

**2Q 2014 EARNINGS CALL - FINAL TRANSCRIPT  
MAY 2014****CORPORATE PARTICIPANTS**

*Michael Carroll, Chief Executive Officer*

*Michael Pappagallo, President and Chief Financial Officer*

*Dean Bernstein, EVP, Acquisitions & Dispositions*

*Steven Splain, EVP, Chief Accounting Officer*

*Stacy Slater, SVP, Investor Relations*

**PRESENTATION**

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**Stacy Slater**

Thank you Operator and thank you all for joining Brixmor's second 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**

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Thank you Stacy and good afternoon.

When Brixmor went public last year, I communicated the vision for the Company -- to be clean, straightforward, and transparent. We took advantage of our time in the private market and cleansed the Company. We came forward with a differentiated investment proposition, a National Grocery-anchored Platform. And as we are wholly owned, investors get the full benefit of our growth. Our goal was to deliver consistency that emanates from the simplicity that we created. The guidance range we provided for same-property NOI and FFO were the narrowest in the sector at 40 basis points and \$0.04, respectively. We don't believe in an under-promise and over-deliver approach. The simplicity that we have created doesn't require that we protect our earnings expectations. By having wholly owned assets with contractual leases we can forecast earnings accurately.

And as importantly, Brixmor offers a unique perspective in portfolio growth. We have a steady state portfolio with a large same property pool that is delivering consistent organic growth. We have now achieved same-property NOI growth in excess of 3.5% for the eighth consecutive quarter, reporting strong 3.8% growth this quarter driven again by increasing rents. Helping drive our rents is solid leasing spreads, with this being the fourth consecutive quarter with blended spreads of 11% or higher. I am not aware of any other company in our space that can make these statements. As I said, we are consistent, transparent and easy to understand.

Our business is performing well across all markets, pointing to the inherent strength of our grocery-anchored portfolio, the market position of our properties, the age and tenor of our centers and the strong sales being generated by our grocers. As a result of these characteristics, our business is built to perform for the long term. These continued solid same property NOI results and leasing spreads are indicative of the upside inherent in our below-market leases. This will be an ongoing defining characteristic of our portfolio. While it has been clear to many that our expiry schedule presents a near term opportunity, the real long term opportunity is evident when looking at our expiring leases in 2018 and beyond at \$11.11 per square foot. When you overlay the continued growth in our grocer sales with the improvements in our leasing, the take away is that our portfolio, and more importantly, our locations are getting better as a result of our efforts. When you contrast those improvements with the declining expiring rents in the coming years, you see the long-term nature of our growth opportunity. We believe that we are well positioned to deliver growth into the next decade. Harvesting this opportunity will continue to be our primary objective.

At the same time, we continue to make strong progress in increasing our occupancy. Our total occupancy increased 90 basis points year-over-year and anchor occupancy has climbed to 97%. New lease volume during the quarter totaled 1.1 million square feet. The last time we experienced a similar level of productivity was in 2011 following the Blackstone transaction, when the doors to capital opened and we were able to execute on pent-up demand.

Occupancy for spaces less than 10,000 square feet increased 150 basis points year-over-year, with 90% of new leases executed during the quarter for small shop space. As we have discussed before, our occupancy gains will be measured as we seek to maximize rents resulting from our anchor leasing progress. In fact, in this quarter, our ABR per square foot for small shops reached a new all-time high of \$19.02 per square foot, which is up 3% from last year. Gains were consistent for both spaces between 5,000 and 10,000 square feet and below 5,000 square feet.

Our National Accounts program continues to play an important role in our leasing success. We are seeing great results in achieving multiple deals with small shop retailers. Examples of small shop tenants with multiple deal activity across our portfolio include: Boot Barn, Xfinity Comcast, GNC and Sally Beauty – all of which we did four or more deals with. We have also executed three deals with each of Anytime Fitness, Great Clips, Hibbett Sports, PetValu, and Sleepy's. There continues to be ongoing demand for space from quick service restaurants. For example, we just completed our third Habit Burger lease this year, an upscale California concept. In addition, we have recently executed three leases with Dickey's Barbecue.

We are also committed to progressing our early renewal program. This program is designed to lock in strong credit retailers with long-term leases, while achieving higher rents with earlier starts and renegotiating unfavorable lease terms. In the fourth quarter, we talked about our success with TJX, who we continue to paper additional early renewals. We have had similar success with Dollar Tree, locking in five early renewals at a 13% total increase in rent.

