

3Q 2014 EARNINGS CALL - FINAL TRANSCRIPT**OCTOBER 2014****CORPORATE PARTICIPANTS***Michael Carroll, Chief Executive Officer**Michael Pappagallo, President and Chief Financial Officer**Dean Bernstein, EVP, Acquisitions & Dispositions**Stacy Slater, SVP, Investor Relations***PRESENTATION****Stacy Slater**

Thank you Operator and thank you all for joining Brixmor's third quarter 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 Annual Report on Form 10-K, 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's my pleasure to introduce Mike Carroll.

Michael Carroll

This is an exciting week for us, marking the one-year anniversary of our IPO. Across the Brixmor organization, our teams have embraced the benefits and the obligations of being a public steward of capital and we are all very proud of what we have accomplished in this first year. We have met or exceeded the financial and operational expectations conveyed during the road show process; have re-established and strengthened our relationships across Wall Street and the capital markets; and made important strides with our retailers. We are once again deeply entrenched in life as a public company.

Our success thus far is evident in the results we have reported since becoming a public company. We delivered strong same property NOI growth of 3.9% in the quarter. Importantly, this is off strong comps in third quarter 2013 when we reported 3.5% growth. We have now achieved same property NOI growth in excess of 3.5% for the ninth consecutive quarter. Leasing spreads continued to be a strong driver. Blended spreads reached a post-IPO high of 13.9% for the quarter. This is the fifth consecutive quarter that we have delivered blended spreads of 11% or higher. New lease volume exceeded 1 million square feet again, with 88% of the new leases executed for small shop space. Occupancy increased to 92.7% as we continue to be focused on putting in best-in-class anchors and then driving strong follow-on shop leasing. Progress on small shop leasing is ongoing with occupancy increasing 170 basis points year-over-year and with ABR per square foot for small shops climbing to new highs.

At Brixmor, one of our primary responsibilities is the creation of value at both the enterprise and the portfolio level. Our Raising the Bar campaign, which we introduced in conjunction with earnings yesterday, is a key initiative in these efforts and is predicated on the upgrade of the merchandise mix at our centers. We continue to see an outstanding opportunity to improve our anchor offering by recapturing underutilized space and putting it in the hands of more productive retailers. By adding strong, best-in-class anchors, we are driving higher sales and traffic and elevating the appeal of our centers, while stimulating small shop leasing. We are seeing the impact of our efforts in our grocer sales, which have climbed to a strong \$537 per square foot. And most importantly, as a result of this anchor space rotation, having better anchors moving in and doing more business, we are increasing rent levels and same property NOI, creating measurable value.

We also published yesterday a slide deck of select case studies with respect to progress on our Raising the Bar efforts. The case studies examine both transformative anchor leasing, as well as the resulting impact of follow-on leasing, particularly for small shop space. Please let us know if you have any questions as you review the slide presentation.

Since commencing the program in July of 2011 and through September, we have executed 286 new anchor leases across 179 properties, positively impacting the follow-on small shop leasing. We're signing new leases at \$20.35 per square foot at these assets compared with our in-place rents of \$12.10 per square foot. With each project, we are improving the tenants and the merchandise mix of our centers, and as we indicated in the slide deck, compressing our assumption of cap-rates at these assets as we increase cash flow and the associated value assigned to it. Our premise is simple: better anchors drive higher sales and traffic leading to higher shop rents.

For example, at Westheimer Commons in Houston, we remerchandised a dark grocer with a Fiesta Marketplace specialty grocer. As a result, we have signed seven follow-on leases at the center, including Anna's Linens, Little Caesars Pizza and Shoe Carnival. Rents have gone from an average of \$9.00 a square foot to over \$21.00. We estimate that these changes have generated \$21 million of incremental annual sales and have compressed the cap-rate at the property by 150 to 200 basis points.

