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4Q 2014 EARNINGS CALL - FINAL TRANSCRIPT

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PRESENTATION

Stacy Slater

Thank you Operator and thank you all for joining Brixmor's fourth 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

Joining us on today's call is Brian Finnegan, who was named Executive Vice President, Leasing in November. Brian has been with our Company for over 10 years in a variety of leasing roles across our national platform. Many of you have met him at the various industry events, and we are very excited to have him in this senior role. He will be available for questions during Q&A.

Looking back, 2014 was a very successful year for Brixmor from both a strategic and a financial standpoint. While we are pleased to have met our expectations for our key operating metrics, we have also made important strides in advancing and communicating our Raising the Bar program and positioning ourselves as the landlord of choice to our retailers. All of this was accomplished in a backdrop of improving financial and operational flexibility, with the ongoing re-laddering of our deck stack and an increasing unencumbered asset pool. We now have a stronger balance sheet, supported by investment grade ratings from all three agencies, and with the improved liquidity in our equity as our pre-IPO holders continue to reduce their ownership.

Strong leasing results throughout the year have successfully boosted our tenant mix, average base rent and occupancy rates -- driving our continued organic growth with same property NOI of 3.9% in both the fourth quarter and year. This marks the 10th consecutive quarter of same property NOI growth in excess of 3.5%. No other sector peer can make this statement. We expect to continue to drive strong NOI growth into 2015, as we capitalize on the long-term opportunity embedded within our portfolio -- the below market expiring leases and the above average expiry schedule. 40% of our leases expire in the next three years at an average base rent of $11.41, as compared to new leases being signed in 2014 at $13.45. As Mike will discuss further, our expectations for 2015 same property NOI growth is 3.0% to 3.7%. And while 2015 same property NOI growth will be impacted by downtime related to some of our larger Raising the Bar projects, such as the remerchandising of four Kmart boxes, we still expect long-term growth approaching 4% on average.

Our Raising the Bar strategy, which was introduced last quarter, is premised on improving our anchor offering by recapturing underutilized space and putting it in the hands of more productive retailers. Our objective is straightforward – best-in-class anchors produce increased sales and traffic, driving stronger small shop leasing, thereby increasing cash flow and pushing cap rates lower. We are very pleased with the results we have achieved thus far regarding Raising the Bar. During the fourth quarter, we added an additional three projects to our pipeline, including replacing a former Tile Shop with Bed Bath & Beyond and a Kroger expansion. All in, we currently have 28 active projects.

Strong demand from retailers seeking space in desirable shopping centers, combined with our Raising the Bar efforts, have enabled us to push rental rates, with blended spreads of 13.9% in the quarter. This is the second consecutive quarter with blended spreads approaching 14% and the sixth consecutive quarter of blended spreads above 11%. Earlier in the year, we focused our teams to drive rental rates through our "Win On Rate" program. The results have been impressive with blended spreads aggregating a very strong 12.6% for the year.

Occupancy increased to 92.8% at year-end, in line with our expectations and up 40 basis points from 2013. Leasing activity was much greater than implied due to the sheer volume of anchor re-tenanting activity as we focused on rent spreads and long-term NAV growth by getting the right retailer in occupancy. In fact, our leasing productivity during the year was sizable, with 787 new leases executed, for almost 4 million square feet. To highlight how tight supply is among anchor space in our portfolio, we currently have only 29 spaces above 20,000 square feet available. We are focused on creating opportunities where we have underutilized retailer space. In just the fourth quarter, we signed 24 anchor deals totaling 583,000 square feet and $6.4 million of ABR. Key leases include Burlington, Dick's Sporting Goods, DXL, Party City, Sports Authority, Michaels and Petco. Of these 24 anchor deals, 15 of these spaces were spaces that were previously leased and we improved the quality of the assets. Our commonsense approach is that we need to maximize our already leased space whenever possible, before we can fully realize the value of our available inventory. We gained 100 basis points in small shop occupancy year-over- year as we benefited from anchor openings and tenant upgrades and expect to continue to realize additional gains.