Anchor space repositioning and redevelopment play a critical role in our ongoing remerchandising efforts. Our program continues to progress. During this quarter, we added eight new projects to our portfolio. We currently have 21 projects in our pipeline. The upgrades that we are making through this program are transforming our asset base. For example, bringing in a 28,000 square foot Fresh Thyme grocer replacing a regional furniture operator in Cincinnati; replacing a Sports Authority with Winco Foods and creating a grocery-anchored center with a leading traditional grocer in Dallas; replacing a former Winn-Dixie with a Walmart Neighborhood Market in South Florida; and upgrading our merchandising mix by replacing an Office Depot with DSW in Milwaukee. Of note, we have decreased our exposure to Office Depot from last quarter by 8% of ABR, upgrading at every turn, and we continue to focus on proactively addressing these leases.

As I have consistently said, anchor commencements and tenant upgrades have been the primary catalyst of our small shop occupancy gains and should continue to benefit us as we continue to aggressively push down this path. We are starting to see the longer-term impact of these efforts as we renew or re-lease the incremental space at these centers. At centers where an anchor space repositioning or redevelopment is in process or has been completed over the past three years, blended leasing spreads over the last 18 months have been almost double, and occupancy has increased by 400 basis points. In simple terms, this has been our strategy -- upgrade the anchor offering and then really push the leasing, focusing on maximizing the rental rate. Our internal mantra for this is Win on Rate. We want to capitalize on the anchor leasing that we have done, the strength of our grocers and the traffic that they provide, as well as the very favorable supply / demand dynamic. The combination of these factors allows us to Win on Rate like never before.

I will now turn the call to Mike to review our financial results and balance sheet updates.

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**Michael Pappagallo**

Thank you Mike.

The second quarter was characterized by a continuation of strong financial results consistent with our expectations at the beginning of 2014. FFO per share of \$0.46 grew by \$0.05, or 12%, from the 2013 second quarter pro forma level of \$0.41. Of that increase, about \$0.03 was attributable to growth in EBITDA and about \$0.02 from lower interest costs. The increased EBITDA in turn reflects essentially the growth in net operating income, once more underscoring the fact that NOI growth flows through to the bottom line with very little disruption along the way. Consistent with recent trends, rental growth was the primary driver in our same property NOI results with additional impact from improved operating expense recoveries.

The portfolio metrics underscore and bear out the positive operating environment and the opportunities that are specific to our portfolio. This past quarter's new lease GLA of 1.1 million square feet and new ABR of \$13.7 million represent the highest quarterly volumes in three years. The deal composition reflects acceleration in anchor leasing activity, some of the examples which Mike mentioned earlier. While composite ABR per square foot for new deals of \$12.52 was less than the past couple of quarters due to the increase in anchor space leasing, the strength of those deals can be seen in the comparable spreads of over 27%. Please note that we are now incorporating the rent per square foot data on these comparable deals in our Supplemental as requested by investors and analysts.

The turnover in anchor spaces and focus on improved merchandising is evident in the shift in tenant exposures. For example, Best Buy and Safeway have fallen out of the top ten, with PetSmart and Bed Bath moving in. Bi-Lo has fallen out of the top 20.

As we announced in May, our progress in balance sheet management and direction was recognized by Moody's with the issuance of Baa3 rating for our operating partnership subsidiary. We continue to be in dialogue with the other rating agencies as to the short and long term balance sheet positioning. While there are no contractual maturities of any significance remaining in 2014, there is an ability to accelerate \$205 million of debt into late 2014, plus another \$275 million due in the first two months of 2015. The blended interest rate of these instruments combined is 6.9%, providing a positive arbitrage on refinancing even in the face of potential interest rate increases. We would most likely be in a position to enter the bond market later this year based on the rate and pace of progress we have made during the past 12 months.

With respect to our guidance on earnings and operating metrics, we again affirmed the ranges set forth previously. For the same property NOI range of 3.7% to 4.1%, the primary remaining variables in the range are the timing of rent commencements for both executed and pending leases. As to FFO, the range of between \$1.80 and \$1.84 mostly reflects the potential impacts associated with capital markets transactions -- specifically, the costs associated with any acceleration of debt instruments for prepayment and increases in interest costs from terming out more debt via the bond market. We will update this range further as these events unfold in the last half of the year.

