

Think bold today for a brighter tomorrow.



MCUBS MidCity Investment Corporation

27th July 1, 2019 to December 31, 2019 Business Report

MCUBS MidCity Investment Corporation

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

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

Securities code: 3227

Executive Director Message



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, 2019 (the 27th 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.

Who We Are

MC-UBS office-focused REIT, aiming to enhance unitholder value

Area-diversified portfolio primarily made up of **medium-sized office buildings**

1

Industry-leading property acquisition capability

2

Asset management with a focus on tenant satisfaction

3

Stable financial base

4

ESG-conscious portfolio management

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

Others 30% or lower

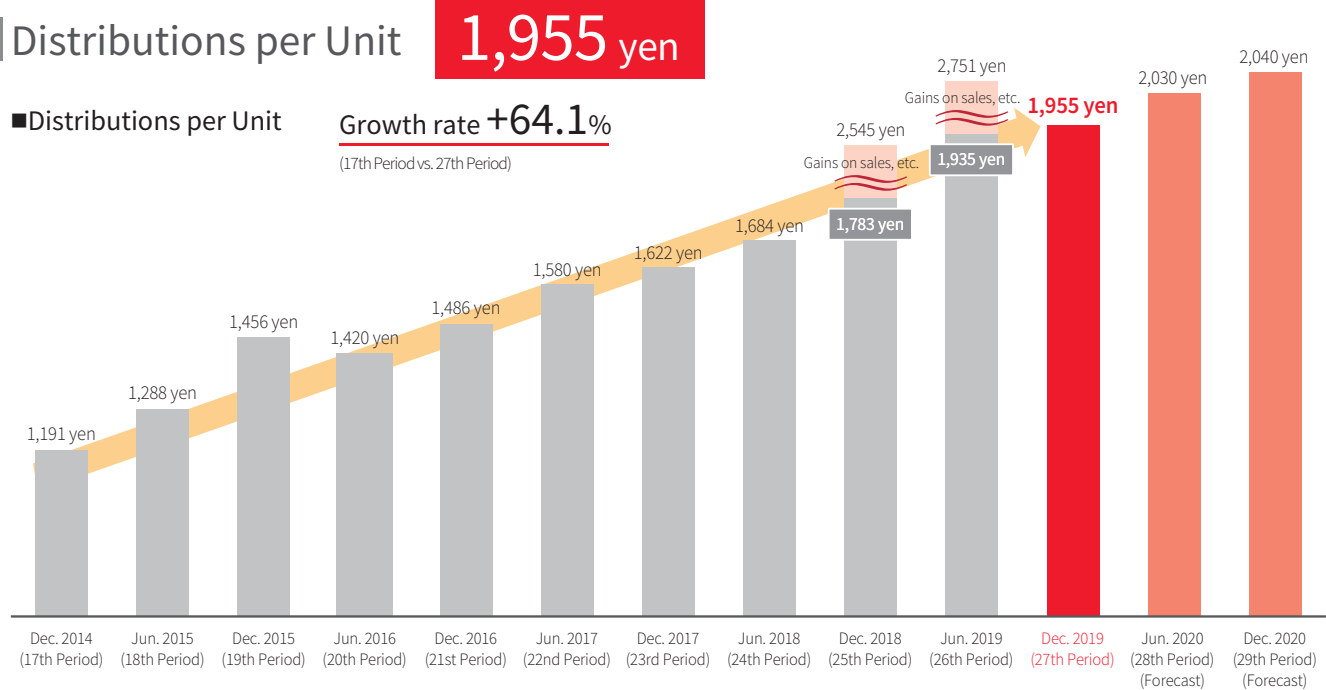
Targeted Asset Type:

Investment focused on office properties

Investment share of office properties to be 70% or higher

Real estate other than office properties 30% or lower

27th Fiscal Period Financial Highlights



(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	Operating Income	Net Income
8,569 million yen (down 16.6% period on period)	3,983 million yen (down 29.4% period on period)	3,388 million yen (down 32.1% period on period)
Number of Properties	Asset Size (Acquisition price basis)	Occupancy Rate
26	287.6 billion yen	98.6%
LTV (Appraisal value basis)	Average Interest Rates	Rating
39.1%	0.95%	AA- (JCR) A+ (R&I)

As of December 31, 2019

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(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.



27th Fiscal Period Financial Results and Asset Management

During the fiscal period ended December 31, 2019 (27th fiscal period), due to the absence of gains on sales of property posted in the previous period ended June 30, 2019, operating revenues fell 16.6% from the previous period to 8,569 million yen, while operating income was 3,983 million yen (down 29.4%), and net income was 3,388 million yen (down 32.1%). At the same time, internal growth advanced steadily amid a favorable office rental market, with 27 upward rent revisions implemented, for an average upward revision in rent of 12.3%, which contributed to revenue growth. In November 2019, we implemented the fourth public offering since MCUBS MidCity was listed, and in the same month made new acquisitions involving three properties for a total value of 27.01 billion yen. The public offering in the middle of the fiscal period led to a temporary dilution in distributions. However, by allocating 98 million yen from the 1,097 million yen in retained earnings for stable payment of distributions, distribution per unit were 1,955 yen, in line with revised forecasts. Internal reserves after the allocation amounted to 998 million yen, equivalent to 559.7 yen per unit.

Properties Newly Acquired During the 27th Fiscal Period

In November 2019, we used funds sourced from the issuance of new investment units and new borrowings to acquire two new office properties (Osaka YM Bldg., and East Square Tokyo) and one hotel (Hotel Vista Premio Tokyo). Although the real estate market is overheating, we are confident that we have been able to make carefully selected investments with strong focus on location, quality and profitability through exclusive negotiation. In addition, there is potential for value improvements due to rental gaps and improved occupancy rate and others, thus we will work to utilize the management know-how that we have cultivated over the years to further improve the profitability of the portfolio.