We continue to add new names to our well-diversified roster of industry-leading tenants -- many of which represent the launch of new concepts or prototypes or entry into new markets. For example, during the fourth quarter, our mall leasing team executed new leases with Lorna Jane, which offers high-end active wear. This is a new concept from Australia. And Lemon Pop, a new apparel concept by Charlotte Russe. We will be the home to their first location. While still very early, we are very pleased with the progress of our mall leasing initiative.

Other new retailers to our portfolio in 2014 include Banana Republic, Apricot Lane, Daiso (a worldwide operator of treasure hunt stores) and Paws And Claws (a Canadian operator expanding into Michigan), who we did four leases with in the quarter; and new restaurants such as Whataburger, Bagger Dave's, and rapidly expanding pizza concepts -- Blaze and Jet's Pizza. We continue to seek out uses that bring daily traffic and restaurants are a key category in that effort. During 2014, we executed 136 new leases with restaurants, accounting for 17% of all new leases signed during the year and the second highest among tenant categories. The strength of these retailer partnerships is also exemplified by the number of tenants that we executed five or more leases with during 2014. This list includes XFINITY by Comcast, Cricket Wireless, Dickey's Barbecue, Dollar Tree, GNC, Great Clips, Hibbett Sports, Pet Valu, Sally Beauty, Boot Barn and Sleepy's. These retailers signify the convenience and value orientation of our portfolio.

Instrumental to our leasing efforts are the specialized initiatives of our national accounts team. On last year's fourth quarter call; we highlighted several areas of focus. As an update:

- First, executing early renewals, which enable us to lock in strong credit national and regional retailers with long-term leases. During 2014, we executed five early renewals with the TJX Companies, resulting in a 32% total increase in rent. Importantly, we are receiving additional rent now, well in advance of the expiration of their existing term. These are in addition to the five early renewals we executed in 2013.
- Second, anticipating at-risk tenants and proactively identifying replacement retailers. By example, in 2014, we re-leased 23 of 32 former Dot's stores in under a year -- over 70% of the leases in a bankruptcy situation. As you know, RadioShack filed last week and we have been actively working on these leases for quite a while.
- Lastly, expediting the legal process to accelerate lease commencement timing. Our success here is a direct result of our established retailer relationships, which extend beyond just our leasing team to our legal and accounting teams. By example, in 2014, we executed a Sleepy's lease in South Carolina in 10 days, a Burlington lease in Chicago in 28 days, two Ulta deals in Denver and Tampa in 35 days and also the Lemon Pop deal I mentioned earlier was done in 28 days. And while this is a new concept, we were able to leverage our established relationship with its parent Charlotte Russe.

In addition to our continued focus on these initiatives in 2015, we are also working on a new direct to franchisee program. By targeting the franchisees directly, along with corporate real estate teams, we create another avenue for store growth, but at the same time, ensuring that we are securing strong corporate credit on the leases.

In October, we executed our first disposition since IPO with the sale of a 44,000 square foot asset in Houston for $4.3 million. This sale is indicative of our go forward strategy of cycling out of assets where we feel growth has been maximized. As we move into 2015, there is the potential for a small number of additional sales of a similar nature. In January, we completed another asset sale in Durham, North Carolina, for $10.3 million. This asset was also relatively small, anchored by Food Lion and 95% leased with little rent growth going forward.

I do want to emphasize that, even with the potential for measured disposition activity and potential acquisitions, we are an internal growth story. You should not expect to see any significant changes to the portfolio. The acquisition environment continues to be challenging with cap rate compression and strong competition for assets. We are committed to a disciplined approach to acquisitions and we will not chase product with limited growth prospects and low cap rates.

We are still very much in the early innings of harvesting the organic growth inherent in our portfolio through our Raising the Bar transformation process. When combined with no meaningful new supply on the horizon, we are well positioned with a long runway for generating outsized growth.

I will now turn the call over to Mike to review our earnings results, balance sheet initiatives and expectations for 2015.

