

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## **MCUBS MidCity Investment Corporation (security code: 3227)**

<Assignment>

Long-term Issuer Rating: A+  
Outlook: Positive

### *Rationale*

- (1) MCUBS MidCity Investment Corporation (“MCUBS MidCity”) is a diversified J-REIT, which was established in June 2006 and listed on the Tokyo Stock Exchange (Real Estate Investment Trust Securities Market) in August 2006. By area, it primarily invests in three major metropolitan areas, and by asset type, it does in office buildings. The corporation name at the time of listing was MID REIT Inc. and was a J-REIT investing mainly in office buildings in Osaka area. The sponsor at the time of listing was MID Urban Development Co., Ltd., from which Mitsubishi Corp.-UBS Realty Inc. (“MCUBSR”) in April 2015 acquired 65% shares in the asset management company (“AM”) MID REIT Management Co., Ltd. MCUBSR then became the main sponsor, and the AM’s corporate name was changed from MID REIT Management Co., Ltd. to MCUBS MidCity Inc. In June 2015, the corporation name was then changed from MID REIT Inc. to the current corporation name. The corporate name of MID Urban Development Co., Ltd. was changed to Kanden Realty & Development Co., Ltd. in April 2016, with absorption-type merger by Kanden Fudosan Co., Ltd. for the former. Based on these events, the current shareholders of the AM consist of the main sponsor MCUBSR (with ownership ratio of 85%) and the sub-sponsor Kanden Realty & Development Co., Ltd.
- (2) MCUBS MidCity is promoting external growth through asset replacement aiming at improvement of portfolio and public offering with the change to the main sponsor as an opportunity. In 2017, while it acquired 4 properties including Sasazuka Center Bldg. (also including additional acquisition of Shibuya Sakuragaoka Square) for 31.3 billion yen, it sold 2 properties with unrealized losses in Osaka area (Midosuji MID Bldg. and MID Midosujikawaramachi Bldg.) for 10.7 billion yen. In 2018, it acquired 4 office buildings including SSP Bldg. (which will change to TOYOTA MOBILITY SERVICE Bldg. beginning on May 1, 2018) (including additional acquisition of USC Bldg.) in Tokyo for 23.2 billion yen. Through a series of these efforts, its asset size increased 20% as compared with that as of December 31, 2016, and its current portfolio consists of 23 properties (20 office buildings, 2 retail facilities, and 1 hotel, including equity interest in silent partnership for Nagoya Lucent Tower) with total acquisition price of 261.3 billion yen. Concentration to 2 properties in Osaka Business Park (“OBP”) (Twin 21 and Matsushita IMP Bldg.) declined from 42.9% as of December 31, 2016 to the current 35.7%. As for indicators for lease operations, it secures portfolio occupancy rate of 97.0% (95.5% with multi-tenant building) as of December 31, 2017, average NOI yield of 4.1% (3.1% after depreciation) for the fiscal period ended December 2017. In light of progress of diversification of properties through external growth and a solid track record with certain profitability, JCR sees that its portfolio cash flow stability has increased. Given factors including the leverage control status, financing of interest-bearing debt, and status of business relations with financial institutions, it also conducts sound financial management. In addition, the unrealized losses on portfolio that had continued since the end of the fiscal period ended December 2008 were eliminated at the end of fiscal period ended December 2017, and such losses turned into unrealized gains (0.4 billion yen with 0.2% unrealized gains ratio). Taking the above into consideration, JCR assigned a long-term issuer rating of A+ to MCUBS MidCity with Positive outlook. Going forward, JCR will pay attention to the continued external growth leveraging sponsor support and an increase of portfolio stability through a rise of property diversification, maintaining financial soundness.
- (3) MCUBS MidCity aims to increase its asset size to 300 billion yen as a medium-term target mainly through leveraging support functions such as networks of main sponsor group and sub-sponsor group. SSP Bldg. (which will change to TOYOTA MOBILITY SERVICE Bldg. beginning on May 1, 2018) is a case where it acquired a property by implementing CRE proposal to the seller through sponsor network in March 2018. JCR assumes that it will continue acquiring properties through

negotiated transactions. JCR considers it is necessary to further reduce concentration to the 2 properties in OBP in order to further increase stability of portfolio cash flow. JCR is paying attention to whether it can promote external growth in line with its goals for acquisitions, while securing certain profitability through measures including cooperation with the sponsor group. For internal growth, it demonstrated its track record in rent raises including that for the largest tenant in the Twin 21, which is Panasonic Corporation. In addition, JCR affirmed that it has steadily progressed its leasing after move-out of the major tenant (Asahi Group Holdings, Ltd.) from the Matsushita IMP Bldg. Going forward, dealing with the aging properties (more than 20-year-old properties totaling 14 out of the 23 properties) through CAPEX and others based on track record and know-how of the main sponsor group, etc. will remain a point for the maintenance and improvement of its properties' competitive strength.

- (4) The total assets-based book-value LTV was 42.2% as of December 31, 2017 (approximately 43% in consideration of debt for Nagoya Lucent Tower), which was a slight rise from 41.7% (approximately 42% for the same above) a year ago. The LTV, however, has been moving within AM's assumptions. The total assets-based market value LTV declined from 44.6% as of December 31, 2016 to 42.1% as of December 31, 2017, partly reflecting that the portfolio turned into unrealized gains as of December 31, 2017. For debt finance, it has been making efforts to make the average remaining years on interest-bearing debt longer, reduce average interest rate, and diversify repayment terms. It retains lender formation with Mizuho Bank, Ltd. as the main, while inviting new lenders to it. It continues its access to direct financing through issue of investment corporation bonds and securing liquidity through establishment of commitment line with the borrowing limit of 15 billion yen. JCR will closely watch its working on an appropriate leverage control, further prolongation of average remaining years on debt, diversification of repayment terms, etc.

Shigeo Sugiyama, Nobuyasu Matsuda

### Rating

Issuer: MCUBS MidCity Investment Corporation

<Assignment>

Long-term Issuer Rating: A+      Outlook: Positive

Rating Assignment Date: April 5, 2018

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "J-REIT" (July 3, 2017) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

## Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	MCUBS MidCity Investment Corporation
Rating Publication Date:	April 9, 2018

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and market environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Portfolios

The likelihood of a given debt payment is highly conditional to its issuer's portfolios - how they can be maintained/ enhanced into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a J-REIT might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions) including certainty of refinancing.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as sponsor, asset manager, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR received in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Portfolios

The credit rating is subject to alteration if there is improvement or deterioration of quality, competitive strength and diversification in the issuer's portfolios, since its revenue, etc. may improve or deteriorate by the change in its investment strategies, tenants' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the portfolios is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's sponsor or asset manager, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile,

or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its portfolios, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets, of e.g. real estate or interest rates, inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's sponsor or asset manager, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

## 12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

## 13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Portfolios

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's portfolios and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of quality, competitive strength and diversification in the issuer's portfolios on some drastic change in the market environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its portfolios.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions including certainty of refinancing. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's sponsor or asset manager, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets of e.g. real estate or interest rates. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

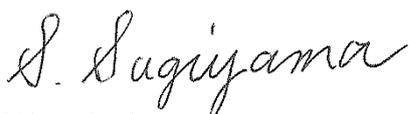
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## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shigeo Sugiyama, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Shigeo Sugiyama  
General Manager of Structured Finance Department

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