27th Fiscal Period Financial Activities

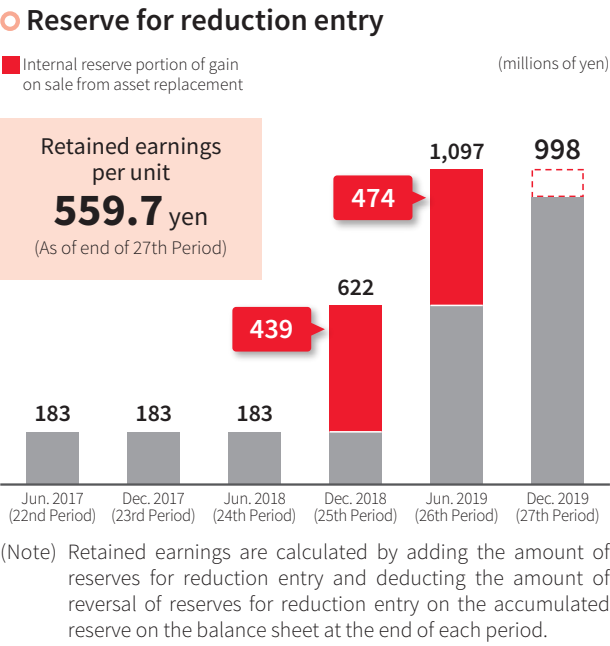
In the 27th fiscal period, we executed a total of 15.2 billion yen in refinancing at the end of July 2019, achieving greater diversification of maturities, longer loan periods, and reductions in borrowing costs. Furthermore, in November 2019, we executed a total of 11.0 billion yen in new borrowings to be allocated to funds for the acquisition of new properties. In March 2019, during the 26th fiscal period, Japan Credit Rating Agency, Ltd. (JCR) raised its long-term issuer rating to “AA-”, and in September 2019, during the 27th fiscal period, Rating and Investment Information, Inc. (R&I) raised its issuer rating from “A” to “A+”. This is the result of positive assessments of our efforts to diversify the portfolio and continuously improve profitability.

Sustainability Initiatives

Since 2013, Mitsubishi Corp.- UBS Realty Inc. (the Asset Management Company) has operated a Sustainability Committee. This committee shares information on sustainability pertinent to Japan Retail Fund Investment Corporation and Industrial & Infrastructure Fund Investment Corporation, which are managed by the Asset Management Company, as well as (from 2015 onward) the three investment corporations, which include MCUBS MidCity (the Asset Management Company together with the three investment corporations being referred to collectively as the MC-UBS Group) systematically across MC-UBS Group, and considers initiatives on various issues. During the 27th fiscal period, the Asset Management Company endorsed and signed on to the Task Force on Climate-related Financial Disclosures. MCUBS MidCity has maintained and continued to pursue positive external assessments of initiatives in which we are actively engaged. These efforts include winning the highest GRESB rank of “Green Star” for four consecutive years, and obtaining “CASBEE for Smart Wellness Office” certification for G-Square Shibuya Dogenzaka, a first for J-REITs. (Please see pages 10/11 for details of “ESG Initiatives”.) Furthermore, in January 2020, we established the new Sustainability Committee to act as an approval body in relation to each investment corporation’s sustainability policies, strategies and other efforts. The Committee approves matters as well as functions as a body for sharing information on the status of sustainability activities at each investment corporation and on related evaluation results and analyses. Going forward, the MC-UBS Group will continue to work together as one to implement sustainability activities.

Forecasts for the 28th Fiscal Period

In the next fiscal period (ending June 30, 2020), due to the three properties newly acquired in the 27th fiscal period making a solid contribution among other factors, we forecast operating revenue of 9,109 million yen (up 6.3% from the 27th fiscal period), operating income of 4,246 million yen (up 6.6%), and net income of 3,623 million yen (up 6.9%). As a result, distributions per unit are expected to rise by 75 yen from 1,955 yen to 2,030 yen, enabling us to achieve the 2,000 yen target established as our medium-term objective. We ask our unitholders to maintain their kind support going forward as we strive to engage in management that achieves ongoing enhancements to unitholder value.



Fourth Public Offering

In November 2019, MCUBS MidCity conducted a public offering for the third consecutive year which, together with a total of 11.0 billion yen in borrowings, enabled it to acquire three new properties, with the aim of achieving continuous enhancements in unitholders' value.

Offering highlights

- ① Selective investments in favorable locations with value enhancement potential
- ② Strengthening profitability through solid internal growth
- ③ Development of a strong financial base and securing flexibility in acquisition capacity

Aim for continuous unitholder value enhancement through the portfolio strategy focusing on the trinity of “External Growth, Internal Growth and Financial Base”

Effects of the Transaction

		Fiscal period ended June 30, 2019 (26th Period)	Fourth public offering	Fiscal period ended December 31, 2019 (27th Period)
Equity	Number of investment units	1,643,125 units	<Issuance of new investment units> Public offering 134,000 units Third-party allotment 7,000 units	1,784,125 units
	Market capitalization	166.6 billion yen (as of June 28, 2019)		210.5 billion yen (as of December 30, 2019)
Assets	Number of properties	23 properties	<New properties acquired> 3 properties	26 properties
	Assets (acquisition price basis)	260.6 billion yen	27.01 billion yen	287.6 billion yen
Debt			<New borrowings>	
	Total interest-bearing liabilities	115.9 billion yen	11.0 billion yen	126.9 billion yen
	Average remaining years	3.5 years	7.7 years	4.3 years
	Average interest rates	0.99%		0.95%
	LTV (appraisal value basis)	39.8%		39.1%

External Growth Strategy

Key points for new properties acquired during the 27th Period

- 1 Executed selected investment with strong focus on location, quality and profitability
- 2 Avoided excessive acquisition competition through the use of exclusive negotiations in each case

Office Osaka YM Bldg.



