3Q 2013 EARNINGS CALL - FINAL TRANSCRIPT
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CORPORATE PARTICIPANTS

Michael Carroll, Chief Executive Officer
Michael Pappagallo, President and Chief Financial Officer
Steve Splain, EVP, Chief Accounting Officer
Timothy Bruce, EVP, Leasing & Redevelopment
Stacy Slater, SVP, Investor Relations

PRESENTATION

Stacy Slater

Thank you operator and thank you all for joining Brixmor's first teleconference since completing our IPO in November. 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's my pleasure to introduce Michael Carroll.

Michael Carroll

Thanks Stacy. This is a very exciting day for our Company as it marks yet another significant milestone in our recent evolution. We want to take the opportunity this morning to thank all of you for your support during the IPO process and we look forward to our ongoing partnership and are excited about the path forward.

Our investment thesis is simple --- We are a team of operators and will build lasting shareholder value through consistent NOI growth and strong balance sheet management, prioritizing building NAV over managing FFO. Our plan generates sustained and reliable cash flow growth, and our results will be clearly indicative of our performance as NOI growth will track to our EBITDA.

Our portfolio has been optimized in the private market. We have resolved or removed several impediments including any noise around joint ventures, unresolved land banks, stalled development projects or infrastructure improvement needs. And most importantly, we enter the public domain without a "non-core" pool and the need to execute dilutive dispositions. We are defined simply as a wholly-owned, grocery-anchored shopping center portfolio located primarily across the top 50 markets in the US. Our grocers are market leading and highly productive providing a strong foundation for our portfolio. Today, we are free from the obstacles of the past and portfolio is primed for growth.

I would like to reiterate this morning the key components of our portfolio strategy. As we look across our national platform, we are now seeing recovery occurring in most US markets. And even as there is limited quality anchor space availability, we still see little appetite for new development. We are bullish these fundamentals will continue and the low supply / strong demand combination creates an environment opportune for the execution of our business plan.

Given this environment, our best use of capital is to invest internally in our own portfolio and we are aggressively doing just that. The risk adjusted returns that we can achieve are much more compelling than we can find externally. We continue to see strong demand from retailers in the 10,000 square foot and above category that allow us, as operators, to continue to create repositioning opportunities to drive and create value.

We are clearly focused on driving same property NOI growth that will approach 4 percent over the foreseeable future. We are confident because of the following:

- First, we have below market leases across the portfolio. Our portfolio average rents are $11.87 per square foot in contrast to our forward leasing pipeline where we have deals under negotiation at $14.50 per square foot. Given our above average lease expiry schedule, this is an incredibly compelling opportunity. This opportunity is amplified based on the fact that we are in an increasing market rent environment bolstered by the lack of new supply. This is key to our story and it should not be understated.

- Second, we still have considerable occupancy upside both in our anchor and small shop space. We expect our small shop occupancy gains to accelerate as the nearly 200 anchor leases we have already executed continue to commence. These anchor lease commencements provide an exceptional catalyst for our small shop leasing program.
- Third, our portfolio provides us with a deep pipeline of anchor space repositioning and redevelopment opportunities. We have a proven track record of capitalizing on these opportunities.
- And lastly, we have solid contractual rent steps that exist throughout the portfolio.

I will now turn the call to Mike to run through the financials.

Michael Pappagallo

Thank you, Mike. Hello again, everyone; it's good to be back. I also am excited to be part of our team and to help capture the significant opportunity in front of us and to increase shareholder value through a simple and focused business plan.

Our goal on disclosure is to have easy to understand, transparent financial information. Unfortunately due to the timing of the IPO, this initial financial statement presentation is admittedly a bit messy. So you can get a feel for the go-forward company and results, we have provided a healthy dose of pro forma information reflecting portfolio additions and deletions at the IPO date, the impact of proceeds raised in the offering and other adjustments for the one-time costs and fees that specifically relate to the IPO process.

