January 14, 2013

The NBF Daily Bulletin
Real Estate

Partners REIT

Looking Forward to an Active 2013

Resuming Coverage Post Equity Offering – Acquisitions Expected

PAR.UN (T)	Cdn$7.75
Stock Rating:	Sector Perform (Was Restricted)
Target:	Cdn$8.80 (Was Restricted)
Risk Rating:	Below Average (Was Restricted)
Est. Total Return	21.8%

Stock Data:	
52-week Low	$7.04
52-week High	$8.60
Bloomberg/Reuters:	PAR-U / PAR.un

(Year-End Dec. 31)	10A	11A	12E	13E	14E
FFO per Unit	$0.61	$0.54	$0.61	$0.66	$0.69
AFFO per Unit	$0.42	$0.33	$0.45	$0.54	$0.59
Cash AFFO per Unit	$0.47	$0.44	$0.53	$0.59	$0.63
Current Multiples					
P / FFO	12.7x	14.4x	12.7x	11.7x	11.1x
P / AFFO	18.6x	23.2x	17.1x	14.2x	13.0x
Target Multiples					
P / FFO	14.4x	16.3x	14.5x	13.4x	12.7x
P / AFFO	21.2x	26.4x	19.5x	16.2x	14.8x
Distribution	$0.64	$0.64	$0.64	$0.64	$0.64
AFFO Payout	154%	192%	142%	118%	108%
Cash AFFO Payout	136%	147%	121%	109%	102%
Tax Deferral	100%	100%	100%	100%	100%

Financial Data:		
FD Units Outstanding		26.5
Market Capitalization		$205
Net Debt (Incl. Convertible Debt - Current)		$238
Enterprise Value		$443
Debt / Total Assets (Current - Incl. Convertible Debentures)		61%
Debt / Total Assets (Current - Excl. Convertible Debentures)		48%
Net Asset Value ("NAV") / Cap Rate		$7.15 / 7.00%
Debt / Market Value (Using NAV)		59%
Current Distribution (Annualized)		$0.64
Current Distribution Yield (Annualized)		8.3%
Major Unitholders (mln)	Units	%
IGW Public Limited Partnership	3.2	12.1%
TD Asset Management	0.4	1.4%
BluMont Capital	0.1	0.4%

Sources: Company Reports, Thomson One

Industry Rating: Market Weight
(NBF Economics & Strategy Group)

Company Profile:

Partners REIT is an open-ended real estate investment trust focused on acquiring and managing a portfolio of retail and mixed-use retail community and neighbourhood centres. The REIT targets properties in both primary and secondary markets across Canada and tends to transact on mid-market deals with values in the $10 to $50 million range.

Heather C. Kirk, CFA - (514) 390-7867 / (416) 869-6517
heather.kirk@nbc.ca

Associate: **Matt Kornack - (416) 869-6407**
matt.kornack@nbc.ca
Associate: Maria Jose Benavente – (416) 869-7535
mariajose.benavente@nbc.ca
Associate: Benjamin Raynauld – (416) 869-7102
benjamin.raynauld@nbc.ca

HIGHLIGHTS

- **Expecting a Strong Start to 2013 on Acquisition Front**
  Partners has the liquidity available post offering to make a significant acquisition. We expect the REIT to purchase $50 – 100 million of properties with the proceeds of this offering. A $75 million acquisition would be neutral on a leverage basis albeit leverage will remain on the high side at ~64% of FMV.

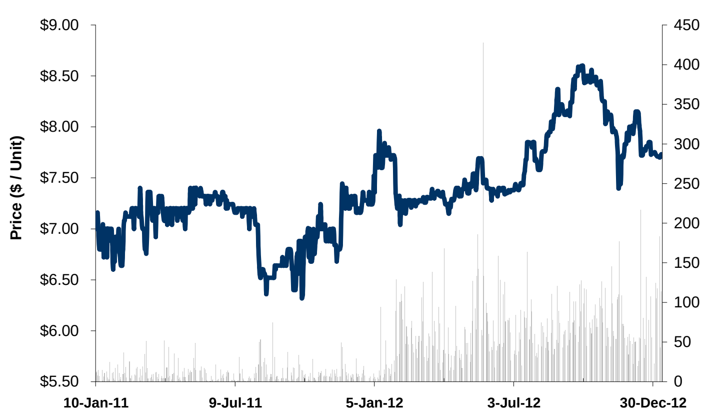
- **Repositioning of Mega Centre is Underway**
  PAR is progressing on the repositioning of its Mega Centre property in Montreal where a new Wal-Mart lease has been signed. Approximately $2.5 million was spent on the project in Q4 2012 and completion is scheduled for the beginning of Q2 2013. Total project cost is estimated at $5.0 million.

