BRIXMOR®

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2Q 2018 EARNINGS CALL - FINAL TRANSCRIPT **JULY 2018**

CORPORATE PARTICIPANTS

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Angela Aman, EVP, Chief Financial Officer

Brian Finnegan, EVP, Leasing

Mark Horgan, EVP, Chief Investment Officer

Stacy Slater, SVP, Investor Relations

PRESENTATION

Stacy Slater

Thank you operator, and thank you all for joining Brixmor's second quarter conference call. With me on the call today are Jim Taylor, Chief Executive Officer and President and Angela Aman, Executive Vice President and Chief Financial Officer, as well as Mark Horgan, Executive Vice President and Chief Investment Officer and Brian Finnegan, Executive Vice President, Leasing, who will be available for Q&A.

Before we begin, let me remind everyone that some of our comments today may contain forward-looking statements that are based on certain assumptions and are subject to inherent risks and uncertainties as described in our SEC filings, and actual future results may differ materially. We assume no obligation to update any forward-looking statements. Also, we will refer today to certain non-GAAP financial measures. Further information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in the earnings release and Supplemental Disclosure on the Investor Relations portion of our website.

Given the number of participants on the call, we kindly ask that you limit your questions to one or two per person. If you have additional questions regarding the quarter, please re-queue. At this time, it's my pleasure to introduce Jim Taylor.

James Taylor

Thanks Stacy, and good morning everyone. I'm very pleased to report yet another quarter of substantial progress across all facets of the business plan that we highlighted at our Investor Day last December. Simply put, we are capitalizing on this environment to Deliver Value Now.

That value begins with leasing, where we continue to leverage strong tenant demand to be in our well located centers. In the quarter, we executed a sector leading 2.1 million feet of new and renewal leases at a cash-on-cash spread of 14%, which included 1.0 million feet of new leases at comparable spreads of 29%. That sustained productivity, along with a pipeline of over 480 leases totaling 3.1 million feet and over $50 million of ABR, underscores the visibility we have on our forward growth. In fact, the gap between leased and billed occupancy of 310 basis points is the widest it has been since IPO, and truly highlights the over $43 million of contractual ABR signed but not yet commenced.

Our overall leased occupancy grew 40 basis points sequentially to 92.5% and we are starting to see the momentum in our small shop leasing, which increased by 70 basis points sequentially. We have delivered this productivity while remaining disciplined with capital and intrinsic lease terms. We achieved an average duration of eight years; held leasing capital steady at $23.50 per square foot for new leases; achieved average embedded rent growth of 2% versus a portfolio average closer to 1%; and granted tenant options in only 41% of our new leases versus a historical average closer to 55%.

We also continued to capture disproportionate market share of our core tenants' new store openings, while reducing our exposure to tenants on our watch list. Note that Sears is now out of our top 25 tenants. And I couldn't be more pleased with our progress on Toys R Us. We began the year with 12 locations, two of which we have sold. Of the remaining ten locations, we have leases or LOIs on six of the boxes at average rent spreads in excess of 25%. Given that the remaining boxes have an average in-place rent of about $9.00 per square foot, I expect we will realize similar spreads on the balance. Angela will provide more color on the current year impacts of Toys R Us.

Our reinvestment pipeline continues to grow according to plan. During the quarter, we added another 12 projects for a total investment of $45 million at an expected incremental return of 13%, bringing our total in process pipeline to $330 million. Moving from our future pipeline to in process this quarter is the first phase of our Wynnewood redevelopment that some of you saw on a recent Dallas tour, where we are razing an old office building and constructing a LA Fitness and Maya Cinema that we believe will thrive in this underserved submarket just a few miles from Downtown Dallas. The first phase will begin the transformation of a tired shopping center into a vibrant hub of this very dense community. I couldn't be more excited with the job our team is doing here and how it aligns with our purpose as a company to own centers that are the centers of the communities we serve. Please also note that we added four new projects to our shadow pipeline and completed four projects during the quarter, creating over $12 million of incremental value. As I have said before, our velocity of value creation remains very strong.