Our objective for this earnings release and conference call are two-fold: first, to initiate the financial and operating disclosures that we will supply the investment community to provide complete transparency; and second, to offer our initial 2014 guidance range with key assumptions.

The supplemental financial report contains a host of portfolio metrics for the 522 assets in the public company, as well as information related to what we define as the Same Property Portfolio, which is essentially all the assets of the IPO company other than the 43 properties brought into the Company at the IPO date. Among other things, we have included details on all of our properties and of our debt structure, a net effective rent analysis and the components of same property NOI and other financial statement detail.

One benefit of a simple and focused business plan is the ease of tracking key drivers that will influence our future financial results. Our initial estimate for FFO per common share for 2014 is between $1.80 and $1.84, using a fully diluted share base of 304 million shares. One important item I would like to call out is the impact of GAAP accounting adjustments for below market leases and straight line rents. We have a relatively large amount of this accounting income, much of which was the consequence of marking leases to market when Blackstone acquired the Company in 2011. The combined effect of below market lease amortization and straight line rent is $62 million, or $0.20 per share of FFO, in 2014. We wanted everyone to be aware of this impact for other calculations such as AFFO.

Notwithstanding the accounting items, the FFO per share range of $0.04 represents a spread of about $12 million, which in turn reflects variability in only two areas: property NOI growth and interest costs. We do not assume acquisition activity, as we see the best use of capital directed to our portfolio opportunities. We estimate somewhere in the neighborhood of $130 - $140 million of capital spend for leasing and value enhancing activities. In addition, we will spend about $17 - $20 million on recurring maintenance cap-ex. Included in the leasing capital is approximately $70 million related to key anchor leasing and repositioning deals, as well as larger redevelopment projects. We also do not assume any dilutive disposition activities. Those non-strategic assets were left out of the IPO pool.

We expect 2014 Same Property NOI to range between 3.7% - 4.1%. Again, this range relates to the entire portfolio population other than the 43 assets added at the IPO date -- that group becomes part of the Same Property pool beginning in 2015. Overall growth in NOI will be driven by an increase in occupancy of over 1%; blended leasing spreads of between 8% - 10%, which include options and renewals, against 8.3 million square feet of expiring leases; and in place contractual rent steps of 1.1%.

On the interest expense side of the equation, any costs above our plan assumptions may lower FFO per share slightly, but would reflect a positive development in that it suggests we will be accessing longer term debt. We will be refinancing approaching $800 million of secured debt next year, over half of which is floating rate, with a similar level of unsecured term loans and other corporate financings, as part of our strategy to aggressively unencumber properties and position the balance sheet for eventual investment grade rating. Any opportunity to accelerate that process and extend the maturity profile is will worth the marginal increase in interest cost. As importantly, we will continue to reduce debt levels from normal amortization of existing loans, as well as additional reductions from cash flow, in total about $65 - $75 million of debt pay down in 2014. One other item for those of you working on earnings models, we anticipate total general & administrative expenses in 2014 to be in the area of $78 million. Note that all of the expenses to operate the business are in this line item; there are no allocations or reclassifications to other categories on the earnings statement.

There is plenty to do, but the entire Brixmor organization is primed to execute on our plan and deliver the results. As you saw with our earnings release and supplemental disclosure issued yesterday, we are committed to providing best-in-class disclosure, ongoing transparency and open communications and welcome suggestions you have for making this even better going forward.

Thank you and we are now ready to take your questions, recognizing that many of you are unable to ask questions during the IPO quiet period.

QUESTION AND ANSWER

Question

Regarding the $62 million of straight-line rent in FAS 141 in 2014, can you break out what you expect between the two and what should we expect in terms of FAS 141 burn off over the next few years?

Steve Splain

The FAS 141, the so-called mark-to-market lease adjustment, is approximately $42 million and the straight-line rent is $20 million, so that's the breakdown there. We would expect the straight line to remain relatively flat going forward and the FAS 141 will decrease approximately $3 million to $4 million per year for the next few years.