Many of our Raising the Bar projects are a direct result of our relationships with our retailers, derived from our position as a key landlord and the breadth of our national platform. The proactive recapture of four Kmart leases announced yesterday is indicative of the importance of these relationships. Given our longstanding relationship, we are the only landlord to have made such strides with the Kmart organization. The leases, which aggregate 351,000 square feet, are located in Nashville, St. Louis, Syracuse and Naples, and had on average more than 40 years of term left. Most importantly, the average ABR of these leases was \$4.29 per square foot, significantly below our portfolio average of \$12.10 per foot. We are immediately repositioning these assets with high-quality retailers such as Dick's, Michaels, Party City, At Home, Burlington and Sports Authority. Of note, the Dick's lease was executed in 35 days from start to finish. One of the fastest leases they have ever done. A fine job by Greg Levine who oversees anchor repositioning and redevelopment for our team. These projects are also featured in our Raising the Bar deck. Their improvement is indisputable and will result in stronger follow-on small shop leasing and rents as we move forward with these assets. In addition, these transactions free us from restrictions by Kmart that will also enable us to create additional density at three of the properties. This is a roadmap for how we expect to deal with the remaining Kmart stores in the portfolio; identify replacement retailers and then cut an economic deal with Kmart where we limit our downtime.

On another front, we have just completed a thorough review of the portfolio taking into account the opportunities created by the lack of new development. We have identified at least 160 merchandise transformation opportunities within our portfolio that we expect to execute over the next five years. These projects will mainly be anchor repositioning opportunities, with a few larger redevelopment opportunities. Contained throughout these projects are opportunities to add retail density to our existing properties. We estimate opportunities to add over 300,000 square feet of new retail space across these projects. And just this quarter, we added an additional seven projects to our in-process pipeline, as well as one new redevelopment involving a new CVS outparcel. This is in addition to the four Kmart's recaptured and these projects can be seen listed in our Supplemental. They include new and exciting retailers like Barons Market, a high-end organic grocer expanding in Southern California and strong operators like Marshalls. All in, we currently have 25 projects in our pipeline. We believe that the transformative changes resulting from these projects and our Raising the Bar program are having a significant positive impact on the NAV of Brixmor.

As an adjunct to our Raising the Bar program and the associated improvements in our shopping center quality, we now have a dedicated focus on relocating traditional mall-based retailers off the mall and into our open-air centers. We have recently hired three leasing professionals, all from the large public mall companies, to spearhead such leasing efforts. We have already seen initial success with ten leases executed with traditional mall operators, including two GAP leases, Banana Republic, American Eagle, Chico's, two Christopher & Banks leases, two Kay Jewelers leases and an Apricot Lane. Rent levels achieved on these spaces are higher than our average small shop rents. By way of example in our Raising the Bar slide deck, at Town Square Mall in Binghamton, we have added both a Banana Republic and a GAP to the property following the remerchandising of a former OfficeMax with Ulta, Five Below and Carter's. We estimate cap rate compression at this asset of 100 to 150 basis points.

Overlaying our Raising the Bar and off-mall initiatives is our ongoing and thriving National Accounts program run by Michael Moss. We continue to achieve multiple deals with small shop retailers via these efforts. We are doing a great deal of such leases with the wireless players, including six Cricket Wireless, four Verizon and three each with AT&T and Metro PCS. On the service side, we have done three leases with Massage Envy and two with Pure Barre. And in the quick service restaurant space, we just completed our third Smashburger lease this year and recently executed two leases with Panera Bread.

While I did discuss several leasing concepts today, they all come down to the same thing, creating value by focusing on our operating portfolio. Since our IPO, we have been saying we are a very focused operating company, which is what drives our success. When you couple our leasing expertise, approach and strategies with the advantages of our lease expiration schedule -- the below-market expiring leases and the above-average expiries -- we are positioned to continue our outpaced growth, while simultaneously increasing the value of our portfolio.

I will now turn the call over to Mike to review our financials and capital plan.

Michael Pappagallo

Thank you Mike.

Our third quarter financial results again demonstrate the strong internal growth profile of the portfolio that is sourced from the opportunities afforded by below market in-place rents, improved merchandise mix driving higher asking rents and continued favorable tight supply conditions in the market. A host of operating metrics supports this view, including over 9% FFO growth for both the quarter and nine months, same property NOI growth approaching 4%, double-digit leasing spreads, once again, and 5% cash adjusted EBITDA

growth. This momentum and the opportunities to increase cash flow through the further investment in our existing asset base drove the decision to increase our quarterly dividend by 12.5%.

