Rating Report

Granite REIT Holdings Limited Partnership

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DBRS
Insight beyond the rating.

Rating

Debt	Rating	Rating Action	Trend
Senior Unsecured Debentures	BBB	Confirmed	Stable

Rating Update

On March 15, 2018, DBRS Limited (DBRS) confirmed the rating of Granite REIT Holdings Limited Partnership's (GRHLP) Senior Unsecured Debentures at BBB with a Stable trend. DBRS notes that the rating is based on the credit risk profile of the consolidated entity, including GRHLP and its subsidiaries, Granite Real Estate Investment Trust (Granite REIT) and Granite REIT Inc. (collectively, Granite or the Trust). The rating is supported by Granite's strong anchor tenant in Magna International Inc. (rated A (low) with a Stable trend by DBRS) via its operating subsidiaries (together, Magna), stable industrial portfolio, low proportion of secured debt and financial flexibility (total debt-to-EBITDA of 3.5 times (x)) to execute its strategic plan of leveraging the balance sheet to acquire productive assets. The rating is restrained by Granite's small portfolio, relative to similarly rated entities; high proportion of special-purpose facilities; tenant and geographic concentration; and the execution risk of Granite's aforementioned strategic plan.

The Stable rating outlook reflects DBRS's view that, in the near to medium term, Granite will lever the balance sheet and deploy several hundred million dollars to acquire accretive assets, primarily in the United States, potentially resulting in improving the diversification of the portfolio by reducing property/tenant/geographic concentration risks while increasing leverage.

During fiscal year 2017 (F2017), Granite's EBITDA was $192.7 million, a reduction of $0.3 million or 0.2% over the prior year that was largely driven by lease renewals and extensions at lower rental rates in Canada and the United States; vacancies (incremental vacancy of 1.0%) and disposals; and negative foreign exchange impacts, which were partially offset by expansions, contractual rent increases and acquisitions. Granite continues to generate significant free cash flow, achieving $41.6 million in F2017.

DBRS would consider a positive rating action should Granite significantly increase the size and scale of its portfolio as measured by EBITDA while continuing to diversify and upgrade its portfolio and while maintaining key financial metrics at levels commensurate with the current rating category and a low proportion of secured debt to total debt (less than 40%). Alternatively, DBRS would consider a negative rating action should the proportion of secured debt materially increase in Granite's capital structure such that secured debt comprises more than 40% of total debt on a sustained basis.

DBRS notes that the Senior Unsecured Debentures of GRHLP are unconditionally guaranteed by Granite REIT and Granite REIT Inc. (for further detail, refer to the Rating Approach and Organizational Structure Sections on pages 9 and 10, respectively). DBRS further notes that Granite's reported financial statements are based on the consolidated entity.

Financial Information

	For the year ended Dec. 31					
IFRS	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Total debt/total capital	24.1%	24.9%	23.3%	26.0%	24.9%	14.8%
Total debt/EBITDA	3.5	3.4	3.0	3.2	3.2	1.8
EBITDA ($ millions)	192.7	193.0	186.7	177.5	171.9	146.1
EBITDA interest coverage (incl. capitalized interest)	9.74	9.75	9.87	7.38	8.41	8.66
EBITDA interest coverage (excl. capitalized interest)	9.74	9.79	9.91	7.41	8.46	8.92

Note: Granite Real Estate Investment Trust and Granite REIT Inc. combined results.

Issuer Description

Granite owns a portfolio of 84 income-producing industrial properties* in North America and Europe consisting of a mix of special-purpose, modern warehouse and multi-purpose assets located in nine countries, primarily Southern Ontario and the Graz region of Austria. The portfolio is predominantly leased to Magna (61% of the gross leasable area (GLA)), resulting from Granite being a spinoff of Magna's real estate assets in 2003.

* Excludes ten properties sold in January 2018 and classified as assets held for sale as at December 31, 2017.

Rating Considerations

Strengths	Challenges

1. Strong anchor tenant

The portfolio is predominately leased to Magna, which currently represents 71% of Granite's F2017 revenue as at December 31, 2017.* DBRS is of the view that several of Granite's properties are core plants for Magna, as evidenced by Magna's considerable capital investments and expansions in many of these plants over the years, as well as the renewal and extension of leases at 15 properties announced in October 2016 with some of the lease deals including terms in excess of 15 years. These long-term, typically triple-net lease deals with low counterparty risk contribute strongly to the overall cash flow stability of Granite's income-producing portfolio.

2. Stable industrial portfolio

Granite owns a relatively stable portfolio of 84 income-producing industrial properties comprising 29.1 million square feet of leasable area as at December 31, 2017.* The portfolio consists of a mix of special-purpose, modern warehouse and multi-purpose properties that are well located primarily in the key industrial markets of Southern Ontario and the Graz region of Austria, as well as the United States, Germany, the Netherlands, Poland, the Czech Republic, the United Kingdom and Spain.

