

Think bold today for a brighter tomorrow.



MCUBS MidCity Investment Corporation

# 28<sup>th</sup> Business Report

January 1, 2020 to June 30, 2020

MCUBS MidCity Investment Corporation

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

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

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 June 30, 2020 (the 28th 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

# 28th Fiscal Period Financial Highlights

Operating Revenue	9,061 million yen	(up 5.7% period on period)
Operating Income	4,276 million yen	(up 7.4% period on period)
Net Income	3,657 million yen	(up 7.9% period on period)
Distribution per Unit	2,049 yen	(up 4.8% period on period)
Number of Properties	26	
Asset Size (acquisition price basis)	287.6 billion yen	
Occupancy Rate	98.5 %	
Rating	AA- (JCR)	A+ (R&I)

As of June 30, 2020

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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.



## Financial highlights and operating results for the fiscal period under review

In the fiscal period under review (January 1, 2020 to June 30, 2020) there were concerns expressed about the lack of visibility going forward due to the impact of the global spread of the COVID-19.

However, during the period under review, MCUBS MidCity recorded operating revenue of ¥9,061 million (up 5.7% compared with the previous period), supported by full-period operation of properties acquired during the previous period and by continued internal growth derived from cost reductions that we achieved in addition to higher rents that we had previously implemented. Operating income was ¥4,276 million (up 7.4%), and net income was ¥3,657 million (up 7.9%). With increases in both revenue and profits, distributions per unit were ¥2,049 (up 4.8%).

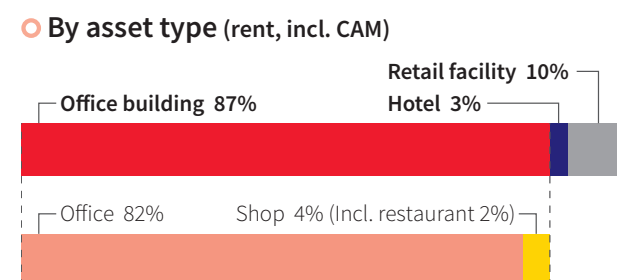
### ■ Main reasons for the increase in revenue and profits

- Contribution from full-period operation of three properties acquired in November 2019
- Achieved record number of rent increases (45) with tenants

## Impact of the COVID-19 on portfolio

During this period, tenants in properties owned by the Investment Corporation who were affected by the COVID-19 consisted mainly of hotels and restaurants located in office buildings. However, the percentage of portfolio rent accounted for by these tenants was relatively small, and the impact on the income of the portfolio as a whole was limited.

As mentioned above, we had expected to increase sales and profits due to tenant replacement, rent increase revisions, and cost reductions, so we decided to complete the negotiation with tenants who request for rent reduction according to the COVID-19 at an early stage to minimize the possibility that will impact to decrease the income after the next period. As a result, the distributions per unit for the fiscal year under review came to ¥2,049, 0.9% higher than forecast at the beginning of the period. As of the time of writing this, the impact of the COVID-19 has not come to an end, and we have sensed a turning of the tide in the trend for higher rents in the three major metropolitan markets. It is possible that this growth will slow in future rent



negotiations, but we intend to pay careful attention to tenant relations, as we have done in the past, when we hold discussions on rents and work to secure our income. Also, in certain properties there are spaces that are expected to become empty next fiscal period, but with market vacancy rates remaining low this represents an upside factor for the future that we can benefit from by moving steadily ahead with leasing. So, we intend to decisively implement this strategy.

## Financial Activities

During the fiscal period under review, we executed ¥8.55 billion in refinancing at the end of January 2020, and ¥14.3 billion in the following fiscal period, at the end of July 2020. In addition to achieving more diversification of maturities and longer loan periods, we have reduced borrowing costs, and will continue working to further stabilize our financial base.

### ■ Towards a more robust financial base

- Controlling the combined repayments for two fiscal periods (totaling one year) to an amount within the ¥15.0 billion of our commitment line
- Extending average years remaining in interest-bearing debts from 1.8 years in June 2015 (the date of capital participation by MC-UBS) to 5.2 years (as of the end of July 2020)
- In March 2020, the Japan Credit Rating Agency, Ltd. (JCR) continued our AA- rating

## ESG initiatives

The impact of the COVID-19 has also given rise to changes workstyles in offices. The environment has become one where the future of working in offices is being questioned, including by wider adopting remote working. The Investment Corporation is already actively engaged in ESG. For example, with workstyle reforms being promoted, the Investment Corporation has implemented advanced initiatives, such as maintaining and helping to improve the health and comfort of those who work in our buildings. We were also the first J-REIT to acquire certification under the CASBEE for Smart Wellness Office program (beginning in 2019), a system that provides a comprehensive evaluation of the next generation of offices. With the ideal form of the office predicted to change significantly in the future, we will leverage the know-how and experience that we have accumulated until now to respond promptly and flexibly.