We also continue to seek ways to drive efficiencies and cost savings, as can be seen in the lower run rate of G&A expenses from last year. We're also taking advantage of an opportunity to downsize our New York headquarters, which is half empty after the relocation of our accounting operations to Philadelphia a couple of years ago. We plan to move to another nearby Midtown location next summer. This action will result in cash rent savings of about \$1.5 million per year.

As to balance sheet management, we continue our methodical process to improve debt metrics quarter by quarter. Net debt to EBITDA, debt to asset and fixed charge ratios all improved from prior quarters and with respect to the unencumbered NOI levels, we expect to be over 50% of total NOI by the end of the year.

We recently completed a tender offer process that was launched in September involving approximately \$68 million of long dated bonds originally issued long ago by New Plan and now carried at a subsidiary level to the Brixmor parent. These bonds carried expensive interest rates, ranging between 6.9% to just under 8.0%. As you may recall, some of these same bond series were redeemed early in 2014 as part of a one-time put obligation. We were able to capture about \$50 million par value of the bonds through the tender process at an average price of \$113.6, resulting in a one-time charge to FFO of about \$0.04 per share that will hit in the fourth quarter. Summing it up, the combination of the previous repurchase and the recent tender resulted in the elimination of over \$110 million of high cost debt with an annual interest savings of about \$3.5 million when compared against the expected long term cost of new Brixmor ten-year paper.

We also have additional interest cost saving opportunities to capture in the near term. We will be extinguishing the \$121 million, 11% mezzanine debt liability in December, utilizing the call feature at par available before its contractual maturity in 2015. This coupled with the pay-off of a \$66 million mortgage, and the bond tender payments and previous pay downs, points to further improvement in the average interest cost of our debt stack.

We continue to strive to be in a position to enter the unsecured debt market in 2015 with visibility of rating levels from the remaining agencies the key to-do item. We agreed with those agencies that incorporating our third quarter results into their assessments would be beneficial to the process and we expect to wrap that process up shortly.

As indicated in last night's earnings release, the 2014 FFO guidance range was narrowed to a \$1.80 to \$1.82. The primary consideration for the adjustment is the costs associated with the tender offer, with the resulting \$0.04 charge in the fourth quarter. The original guidance range issued at the beginning of the year addressed variability in two areas, specifically the level of NOI growth based on leasing activity and the amount of interest expense based on the extent of change in debt refinancing. The tender was not something that we had planned to do and the one-time premium was not separately factored into the original guidance. Considering the strong response to the put in January, we began to think hard about the opportunity to bring in the remaining bonds. The response greatly exceeded our own expectations. With the tender process having come to fruition, we revised the guidance for its impact. That said, if not for this event, we would have tightened and increased the guidance range to \$1.84 to \$1.86. As we committed to you earlier in the year, we will report and guide to NAREIT defined FFO only and not FFO as we'd like it to be. In total, we estimate about \$0.05 worth of costs in those full year numbers that affect comparability, all relating to debt prepayment activity.

The other key guidance metrics were narrowed as well, with the same property NOI range tightened to reflect the nine-month performance and the limited number of variables that influence the growth rate over the next few months. We also modified the occupancy guidance slightly, which is more the effect of a more aggressive action on merchandising centers with the right anchor to drive the most traffic and provide the most opportunity to capture follow-on leasing at the most advantageous rates. Our leasing spreads underscore the success we're having in that regard. Recognizing the acceleration of anchor rotation opportunities, we're also committing more capital and accordingly increasing the overall leasing related spending estimates for the year by about \$10 million.

We plan to provide 2015 guidance in a separate release in January. This will give us the benefit of completing our annual budget process and also gain more insight into the timing of new lease rent commencements and capital spending related to the acceleration of our anchor repositioning. This timing is to give us more time to refine the specific range of assumptions that we know are so very important to your financial models. That said, the predictability and simplicity of our business gives us the ability to size up baseline cash flow generation and broad capital needs, thereby giving us the confidence to raise that annual dividend to \$0.90.