Finally, in closing I'd like to call out the success of the secondary offering completed on behalf of Blackstone in June. It's fair to say that we were all quite pleased with the performance of the stock during the road show and the investor demand at the offering, and the follow-on benefits to investors from improved float and liquidity.

Over the past 12 months, we have raised almost \$5 billion in capital between the equity markets and bank credit facilities. We are heartened by the response from investors and financial institutions to support our straight and focused business strategy and are single-minded in delivering on our commitments.

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

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**QUESTION AND ANSWER****Question**

I just wanted to follow up on the comments that you just made regarding the rating agencies and debt prepayment and thinking about obtaining an investment grade rating. How do you see the process and the timeline both unfolding from a rating agency perspective? What are some of the hurdles that you feel you need to cross?

And you talked about earlier repayment of some of that debt. I think you said a lot of that was mortgages. To the extent that you can unencumber those mortgages, how does that get you further along that timeline?

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**Michael Pappagallo**

As it relates to where we stand today and in thinking about the immediate future, say the next year, I would offer that the investment grade rating issued by Moody's provides evidence and indications that we are already at the place we need to be. We are investment grade. And I think the agency recognized the clarity and the focus of our plan to continue to reduce the secured debt content and the encumbered NOI proportion of our operating metrics. So for us, it's continuing the steady state progress we have made and will continue to make over the next year.

The other rating agencies are continuing to evaluate that position. Just based on some activity that S&P took earlier in the second quarter, we would expect more clarity in terms of their views with respect to Brixmor over the next few months, and I think with that signal in hand we would have good clarity in terms of issuing or going to the bond market.

The reason why I pointed out those maturities that we could accelerate, because if conditions warrant, we have what I would consider a sufficient amount of debt that we could repay in the fourth quarter and replace that with an inaugural bond. If, for whatever reason, conditions are such that we would wait until early 2015, similarly, we have the ability to repay and gain benefit from the positive arbitrage.

That's kind of how we're thinking about it right now. And as we go forward, say the next conference call, there'll be even more clarity than there is today in terms of where we stand on the investment grade spectrum.

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**Question**

And are you able to disclose any costs that you incurred in the second quarter relating to the Blackstone secondary offering? Where did they flow through the P&L? And within your guidance range, how much of those costs have you budgeted for? If we are thinking about any additional costs that you may incur if Blackstone decides to do another offering before the end of October, to what extent is that in your guidance?

**Steve Splain**

The costs that we incurred in the second quarter are in the other expense line, which you can see on the P&L, as well as on page 11 in the Supplemental. The costs are about \$900,000 in the quarter.

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**Michael Pappagallo**

And the second part of the question, in providing that guidance range and in thinking about capital markets transactions, the possibility of another Blackstone offering and the attendant costs would be part of that guidance range.

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**Question**

In looking at your net effective rent schedule it would seem that your TIs have continued to tick up higher over the last six quarters. Is this sort of a mix issue in terms of the space that you are leasing each quarter? Maybe you could provide some color on your approach to TIs.

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**Michael Pappagallo**

It is purely a mix issue as it relates to the content of anchors relative to small shop leasing insofar as GLA. This quarter the content percentage of ABR was about 50% to 50% between anchor leases and small shops. Contrast that to the last quarter, where it was 40% anchors and 60% small shops. The other way I'd look at it is if you combine the tenant allowance work and landlord work in the net effective rent schedule, you'll see that on balance they are roughly in line. It's \$2.52 this quarter, \$2.60 last quarter, \$2.65 the quarter before. So on absolute terms, it's higher because there is more anchor leasing. But on a relative basis in terms of net recovery, we're pretty much in line, recognizing that with anchors, as a general matter, there's more cost attendant to it.

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**Question**

Could Blackstone do a margin loan with Brixmor similar to its Hilton deal in July?

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**Michael Carroll**

They could. I think there is certainly nothing that precludes them from doing that. I think that when they're thinking about different ways to return capital to their investors, that could be a path that they take.

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**Question**

And then I know that you are particularly quick in processing leases. Have you seen that time frame quicken still from where it was six, nine months ago?