3. Low proportion of secured debt

Granite has a relatively low level of secured debt as a proportion of its total debt compared to other DBRS-rated real estate entities. As at December 31, 2017, secured debt was not a part of Granite's capital structure and thus accounted for 0% of the Trust's total debt. With less than 40% of the total debt ranking ahead of the Senior Unsecured Debentures in Granite's debt structure and DBRS's expectation for this to continue, the rating of the Senior Unsecured Debentures is elevated one notch to reflect DBRS's view of minimal subordination.

4. Financial flexibility to execute strategic plan

With current total debt-to-EBITDA of 3.5x (F2017) as at December 31, 2017, Granite has considerable ability to increase leverage and deploy the balance sheet in acquiring assets over the next 12 months to 24 months. DBRS has factored in additional leverage into the current rating, including Granite's new unsecured revolving credit facility of $500 million.

1. Small portfolio in a relative sense

Granite's portfolio is relatively small within the current rating category as measured on an EBITDA basis of $192.7 million as at F2017. Most similarly rated real estate entities by DBRS typically generate EBITDA in excess of $300 million. Larger real estate entities are typically more diversified and have broader tenant profiles.

2. High proportion of special-purpose facilities

Of its 84 income-producing properties, Granite has nine special-purpose properties worth an estimated fair value of $1,210.4 million, representing 44% of Granite's total estimated fair value ($2.734 billion) as at December 31, 2017. As the name implies, Granite's special-purpose industrial properties are built-to-suit facilities that are specialized as per the needs of a particular tenant (Magna), which increases re-leasing risk should such a need for re-leasing arise. Furthermore, within Granite's top ten largest properties, seven are special-purpose facilities and comprise a combined 39% of Granite's portfolio GLA, indicating some degree of property concentration risk.

3. Tenant concentration

Granite has a high degree of tenant concentration risk as Magna accounts for 71% of Granite's F2017 revenue as at December 31, 2017.* As such, Granite's credit risk profile could be affected by significant adverse changes in Magna's business strategy and counterparty risk.

4. Geographic concentration

Granite's portfolio has a significant degree of geographic concentration in the Graz region of Austria (26% of total portfolio GLA*) and Southern Ontario (19% of total portfolio GLA*), which exposes Granite to changes in economic conditions in these markets. Industrial property markets in the Graz area and in Southern Ontario are particularly sensitive to the health of the automotive industry, as this sector makes up a large proportion of their respective manufacturing industries.

5. Strategic plan execution risk

Granite's strategic plan of deploying the balance sheet through acquisitions over the next 12 months to 24 months represents an accelerated pace of execution, and does not come without execution risks from acquiring assets in the current competitive environment (among other risks, such as integration) and limiting financial flexibility.

* Excludes ten properties sold in January 2018 and classified as assets held for sale as at December 31, 2017.

Earnings Profile

IFRS ($ millions)	2017	2016	2015	2014	2013	2012
	For the year ended Dec. 31					
Rental revenue	227.5	228.3	221.8	212.0	204.5	182.2
Operating expense	(9.3)	(7.6)	(7.1)	(6.9)	(5.6)	(5.6)
Net rental income	218.2	220.6	214.7	205.1	198.9	176.6
Net rental margin	95.9%	96.7%	96.8%	96.8%	97.3%	96.9%
EBITDA	192.7	193.0	186.7	177.5	171.9	146.1
EBIT	192.2	192.1	185.7	176.4	170.9	145.9
Net income before non-recurring items	159.0	124.7	130.8	144.0	140.0	117.8

Note: Granite Real Estate Investment Trust and Granite REIT Inc. combined results.

Summary

During F2017, Granite's EBITDA decreased to $192.7 million, a reduction of $0.3 million or 0.2% over the prior year. The decrease in EBITDA was driven primarily by lower revenues resulting from lease renewals and extensions at lower rental rates in Canada and the United States ($7.1 million), vacancies ($5.6 million) and disposals ($1.7 million) and a negative impact from an appreciating Canadian dollar relative to the U.S. dollar and the euro ($1.4 million). These negatives were partially offset by building expansions ($5.3 million), contractual rent increases ($3.0 million) and acquisition of three properties in the United States in October 2017 ($2.8 million).

Granite's F2017 net operating income (NOI) decreased 1.1% ($2.4 million) year over year to $218.2 million, while general and administrative (G&A) expenses declined by $1.9 million to $26.1 million, or 12.0% of NOI versus 12.7% the prior year. The decline in G&A expense was primarily the result of reduced headcount and consulting fees, partially offset by increased unit-based compensation costs. Granite's net rental margin has been somewhat stable at roughly 97% over the last several years, while declining slightly to 95.9% in F2017.

Outlook

In the medium term, DBRS expects Granite's EBITDA to grow materially as management executes growth initiatives and deploys the balance sheet toward accretive acquisitions over the next 12 months to 24 months. DBRS notes that acquiring industrial real estate, particularly modern warehouse and logistics properties, could be challenging in light of the current competitive market for quality industrial real estate.