We like where the business is and where it's going, and we hope investors feel the same. We're now ready to answer any questions that you have.

QUESTION AND ANSWER

Question

With regard to the Kmart lease recapture, what did you pay to buy out the four leases? And Mike, as you pointed out, many others have not had success in getting space back from Sears, why do you think you were successful and how receptive were they to have these types of conversations?

Michael Carroll

First, we paid a total of \$2.5 million and it was really two separate transactions. We paid \$1 million a piece roughly for Naples and Syracuse and then the other two were separate and make up the balance. These are discussions we've been having with Kmart for years. And I'm going to tell you, six months ago, we sensed that there was a new willingness to truly engage at numbers that we thought would potentially make sense. And so we stayed in dialog with them, but under the understanding that they would be reasonable with this, and we started to work to procure tenants and when we had tenants in the fold, we literally went back to them and we arrived at a number over the course of a weekend. So it was pretty straightforward and we're hoping that we'll be able to do more of these in the future as we line up replacements. But this is the first time I can say that it really felt like there was an earnest dialog on their side to try to do something.

Question

And on the initiatives to bring more mall based retailers into your centers, are those retailers that you spoke of generally relocating from a nearby mall or are they opening an additional store in the market and if it's the former, how would you characterize the malls that they're leaving?

Michael Carroll

I think it is both. I think there is an opportunity kind of on both sides of this as we see it. The malls that people or the retailers are leaving, to me, it's really an outflow of the spin-offs. In culling of the mall portfolios that have been done, retailers like the Gap or others who are across A, B and C malls, now that the large mall companies no longer own the B and C malls, there is really no lever for them to negotiate favorable terms on the A and B properties, because they are not doing anybody a favor by staying in a C mall any longer. So they're getting squeezed as occupancies are full in the better B malls and the A malls and as their sales are not moving up as fast as occupancy costs are, they are looking at alternatives. And so we kind of saw this through some reverse inquiries and we've decided that we think there is a business there and as I said in my comments, we've hired people from Taubman and General Growth and we think we can do something here to continue to do it. And then you get to kind of the broader of the successful retailers, there isn't a lot of new mall space, malls are relatively full. And so, if you're looking to expand, you're thinking maybe about some additional opportunities. I think much of what we're trying to do at our centers is create an environment where they can be successful.

Question

Given the one year anniversary of the IPO, are you eligible for a shelf in November and can you comment on when you would expect to see another secondary from Blackstone?

Michael Pappagallo

We will be eligible at the one year anniversary and I think you could expect to see a shelf sometime in the near term to take advantage of it. As it relates to when the next secondary comes that really is Blackstone's position. And as we said before, Blackstone is going to take a very methodical and prudent approach to ultimately liquidating the balance of their investment. So I think you'll see something smart like the last go around.

Question

Currently 70% of your shopping centers have a grocer anchor. Optimally, where would you like to see that rate?

Michael Carroll

We'd like to continue to see it grow. That's how we frame ourselves as a grocery-anchored company. I think in a perfect world, we would be awfully close to fully grocery-anchored. But I think you'll see us take that percentage up. I would think if you look a couple of years from now, we should be 75% or greater, would be my expectation.

Question

You had spoken before about same store NOI spread between centers that are grocery-anchored and those that aren't. Are you still seeing that separation?

Michael Carroll

Yes, we are. We are running right now at 4.4% year-to-date on grocery-anchored properties.

Question

And are you seeing the same separation with the specialty grocers and the warehouse grocers, like Whole Foods and Trader Joes?

Michael Carroll

I would say yes. I'd say in some of the newer ones, it's way too soon to tell and we're just getting ready to open our first Fresh Thyme store and we have a Baron's I mentioned opening. We have some other things like that coming online. But for the Whole Foods and Trader Joes component of what's in our other centers, we generally see similar kind of performance.

Question

Just going back to taking on the mall tenants, are they opening outlets, as well as full priced, or just outlets or just full price when they switch from the malls to the shopping centers?

