

## Rating Report

**Report Date:**  
November 20, 2009  
**Previous Report:**  
June 2, 2008



*Insight beyond the rating.*

# Galeries D'Anjou Shopping Centre

## Analysts

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## The Property

Galeries D'Anjou is a one million square foot regional shopping centre located on a 96-acre site in the northeast sector of the Isle of Montréal in the City of Anjou, which is an eastern suburb of Montréal. The Shopping Centre opened in 1968 and underwent renovation and expansion in 1976 and again in 1994.

(Recourse to Cadillac Fairview 50%, and Ivanhoe Cambridge I Inc. and Ivanhoe Cambridge II Inc. 50%)

## Rating

Debt	Rating	Rating Action	Trend
First Mortgage Bonds, due November 2012	BBB (high)	Confirmed	Stable

## Rating Update

DBRS has confirmed its BBB (high) rating of Galeries D'Anjou's (D'Anjou or the Shopping Centre) First Mortgage Bonds, due 2012, with a Stable trend. The Shopping Centre's credit profile remains stable, with modestly improving operating fundamentals and a satisfactory interest coverage ratio.

The current rating is based on the performance of the Shopping Centre and reflects the following: (1) Commercial retail unit (CRU) sales continued to trend upwards, increasing to \$472 per square foot (+2%) over \$469 in 2007. This improvement was partly due to good consumer spending levels and the Shopping Centre's good tenant profile, which has improved over the past several years. However, DBRS notes that D'Anjou's CRU sales performance is at a level below comparable DBRS-rated shopping centres in eastern and central Canada (\$500 to \$600 psf). Going forward, DBRS expects the Shopping Centre's CRU sales performance to continue to modestly improve and remain competitive within its market.

(2) Net operating income (NOI) growth has been reasonable over the past years due to modest growth in rental rates and a low CRU vacancy rate of 4.3% as at October 1, 2009. Although lower than in prior years (due to a higher interest associated with the retraction option in 2004), the 2008 interest coverage ratio of 2.47 times is still in line with the current rating category and satisfactory for a shopping centre of D'Anjou's caliber.

(3) Bondholders have full recourse back to (a) The Cadillac Fairview Corporation Ltd. (CFCL) for 50%; and (b) Ivanhoe Cambridge I Inc. and Ivanhoe Cambridge II Inc. (together Ivanhoe Cambridge) for 50% (collectively, the Co-Owners) on a several basis, in proportion to their respective interests. DBRS views the Co-Owners as solid investment-grade credits. (4) The Shopping Centre's loan-to-value ratio is very conservative, with \$102 million debt outstanding as at October 1, 2009. (Continued on page 2.)

## Rating Considerations

### Strengths

- (1) D'Anjou is a well-established regional shopping centre located on a 96-acre site in the City of Anjou, an eastern suburb of Montréal. The Shopping Centre is ideally situated, with good road accessibility, at the southwest corner of boulevard Louis-Hippolyte-Lafontaine (autoroute 25) and the Trans-Canada Highway (autoroute 40).
- (2) Although interest coverage (interest coverage ratio was 2.47 times as of F2008) is below levels of prior years due to a higher interest rate associated with a retraction option in 2004, it is still in line with the current rating category.
- (3) D'Anjou has strong ownership in (a) CFCL for 50%, and (b) Ivanhoe Cambridge for 50%. Bondholders have recourse to the Co-Owners on a several basis, in proportion to their respective interests.

### Challenges

- (1) Notwithstanding consistent year-over-year improvement, sales performance continues to lag comparable shopping centres in eastern and central Canada rated by DBRS.
- (2) The Bonds are interest only, meaning their principal amount does not amortize over the term of the issue. The Bonds mature November 1, 2012, with a balloon payment of \$102 million (assuming no prepayment), and will either have to be paid out, or new financing terms arranged. This introduces refinancing risk, the full impact of which will not be known until closer to 2012.
- (3) D'Anjou's anchor tenants (The Bay, Zellers and Sears) continue to face significant competition from discount retailers. DBRS believes that this could potentially result in at least one of the above tenants undertaking strategic changes.



## Galleries D'Anjou

**Report Date:**  
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### Rating Update (Continued from page 1.)

The rating is also limited by certain rating constraints. Despite consistent year-over-year improvement, sales performance continues to lag behind comparable shopping centres in eastern and central Canada rated by DBRS. This can be attributed to the competition in the retail area, specifically with Place Versailles.

