MOODY'S INVESTORS SERVICE

CREDIT OPINION
11 June 2020

Update

Rate this Research

RATINGS

| Federal Realty Investment Trust | |
|---|---|
| Domicile | Rockville, Maryland, United States |
| Long Term Rating | A3 |
| Type | Senior Unsecured - Dom Curr |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


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# Federal Realty Investment Trust

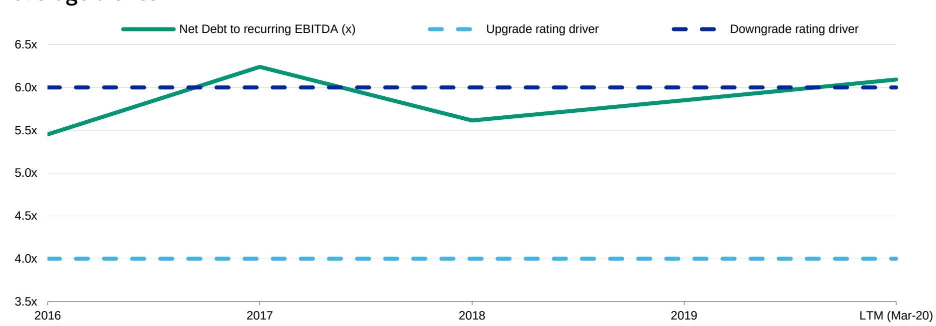
## Update following rating outlook change to negative

## Summary


Federal Realty's A3 senior unsecured rating reflects the REIT's long and successful history of adding value to its high quality retail properties located in well-established, densely populated communities with attractive demographics. Federal Realty has maintained good occupancy levels while reporting healthy releasing spreads.

The rating also reflects the REIT's robust liquidity and good credit metrics, which have remained stable through market cycles. However, the retail sector remains challenged due to growing competition among retailers and the effects of e-commerce on spending habits. In addition, weaker demand for large box space is placing leasing pressure on landlords. Moreover, non-essential store closures have weakened the credit standings of many of Federal Realty's tenants. A sharp deterioration in a tenant's credit profile could prompt landlords to offer rent relief or rent abatements. Decline in occupancy/lease pricing or prolonged litigation related to collectability of lease payments would affect retail landlords' earnings. Although Federal Realty's exposure to failing tenants has been limited to date, the company does have a large development and redevelopment pipeline which carries construction and leasing risk


Exhibit 1
**Leverage trends**




*Source: Moody's Financial Metrics™*

## Credit strengths

» High quality portfolio of mixed-use life style shopping center properties

» Very strong liquidity profile and well-laddered debt maturity schedule

» Strong fixed charge ratio and healthy unencumbered asset pool

## Credit challenges

» Large development/redevelopment pipeline that carries construction and lease up risks

» Elevated leverage for the rating category

» Impact of ever changing retail landscape, which weighs on near-term growth

## Rating outlook

The negative rating outlook reflects Moody's expectation that the spread of the coronavirus will continue to pressure Federal Realty's earnings in 2020 and its net debt/EBITDA is projected to increase to the near 7.0x, coupled with a large development and redevelopment pipeline

## Factors that could lead to an upgrade

Although unlikely given the negative outlook, Federal Realty's ratings would be upgraded if

» Net debt/EBITDA below 4x

» Fixed charge coverage consistently and comfortably above 4x

» Good liquidity profile and positive trends in its same-store NOI growth, rent growth and occupancy rate.

## Factors that could lead to a downgrade

» Net debt/EBITDA consistently above 6x

» A sustainable decline in fixed charge coverage to below 3x

» An increase in development activity to greater than 10% of gross assets

» A deterioration in Federal Realty's funding and liquidity profile or material adverse developments in the retail sector would also lead to negative rating pressure.