From a strategic perspective, I'd like to highlight a couple of points that I believe are important regarding the quality of our $330 million reinvestment pipeline. First and foremost, the projects underway are effectively pre-leased. This mitigates substantial execution risk. Second, the weighted average duration of our projects is less than 24 months given the granular and simple nature of what we are doing. Thus, there is a shorter timeframe between commencement and delivery, which means the investment being made will begin cash flowing sooner. The third point is that today we have completed or have in our pipeline projects that positively impact over 25% of our portfolio, and I expect that percentage to grow given the nature of our older, well-located assets. This third point is a critical one, as we don't include in our stated incremental returns the full benefit of the lift in small shop occupancy and rents that we realize upon the completion of our projects. This lift is several hundred basis points and part of our sustainable plan for growth. The final point is that this pipeline of reinvestment activity is largely funded by free cash flow and a moderate level of capital recycling. Thus, we are self-funded and not reliant upon an ATM or the capital markets. As we put this capital to work at high-single and low-double digit returns, we benefit from substantial deleveraging.

Speaking of capital recycling, I am also pleased to report that since last quarter end, we have closed another $217 million of dispositions at a weighted average cap rate in the mid-seven percent range for non-core assets, and we currently have another $350 million under contract. Including what we sold in the first quarter and additional contracts under negotiation, we now expect to complete over $750 million of dispositions this year, significantly exceeding our initial goals. Again, we have strived for optimal pricing here by selling assets in individual transactions, which takes longer to execute, but we believe it achieves pricing that is at least 10% higher than what would be obtained in portfolio transactions. It's a lot of effort for Mark and his team, but as stewards of capital, an excellent outcome.

Given the late-quarter timing of sale closings, our ramping redevelopment pipeline and the limited trading window, we repurchased only $4 million of common shares in the quarter at a weighted average price of $14.47. We also utilized sale proceeds to repay all remaining 2018 maturities and reduce overall leverage by $139 million. At quarter end, we had nothing drawn under our $1.3 billion revolving credit facility, which provides ample liquidity for the next several years.

From an operational standpoint, we continue to deliver the enhancements necessary to meet our "Proudly Owned and Operated by Brixmor" standard. We are also making substantial progress in our sustainability initiatives through investments in solar and water efficiency that are producing double-digit returns. I'm very proud of the GRESB Green Star and other awards these initiatives have earned.

Allow me to close by observing that this outstanding execution across all facets of our business plan provides us even greater confidence in the NOI range for 2019 that we highlighted at our Investor Day. I'm extremely grateful for the efforts of our team in delivering these results and driving so much value.

At this point, I'll turn the call over to Angela for a more detailed discussion of our quarterly results and guidance.

Angela Aman

Thanks Jim, and good morning. FFO was $0.51 per share in the second quarter, based on same property NOI growth of 1.4%. Base rent contributed 160 basis points to growth, despite a year-over-year decline in average billed occupancy of approximately 80 basis points. This net growth highlights the new rent created and the strength and overall magnitude of releasing spreads over the last 12 to 18 months. Provision for doubtful accounts contributed 50 basis points, while ancillary and other revenue contributed 40 basis points. These positive contributors were primarily offset by net recoveries, which detracted 100 basis points, reflecting the year-over-year decline in average billed occupancy and the impact of final CAM and tax reconciliations.

FFO during the second quarter reflects not only strong same property NOI growth, but also our continued discipline as it relates to G&A spending, and additional savings in interest expense as we further de-lever the balance sheet and optimize our capital structure. During the quarter, we repaid all remaining 2018 scheduled debt maturities and are now focused on addressing the 2019 term loan maturity and executing on the opportunity embedded in the 2020 and 2021 secured debt maturities to repay higher cost debt, while also fully unencumbering the portfolio.

We have affirmed our 2018 FFO and same property NOI growth guidance, as we consistently deliver on the plan laid out at our Investor Day last December. As it relates to same property NOI growth, we continue to expect an acceleration in the contribution from base rent during the second half of the year, due to both anchor rent commencements across the portfolio, including our in process redevelopment projects, as well a moderation in the drag associated with future redevelopment and 2017 and 2018 bankruptcy activity. That said, I would also note that we may face headwinds in the second half from net recoveries, due to year-over-year declines in billed occupancy, and provision for doubtful accounts, due to difficult year-over-year comparisons, both of which were reflected in our original guidance range.

As previously anticipated, the net drag from in process and future redevelopment activity has now reached an inflection point and will be a modest contributor to growth throughout the balance of this year before becoming a more meaningful contributor to growth in 2019 and beyond. During the second half of 2018, we will have significant anchor rent commencements at in process redevelopment projects such as Speedway Super Center, Mamaroneck Centre and Ventura Downs, which highlight the granularity and relatively short timelines of our redevelopment projects, as Jim discussed in his remarks.

