



Insight beyond the rating.

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DBRS Upgrades Primaris Retail Real Estate Investment Trust to BBB (low)

Bloomberg: DBRS Upgrades Primaris Retail REIT to BBB (low)

Industry Group: Corporates

Sub-Industry: Real Estate

Region: Canada

DBRS has today upgraded the Issuer Rating of Primaris Retail Real Estate Investment Trust (Primaris or the Trust) to BBB (low) from BB (high) with a Stable trend. This action extends from DBRS's July 11, 2012, trend change (to Positive from Stable) on Primaris' Issuer Rating. Primaris' credit risk profile has benefited from growth in the Trust's portfolio of enclosed retail malls. The rating action also recognizes Primaris' enhanced asset quality, portfolio diversification and improved credit metrics.

Over the past year, Primaris has achieved significant portfolio growth through property acquisitions, mainly consisting of five enclosed shopping centres from Ivanhoe Cambridge Inc. (the Ivanhoe Portfolio) in 2011 and Driftwood Mall (in Q2 2012). In addition, Primaris recently announced the acquisitions of Regent Mall, a single-level enclosed shopping centre of 488,000 sq. ft. located in Fredericton, New Brunswick, and McAllister Place, a single-level enclosed regional shopping centre of 489,000 sq. ft. located in Saint John, New Brunswick (collectively, the Acquisitions). DBRS believes the recent property additions enhance the overall quality of Primaris' portfolio and modestly improve geographic diversification. In terms of operating income, DBRS estimates Primaris' EBITDA to be approximately \$232 million on a pro forma basis, an increase of 22% over year-end 2011.

Tenant diversification and quality has also improved with the addition of Target Corporation (Target) stores to the Trust's portfolio, as ten of Primaris' 14 Zellers (including McAllister Place) stores were chosen for conversion by Target beginning in 2013. This reduces Primaris' exposure to lower creditworthy anchor tenants, namely HBC and Sears Canada, and should enhance the quality of cash flow going forward. Although exposure to HBC and Sears remains high (particularly on a leasable area basis) and a rating challenge, the presence of Target at the selected properties should help

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increase overall customer traffic and sales performance. Going forward, DBRS expects growth in net operating income will continue to be driven by full-year cash flow contributions from acquisitions in 2011 and 2012, and, to a lesser extent, from higher average rental rates on releasing activity.

In terms of financial profile, DBRS expected Primaris' key credit metrics to benefit from continued cash flow growth and lower interest expense resulting from the conversion of convertible debentures to equity and positive refinancing activity on maturing debt. In DBRS's press release dated July 11, 2012, DBRS stated that Primaris could achieve an upgrade if the Trust attained an EBITDA interest coverage ratio above 2.40 times, a level considered to be in line with the BBB (low) rating category. Since then, Primaris has continued to improve key credit metrics as a result of EBITDA growth, lower interest expense on refinancing activity and lower debt levels through a conversion of convertible debentures into equity (approximately \$99 million in Q3 2012). DBRS estimates that Primaris' debt-to-gross book value is now 41.9% and its EBITDA interest coverage is 2.49 times (pro forma the Acquisitions), putting metrics comfortably within the parameters of the BBB (low) rating category. The Stable trend reflects DBRS's expectation for the Trust to maintain credit metrics close to these levels going forward.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Rating Real Estate Entities (April 2011), which can be found on our website under Methodologies.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at info@dbrs.com.

<u>Issuer</u>	<u>Debt Rated</u>	<u>Rating Action</u>	<u>Rating</u>	<u>Trend</u>
Primaris Retail Real Estate Investment Trust	Issuer Rating	Upgraded	BBB (low)	Stable

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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Press Release



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