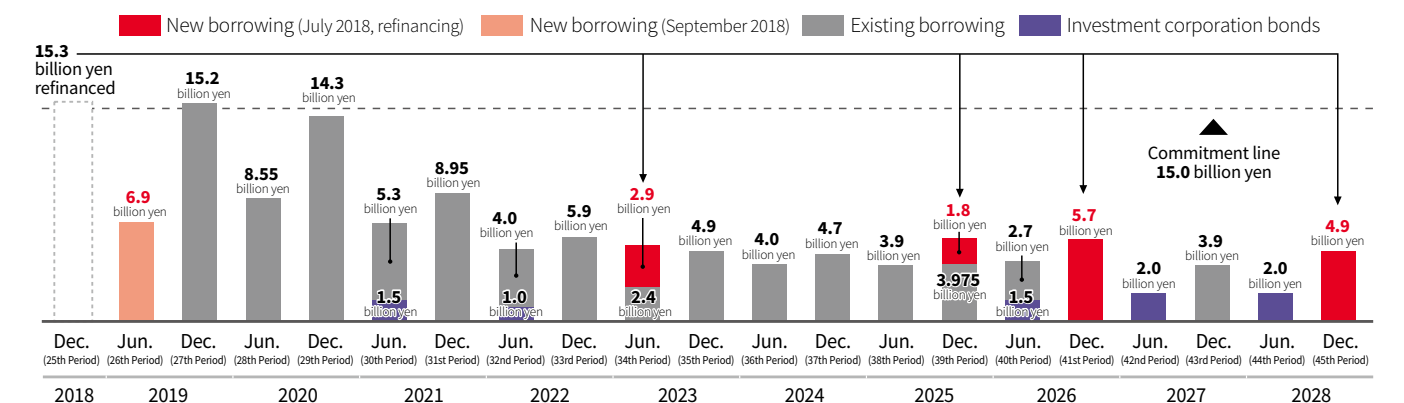
## Historical LTV



## Average Remaining Years of Interest-Bearing Liabilities and Average Interest Rates



## Diversification of Debt Maturities (as of December 31, 2018)



(Note 1) Long-term loans payable include current portion of long-term loans payable.

(Note 2) LTV (appraisal value basis) = Total interest-bearing liabilities / (Total assets + Appraisal value of portfolio properties - Book value of portfolio properties)

(Note 3) LTV (book value basis) = Total interest-bearing liabilities / Total assets