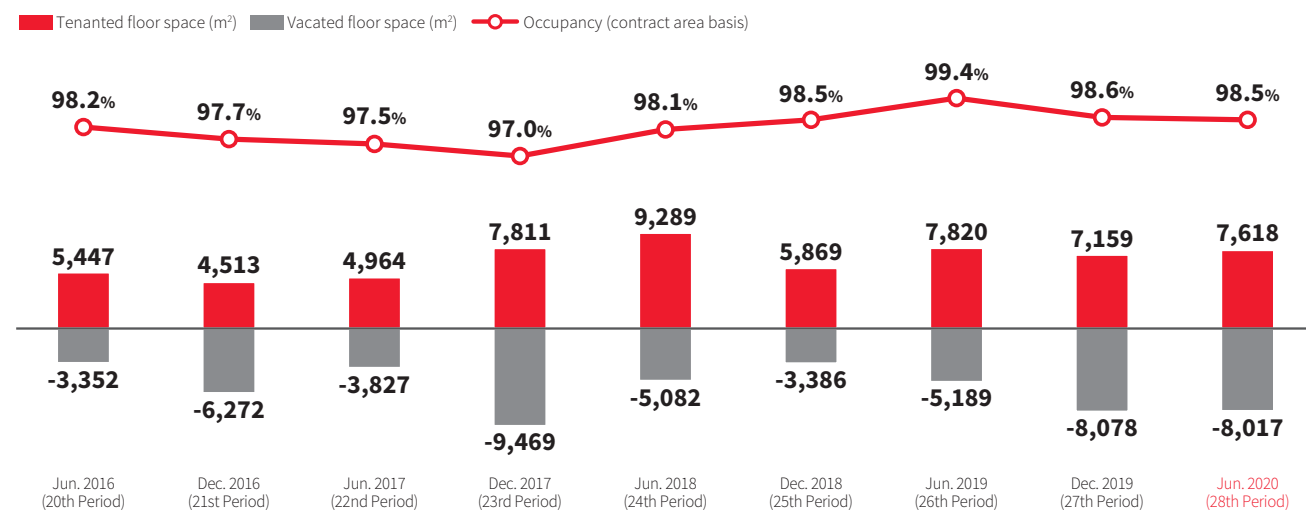
## Future environment changes and merger with Japan Retail Fund Investment Corporation

In recent years, the context that we operate in has been affected by the progressive use of IT (information technology) and lower growth rates, leading to the formation of a new environment and an era characterized by the promotion of diverse workstyles. Going forward it seems likely that people's living environments will also change, with more respect being paid to diversity in workstyles, including remote working and satellite offices. The role played by real estate is also expected to change due to these changes in the environment. Our goals are to work toward a form of real estate investment management that matches the times and to continue to achieve sustainable growth.

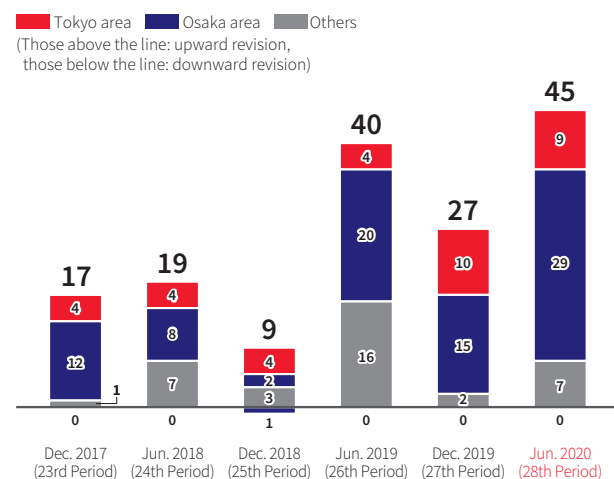
For this reason, in a press release dated August 28, 2020, the Investment Corporation announced a merger with Japan Retail Fund Investment Corporation. For details regarding the merger, please refer to the press release. Our plan is for this merger to drive further improvements in unitholders' value, so we humbly ask our unitholders for their continued and unchanging support before and after the merger goes into effect.