Michael Pappagallo

Our first full year as a public company was characterized by strong financial and portfolio performance and a variety of balance sheet actions that improved financial flexibility and debt metrics. We enjoyed an earnings growth of 7.1% over 2013 pro forma results to $1.80 per share. Recall that this past year's results included charges for strategic or necessary capital market action, specifically the early repayment of high cost debt instruments, as well as expenses incurred in connection with Blackstone's secondary stock offerings and related shelf registration.

Without these items, FFO growth was over 9% higher than 2013, primarily from NOI growth and lower interest costs. I recognize that many of you in the research community estimated the fourth quarter FFO per share level to be $0.44 versus the reported $0.43. While this was within our previously provided guidance range, the difference from the consensus can be traced to the higher secondary equity offering costs and expenses.

From an operating perspective, the portfolio results speak for themselves. I would only make a couple of observations. First, in looking back at our original estimates versus actual results, it became more apparent that the market-to-market on spaces, as witnessed by the leasing spread numbers, has been a more important component of NOI growth. We expect that to continue. Of course, occupancy increases contribute as well. But the emphasis this past year was more to "Win On Rate" and put the best selection of retailers and not fill space just to fill it. Second, as our Supplement details, we have consistently experienced solid rent growth across all space sizes, be it large anchors or small spaces. In the most recent quarter, we enjoyed spreads in excess of 11% in each of our five space categories. I mention this to underscore that our rent uplift is not solely the product of a few ancient leases that have outside spreads -- we certainly have many of those, with the recent Kmart repositioning a prime example. But we are also consistently printing double digit spreads in the other space categories as well, underscoring the deep mark to market opportunity throughout the portfolio.

From a balance sheet perspective, the last couple of months have been particularly fruitful, first by obtaining investment grade status from two credit agencies, prepaying a mezzanine debt instrument that carried an 11% interest rate and culminating with our debut bond offering in January. We were particularly encouraged by the level of support from investors, with an order book reaching over $2.5 billion, which enabled us to upsize the final transaction to $700 million at an all-in coupon of 3.85%. With this initial transaction completed, we now set our sights towards the remaining 2015 maturities of $550 million that carry an average interest cost of 5.46%, as well as looking ahead to the 2016 debt maturities of $1.25 billion with roughly a 5.6% handle. Of these maturities, over 90% represent secured mortgage borrowings that we will continue to replace with unsecured instruments from the bond and bank markets.

Our earnings release also contained estimates for 2015 for most of the major financial and operating metrics. The components of FFO per share growth in 2015 are provided in the press release. It should be no surprise that NOI growth and interest savings drive the increase, and counter a lower contribution from non-cash accounting income. I suspect that the straight line rents and FAS 141 income may be at higher levels in research models, so it would be wise to check. What the 2015 guidance range does Not consider are impacts from any acquisition or further disposition activity, nor any costs and expenses that emanate from additional Blackstone secondary offerings. It is reasonable to expect activity in each of those areas in 2015. Our approach will be to provide updated earnings estimates as the year progresses, transactions occur and the financial effects become more clear.

Same property NOI range for 2015 is a bit wider than last year's range and the primary influence on both the absolute number and the range is downtime on our anchor repositioning activities. The one observation we made in the press release was the elevated level of downtime we expect in the 2015 numbers, roughly a 40 basis point increment from prior years. Accordingly, we anticipate quarterly same property NOI growth to be on the low end of the guidance range in the first half of the year and the higher end of the range for the second half. Consistent with earlier comments on occupancy, we're estimating growth of 20 to 70 basis points by year end 2015, primarily at non-anchor spaces. Expect us to continue an aggressive anchor repositioning and remerchandising program, which will temper increases in anchor occupancy during the year as we continue the rotation to best-in-class retailers. However, we expect to see the benefits in these activities at higher lease rates, higher spread levels and improved positioning for 2016 and beyond. This strategy can also be seen in our capital spend, as we again estimate over half of our leasing spend earmarked for repositioning and redevelopment related activity. I'd also point out one additional piece of data relating to the value of outparcels, which has been revised to $55 million as we took a complete inventory of all available parcels at our existing centers, not just the two land tracts previously reported.