- 3-minute walk from Fukushima station, one stop from Osaka station
- Property with standard floor space of 245 tsubo, located at Fukushima area where majority of buildings are small scale buildings, and renovation works for common area implemented in 2008
- With its location close to Umeda area in which redevelopment projects have recently been promoted, enhancement of the relative superiority as office area can be expected

Acquisition price	6,310 million yen	Appraisal value	7,650 million yen
Location	7-15-26, Fukushima, Fukushima-ku, Osaka-shi, Osaka		
Access	Approx. 3-minute walk from Fukushima station, on the JR Osaka Loop Line Approx. 6-minute walk from Fukushima station on the Hanshin Electric Railway Line		
Total floor space	16,533.95m ²	Completion date	March 1991

Office East Square Tokyo



- 9-minute walk from Toyochi station, and good access to Otemachi and Nishinomiya by subway about 10 minutes
- Property with standard floor space of 600 tsubo, with superior specifications and with well-prepared for BCP with emergency generators equipped
- Located in an area in which a number of major companies are headquartered, expected to needs from tenants to use as a backup office and other facilities, number of employees in Toyochi area is increasing in recent years

Acquisition price	9,500 million yen	Appraisal value	10,200 million yen
Location	1-6-35, Shinsuna, Koto-ku, Tokyo		
Access	Approx. 9-minute walk from Toyochi station on the Tokyo Metro Tozai Line		
Total floor space	18,051.08m ²	Completion date	November 1989

Hotel Hotel Vista Premio Tokyo



- Located along Hitotsugi-Dori Avenue in the center of the Akasaka area, within a 3-minute walk from Akasaka and Akasaka-Mitsuke stations, respectively
- An accommodation-specialized hotel with large guest rooms of 21m² on average was opened in June 2018 which is able to meet extensive demands both of domestic business persons and inbound tourists for leisure
- Lease agreement based on the fixed rent, with upsides through variable rent portion

Acquisition price	11,200 million yen	Appraisal value	12,000 million yen
Location	4-3-2, Akasaka, Minato-ku, Tokyo		
Access	Approx. 3-minute walk from Akasaka-Mitsuke station on the Tokyo Metro Ginza and Marunouchi Lines Approx. 3-minute walk from Akasaka station on Tokyo Metro Chiyoda line		
Total floor space	4,248.19m ²	Completion date	April 2018

Internal Growth Strategy

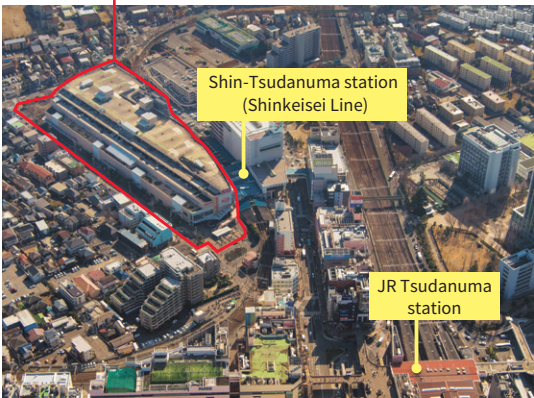
New Fixed-Term Building Lease Agreement Concluded for AEON MALL Tsudanuma

In September 2019, we concluded a new agreement for 2023 onwards, in relation to AEON MALL Tsudanuma, with AEON RETAIL Co., Ltd., which has positioned the property as a flagship store.

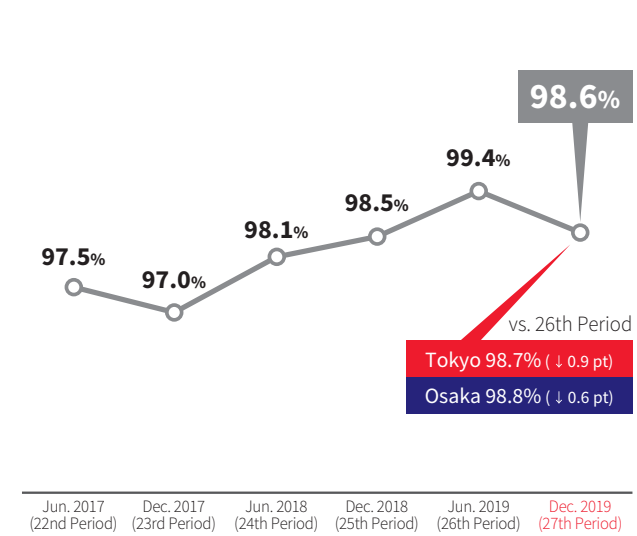
Newly concluded agreement key points

- 1 20-year extension of contract period
- 2 Achieve an annual rent increase of 5%

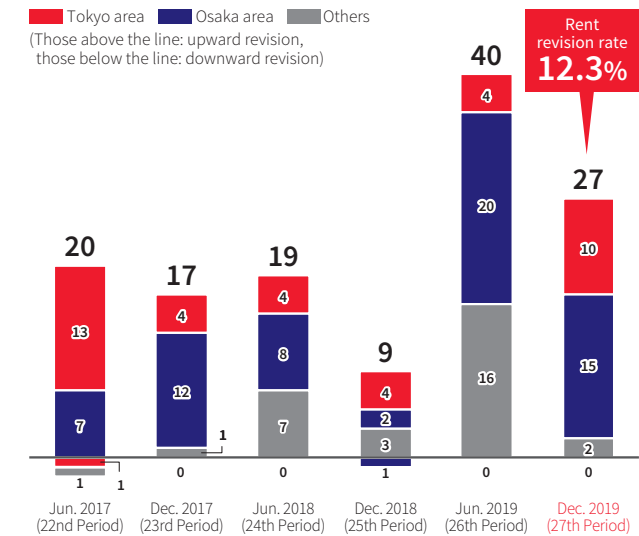
	Details of the current contract	Details of New Policies
Form of contract	Fixed-term building lease contract	Fixed-term building lease contract
Contract term	September 30, 2003 to September 29, 2023 (20 years)	September 30, 2023 to September 29, 2043 (20 years)
Annual rent	1,452 million yen	1,524.6 million yen
Rent revisions	Discussions held every 3 years	No revision for 10 years (to be discussed every 3 years from the 10th year)
Early cancellation	Setting of a penalty according to the number of years elapsed	No cancellation for 10 years (From the 10th year onward, the surrender penalty is set according to the number of years elapsed)