Portfolio Overview

Portfolio Overview

Investment Area		Property Name	Location	Acquisition Price (million yen)	Investment Ratio (%) (Note 1)	Acquisition Date	Leasable Space (m²)	Occupancy Rate (%) (Note 2)
Office Properties								
Three major metropolitan areas	Tokyo area	Sumitomo Fudosan Ueno Bldg. No. 6	Taito-ku, Tokyo	7,460	2.9	May 2015	6,858.16	100.0
		G-Square Shibuya Dogenzaka	Shibuya-ku, Tokyo	12,220	4.8	Aug. 2015	5,010.68	100.0
		Shibuya Sakuragaoka Square	Shibuya-ku, Tokyo	17,130	6.7	Aug. 2015 Feb. 2017	6,379.66	100.0
		Yokohama Creation Square	Kanagawa-ku, Yokohama	7,080	2.8	Aug. 2015	12,707.29	91.9
		Cube Kawasaki	Kawasaki-ku, Kawasaki	20,050	7.8	Aug. 2015	24,494.06	100.0
		Higashi-Nihombashi Green Bldg.	Chuo-ku, Tokyo	2,705	1.1	Dec. 2015	3,254.77	100.0
		Sasazuka Center Bldg.	Shibuya-ku, Tokyo	8,700	3.4	Mar. 2017	8,219.90	100.0
		USC Bldg.	Koto-ku, Tokyo	10,800	4.2	Apr. 2017 Feb. 2018	12,489.08	93.9
		Yoshiyasu Kanda Bldg.	Chiyoda-ku, Tokyo	4,000	1.6	Feb. 2018	3,149.30	100.0
		TOYOTA MOBILITY SERVICE Bldg.	Chuo-ku, Tokyo	9,200	3.6	Mar. 2018	6,123.81	100.0
		M-City Akasaka 1-chome Bldg.	Minato-ku, Tokyo	4,205	1.6	Mar. 2018	2,608.95	100.0
	Yokohama i-land Tower	Naka-ku, Yokohama	22,100	8.6	Sep. 2018	25,460.50	98.2	
	Osaka area	Twin 21	Chuo-ku, Osaka	68,700	26.8	Aug. 2006	82,304.84	98.2
		Matsushita IMP Bldg. (45% quasi co-ownership) (Note 3)	Chuo-ku, Osaka	11,070	-	Aug. 2006	16,833.37	96.7
		MID Imabashi Bldg.	Chuo-ku, Osaka	3,270	1.3	Apr. 2007	4,277.63	100.0
		Kitahama MID Bldg.	Chuo-ku, Osaka	10,800	4.2	Apr. 2008	10,189.49	100.0
MID Nishihommachi Bldg.		Nishi-ku, Osaka	3,550	1.4	Oct. 2008	3,881.74	100.0	
Higobashi MID Bldg.	Nishi-ku, Osaka	3,000	1.2	Jun. 2013	4,655.57	100.0		
Others	Other major cities	Sendai Capital Tower	Aoba-ku, Sendai	5,500	2.1	Feb. 2017	12,999.73	91.5
Subtotal (19 office properties)				231,540	85.9		251,898.53	97.9
Other than office properties								
Three major metropolitan areas	Tokyo area	AEON MALL Tsudanuma	Narashino-shi, Chiba	26,100	10.2	Aug. 2006	101,210.44	100.0
	Osaka area	Konami Sports Club Kyobashi	Miyakojima-ku, Osaka	2,780	1.1	Aug. 2006	9,586.26	100.0
Others	Other major cities	Dormy Inn Hakata Gion	Hakata-ku, Fukuoka	2,280	0.9	Sep. 2013	5,554.91	100.0
Subtotal (3 properties for applications other than offices)				31,160	12.1		116,351.61	100.0
Subtotal				262,700	98.1		368,250.14	98.5
Silent partnership interests related to office buildings								
Three major metropolitan areas	Nagoya area	Nagoya Lucent Tower (Silent partnership interest) (Note 4)	Nishi-ku, Nagoya	4,919	1.9	Aug. 2015	-	-
Total (23 properties as of Dec. 31, 2018)				267,619	-		368,250.14	98.5
Total (22 properties after disposition of Matsushita IMP Bldg. [45% quasi co-ownership])				256,549	100.0		351,416.77	98.6

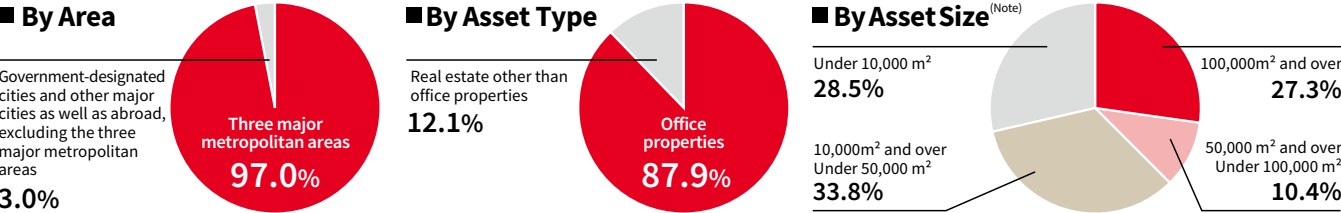
(Note 1) "Investment Ratio" is the ratio of the acquisition price of the applicable asset to the total amount of acquisition prices shown in "Total (22 properties after disposition of Matsushita IMP Bldg. [45% quasi co-ownership])."

(Note 2) "Occupancy Rate" is presented as percentage figures, which are obtained by dividing the leased space as of December 31, 2018 by the leasable space.

(Note 3) Matsushita IMP Bldg. (45% quasi co-ownership) is a property to be disposed in March 2019.

