

Oct 05, 2018

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) 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.

R&I has changed the Rating Outlook this time based on its positive view on continued improvement in the diversification and profitability of the portfolio, which had been a challenge facing the REIT.

In the fiscal period ended June 2018, MCUBS MidCity acquired four office buildings in Tokyo for a total of 23.2 billion yen. In September, it sold two properties in the Osaka area, including Matsushita IMP Bldg. (A part of the asset is scheduled to be sold in March 2019), at favorable prices, while acquiring Yokohama i-land Tower for 22.1 billion yen. After the completion of these disposals and acquisitions, properties in the Tokyo area will rise to 59.2% and those in Osaka Business Park will fall to 26.8% in the portfolio (in March 2019, on an acquisition price basis).

While the degree of concentration in Twin 21, the largest property, is still high, earnings from this property will likely hold steady because the REIT agreed with a major tenant in 2017 to increase rent and extend a lease agreement between them for a long term. Amid a significant fall in the vacancy rate in the Osaka area, new supplies are expected to be limited, which is another positive factor.

MCUBS MidCity has been able to acquire properties continuously even in the challenging environment by capitalizing on the network of the sponsor with an extensive track record in real estate investment. Its portfolio is therefore expected to become more diverse.

The NOI yield keeps improving through asset replacement and internal growth. The occupancy rate of the portfolio remains high at 98.1% as of June 2018, and rent hikes are well underway.

Thanks in part to the February 2018 capital increase through a public offering, the LTV ratio is at a conservative level, standing at 42.5% as of June 2018. A rise in the appraisal value and asset replacement has allowed the REIT to generate unrealized gains.

The funding base is stable. The average remaining term to maturity is as long as 4.1 years as of September 2018. 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 Positive. As a result of steady property acquisitions and asset replacement, the portfolio has improved. The leverage level is conservative, and the funding base is solid. R&I will likely consider a rating upgrade if MCUBS MidCity continues to further diversify its portfolio and raise profitability.

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

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

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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

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