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1Q 2015 EARNINGS CALL - FINAL TRANSCRIPT

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PRESENTATION

Stacy Slater

Thank you Operator and thank you all for joining Brixmor's first 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, let me remind everyone that some of our comments today may contain forward-looking statements that are based on certain assumptions and are subject to inherent risks and uncertainties, as described in our SEC filings, and actual future results may differ materially. We assume no obligation to update any forward-looking statements. Also, we will refer today to certain non-GAAP financial measures. Further information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in the earnings release and supplemental disclosure on the investor relations portion of our website. At this time, it's my pleasure to introduce Mike Carroll.

Michael Carroll

Our results this quarter reflect the ongoing progress of our Raising the Bar efforts as we reposition our assets with best-in-class anchor retailers to drive occupancy, rents, cash flow and ultimately NAV. Driven by the over 150 anchor openings in the last 24 months, we are seeing significant momentum in our small shop leasing, and we are "Winning on Rate." Our rental rate on new leases signed was 27% above our in-place rents.

And we increased small shop occupancy 130 basis points year-over-year and 60 basis points sequentially. These gains were achieved in the same quarter as the expected rejection of 36 RadioShack leases aggregating 85,000 square feet. Leasing in this category during the quarter was a balanced mix of national, regional and local retailers. These local retailers are again playing an increasing role in the service and restaurant categories. They are tenants with established businesses such as bar and yoga studios, or specialty gyms like Orange Theory Fitness or expanding restaurant chains such as Pacific Fish Grill. Our location will be the fourth for Pacific Grill, with the original opening in 2008. Fruitful Yield is also new to our portfolio in the Chicago suburbs. They are a health food store with 12 locations in Chicagoland, founded in 1962. The characteristics of these small shops illustrate the increasing caliber of retailer we are achieving as Raising the Bar gains momentum. On the QSR front, we signed our first Starbucks modular drive-thru and walk-up shop in California. This is a pilot program for them, with no leather chairs or free power outlets. In fact, there's no space for customers at all. Starbucks pays a significant ground rent for the space and it's a great example of creative densification. We are in discussions with Starbucks regarding additional locations. We also executed our first Buffalo Wild Wings deal since 2011 and we have more in the pipeline as they continue to expand with 90 locations planned this year.

Last quarter, we introduced our direct to franchisee program. By targeting the franchisees directly, along with their corporate real estate teams, we create another avenue for growth with the security of corporate credit. During the quarter, by proactively reaching out to existing franchise owners in our portfolio, we signed six small shop leases, including five brand name wireless stores, and with a fast growing sandwich concept called Which Wich.

Overall occupancy trended down slightly, as we anticipated during the fourth quarter conference call, primarily as the result of the proactive recapture of three of the four Kmart boxes effectuating this quarter for 265,000 square feet. The aggregate income committed in rent for the Kmart boxes recaptured is about $2 million, with 80,000 square feet of space still to be leased. We are more than happy to trade short-term occupancy loss for long-term value creation. In addition, consistent with our Raising the Bar efforts, we've been focused on a disciplined reduction in exposure to certain merchandise categories, including the office supply space. During the quarter, we did not pursue the renewal or option exercise of three office supply stores averaging $8.25 per square foot, impacting our leased GLA by 60,000 square feet. We believe the market rent on these locations is at least 40% higher than the current rate.

The importance of our national platform in providing strategic access to our retailers is again demonstrated by the key anchor leases executed this quarter. For example, in Cincinnati, we executed a lease with Burlington Stores for their first small format store. This new prototype, at 45,000 square feet, is an important growth vehicle for them. We also executed five Party City leases, bringing our total new deal count with Party City to seven in just the past six months, as well as two new leases with Ulta during the period. We're also seeing the benefits in the small shop space. Habit Burger has been rapidly expanding in our portfolio over the past 24 months and this quarter we executed two additional leases with them, one in California and one in New Jersey. Importantly, by leveraging our pioneering relationship with them, we are playing an important role in their expansion from the West coast to the East coast. Piada Italian Street Food is another rapidly expanding fast casual chain started by the founder of the Bravo Brio Restaurant Group. Customers select fresh ingredients along an assembly line similar to Chipotle. After signing a lease in Dallas this quarter with another underway, we are working with them to now enter the Florida market.

An under-appreciated benefit of our portfolio breadth and the associated diversification is that we have created a grocery-anchored portfolio populated with a diverse mix of market leading grocers, many of which are strong regional operators like H-E-B, Giant Eagle, ShopRite and DeMoulas Market Basket. These grocers are printing sales performance exceeding or on par with our peers, but across more diversified markets, with a lower credit concentration and risk. In fact, our top 20 tenant exposure is among the lowest in the sector at 27% of ABR.

Blended rent growth for the quarter was a very strong 13.7%. Our teams were able to push rate in the backdrop of our improved merchandise mix and strong retailer demand. This is our third consecutive quarter of blended spreads approaching 14%. We are approaching almost two years of blended spreads above 11%, in addition to having realized two years of new lease spreads over 20%.

New lease rates increased to $15.45 versus last year's average of $13.45 and are indicative of the tremendous mark-to-market opportunity inherent in our portfolio, with an average ABR per square foot of $12.19. This is a **WOW** opportunity and unlike others in the sector, all upside with minimal downside risk! As I've said before, this is a long runway given the structure of our expiry schedule and the maturity of our assets.