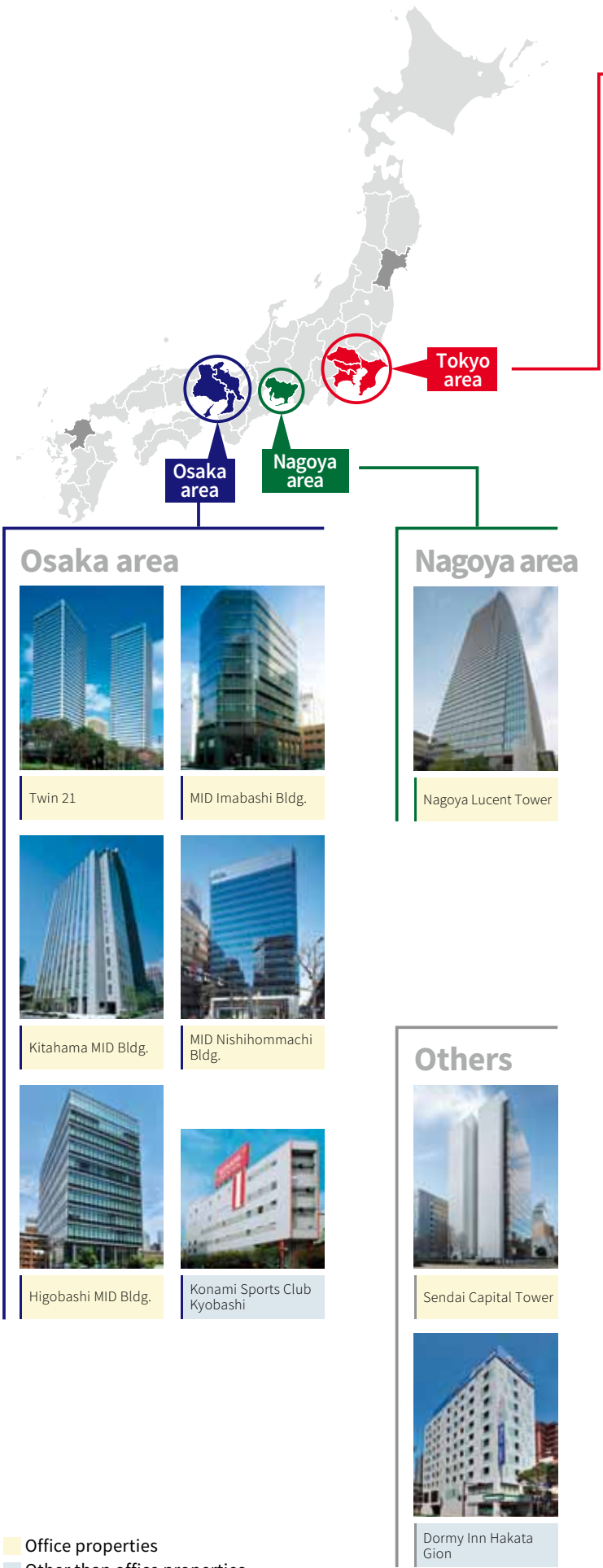
(Note 4) Nagoya Lucent Tower is a silent partnership interest with R40 GK as the operator (Silent Partnership Interest B in R40 GK; equity interest: 40%), backed by the trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower as the asset in trust, acquired on August 3, 2015.

Portfolio Diversification (Based on acquisition price, after asset replacement in March 2019)