In addition, the impact of 2017 and 2018 bankruptcy activity will moderate in the second half of the year, even when taking into account the impact of Toys R Us store closures, due to both the timing of 2017 bankruptcy activity, as well as anticipated rent commencements for backfills of several former hhgregg and Gordmans locations. To summarize our Toys R Us exposure, we started the process with 12 Toys R Us boxes, but have since sold two. Of the ten remaining, one vacated at the end of the first quarter, while two vacated at the end of the second quarter.

During the third quarter, five additional locations vacated in early July, while two locations remain rent paying today, although we currently assume that these locations will also vacate by the end of third quarter. The seven anticipated third quarter closures will result in a 30 basis point impact to total occupancy, or a 50 basis point impact to anchor occupancy in 3Q. While we don't yet have perfect clarity on the timing of the final store closures, we currently expect that in total, Toys will have a 20-30 basis point impact on same property NOI during 2018, resulting in a similar impact in 2019 as well, given that our closures occurred, on average, mid-year. While delays in Toys R Us store closures were slightly beneficial to our second quarter results, the impact to full year same property NOI relative to our prior expectations has been de minimis – approximately five basis points.

In terms of FFO guidance, the magnitude, timing and use of proceeds related to our capital recycling program will dictate where we ultimately fall within our expected range. While, as Jim mentioned, total disposition volume is now expected to surpass our original expectations, this activity is occurring later in the year, partially mitigating the impact on 2018 FFO. While this will have implications for 2019, the discipline we have exercised in the transaction market has created and will continue to create meaningful value for shareholders. Across all disciplines within the Company, we are successfully executing on the balanced business plan we laid out at our Investor Day last December and we look forward to continuing to highlight our progress for you in the coming quarters as this execution further demonstrates the underappreciated quality of Brixmor's portfolio and platform.

And with that, I will turn the call over to the operator for Q&A.

QUESTION AND ANSWER

Craig Schmidt – BAML

Angela, you touched on it, but do you intend to continue the pace of dispositions into 2019 or will you be more focused on growth?

James Taylor

At the end of the day, our product is a growing stream of cash flows per share. I've said that from the very beginning. When we talked at Investor Day last December, we laid out that we expected more substantial capital recycling in 2018. I'm very pleased by the execution that we're getting, and as I alluded to in my remarks, we're selling a little bit more than we had expected at the beginning of the year given where the executions are. As we look forward, I expect us to revert to a more normalized level of capital recycling, appreciating that the decision to hold an asset is an investment decision, but also reflecting the fact that this year, we've gotten through a lot of the assets that we did not see as long-term holds. So I expect that we'll be able to revert to more normalized levels in 2019.

Christy McElroy – Citi

Following up on the capital allocation discussion in the opening remarks, when thinking about the use of proceeds for the $750 million of dispositions this year, given that you were buying back stock in the $14s previously and your stock is now in the $17s, how are you thinking about buybacks today as a priority for disposition proceeds versus debt pay down? And how should we be thinking about FFO dilution in the second half as a result of dispositions?

James Taylor

From a capital allocation standpoint, we always focus on making sure that we have a strong balance sheet with ample liquidity. That matches what we're doing on the left side of the balance sheet and matches the risk that we are, or are not, taking. I think we've done a very good job of that and a very good job of making sure that we have ample liquidity to fund not just what's going on this year, but next year and beyond.

We still think at these levels, our stock is a compelling value, so again, going back to what I said to Craig, we do think about the product that we offer investors, which is a growing stream of cash flows per share. Obviously, the ability to recycle non-core assets at 7% cap rates into our stock at a much higher cap rate will remain a pretty compelling investment tool for us to leverage going forward.

Angela Aman

In terms of FFO dilution in the back half of the year, I'd note a couple of things. First, when you look at the timing of the second quarter disposition activity, as Jim mentioned in his remarks, that was pretty back-end weighted. In fact, I think 40% of the $139 million we closed during the second quarter closed within the last two weeks of the quarter, which definitely has an implication going forward as well.

As we mentioned in the press release, we closed another $75 million, give or take, very early in the third quarter, and then as you think about the $350 million we noted we have under contract, that could set us up for the third quarter being much more significant than the fourth quarter in terms of activity. As we stated, we reaffirmed the totality of the FFO range, and I think it reflects a variety of different outcomes as it relates to the final magnitude of dispositions and the timing of those dispositions and, as Jim mentioned, the use of proceeds around that.

