

Oct 26, 2016

R&I Upgrades to A, Stable: MCUBS MidCity Investment Corp.

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

ISSUER: MCUBS MidCity Investment Corp.
Issuer Rating: A, Previously A-
Rating Outlook: Stable

RATIONALE:

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

The primary reasons for the rating upgrade this time are as follows: (1) MCUBS MidCity will likely continuously diversify the portfolio and improve its profitability, and (2) The funding base has been strengthened substantially.

The asset size is 217.1 billion yen. The geographical breakdown shows that the Tokyo area accounts for 37.1% and the Osaka area 59.6%. The breakdown by property type shows that office buildings represent 85.6% of the total. The high proportions of assets located in the Osaka Business Park and the largest tenant in the portfolio are issues to be addressed, but going forward the REIT will likely make the portfolio more diversified, with support from its sponsor with an extensive track record in property acquisition. The assets acquired after the change of the main sponsor total 59.4 billion yen.

The occupancy rate of the portfolio is trending above 97%. Earnings from the properties in Shibuya and Kawasaki acquired in 2015 seem to be rising as planned. Properties in the Osaka area also maintain a high occupancy rate. Since new supplies will be limited in the future, there are no serious worries about the occupancy rate. Furthermore, the REIT is working on cost reductions. Thanks to such efforts, along with increasing rent revenues, the profitability of the portfolio is gradually rising.

The LTV ratio (calculated after excluding unrealized losses from total assets) in recent months has been around 45%. With the appraisal value improved, the ratio dropped from a year earlier.

The funding base has been bolstered significantly. The average remaining term to maturity of debts lengthened to 3.6 years (as of July 2016), and due dates were staggered to a certain extent. At the same time, borrowing costs declined sharply under favorable relationships with major financial institutions. Given a new committed line of credit of 15 billion yen, combined with cash and deposits, the REIT ensures sufficient liquidity.

The Rating Outlook is Stable. While the degree of concentration in the portfolio is still high and the profitability remains relatively low, the rating factors in an expectation that these will continue to improve to some extent. The LTV ratio is at a satisfactory level even with unrealized losses taken into account. MCUBS MidCity has been able to establish a solid funding base by capitalizing on the creditworthiness of the sponsor. The REIT is currently considering overseas investment. R&I will pay attention to whether the REIT is able to achieve the higher profitability of the portfolio through such investment with risks kept in check.

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, Previously A-
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	May 23, 2016	May 21, 2021	JPY 1,500
RATING:	A, Previously A-		

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	May 23, 2016	May 22, 2026	JPY 1,500
RATING:	A, Previously A-		