# Internal Growth Strategy

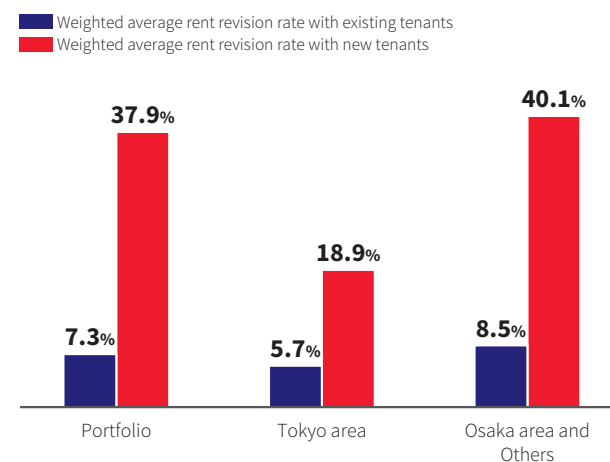
## Tenanted/Vacated Floor Space and Occupancy



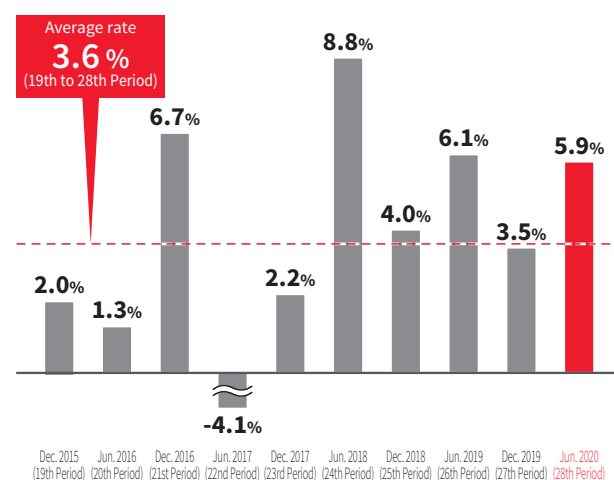
## Number of Rent Revisions in Lease Agreements



## Rent Revision Rate (June 2020 results)

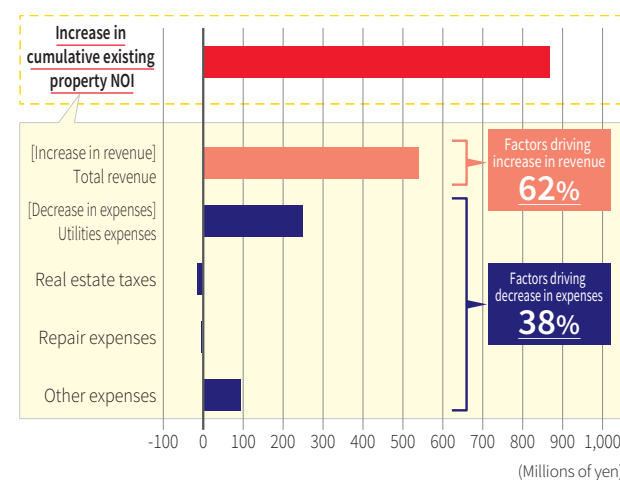


## Annualized LFL NOI Growth



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

## Increase in Cumulative Existing Property NOI (19th to 28th Period)



# Financial Strategy

## Financial Highlights (as of July 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

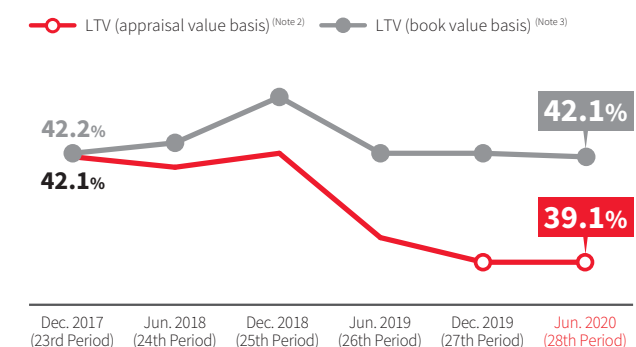
## Status of Issuer Credit Ratings

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

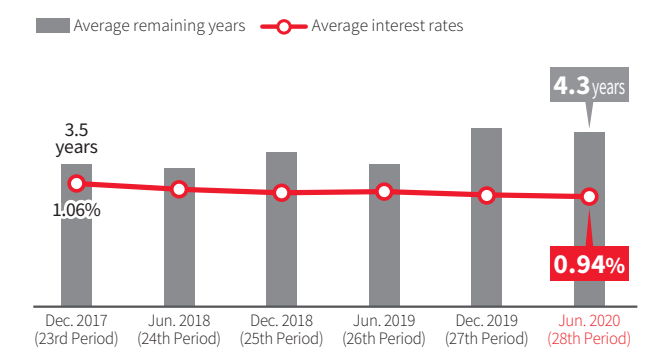
## Borrowings

Borrowing date	Objective	Amount (total)	Lenders	Period (weighted average)	Interest rate (weighted average)
28th Period January 31, 2020	Refinancing	8.55 billion yen	5	6.9 years	0.502%
29th Period July 31, 2020	Refinancing	14.3 billion yen	11	8.6 years	0.628%