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**Michael Carroll**

We're still generally tightening it up. I would tell you, it's more about the work that we're doing. I'd say it's one of the benefits of the scale of the Company that we're a meaningful relationship for a number of these retailers and their recognition that if they invest some time with us to pound out and agree on a lease form, that we can do things a lot faster. And so I think that it continues and it's something our National Accounts team continues to work on. Our goal, and I'm looking across the table at Steve Siegel, our General Counsel, is to have everything be 30 days or less. It's a great goal to aspire to, and we continue to try to make that happen wherever we can, tighten those times wherever we can.

We're not sensing, if your question is -- are retailers pulling back, we're not sensing any of that.

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**Question**

Yes, I was just curious. My sense is that you're not feeling that yet.

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**Question**

I was wondering, for small shop occupancy, it looks like its 82% in the quarter. Where do you see it ending in 2014 and where do you see it ending 2015?

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**Michael Carroll**

But I think that we would say to you and what we've been saying is we're in the 150 to 200 basis points a year, is our range, kind of picking that number up. So we started this year at roughly 81%. So I think we are going to be in between the 82.5 to 83%, somewhere in that ballpark. I think just continue that. We're very comfortable with that pace.

I think a lot of what we're trying to do is make sure that we do things sequentially the right way. And so as we mentioned some of these deals this quarter where we have Winco coming and we have Walmart Neighborhood coming, we want to make those leases as or after

those tenants are opening and not in advance, so we can make the most rate. So we're not just trying to fill the bucket. We're trying to really hit on rate, recognizing that this is really our opportunity to do that.

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## Question

Looking at the redevelopment pipeline. If you're thinking out over the next few years or so, just looking at the different opportunities in the portfolio, what do you think that average annual investment ramps up to or does it ramp up?

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## Michael Carroll

We're still very comfortable with where we articulated that spend to be. We think that spend is generally in a \$70 million to a \$100 million a year. We are taking a harder look at it. I think as you look at some of the opportunities that are presented by the supply dynamic that's out there and some of the opportunities as concepts evolve to recapture and downsize space, could it ramp up as we move forward? It could. But I'd say to you today that we're still comfortable in that \$70 million to \$100 million a year of redevelopment spend and deliver.

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## Question

Just sticking with the anchor repositioning a little bit here. You added a few more projects to the pipeline. As we look at the 20 in-process projects, I'm curious how many of those involve recapturing space from a retailer prior to lease expiration? Along that same thought, maybe you could talk more generally about retailers' willingness to work with you and give back space or downsize, maybe what you're seeing?

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## Michael Carroll

I have to get back to you on an exact number of what has been recaptured there. But a lot of what we are talking about is those opportunities. Making a conscious choice not to renew Sports Authority. We took out a Winn-Dixie early this quarter for Walmart. We're making those kind of moves. We think about this generally, it's our day to day business. We are looking for retailers who aren't maximizing the space and we're looking to get them out and put in retailers who can maximize sales in the space and help us maximize value in the space. So it's going to be an ongoing process and I think it's always part of the business. It's the natural life cycle of retailers. And as they evolve and as they change and as their models or their business becomes outdated or out of favor with consumers, those are opportunities for us to take space and bring it back to market and put it in better hands. That's our business. I don't know what else to say. But that's our business and what we think about every day.

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## Question

And then back to the debt schedule. On the \$205 million that can be pulled forward into late 2014, the end of this year, and then the \$275 million that you said could be pulled ahead to the first two months of next year, what's the original maturity of that debt? Are you able to break that out, by any chance?

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## Michael Pappagallo

Yes, the 2014 acceleration, those are sitting in the 2015 debt maturity stack. And the other part, the amount that is in 2015, it wasn't so much an acceleration, it was just an identification that there is that much which is ready for prepayment in the first month or so of 2015.

I just offered those two numbers because putting them together, give or take, it's about a \$500 million repayment. And when we think about the potential of inaugural bond offering, that \$500 million size sounds about right. So I was just trying to provide some clarity or connection in terms of what those proceeds on an inaugural bond would be and the positive interest arbitrage if we did it either in late 2014 or early 2015.

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## Question

What's the latest with the Inland preferred? Is that part of that amount that you mentioned?

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## Michael Pappagallo

That is.

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## Question

I just had a quick question about your traffic or sales from the retailers that report to you. What those trends look like, if they're flat or increasing or decreasing. Do you have a sense?