Christy McElroy – Citi

Just to follow up on your comments on redevelopment impact, can you update us on how we should be thinking about redevelopment in the context of the 3 to 4% 2019 same store forecast? At your December Investor Day you talked about 50 to 100 basis points of redevelopment impact, and I think more recently, at NAREIT, you discussed with us a larger impact. Can you provide an update on the components there?

Angela Aman

I think that 50 to 100 basis point impact as it relates to same property base rent contribution in 2019 is still absolutely the same range. Our execution around redevelopments has continued to be very strong as we've continued to move projects into the in process pipeline. I did mention on last quarter's call that we're seeing a benefit, even in the back half of 2018, from projects that are not stabilizing until 2019 where we have big anchor rent commencements during 2018, so all of that is consistent with the expectations we gave at Investor Day for a 50 to 100 basis point contribution from redevelopment in 2019.

Ki Bin Kim – SunTrust

Can you talk a little bit about how your conversations with tenants are going and specifically touch on groceries? You're one of the biggest grocery landlords. Is there any change from news like the Ocado-Kroger news and how different grocers are viewing that?

James Taylor

I think its great news for Kroger as they get smarter about how to serve their customer. What's interesting about that news in particular is that it demonstrates how they're investing in their existing stores and their restock initiative, making sure that they have products in the store that are relevant to particular communities those stores serve. We are seeing grocers on the more traditional end of the scale investing more in their existing stores with things like curbside delivery, better inventory, more fresh offerings and prepared offerings, which we're seeing result in more traffic and more sales, so very positive.

More broadly with tenants, we're seeing a much higher level of demand than we expected coming into the year. We are seeing tenants more willing to relocate and we're capitalizing on that propensity to get to prototype and size. We're winning a lot of business that we didn't expect to win at the beginning of the year.

Brian Finnegan

It's very reflective of what we saw coming out of ICSC, where retailers were not only continuing with their store opening plans, but coming out with new small market formats like TJX's HomeSense that they're ramping up. The retailers that have been active and thriving in our space continue to innovate and continue to have robust store opening plans.

James Taylor

In addition to seeing increased demand from core tenants for our properties, we're capturing a larger and larger market share of their net new openings, which we're tracking, and its part of how we're compensating our National Accounts team. Overall, it's a leasing environment that's much more positive than what we saw eight to ten months ago.

Ki Bin Kim – SunTrust

To touch on that point, when you say it's much more positive than several months ago, what is it that you're looking at? Is it a series of conversations that you're pointing towards when you say things are much better, or is it just based on pure leasing volume?

James Taylor

I think the leasing volume underscores unquantifiable results like the change in mood and the execution by the tenants on their plans for growth. I do think that the leasing results underscore it, and they provide you evidence that we're delivering on what we're talking about. I think that as tenants look at how to better connect with the customer, the store is incredibly important. You are seeing tenants more willing than ever to relocate, and you see them more focused on investing in their store to get to the prototype. Those are all things that really benefit Brixmor in particular, because we're competing with low rent basis, older locations, and we're demonstrating that the tenants can do well there and that they have demand to be in our centers, so our tone may be more positive on a relative basis than some.

Again, it reflects the older, well-located nature of our centers that tenants have demand to be in, and what we're seeing year-to-date, particularly when you dig into the pipeline that Brian and the team have setup of nearly 500 leases with over $50 million of ABR, it speaks to the momentum that we're seeing and underscores that confidence we have in 2019.

Drew Smith – KeyBanc

On the sequential small shop occupancy jump, I'm just curious what drove that exactly and if you expect to see more of that type of thing in the near future?

Brian Finnegan

First, we're seeing demand from restaurants, service uses, boutique fitness operators like F45 or Burn Boot Camp that we added and health and wellness operators. That demand is continuing. I think it's also indicative of the investments that Jim called out in his comments that we're making in our centers, as well as the redevelopment pipeline that's ramping up. Finally, we implemented some incentives earlier this year around driving shop space. We still have work to do, but we have made progress. As we look at that future redevelopment pipeline, which trails our portfolio average by 780 basis points, when we bring those projects online we're seeing around a 600 to 700 basis point pick-up. As that pipeline continues to ramp up and we bring more of those projects into the active pipeline, we expect to continue to see that growth.

Drew Smith – KeyBanc

Do you have a sense of where you might end up by year-end on small shop occupancy?

James Taylor

We're not giving specific occupancy guidance, but we expect to see continued progress there.