Michael Carroll

It's been a hybrid. Generally, for a GAP when they come out, they come out as a GAP factory store, but others are different. We're working with Charlotte Russe on something right now that will be a normal Charlotte Russe store. The Christopher & Banks stores we have done have been normal stores. So it's a little bit of a retailer specific issue for how they want to position themselves when they come out. But our view is that the merchandise and the store design are the same and what we're being told by them, they're expecting similar volumes and we're banking on similar volumes as well.

Question

So similar volumes, but obviously lower cost to them?

Michael Carroll

Yes.

Question

If we think about whether it's the Kmart deals that you did or the Raising the Bar, how would you think about the IRR? If you were going to think about this as redevelopment, how should we think about the returns that you guys are getting from the cost to recapture the space to beautifying the centers and then putting in the higher paying tenants, coupled with the benefit to the adjacent space? How should we think about the IRR out of the Raising the Bar program?

Michael Carroll

We really are focused more on cash returns than we think about IRRs as its related to this activity. We are seeing all double-digit return type opportunities to put these retailers in on a cash basis and a true incremental cost and incremental revenue from that tenant. But I think when you think about it on an IRR basis, I mean if I had to think about cap rate compression on top of that, I think we would be in the 20s. I think that's the kind of change that's taking place here with these retailers, but we're much more focused on trying to drive good return on invested capital on all of these as well. That has been our primary driver. I think it's the environment of no supply that's allowing us to drive better anchor offerings, better sales and then a better shop tenant that comes along with that.

Question

So basically it sounds like sort of low-to-mid teen double-digit returns then the extra, the cap rate compression?

Michael Carroll

Yes.

Question

Is there anything else that you guys need to do for the rating agencies or is it just reporting third quarter earnings and then they'll have everything that they need to make their decision?

Michael Pappagallo

It's essentially in their court at this point.

Question

You guys are one of the few strips that disclose net effective rents. Can you provide some color on what the cap-ex trend you expect for new deals going forward or maybe some recent conversations you're having with retailers regarding sort of capital spending or cap-ex in view of the limited supply in your asset class now?

Michael Pappagallo

I point back to our disclosures and if you think about the trends at least over the past four quarters, in terms of the capture rate, it's roughly been in the 80% level when you incorporate a load of TI/TA and some landlord work and commission. I don't expect that number to change materially, there will always be some composition of differences depending on whether it's heavily weighted anchors versus smaller shop tenants which are generally on the margin more profitable. So I think that the component will remain the same. In absolute terms, the dollars of capital will probably increase because of the acceleration of the number of projects and the fact that we will provide other additions and other improvements and enhancements to the tenants as we reposition the anchors and put in better quality anchors. All of those incremental costs above and beyond the direct tenant allowance are factored into those returns that were talked about on the previous question. So I think the combination of looking at the net effective rent schedule, which should remain relatively consistent, looking at the returns on the anchor repositioning and redevelopments should probably give you a good idea in terms of how we are deploying the capital accretively to the business.

Question

Following up on your efforts to bring more retailers to your centers, you mentioned the number of tenants that you signed deals with. Would you say that there is a much broader audience for this to really continue and really ramp-up over the next sort of couple of years here? I mean what's the opportunity like longer term and are you gaining traction with a much wider list of retailers? And then also you mentioned that rents for the 10 leases signed so far are higher than the traditional small shop leasing that you're completing, can you quantify that delta?

Michael Carroll

Our small shop rents today are roughly \$21 a square foot in the 5,000 square foot and under range. Those rents are coming in, I'm going to call it generally \$10 a foot higher than where the in-place is. Part of this is some discovery on our part. I think that we are ahead of the game here. It's something that we saw over the last year, just more from a reverse inquiry, where we started to get some inbound calls from some other mall retailers about it and the more that we tested the thesis with more retailers, there is a pretty good receptivity to it. So that is driving us to say we needed the leasing horsepower and we needed the relationships that the three people we hired bring to us to really see if we can make a go-get and how large it can be. But I think there is a really good opportunity. I think when you start to think about what the world is going to look like going forward without any material supply growth and again, as far as I can see right now into 2020, I don't see any material development. I think that provides a lot of opportunity for us to really relook at how we're approaching merchandising at our level. And I think that the way we're going to think about our properties is going to be much similar to the way mall operators think about theirs. We're trying to get more focused on let's bring in best operators and best sales. And if we can generate that, we think it appeals to a lot of different retailers and the mall operators being one of them. So, I know that's not a very definitive answer, but I think it's a greater opportunity than a smaller opportunity, but time will tell.