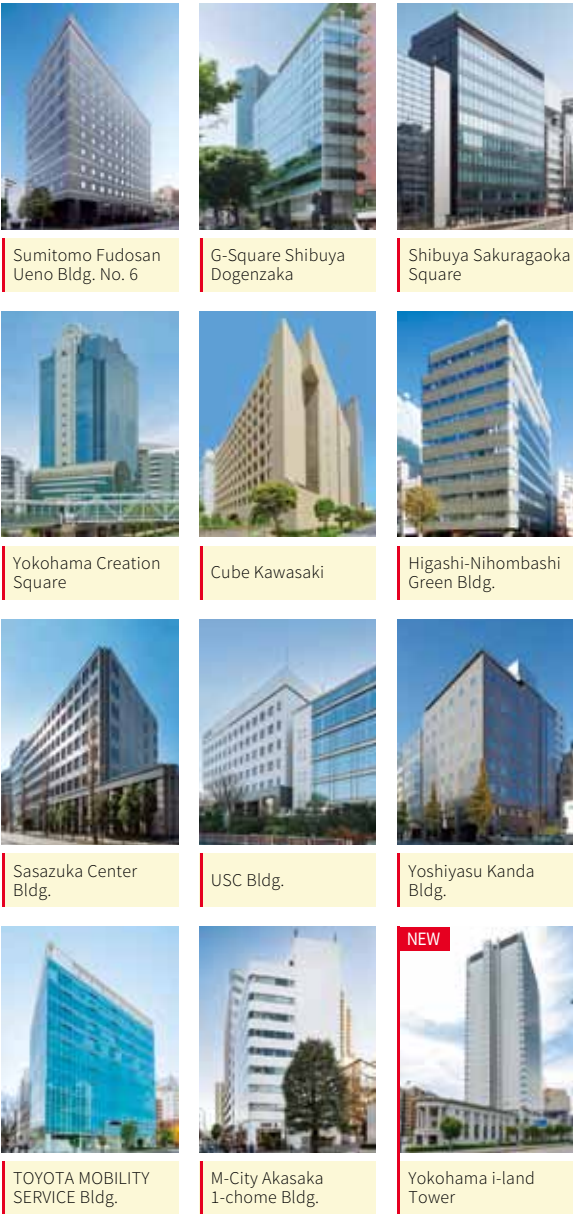


(Note) Excluding silent partnership interests.

Portfolio Map



Tokyo area



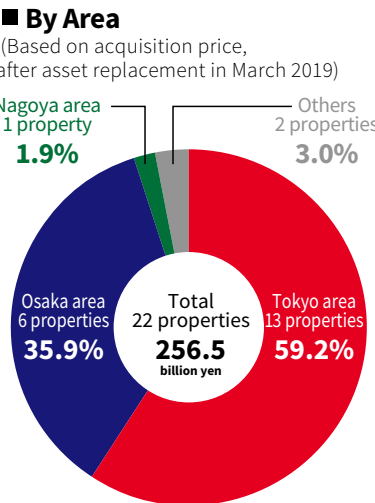
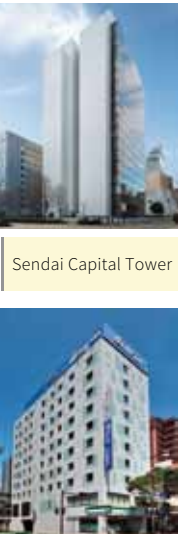
Nagoya area



Osaka area



Others





# ESG Initiatives

MCUBS MidCity shares with the Asset Management Company an approach to sustainability that integrates investment and management processes that, in turn, take into account Environmental, Social and Governance (ESG) factors.

## E Environmental Initiatives

### Designated as the Highest Rank “Green Star” for Three Consecutive Years

For the first time, MCUBS MidCity received **five stars** for the GRESB, which is a comparative assessment-based rating system with five assessment tiers.

- |                  |   |
|------------------|---|
| Points evaluated | <ul style="list-style-type: none"> <li>Highly evaluated in the aspects of “Management” and “Policy and Disclosure”</li> <li>Significantly improved the scores of “Stakeholder Engagement” and “Performance Indicators”</li> </ul> |
|------------------|---|



### Received Tokyo Low-Carbon Small and Medium-Sized Model Building Notifications for the First Time

In December 2018, MCUBS MidCity received notification that its Sumitomo Fudosan Ueno Bldg. No. 6 and USC Bldg. had for the first time been designated as being in conformance with the Tokyo Low-Carbon Small and Medium-Sized Model Building\*.

\* Buildings assigned to the A1 or higher category under the Low-Carbon Building Evaluation Indicators (Low-Carbon Building Benchmark)\* published by the Tokyo Metropolitan Government.



Sumitomo Fudosan Ueno Bldg. No. 6 (A2)

USC Bldg. (A1)

### Assignment with Environmental Certification and Assessment



Building-Housing Energy-efficiency Labeling System (BELS) Certification

★★★★

Kitahama MID Bldg.