Occupancy Rate



Number of Rent Revisions in Lease Agreements



Financial Strategy

Financial Highlights (as of January 31, 2020)

Short-term loans payable	–
Long-term loans payable (Note 1)	118,975 million yen
Investment corporation bonds	8,000 million yen
Total interest-bearing liabilities	126,975 million yen

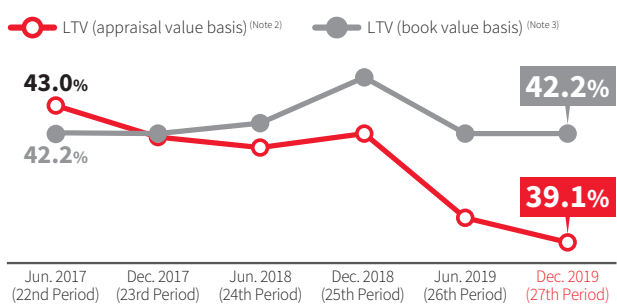
Status of Issuer Credit Ratings

Japan Credit Rating Agency, Ltd. (JCR)	AA– (Stable)
Rating and Investment Information, Inc. (R&I)	A+ (Stable)

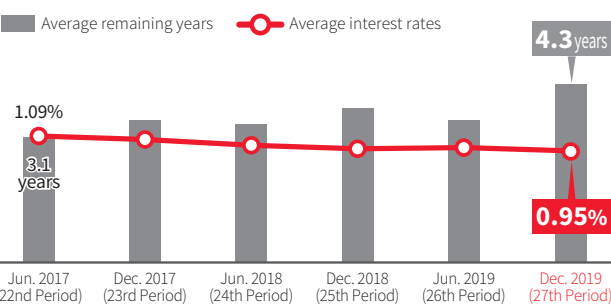
Borrowings

	Borrowing date	Objective	Amount (total)	Lenders	Period (weighted average)	Interest rate (weighted average)
27th Period	July 31, 2019	Refinancing	15.2 billion yen	9	8.1 years	0.570%
	November 21, 2019	New borrowings	11.0 billion yen	7	7.7 years	0.578%
28th Period	January 31, 2020	Refinancing	8.55 billion yen	5	6.9 years	0.502%

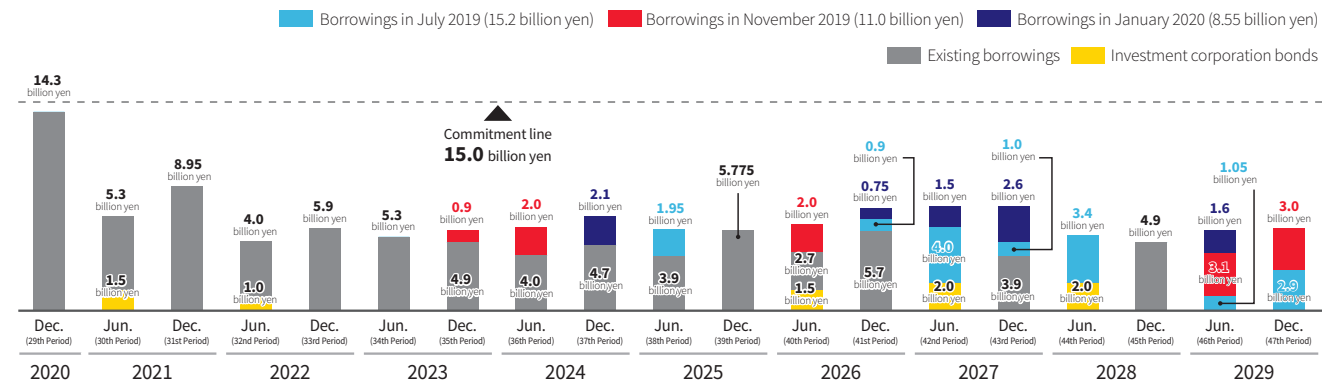
Historical LTV



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



Diversification of Debt Maturities (as of January 31, 2020)



(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

Investment Area	No.	Property Name	Location	Acquisition Price (million yen)	Investment Ratio (%)	Leasable Space (m ²) (Note)	Occupancy Rate (%) (Note)	No. of Tenants (Note)
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Office Properties