In sum, 2014 was a year that we met and in many cases exceeded our objectives in balance sheet management, delivered strong financial performance and created further momentum in leasing and repositioning efforts that will spur additional growth in NAV, earnings and cash flow.

QUESTION AND ANSWER

Question

I'm wondering if you could talk a little bit more about your capital raising plan in 2015. Would you expect to do another bond deal to refinance the $550 million of debt coming due that you talked about, including the New Plan bonds coming due in September? And, given your comments that there's a potential for acquisitions, would you consider doing an ATM?

Michael Pappagallo

First, with respect to the bond, we have $550 million of maturities in 2015. It's reasonable to assume that we would enter the bond market again to satisfy those maturities, focusing on a tenor that would fit nicely into our debt maturity schedule. We are also actively considering an ATM. And that will be another arrow in the quiver as we go through 2015, in terms of capital access.

Question

Would the ATM be primarily to match fund any acquisitions? Or would you use it to pay down debt as well?

Michael Pappagallo

It will really depend on the opportunity. Certainly, anything that we do from an equity perspective, ATM or otherwise, will need to be accretive from an earnings and value perspective. To that point, we do have some relatively high cost debt maturing. There are also some acquisition opportunities in the marketplace. But we're only going to issue equity if it makes sense to do. Having the ATM, obviously gives you dry powder to access the market when it's conducive to do so. But I wouldn't read too much into it, in terms of what we're going to be potentially using that for, in the short-term.

Question

Given your remerchandising activities, I just wanted to get a better sense for what you expect the trajectory of occupancy to look like through the year. So how much of a dip should we expect through the year, if any? And how do you expect the gap between the leased rate and the commenced rate to trend?

Michael Pappagallo

In thinking about the leased versus billed occupancy, I think the pattern will be consistent with the past two years, in which the gap widens as you go through the middle of the year and then tightens as you approach the fourth quarter. I would also expect that the absolute levels of occupancy will dip in the first quarter, consistent with prior years, and perhaps be a little bit more than the last couple, because of the larger spaces coming off-line, the Kmart spaces and otherwise. But, again, to start picking up in the second half of the year. So, in sum, a consistent pattern that you've seen in terms of movement relative to the past two years, but perhaps a little bit more pronounced in the early part of the year because more anchor spaces are coming off-line as a result of these repositioning opportunities.

Question

Regarding the Kmart re-tenantings, after you're done with the initial four, are there other opportunities on some of the other Kmart leases? And what allows a Kmart location to be a good candidate for that re-tenanting?

Michael Carroll

There are other opportunities. We're working on them. I think we're trying to be thoughtful in our approach there and minimize the amount of downtime that we'd have to take. We're trying to progress with other retailers, where we can get a good chunk of it signed-up with new tenants and then terminate almost simultaneously with Kmart. We're trying to secure our birds in hand, wherever we can. That's the opportunity on that. And we would expect that we would be able to bring some of those to fruition, assuming we have a willing counter-party at Kmart, as we move through the year.

What makes a good location? We generally feel like all of these are good locations. We have very good infill real estate. That's why we've kept these locations over the years. The transformation that can occur is pretty amazing. I was just back from being in Naples last week, where we have a very well-located property that hasn't been able to meet its potential because we haven't had a real strong traffic driver in there. And today, the quality of tenant that we're talking to, not only for the remainder of the Kmart space, but for the rest of the follow-on leasing at the center, we're talking about Saks Off 5th and were talking to Tesla about having a showroom at the property. It's a complete overhaul opportunity. And, it just speaks to how good the real estate is through the Kmart portfolio. And we think it's an opportunity for us.

Question

In terms of the small shops, what percent of the retailers are national and what percent would be local? And is there any type of retailer that you're particularly looking to fill as you fill that occupancy?

Brian Finnegan

Last quarter, roughly 60% of our small-shop leasing was national and regional tenants and 40% was local. I think we're seeing a good mix going forward. We'd like to target the national and regional operators, specifically because they've got larger brands, typically a better credit profile. But we are starting to see some strong mom and pops look for other locations. We signed a lease last quarter in Philadelphia with a very strong Italian restaurant operator with two other locations. They're going to come in and do a great business at our center. So, as Mike mentioned earlier, we're looking for the best operators, be it mom and pops, nationals, or regionals. The team is primarily focused on our national and regional tenants.

