S&P Global Ratings

RatingsDirect®

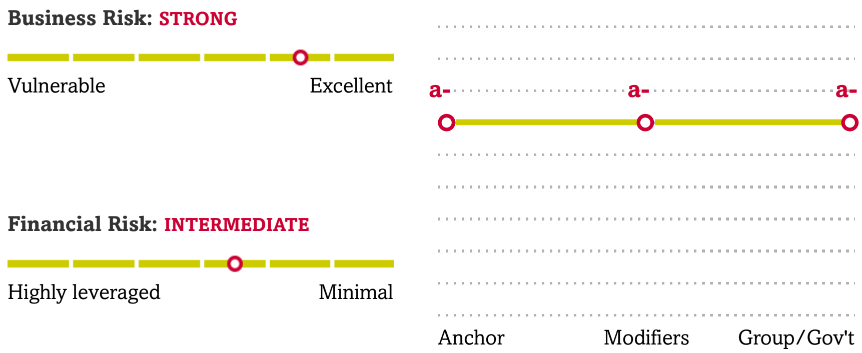
Federal Realty Investment Trust

Primary Credit Analyst:
Kristina Koltunicki, New York (1) 212-438-7242; kristina.koltunicki@spglobal.com

Secondary Contact:
Samantha L Stevens, New York + 1 (212) 438 1888; samantha.stevens@spglobal.com

Table Of Contents

Federal Realty Investment Trust



Issuer Credit Rating

A-/Stable/--

Credit Highlights

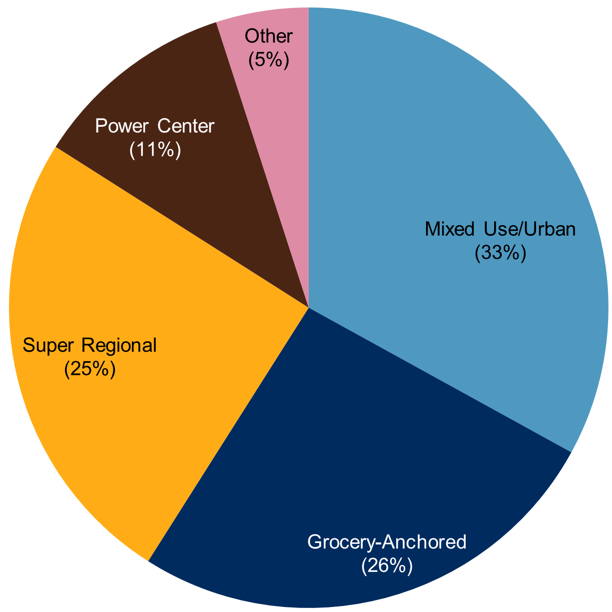
Overview

Strengths	Risks
High-quality, well-located retail and mixed-use properties whose strong earnings are partially attributed to Federal Realty's higher-than-average population density and affluence.	Geographic concentrations in the Washington, D.C., San Francisco, and Los Angeles metropolitan areas, partially offset by supply constraints.
Robust redevelopment/development activity has resulted in above-average operating performance in terms of same-store property operating income (POI) growth and leased occupancy.	Substantial, but declining, development/redevelopment pipeline (which is approximately 10% of undepreciated assets) as three main projects further stabilize.
Credit protection measures have improved and returned to historical levels as Federal accelerated debt repayment and equity issuance after the Primestor joint venture pressured metrics with incremental debt.	Some exposure to troubled retailers and those under e-commerce pressure, which could negatively impact rents and occupancy should retail store closures be greater than projected.

Federal Realty Investment Trust's "big 3" assets, Assembly Row, Pike & Rose, and Santana Row, continue to drive growth and scale to the company by delivering multiphase projects that not only include densification of these mixed-use assets but also provide diversification of property types. S&P Global Ratings believes Federal Realty's success in execution of these assets could provide a more balanced property type mix in retail, office, residential, and hotels, which may further drive increased and stable cash flows as the cycles of these property types differ. We believe the company will remain focused on retail assets to drive the majority of its POI going forward; however, the concentration in these assets are likely to further decrease. We also view the company's strategic initiatives around these three properties as a positive path to maintaining incremental growth. We generally view development as a riskier endeavor given the execution risk, yet we view the growth surrounding these three properties as more of an expansion or redevelopment risk rather than traditional ground-up development, as these assets are largely stabilized.