Regarding recent acquisition and disposition activity, DBRS notes that on October 6, 2017, Granite closed the USD 122.8 million acquisition of three fully occupied warehouse and logistics properties in the United States that are estimated to generate stabilized NOI of USD 7.5 million. DBRS further notes that on February 1, 2018, Granite closed the sale of ten properties (including three special-purpose properties) for proceeds of approximately $391 million and combined NOI of $25.6 million.

Financial Profile

Cash Flow Statement	For the year ended December 31					
IFRS ($ millions)	2017	2016	2015	2014	2013	2012
Net income before non-recurring items	159.0	124.7	130.8	144.0	140.0	117.8
Depreciation and amortization	1.1	2.6	1.8	2.7	1.5	0.8
Deferred income taxes and other	15.4	47.8	26.3	10.3	0.4	(13.6)
Cash Flow from Operations	**175.4**	**175.2**	**158.8**	**157.0**	**142.0**	**104.9**
Maintenance capital expenditures	0.0	0.0	0.0	0.0	0.0	0.0
Leasing costs and tenant improvements	(3.6)	(3.7)	(3.0)	(45.2)	(2.2)	(3.2)
Cash Available for Distribution	**171.8**	**171.6**	**155.8**	**111.8**	**139.8**	**101.7**
Distributions	(122.6)	(113.1)	(108.3)	(103.2)	(90.3)	(93.8)
Cash Available After Distribution	**49.2**	**58.5**	**47.5**	**8.6**	**49.4**	**7.9**
Change in working capital	(7.6)	(0.0)	0.7	(6.2)	0.3	10.8
Free Cash Flow	**41.6**	**58.4**	**48.2**	**2.5**	**49.7**	**18.6**
Acquisition of real estate assets	(154.5)	(0.2)	(6.0)	(79.0)	(247.6)	0.0
Disposition of real estate assets	0.0	39.6	15.4	39.1	16.8	1.2
Capital expenditures	(83.1)	(19.3)	(23.7)	(36.7)	(27.3)	(28.4)
Other investments/dis. cont. ops. and non-recurring	1.5	(24.6)	4.7	82.4	0.3	4.9
Cash Flow before Financing	**(194.6)**	**53.9**	**38.6**	**8.2**	**(208.0)**	**(3.7)**
Net change in equity	(12.0)	1.6	(0.0)	1.8	3.1	(1.7)
Net change in debt	31.0	87.2	(35.5)	12.6	250.4	0.0
Other financing	(1.5)	(15.7)	(0.1)	(1.9)	(1.1)	(0.4)
Net Change in Cash	**(177.2)**	**127.1**	**2.9**	**20.7**	**44.4**	**(5.8)**

Key Financial Ratios						
Total debt/total capital	24.1%	24.9%	23.3%	26.0%	24.9%	14.8%
Cash flow/total debt	0.26	0.27	0.28	0.27	0.25	0.40
Total debt/EBITDA	3.5	3.4	3.0	3.2	3.2	1.8
EBITDA interest coverage (incl. capitalized interest)	9.74	9.75	9.87	7.38	8.41	8.66
EBITDA interest coverage (excl. capitalized interest)	9.74	9.79	9.91	7.41	8.46	8.92

Note: Granite Real Estate Investment Trust and Granite REIT Inc. combined results.

Summary

During F2017, Granite's cash flow from operations increased by $0.2 million (or 0.1%) to $175.4 million over the prior year. Granite's cash flow from operations continued to be sufficient to fund leasing costs and tenant improvements, distributions and working capital, resulting in a positive free-cash-flow position of $41.6 million.

During F2017, Granite invested $154.5 million into acquisitions, which primarily consisted of the acquisition of three fully occupied warehouse and logistics properties in the United States (which closed October 6, 2017), and a further $83.1 million into improvements, developments and expansions of the real estate portfolio. Granite funded the aforementioned investments primarily with cash on hand as well as drawings on its existing credit facility.

DBRS notes that pursuant to Granite's Normal Course Issuer Bid (NCIB), Granite purchased 241,034 stapled units in F2017 for total consideration of $12.0 million. Subsequent to YE2017, Granite purchased an additional 891,440 stapled units for total consideration of $43.9 million. The current NCIB allows for the purchase of an additional 2,986,283 stapled units prior to May 15, 2018.

In terms of Granite's financial metrics, total debt-to-EBITDA remains very low for the current rating category, while having generally deteriorated in recent years, increasing to 3.5x in F2017 versus 1.8x in 2012 as Granite has taken on additional debt. At the same time, Granite's EBITDA interest coverage (including capitalized interest) has improved in recent years, increasing to 9.74x versus a low of 7.38x in 2014 as a result of Granite's higher EBITDA and lower interest costs.