Michael Carroll

I think we have a good opportunity. As we continue to focus on better anchors coming in, it allows us to do some things where we can create a little bit different merchandising environment. Putting a better anchor in, whether it be apparel or otherwise, then merchandising differently with maybe an Ulta or bringing in apparel use like Lemon Pop coming in. And then, focusing on daily traffic generators -- restaurant traffic, maybe the medical component of that as well. And try to create things where we bring that traffic. I'm just back from a discussion at our ICSC trustee meeting a month or so ago. And all of our big retailers, the department store operators and others, are all seeking daily trips. They're all looking for that daily trip. And they want that daily trip generator next to them, to take some of the seasonality out of their business and to drive additional traffic. I think that's what we do really well in our open-air space, with our grocery foundation. And we're trying to enhance that with some other targeted uses.

Question

Last quarter, you talked about identifying 160 Raising the Bar projects. I'm just curious if that number has changed. And how many of them were tied to Office Depot or Staples boxes that you have in the portfolio?

Michael Carroll

The number is the same. We're still working off of that same number and continuing to make progress on that number. And we'll continue to update you as we go forward. And then as it relates to Raising the Bar projects that are tied to Staples, OfficeMax, Office Depot, we have 25 of those in that list of 160 that we're focused on.

Question

If I could maybe get your thoughts, in general, on the whole potential merger between Office Depot and Staples. Just curious how many of your Staples and Office Depot leases are coming due in the next three years or so? And what's the current mark-to-market look like on those assets?

Brian Finnegan

We're excited about the opportunity. We've got, in the next two years, roughly half of our Staples and Office Depot locations at expiration. Particularly in our portfolio, the age of those are roughly 16 years old and the ABR per square foot is about $10.50. We think market is $13.00. As we look to replace those with specialty grocers, T.J. Maxx, Bed Bath, Ross, these retailers are all out looking for space. And we've only got 29 boxes in our portfolio over 20,000 square feet. So, this is where demand is greatest, in that 20,000 to 30,000 square foot range. Overall we're excited about the opportunity and think we'll do pretty well with it.

Question

As you think about acquisitions -- I know we haven't seen anything yet, but it sounds like there could be some in the pipeline -- would you say that the Company's more inclined to make one-off transactions? Or would you be more interested in larger portfolio deals and deploying capital into a larger acquisition at once?

Dean Bernstein

We are mostly looking at one-off acquisitions. We do look at the portfolios that are out there and track them. But it's most likely to be one-off acquisitions.

Question

On the Office Depot Staples deal. Store closings and announcements have been somewhat limited and manageable over the last few years. You ran through your exposure and what the opportunity might look like. But, it seems like closings are accelerating a little bit here. And, I'm just curious, when does this sort of impact fundamentals for the shopping center space? When do these closures start to be a source of concern or soften the market a little bit?

Michael Carroll

I think the closures that would be a problem for the market are generally a large rejection coming through Chapter 11. I think about these locations. And just Staples Office Depot on a macro level and say they're going to be ratable because all of them have lease terms. Whether they close those stores or not, they're going to come back to the landlords in an orderly fashion, because of lease expiration dates. I think there's very little subleasing that will go on with these locations. Because OfficeMax, Office Depot and Staples for that matter have not been in material store opening mode for several years. That puts the majority of the vintage of those leases five years or older. And really not enough remaining term that makes it viable for a national retailer to want to come into something, where they have maybe 10 or 15 years left of total term with options versus doing a new deal themselves. So, I think it's okay in this environment. The thing we always watch out for is true bankruptcies. On the margin, this will create a little bit more supply out there.

Question

Do these announcements change the discussions and negotiations that you're having with other retailers that are looking for space? Does it sort of change those conversations on any level?