**Michael Carroll**

We do. I think the one that we track closest is our grocer sales, and we're continuing to see good increases there. We were north of 3% on grocer sales this year and I would just say to you it's been consistent. So we haven't seen any change there. And just as we've looked at this quarter, what's come in has been better as well.

I think that's the real beauty of our platform and our space, is the consistency of the traffic. And I think it's why grocery-anchored shopping centers have always been desirable because it's non-seasonal, it's non-cyclical and it's very consistent traffic. That's helping us and it's helping our leasing, it's helping our rents and it's helping us to just continue to grow the business.

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**Question**

On the acquisition front, have you seen anything that is material that's crossed your plate via your own efforts or via Blackstone? And looking forward should we anticipate anything different than what you have commented about in the past about your level of interest in acquisitions?

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**Michael Carroll**

We are seeing some things. There are some things that are out there in the market. I'd say it's been a little bit of a ramp-up and there is some larger portfolios coming to market.

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**Dean Bernstein**

We are looking more aggressively at one-off transactions. We are seeing some portfolio deals as well. We're very much, obviously, still in a seller's market and pricing is aggressive. We're not under pressure to buy and we're being fairly disciplined. But we are bidding on certain assets and I would hope and expect that we have a few successes over the next few months and into next year.

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**Question**

But nothing in any kind of larger portfolio sense?

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**Michael Carroll**

You're not going to see us do anything that's dramatically different from what we've said to you. We're going to continue to look and the hurdles are high. We want to have something that has growth, not buy something that we feel is at top of the market and we want to have it be consistent with the growth opportunities we have in the portfolio. We continue to tell and see that we have good investment opportunities in the portfolio. So I think the bar is high for a new property to hit. From that point of view, I'd say it would be a very measured approach to that program.

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**Question**

On the credit rating, what is the pricing difference if you only have Moody's versus having, let's say, Moody's and S&P? And should we infer from your comments that if you don't get S&P, you wouldn't go out with an initial -- with just a Moody's stand alone?

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**Michael Pappagallo**

No, don't infer that. I just think for us we want a little bit more clarity in terms of where that second rating would be. Certainly, we won't go out without a second rating. But whether with two investment grades or whether, as they say, two investment grades or it's five Bs. And then, of course, there's Fitch rating service to consider, as well.

So the pricing differential, hard to say at this point because the market right now is shifting a little. Notwithstanding what it would be, that's really not the focus because for us it's about getting into the market. We'll have positive interest rate arbitrage whether the pricing differential is 20 basis points or 30 basis points. We're not micromanaging the rate or the spread here. We just want to be in a position to go out and have a strong execution. Ideally, I would like to be investment grade from two agencies and ideally, I would like to be investment grade from three agencies. But what I want first is clarity. And then based on that clarity we'll make some specific decisions on timing and size.

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**Question**

But the point is that you want two ratings? You don't want to go out with just one rating?

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**Michael Carroll**

I don't think you can.

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**Question**

What I mean, there are folks who do the private placement before they're rated.

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**Michael Pappagallo**

And this dialogue has been strictly thinking about things in the public market. I certainly recognize that private placements are available to us, and that's always part of the calculus as well. So, again, once there is clarity, we will make some more strategic actions.

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**Question**

If we look at the percent leased, that over the past year has grown quicker than the percent billed, and really it's driven by that under 10,000 square foot user. Should we expect this gap to grow, or should we expect the percent billed to catch up to make up some of the spread difference between the percent billed and the percent leased? If you could just give some color.

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**Michael Carroll**

I think it's wide right now at 200 basis points. This would normally be the widest point in the year. And as you start to move towards the cycle when people sign early in the year and then open later in the year, it'll start to tighten. But I would think, and what we're expecting over the next couple of years, is that gap continues to be in, I'm going to call it just a range of 150 to 200, and it just continues to move higher together on both the leased and the billed side just moving up. Because we still have good runway of opportunity as it relates to occupancy, and I would think for the next couple of years that ought to be what you would expect to see. But through the year you'd widen out in certain parts of the year and tighten towards the end of the year.

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**Question**

Going back to your comments about grocery sales being up roughly 3% a year, could you talk about what are the main data points or variables that have the highest correlation to your lease spreads? Are your better centers doing a majority of the better lease spreads and the ones that are doing worse are poor in grocery sales per square feet and poor on spreads or how divergent does it get for your portfolio?