Question

Following up on the Kmart transactions, the cost seem rather minimal and I'm just curious why you think it's taken so long for Sears to make some of these deals and why now? And also if Kmart has control for 40 years over these spaces, why are they unable to recognize some of the value and sort of sublease the space I guess themselves? I mean what prevents them from sort of harvesting some of the upside?

Michael Carroll

Nothing prevents them, but it's capital. I mean at the end of the day, that's the opportunity. I mean if you look at our deck, with one exception, we're dividing spaces up. And so that's got cost, it's got downtime. It's what our expertise is to do those kind of fit-outs and invest capital. That's really not what Kmart's been willing to do, to invest capital and be in that business. What you've seen is people come in and lease space from them, but generally retailers want what they want, they want a place to start from and there is a capital component to get there. And I think as Sears and Kmart have gone through that process, we've not seen them really put capital into leasing.

Question

Just beginning with the remerchandising here. It sounds like you've been a little bit more aggressive on that front. It's cost a little bit of occupancy here in 2014. Just wondering was there any noticeable drag on same store NOI growth? I know you tightened it around the same midpoints, but would that been higher absent that remerchandising focus? And just as you think about 2015, do you think there will be a noticeable drag from these efforts on your same property or occupancy?

Michael Pappagallo

As it relates to 2014, the answer is no. There really hasn't been an effect. Most of these opportunities are relatively recent. So we've just cut the deal, so there hasn't been much down time to speak up. As we look into 2015, the downtime that we talked about earlier, that will play a role. It'll play a factor, because it will take time for us to capture this space, breakdown the box, etcetera, get the tenants merchandise up and operating. So we haven't quantified exactly what that is because we're still rolling up the details of our 2015 guidance for NOI, but there will be some effect. But when we think about it, the benefits on 2016 and beyond are substantial, as well as the cap-rate compression that Mike talked about. And the other point to bring out as we do think about this acceleration in anchor repositioning opportunities, it's not just the Kmarts. I mean we are being very aggressive in trying to find the best-in-class retailers that will create some downtime. That will create some relative slowdown in the occupancy growth for anchors. But we think that the longer term benefit both in terms of cash flow and valuation is unmistakable and we're going to keep doing it. We're going to move beyond quarter-to-quarter stress, if we've got the better long term deal in front of us and I think the recent Kmart examples are just that, they are examples of thinking smart for the long term.

Question

Just on the Kmart discussions today, is the barrier to announcing additional deals more on your side in terms of finding replacement tenants or they just did the first round, see how it goes and then?

Michael Carroll

I would tell you this is a bizarre thing and we have been down the road numerous times over the years on different things. I kind of got the word from Kmart earlier this year that they were open to more reasonable discussions and so we started working on it. We've picked a handful of things that we wanted to work on and we started working on to see if we could put tenants. Then we took those. We've firmed those up and then we went to them and cut a deal. We're going to work on the next tranche now and we'll work in that same path. But to your earlier comment, could I get all of them back today, I'm sure that I could. But I don't want to suffer the downtime before I have the tenant and that would be a material impact. I feel like this is a nice measured approach here that we can take, and be able to do it because we are willing to invest the capital, where we have somebody else who really isn't willing to put the capital. So we feel like we can do this on a measured basis where we minimize impact to earnings.

Question

For your re-tenanting efforts bringing mall tenants into the strip centers, are these tenants typically coming from and I guess you define whichever way you want, C malls, B malls or A malls? Where is the most transition occurring?

Michael Carroll

I would call it more in the B space that would be my view. I think the better Bs in the hands of the larger companies have some pricing power. And we are able to do some things that are, I think, more economical than what our peers in that space can do.

Question

If I look at your same property NOI composition, it looks like it shifted a little bit where you're getting a little less from just straight same store rental income and a little bit more favorable on the expense side via maybe the bad debt. So maybe you can say a little more color on that and what the mix might look like going forward?

