DBRS Limited (DBRS Morningstar) upgraded its rating on SmartCentres Real Estate Investment Trust’s (SmartCentres or the Trust) Senior Unsecured Debentures to BBB (high) from BBB with a Stable trend following the Trust’s December 6, 2019, announcement that it has repaid $213 million of mortgage debt subsequent to Q3 2019 and will continue to reduce secured debt in its debt structure. This upgrade principally reflects SmartCentres’: (1) sooner-than-anticipated transition to a predominantly unsecured debt capital structure, with secured debt-to-total debt trending comfortably below 40% on a sustained basis as the Trust endeavours to continue repaying or prepaying mortgages with unsecured debt in the near to medium term and (2) growing quality portfolio of unencumbered assets, which currently provides approximately 2.0 times (x) coverage of unsecured debt (including undrawn capacity on unsecured credit facilities). DBRS Morningstar believes that a largely unsecured debt stack combined with a large quality pool of unencumbered assets providing financial flexibility and access to liquidity, if needed, and satisfactory forward-looking key financial risk metrics collectively warrant a rating uplift.

DBRS Morningstar estimates that SmartCentres’ secured debt-to-total debt ratio will be approximately 38% immediately following the announcement. DBRS Morningstar expects this ratio to continue to improve in the near to medium term with further prepayments of outstanding mortgages. Correspondingly, the Trust’s repayment of these mortgages unencumbers approximately $720 million of assets, bringing the total value of unencumbered assets to approximately $5.5 billion.

These repayments do not change DBRS Morningstar’s expectation, which is already incorporated into the rating, that total debt-to-EBITDA and EBITDA interest coverage (including capitalized interest) will be below 8.6x and above 3.0x, respectively, on a sustained basis through 2021, all else equal.

A negative rating action could occur if the Trust fails to meet the aforementioned total debt-to-EBITDA and EBITDA interest coverage expectations or secured debt-to-total debt is no longer comfortably below 40% or the quality of the unencumbered asset pool and amount of coverage of unsecured debt by the unencumbered pool deteriorates materially. A further positive rating action is also not contemplated in the near to medium term, all else equal.

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

The principal methodologies are Rating Entities in the Real Estate Industry, DBRS Criteria: Guarantees and Other Forms of Support, and DBRS Morningstar Criteria: Rating Corporate Holding Companies and Parent/Subsidiary Rating Relationships, which can be found on dbrs.com under Methodologies & Criteria.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrs.com.
The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada

Ratings

SmartCentres Real Estate Investment Trust

<table>
<thead>
<tr>
<th>Date Issued</th>
<th>Debt Rated</th>
<th>Action</th>
<th>Rating</th>
<th>Trend</th>
<th>Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-Dec-19</td>
<td>Senior Unsecured Debentures</td>
<td>Upgraded</td>
<td>BBB (high)</td>
<td>Stb</td>
<td></td>
</tr>
</tbody>
</table>

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