Brian Finnegan

I don't think that it does. It just gives us some more opportunities to put in front of them. I think there's not many out there today in our portfolio. So, I think this allows us to look at each particular center case by case and, especially for those that are coming due over the next two years, really proactively advance talks with retailers that are expanding. So, I don't think it materially changes anything.

Question

How much of your anchor repositioning is in your new lease spread? How much of the uplift in rents are reflected in the new lease spread that you report?

Michael Carroll

We put them all in. Anytime we have a comparable lease against a comparable space, that's in there. The thing I would say to you is that, with the law of large numbers with our Company, it's not one lease moving the needle. I think, as in Mike's comments, the print is every category size. And I think we break out categories better than most, in more granularity than most. Across every unit-size level, we're printing double-digit spreads.

Question

I know the way you guys disclose it is on a comparable basis, meaning under 12 months. So, generally, does the time that a tenant leaves and the time it takes for a new tenant to move in is that typically under 12 months or over 12 months?

Michael Carroll

It's from when the tenant was in occupancy to when we signed the lease. So not when they actually take occupancy, but when they sign the lease. So these are leases that we signed this quarter that we reported. There was somebody in that space within the 12 months prior.

Question

I know this is just one quarter and doesn't necessarily make a trend. But, just curious, your small-shop occupancy looked pretty static versus last quarter. I would think being the fourth quarter, maybe there's a little bit of a seasonal bump that you would have got anyway. So, it just seemed on the margin, maybe a little weaker than say typical trend. Maybe you could talk a little bit about that?

Michael Carroll

There is when you look and see there is a seasonality component to what we do. If you look at the mix of what we signed this quarter, the majority of it was anchor space. It was positioning for further distance out. You get into a period in the fourth quarter where you just see less small shop leasing in general. And then it accelerates in the other quarters. It's just like that gap with lease to billed occupancy. Everything starts to narrow, to focus for fourth quarter openings, not so much fourth quarter lease signings.

Question

As you think about getting your debt structure into the unsecured land, obviously 10-year issuances is clearly a go-to option. Just sort of curious on your thoughts on doing something a little shorter term, like 7-year. And then, are you in a position to go for 30-year? Or, with your current investment grade rating, that's not really an option?

Michael Pappagallo

As we look forward, and if you overlay our debt maturity schedule, it would imply that we would be migrating to other maturity levels than 10-year. You could look at the 5- and the 7-year category as prospects for the next offering. The primary focus that we have is to balance out the maturity schedules so that, in any one year, particularly after we get past 2016, that we don't have more than $600 million to $700 million maturing in any given year. So, to accomplish that, we're going to have to be more flexible around the curve to properly position debt and debt maturity. At this point, we are not thinking about a 30-year bond. Maybe down the road. But, at this point, we don't see the need to do that.

Question

On the disposition side. One, if you could just give some color on the cap rates of the recent trades and if those cap rates would be indicative of the stuff that you may sell going forward. And, are you guys thinking about simply pruning? Or would this only be selling where you could 1031 the proceeds? Or is there potential for a special dividend?

Dean Bernstein

The Sharpstown property we sold in the fourth quarter traded at a 6.3 cap. The Parkwest Crossing property we sold in January traded at a 7.2 cap. Aggressive cap rates taking advantage of a hot acquisitions market. And we should expect the cap rates to be kind of in that range on a go-forward basis. I think it's really just a continuation of selective pruning. We have a portfolio management group that looks at our assets constantly. And if we see a property that we think we've maxed out growth, or shows some risk considerations long term, we consider it for disposition.

Michael Carroll

Generally, it's an asset-by-asset decision on what we're doing as it relates to a 1031 basis. Depending on whether there's a gain or not there. If there is a gain, that's our primary thought, is to use that as a vehicle to roll into something different.

Question

You have about 28 out of the 160 locations that you've identified for an anchor repositioning underway, about $90 million of that going on. Given the demand that you have from big-box retailers, do you think that number sort of accelerates? Or do we look for $90 million annually as sort of a run rate?