Second, the Bonds are interest-only, meaning their principal amount does not amortize over the term of the issue. The Bonds mature November 1, 2012, with a balloon payment of \$102 million (assuming no prepayment), and will either have to be paid out, or new financing terms arranged. This introduces refinancing risk, the full impact of which will not be known until closer to 2012.

Third, D'Anjou's anchor tenants (The Bay, Sears and Zellers) continue to face significant competition from discount retailers and changing trends in retail formats, including new power centre layouts. DBRS believes that this could potentially result in at least one of the noted tenants undertaking strategic changes. DBRS notes, however, that any potential disruption would likely be short term in nature, given the overall quality and location of D'Anjou.

Overall, DBRS views these risks as manageable, considering the Shopping Centre's noted credit strengths, and has reflected this in the current rating category. Going forward, DBRS believes D'Anjou's credit metrics will remain in a satisfactory range for the current rating category going forward.

### The Property

	<u>Leasable Area (sq. ft.)</u>	<u>% GLA</u>	<u>Lease Expiry</u>
<b>Anchor Tenants</b>			
Zellers	121,416	11.8%	2015
The Bay	190,192	18.5%	2018
Sears	146,571	14.3%	2011
The Brick	77,881	7.6%	2014
<b>Total Anchor Tenants</b>	<b>536,060</b>	<b>52.1%</b>	
Sports Experts	35,368	3.4%	2013
Future Shop (free-standing building)	30,809	3.0%	2020
H&M	18,327	1.8%	2016
Old Navy	16,744	1.6%	
Boston Pizza	5,996	0.6%	2027
<b>Total Large Non-Major Tenants</b>	<b>107,244</b>	<b>10.4%</b>	
<b>CRU Tenants</b>	<b>344,074</b>	<b>33.5%</b>	
<b>Total Retail Area</b>	<b>987,378</b>	<b>96.0%</b>	
Office	10,364	1.0%	
Storage	30,318	2.9%	
<b>Total Gross Leasable Area</b>	<b>1,028,060</b>	<b>100%</b>	



**Galleries D'Anjou**

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**Operating and Financial Metrics**

	For the year ended October 31				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CRU Net Rent</b> per sq. ft. (\$)	46.61	45.76	42.34	42.10	41.27
<b>CRU Sales</b> per sq. ft. (\$)	472	n/a	469	459	440
<b>CRU Rent/CRU Sales</b>	9.9%	n/a	9.0%	9.2%	9.4%

  

	For the year ended October 31				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>CRU Vacancy Rate</b>	4.3%	n/a	3.2%	4.1%	6.2%

  

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>CRU Lease Maturities</b>				
CRU area expiring (sq. ft.)	31,543	30,512	27,957	67,322
% of total CRU space	9.6%	9.3%	8.5%	20.5%

  

	For the year ended October 31				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Financial Metrics</b>					
Net operating income	19,694	19,629	19,098	18,652	18,230
Interest expense	7,976	7,976	7,976	7,976	6,630
Interest coverage (times)	2.47	2.46	2.39	2.34	2.75

**Terms of the Issue**

Original amount	\$102,000,000
Issue date	October 28, 1997
Maturity date	November 1, 2012
Retraction date	November 1, 2004
Retraction option	The First Mortgage Bonds are retractable at the option of the holder prior to the retraction date.
Interest rate	(a) 6.5% per annum payable from the date of issue until the retraction date. (b) If not retracted, 7.82% per annum from the retraction date to November 1, 2012.
Recourse	The First Mortgage Bonds are direct, unconditional full-recourse obligations of the Cadillac Fairview Corporation Ltd. and Ivanhoe Cambridge I Inc., and Ivanhoe Cambridge II Inc., which covenant on a several, but not joint and several, basis in relation to their respective co-ownership interests. Bondholders shall not be required to realize on their security before being entitled to enforce the covenants on the Co-Owners.
Additional issues	Permitted only for project additions or refinancing of retracted bonds, provided that (1) loan-to-value does not exceed 65% for project additions and 68% for refinancing; (2) debt service coverage is 1.40 times or better; and the bond's rating is reconfirmed at (a) for project additions, the greater of the initial rating of BBB (high) and the rating immediately prior to the issuance of any additional bonds; (b) for refinancing, at least as high as the existing rating immediately prior to the issuance of any additional bonds; and (3) there is no continuing event of default.



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## Rating History

	Current	2008	2007	2006	2005
First Mortgage Bonds, due 2012	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)

Note:

All figures are in Canadian dollars unless otherwise noted.

This report is based on information as of November 20, 2009. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.

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