## Key indicators

Exhibit 2
**Federal Realty Investment Trust**

| | 3/31/2020(LTM) | 12/31/2019 | 12/31/2018 | 12/31/2017 | 12/31/2016 |
|---|---|---|---|---|---|
| Gross Assets (USD Billion) | $10.0 | $9.0 | $8.4 | $8.2 | $7.2 |
| Total Debt + Preferred Stock / Gross Assets | 46.3% | 40.4% | 40.7% | 42.4% | 39.7% |
| Net Debt / EBITDA | 6.1x | 5.9x | 5.6x | 6.2x | 5.5x |
| Secured Debt / Gross Assets | 5.5% | 6.1% | 5.7% | 6.0% | 6.5% |
| Fixed Charge Coverage | 4.3x | 4.3x | 4.4x | 4.3x | 4.5x |

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated.
*Source: Moody's Financial Metrics™*

## Profile

Federal Realty Investment Trust (NYSE: FRT) located in Rockville, MD, is a real estate investment trust (REIT) specializing in the ownership, operation and redevelopment of retail and mixed-use properties. The REIT's portfolio (excluding joint venture properties) as of March 31, 2020 contains approximately 24.1 million square feet located primarily in major coastal markets including Washington, DC, Northern California, Southern California, Boston and New York. At March 31, 2020, FRT had total book assets of $7.8 billion and total book equity of $2.6 billion.

## Detailed credit considerations

### Elevated leverage for its rating category

Moody's expects the spread of the coronavirus will continue to pressure Federal Realty's earnings in 2020 and its net debt/EBITDA is projected to increase to the near 7.0x from 6.1x for Q1 2020. We expect net debt/EBITDA to remain elevated through 2021 as a result of earnings being affected by COVID-19 pandemic and a potential lag in the lease up of their development pipeline. Historically the REIT has aimed to maintain its Net debt/EBITDA near mid 5x. However, the REIT has good capital market access to reduce leverage, including raising equity and monetizing its assets through joint venture partners or selling outright. Moody's expects Federal Realty will reduce net debt/EBITDA to below 6.0x by 2021. Failure to reduce leverage could lead to a downgrade.

Federal Realty's effective leverage (total debt plus preferred/gross assets), which is calculated using the low historical cost basis of the assets of this 58-year old REIT was at 46.3% at 1Q20, compared to 40.4% at YE19. The REIT had secured debt over gross assets of 5.5% at 1Q20.

### Stable earnings underscored by a portfolio of high quality shopping centers

Federal Realty owns and operates a portfolio of community shopping centers and mixed-use retail projects in the affluent coastal metropolitan markets with superior demographics and significant barriers to entry. Relative to other retail peers, Federal Realty's portfolio of assets is among those with the highest median household income and in the most densely populated areas of the country, measuring by households per square mile. Its properties are mainly located in the affluent coastal markets of Washington, DC metro (24.8% of GLA), California (22.8%), New York metro/New Jersey (12.9%) areas, Philadelphia metro area (9.9%), and New England (8.2%). The REIT has a very productive portfolio with good rent increases. Even during the last financial downturn, Federal Realty reported healthy rent growth.

Federal Realty's portfolio has well-laddered lease expirations, and its largest tenant Splunk, Inc contributes only 3.43% of base rent as of 1Q20. Moreover, no single retail category is greater than 9%. Its portfolio is also diversified by format, measuring by property operating income (POI), 32% mixed use, 25% grocery anchored, 25% super regional, 7% power center, and 5% other. Despite retail headwinds, Federal Realty's earnings have been stable in recent years, credited to its relatively more manageable exposure to failing and distressed retailers. Its fixed charge coverage consistently above 4x (4.3x for 1Q20).

### An active redevelopment and development pipeline

The company maintains an active redevelopment pipeline that includes expansions and repositioning of assets, with an investment per project from $3 million to $120 million (a total $324 million currently underway at 1Q20 with projected weighted average return of approximately 6%). In addition, Federal Realty is in the process of developing three large mixed–use developments, Assembly Row (phase III), Pike & Rose (phase III) and One Santana West for a total investment of about $890 million. These developments include a mixture of retail, office, and residential units. Unlike some retail REIT peers who have recently entered or grown into mixed-use development, Federal Realty has a long history of creating neighborhoods via mixed use development, which the REIT adds on through incremental phases over a number of years. Typically a new phase is initiated once the previous phase is substantially completed, leased up, and stablized. The REIT's portfolio of assets located in prime locations and their demonstrated experience in developing mixed use assets mitigate some of the development concerns. Nonetheless, sizable pipeline carries construction and leasing risks, that could materially affect projects' returns adversely and/or the potential risks associated with the market condition when the projects complete. The COVID-19 pandemic has amplified the risk and challenges associated with development and lease up. A large portion of Federal Realty's development pipeline is office space which is fairing better relative to retail in the current environment although concerns about work from home and potential reduced space needed by businesses remain. Federal Realty's highly amenitized offerings are in prime suburban locations which may be relatively attractive compared to product in dense central business districts in light of the current environment.