Outlook

In the medium term, DBRS expects fairly significant growth in Granite's cash flow from operations as Granite executes on its plan of deploying the balance sheet in order to fund accretive acquisitions. To be clear, DBRS understands acquisitions will be funded with debt (including the unsecured bond market), resulting in some deterioration in Granite's current conservative key financial ratios, most notably total debt-to-EBITDA and EBITDA interest coverage. DBRS further anticipates the resulting growth in cash flow from operations will drive increasing distributions, in combination with a modestly increasing payout ratio from roughly 80% adjusted funds from operations to the 85% range.

Debt and Liquidity Profile

Debt Maturity Profile

(as at Dec. 31, 2017) ($ millions)	2018	2019	2020	2021	2022	Thereafter	Total
Unsecured credit facility 1	-	32.6	-	-	-	-	32.6
Senior unsecured debentures 2	-	-	-	250.0	-	400.0	650.0
Total debt	**0.0**	**32.6**	**0.0**	**250.0**	**0.0**	**400.0**	**682.6**
% of total debt	0.0%	4.8%	0.0%	36.6%	0.0%	58.6%	100.0%

Debt Outstanding	Maturity	Interest rate	Amount
Unsecured credit facility 1	1-Feb-19	4	32.6
Senior unsecured debentures 2, 3	5-Jul-21	3.79%	250.0
Senior unsecured debentures 2, 3	30-Nov-23	3.87%	400.0
Total Debt			**682.6**

Liquidity	Limit	Used	Available
Cash and cash equivalents	-	-	69.0
Credit facility	250 1	32.8 5	217.2
Total			**286.2**

Note: Granite Real Estate Investment Trust and Granite REIT Inc. combined results.
1 Subsequent to December 31, 2017, Granite entered into a new unsecured credit facility of $500 million maturing February 1, 2023.
2 Principal amounts issued and outstanding.
3 Interest rates shown for the senior unsecured debentures do not account for cross currency interest rate swap agreements entered into by the Trust.
4 Interest on drawn amounts is calcuated based on an applicable margin of 1.45% determined by the Trust's current external credit rating.
5 Includes $32.6 million cash advances and $0.2 million used letters of credit under the credit facility.

Summary of Debt

Granite's total debt outstanding as at December 31, 2017, was $682.6 million, composed primarily of senior unsecured debentures (principal amounts issued and outstanding). DBRS notes that regarding the acquisition of three properties on October 6, 2017, the acquisition was funded partially by drawings on Granite's credit facility.

Debt Maturities

DBRS is of the view that Granite's current debt maturity profile is highly manageable with $250.0 million of debt maturing in 2021 and $400.0 million in 2023 (principal amounts outstanding), with a DBRS-estimated weighted-average interest rate of 3.84%. DBRS does not see a refinancing risk as likely given Granite's pool of unencumbered assets ($2.73 billion or 2.2x unsecured debt, assuming the credit facility to be fully drawn including any accordion feature*) and an ability to consistently generate positive operating cash flows. DBRS expects Granite will incur additional debt financing within the context of maintaining a conservative debt maturity schedule so as to mitigate refinancing risk.

Liquidity

Granite's total liquidity as at December 31, 2017, was $286.2 million comprised of $69.0 million in cash and cash equivalents and $217.2 million in unused capacity on its revolving credit facility. Granite is expected to maintain financial flexibility based on its ability to generate robust operating cash flows and access to liquidity under its current revolving credit facility. DBRS notes that on February 1, 2018, Granite announced that it has entered into an unsecured senior revolving credit facility in the amount of $500 million with a five-year term commencing February 1, 2018, that replaces Granite's existing $250 million credit facility. DBRS further notes that on February 1, 2018, Granite closed the sale of ten properties for proceeds of approximately $391 million.

* Excludes ten properties classified as assets held for sale as at December 31, 2017, and sold in January 2018, and includes, on a pro forma basis, Granite's new $500.0 million credit facility and $100.0 million accordion feature as at February 1, 2018.

Key Senior Unsecured Debenture Covenants

Please see the Trust Indenture dated October 2, 2013, and corresponding supplemental indentures for specific details surrounding the financial covenants and restrictions on indebtedness as abbreviated below.

- The Trust will maintain at all times a ratio of consolidated EBITDA to consolidated interest expense of not less than 1.65x.
- The Trust will not incur any indebtedness unless the ratio of consolidated indebtedness to aggregate assets is less than or equal to 60%, calculated on a pro forma basis.
- The Trust will maintain adjusted unitholders' equity of at least $500 million.
- The Trust will maintain at all times a ratio of unencumbered aggregate assets to consolidated unsecured indebtedness of not less than 150%.