Michael Pappagallo

Yes, you're probably looking at the 2.2% number on the same property NOI reconciliation in the third quarter. Looking at that quarter, there is a little bit just in terms of the timing of getting tenants open on the rental side. And last year, we had a very strong third quarter when you look at last year's Supplement. But I would tell you what we do expect that in the fourth quarter for that number to be elevated again, consistent with the nine month trend. So I think this is more timing than anything else and when we stand back and we look at the full year, I think you'll see that the revenue growth or I should say the NOI growth will be primarily driven on the revenue line.

Question

You put out the Raising the Bar report today and I was curious if you look at the centers that you described as transformative anchor leasing as sort of a precursor to the sale of the assets? That's because so many assets you profiled I would say have historically had anchor tenants over their life and I guess I'm wondering if you're thinking that this is the time to maybe harvest some of those properties now that you've got the tenant mix fixed?

Michael Carroll

I would tell you that there certainly are. If I think about like just one of the properties in the Kmart pool in Watson Glen, Nashville, I think we've clearly now solidified the anchor there and we've positioned that property for future sale. I think that would be obvious on our part. But if I look at a lot of the other ones that are in here and one thing I would clarify is, this was a sampling. We tried to put some things together that we thought were a good cross section of the portfolio, certainly we're talking about 170 plus properties here that we've done and so we tried to pick some examples where it could be very clear and easy for a reader to understand. But ultimately, we have a lot of good real estate here. I look at what we have in Oxnard, California or Lake Worth, Florida or what we have in the Dalewoods here in Westchester outside of New York City. Those properties are just going to get tremendously better and even if I look at something like what we did at University Commons in Greenville, I mean, we've put Harris Teeter in and it was phenomenal. We now spurred a lot of other leasing there between Petco and Sleepy's and some other things. And we look and we say we have some other opportunities there. So I think this is something that continues to feed on itself and at least for the near-term, there will be some selected opportunities where we maximized, but the trends we're seeing are so strong after we've made these changes that it's not necessarily just to position to sale.

Michael Pappagallo

We've had many discussions with research and investors about a disposition program and why do we have the assets we have and are you considering selling any. And the example I think that Mike used on Nashville is really what we've been trying to get at. At every property, we have a leasing plan and strategy to create value. We're going to execute that and once we execute that, we're going to take a fresh look at the center, its future prospects, its location, competitive forces, etcetera, and you will see us starting to dispose of centers on a select basis. But what we didn't want to do was just cut and run, just take low production centers and just move on. We want to create the value first and then if it makes sense to exit, we'll exit. That's why our disposition program is going to be very ratable, very methodical as we move forward to generate capital and reinvest in longer term holdings.

Michael Carroll

Just to add on to this too, it really speaks to what I think we've said all along, and really what I think is the differentiation of the platform here is that we're operators and at the end of the day, we've got a sense of where value is. We have a sense of what the opportunities are and we're going to methodically take the steps to get to that value and then transact. I've said it on prior calls, our occupancy is not improving because we're selling assets, and it's improving because we are leasing the space, right? And I think that's missed in a lot of what's going on in the space. It's really easy to sell the stuff that's not occupied, but we had an opportunity to craft the portfolio as to where we saw growth and how we were going to get there and we're taking advantage of that.

Question

I think it would be beneficial not to be an arbitrary seller of assets, but I think if there are those you can harvest and sell at an attractive price, it would sort of bring a full circle to show what you guys have done with asset repositioning and ultimately monetizing and I think it would be helpful.

Michael Carroll

I can say to you that we do have a few assets on the market today. As we've said, again we are very much do what we say kind of company, we said as quarters went by and we were able to get value and achieve our targets here that we were going to start to do something. And so we are in the market now with a couple of assets. We'll look to have some color on those, I think as next quarter comes, but it is very measured and it's methodical to how it is and it hasn't been the right time for us up to this point. But now as every quarter goes by, there is going to be something that we've achieved our targets on and we'll be out in the market.