Three major metropolitan areas	Tokyo area	OT-1	Sumitomo Fudosan Ueno Bldg. No. 6	Taito-ku, Tokyo	7,460	2.6	6,858.16	100.0	2
		OT-2	G-Square Shibuya Dogenzaka	Shibuya-ku, Tokyo	12,220	4.2	5,049.36	100.0	9
		OT-3	Shibuya Sakuragaoka Square	Shibuya-ku, Tokyo	17,130	6.0	6,379.66	100.0	4
		OT-4	Yokohama Creation Square	Kanagawa-ku, Yokohama	7,080	2.5	12,704.18	100.0	43
		OT-5	Cube Kawasaki	Kawasaki-ku, Kawasaki	20,050	7.0	24,494.06	100.0	10
		OT-6	Higashi-Nihombashi Green Bldg.	Chuo-ku, Tokyo	2,705	0.9	3,254.77	100.0	7
		OT-7	Sasazuka Center Bldg.	Shibuya-ku, Tokyo	8,700	3.0	8,240.30	100.0	9
		OT-8	USC Bldg.	Koto-ku, Tokyo	10,800	3.8	12,489.08	93.9	9
		OT-9	Yoshiyasu Kanda Bldg.	Chiyoda-ku, Tokyo	4,000	1.4	3,149.39	100.0	7
		OT-10	TOYOTA MOBILITY SERVICE Bldg.	Chuo-ku, Tokyo	9,200	3.2	6,123.81	100.0	1
		OT-11	M-City Akasaka 1-chome Bldg.	Minato-ku, Tokyo	4,205	1.5	2,581.79	100.0	12
		OT-12	Yokohama i-land Tower	Naka-ku, Yokohama	22,100	7.7	25,460.50	100.0	7
		OT-13	M-City Edogawabashi Bldg.	Bunkyo-ku, Tokyo	4,070	1.4	3,472.70	100.0	2
		OT-14	East Square Tokyo	Koto-ku, Tokyo	9,500	3.3	12,208.42	81.0	13
Others	Osaka area	OO-1	Twin 21	Chuo-ku, Osaka	68,700	23.9	82,304.83	98.2	109
		OO-5	MID Imabashi Bldg.	Chuo-ku, Osaka	3,270	1.1	4,277.63	100.0	21
		OO-7	Kitahama MID Bldg.	Chuo-ku, Osaka	10,800	3.8	10,189.49	100.0	11
		OO-8	MID Nishihommachi Bldg.	Nishi-ku, Osaka	3,550	1.2	3,881.74	100.0	18
		OO-9	Higobashi MID Bldg.	Nishi-ku, Osaka	3,000	1.0	4,655.57	100.0	12
		OO-10	Osaka YM Bldg.	Fukushima-ku, Osaka	6,310	2.2	9,957.53	100.0	25
Others	Other major cities	OR-1	Sendai Capital Tower	Aoba-ku, Sendai	5,500	1.9	12,997.43	93.0	74
		Subtotal (Office / 21 properties)			240,350	83.6	260,730.40	97.9	405

Other than office properties

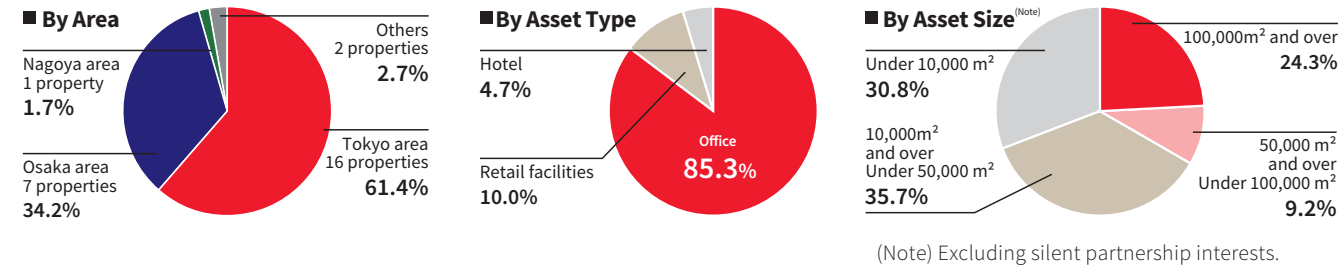
Three major metropolitan areas	Tokyo area	RT-1	AEON MALL Tsudanuma	Narashino-shi, Chiba	26,100	9.1	101,210.44	100.0	1
		HT-1	Hotel Vista Premio Tokyo	Minato-ku, Tokyo	11,200	3.9	4,236.46	100.0	2
	Osaka area	RO-1	Konami Sports Club Kyobashi	Miyakojima-ku, Osaka	2,780	1.0	9,586.26	100.0	1
Others	Other major cities	HR-1	Dormy Inn Hakata Gion	Hakata-ku, Fukuoka	2,280	0.8	5,554.91	100.0	2
Subtotal (Other than Office / 4 properties)					42,360	14.7	120,588.07	100.0	6
Subtotal					282,710	98.3	381,318.47	98.6	411