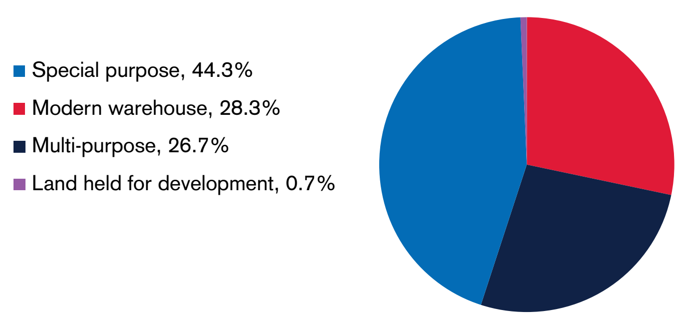
Real Estate Portfolio

DBRS summarizes Granite's income-producing property portfolio in the below table on a pro forma basis, excluding ten properties classified as assets held for sale as at December 31, 2017, and subsequently sold in January 2018.

(As at Dec. 31, 2017)	No. of properties	Leasable sq. ft. (mm)	% of Leasable sq. ft.	Year-to-date revenue ($mm)	% of year-to-date revenue
North America					
Canada	30	5.6	19.2%	44.8	22.7%
U.S.	25	10.0	34.4%	54.8	27.8%
Total North America	**55**	**15.6**	**53.6%**	**99.6**	**50.6%**
Europe					
Austria	11	8.1	27.8%	60.3	30.6%
Germany	11	3.2	11.0%	22.3	11.3%
Other	7	2.2	7.6%	14.8	7.5%
Total Europe	**29**	**13.5**	**46.4%**	**97.4**	**49.4%**
Total Portfolio	**84**	**29.1**	**100.0%**	**197.0**	**100.0%**

Granite has a mid-sized income-producing portfolio as measured by GLA of 29.1 million sf, while on an EBITDA basis Granite's portfolio is relatively small versus other investment-grade-rated peers with F2017 EBITDA of $192.7 million. Most similarly rated real estate entities rated by DBRS generate annualized EBITDA in the $350 million to $500 million range. Granite's 84 income-producing properties are primarily located in the key industrial markets of Southern Ontario and the Graz region of Austria, as well as the United States, Germany, the Netherlands, Poland, the Czech Republic, the United Kingdom and Spain. Additionally, Granite holds three development properties comprising an estimated 0.8 million sf GLA once completed.

Fair Value by Asset Category As of December 31, 2017 *



* Excludes ten properties sold in January 2018 and classified as assets held for sale as at December 31, 2017.

Real Estate Portfolio (CONTINUED)

Granite's focus is on the industrial real estate segment and its portfolio is composed of a mix of special-purpose, modern warehouse and multi-purpose industrial properties. Granite's portfolio is comprised primarily of special-purpose properties as measured by estimated fair value of $1,210.4 million, or 44.3% of the total portfolio estimated fair value of $2.734 billion. DBRS notes that Granite has identified modern warehousing and logistics properties as a segment targeted for growth in the portfolio while such properties have been in unusually high demand of late, largely driven by the rapid growth of the e-commerce space.**

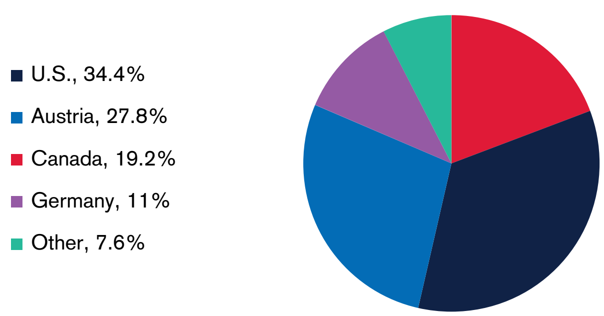
In the near to medium term, DBRS anticipates significant growth in Granite's income-producing property portfolio as Granite executes its strategy of acquiring industrial properties over the next 12 months to 24 months, with particular focus on warehouse/distribution and logistics properties.

Property Diversification

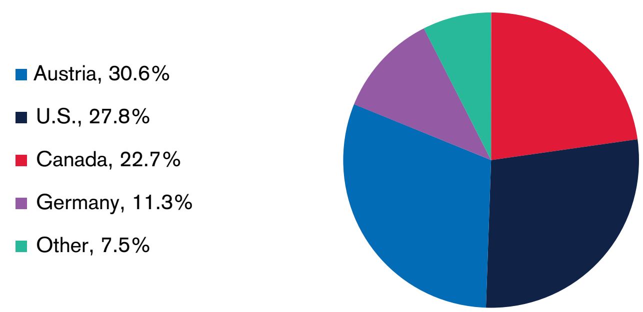
Within Granite's top ten largest properties, seven are special purpose facilities and comprise a combined 39% of Granite's portfolio GLA, indicating some degree of property concentration risk. DBRS expects some modest improvement in terms of Granite's property diversification in the near to medium term as Granite acquires additional modern warehouse/logistics properties and disposes of select special purpose properties.

