

Oct 03, 2017

R&I Affirms 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, Affirmed
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.

Since the beginning of 2017, MCUBS MidCity has spent 31.3 billion yen acquiring three properties in the Tokyo area and one property in Sendai City. Although property prices stay high, the REIT has been able to avoid excessive competition by acquiring these properties through negotiation transactions. It also sold two properties with unrealized losses in the Osaka area at favorable prices.

The asset size has expanded to 238.1 billion yen. Geographical diversification is well underway, with the ratio of properties in the Osaka area falling to 50% and that in the Tokyo area rising to 44.7%. While the high proportions of assets located in the Osaka Business Park and the largest tenant in the portfolio are still issues to be addressed, steady property acquisitions will likely diversify the portfolio further.

The REIT was considering investing in overseas properties, but decided not to make such investments for the foreseeable future. The decision is deemed reasonable given that overseas investments by REITs involve many uncertainties at this moment.

MCUBS MidCity is making progress in raising earnings from properties in the Tokyo area through rent hikes. Its 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 reaping benefits from cost reduction efforts. This, along with improvement in rent revenues, is contributing to higher NOI.

The LTV ratio remains at a conservative level, standing at 42.2% as of end-June 2017. A rise in the appraisal value and asset replacement reduced unrealized losses to 2.2% of the book value. When the unrealized losses are taken into account, the LTV ratio is 43%, showing a sustained decline.

The funding base is stable. After the REIT obtained refinancing loans with a ten-year term at longest in July 2017, the average remaining term to maturity of debts lengthened to four years. Financing costs keep falling, reflecting favorable relationships with major financial institutions. The REIT ensures sufficient liquidity, with a committed line of credit amounting to 15 billion yen, in addition to cash and deposits.

The Rating Outlook is Stable. While the degree of concentration in the portfolio is still high and the profitability stays relatively low, the rating factors in an expectation that these will continue to improve to some extent. With unrealized losses diminishing substantially, MCUBS MidCity has a solid funding base supported by the creditworthiness of the sponsor.

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.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:

ISSUER:	MCUBS MidCity Investment Corp. (Sec. Code: 3227)
	Issuer Rating
RATING:	A, Affirmed
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, Affirmed		
Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	May 23, 2016	May 22, 2026	JPY 1,500
RATING:	A, Affirmed		
Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	May 29, 2017	May 27, 2022	JPY 1,000
RATING:	A, Affirmed		
Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	May 29, 2017	May 28, 2027	JPY 2,000
RATING:	A, Affirmed		