

Oct 29, 2015

R&I Affirms A-, Changes Outlook to Positive: MCUBS MidCity Investment Corp.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: MCUBS MidCity Investment Corp.
Issuer Rating: A-, Affirmed
Rating Outlook: Positive, Changed from Stable

RATIONALE:

MCUBS MidCity Investment Corp. (MCUBS MidCity, Formerly MID REIT, Inc.) is a real estate investment trust (J-REIT) listed in August 2006. The REIT primarily invests in office buildings. In April 2015, the main shareholder of its asset manager changed to Mitsubishi Corp. - UBS Realty Inc. The REIT had invested largely in the Osaka area, but after the change of the main sponsor, it has expanded targeted investment areas to Japan's three major metropolitan areas.

R&I has changed the Rating Outlook mainly because the diversification of the portfolio, which was an issued to be addressed, progressed to a certain extent through new property acquisitions.

The REIT invested a total of 56.7 billion yen in conveniently-located large office buildings which are mostly in the Tokyo area by capitalizing on the new sponsor's extensive property information network. As a result, its asset size expanded by about 36%, while the proportion of assets located in the Osaka Business Park dropped from 62.4% to 46.6% and that of the largest tenant in the portfolio fell from 21.2% to 14.8%.

The average NOI yield for the newly-acquired assets was 4.1%, which was not high enough to push up the NOI yield of the existing portfolio. However, a rise in the ratio of properties in the Tokyo area, a more promising market, to 36.3% is a positive factor, in R&I's view.

MCUBS MidCity is considering investing in assets in major overseas cities in the future. It plans to create an appropriate management structure for overseas investment. R&I will keep an eye on developments on this matter.

The occupancy rates of existing properties which are mainly located in the Osaka area are trending at high levels, and no major problems have been found in recent months. Meanwhile, the rent level has fallen significantly over the past few years. It will likely take some more time to fully restore the level.

In July, MCUBS MidCity issued new investment units through its first public offering after becoming listed. Although the REIT acquired sizable assets, the LTV ratio (calculated after excluding unrealized losses from total assets) has been kept at around 48%.

In addition to the public offering, MCUBS MidCity made new borrowings of 26.8 billion yen and completed refinancing of 15 billion yen. The average remaining term to maturity of the loans lengthened to more than three years, and due dates were staggered to a certain extent. While financing sources became more diversified, funding costs decreased.

Under the new sponsor with extensive experience in managing REITs, MCUBS MidCity achieved external growth in a short period, which R&I views positively. On the other hand, the degree of concentration in the portfolio is still high, and the profitability remains low. A rating upgrade would be considered if R&I can confirm that the REIT will be able to continue improving the diversification and profitability of the portfolio by, for example, increasing earnings from properties held and acquiring quality assets.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:**ISSUER:****MCUBS MidCity Investment Corp. (Sec. Code: 3227)****Issuer Rating****RATING:****A-, Affirmed****RATING OUTLOOK:****Positive, Changed from Stable**

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