## ESG considerations

Federal Realty is a leader in ESG with over 1.4 billion invested in projects that have leed certification or are on track to have it. The REIT has invested in green initiatives including solar power, focus on reducing water consumption, and waste handling and recycling. The REIT has also focused on incorporating sustainable measures in its lease contracts with tenants.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The commercial retail real estate segment has been affected by the shock given the sensitivity to the retail environment and retailer health. Federal Realty remains vulnerable to the outbreak continuing to spread. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The change in outlook in part reflects the impact on Federal Realty, the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered. It also incorporates the potential for fiscal stimulus actions by various governments, their agencies and financial regulators.

Federal's board is comprised of 7 members, 6 of which are independent directors including the board chair.

## Liquidity analysis

Federal Realty has a very robust liquidity profile with ample coverage for its near-term obligations. Subsequent to 1Q20 the REIT raised $700 million of senior unsecured bonds ($300 million of 2024's and $400 million of 2030's) and $400 million through a term loan expiring 5/2021 with a 1 year extension option. The proceeds were used in part to repay the $990 million drawn on the $1 billion revolver, now fully available, which was drawn down in March as a precautionary measure. The unsecured revolving credit facility has a maturity date of January 2024, with two six-month extension options. Additionally, the REIT has approximately $1 billion of cash on hand. However, Federal Realty has a meaningful development/redevelopment pipeline, which continues to require significant capital expenditures in the next two to three years.

Federal Realty's maturities in the next two years are manageable with $61 million mortgage debt in 2020 and combined mortgages and unsecured notes totaled $278 million in 2021.

We view Federal Realty’s access to capital as excellent, reflecting a proven record of accessing the capital markets. This flexibility is important for REITs given the need to distribute most of their cash flow in the form of dividends and it's capital intensive development exposure making it necessary to raise capital more frequently. At 1Q20, Federal Realty had $128.3 million of additional capacity under the ATM.

Additionally, Federal Realty's largely unencumbered asset base provides the REIT with financial flexibility -- unencumbered assets were 87.2% of gross assets at 1Q20.

## Structural considerations

Federal Realty's preferred stock is rated Baa1, one notch below its senior unsecured rating, consistent with Moody's notching practices.

## Rating methodology and scorecard factors

Exhibit 3

**Federal Realty Investment Trust**

| REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2] | Current LTM 3/31/2020 | |
|---|---|---|
| **Factor 1 : Scale (5%)** | **Measure** | **Score** |
| a) Gross Assets (USD Billion) | $10.0 | Baa |
| **Factor 2 : Business Profile (25%)** | | |
| a) Market Positioning and Asset Quality | A | A |
| b) Operating Environment | Baa | Baa |
| **Factor 3 : Liquidity and Access To Capital (25%)** | | |
| a) Liquidity and Access to Capital | A | A |
| b) Unencumbered Assets / Gross Assets | 87.2% | A |
| **Factor 4 : Leverage and Coverage (45%)** | | |
| a) Total Debt + Preferred Stock / Gross Assets | 46.3% | Baa |
| b) Net Debt / EBITDA | 6.1x | Ba |
| c) Secured Debt / Gross Assets | 5.5% | A |
| d) Fixed Charge Coverage | 4.3x | Baa |
| **Rating:** | | |
| a) Scorecard-Indicated Outcome | | Baa1 |
| b) Actual Rating Assigned | | A3 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2020.
*Source: Moody's Financial Metrics™*

## Ratings

Exhibit 4

| Category | Moody's Rating |
|---|---|
| **FEDERAL REALTY INVESTMENT TRUST** | |
| Outlook | Negative |
| Senior Unsecured | A3 |
| Subordinate Shelf | (P)Baa1 |
| Pref. Stock | Baa1 |

*Source: Moody's Investors Service*

REPORT NUMBER 1232290

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