Geographic Diversification

GLA by Geography for the year ended December 31, 2017 *



Revenue by Geography for the year ended December 31, 2017 *



At a high level, Granite's portfolio continues to benefit from multinational diversification. However, on a more granular level, Granite's Canadian portfolio is significantly concentrated in the Southern Ontario region while Granite's European portfolio is significantly concentrated in the Graz area of Austria, each comprising 19% and 26% of the total portfolio by GLA, respectively, by DBRS estimates.*

In the near to medium term, DBRS anticipates modest improvement in Granite's portfolio diversification as Granite pursues growth through acquisition, particularly in the United States, while at the same divesting of select special-purpose properties, which are primarily located in the Graz area of Austria and the Southern Ontario region.

* Excludes ten properties sold in January 2018 and classified as assets held for sale as at December 31, 2017.
** CBRE's Canada Office and Industrial Quarterly Statistics Report, Q4 2017.

Portfolio Occupancy

Granite's occupancy rate has trended in the high-90% range, most recently achieving 98.4% as at December 31, 2017, versus 99.4% as at December 31, 2016. DBRS expects Granite's occupancy rate to continue in the high-90% range in the near to medium term.

Lease Maturities

Lease Expiration Schedule

(as at Dec. 31, 2017) (thousands sq. ft.)	Vacant	2018	2019	2020	2021	2022	2023	2024 & thereafter	Total
Canada	-	1,061	435	1,033	316	490	685	3,706	7,726
U.S.	176	1,029	817	312	87	1,401	2,010	5,354	11,186
Austria	-	644	392	-	389	802	-	5,864	8,091
Germany	300	228	-	195	308	283	1,470	367	3,151
Netherlands	-	314	500	627	-	-	-	-	1,441
Other	-	90	136	133	336	56	-	-	751
Total	**476**	**3,366**	**2,280**	**2,300**	**1,436**	**3,032**	**4,165**	**15,291**	**32,346**
Less: 10 properties classified as "assets held for sale" and sold in January 2018		(483)					(91)	(2,672)	(3,246)
% of total, net of "assets held for sale"	**1.6%**	**9.9%**	**7.8%**	**7.9%**	**4.9%**	**10.4%**	**14.0%**	**43.4%**	**100.0%**

Granite's lease maturity profile is manageable with a weighted-average lease term to maturity of 5.9 years (by square footage), which is a marked improvement from 4.7 years as at YE2015 as Granite has rolled over maturing Magna leases into longer-term leases, exceeding 15 years in some cases. Furthermore, not more than 14.0% of leased area matures in any given year (2023), and only 41.0% matures over the next five years.

Tenant Profile

Granite's tenant base consists primarily of Magna (rated A (low), Stable trend by DBRS), representing 61% of GLA*, as well as 39 other tenants from a variety of industries which together comprise the balance. Of the 36 other tenants, none made up more than 3% of Granite's F2017 revenue. While on one hand Granite has a high degree of tenant concentration through its Magna exposure, on the other hand Magna is a solid investment-grade-rated credit with low counterparty risk.

In the near to medium term, DBRS anticipates Granite's Magna concentration to reduce materially as Granite executes its strategy of acquiring industrial properties over the next 12 months to 24 months, with particular focus on modern warehouse/distribution and logistics properties.

* Excludes ten properties sold in January 2018 and classified as assets held for sale as at December 31, 2017.