Chart 1

Percent Of Estimated 2019 Property Operating Income



Source: Company Investor Day Presentation

We view Federal Realty's financial policy as conservative and a strength to the rating, as we believe management is committed to maintaining its existing credit protection measures. Federal Realty has improved its metrics over the past year and a half by issuing equity and executing on asset sales to repay debt. We expect the company to fund any additional capital investment in a leverage-neutral manner on a long term basis, which is consistent with its intent to maintain a conservative balance sheet.

Outlook: Stable

The stable outlook on Rockville, Md.-based real estate investment trust (REIT) Federal Realty Investment Trust reflects our expectation that, while retail fundamentals still remain challenged, Federal Realty will continue to benefit from the mark-to-marking of rents and the stabilization of development projects over the next two years, supporting modest cash flow growth.

Downside scenario

We could lower the rating if operating performance deteriorates, potentially because of greater-than-anticipated tenant bankruptcies, or if Federal Realty pursues additional unexpected development activities or debt-financed acquisitions such that debt to EBITDA rises above 6.5x or fixed-charge coverage falls below 3.0x.

Upside scenario

We view an upgrade as highly unlikely over the next two years given the company's relatively smaller scale compared to higher-rated companies, along with its relatively larger development pipeline. However, we could consider a higher rating should stabilized developments lead to substantial revenue growth and debt reduction such that debt to EBITDA declines to below 5x on a sustained basis.

Our Base-Case Scenario

Assumptions

- U.S. real GDP growth of 2.2% in 2019 and 1.7% in 2020, with an unemployment rate of 3.6% in both 2019 and 2020, which should continue to support solid real estate fundamentals;
- In February, S&P Global economists raised the odds of a recession in the next 12 months to 20%-25% (from 15%-20% in November 2018), which could add further pressure to retail tenants;
- Same-property net operating income (NOI) grows around 2.0% in 2019 and 2020, supported by rental rate growth and relatively flat occupancy levels;
- Development and redevelopment deliveries of approximately $400 million and $450 million in 2019 and 2020, respectively; and
- Federal Realty funds its growth in a leverage-neutral manner.

Key Metrics

	2018A	2019P	2020P
Debt to EBITDA (x)	5.6	5.4-5.9	5.4-5.9
Fixed-charge coverage (x)	4.1	3.9-4.3	3.9-4.3
Debt / debt and undepreciated equity (%)	42.9	40-45	40-45

A--Actual. P--Projected.

Base-case projections

We expect Federal Realty to uphold its conservative financial policies and maintain debt-to-EBITDA in the mid-5x area over the next two years. Credit protection measures have strengthened to historical levels over the past year and a half as the company has issued equity, repaid mortgage debt, and grown its EBITDA base.