Drew Smith – KeyBanc

There have been some additions to the organization recently. Can you talk about where you see these additions adding value and what you're trying to accomplish with these additions over the next few years or so?

James Taylor

I believe firmly that great real estate matters, but great people matter more, and we are setting ourselves up to be a platform that continues to attract and retain the very best talent. I think what you're alluding to is that we've recently added John Hendrickson, whom I used to work with at Federal and was later at RAMCO, to run our Midwest division. We are incredibly excited about John coming on board. He brings a wealth of experience and great execution, and is going to provide us some very good leadership for the great leasing talent that we've also added in Midwest. We're investing in this talent because we see a lot of potential in our Midwest assets, and the leasing team there, led by Corrine and Devin, is already generating some great results ahead of John coming on board. As Angela and I came on board, we thought really carefully about the great talent that we had and which areas within the business where we needed to continue to add talent, and we'll always be critically assessing talent, because it's such an important part of driving our performance.

Jeremy Metz – BMO

In terms of the dispositions, if we go back to your Investor Day, you laid out 85 or so single asset markets. How much of this year's sales, if you include the next $300 or so million that you have under contract, is coming from that bucket, versus being lower-growth assets in core markets you're looking to exit? As a follow-on from Mark, can you comment on your hit rate in terms of how much you're putting on the market versus how much is getting to the closing line?

James Taylor

I expect by the end of the year, as we get through this, we'll probably be through 30 to 35 of our single asset markets. We've exited nearly 45, so we'll be reducing our exposure to those markets where we just have one asset.

Mark Horgan

As we've discussed in the past, it has been our strategy to have more assets on the market than we expect to close. From a hit rate perspective, we will be closer to 70% or 80% of what we bring out, but the important part is that we have the ability to be opportunistic in accepting those purchase prices, and we do not have to accept any one-off sale as we go through the process.

Jeremy Metz – BMO

You touched on the future maturities briefly in your opening remarks. You have the $600 million term loan coming due in March at a pretty low rate. Can you give us some color on how we should be thinking about plans for that maturity, recognizing that they can change if you accelerate more asset sales or if pricing shifts materially?

Angela Aman

I think we're at a point where we're continuing to evaluate a range of different outcomes as they relate to both the 2019 low cost maturity, as you mentioned, but also the higher cost secured debt maturities in 2020 and 2021. You're right that as we execute through the remainder of 2018, a component of those proceeds certainly are going to go to further leverage reduction. We also have a range of different outcomes as they relate to both the unsecured bond market and the bank market in terms of replacing those maturities. I think it's too early to say, when I look across 2019, 2020, and 2021, exactly the timing or exactly how those are refinanced, but we're continuing to evaluate that and should have more clarity next quarter.

Jeff Donnelly – Wells Fargo

How do you think about the rising labor and materials costs factoring into your current value-add pipeline and future underwriting? Is that resulting in you either tabling some projects, or scaling back their scope or even getting more conservative on their prospective yield?

James Taylor

Construction costs are up. Fortunately, we're dealing with smaller, simpler projects, so we're not getting into projects that have a huge variable element to the budget. Furthermore, we're coming off of really low rent, so rising costs might mean that in a particular project, instead of getting an 11% we get a 10%, or maybe it's a 9.5%, but it's still compelling use of proceeds for us. We haven't had to pull any projects because of the rising construction costs. As I alluded to in my remarks, what's really important to understand about our pipeline is not only that the projects are small and granular, but that when we move projects into active, we've got the leases in place and we've priced out the cost elements of the job through contracts. That doesn't mean there can't be some variances going forward, but before we commit substantial dollars, we know what we're making. Your broader point is right. Construction costs are climbing and labor costs are climbing, but I think we have a lot of room within which to continue to create value.

Jeff Donnelly – Wells Fargo

Can you talk about the volume of space at risk either due to tenant credit concerns or above-market rent? I know every portfolio has some portion of space at risk, but have you tracked such a measure or could you express where that stands today for the portfolio or give us some historical context?

James Taylor

One of the things that really struck me when I came into the Company was how few of the assets' rents were above market. We had a few, but we sold many of those. As we focused on our disposition activity, we focused on those assets where we thought we had limited growth and limited upside in the ramp. Every element of our plan is oriented towards that fundamental question of how does that help us grow? We look at assets and, tenants in particular, where we think they're above market. Conversely, we maintain a very tight view of what's on our watch list, which we don't quantify, but it's in the mid-single digits on a rental basis. Our watch list is not just tenants who have immediate credit concerns, but tenants that we think are losing relevancy and tenants where we're observing declining sales trends or other things that we then focus on.

