MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Federal Realty's senior unsecured to Baa1, outlook stable

28 Apr 2021

New York, April 28, 2021 -- Moody's Investors Service, ("Moody's") downgraded Federal Realty Investment Trust's ratings, including its senior unsecured debt rating to Baa1 from A3, preferred stock rating to Baa2 from Baa1, and its subordinate shelf rating to (P)Baa2 from (P)Baa1. The downgrade reflects Federal Realty's deteriorated leverage metrics, high development exposure and its vulnerability to the significant ongoing disruption in retail real estate given its mixed-use portfolio with a relatively smaller essential tenant base than shopping center peers.

The rating outlook was revised to stable from negative as the REIT owns and operates a high-quality portfolio in densely populated communities with attractive demographics. The stable outlook also reflects Federal Realty's robust liquidity with good market access.

The following ratings were downgraded:

..Issuer: Federal Realty Investment Trust

... Senior Unsecured, downgraded to Baa1 from A3

... Senior Unsecured MTN, downgraded to (P)Baa1 from (P)A3

....Senior Unsecured Shelf, downgraded to (P)Baa1 from (P)A3

....Subordinate Shelf, downgraded to (P)Baa2 from (P)Baa1

....Preferred Stock, downgraded to Baa2 from Baa1

....Preferred Shelf, downgraded to (P)Baa2 from (P)Baa1

Outlook Action:

..Issuer: Federal Realty Investment Trust

....Outlook, Changed To Stable from Negative

RATINGS RATIONALE

Federal Realty's Baa1 senior unsecured rating reflects the REIT's high quality retail portfolio in strategically selected first ring suburbs within eight major metropolitan markets. This high-quality portfolio carries an average rent of $29.86 per square foot, highest among the similarly rated shopping center peers. During 2020, it leased 1.7 million square feet at an average rent of $31.53 per square foot, representing 3% rent growth on a cash basis. The REIT collected 89% of Q4 2020 rent.

Howeverm, Moody's expects the uneven pandemic recovery to continue to pressure Federal Realty's earnings in 2021. Its net debt/EBITDA is projected to increase to 7.8x driven by lower comparable property operating income, which declined by 18% in 2020 - more severely than its similarly rated US shopping center peers with a median operating income decline of approximately 10%. Federal Realty's relatively weaker performance during the pandemic reflects its mixed-use portfolio of properties in coastal markets that faced earlier restrictions and were slower to reopen with more stringent conditions. Approximately a quarter of the REIT's annual base rent (ABR) was from essential tenants and rents from grocer and drug tenants were a modest 9% for 2020.

Federal Realty also has a large mixed-used development and redevelopment pipeline of retail, office and residential units, which has been in excess of 10% of gross assets. The exposure carries construction and lease-up risks as Moody's expects negative absorption through 2022 with falling demand for retail space coupled with growing supply, leading to more retail vacancy and lower rent growth. The comparable commercial portfolio occupancy declined 330 basis points to 90.1% at year-end 2020 from 2019. The office segment also faces risks because of the lagging impact of long-term leases that are coming up for renewal, and potential structural changes in businesses' real estate needs. Office represents 10% of Federal Realty's total ABR.

Federal Realty has a very strong liquidity profile with a laddered debt maturity schedule. The REIT's adequate liquidity position is supported by $798 million of cash and $1 billion availability under its revolving credit facility at year end 2020. Federal Realty's maturities in the next two years are manageable with $142.6 million in mortgage debt maturing through the end of 2022 and the next unsecured note maturity is $275 million due in 2023. With a large unencumbered portfolio of 90% of gross assets, the REIT has an ample alternative funding source.

The stable outlook reflects the REIT's good liquidity and high quality of mixed-use retail portfolio in affluent coastal markets with superior demographics and significant barriers to entry. The stable outlook also incorporates management's commitment to improving the REIT's leverage and operating metrics, while continuing to profitably grow.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Federal Realty's ratings would be upgraded if the REIT maintains its net debt EBITDA below 6.0x, fixed charge coverage consistently and comfortably close to 4.0x and its development activities are consistently well below 10% of gross assets. The rating upgrade would also require that Federal Realty maintain a good liquidity profile and positive trends in its same-store NOI growth, rent growth and occupancy rate.

Negative rating pressure would emerge if Federal Realty's financial performance were to deteriorate such that its net debt to EBITDA stays above 7.0x by the end of 2022, fixed charge coverage remains close to 3.0x or Federal Realty increases its development activity to greater than 15% 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.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1095505. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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 December 31, 2020 contains approximately 23 million square feet located primarily in major coastal markets including Washington, DC, Northern California, Southern California, Boston and New York. At December 31, 2020, FRT had total gross assets of $10.0 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068 .

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