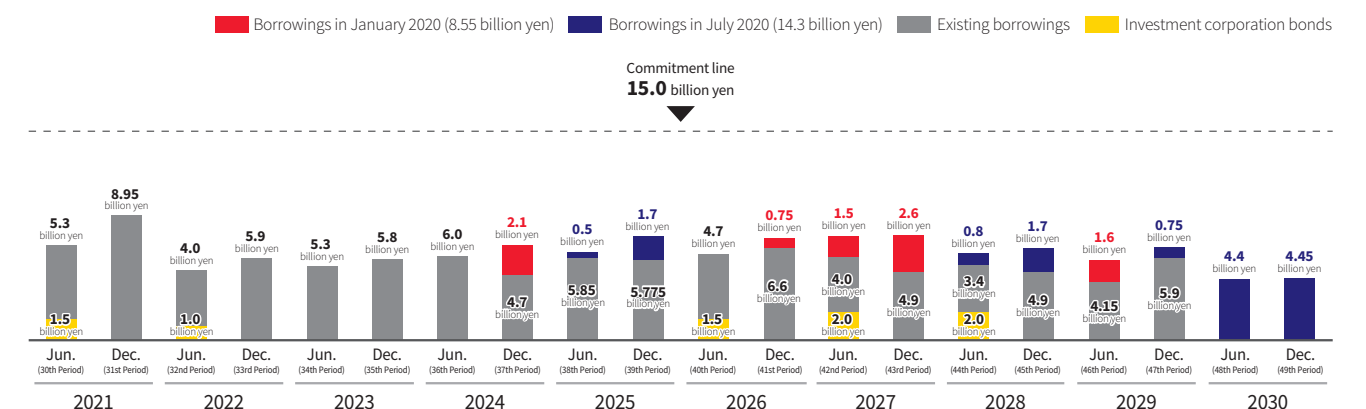
## Historical LTV



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



## Diversification of Debt Maturities (as of July 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

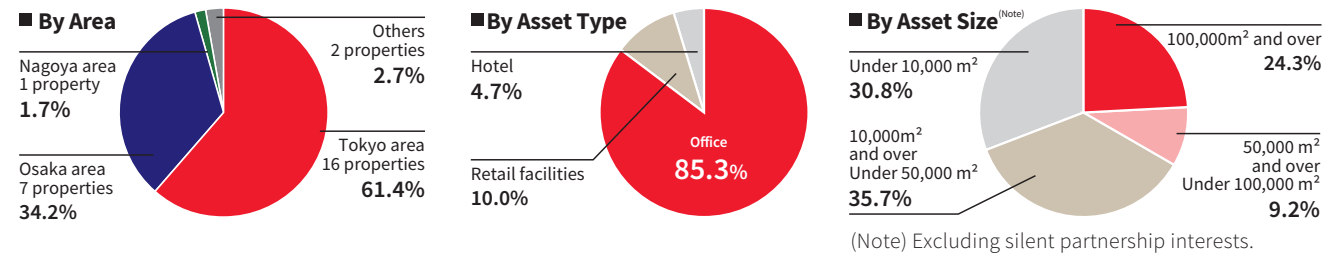


Portfolio Overview

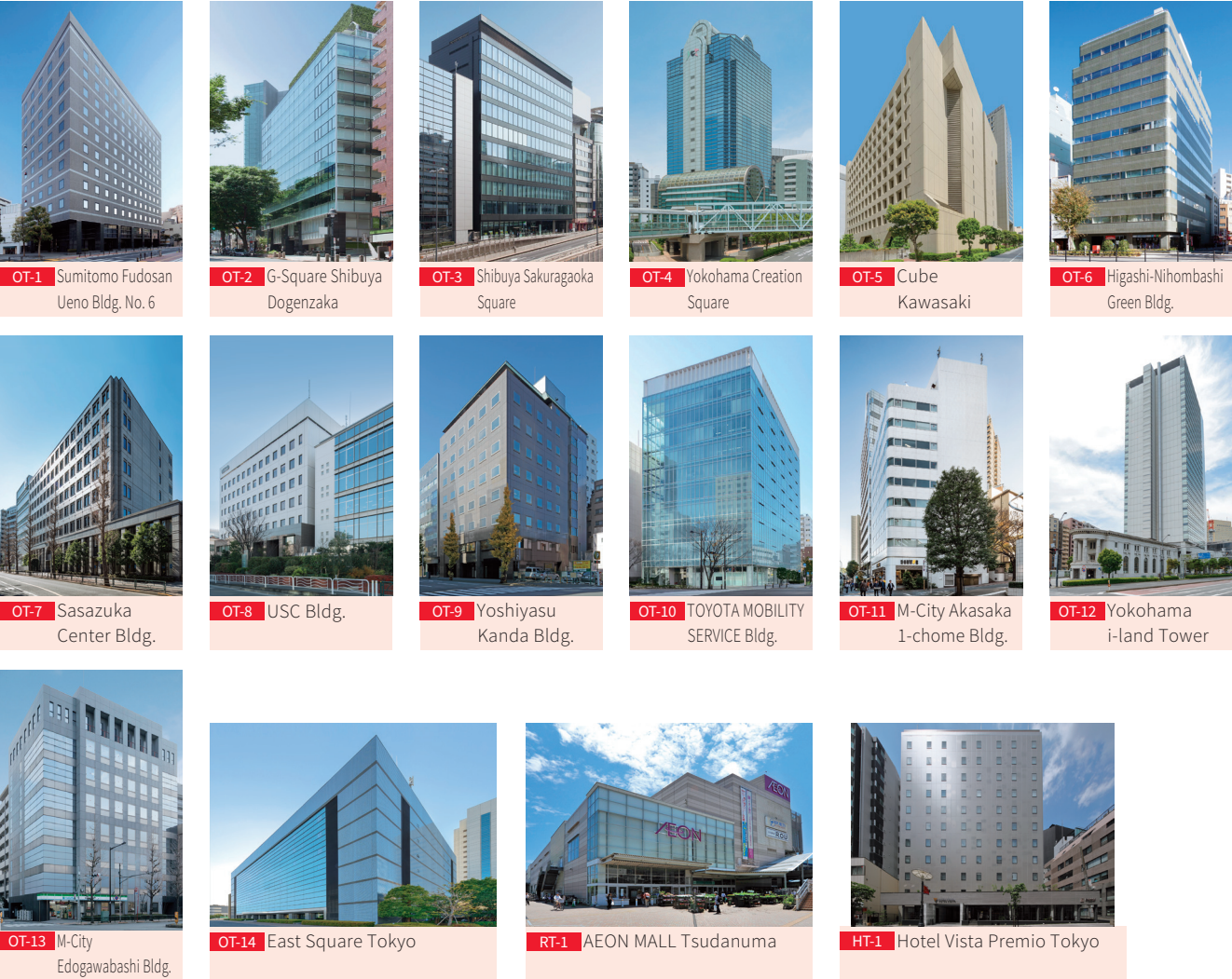
Investment Area	No.	Property Name	Location	Acquisition Price (million yen)	Investment Ratio (%)	Leasable Space (m²) (Note)	Occupancy Rate (%) (Note)	No. of Tenants (Note)	
Office Properties									
Three major metropolitan areas	Tokyo area	OT-1	Sumitomo Fudosan Ueno Bldg. No. 6	Taito-ku, Tokyo	7,460	2.6	6,858.16	100.0	2
		OT-2	G-Square Shibuya Dogenzaka	Shibuya-ku, Tokyo	12,220	4.2	5,051.06	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	99.2	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	12,487.73	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	2,550.44	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	77.5	12
	Osaka area	OO-1	Twin 21	Chuo-ku, Osaka	68,700	23.9	82,304.82	98.0	103
		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	10
		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	9,952.88	100.0	28
	Others	Other major cities	OR-1	Sendai Capital Tower	Aoba-ku, Sendai	5,500	1.9	12,999.80	95.2
Subtotal (Office / 21 properties)				240,350	83.6	260,697.11	97.7	401	
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	381,285.18	98.5	407	
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	381,285.18	98.5	407	

(Note) Information of “Leasable Space,” “Occupancy Rate,” and “No. of Tenants” is as of June 30, 2020.

Portfolio Diversification (acquisition price basis, as of June 30, 2020)



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.

## SDGs closely related with ESG materiality

With interest in ESG increasing, the Investment Corporation is working in cooperation with the Sustainable Development Goals (SDGs) being promoted by the United Nations, and which are in the process of becoming goals that are shared globally. By adopting SDGs that are closely associated with ESG material issues, we are moving forward with initiatives aimed at realizing a sustainable society.