Question

And then in 2014, can you say what your expectations are for management fee income and also other expenses, I think the majority of which looks like its tax related?

Michael Pappagallo

Yes, we would suggest that the management fee income is about $2.5 million and that relates, for the most part, to the ongoing management and leasing activity for the properties that were left behind -- the "non-core" assets. As it relates to other expenses, above and below G&A, it's probably about $5 million or so, most of that relating to state and local tax expense.

Question

You mentioned occupancy expected to be up about 100 basis points year-over-year. I assume that's the leased rate with the spread between the leased percentage and the commenced occupancy at about, I think it's 190 basis points today. Where would you expect that spread to be at year-end 2014?

Michael Pappagallo

It will be somewhere between 150 – 190 basis points. A more normalized level as we think long-term is around a 150ish basis point range, but it has been elevated to a certain extent because of more bias towards anchor signings. So as we throughput into 2014 with having additional anchor signings, it will stay somewhat elevated and then probably about 2014 into 2015, we'll revert to the more traditional 150 basis point number.

Question

In terms of your breakout of FFO on an as adjusted basis, would you consider providing as adjusted or sort of core FFO guidance going forward in addition to your reported FFO guidance?

Michael Pappagallo

I think what will happen is, for us right now, FFO versus FFO as adjusted will only account for transactional activity. And considering that most of the guidance has very little transactional activity, those numbers will be the same. What we will pursue, as we go forward, recognizing this burn-off of these accounting adjustments is to make sure that the investment and research community understands how the FFO is being impacted by those accounting adjustments and probably state the number ex accounting adjustments. What we did not want to get into was to further confuse the investment community by coming up with our own version of FFO. There's a lot of confusion in terms of one-time adjustments and those things. We didn't want to add to that confusion, so we'd rather go out with a straight definition and then provide the differences and the calculations of those items that really shouldn't be considered in using that metric.

I do want to emphasize something though that Mike had said in the prepared remarks, and that is that certainly we recognize that FFO is an important metric, as is AFFO and CAD and so on. But as we think about our business plan and our strategy, our focus is on longer-term value creation, so for us, it's going to be about NAV growth and along with that, the resulting cash flow growth of the business. So we're thinking very much in those terms and not trying to micro-manage quarterly FFO statistics.

Question

And then just lastly, can you provide Q4 2013 FFO guidance?

Michael Pappagallo

If you look at the third quarter, which was $0.43, we'll have some uptick in the fourth quarter, so $0.44 would probably be a good number to use as we think about the velocity of the business and the leasing and NOI growth for the quarter.

Question

My question relates to the recovery ratio. Mike, I don't know if you have this data, but my guess is as you continue to increase small shop occupancy, that recovery ratio is going to creep higher. At 87%, I think you're right now with the lease percentage of rent-paying occupancy about 90%; as it moves higher, how high do think that recovery ratio could go? I don't know if you have the data of where that recovery ratio was? Sort of your prior peak occupancy for the same portfolio right now?

Steve Splain

We don't have the data for the prior peak but we do expect the recovery rate to move with occupancy and slightly outpace the occupancy due to the small shop leasing. So at stabilized occupancy of 95%, we would approach a 90% recovery rate on all of our CAM and real estate taxes.

Question

Just going back to your leasing, 51% on new leases, it was definitely pretty high. What should we expect when you split out the roll up on leasing between renewals and new leases going forward?

Michael Carroll

I think what you should be thinking about, is that we've had good acceleration in spreads, indicative of better leasing at the properties and the anchor leasing that we've done. We are thinking next year that, on a blended basis, we should be in the 8% to 10% range. But I think there's a reasonable chance of outperformance there, given supply and again, the quality of leasing that we've been doing and generally the improving market rent environment.

