BRIXMOR™

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4Q 2013 EARNINGS CALL - FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

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PRESENTATION

Stacy Slater

Thank you, Amy, and thank you all for joining Brixmor's fourth quarter and year-end 2013 teleconference. With me on the call today are Michael Carroll, Chief Executive Officer, and Michael Pappagallo, President and Chief Financial Officer, as well as other key executives who will be available for Q&A.

Before we begin, I would like to remind everyone that our remarks and responses to your questions today may contain forward-looking statements that are based on current expectations of management and involve inherent risks and uncertainties that could cause actual results to differ materially from those indicated, including those identified in the Risk Factors section of our S-11, as such factors may be updated from time to time in our filings with the SEC, which are available on our website. We assume no obligation to update any forward-looking statements.

In today's remarks, we will refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP are available in the earnings release and supplemental disclosure on the Investor Relations portion of our website.

At this time, it is my pleasure to introduce Mike Carroll.

Michael Carroll

Thank you, Stacy, and good afternoon. During our IPO process late last year, we communicated a clean and simple business model -- offering investors a single asset class of wholly owned, grocery-anchored community and neighborhood shopping centers positioned to generate sustainable growth primarily through a rationalized portfolio and the leveraging of its below-market leases. That leverage was apparent this quarter as we signed new leases at over $15 per square foot versus a portfolio average of $11.93 per square foot, an increase of over 25%. The mark-to-market opportunity in our portfolio is significant. This is a long term opportunity and as I said last quarter, it should not be understated.

We are confident in our grocery strategy and the resilient traffic it provides. Our grocery sales at over $500 per square foot continue to trend upwards at an average of 2% to 3% per annum and exceed the sales of the average grocer in the US by 35%. And amid today's chatter of slowing retail sales, we look to our own portfolio and the consistent sales that our grocers produce. It is the bedrock of our forward growth and provides stability amidst continued consumer uncertainty.

During our initial quarter as a public Company, we again achieved positive momentum across all key operating metrics. Our growth continues to be driven by top-line revenues. In fact, our top-line has now increased for 29 consecutive months. Healthy demand for space, combined with the breadth of our portfolio and retailer relationships, fueled substantial leasing velocity. And by piggybacking the sheer volume of anchor commencements in our centers over the last two years, we were able to make important strides in our small shop leasing. During the year, we executed over 2,200 leases, aggregating almost 13 million square feet, exceeding the productivity of our shopping center peers. Importantly, we are leasing efficiently -- realizing multiple deals with retailers by taking advantage of our established relationships and uniform leases. During 2013, with anchors, we executed 15 leases with Dollar Tree, eight with Petco, five with Ross Dress for Less and five with Jo-Ann. For mid-sized tenants, we completed five or more leases with Five Below, Hibbett Sports, Lumber Liquidators and Sleepy's. And on the small shop side, we executed more than 15 leases with both Great Clips and Subway, and eight deals with both Jimmy John's and Pizza Hut.

Multiple lease transactions, such as these, with a wide variety of national tenants point to the unparalleled size and scale of our leasing platform. As a result, we increased occupancy year-over-year by 110 basis points, including a 150 basis point gain in small shops. We recognize that we have further leasing to accomplish with respect to space under 10,000 square feet and we are confident given the quality anchor commencements in our centers that we will drive continued small shop occupancy growth. But most importantly, we will accomplish this leasing at compelling rental rates. We have been patient and focused on increasing anchor occupancy. Our anchor occupancy is now at 97% and our targeted approach to small shop leasing is taking effect as evidenced by the strong leasing at market rates. Again, new leases for the quarter were signed at $15.04 per square foot, and when I compare that to our expiry schedule between now and 2016 at $11.13 per square foot, the mark-to-market opportunity looking forward is significant.

Proactively managing our merchandise mix is critical to maximizing our cash flows and enhancing the quality of our centers. During 2013, our leasing results reflected the convenience and value orientation of our portfolio. 37% of all new leases executed were to service tenants, primarily medical and personal care, and 20% were to restaurants, followed by solid general merchandise leasing, with 92% of new leases executed during the year classified as internet resistant.