Rating Approach

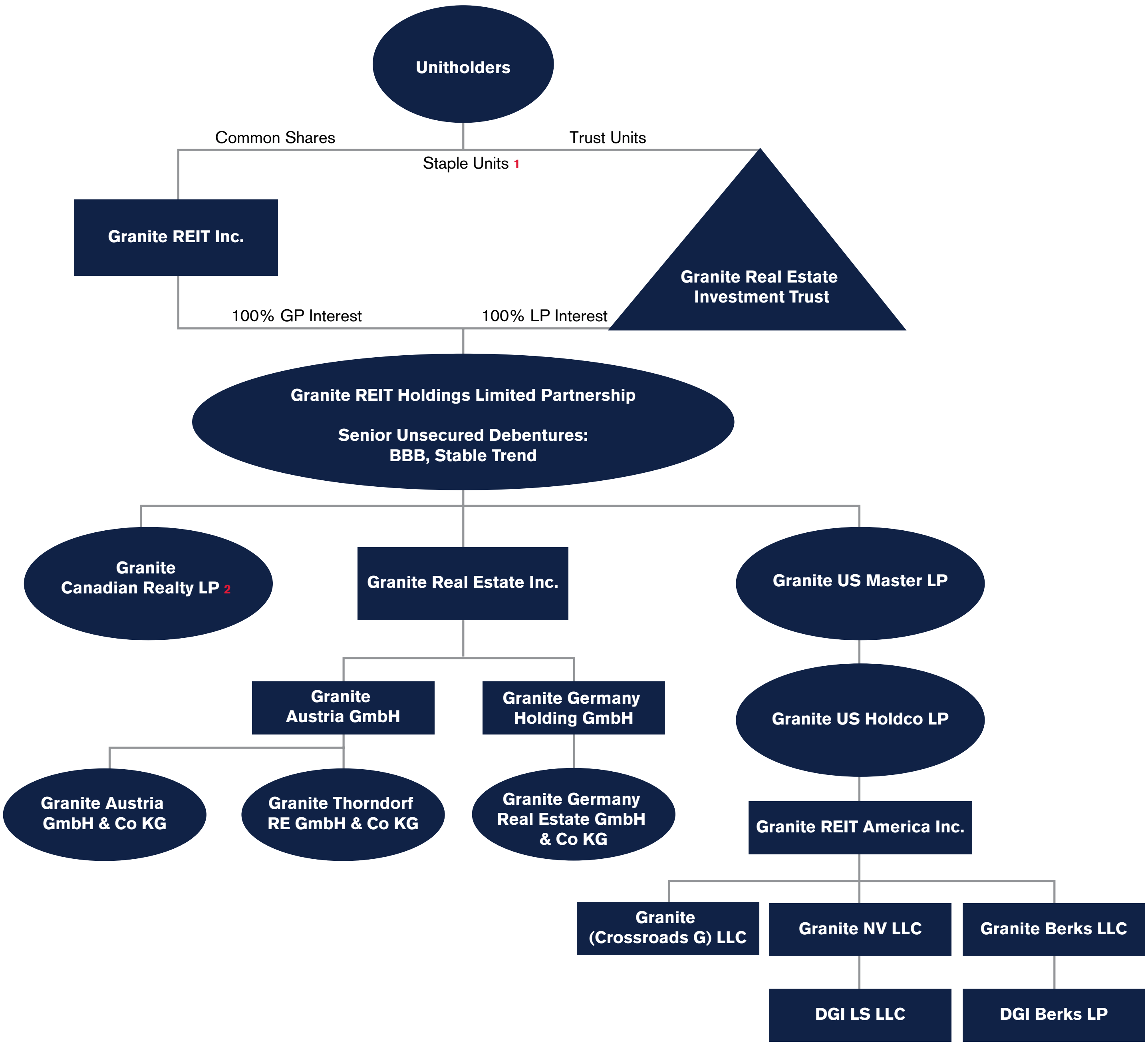
The Senior Unsecured Debenture rating for Granite is based on the DBRS methodology Rating Entities in the Real Estate Industry (April 2017; the Real Estate Methodology), and DBRS Criteria: Guarantees and Other Forms of Support (January 2018; the Guarantee Criteria).

The Real Estate Methodology reflects DBRS's assumption that real estate entities have a material amount of secured debt (i.e., greater than 40% of total debt) that ranks in priority to the Issuer's senior unsecured debt. As at December 31, 2017, Granite had no secured debt in its capital structure and thus its level of secured debt relative to total debt was less than 40%. DBRS expects Granite's ratio of secured debt to total debt to remain less than 40% in the near to medium term. As a result, the rating of the Senior Unsecured Debentures is elevated one notch to reflect DBRS's view of minimal subordination. DBRS notes that in determining the rating, it places greater emphasis on the overall business risk assessment score of BBB (low), which receives a one-notch uplift for Granite's very conservative financial risk assessment metrics.

The Guarantee Criteria is considered in assessing the credit risk profile of Granite as the Senior Unsecured Debentures of GRHLP are unconditionally guaranteed by the parent entities (the Parent Guarantee), Granite REIT and Granite REIT Inc., which report on a consolidated basis. However, DBRS notes that the Parent Guarantee does not impact the rating per se, but allows for the rating to be assessed on a consolidated basis. Furthermore, DBRS notes that based on Granite's current organizational structure (see below), and given that the Senior Unsecured Debentures of GRHLP are not guaranteed by any of Granite's operating subsidiaries, the rating of the Senior Unsecured Debentures are notched down one notch to reflect structural subordination.

Organizational Structure

Granite completed its conversion from a corporation to a real estate investment trust (REIT) structure on January 3, 2013. Granite REIT is an unincorporated and open-ended REIT, with its business carried on directly and indirectly by GRHLP, whose partnership units are owned entirely by Granite REIT and Granite REIT Inc. Granite's material subsidiaries* are outlined below:



Notes:
As at December 31, 2017.
1 The trust units of Granite REIT and the common shares of Granite REIT Inc. trade as stapled units (Stapled Units), each consisting of one Granite REIT unit and one Granite REIT Inc. common share. Financial information of Granite REIT and Granite REIT Inc. is presented on a combined basis.
2 As per Granite's 2018 Annual Information Form, "in January 2018, Granite Canadian Realty LP was wound up and its assets and liabilities were transferred to a new entity, Granite Canadian Properties LP or sold to an external third party."

* As per Granite's 2018 Annual Information Form, subsidiaries not listed individually each represent less than 10% of Granite's total 2017 combined revenues and total combined assets as at December 31, 2017, and, in the aggregate, represent less than 20% of Granite's total 2017 combined revenues and total combined assets as at December 31, 2017.