Michael Carroll

We are working away as fast as we can. There are a lot of factors that come into timing there, whether it be capital plans of the tenants, municipal entitlements, all those things. We've said we thought there was $450 million of investment in that 160 between now and 2018. So, $90 million to $100 million, for that activity, is about where we think it is. But recognize that we're always looking to try to do it faster, if we can.

Michael Pappagallo

This year, 2014, we did see an acceleration. If you look back a year ago, we had 16 active anchor repositioning projects and had completed 23. Now, it's kind of reversed. We completed 15 during the year and we have 28 projects active. So, clearly a pickup this past year. And, based on the supply/demand dynamics, I think this $90 million per annum, 25-ish type projects, will be the steady diet over the next few years to accomplish that 160 property opportunity that we discussed at the last call.

Question

So it's really more getting the tenants out of there and getting the entitlements and that sort of thing that keeps you at the level that you're at.

Michael Pappagallo

Yes, actually gaining liquidity of the space.

Michael Carroll

It's not a capital constraint.

Question

Your redevelopment pipeline, as you show in the Supplemental, is small outside the anchoring space repositioning projects. Do bigger redevelopments start to occur and is there a possibility of even a ground-up development occurring based on tenant interest out there?

Michael Carroll

You look at really what we do and that we had a chance to come fresh with the recent IPO -- we were really able to say, look, our blocking and tackling business is this anchor repositioning business. It's trying to get into that space and do what we can to maximize the leases that we have there and the space that we have there. Because ultimately that's the lowest rent space we have in the portfolio. And we think, in the environment were in, it presents the most upside. Major redevelopments - I think they'll continue to be relatively a small number of them. I don't see a lot of them coming. And part of it is a lot of the reason why there isn't a lot of development today. There's not a lot of large format retailers looking for new locations. So, I think that those situations continue to exist. And it's more of this fill in for that junior box type user. And then, on development -- if you look back at the history of some of the predecessor companies here, we have done some. And it's always when a tenant comes to us and says: Will you do this for us? And, I think if that situation exists, we will look at those situations. And if the numbers make sense to us and it's purely tenant driven with the majority of the risk taken out of the equation because of that, I think you could see us do one or two of those. But it wouldn't be a land bank type scenario for development projects.

Question

On NOI growth. If you're going to have the 40 basis points of drag this year, does that imply a 4-plus number for next year, as those boxes come online from the downtime?

Michael Pappagallo

I won't make any predictions on 2016 NOI growth. But I would say that 2015 is somewhat of a transitional year. I wouldn't say transitional in a negative context, but clearly we have reached anchor occupancy of 97%. And, as a consequence, the value creation is going to come from rotation. This upcoming year we will experience a larger than historical drag. But, as we get into 2016, the benefits of these recent deals will come to bear. And even if there is more repositioning, my sense is they will cancel each other out. And we will be migrating back towards the recent history of our same property NOI growth.

Question

Would it be a net positive going forward? Because you're obviously rolling spaces that are lower rents and once you reposition them, it will be higher rents. Shouldn't each year, rather than be a net neutral, shouldn't it be a net positive, as they roll back on line, with higher rents?

Michael Carroll

From an academic exercise, I think the answer is, yes. The question is what are the opportunities that we have to further recapture space as we move through 2015. But I will say, maybe a little bit less diplomatically than Mike said, we think 2016 is going to be a good year. If you look at our pipeline today of what we have coming on, we have a lot of good stuff coming on line next year. So, all else being stagnant, 2016 will be a good year. But, that being said, if we have the opportunity, as it was asked earlier, to take additional Kmarts or to do something different, I can't project what's going to happen with that as we move through the year. We're in the first part of February, today.

Michael Pappagallo

You can see that Mike is taking the CEO role, and I'm playing the CFO role.

Question

With a lot of your peers, during the lease-up period of the last few years, kind of 95% was the point in time when they started transitioning from filling space to pushing rents. Why is it that roughly 93% occupied for you guys is the right time to be pushing rents, rather than filling space as aggressively as possible?