An instrumental part of our leasing efforts also involves the specialized initiatives of our National Accounts program. During 2013 and into 2014, the program focused on four pillars:

- First – executing early renewals, which enables us to lock in strong credit national and regional retailers with long-term leases. Benefits include achieving higher rents with earlier rent starts and renegotiating unfavorable lease terms. By example, during 2013, we executed five early renewals with The TJX Companies, resulting in a 12% total increase in rent, while improving co-tenancy and prohibited use clauses in all five of the leases.
- Second – capitalizing on downsizing opportunities to right-size retailers, while maximizing ABR. This allows us unique opportunities to mark-to-market below market leases. By example, during 2013, we completed three downsizings with Staples, adding a Walmart Neighborhood Market, Sleepy's and Dress Barn and increasing ABR by 15%. Other examples include an Office Depot downsize with AutoZone at a 67% increase in ABR and an Old Navy downsize with Five Below at an 84% increase in ABR. Retailers will pay more rent for the ability to maximize sales in the right size space. These transactions have a profound effect on the properties -- generating more sales and driving additional traffic out of the same space -- benefiting the remainder of the shopping center. Currently, we have identified 144 additional opportunities that we will consider during 2014.
- Third – anticipating at risk tenants to proactively identify replacement retailers and implement asset management plans. Such store closures often lead to significant growth opportunities. By example, in 2013, we re-leased ten former Fashion Bug stores at a 62% increase over prior rents.
- Lastly, expediting the legal process to accelerate lease commencement timing. In addition to utilizing uniform leases with many national and regional retailers, we have also matched single point attorneys to these accounts. As a result, we have expedited lease negotiations and executions with our most active retailers to an average of 45 days from 90. This includes such retailers as Hibbett Sports, Jo-Ann, Walmart, Party City, PetSmart, Ross Dress for Less, Shoe Carnival and Sleepy's. In fact, we are on track to execute a Walmart lease in less than 28 days this month.

As we look forward into 2014, I am confident we have the operational expertise and the infrastructure to further unlock value in our portfolio. We are motivated and excited by our prospects in the year ahead. I will now turn the call over to Mike to run through financial results and our capital plan.

Michael Pappagallo

Thank you, Mike. Our fourth quarter financial metrics reflected the positive operating performance that Mike just spoke about. Our strategy of operating a portfolio anchored by high volume, market leading grocers across the top 50 MSAs is powering strong growth. Same property net operating income generated a 3.9% increase for the quarter and 4.0% for the full year. Notably, only 20 basis points of the quarterly increase can be traced to redevelopment projects, underscoring the growth from core leasing and spreads on renewals and options. Also indicative of the quality of the results is that 85% of the NOI improvement is the consequence of top line rent growth, with the balance coming from improved expense recovery in tandem with the occupancy increases.

Fourth quarter pro forma FFO was $0.44 per share, a $0.01 progression from the third quarter and in-line with our guidance, bringing the full year amount to $1.68 per share. Fortunately, we are one quarter closer to eliminating the pro forma presentation for current period results. The first quarter 2014 will be the final period that we will have to account for the properties transferred to Blackstone, as this legal transfer took place on January 15. As such, the first quarter will be the last of this dual presentation. We will, however, continue to provide the corresponding 2013 quarters on a pro forma basis so you can have a more meaningful comparison of period over period results.

With respect to guidance, our 2014 earnings and operating expectations remain the same as provided as part of last quarter's earnings report, which should not be surprising considering this guidance was established and communicated only two months ago. The drivers for the full year FFO guidance range of $1.80-$1.84 per share continue to be from NOI growth and improvement in interest costs. Our FFO target represents a growth rate of between 7.0%-9.5% as compared with full year 2013 results. The full year same property NOI growth target remains at between 3.7%-4.1%. With respect to how same property growth will trend within the year, I would offer that the first half of 2014 will tend to be on the lower end of the range, with the second half of the year on the upper end – for the simple reason that the opposite situation occurred in 2013 and you will have a bit of the "tougher comp" effect.

Moving to capital structure, our efforts here are tightly focused on three goals:

- First – reducing our level of secured debt and increasing the size of our unencumbered asset pools.
- Second – eliminating high cost debt, be it secured or unsecured.
- And third – continuing to allocate a portion of free cash flow for absolute debt reduction.

As mentioned in our press release, we took certain actions in January to refinance over $480 million of secured mortgage debt, as well as eliminate $58 million of outstanding bonds with an interest rate in excess of 7%. As a result, the Company increased its unencumbered pool to 47% of its properties from 40% at the end of December, with 44% of net operating income now unencumbered.