- **Expect Progress on Notes Receivable**
  We expect partial, if not full, reimbursement of the REIT's notes receivable in Q1. Retroactive interest rate adjustments should motivate League to reimburse the REIT expeditiously.

- **Positive Mortgage Refinancing in Q4 2012**
  In December the REIT refinanced $17.5 million in mortgages on its Canadian Tire properties at over 200 bps tighter than in-place rates. The REIT was able to up-finance the properties for net proceeds of $3.0 million.

- **Maintain Sector Perform and Target Price of $8.80:** 2013 should be an active year for the REIT from both an acquisition and repositioning standpoint. We expect PAR to aggressively grow its portfolio allowing it to improve its payout ratio and deleverage its balance sheet.

Stock Performance



Source: Bloomberg

For required disclosures, please see end of document.

Key Take-Away: Equity Offering Provides Liquidity For Significant Acquisition

Equity Offering: Partners closed its bought deal trust unit offering for gross proceeds of $25.9 million on January 10, 2013. The offering was completed at $7.70 per unit, which is 4.0% above the pricing on the REIT's previous offering in June 2012. The offering was completed above our previous NAV estimate of $7.10, which we view positively. After giving effect to the equity issuance the REIT's leverage will fall briefly to ~61% (incl. convertible debentures); however, this is likely a temporary reduction as we expect the proceeds of the offering will be used in conjunction with mortgage debt and the REIT's credit facility to complete a sizeable acquisition.

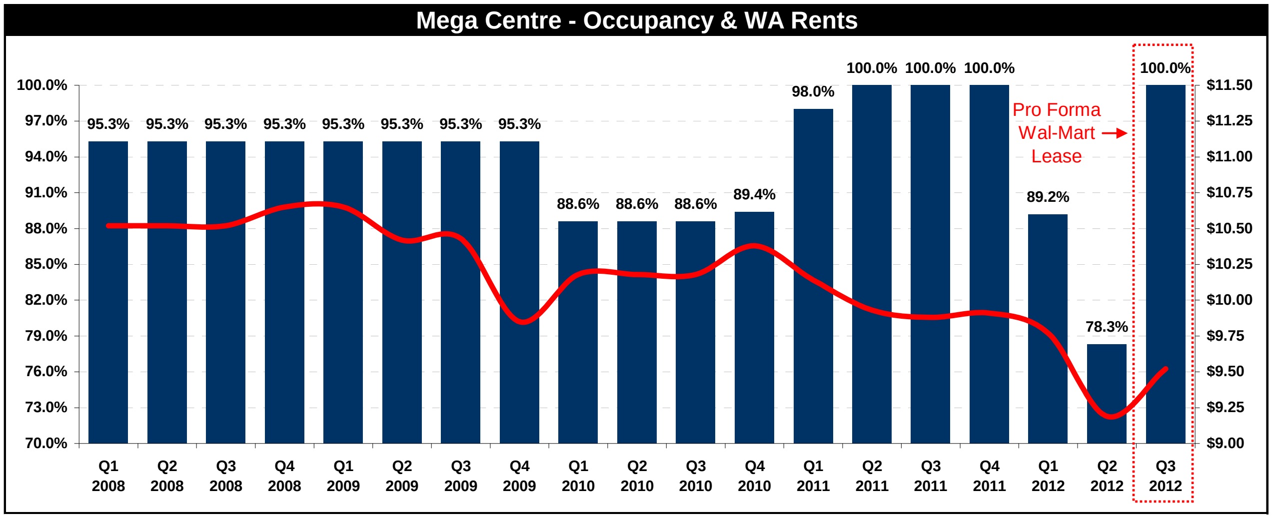
Liquidity: Partners has built a bit of a war chest over the last three months through a combination of equity issuances, mortgage up-financing and other sources. In addition, the REIT has nothing drawn on its credit facility (the REIT exercised its accordion feature increasing the maximum availability on this facility to $50 million).