Michael Carroll

I think with us and what we've said from the beginning is it really is an asset by asset exercise. And so, as we achieve what we're achieving on the assets, and it's part of the reason we put the deck out last quarter, when we get the asset position the way we want it, we want it with the anchors in place. That gives us the opportunity to push rents on that asset. We're focused on getting that right on that asset. If I use the Naples location I was talking about earlier on the call, if we were to fill up space there today, we're hurting ourselves. Because we don't have the asset in the right spot to really be able to drive the rents the way we know they can be. When we have an open Dick's Sporting Goods and when we fill out the adjacent 35,000 feet that we are still working on and we transition a couple other marginal retailers who are not really acceptable tenants today. And we finish out the out-parcels. There's just more to do. But it all hinges on getting that anchor positioning right. And that's been the whole communication around our Raising the Bar program. Get that anchor position right and then reap the benefits. Don't try to reap them before because you're not going to get the right rate on them.

Question

Can you reiterate your deleveraging goals? Kind of your timeline and how you plan to achieve those goals?

Michael Pappagallo

As we look to the end of 2016, we would like to have an unencumbered NOI pool approaching 80%, and have a net debt to EBITDA on a cash basis around 6.5x. That plan is really just based on utilization of existing free cash flow. To the extent that there is an opportunity, whether it's additional equity or acquiring assets and, in effect delevering that way, those numbers can get better. But we operate under the base-case scenario where we will not go to the external markets for further deleveraging.

Question

You mentioned 2016 is a big maturity year. What does your business plan for 2015 contemplate in terms of pulling forward some of those loans for prepayment in 2015?

Michael Pappagallo

We have an opportunity to accelerate an additional $400 million from 2016 into 2015. Based on market conditions and the ability to access the bond markets again, we could have an opportunity to further improve the debt maturity schedule and do additional financing. And some of those scenarios drive the guidance range variation that we show in our press release, going beyond the base case of one bond offering to deal with 2015 to the extent there's additional activity. And then, of course, who knows where the treasury curve will be in three, six, and nine months. That drives the variability in our estimate.

Question

Currently, on the unsecured side, what are you expecting to issue in 2015? Or does it just really depend on what you guys pull forward?

Michael Pappagallo

The base case, again, as stated earlier, is that the $550 million coming due contractually in 2015 will be refinanced in the unsecured market. And then there is the opportunity to do some more, which will obviously, therefore, affect short versus long-term debt rates. If we have the opportunity and the market is there, we may do additional financing.

Question

You think that will be at year-end or would that be more mid-year?

Michael Pappagallo

Biased towards the second half of the year.

Question

On small shops, you had a nice lift of 100 basis points in 2014. What does your guidance assume for 2015 in terms of small shop occupancy growth? And where do you see that going over the next couple of years.

Brian Finnegan

Similar uplift in 2015. As we get some of these anchors on line, we're going to continue to see the growth in the small shop leasing. So, the downtime that Mike and Mike have both talked about is primarily with our anchors this year. And we'll see the growth throughout the year in the small-shop space.

Michael Carroll

Where we are getting these anchors in and open, we are getting substantial lift. Over the last 24 months, where we've had anchors open, we had approximately a 400 basis point occupancy pickup in the shop leasing at those properties. So, that is our formula. And that's the formula where we get the best rate, the best spread, and etcetera. That continues to be our focus. In that range of that 150 basis point lift in shops, that's generally what we would expect to see.

Question

If you could just comment on the regional performance in the fourth quarter, maybe how your primary versus secondary and tertiary markets performed.

Michael Carroll

The performance was generally very consistent. We're basically 3.9% for the year. And when we look at our performance of those, it's pretty evenly distributed. The non top-100 markets, which we think we have the best properties in the market, generally we're at 3.9% for the year on those as well. Pretty fair disbursement. We're seeing broad-based improvement all through our portfolio.

Question

There's a 150 basis point gap between leased and occupied rates. How do you see that trending through 2015??

Michael Carroll

We think it's consistent with the past two years. It will widen out through the year and then begin to narrow in the third and fourth quarter. Again, pretty consistent with what we've seen in the past.

Question

Do you think that 150 basis points is about where you end next year? Or does that gap shrink?

Michael Carroll

I think it's a fair estimate.

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