As we used our credit facility to fund these payoffs, we are currently in the market for a new five-year unsecured loan to term out the maturities. The response from the bank syndicated loan market has been great so far and we expect to complete the transaction by the end of the quarter.

For the remainder of 2014, our plan calls for a further reduction of approximately $270 million of secured debt, and by the end of this year we expect that our proportion of unencumbered NOI to total NOI will exceed 50%. Our net debt to EBITDA will be reduced by four ticks and our fixed charge coverage will increase up to 2.8x.

There is also additional opportunity for interest savings beyond 2014 as the average rate of maturing and pre-payable debt is in excess of 5.5% for 2015 and 2016. We will continue to aggressively manage the debt profile to be in a position as an issuer of investment grade bonds within the next 12 months.

Thank you and we are now ready to take your questions.

QUESTION AND ANSWER

Question

What is the current balance of the line of credit?

Michael Pappagallo

It's approximately $550 million.

Question

What sort of term loan size are you looking for?

Michael Pappagallo

At a minimum, we will pursue a $400 million loan. That is where we've initiated the financing level at and depending on the level of interest and activity, we would upsize if the money was there.

Question

In terms of the investment grade rating, did you say you hope to have one within a year or begin the process of pursuing it within a year?

Michael Pappagallo

As we speak today, we are, and continue to be, in active dialogue with the rating agencies, and we are providing them with a significant amount of analysis, in terms of our current situation, and our forward plans. So my point about within the 12 month period is based on the projections of where our quantitative information is, and also qualitatively where we are heading. So ultimately it is the rating agencies' decision, but just based on the trend line and in that dialogue, it is my hope and expectation that we can get there within the next 12 months.

Question

Can you talk a little about cap-ex trends, just overall what you're thinking about for 2014 and how you see that trending to 2015?

Michael Pappagallo

Yes, total capital spend is somewhere in the neighborhood of between $130 - $150 million. That is a composite of maintenance cap-ex at the properties and ongoing and normal leasing capital; and then anchor repositioning and redevelopment capital. It is the sort of breakdown that you see in our supplemental report. We foresee that similar level of spending over the next few years, as additional opportunities on the anchor repositioning side occur and/or redevelopment expands. There is also the normalized process of maintenance cap-ex which we roughly estimate at about $0.20 per square foot within the property base. So, expect a similar diet over the course of the next few years.

Question

In terms of the $130 - $140 million of cap-ex, and looking at the breakout that you have on page 13 of the Supplemental and versus the $157 million that you did in 2013, how would I split that $130 - $140 million, which I think is related to just leasing, which does not include the building improvements, into those different buckets of revenue enhancing cap-ex versus leasing costs? And then, with regard to the $67 million of in-process anchor repositioning on page 35 of the Supplemental, does that fall into the leasing cost bucket or is that considered building additions and expansions?

Michael Pappagallo

To answer your first question, with respect to the break out of cap-ex, the maintenance cap-ex which are building improvements that are capitalized and considered non-revenue enhancing will be roughly in the $20 million range. It's a bit higher in 2013, as we finished up a program of some catch-up maintenance. If you recall, in our S-11, we did provide some historical information associated with the level of spending. So, outside of that caption, the balance is going to be split between the tenant improvements and leasing commissions and then the building expansions.

A different way that we cut it is that roughly half of the remainder outside of the maintenance cap-ex will be focused on, for lack of a better term, the more “traditional leasing” tenant improvement and allowance dollars. And the other half, more focused on our anchor repositioning and redevelopment activities and that is generally how we are splitting it. Sometimes it relates to building additions and sometimes it relates to direct payments to tenants. It all depends on the deal terms and structure.

Question

Just so I am clear, on just the anchor repositioning dollars, excluding the straight redevelopment projects, as we look a year forward and we look at the schedule that you have, does that fall into the building additions and expansions or leasing or are you saying that's half and half?

Michael Pappagallo

Sort of half and half. I think you should look and think generally that those building additions and expansions in the tenant improvement dollars are going to be relatively close together on a run rate basis.

Question

For the 2014 guidance of 3.7% to 4.1% same property NOI growth what is the assumed impact from redevelopments? And what is the impact of the same-store expense growth on the NOI?