Question

As I know you're not necessarily like an acquisition-driven story like maybe some other companies might be, but I know you still look at product. A lot of your peers have been talking up whether they're going more urban or mixed use or street retail. What are your thoughts on those niches and then secondarily, for the product that you do look at as your sweet spot, how competitive is it today? It feels like a lot of your direct REIT competitors may or may not be showing up, given the rhetoric to what they may be pursuing at the margin?

Michael Carroll

We are what we are, right? We are a grocery-anchored company and national operator. That's our platform. You're not going to see us in street retail. I think mixed use is probably not in the cards for us either. We may look at bringing some of those elements into a couple of properties over time, but you're never going to see us operating apartments, I can promise you that. As far as what's in the market, I think it's a very hard time when debt markets are as hot as they are, it's really not the right time to be a buyer. I just say in simple words that's the way I would see it. We're looking, we do continue to look in the market.

Dean Bernstein

The market is very, very competitive. Cap-rates are not even approaching historic lows anymore, they are at historic lows. We're seeing the top A quality assets on the coasts now trading in the high 4s and not much getting out of the 5s for A quality. Cap-rates are coming in the secondary markets and they're coming in for B and C assets as well. So it's very competitive and we are looking, but we are maintaining a very disciplined approach and when we see what we want to see, we will pull the trigger, but it is a tough time to buy without question.

Question

I appreciate the commentary on the Kmart cost recapture of the boxes. Can you also give a little color on the TIs or landlord work involved? Just basically cap-ex spend to get those lease to the new tenants you've identified?

Michael Carroll

We are expecting on top of the \$2.5 million, most of these are multiple unit boxes, I would say it's pretty fair to look at this in the kind of \$80 to \$100 a foot total capital spend on redoing those spaces. That's kind of where we see it.

Question

On your earnings guidance, I think last quarter you talked about that baked into your guidance was a potential Blackstone secondary offering and potentially an unsecured debt offering. Are those still in this new guidance range or have you stripped those items out and pushed those into 2015?

Michael Pappagallo

Those items won't have any effect on the remainder of the year. With respect to a Blackstone secondary offering, the incremental costs to us are not going to be material. And as I suggested, a debt raise in the unsecured market would probably be an early 2015 event.

Question

So that change in guidance composition, did that have any effect on where you would have been ex the tender offer?

Michael Pappagallo

I would say that the raise in the guidance level but for the tender was primarily the range of interest cost that we had expected that were incrementally better.

Question

On your non-same property portfolio, can you give me an idea of the NOI growth from those assets versus your same property portfolio?

Michael Carroll

I don't have it handy here for the quarter, we have to get back to you. It's generally been running consistent, if not slightly ahead.

Question

On Raising the Bar, the 160 properties you've identified, what is the approximate timeframe for completing these projects?

Michael Carroll

It's really part of a five-year plan.

Question

For the mall based retailers, do you have any sense of how that translates on a occupancy cost ratio basis for the retailers? Just wondering how it compares to the averages quoted by mall owners?

Michael Carroll

I think it would be relatively consistent. I think I would look at those at roughly kind of a 12% to 14% occupancy cost.

Question

How long do you think it'll take to get through the anchor repositionings that you want to do today?

Michael Carroll

When you think about what we've outlined in my comments here today, we've identified 160 opportunities over the next five years and so some of those are maturity driven, some of them are just timing of what it's going to take for us to be able to get to the right space



420 Lexington Avenue | New York, NY 10170 | 800.468.7526

configuration and what have you. It's a long term exercise. But I would always say to you too, it's a very dynamic business and I think that's the one difference in the retail space compared to the other asset classes. The footprints and opportunities change with store prototypes and so it's our job to be on top of that as it comes. Based on our review, this is what we see on the timeline that will be there, but as time goes, we'll modify accordingly. But it's a longer term plan. I think we'll continue kind of at the same pace we've been on. We've consistently had somewhere between 20 to 25 projects in-process at any given time and I think that will continue to be the case. We will add some and we'll take some off every quarter at roughly the same pace we've been on.

Michael Carroll

We appreciate everyone who joined us today. We look forward to seeing many of you next week at NAREIT. Thanks again.

###