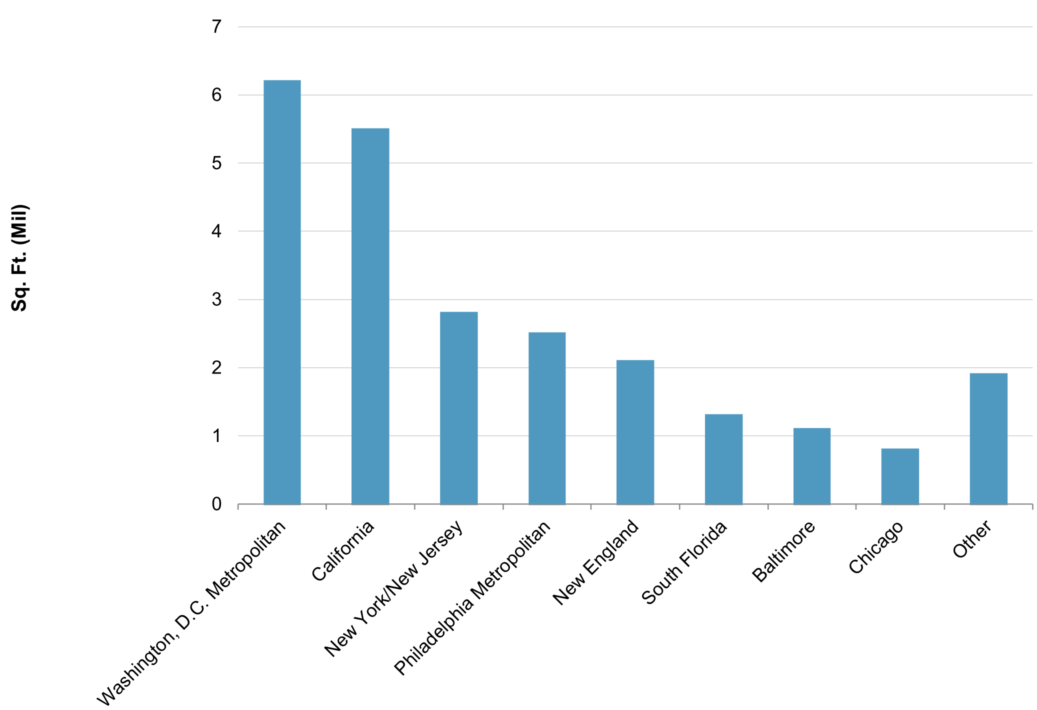
We believe Federal Realty will continue to focus on redevelopment and development opportunities, which will drive future growth and POI increases. We believe Federal Realty's growth profile will remain positive over the next two years, despite ongoing difficulties faced by some of its tenants related to store rationalizations and bankruptcies as we forecast the company's embedded growth to exceed tenant departures.

Company Description

Federal Realty is an owner, operator, and developer of retail and mixed-use properties located in densely populated and affluent communities in metropolitan markets in the Northeast and Mid-Atlantic regions of the U.S., as well as in California and South Florida. As of March 31, 2019, Federal Realty's portfolio encompassed 105 predominantly retail real estate properties comprising approximately 24.2 million square feet.

Chart 2

Primary Markets



Source: Company filings

Business Risk: Strong

In our view, Federal Realty owns the highest-quality community shopping center portfolio among its rated peer group, as we believe its properties are in high barrier markets with the possibility for additional densification projects that further boost the company's already large and stable cash flows. The company's 24.2 million-square-foot portfolio includes retail-anchored, mixed-use properties, and street retail shops in coastal infill markets. Federal Realty's portfolio does have some geographic concentration risk, with the Washington, D.C., metro area contributing approximately 31% of the company's POI.

Federal Realty continues to post positive operating results despite the ongoing challenges facing its retail tenants. As of the first quarter of 2019, occupancy declined to 93% compared to 93.3% the prior year period, primarily driven by store closures. However, the company grew comparable property operating income by 3.5% over the same period. Even though Federal Realty's growth momentum has slightly slowed from the prior year period, we believe the company will continue to deliver solid fundamentals and believe operating performance will remain stable for the next two years. Federal Realty has maintained its positive earnings growth trajectory during and since the downturn, with favorable mark-to-market rent prospects, as its properties are located in densely populated areas with attractive high-income demographics. We expect the company will continue to generate positive same-center NOI growth, albeit at a slightly slower pace than previously achieved due to redevelopment activities and, to a lesser extent, continued retail turmoil. Federal Realty's tenant base is well-diversified and of relatively good credit quality, with no tenant accounting for more than 2.66% of annualized revenues and slightly less than half of the top 25 tenants assigned investment-grade ratings.

The company's lease schedule also remains manageable with 4% and 10% of leases expiring in 2019 and 2020, respectively, assuming no tenants exercise their renewal options. If all tenant renewal options are exercised, the lease schedule becomes less onerous with 3% and 4% of leases expiring in 2019 and 2020, respectively. We anticipate Federal Realty will benefit from below-market leases rolling up to market rates over the next few years, which should increase Federal Realty's already above-average rents as compared to its rated peer group.