### Level of importance ★★★

Most important ESG materiality	Target	KPI	Closely related SDGs
Response to sustainability certifications	Improving proportion of environmental certifications	Setting KPI, the proportion of the properties acquiring the environmental certification of the total portfolio	<div>9</div> <div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div> <div>11</div> <div>SUSTAINABLE CITIES AND COMMUNITIES</div>
	Improving sustainability activities through participation in GRESB and other external evaluation institutions	<div>• GRESB</div> <div>Acquiring “5 Star”</div> <div>• MSCI</div> <div>Acquiring “AA” rank</div>	
Building resilience	Implementing disaster prevention measures	BCP expansion	<div>9</div> <div>INDUSTRY, INNOVATION AND INFRASTRUCTURE</div> <div>11</div> <div>SUSTAINABLE CITIES AND COMMUNITIES</div>
Response to climate change	Reduction in CO <sub>2</sub> emission	Reduction in GHG by 1% or more per year	<div>13</div> <div>CLIMATE ACTION</div>
Energy efficiency	Improvement in energy consumption	Reduction of the amount used of electricity and fuel for reduction in GHG by 1% or more per year	<div>7</div> <div>AFFORDABLE AND CLEAN ENERGY</div>
	Introduction of renewable energy use	Purchasing Green power at the time of contract renewal when there is economic rationality	
Ensuring of health and well-being of and convenience for people (tenants)	Improvement in tenant employee space	Improving communication space and refresh space at the time of renewal	<div>3</div> <div>GOOD HEALTH AND WELL-BEING</div>
	CASBEE-WO certification	Considering additional acquisition of CASBEE-WO certification	

### Level of importance ★★

Important ESG materiality	Target	KPI	Closely related SDGs
Efficient water use	Reduction in water consumption	Reduction of the amount used of water for reduction in GHG by 1% or more per year	<div>6</div> <div>CLEAN WATER AND SANITATION</div>
Waste disposal	Reduction in wastes	Monitoring the amount of waste and disclosing the management status on the Web at properties with multiple tenants that it directly manages	<div>12</div> <div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div>
Partnership with tenants	Introduction of green lease	Considering additional scheme of green lease	<div>12</div> <div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div>
	Execution of tenant satisfaction survey	Improving tenant satisfaction by conducting the tenant satisfaction survey once a year	
Collaboration with local communities	Providing land to community events	<div>• Cooperating for UNICEF fundraising and campaign for United Nations Refugee Support Activities</div> <div>• Planning uchimizu (watering) event and flower event and holding them in each property</div>	<div>17</div> <div>PARTNERSHIPS FOR THE GOALS</div>

## Environmental Initiatives

### The Asset Management Company has joined the Japan Climate Initiative (JCI)

The Asset Management Company endorses JCI's declaration for “from Japan, joining the frontline in the global push for decarbonization,” and joined the JCI in May 2020.

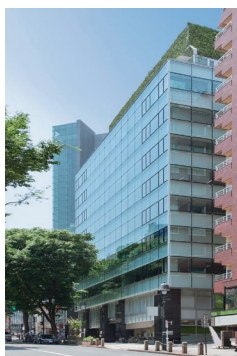
JCI

The JCI was established in July 2018 as a network of Japanese companies, local governments, organizations, and NGOs involved in climate change countermeasures with the aim of decarbonizing society in line with the goals of the Paris Agreement.

**JAPAN CLIMATE INITIATIVE**

### 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 <div>First by J-REIT</div>
DBJ Green Building Certification	3 properties



G-Square Shibuya Dogenzaka acquired CASBEE for Smart Wellness Office Certification