Michael Pappagallo

As it relates to the composition, the redevelopment component as I suggested on the previous call, is tough to predict, simply because of the timing of rent starts and the like, and the identification of new projects. But we've had two quarters so far of that information and when you think about it at a 20-50 basis point impact at the low to high, that's generally it because most of our value-add capital is actually focused on what we are calling the bread-and-butter anchor repositionings / retenanting activities.

It is something that all shopping center companies do as a bread-and-butter part of their business. What we are separating out is some of the broader, larger redevelopment projects which you can see from our schedule in the supplemental are generally higher-dollar projects. So, making that separation of our redevelopments is not going to be as impactful as you would first think.

Now as to expense growth, clearly there will be some expense growth anticipated in our NOI results. However, we are very focused on expense containment and in certain of our regions we are locking in and aggregating costs more broadly with selected vendors. So, as we anticipate some expense growth, we think on balance, it will be somewhat muted, because of the procedures and the practices we have put in place to buy, if you will, “in bulk”.

Question

Regarding to your 2014 FFO guidance, you have done a good job of laying out all of the drivers and the numbers seem pretty straightforward, but are there any moving parts that we should be thinking about that could change your forecast? So, anything you would potentially get more visibility on as we go further into the year, whether it's leasing or financing that has to do with some of the debt deals you are talking about?

Michael Pappagallo

Yes, last quarter one thing I mentioned is the variation in the FFO guidance, and, in turn, the NOI guidance. Really our FFO guidance is two things: NOI and interest cost; and that's really it. I think it underscores the simplicity of our business model.

So, when you take each of those two components, certainly the NOI growth will be more driven than anything else by timing of commencements and leasing velocity, which, as we sit here today, we feel good about. On the interest side of the equation, I think, the real determinant there is the extent of additional repayment of debt and the interplay between variable rate debt, line of credit, and ultimately, when we lock in or fix that debt with longer term instruments, and that will be the variation. But, as each quarter goes by we will give you updates on the guidance ranges based on what has actually transpired.

Question

You have 80 properties that are not in the top 100 MSAs – what is the projected growth rate of these assets relative to the assets in the top 100 MSAs?

Michael Carroll

That is something we had in the S-11 and one of the things that we have tried to communicate to people. The growth rates for assets outside the top MSAs are similar to, or slightly better than, what they are in the top markets. And when I look, even this quarter, our occupancy in the non-top 50 markets is higher than what we have in the Top 50 markets by roughly 10 bps. So we're still seeing great opportunities in those markets and opportunities to upgrade.

We are doing something right now in one of our markets where we are replacing a Sweetbay, which is a Food Lion brand with a new Walmart Neighborhood Market. And that is a big, quality upgrade and we're confident that's going to drive very desirable small shop leasing off the back of that. So, as long as we continue to see those opportunities we're very comfortable with what we own in those markets.

Question

So, it sounds like you are pursuing redevelopment efforts for those 80 assets or for some of them?

Michael Carroll

We are if there is an opportunity there but, again, I would say more of what we are doing today -- and I think where we are fortunate is to have a portfolio of below market leases where we can effectively maintain the same occupancy, but put in better tenants who will pay more for the space because they can drive more sales out of the space and utilize it better.

So, that has been the primary opportunity that we've been taking advantage of. In the supplemental, we have a very long list of anchor repositionings and we continue to see those opportunities. It really is, effectively, replacing one tenant with another who is going to pay more and who can do more business out of the space.

Question

I know that a lot of times you receive sales information from some of your tenants, and I was wondering if you could give, even anecdotally, some information on sales trends? And maybe, even if you could split that out between small shops and some of your larger boxes. Anything that you are seeing there would be helpful?

Michael Carroll

As I referenced in my opening comments, we are seeing 2% to 3% growth consistently from grocers and we've seen no fall-off over a multi-year period. I think we can go back a decade and have continued to see good 2% to 3% growth from grocers.

But then, just looking at our portfolio and what we are seeing -- I will just give you some where we are seeing strength. We're seeing good strength in off-price apparel sales which have a 4% comp; the home category in our portfolio was north of 7.5%; entertainment and pet were both north of 7%. And then on the weaker side of things, as you would expect, were office and books both down in the 5% range.