Peer comparison

We believe Federal Realty has the best quality portfolio compared to peers and is one of the largest publicly traded strip/power center REITs, only smaller than Regency Centers Corp. While operating performance for some strip center REITs has fluctuated over the past few years, Federal Realty's occupancy has remained in the mid-90% area with positive property operating income growth. Credit protection measures also remain at the better end of the spectrum when compared to peers.

Table 1

Federal Realty Investment Trust -- Peer Comparison					
Industry Sector: Real Estate Investment Trust or Company					
	Federal Realty Investment Trust	**Regency Centers Corp.**	**Kimco Realty Corp.**	**Weingarten Realty Investors**	**Brixmor Property Group Inc.**
Rating as of June 11, 2019	A-/Stable/--	BBB+/Positive/--	BBB+/Stable/--	BBB/Stable/--	BBB-/Stable/--

Table 1

Federal Realty Investment Trust -- Peer Comparison (cont.)

Industry Sector: Real Estate Investment Trust or Company

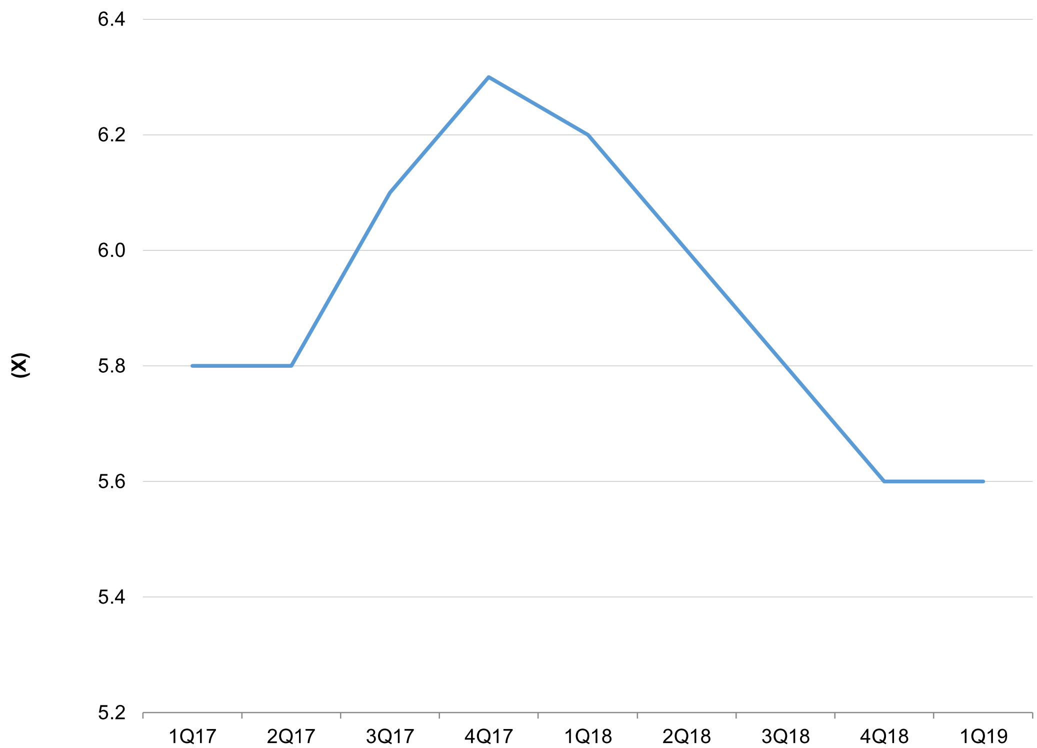
	Federal Realty Investment Trust	Regency Centers Corp.	Kimco Realty Corp.	Weingarten Realty Investors	Brixmor Property Group Inc.
	--Fiscal year ended Dec. 31, 2018--				
(Mil. $)					
Revenues	910.4	1,147.2	1,331.1	576.9	1,219.0
EBITDA	605.4	795.2	888.1	384.0	818.1
FFO	466.1	634.2	618.9	307.0	596.4
Interest Expense	141.3	193.7	294.6	78.4	221.6
Cash Interest Paid	138.6	155.6	268.7	75.5	219.5
Cash flow from operations	490.2	606.8	566.2	278.8	542.1
Capital expenditures	47.3	78.2	509.3	40.4	266.2
Free operating cash flow	443.0	528.6	56.9	238.3	275.9
Discretionary cash flow	133.6	(68.0)	(496.4)	(181.8)	(164.1)
Cash and short-term investments	64.1	42.5	153.9	65.9	41.8
Debt	3,386.3	4,374.5	6,581.5	1,851.0	4,897.0
Equity	2,443.5	6,450.2	4,370.2	1,750.7	2,836.1
Adjusted ratios					
EBITDA margin (%)	66.5	69.3	66.7	66.6	67.1
Return on capital (%)	6.0	3.9	5.6	6.0	5.5
EBITDA interest coverage (x)	4.3	4.1	3.0	4.9	3.7
FFO cash interest coverage (x)	4.4	5.1	3.3	5.1	3.7
Debt/EBITDA (x)	5.6	5.5	7.4	4.8	6.0
FFO/debt (%)	13.8	14.5	9.4	16.6	12.2
Cash flow from operations/debt (%)	14.5	13.9	8.6	15.1	11.1
Free operating cash flow/debt (%)	13.1	12.1	0.9	12.9	5.6
Discretionary cash flow/debt (%)	3.9	(1.6)	(7.5)	(9.8)	(3.4)
Debt/debt and equity (%)	58.1	40.4	60.1	51.4	63.3
Debt Fixed Charge coverage (x)	4.1	3.9	2.9	4.5	3.4