★★

G-Square Shibuya Dogenzaka  
Shibuya Sakuragaoka Square **NEW**  
TOYOTA MOBILITY SERVICE Bldg. **NEW**  
Higobashi MID Bldg.



Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Real Estate Certification

Rank A

G-Square Shibuya Dogenzaka

**Rank A (under the local government reporting system)**

Higobashi MID Bldg.

Rank B+

Shibuya Sakuragaoka Square **NEW**



DBJ Green Building Certification

★★★★

Twin 21

Matsushita IMP Bldg.

Kitahama MID Bldg.

Higobashi MID Bldg.

## MC-UBS Group ESG Report

The ESG Report published by the MC-UBS Group brings together, in one document, detailed ESG-related information for the MC-UBS Group and all of the investment corporations under management by the Group. We urge you to take the time to look at it.



## S Social Initiatives

### Communication with Local Communities

#### Organizing events and decorations

We actively organize events and opportunities for local interaction for certain of the properties we own, for the pleasure of not only office workers but also local communities and visitors. During the Christmas season, we work to increase the appeal of our office buildings by hosting live events with singers and performers, as well as setting up Christmas trees and so on.



### Communication with Investors

#### Best IR Award for Encouragement

In November 2018, the Asset Management Company received “Best IR Award for Encouragement” in The 2018 IR Award (23rd) organized by The Japan Investor Relations Association.



Award rationale

- Top management engages in dialogue with the capital markets and reflects investor’s view in its management
- Provision of ESG information that incorporates external assessments
- Expansion of events aimed at expanding the investor base (briefings for individual investors, appearances on radio, seminars, etc.)
- Prompt disclosure of information related to risks to investments, such as earthquakes, storm and flood damage

## G Governance Initiatives

### Executive Officers Supporting Governance

- Consists of **third parties** independent of the Asset Management Company and the Group companies
- Board of Directors meetings are a venue for lively discussions, and **function as checks** on the Asset Management Company

Executive Director

**Katsuhiko Tsuchiya** (center)

Leverages his knowledge and experience as a legal specialist to perform his duties

Supervisory Director

**Haruo Kitamura** (right)

Makes good use of his expert knowledge and experience in accounting and finance to supervise the execution of business

Supervisory Director

**Osamu Ito** (left)

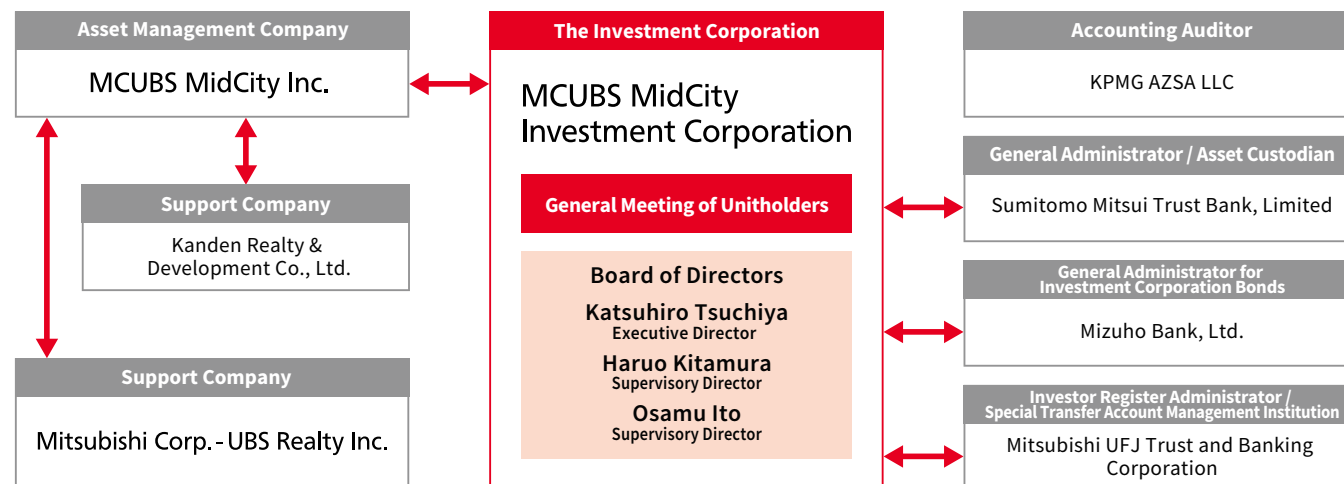
Utilizes his insights and experience as an authority in the legal field to oversee the execution of duties