IMPACT ON LIQUIDITY - POST Q3 2012	Date	Value
Balance Sheet Cash	**Q3 2012**	**$14.5**
Cash Inflows		
Cash from Warrant Exercise	Oct. 2012	$4.5
Cash from Mortgage Up-Financing	Dec. 2012	$3.0
Equity Offering	Jan. 2013	$24.4
Estimated Notes Receivable Repayment	Q4 2012	$2.0
Liquidity Before Acquisitions		**$48.4**
Cash Outflows (Acquisitions Net of Mortgages)		
Timmins West Power Centre	Dec. 2012	$5.0
Elgar Place	Dec. 2012	$2.1
Centre Village Shopping Centre	Dec. 2012	$19.8
Total Acquisitions		**$26.9**
Cash Available for Acquisitions		**$21.5**

Operating Highlights

Debt Refinancing: PAR completed the refinancing of $17.5 million of mortgages in December 2012. The mortgages had a weighted average interest rate of 5.65% and were refinanced for five years at 3.40% with a 20 year amortization period (those being refinanced had a 25 year amortization period). The debt is secured against the REIT's Canadian Tire portfolio and leases on these properties mature in September 30, 2023. This transaction represents an early refinancing as the existing mortgages didn't mature until Q3 2013. After taking into account this transaction the REIT has under $5.0 million in 2013 debt maturities remaining.

Mega Centre Repositioning: The Mega Centre transformation is underway with roughly $2.5 million having been spent on the new Wal-Mart location in Q4 2012. The REIT is investing $5.0 million to restore and expand value on this site and take advantage of its favourable location off highway 40 in Montreal. Management is working to reposition this property and the Wal-Mart is the first step in this process.



Source: Company reports

More than Doubles Asset Base in 2012: Partners completed $175 million of acquisitions in 2012 totalling ~720,000 sq.ft. at a weighted average cap rate of 7.01%. The acquisitions increased the REIT's portfolio size by approximately 65%.

An overview of acquisitions completed in 2012 is provided below:

PAR Acquisition Overview - FY 2012

Quarter Acquired	Description	Location	Price (000's)	Cap Rate(1)	Sq.ft.	Price / Sq. Ft.
Q4 2012	Timmins West Power Centre	Timmins, ON	$9 950	8.09%	43 774	$227.30
Q4 2012	Elgar Place	Nun's Island, QC	$2 086	6.39%	10 000	$208.57
Q4 2012	Centre Village Shopping Centre(2)	Nun's Island, QC	$19 814	6.39%	95 000	$208.57
Q2 2012	Washington Park Shopping Centre	Courtenay, BC	$11 950	6.44%	32 652	$365.98
Q2 2012	Grand Bend Towne Centre	Grand Bend, ON	$7 900	6.96%	41 605	$189.88
Q1 2012	Quinte Crossroads	Belleville, ON	$21 250	6.59%	88 319	$240.61
Q1 2012	Thunder Centre	Thunder Bay, ON	$38 000	7.24%	168 059	$226.11
Q1 2012	St. Claire Beach Towne Centre	Tecumseh, ON	$11 600	7.76%	40 088	$289.36
Q1 2012	King George Square	Brantford, ON	$16 400	7.32%	67 054	$244.58
Q1 2012	Crossing Bridge Square	Stittsville, ON	$11 200	6.70%	45 913	$243.94
Q1 2012	Manning Crossing	Edmonton, AB	$20 900	6.94%	64 525	$323.91
Q1 2012	Plaza des Seigneurs	Terrebonne, QC	$4 050	7.41%	20 810	$194.62
Total / Average YTD			**$175 100**	**7.01%**	**717 799**	**$243.94**

(1) Some Cap Rates Allocated Across Portfolios / Estimated by NBF

(2) Subject to land lease

Source: Company reports, NBF

Notes Receivable Update: The REIT announced in Q3 2012 that it had extended the maturity of its Notes Receivable with League Asset Corp. from September 15, 2012 to May 31, 2013. League is the REIT's external asset manager. As a result, according to the original agreement, interest on the notes became payable at 12.0%. However, if these notes are repaid before February 28, 2013, the interest rate will be reduced to 9.0% retroactively. The Notes Receivable total $7.9 million and were issued as a result of League backstopping the sale of mortgages that the REIT acquired as part of the NorRock transaction. We expect progress in the repayment of the Notes Receivable in Q1. Full repayment would be preferred; however, we expect that at least $2.0 million will be reimbursed in the near-term.

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