Brian and team have done an amazing job of reducing our exposure to the office concepts and other weaker concepts, including what we've done with Sears. It's a regular, ongoing part of the business, but as it relates to the initial part of your question, I would suggest that we compare very favorably as a portfolio relative to market. We continue to demonstrate it every single quarter. That doesn't mean that we're not rolling some flat or rolling some slightly down, but on balance we're in a really good position.

Brian Finnegan

I would just add that the watch list hasn't changed much, and what I can tell you is we continue to see very good demand for these spaces at strong rents and incremental returns.

Samir Khanal – Evercore ISI

Looking at your operating costs, non-real estate related costs were up quite a bit in the second quarter. I know recoveries are up as well, but what's driving the 7% year-over-year increase?

Angela Aman

I think you're seeing the 7% increase in the same property pool on that operating cost line item. Real estate taxes were also up during the quarter. On the operating cost line, it's really just timing related. It's the timing of certain repair and maintenance activity. On a year-to-date basis, you're looking at a number that's under 2% in terms of year-over-year growth. Real estate taxes really had to do with certain successful appeals or refund activity in the 2017 period. On a year-to-date basis, you're just a touch over 2%, and we think 2% is the right full-year projection in terms of growth for both of those line items.

Samir Khanal – Evercore ISI

Your leased versus billed occupancy spread is 300 basis points, the widest it's been since the IPO. How should we think about that spread over the next six to 18 months? And what's a normalized spread to think about as part of your business?

Angela Aman

I think the normalized spread, if we look back historically, has been in the 150 to 200 basis point range, so I think we're significantly in excess of where that spread has been on a normalized basis. The spread reflects frictional vacancy in the portfolio. How that spread will trend over time is a little bit harder to predict, but we certainly expect that you'll see both billed and leased occupancy continue to move higher.

Alex Goldfarb – Sandler O'Neil

You said you're going to sell $700 million this year, exceeding your original outlook. You reaffirmed your same store expectations for the back half of this year and the 3% to 4% for next. As far as growing FFO and delivering on your promise to grow cash flows and grow the dividend, how should we think about that $700 million impacting next year? Is it more debt paydowns and stock buybacks that allow you to grow or redevelopments coming in better that offsets any dilution from the $700 million?

James Taylor

I think the increased pace of disposition activity will create some drag going into 2019. How much that will be will be driven by our capital allocation decisions. As you said, we can pay down some expensive debt, we've got the share repurchase program which we intend to leverage, because we think there's tremendous value where the stock is today. Our redevelopments and other things are going very well and give us confidence. Everything that we're doing is an issue of timing, and it is setting us up for growth we can see beyond 2018. It's an area where we continue to be net disposers of assets. The real focus, as we talked about last December, was setting this year up to be a transitional year, and whether it's leasing, redevelopment, operations or capital recycling, doing that with the view towards long-term growth.

The volume of dispositions that we're doing in the latter half of this year will create more drag in the next year, and part of that was a very conscious decision on our part to continue executing, as we have been executing this capital recycling plan one asset at a time. As I alluded to in my remarks, we're creating substantial value in doing it that way versus just flushing portfolios to try to manage year-over-year timing.

Alex Goldfarb – Sandler O'Neil

Last year at the Investor Day, you guys spoke of this year being a trough, and I think collectively we all got that, but then there was the view that 2019 will be a growth year. It almost sounds like now, with the increased dispositions, we may have to dial back our 2019 growth expectations, and it could be a flattish year, which I don't think is what people are expecting. Can you commit to growth, or should we be thinking that next year could be another flat year?

James Taylor

We're growing on the unlevered side of the business, and we're delivering that growth. What we decide to do with that capital will impact where we end up in 2019 from an FFO perspective, but we are utilizing this year to capital recycle and do the other things that create that drag, some of which may go into 2019, but all of which we expect to get done this year, providing good visibility going forward. The second thing I would say is that I'm more pleased than ever with how we're executing on that plan to deliver topline growth and how every element of what we're doing is driving that. That's the most I can tell you. We're not giving 2019 guidance at this point. There are lot of moving pieces in terms of how we allocate those proceeds. I'm not going to comment on whether we're flat, up or down, but what we are highlighting is the timing and volume of what we're doing this year, and I think anybody who's investing in us for the long-term can see it is generating true value today.