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**Michael Carroll**

I am going to start and say just on same property NOI we're seeing better progress on the grocery-anchored centers than the non-grocery anchored centers. We're seeing basically 4% year-to-date on the grocery-anchored centers and the centers without a grocer are in the mid 3%. So that would be first. And then spreads. It really is that dominant grocer that really helps us drive spread. So where we're seeing stronger sales, that's where we're really getting our lift. And it really shines the focus on what we've done with the portfolio and having number one or number two grocers and having sales above \$500 a foot. That's really pushed into spreads.

But when we look at a lot of cuts and the way we think about the spreads, we're looking at larger markets, smaller markets, et cetera. And really the broad-based nature of what we're seeing today is it gives us a lot of confidence in the fundamentals around the types of centers that we have and the demand for that space. And so it is very broad-based, is the best way to say it.

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**Question**

If I look at your portfolio from a demographic standpoint, it probably doesn't show in the best light especially on a relative basis. But do you think there's a bit of a correlation breakdown when you look at demographics? Some of your properties that maybe don't look that great in demographics are doing just as good, or basically does it line up pretty closely to the denser locations?

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**Michael Carroll**

No, it doesn't. Surprisingly, it'd be the opposite. And what I would tell you why that is -- I can talk about our properties in Metro New York and Philadelphia and we feel very good about those properties. But it's very hard for me to point to a property in a market like metropolitan New York and say I have the best grocery-anchored center in metropolitan New York. The market's too vast for me to really say that accurately. But when I break out and go to some of our other markets and our markets that are call it non-top 100 markets, like Naples, Florida. I can tell you very definitively we have the best grocery-anchored center in the Naples market. Retailers know it and we're able to drive rents because of it. I can say the same thing in places like Boulder, Colorado, and Odessa, Texas and Hilton Head and Ann Arbor, Michigan. I can say things like that in those markets. And that's allowing us to drive spreads there and we are doing that. We're seeing good follow through in those markets. We are seeing high 4% and 5% on same-property NOI growth in those markets, because we have truly the dominant property and the markets consolidated very nice around what we have

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**Question**

In terms of acquisitions, will you be looking more at the New York type of assets that you talked about or the latter that you described?

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**Michael Carroll**

I think what we're really looking for is dominant grocery-anchored properties. And we have a broad spectrum of markets. I think we're very comfortable being in the top 50. We're very comfortable in the right situations to be outside of the top 50. But it's going to start with dominant grocery operators in strong locations.

And so I think that's what is unique about our platform, is we haven't narrowed our view to ten markets. We have a much broader view. We think quality grocery-anchored space is defined by the operator and the sales that operator is doing and its location within the market and demographics, while a data point, isn't really the driver. I think we've got a broader opportunity set. You're going to see us when we're in the acquisition mode utilize that broader opportunity set

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## Question

I was just wondering if you could share your thoughts on when you think the supply of acquisition opportunities, when the market could loosen up a bit? Particularly where grocery-anchored cap rates are right now. Do you get the sense when you're on offense in a more meaningful way next year you could see a much more willing seller base?

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## Michael Carroll

I think the market the way we see it, it's a very good time to own assets. And I think a lot of owners look at it that way. You look at the lack of development that's out there today. Lack of development comes about for a couple reasons. There's not a lot of large format retailer expansion, but also the cost. I think the cost today of doing something on a replacement basis, new is going to be well over \$200 a square foot, and the rents to do that really put a base rent across the property north of \$20, and I think that's very challenging for developers and for tenants to take that on. I think you're looking at owners who say I've got a good opportunity to continue to grow rents in the properties I have. And so I don't think there's going to be a lot in any material way flooding onto the markets.

I think it's going to continue to be a tight transaction market, a seller's market where there's a few properties out there and they're going to be bid up significantly. We are not planning on having a monstrous acquisition program here because we think the fundamentals of the space right now are going to argue against it.

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## Question

I hear what you're saying in terms of focusing more on the single asset pipeline in the near term. But when you do get that second investment grade rating, clean up the balance sheet further, how are you thinking about potential non-traded REIT portfolios looking for liquidity events where you could potentially get more scale quicker?

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## Michael Carroll

I think that it continues to present an opportunity. I think our concern on non-traded REIT portfolios generally are quality. They're usually not the most prudent buyers as they raise money. They invest money and they usually don't have the most discerning eye. And so those portfolios generally require a great deal of caution.

