

Rating Action: Moody's upgrades Granite REIT to Baa2; outlook stable

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Approximately C\$460 million in securities affected.

New York, June 16, 2014 -- Moody's Investors Service upgraded Granite REIT Holdings Limited Partnership's senior unsecured debentures to Baa2, from Baa3 with a stable outlook. Moody's also upgraded the ratings of Granite Real Estate Investment Trust to Baa2, from Baa3 with a stable outlook. Granite is a Canadian-based REIT engaged in the ownership and management of predominantly industrial properties located in North America and Europe.

This rating action reflects Granite's execution of its strategic restructuring plan with good financial metrics and a prudently managed balance sheet. Granite converted to a REIT in January 2013, and since that time acquired 12 non-Magna income producing properties, agreed to sell the Mexico portfolio to Magna, renewed or extended over 9 million square feet with Magna, leased to 20 non-Magna tenants to diversify its tenant-base, and reduced its Magna exposure from 97% to 85%, while maintaining solid financial metrics and occupancy.

The stable outlook reflects Moody's expectation that Granite will at least maintain its solid operational performance as a net lease company and liquidity commensurate with the rating, while continuing to acquire properties leased to non-Magna tenants to increase tenant diversification. The stable outlook also reflects Moody's expectation that Granite's management is committed to an unsecured debt capital structure and continued conservative credit metrics, despite the anticipated leverage increase.

The following ratings were upgraded with a stable outlook:

Granite Real Estate Investment Trust— senior unsecured debt to Baa2, from Baa3; senior unsecured shelf to (P)Baa2, from (P)Baa3.

Granite REIT Holdings Limited Partnership- senior unsecured debt to Baa2, from Baa3; senior unsecured shelf to (P)Baa2, from (P)Baa3; senior subordinate debt shelf to (P)Baa3, from (P)Ba1; subordinate debt shelf to (P)Baa3, from (P)Ba1.

RATINGS RATIONALE

The Baa2 rating reflects Granite's consistent cash flows from long-term net leases, the majority of them leased to the REIT's former parent, Magna International, Inc. (Baa1, stable rated), from which Granite was spun off in 2003. Granite completed its conversion to a Canadian REIT in January 2013.

Granite's debt metrics are well-situated with enough internal liquidity to cover its cash needs over the next year. Granite's main source of liquidity is cash flows from its real estate operations, which are stable given the net lease structure. The company also has a C\$175 million multicurrency revolver (74% available at 1Q14) that is mainly used for acquisitions, which matures February 2015 (with a C\$75 million accordion and one-year extension option) and C\$76 million cash on balance sheet. The only near term major debt maturity the company has is approximately C\$265 million of senior unsecured debentures due December 2016. The majority of Granite's assets are unencumbered, a plus. Fixed charge coverage is strong at 6.9x at 1Q14. Granite's leverage (debt/gross assets of 23% at 1Q14) and net debt/EBITDA (2.6x at 1Q14) are also very strong. The company currently has a secured debt/gross assets ratio of 1.9% and is expected to maintain a mostly unsecured capital strategy going forward. Although Granite has some unhedged FX exposure, its revenues are diversified, with approximately 28% in Canadian dollar, 25% in US dollar and 46% in Euro (1% other currencies).

These credit strengths are counterbalanced by Granite's acute concentration with Magna, as well as its reliance on the health of the auto industry, which is a cyclical business. However, the Magna concentration has decreased to 85% of Granite's annualized lease payments from 97% over the past year and will be reduced further after upcoming acquisitions and closing the sale of the Mexican portfolio.

Granite has a strong franchise in owning and operating 113 properties located in nine countries. Granite has 32 million square feet of leaseable area in the core real estate business, which is concentrated in terms of property

type -- a credit challenge, with approximately 99% (based on square footage) manufacturing plants and warehouses, and 1% office buildings. Based on square footage, approximately 78% of these properties are comprised predominantly of industrial plants strategically located and used by Magna to provide automotive parts and modules to the world's manufacturers of cars and light trucks for their assembly plants throughout North America and Europe. On a fair value basis at 1Q14, the properties are distributed in Canada (29%), Austria (31%), USA (18%), Germany (11%), Mexico (5%), Netherlands (4%), and other countries (2%). The total amount of development and redevelopment has historically been low, and Moody's anticipates it remaining minimal in the intermediate term.

Moody's stated that rating improvement is unlikely in the intermediate term, but would be contingent upon the current management team's ability to successfully execute their strategic plan towards greater tenant diversification with Magna comprising less than 40% of Granite's annualized lease revenues, while maintaining strong credit metrics and showing other avenues of growth. A rating downgrade would occur should Granite experience a substantive weakening in its credit metrics likely resulting from a significant deterioration in the automotive industry that forces Magna International to close a large number of its properties leased from Granite, significant changes in growth strategy, or substantially increased leverage beyond Granite's stated range.

Moody's last rating action with respect to Granite was on September 30, 2013 when Moody's rated Granite REIT Holdings Limited Partnership's senior unsecured debentures at Baa3 with a positive outlook and also affirmed the ratings of Granite Real Estate investment Trust at Baa3 and revised the rating outlook to positive.

Granite Real Estate Investment Trust. (GRT.UN.TO:TSX; GRP.U:NYSE) is a Canadian-based real estate investment trust engaged in the ownership and management of predominantly industrial, warehouse and logistics properties in North America and Europe. As of March 31, 2014, Granite had total assets of C\$2.5 billion and total equity of C\$1.7 billion.

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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