Financial Risk: Intermediate

Federal Realty has managed its balance sheet with moderate debt leverage, enabling the company to meet its development-related capital needs and also allowing it to pursue select opportunistic investments. As of Dec. 31, 2018, debt to EBITDA declined to 5.6x (compared to 6.3x in the prior year period) as Federal Realty accelerated asset dispositions to repay debt and issued a modest amount of common equity to offset the preferred stock issuance in 2017 (which we treat as 100% debt). Federal Realty's undepreciated book value leverage was 42.9% as of Dec. 31, 2018, which understates the value of the company's assets as it does not reflect the market appreciation that has occurred since those properties' acquisition or development.

Chart 3

S&P Global Ratings Adjusted Debt To EBITDA



We expect Federal Realty to generate modest positive discretionary cash flow (after maintenance capital expenditures and dividends), which will help continue to fund development. We expect the company to fund any additional capital investment in a leverage-neutral manner on a longer term basis and consistent with its intent to maintain a conservative balance sheet. As of March 31, 2019, 91% of Federal Realty's debt was fixed rate and its weighted average interest rate was 3.88%. The company has maintained a largely unencumbered portfolio (approximately 90%) that bolsters its financial flexibility.

Financial summary

Table 2

Federal Realty Investment Trust--Financial Summary			
Industry Sector: Real Estate Investment Trust or Company			
	--Fiscal year ended Dec. 31--		
	2018	**2017**	**2016**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--
(Mil. $)			
Revenues	910.4	844.4	793.5
EBITDA	605.4	549.8	518.8
FFO	466.1	412.7	407.1
Interest Expense	141.3	131.6	116.2
Cash Interest Paid	138.6	136.7	111.4
Cash flow from operations	490.2	431.0	400.5
Capital expenditures	47.3	51.4	39.5
Free operating cash flow	443.0	379.7	360.9
Discretionary cash flow	133.6	79.7	83.4
Cash and short-term investments	64.1	15.2	23.4
Gross available cash	64.1	15.2	23.4
Debt	3,386.3	3,489.5	2,823.5
Equity	2,443.5	2,372.7	2,209.5
Adjusted ratios			
EBITDA margin (%)	66.5	65.1	65.4
Return on capital (%)	6.0	5.9	6.6
EBITDA interest coverage (x)	4.3	4.2	4.5
FFO cash interest coverage (x)	4.4	4.0	4.7
Debt/EBITDA (x)	5.6	6.3	5.4
FFO/debt (%)	13.8	11.8	14.4
Cash flow from operations/debt (%)	14.5	12.4	14.2
Free operating cash flow/debt (%)	13.1	10.9	12.8
Discretionary cash flow/debt (%)	3.9	2.3	3.0
Debt/debt and equity (%)	58.1	59.5	56.1
Debt Fixed Charge coverage (x)	4.1	4.0	4.2