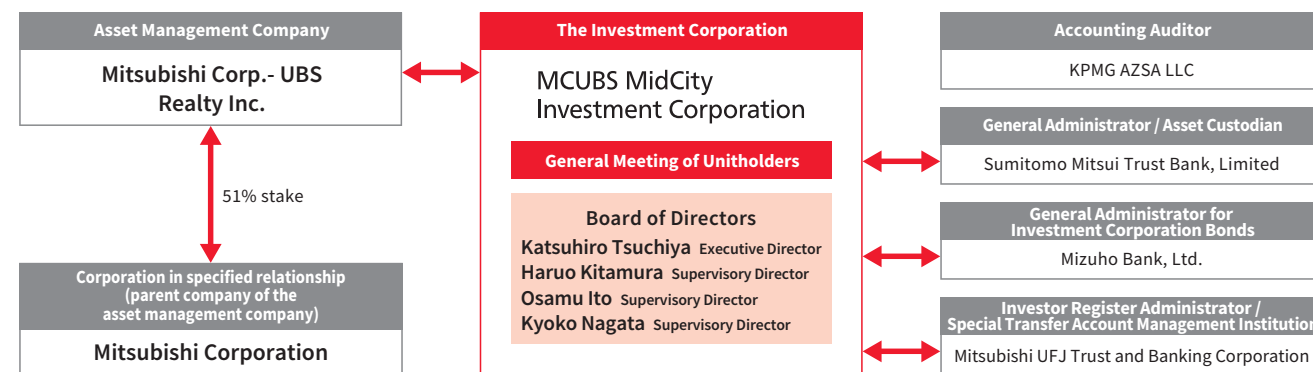
## Governance Initiatives

### Introduction of employees' investment unit ownership program by Asset Management Company

The Asset Management Company has decided to introduce an investment unit ownership program (the Investment Unit Ownership Program) for employees that targets the investment units of the Investment Corporation, and we established this program on June 1, 2020. The Investment Unit Ownership Program encourages employees of the Asset Management Company to acquire and hold units of the Investment Corporation, in this way improving benefits for employees and aligning their interests with those of unitholders, with the goal of contributing to increased unitholder value over the medium to long term.

# Overview of Investment Corporation / Asset Management Company

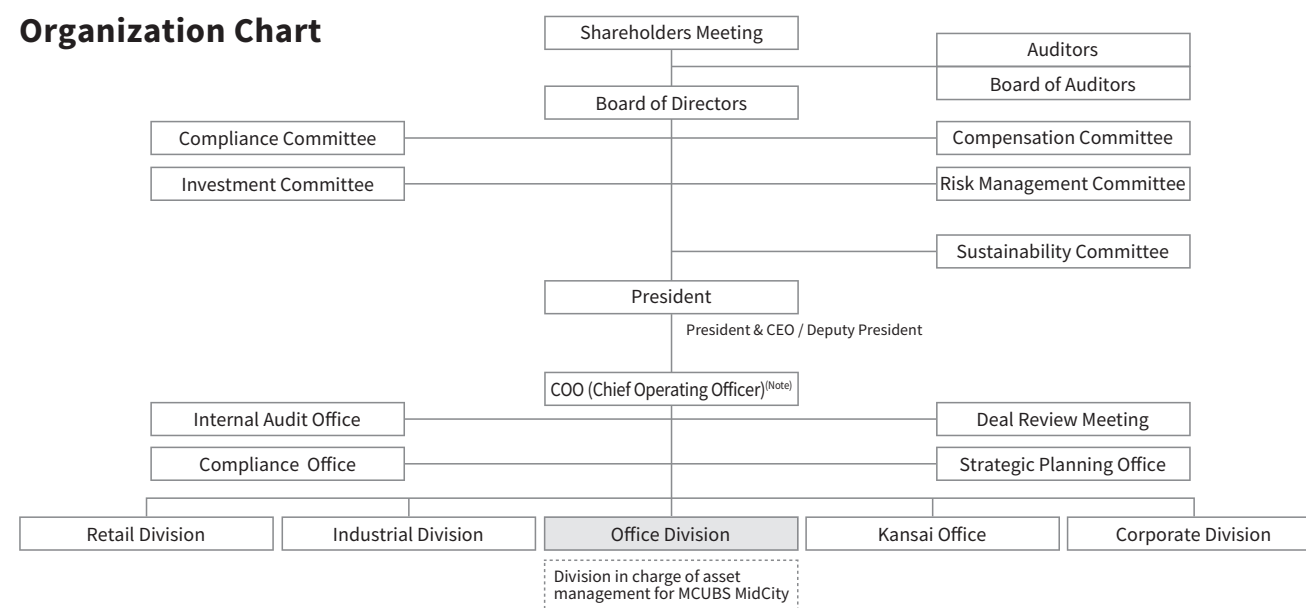
## Structure of MCUBS MidCity (as of June 30, 2020)



## Overview of the Asset Management Company (as of June 30, 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



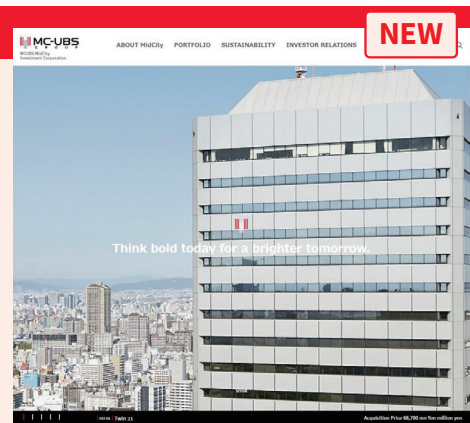
(Note) The Chief Operating Officer (COO) concurrently serves as the Director responsible for compliance.

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

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.