Karin Ford – MUFG

Can you give us some color on your plans for the land parcel that you bought in the quarter that's adjacent to an existing center?

James Taylor

We're not really prepared to talk about any concrete plan at this point, but this parcel is immediately adjacent to our Arborland asset in Ann Arbor, Michigan. We think it's going to open up additional value creation opportunities in addition to the Toys R Us box that we now have back at well-below market rent on the same end of the property, so stay tuned. But that land, which was a $5 million investment, is going to unlock a lot more than that in terms of redevelopment potential in that very attractive submarket of Ann Arbor.

Karin Ford – MUFG

My second question is on expense recoveries. The ratio was down year-over-year and sequentially, but I know occupancy is moving higher here now. Is there any color you can give us on how we should think about that ratio in the second half of the year and into 2019?

Angela Aman

If you look back, I'd say two things. One, we expect the second half of this year to be continuing to work through a decline year-over-year in terms of billed occupancy, which certainly will have an impact on net recoveries as well. If you think back to the commentary from Investor Day, we said that will change as we get into 2019 based on the pipeline of already-executed anchor rent commencements that we have coming on in the back half of 2018 and into 2019. So in 2019, you sort of start to see that shift. As a result, I think net recoveries should be neutral to positive as we move into 2019, but may be a headwind in the second half of this year.

Vince Tibone – Green Street

Besides selling in single-asset markets, can you discuss how you're selecting individual assets for dispositions? This quarter's sales seem to be a pretty barbell between more stable neighborhood centers and value-add type properties with some existing vacancy or upcoming moveouts. Can you discuss in a little bit more detail how you're choosing your assets to sell?

James Taylor

What we focus on is our hold IRR. In other words, based on where the rents and occupancy are today, we look at the capital required to drive growth in the asset and whether or not there is any growth in the asset to determine what type of hold IRR results. That's the common denominator of what we're selling.

Strategically, we are simplifying the portfolio. We are exiting a lot of markets where we only have one asset or not a lot of critical mass and the thrust of this disposition effort is targeted towards those assets where we think we have rents that are above-market and where we think our ability to grow that cash flow in place is limited. We did this a few quarters ago in rural Georgia, where we had an asset that we thought had great spread, but the capital required to deliver those spreads was dilutive. It's factored into that decision as to where we're moving the portfolio strategically from a real estate strategy perspective, while also looking at it at an asset level and saying the return on this asset is too low for us to hold. There's a cost to us upholding it and it's time to exit.

Vince Tibone – Green Street

How are private market buyers generally underwriting a vacant anchor box when purchasing a shopping center?

James Taylor

They're not giving you a lot of value for it.

Mark Horgan

It really is market-by-market analysis, and investors try not to give you a lot of value for the vacant anchors. One thing I would comment on in the transactions market, what you're seeing reflected in what we have under contract, is that the increasing volume is really reflective of what Brian and team have been doing in the market today. We are seeing increased tenant demand and increased tenant velocity, so I think private market investors are trying to take advantage of that today, which is why you're seeing increased capital formation both in the power center side and demand for grocery anchored assets. That's really what I think is driving some of this increased volumes across our portfolio.

Vince Tibone – Green Street

Are you seeing new capital formations on the value-add side?

Mark Horgan

I would say the number one increase in inbounds is from value-add investors, because I think they're really trying to find assets where they can take advantage of the market that Brian is describing on the tenant side. Of course, we prefer to hold the real true value-add that we have, unless we want to sell those in the context of what Jim described, but that's really absolutely been the number one increase into us.

Wes Golladay – RBC Capital Markets

I want to go into the interest you have in the Toys R Us boxes right now. Are those going to be mainly cases where you get to split up the boxes? What is the time horizon to get the tenant open?

Brian Finnegan

As we mentioned, we are at lease or about to go to lease on a six of those boxes today. Of those, there is only one right now that we're looking to split. That could change, but we are finding demand from single users in the fitness, home, and value apparel categories. The split scenarios are fairly high-rent payers like specialty wine stores. The depth for the demand has been actually quite similar to what we saw from Sports Authority, where you looked across and saw several different types of users to take those boxes, but as it sits today, the majority of the discussions that we're having are for tenants to take the box as one single user.

Wes Golladay – RBC Capital Markets

You mentioned the rent would be higher if you did have to split it, but net-net, you would want a single tenant user to take those space, right?