I think renewals will continue to be in the range that they've been in, and the new deal spreads, they're a little bit harder to quantify but in an improving rent environment, we would think that those would continue to be north of the 20% -- someplace at the higher end of 20% to 30% range.

Question

Could you help us understand when you have tenants that come up with renewal options; are those options typically at a stipulated rate? Or is that at market? What is the typical renewal options look like?

Timothy Bruce

If the renewal options are at a contract rate basis, the increases vary based on the lease requirements. So generally you should be thinking about those option leases as, I'm going to say, in the 10% range as a bump. Sometimes a little bit less, sometimes a little bit more, sometimes there's a CPI quantifier in there, but I think that 10% is a good number.

Question

First, looking at the composition of the same-store NOI growth in the quarter and year-to-date, the 50 to 60 basis points of growth that was attributable to redevelopment. As you think about the guidance of 3.7% and 4.1% in 2014, is that 50 to 60 basis point contribution from redevelopment consistent, or do you see that increasing or decreasing?

Michael Pappagallo

It's hard for us to quantify that because redevelopment ins and outs are often based on when leases start to commence, what new projects may commence that take existing space off-line, etcetera. But what I would say is that rough range of 50 basis points, plus or minus, is not an unreasonable estimate in how we think about the redevelopment piece of the total NOI growth. I'm just a little hesitant in terms of really tightening that number at this point. As we get more into 2014, and projects are completed and new projects commence, I probably can give you a little bit more precision on that.

Question

And then you mentioned that demand for spaces 10,000 square feet and larger is pretty strong, and rent growth in the boxes that are 35,000 square feet or greater was strongest in the quarter, and it was actually lowest than the below 5,000 square foot space. I was just wondering, what gives you confidence that the leasing will accelerate in the small shop space, like you're forecasting, given that there's usually a little less lead time on those size spaces?

Michael Carroll

I'll start and then I'll give it to Tim for color. A big part of understanding our story is the anchor leasing that's been done over the last couple of years. We've signed nearly 200 leases; many of those commenced during this quarter, many commence during the first quarter next year, and it is really important to understand that the small shops are going to follow those anchors and when those anchors get open and are solidified, that's when we can achieve the best rate on shop space, particularly that small shop space. And so that's been the lagging of that space to date and you've seen some acceleration, as we've commenced more anchor leases, and it does provide a great platform for it. We have seen good demand and Tim can talk about some of the demand that we're seeing in that space.

Timothy Bruce

Follow-on leasing from all of our anchor leasing initiatives over the last couple of years has been tremendous. We have robust demand from shop space in the 10,000 square foot and below category, in particular, most of the divisions of Ascena, Carter's, Unleashed by Petco, and PetSmart, just to name a few. And so both on a national and local level, we see a lot of robust leasing interest in our space.

Question

I know the Company's strategy in the near term surrounds leasing and internal growth and you mentioned, Mike, that there's no acquisitions or dispositions in guidance. I was just curious though if you think about external growth, when should we expect to see any acquisitions or dispositions? I guess when will the Company consider recycling capital and making new investments?

Michael Pappagallo

I think what we've been saying is, we did use this time as a private Company to shed the portfolio of non-core assets. Everything that we have in the portfolio today, we feel like we have a plan that we can extract growth and grow NOI at those properties. As we start to move through this year and into next year, as we harvest and capitalize on that growth, as we start to see growth rates flatten out, at that point, I think we'll be looking to do some recycling. But as we sit here today, it's more about the operations of those properties in an environment where we've got recovery now really across the US. We just don't feel like before taking advantage of that growth, that it would be prudent to be deep into a recycling strategy.

Michael Carroll *- Brixmor Property Group Inc - CEO*

Thank you. Again, I can't express enough how thrilled we are to have completed this phase of our journey. Our team is honored to be back in the public markets. We recognize it is also a great responsibility. The team here is very committed; they're focused and we would look forward to reporting our progress to you in our quarters to come. Thank you very much.

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