Liquidity: Adequate

We view Federal Realty's liquidity profile as adequate. Federal's revolving credit facility matures in the second quarter of 2020 (not including two six month extension options). The company recently issued $300 million in unsecured bonds to address its term loan coming due in November 2019. We expect the company to refinance its credit facility well in advance of its maturity date.

Our assessment of the company's liquidity profile incorporates the following expectations and assumptions:

- Liquidity sources will exceed uses by at least 1.2x or more over the next 12 months;

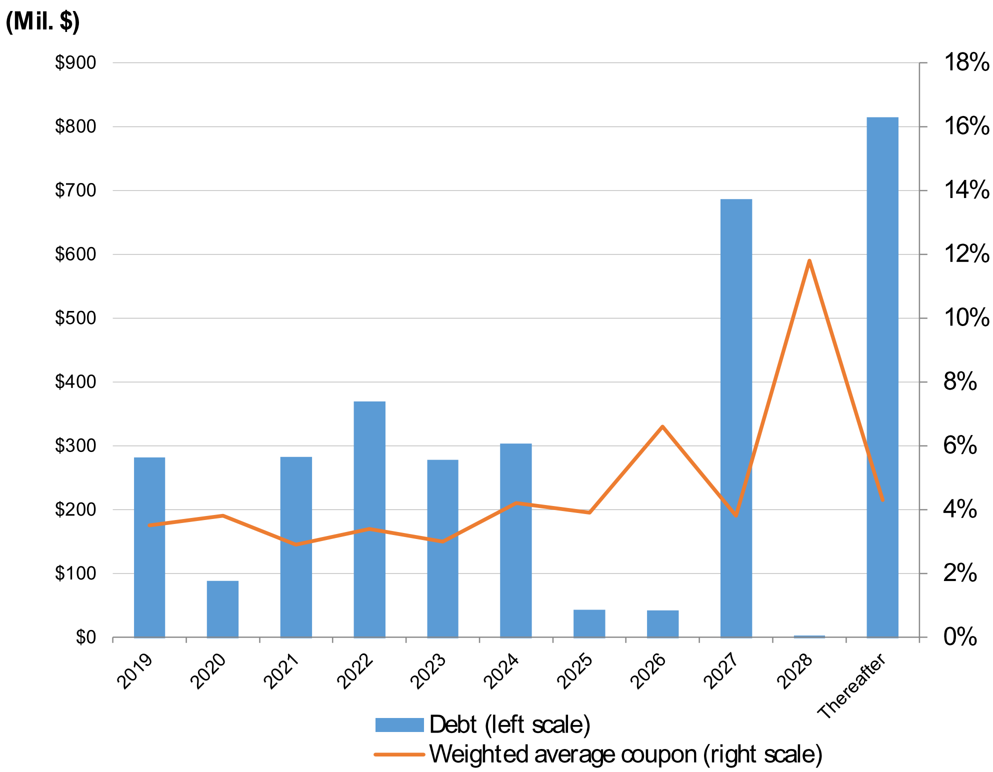
- Liquidity sources less uses will be positive, even if forecasted EBITDA declines by 10% (a REIT specific threshold for adequate liquidity);
- Sufficient covenant headroom for forecasted EBITDA to decline by 10% without the company breaching coverage tests, and debt is at least 10% below covenant limits;
- The likely ability to absorb high-impact, low-probability events, with limited need for refinancing;
- Sound relationships with banks; and
- A generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash of $43 million as of March 31, 2019; • $780 million of revolving credit availability as of March 31, 2019, under its $800 million facility, which matures on April 20, 2020, subject to two six-month extensions; and • Projected cash funds from operations of approximately $450 million annually.	• Scheduled principal amortization payments of $5 million to $6 million annually; • $275 million unsecured term loan maturing on Nov. 21, 2019; • Approximately $300 million to finance the redevelopment in progress and development projects under construction over the next year; • Portfolio- and leasing-related capital expenditures of approximately $60 million per year; and • Common and preferred dividends in the $320 million to $340 million range over the next two years.