So, I think that is consistent with where we would expect it. I would also say that some of the recent discussion on retail sales has been a little bit overblown. We don't see any signs of mass closings or anything like that. Retailers don't base their capital plans on one quarter of sales. It is more of a longer term view for them. We've heard nothing different from our retailers after coming out of what was a relatively soft December and in January it was soft, and February will be soft too because of the weather. But our retailers -- their message to us is that they're still filling out their capital plan and at this point basically the 2014 plan is close to being baked and they're working on their 2015 and 2016 plans. So, we don't see any retreat or anything that gives us pause there. I think it's just normal cycle of retail sales.

Question

On the transaction front, I know you said previously that there probably wasn't going to be a lot this year, but I was wondering if that is still the case or is there anything else on the burner that you might be seeing?

Michael Carroll

No, it's still the case. I think as we move through the year – we're in the market, we're looking in the market – but what we want and what we are measuring capital allocation against, is the opportunities we have within the portfolio. So, I think it'd have to be something that was very unique for us to be active this year. And again, I'd say we're building more towards the latter half of next year as we think about that internally.

Question

So what does your transaction team spend a lot of their time doing these days? Is it still evaluating a lot of opportunities even though you might not be active? Or is there something else they spend their time on?

Michael Carroll

Ultimately we're in the business of growing NOI. And when we see slower NOI growth prospects we start to think about what we're doing internally with the assets and whether they are primed or whether we've achieved our targets and they are prime for dispositions or trade areas change.

So, the team is actively working on a portfolio management view of looking at those assets. They're also re-engaging back into the acquisition market with both brokers and sellers. And so I think it would have been irresponsible of us to come out and say we were going to buy anything this year when we haven't been in the market. So we're building back to be in the market. Again, what we're looking for is grocery-anchored centers with growth opportunity. We want to take our time and make sure that we are market intelligent when we're ready to pull the trigger on things.

Question

As you've been identifying opportunities to lease up the portfolio and trade out some tougher tenants with better tenants - has there been any trouble spots that you've encountered that maybe you thought would be easier than they have ended up being?

Michael Carroll

I will look to Tim Bruce to maybe add something, but I would say we've been pleasantly surprised. If you think about even the category that's had a lot of discussion this year, the office supply stores, we've renewed every one of them that we didn't choose to do a downsizing with. So we didn't have any closings or any fall out in that category. And I'd say the nice thing about where we are with both that and if I think about Barnes & Noble, where we have had no fall out and we've had them renew. We've been able to do things where we think it's beneficial to us. We've been able to do things potentially on the short end of the curve, as it relates to lease terms and been able to feel like we can control our own destiny with those spaces on our schedule and not on theirs.

So, I think that would be one piece of it and then if I just step back, where we continue to watch Kmart and know that over time we are going to get stores back - we think we'll be very fortunate to get those stores back given the low rent levels. That continues to be something we watch. Any time we've gotten anything back we do see very solid demand for it.

Tim Bruce

The ability to mark those leases, that are clearly below market, to market as an anchor repositioning or as a broader redevelopment project – those are real opportunities. That's the core of our business. On top of that, once those anchors open we have a significant amount of follow on leasing from small shop space which, clearly then, everything rises. So it's a very good business for us.

Question

On the lease rollover schedule, it looks like about 75% of the tenants renewed or had options. I am just curious, one, if you think that a 75/25 split is a pretty reasonable guesstimate?

And I thought, Mike, you had said, or you were implying it, that the new lease spread, or you were signing leases in the $15 range and leases coming off close to $11. Do you think the overall blended spreads at the 10% level is a figure that can grow from here or is that a number you think holds pretty constant?

Michael Carroll

I think for blended spreads we should be in the same range that we are in now. And part of that is because tenants do have options. But I would say, we are doing a lot of proactive things. Whether it be when a tenant's options come up, the downsizing plays into that, those tenants have options. We are renewing them in smaller space at higher rents and bringing new tenants in at higher rents. And we're doing a lot of just replacing.

And I will go back to the Sweetbay / Walmart example as the type of leasing that we're doing where we are able to grow NOI with the same occupancy. And so, I think, that's something that's a great opportunity in our portfolio. These opportunities that exist, whether they are the result of the Centro years or just the makeup of our portfolio – being that it is not a new construction portfolio, it's an in-fill portfolio - the average age of our shopping centers is 30 years. And so, we have the benefit of re-characterizing and repositioning tenants and the centers to a very accretive rent advantage.

Question

The term loan that you're looking to get, that would be a floating rate loan that would be able to be paid off whenever you did a bigger unsecured debt deal - is that correct?