Brian Finnegan

Not particularly. As you look at our anchor repositionings, we have several where we've achieved very accretive returns where we can split those boxes with high rent-paying users, so it's really particular to that center and the demand that that box is driving. I would say that we expect those boxes to continue to deliver the returns that we have in our anchor space repositioning pipeline regardless of whether we decide to split or go with single users.

Wes Golladay – RBC Capital Markets

As far as tenant demand, is there anything that stands out where you have multiple bidders coming for a particular geography and a certain size or is it just for the entire portfolio? And then, what is a tough space to lease in this environment today?

Brian Finnegan

To answer your first question, we're literally having a food fight over a box that we have in Northern California right now, and it's a competition between two users to take that. We've been very pleased overall with the demand that we're seeing with the boxes. Obviously, there are a few here, we said six. We still have some work to do on the remaining three, but the expectation from our team is that we'll have these backfilled and rent paying by late 2019, as Angela laid out, so overall, we're pleased with the progress and have seen demand on the majority of those boxes.

James Taylor

There are a number of transactions that we've been successful on that we didn't expect to be. We're fighting demand in pockets and markets that, before, would have concerned us, which is certainly helping to get more value for the assets that we're selling. We're leasing them up before selling them, so the backdrop right now is a pretty constructive one. It's not the case that it's not competitive that tenants don't have other options, but by-and-large, we're saying the preponderance of momentum go our way.

Linda Tsai – Barclays

On Toys R Us, for the 20 to 30 basis points in 2018, and then the similar impact in 2019, is that purely from Toys boxes closing, or does that also include any co-tenancy from other stores leaving the center?

Angela Aman

That's all inclusive, but it's still basically just Toys R Us. There is very little other disruption as it related to Toys R Us vacating.

Linda Tsai – Barclays

Given the current pace of redevelopments, the 50 to 100 basis point benefit in 2019, do you think that run rate could continue in 2020?

James Taylor

Yes, absolutely. Just look at what we're setting up in our pipeline. We provide project-by-project timing and disclosure on yields. You can get a sense of what I was referring to earlier, which is the really limited duration of investment. The cash flow that we benefit from in our pipeline reflects the granularity of what it is we're doing and the fact it's pre-leased. We continue to not only deliver projects from the active pipeline, but we're also moving projects from the shadow pipeline into active, and we're adding to the shadow pipeline. I'm very pleased with the velocity of that and how it's revealing itself to be a very sustainable element of our business plan.

Michael Mueller – JPMorgan

You made the comment about not being a net seller after 2018. If your normalized disposition levels are $400 million to $600 million from the Investor Day, what do you see as the all-in development / redevelopment spend over the next couple of years?

James Taylor

Our targeted run rate, from a goal perspective, is to be at about $150 million to $200 million of annual spend and delivery on the reinvestment side. For capital recycling, we expect to be more balanced, so in that $400 million range. We will find some acquisitions to make that we think are accretive. That's really the long-term plan. The great part about the business plan itself is that it is granular, and it allows us to make the right decisions at the real estate level as they relate to the hold or buy decision. Also, as we think about clustering in particular markets, we're not moving big supertankers in and out of the balance sheet.

That flexibility and nimbleness is going to be a real competitive advantage for us going forward, and particularly in an environment where I think what people lose sight of is that the public companies don't typically compete against each other at the real estate level. We're typically competing against local private landlords. Our tremendous leasing platform and our redevelopment platform give us a lot of insight and competitive advantage as we think about leaning back into acquisitions. Think about all the pre-leasing that we're doing, for example, of the redevelopment pipeline. It's that same flow of knowledge and information that, when we do become more balanced, is going to allow us to find those opportunities that are in the markets that everybody else is clamoring to be in and gives us a competitive basis to grow cash flow.

Michael Mueller – JPMorgan

Angela, did you comment on what the lease accounting change impact will be in 2019?

Angela Aman

We expect the impact will probably be between $9 million and $10 million, so about $0.03 a share.

Caitlin Burrows – Goldman Sachs

In the second quarter you bought back stock at a lower price than in the first quarter, but it was a smaller amount. Can you give us any detail on what drove the lower volume decision in second quarter?

Angela Aman

It was primarily related to the timing of disposition activity. I mentioned earlier that of the $139 million that closed during the second quarter, over 40% closed in the last two weeks of the quarter when we were in the blackout window and couldn't trade, so as we've stated since we initiated the program back in December of last year at a price that was pretty close to the level we're trading at today, we expect to continue to execute on that program in a very methodical way as we recognize disposition proceeds.

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