Silent partnership interests related to office buildings

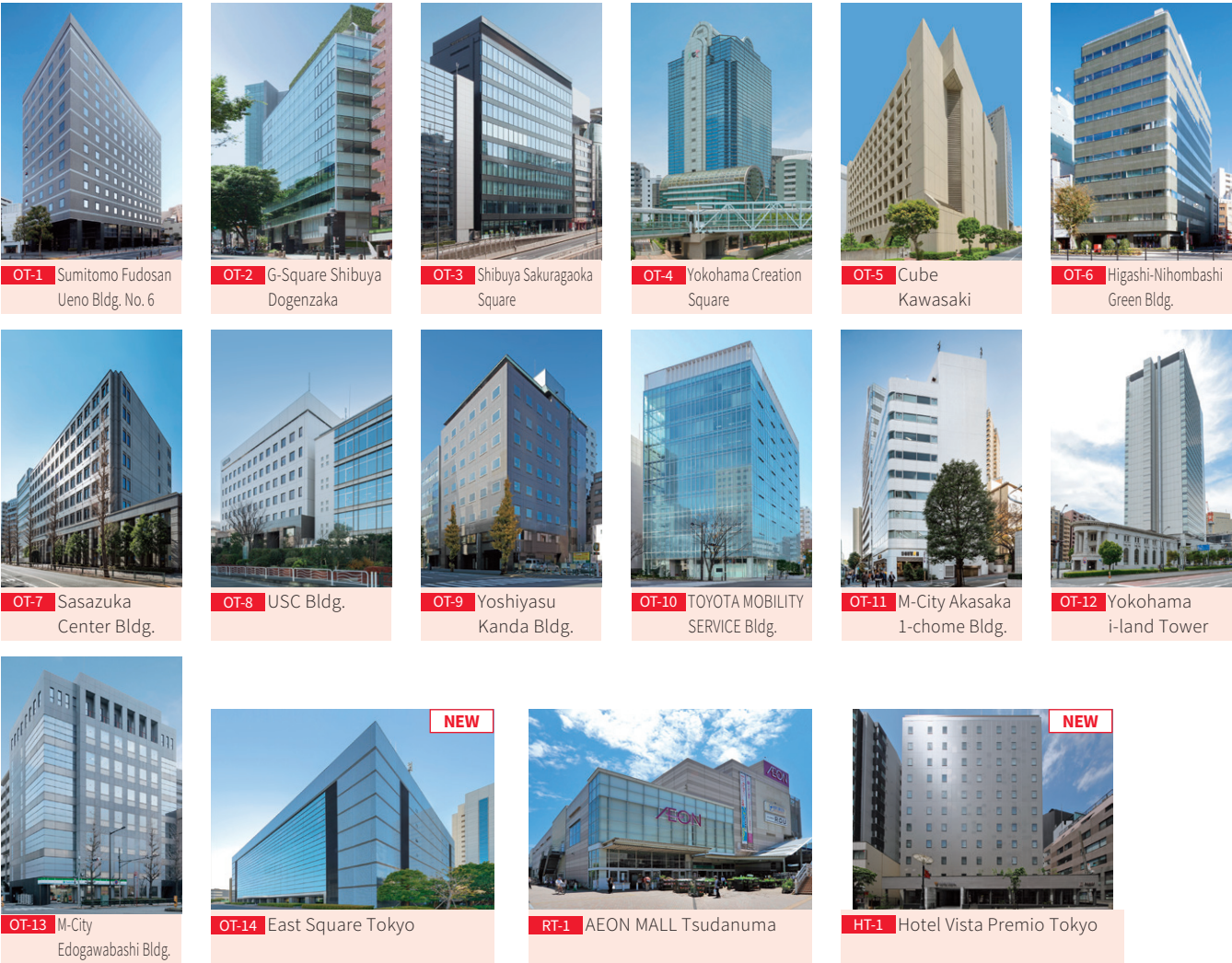
Three major metropolitan areas	Nagoya area	TK-1	Nagoya Lucent Tower (Silent partnership interest)	Nishi-ku, Nagoya	4,919	1.7	-	-	-
Total					287,629	100.0	381,318.47	98.6	411

(Note) Information of “Leasable Space,” “Occupancy Rate,” and “No. of Tenants” is as of the end of December 2019.

Portfolio Diversification (Acquisition price basis, as of the end of December 2019)



Tokyo area



Osaka area



Nagoya 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 **E**nvironmental, **S**ocial and **G**overnance (ESG) factors.

Asset Management Company Establishes Sustainability Committee

In January 2020, the Asset Management Company established the new Sustainability Committee to act as an approval body in relation to sustainability policies, strategies and other efforts. Strategies will be formulated primarily by the Committee, and through the monitoring of the initiatives of MCUBS MidCity, Japan Retail Fund Investment Corporation and Industrial & Infrastructure Fund Investment Corporation, which are managed by the Asset Management Company, the promotion of sustainability activities by MC-UBS Group as a whole will be facilitated.

First MC-UBS Group Joint ESG Meeting Held for Institutional Investors

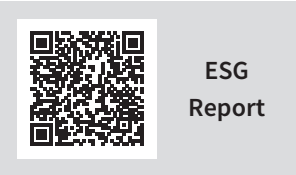
The latest version “ESG Report January 2020” of the ESG report, which has been published since 2019, was released on January 20, 2020. Timed to coincide with this release, a meeting was held to explain MC-UBS Group’s ESG initiatives.



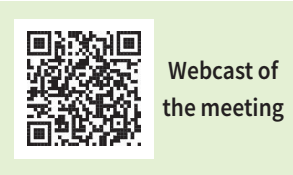
ESG Meeting on January 30, 2020



The latest version of the ESG Report and the webcast of the meeting are available on MCUBS MidCity’s website.



ESG Report



Webcast of the meeting

External Evaluation

- **GRESB**
 - The highest “**Green Star**” for the **fourth** consecutive years
 - “**5 stars**” for the **second** consecutive years in GRESB rating
 - “**A**” for the **third** consecutive years in the GRESB Public Disclosure Level evaluation



- **MSCI**
 - ESG rating of “**AA**”
 - Included in the “**MSCI Japan ESG Select Leaders Index**” in December 2018

Environmental Initiatives

Endorsed and signed on to the Task Force on Climate-related Financial Disclosures (TCFD)

The Asset Management Company recognizes that climate change is an important environmental issue that has a significant impact on its business activities, and in August 2019 endorsed and signed on to TCFD recommendations.



■ **TCFD**
The TCFD was established by the Financial Stability Board, which is composed of central banks and financial regulatory authorities of the major countries, in order to reduce risks associated with destabilizing financial markets, TCFD recommended that companies disclose medium- to long-term business risks and opportunities presented by climate change and the effects of climate change on these financial conditions, as well as specific measures and strategies.

Receiving a Certification of “CASBEE for Smart Wellness Office” as the First J-REIT Property

G-Square Shibuya Dogenzaka has already received a certification for “CASBEE for Real Estate”, and by obtaining a certification for “CASBEE for Wellness Office”, it also has been certified under “CASBEE for Smart Wellness Office” which comprehensively evaluates the next generation office model. This is the first case in the J-REIT which a property, G-Square Shibuya Dogenzaka, has received the certification after the system was launched.