Michael Pappagallo

That's correct. It'll look very similar to the five year term loan that we originated in the fall of last year.

Question

As we think out about estimates beyond 2014 and just thinking about 2015 and 2016 I realize you are going for this investment grade rating. Would it be fair to say that a large debut bond offering is probably at best case, a late 2015 event or maybe early 2016 event?

Michael Carroll

I'd like to be more aggressive and positive in my thought process there and expect that it would be well before the latter part of 2015. And, again, I can't speak for the rating agencies in terms of when we can achieve investment grade status. But, as I look at the various metrics that exist today and I look at where they are going and our plan, as well as our already demonstrated access to the capital market and our liquidity, I think there are many positive signals and positive situations that exist right now that could enable us to get there well before late 2015.

Question

Should we expect any impact in the first quarter from all of the snow and weather? Is there any increased expense slippage or anything that might not be reimbursed?

Michael Pappagallo

It is fair to say that because of the weather there will be some increases in expenses and some slippage but we do not feel that it will be material or have any impact on our projections. One thing I would note as a follow-on to what I said earlier about our expense growth -- as part of the bulk buying and aggregation of contracts we have a fixed price situation for snowplowing for this season over many of the states and markets that were most impacted by the snow and the weather.

So for us, you can either say we dodged a bullet or we did a smart thing; but clearly, our expenses are not rising to the level that one would expect considering the level of snow. So it's very manageable for us as we go through the first quarter.

Question

You characterize one-third of your portfolio as traditional neighborhood shopping centers and two-thirds as community centers. Are you seeing differences in demand between those two sub-property types? Anything differences in terms of occupancy or growth?

Michael Carroll

I would say no. We're not really seeing anything that's materially different. I think we have seen a movement with specialty grocers in some of the larger centers looking to come into our centers and we've been acting on some of those and the shop demand has been solid throughout. But, it gets back to a lot of what our story is and we've done a lot of anchor leasing over the last two years and we're now cycling through the commencements. As those anchors commence, the centers become more appealing - they're more sellable to shop retailers because we have good, strong quality anchors in there. And what we've seen now, in the 5,000 square foot and under space, where we have had an anchor open in the last year, we've increased small shop occupancy 370 basis points.

So that really has been the most material change for us and to some of the earlier questions - that's why we are so focused on this anchor repositioning. If we can get the right anchors in those spaces and can continue to invest money there, we absolutely see the benefits on the shop side.

Question

Okay, is there a noticeable difference in the occupancy rates between those two segments of the portfolio at all? Would you happen to have that metric by any chance?

Michael Carroll

I don't have it with me. I would say if there is, it's not a material difference and we can get back to you with the exact numbers.

Question

When will the same-store pool reflect the entire IPO portfolio, all 522 properties?

Michael Pappagallo

That will be the first quarter of 2015.

Question

Going back to the secured debt repayments that already happened, plus I think I heard, $270 million more for the rest of the year? Where is that coming out of, in terms of the maturity schedule as it stands today? Is it largely coming from the 2014 or 2015 or are you digging into some of 2016 as well?

Michael Pappagallo

In our supplemental package on the debt maturity schedule page we did pro forma the impact on the maturity table at least as what's been repaid so far, and that's on page 15 for your reference. And as we look to the balance of the year it will be a mix between the 2015 stack and 2016 stack, but for the most part 2015.

Question

Looking at the disclosure on page 34 and 36 of your supplemental, your base rent for new leases for the fourth quarter says $15.04 and on page 34 and is a little different on page 36. Is the difference basically cash versus GAAP? It's a little bit different for every quarter previous to that, too.

Michael Pappagallo

The base rent on page 34 is the year 1 rent. Page 36 is average rent over the term of the lease.

Question

Given that a lot of your leases do have tenant options, what is the predominant language in those options? And what percent of it goes at fair market rent versus fixed increase?

Tim Bruce

It's on a contract basis. As you mentioned, the terms vary from lease requirements and by market. Generally it bumps in the 10% range. Sometimes based on CPI or other times tied to fair market value - it's really all over the board. But generally it is safe to say it's in the 10% range.

Question

It seems like for new leases your term looks pretty high at nine years - that's higher than a lot of your peers. Is that just a mix issue where a lot of it is anchor versus small shop?

Tim Bruce

I think that's correct.