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## Question

When you are ready to do acquisitions, would you fund that by matching it with dispositions? And if and when you do start to look at dispositions, would those properties fall more within the top 20 MSAs since it seems like you're very confident in your ability to drive rents in the more secondary or tertiary markets, or was I reading into your earlier comments a little bit too much?

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## Michael Pappagallo

If I may from just from a financial planning point of view, we are assuming somewhat of a zero net acquisition effect. It's not so much that we're consciously going to match acquisitions and dispositions. But as we think about the next couple of years, there are going to be some opportunities as difficult as the market is to buy some properties.

Likewise, as we continue to execute our asset management and portfolio management strategies, we are going to sell some properties. We've said it on different occasions where we feel we have maximized growth or we feel that there's a risk in a particular market or a particular center. We will sell that center. We're not exiting markets. We're not wholesale moving out of state. It is an asset by asset determination. And because of that it can as readily be MSA number three as MSA number 100. So expect to see that sort of velocity pick up to some extent on the buying and the selling into 2015 and beyond. But, again, to underscore, we're an internal growth reinvestment story. So buying and selling will be impacts on the margin to more fine-tune the portfolio and to position ourselves for further growth.



**Michael Carroll**

I'm just going to add to the second part of your question about markets. This really gets to our differentiation point as a company. We have not followed the herd to say we want to be in 20 markets or 10 markets or 5 markets or 10 or whatever the number is. This is a different business. This is not a power center business. This is a grocery-anchored business. And the key to success in this business is the right operators in the right markets and being comfortable with the core of that operation and its relative positioning within those markets.

And because of those facts we think we have a much broader opportunity set, and that's going to give us an opportunity to acquire at an arbitrage because the majority of our REIT brethren have narrowed their focus. Our platform, our grocery-anchored thesis is a larger market set thesis. And so that's where our focus is and that's what differentiates us.

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**Question**

Just going back to your comments on the lack of development. Just curious, we have heard from some of your peers that things are improving and they're starting to think about development a little bit more seriously here. Just curious if there are any markets that you operate in where you are seeing a little bit more activity? And in particular any activity from non-public REITs on the development side?

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**Michael Carroll**

At the end of the day, I know our peers are talking about doing some. The REITs have never been the material driver of development. It's always been the regional non-public players. And we look at the conditions for that and the conditions for that really haven't changed. Those players need large format retailers to commit to be able to underwrite a project.

For a public REIT who has land on their books, to do something without a large format retailer, it's not that hard to do, right? They don't need the financing. They have a different approach to those projects. The private guys, their scenario is different. They need the financing. So I look at that.

And then I look at where things are on a replacement cost basis today and there's two things working against it. You don't have large format retailers out there. You have a replacement cost or a cost to develop today in the \$200 plus a foot range. When I look at where our implied value is at today in the mid \$150s and it really shows the gap -- that's why we feel really good about our ability to continue with our rents. We feel like our value will ultimately migrate to what replacement cost value will be.

But that being said, where we do see some development, the Texas markets. We do see some activity down there. I think you look at where is there some large format expansion. HEB is doing some expansion work in Texas. There's some activity there. There's some activity in Charlotte because Publix is doing some work there. But when we look beyond that we really see very little.

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**Question**

And just one other question going back to the small shop leasing which has been pretty active here. Curious on the mom and pop side, true mom and pops. Are you starting to see a turnaround in that side of the business, where they are starting to be a little bit more active with leasing? And the other question would be how interested are you in those types of leases? Obviously, they come with bigger rents but higher risk. So, just curious, how much of the portfolio you'd be willing to allocate to those kinds of tenants?

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**Michael Carroll**

I think its early days on small shop leasing as far as mom and pops coming back. We haven't seen any really true material tick up in our portfolio. And given what we're trying to do and the transformation that we're trying to make in the anchor repositioning and then the follow-on that we want to get, we've been really trying to focus on getting best in breed, best in class retailers.

As time goes here without development, our national and regional attention and our throughput there has been very strong. So we've been very consistent with mom and pop at a relatively small level, and it's really been the national regional chains or businesses that have been driving our shop activity.

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**Michael Carroll**

We certainly appreciate everybody's time. The second half of 2014 will bring the one-year mark of our IPO. We're very pleased with the progress we have made to date and we definitely feel like we are well positioned to continue executing on our growth story. Thank you for your time today and enjoy the rest of your summer.

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