Granite Real Estate Investment Trust & Granite REIT Inc.*

Balance Sheet

IFRS ($ millions)

Assets	2017	2016	2015	Liabilities & Equity	2017	2016	2015
	As at Dec. 31				As at Dec. 31		
Real estate assets 1	3,125.0	2,653.1	2,592.4	Mortgages	0.0	0.0	97.0
Cash and cash equivalents	69.0	246.2	119.2	Unsecured debentures	647.3	646.8	447.7
Accounts receivable	2.3	1.1	3.8	Credit facilities	32.6	0.0	19.4
Other receivables	0.2	0.4	3.2	Accounts payable	43.3	31.5	39.0
Goodwill and intangibles	0.0	0.0	0.0	Other payables	26.9	21.5	16.8
Other assets	9.9	10.9	13.3	Other liabilities	318.5	262.2	253.2
				Common equity	2,136.6	1,948.2	1,849.0
				Minority Interest	1.2	1.5	9.8
Total Assets	**3,206.4**	**2,911.6**	**2,731.8**	**Total Liab. & Equity**	**3,206.4**	**2,911.6**	**2,731.8**

	For the year ended Dec. 31					
Balance Sheet & Liquidity Ratios	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Total debt/total capital	24.1%	24.9%	23.3%	26.0%	24.9%	14.8%
Net debt/total capital	22.2%	17.0%	19.3%	21.9%	21.6%	12.3%
Cash flow/total debt	0.26	0.27	0.28	0.27	0.25	0.40
Total debt/EBITDA	3.5	3.4	3.0	3.2	3.2	1.8
Coverage Ratios						
EBITDA interest coverage (incl. capitalized interest)	9.74	9.75	9.87	7.38	8.41	8.66
EBITDA interest coverage (excl. capitalized interest)	9.74	9.79	9.91	7.41	8.46	8.92
Profitability Ratios						
EBITDA margin %	84.7%	84.5%	84.2%	83.7%	84.1%	80.2%
Cash flow return on average equity	8.6%	9.2%	9.1%	9.5%	8.9%	NA
Cash flow return on average capital	7.2%	7.8%	7.7%	8.1%	8.1%	NA
Operating Statistics						
Portfolio leasable area (thousands of sq. ft.)	29,100	29,593	30,546	30,217	31,922	28,043
Number of income-producing properties	84	92	98	103	112	104
Income Statement IFRS ($ millions)						
Rental revenue	227.5	228.3	221.8	212.0	204.5	182.2
Operating expense	(9.3)	(7.6)	(7.1)	(6.9)	(5.6)	(5.6)
Net rental income	**218.2**	**220.6**	**214.7**	**205.1**	**198.9**	**176.6**
General and administrative expense	(26.1)	(28.0)	(28.3)	(28.1)	(27.3)	(31.0)
Interest income	0.5	0.3	0.3	0.4	0.3	0.5
EBITDA	**192.7**	**193.0**	**186.7**	**177.5**	**171.9**	**146.1**
Depreciation and amortization	(0.6)	(0.9)	(0.9)	(1.1)	(1.0)	(0.2)
EBIT	**192.2**	**192.1**	**185.7**	**176.4**	**170.9**	**145.9**
Gross interest expense	(19.8)	(19.8)	(18.9)	(24.0)	(20.4)	(16.9)
Capitalized interest expense	0.0	0.1	0.1	0.1	0.1	0.5
Net interest expense	(19.8)	(19.7)	(18.8)	(23.9)	(20.3)	(16.4)
Other income/expense	0.0	0.0	0.0	0.0	0.0	0.0
EBT	**172.4**	**172.4**	**166.9**	**152.5**	**150.6**	**129.5**
Income taxes	(13.4)	(47.6)	(36.2)	(8.5)	(10.5)	(11.7)
DBRS Adjusted Net Income	**159.0**	**124.7**	**130.8**	**144.0**	**140.0**	**117.8**
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Income before Non-recurring Items	**159.0**	**124.7**	**130.8**	**144.0**	**140.0**	**117.8**
Non-recurring items	198.8	155.9	64.8	(80.3)	5.2	32.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Income	**357.7**	**280.7**	**195.5**	**63.7**	**145.3**	**149.8**

* Granite Real Estate Investment Trust and Granite REIT Inc. combined results.
1 Includes properties classified as "assets held for sale" at December 31, 2017.

Rating History

	Current	2016	2015	2014	2013	2012
Senior Unsecured Debentures	BBB	BBB	BBB	BBB	BBB	BBB

Previous Action

- Confirmed, March 15, 2018.
- "DBRS Assigns Rating of BBB to Granite REIT Holdings Limited Partnership's $400 Million Series 3 Senior Debentures," December 20, 2016.
- Confirmed, May 26, 2016.

Related Research

- *Corporate Risk Assessment Scorecard for the Real Estate Industry,* July 18, 2017.
- *Canadian Real Estate Q4 2016,* June 15, 2017.

Previous Report

- Granite REIT Holdings Limited Partnership: Rating Report, May 26, 2016.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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