Debt maturities

Chart 4

Federal Realty Investment Corp. Debt Maturity Schedule



Source: Company supplemental

Covenant Analysis

Compliance expectations

As of March 31, 2019, Federal Realty was comfortably in compliance with all applicable covenants on its unsecured lines of credit, unsecured term loans, and unsecured notes. We believe the company will maintain sufficient cushion under its covenants over the next 12-24 months.

Requirements

Unsecured Debt:

- Maximum debt to asset ratio of 60% (39% as of Dec. 31, 2018);
- Maximum secured debt to asset ratio of 40% (6.3% as of Dec. 31, 2018);
- Debt service ratio of greater than 1.5x (4.3x as of Dec. 31, 2018); and
- Minimum unencumbered asset percentage of 150% (258% as of Dec. 31, 2018).

Issue Ratings - Subordination Risk Analysis

Capital structure

For real estate companies, we typically rate the senior unsecured debt the same as the issuer credit rating unless the percentage of secured debt exceeds 35% of total undepreciated assets (or 40% of the fair market value of assets). The majority of Federal Realty's properties are unencumbered.

Analytical conclusions

The ratio of secured debt to undepreciated asset base is 6.3%, which is less than the threshold of 35.0%. Therefore, we rate the company's unsecured debt at 'A-', the same as the issuer credit rating.

Reconciliation

Table 3

Reconciliation Of Federal Realty Investment Trust Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2018--									
Federal Realty Investment Trust reported amounts										
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
	3,229.2	2,345.9	915.4	594.0	349.7	110.2	605.4	516.7	316.5	66.1
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(0.7)	--	--	--
Cash taxes paid - Other	--	--	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	--	(107.5)	--	--	--
Operating leases	61.2	--	--	4.7	4.2	4.2	(4.2)	0.4	--	--
Debt-like hybrids	160.0	(160.0)	--	--	--	8.0	(8.0)	(8.0)	(8.0)	--
Accessible cash & liquid investments	(64.1)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	18.8	(18.8)	(18.8)	--	(18.8)
Share-based compensation expense	--	--	--	11.7	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	0.9	--	--	--	--	--
Noncontrolling interest/minority interest	--	257.6	--	--	--	--	--	--	--	--
Revenue - Other	--	--	(5.0)	(5.0)	(5.0)	--	--	--	--	--
Total adjustments	157.1	97.7	(5.0)	11.4	0.2	31.1	(139.3)	(26.4)	(8.0)	(18.8)

Table 3

Reconciliation Of Federal Realty Investment Trust Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) (cont.)

S&P Global Ratings' adjusted amounts

Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
3,386.3	2,443.5	910.4	605.4	349.9	141.3	466.1	490.2	308.4	47.3

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/--

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- REITrends: Back In The Capital Markets And Largely Well Positioned For Opportunity, May 31, 2019
- ESG Industry Report Card: Real Estate And Homebuilders/Developers, June 3, 2019

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 14, 2019)*

Federal Realty Investment Trust		
Issuer Credit Rating		A-/Stable/--
Preference Stock		BBB
Senior Unsecured		A-
Issuer Credit Ratings History		
19-Apr-2013	*Foreign Currency*	A-/Stable/--
24-Apr-2012		BBB+/Positive/--
23-Oct-2008		BBB+/Stable/--
19-Apr-2013	*Local Currency*	A-/Stable/--
24-Apr-2012		BBB+/Positive/--
23-Oct-2008		BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.