

Sep 26, 2019

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. is an office real estate investment trust. The REIT listed in 2006 primarily invests in office buildings located in Japan's three major metropolitan areas. In 2015, Mitsubishi Corp. - UBS Realty Inc. (MCUBS) acquired 65% of the shares of the REIT's asset management company, which was absorbed into MCUBS in July 2019.

R&I has upgraded the rating, positively evaluating the fact that the diversification and profitability of the portfolio, which had been a challenge facing the REIT, has continued to improve.

The REIT's portfolio used to consist mainly of buildings in Osaka Business Park, but the portfolio balance improved significantly through continued property acquisitions in the Tokyo area and asset replacement. On an acquisition price basis, assets in the Tokyo area have increased to account for about 60% of the portfolio.

While the degree of concentration in Twin 21, the largest property, is still high, earnings from the building will likely hold steady because the REIT agreed with a major tenant in 2017 to increase a rent and extend a lease agreement between them for a long term. Given a very low office vacancy rate and limited new supplies in the Osaka area, the management environment is expected to remain favorable.

Existing properties are performing well. The occupancy rate of the portfolio rose to 99.4% as of June 2019. Rent hikes and cost reductions have led to a steady increase in net operating income (NOI), raising the NOI yield of the portfolio to 4.5%. The REIT has achieved internal growth not only in office buildings in the Tokyo area, but also in those in Yokohama, Kawasaki and Sendai, and a hotel in Fukuoka.

The LTV ratio is maintained at a conservative level, standing at 42.2% as of June 2019. With the appraisal value continuing to rise, unrealized gains expanded to 6.5% of the book value. The appraisal value-based LTV ratio, which reflects unrealized gains, is as low as 39.8%.

The funding base is stable. As of July 2019, the average remaining term to maturity has been lengthened to 4.4 years, with due dates staggered. 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. As a result of steady property acquisitions and asset replacement, the diversification of the portfolio has progressed. On the whole, the performance of the portfolio is good. NOI improvements through rent increases are expected to continue. The leverage level is conservative, and the funding base is solid.

The primary rating methodology applied to this rating is provided at "Rating Methodology for REITs". 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>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>. © Rating and Investment Information, Inc.

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

Unsec. Str. Bonds No.3	Issue Date	Maturity Date	Issue Amount (mn)
	May 29, 2017	May 27, 2022	JPY 1,000

RATING: A+, Previously A

Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	May 29, 2017	May 28, 2027	JPY 2,000

RATING: A+, Previously A