Question

Lease expirations in the next year or two takes about 10 points out of the rollover out, so it brings 9.4% down to 4%, and 14.5% down to 4.5%. Is it your view that most of those people extend or take advantage of those options? Or as you try to aggressively go after under market space is there a way to get at more of that space than this schedule would suggest?

Michael Carroll

Well, our view is they will take a good percentage of those options. And yes, we are trying to aggressively get into that space. When you think about the macro environment right now, where you have retailers still very focused on efficient store size, that's a great opportunity for us. This whole idea of downsizing and that dislocation around that space gives us the opportunity to work with these tenants on modifying those terms and today, we've been very successful doing that. Modifying terms with tenants and holding out the carrot of putting them in the right size space where, in their view, they can do almost the same sales - they will pay more rent for that efficiency. We've been able to do that and then backfill the remaining space with a market rent tenant. So it's been a good opportunity and something that we're very focused on.

Question

As you talked about the term loan possibility and the investment grade option, what is your view on hedging? If you were seeing that investment grade was an opportunity, or an option, in the foreseeable future is your inclination to lock in a hedge or your view is that trying to call where interest rates are going is always a very tough proposition, and therefore, just take the market where it is and not pay that additional cost of hedging?

Michael Pappagallo

I don't know if I would characterize it as me attempting to call the market. I generally have not been successful in the past on that. But as a general matter though, I don't think we would aggressively pursue a derivative or anticipatory hedging strategy as part of the process. If we look even as a parallel course of action for a term loan than into an investment grade positioning, there is always a private placement market as well as an alternative and we've received good feedback that that is a viable alternative to access longer dated, fixed interest rate funding. So that would be another course of action should the tea leaves indicate it would be a longer move to investment grade. And I believe that really is at our disposal today if we wanted to.

Question

Looking at the rent growth by tenant size on page 34 of the supplemental it seems like the greatest growth was in the 20,000 - 35,000 square foot size box where you had about 20% growth. Was there anything driving that in particular?

Tim Bruce

Primarily it is our anchor repositioning deals that we've done. And in the last quarter we had two LA Fitness deals completed; a Jo-Ann deal in Cleveland, Ohio; and a Planet Fitness in Trenton, New Jersey.

Michael Carroll

I think when you look at our portfolio and the age of the spaces or when a lot of those existing leases were cut, it really provides a great opportunity. As Tim mentioned, one of the projects in Hamilton, New Jersey, that's a 30 year-old Acme store, at roughly a $3 rent. We were able to repurpose that at a double-digit rent to a new tenant. It really adds a lot of growth in that category for us. So that is the opportunity we have in the portfolio, unlike others who may have new construction portfolios, that's not the makeup of this portfolio.

Question

So do you think a mid- to high-teen rate for that category would be appropriate going forward?

Michael Carroll

Look it's always going to vary by center and by the opportunity. And I would tell you that as we look out today, we still have great opportunity in that space. But we are being very aggressive and where we think we can pick up a $3 spread, which may only be a 15% lift, we're trying to pick that up. So I think, it's going to continue to trend high, but it's a hard thing to gauge on a quarter-to-quarter basis.

Question

When you look at your mix of retailers, are there certain categories growing faster than others when you break it out between grocers, services, general merchandise? Are there any emerging trends to think about?

Michael Carroll

I'll start and I'll let Tim come in on it. This year, we had a big movement with services and restaurants. I'd say one of the categories that is working really well for us is medical. We're seeing a lot and we think it's in advance of Obamacare and the anticipation of a lot of people having access to insurance that didn't have it before. And we've seen a lot of the regional hospital chains and medical providers looking for 3,000-5,000 square foot units in our shopping centers.

We think that's a perfect complement to a neighborhood or a community grocery-anchored shopping center. So that's been a nice piece and then the food and restaurant uses have been strong and we have some other examples there.

Tim Bruce

We did 59 new leases with medical tenants last year and we expect that to increase in 2014. And by number of leases that is up by over 50%; 48% by GLA; and 43% by ABR. We're targeting regional healthcare providers and affiliates of regional hospitals, and again, as I mentioned earlier, we expect this to grow. And we're seeing that across the country, it's a significant part of our business right now.

And then on the restaurants, in 2013 we did 158 new leases with restaurants. That's the second highest in our category of tenants and again, we expect that to continue to grow.

Michael Carroll

Plenty of Chipotle and Panera Bread and other opportunities like that continue to be expanding out there.

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