**The website of the Investment Corporation was renovated on June 25, 2020.**

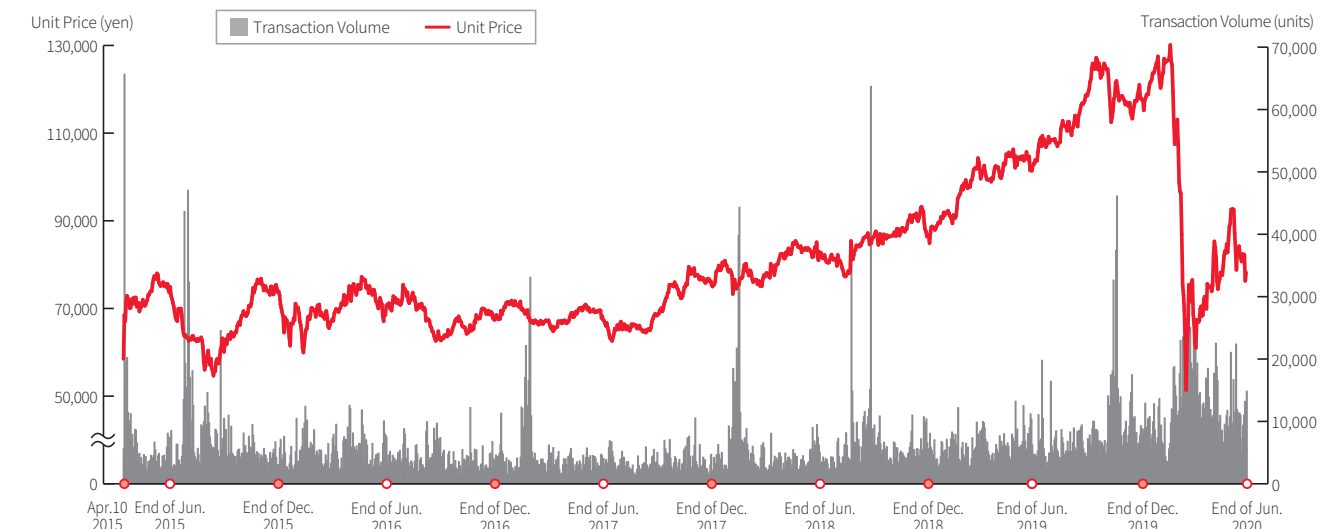
In addition to providing photos of owned properties, and more actively communicating messages from the Investment Corporation, the different categories of content provided have been broadened to simplify the layout of the site and to improve searches.



# Investment Unit Status / Unitholder Information

## Unit Price Performance

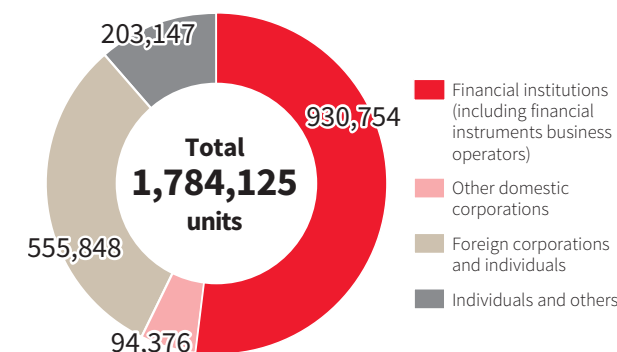
The following is the history of investment unit prices (closing prices) and transaction volumes of MCUBS MidCity on the Tokyo Stock Exchange from April 10, 2015 to June 30, 2020.



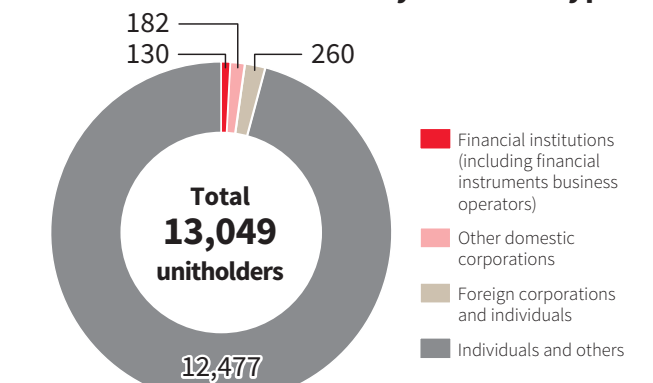
(Note) To reflect the five-for-one split of the investment units of MCUBS MidCity implemented with December 31, 2017 as the record date, the investment unit price prior to the split is one-fifth of the actual price and the transaction volume prior to the split is the actual volume multiplied by five.

## Breakdown of Unitholders

### Number of Units by Investor Type



### Number of Unitholders by Investor Type



## Announcements of Fiscal Period Results