CASBEE for Smart Wellness Office certification



G-Square Shibuya Dogenzaka

■ **CASBEE for Wellness Office**
Evaluates the building’s specifications, performance and initiatives supporting the maintenance and enhancement of the building users’ health and comfort. In addition to factors directly affecting the health and comfort of people working in the building, factors contributing to improve intellectual productivity and performance related to safety and security are also subject to be evaluated.

Number of Properties Obtaining Environmental Certification/Assessments

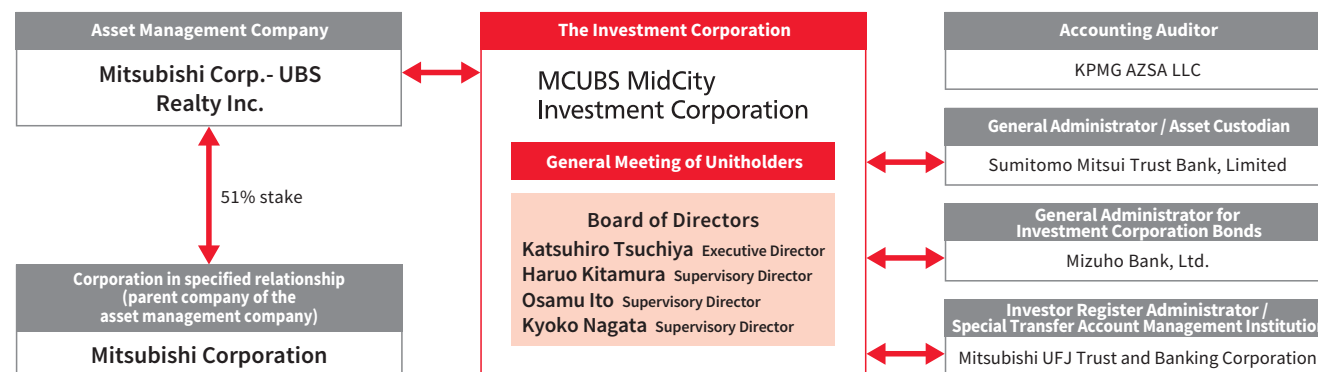
Building-Housing Energy-efficiency Labeling System (BELS) Assessment	5 properties
Tokyo Low-Carbon Small and Medium-Sized Model Building	2 properties
CASBEE for Real Estate Certification	4 properties
CASBEE for Smart Wellness Office Certification	1 property First by J-REIT
DBJ Green Building Certification	3 properties



TOYOTA MOBILITY SERVICE Bldg. Acquired CASBEE for Real Estate Certification (December 2019)

Effective July 1, 2019, Mitsubishi Corp.- UBS Realty Inc. absorbed MCUBS MidCity Inc., the previous asset management company, and now performs asset management for MCUBS MidCity Investment Corporation.

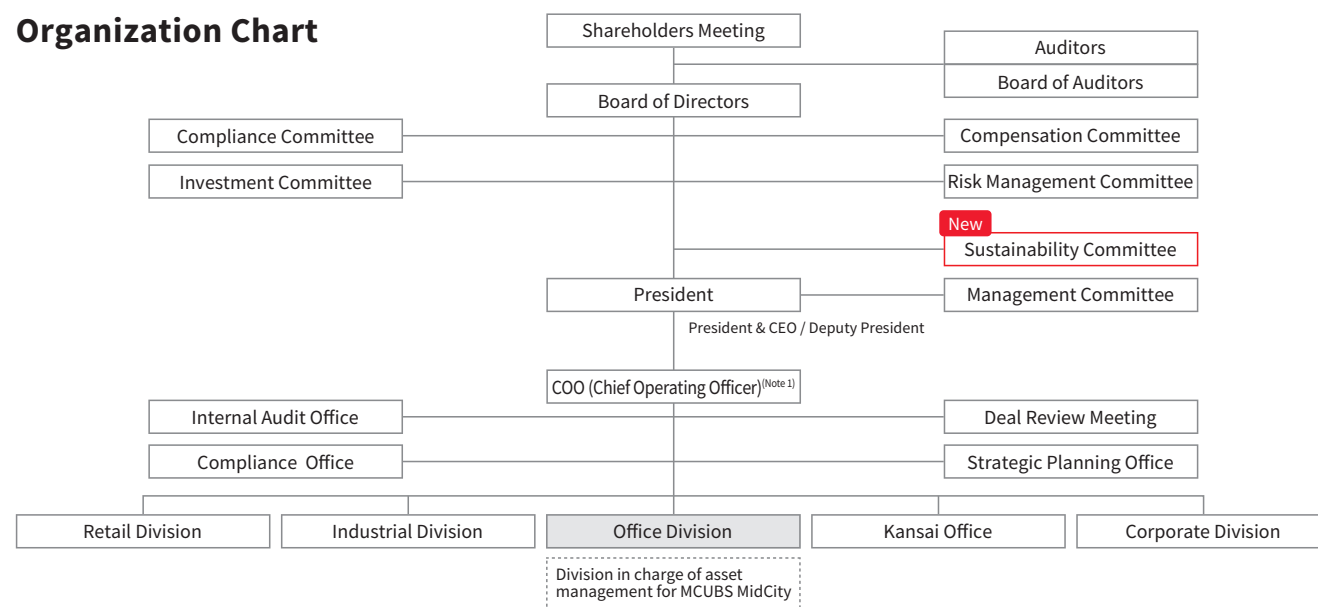
Structure of MCUBS MidCity (As of January 1, 2020)



Overview of the Asset Management Company (As of January 1, 2020)

Name	Mitsubishi Corp.- UBS Realty Inc.	Shareholders	Mitsubishi Corporation 51%, UBS Asset Management AG 49%
Location	2-7-3 Marunouchi, Chiyoda-ku, Tokyo	Representative	Katsuji Okamoto, President & CEO
Capital Fund	500 million yen	Business Description	Investment management business

Organization Chart



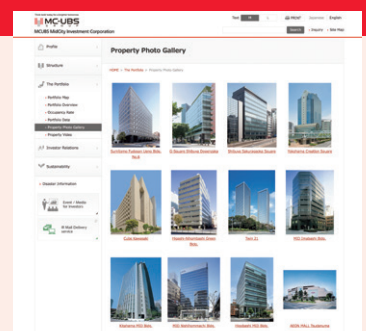
(Note 1) The Chief Operating Officer (COO) concurrently serves as the Director responsible for compliance.