# Overview of Investment Corporation / Asset Management Company

On April 1, 2019, Mitsubishi Corp.-UBS Realty Inc. will acquire all of the shares held by sub-sponsor Kanden Realty & Development Co., Ltd., thereby becoming the only sponsor.

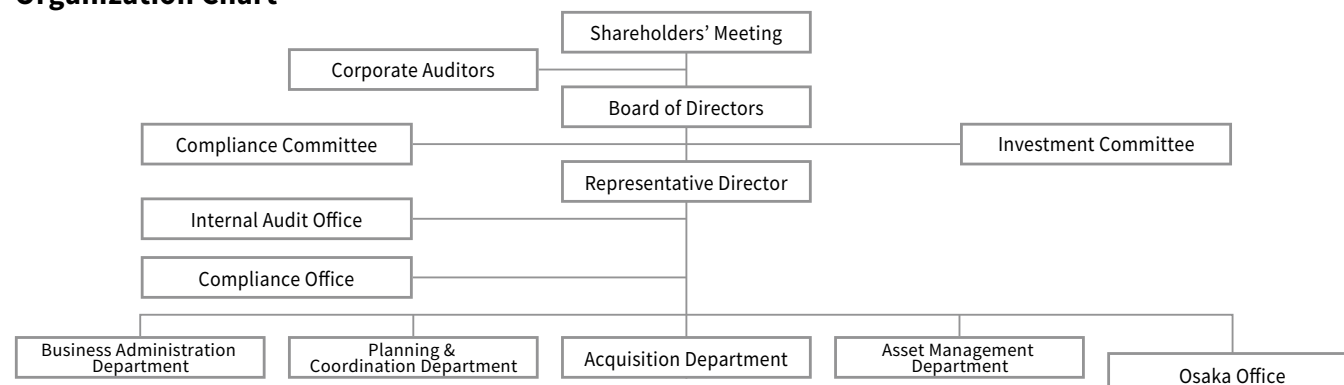
## Structure of MCUBS MidCity (as of February 1, 2019)



## Overview of the Asset Management Company (as of February 1, 2019)

Name	MCUBS MidCity, Inc.
Location	2-7-3 Marunouchi, Chiyoda-ku, Tokyo
Paid-in capital	210 million yen
Shareholders	Mitsubishi Corp.-UBS Realty Inc.: 85% Kanden Realty & Development Co., Ltd.: 15%
Representative	Katsura Matsuo, President & CEO & Representative Director
Business Description	Investment management business

### Organization Chart



### Website of MCUBS MidCity

The website of MCUBS MidCity Investment Corporation offers a service to inform you of the latest IR information via e-mail. In addition, the website is designed to enhance convenience in obtaining the necessary information as well as enrich content sought by investors.