(Note 2) Investment-related operations under the control of the Acquisition Division will be transferred to the Office Division, the Retail Division, and the Industrial Division.

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

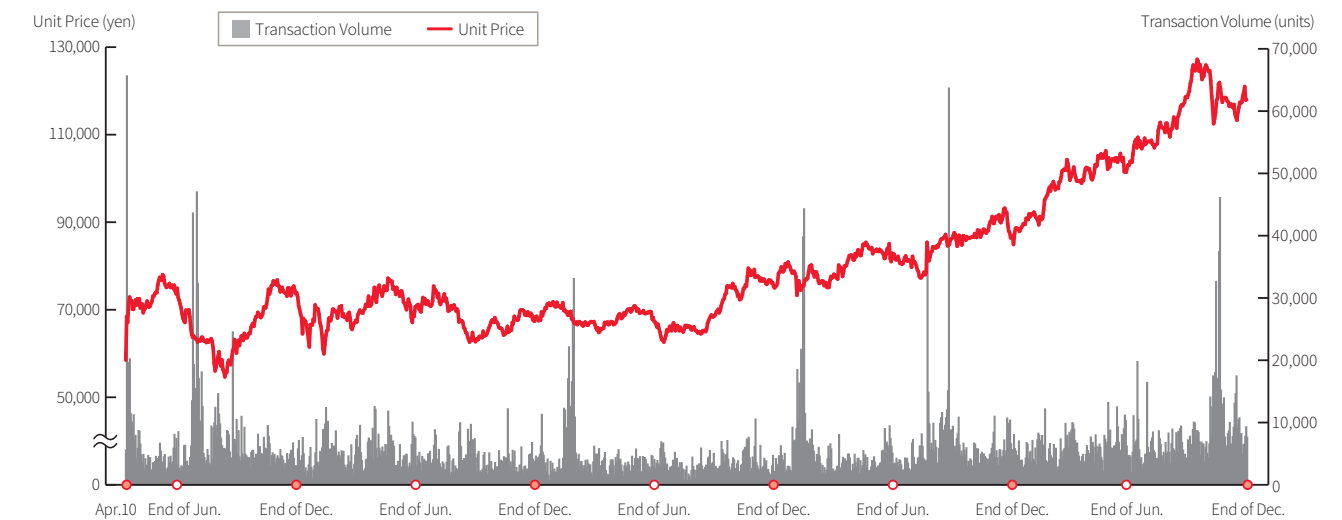
The website of MCUBS MidCity Investment Corporation offers a service to inform you of the latest IR information via e-mail. In addition, the website is designed to enhance convenience in obtaining the necessary information as well as enrich content sought by investors.

MCUBS MidCity was awarded "The Highest Grade AAA" for the three consecutive years in "2019 Website Quality Ranking Survey Among All Listed Companies in Japan" selected by Nikko Investor Relations Co., Ltd.



Unit Price Performance

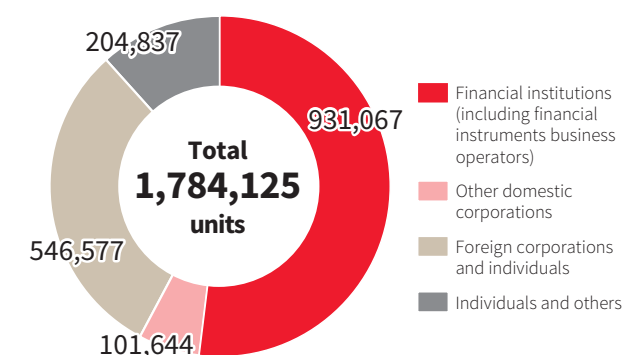
The following is the history of investment unit prices (closing prices) and transaction volumes of MCUBS MidCity on the Tokyo Stock Exchange from April 10, 2015 to December 31, 2019.



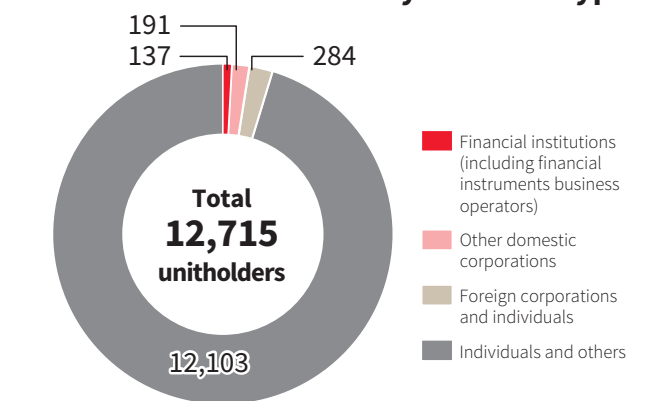
(Note) To reflect the five-for-one split of the investment units of MCUBS MidCity implemented with December 31, 2017 as the record date, the investment unit price prior to the split is one-fifth of the actual price and the transaction volume prior to the split is the actual volume multiplied by five.

Breakdown of Unitholders

Number of Units by Investor Type



Number of Unitholders by Investor Type



Announcements of Fiscal Period Results