<https://www.midcity-reit.com/en/>



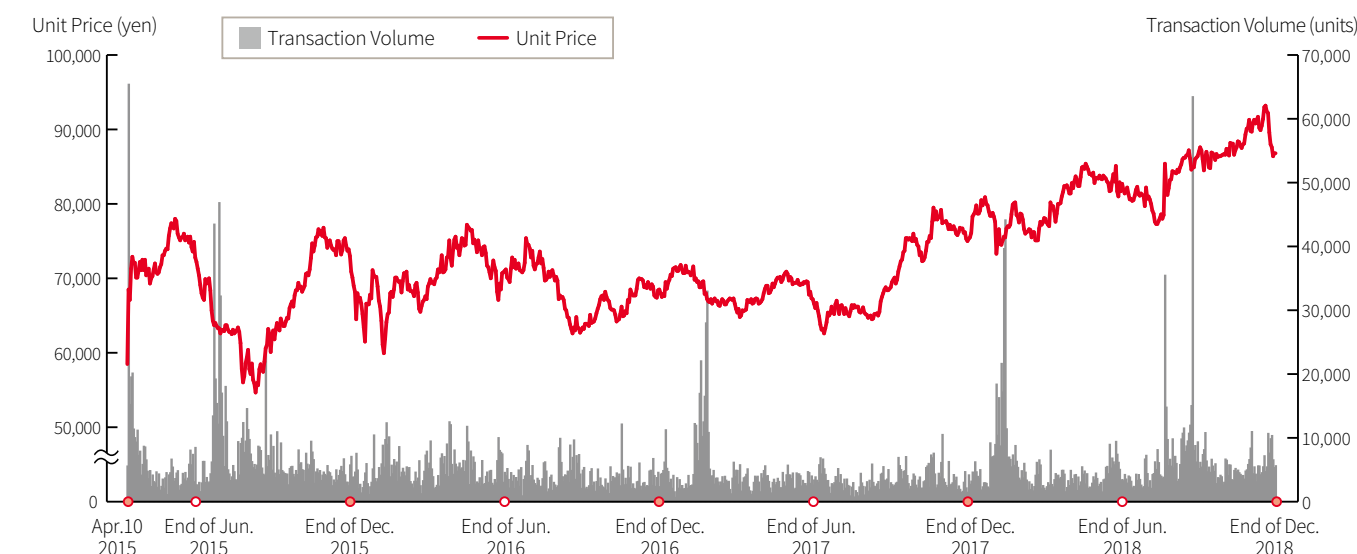
In FY2018 we were awarded a prize for **AAA Grade** in Website Quality Ranking Survey among All Listed Companies in Japan for the **second consecutive year**.



# Investment Unit Status / Unitholder Information

## Unit Price Performance

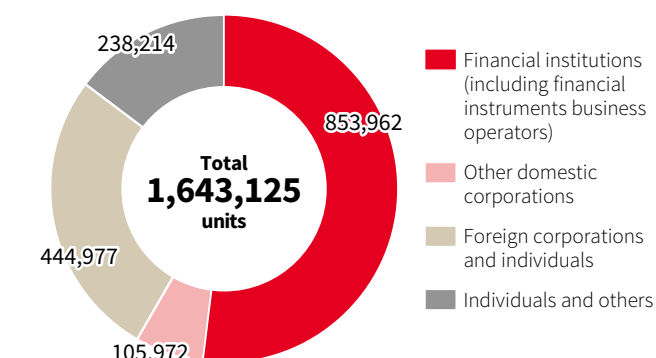
The following is the history of investment unit prices (closing prices) and transaction volumes of MCUBS MidCity on the Tokyo Stock Exchange from April 10, 2015 to December 31, 2018.



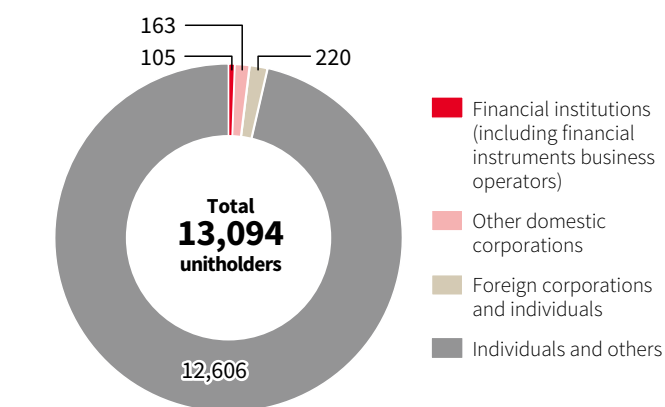
(Note) To reflect the five-for-one split of the investment units of MCUBS MidCity implemented with December 31, 2017 as the record date, the investment unit price prior to the split is one-fifth of the actual price and the transaction volume prior to the split is the actual volume multiplied by five.

## Breakdown of Unitholders

### Number of Units by Investor Type



### Number of Unitholders by Investor Type



## Announcements of Fiscal Period Results