As a result of these ongoing gains in rents, we delivered same property NOI growth of 3.4%. Of note, over 80% of the change in same property NOI was from rent growth, indicative of our ability to grow cash flow while at the same time repositioning our portfolio for the long-term. While our same property NOI growth may be similar to our peers on a quarter by quarter basis, we are also laser focused on producing outsized top line revenue and cash adjusted EBITDA growth, with corresponding peer leading FFO growth expectations.

Moving forward, with very little anchor space available in our portfolio, our Raising the Bar effort is a critical mechanism to meet the demands of our retailers in today's supply constraint environment. We continue to believe that a meaningful change in new development is at least five years away. Against that backdrop, we continue to allocate capitol and accelerate our anchor repositioning program. During the quarter, we added an additional 12 projects to our anchor space repositioning and outparcel development pipeline -- a big number in one just one quarter. We now have 32 active projects for an aggregate investment of $107 million. There's a big runway ahead of us, with many opportunities for value creation. We are accomplishing it the best way -- by leasing and operating our portfolio.

We also welcomed a new director this month, Tad Dickson. Tad is the former CEO of Harris Teeter Supermarkets, where he played an instrumental role in their real estate strategy, which was very similar to the approach that Brixmor takes. He also served on the board of the Pantry until its acquisition earlier this year. We look forward to the benefit of his grocery industry experience. As our Board continues to evolve, we will seek retailer knowledge and expertise to keep pace with an ever changing landscape.

I'll now turn the call over to Mike to review our earnings results, balance sheet initiatives and updates regarding our 2015 outlook.

Michael Pappagallo

We were pleased with the underlying strength of our business activity this quarter, which translated into solid operating metrics and earnings. Those results are easy to track with the simple math of higher NOI and lower interest expense generating the improved earnings, while the remerchandising of centers with higher caliber retailers are enhancing the valuation of our properties.

Same property NOI grew nicely at 3.4%, right down the middle of our full year guidance range, and reflective of strong rent spreads and a slight occupancy uplift versus a year ago, despite the elevated downtime from our repositioning activities. As in prior quarters, much of the increase was driven from top line growth, but we also saw improvement in expense recoveries and better credit quality. This growth rate was relatively consistent across different cuts of the portfolio, be it grocery-anchored versus non-grocery, neighborhood versus community or top 50 MSA versus non-top 50. This speaks to our progress across a broad opportunity set.

While the transformation of the former Kmart boxes in Naples, Syracuse and St. Louis were the largest contributors to the downtime drag on a still very solid NOI growth rate, there are other repositioned boxes that will come online in late 2015 or 2016 including the Burlington Stores deal that Mike mentioned earlier and a new LA Fitness in Connecticut, as well as the activity with the former office supply space.

On the capital structure front, the improvement in interest expense reflects the impact of $1.2 billion of refinancing activity since the beginning of 2014, driving down our average debt cost by 55 basis points to 4.37%, as well as an $81 million reduction in the debt stack. We still have more opportunity as we go through the year as we refinance the remaining $494 million of maturities that carry an average interest rate of 5.4%. We will continue to pursue unsecured debt structures to effectuate the refinancing, consistent with our program to simplify the capital structure and provide maximum flexibility to our property level strategies. Some investors have asked about the large maturity tower in 2018 of $1.5 billion. Recognize that this is a term loan that is pre-payable in whole or in part without penalty. An interest rate swap fixes the instrument through mid-2016. Rest assured that we will address and balance out this maturity well before 2018.

The combination of the quarter's cash NOI growth and lower interest expense added about $0.04 per share of increased earnings, representing about a 9% jump from comparable 2014 results. However, the headline FFO was held back somewhat by a nonrecurring, non-cash equity comp charge. The $9.9 million charge taken in the quarter accounts for the previously unrecognized equity compensation expense related to the awards granted to management prior to the IPO. A portion of the non-cash expense was recorded at the IPO; another portion was being amortized over time, while the final piece could not and would not be recognized until Blackstone achieved its minimum performance hurdles on the Brixmor investment. After the last equity offering and greenshoe, Blackstone confirmed that the minimum hurdles were met and, as a result, we accelerated the full remaining charge in a single period as required under the accounting rule. Let me be clear, this was a non-cash charge and has no impact on our operating cash flow. As a result, on a go-forward basis, there will be no further expense related to these pre-IPO awards hitting our financial statements. As a consequence of that latest sale, Blackstone interests are now 42% on an economic basis and 41% on a voting basis. The two offerings to date in calendar 2015 have reduced their economic stake by over 14%.

Although the quarterly numbers were impacted to a degree by the comp charge, we remain comfortable with the previously issued full year FFO guidance of $1.94 to $2.00 per share on a NAREIT defined basis. Further updates to guidance during the year will of course account for events and transactions that have occurred, but won't consider any potential acquisitions, dispositions, or additional costs arising from any further Blackstone stock sale activity.

QUESTION AND ANSWER

Question

In regards to Blackstone reaching this 15% IRR hurdle that triggered the comp charge, do you see any potential implications for that for Blackstone from a strategic standpoint? Does this change anything for them?

Michael Carroll

I don't think it changes anything for them. What they've articulated is they will continue to be responsible stewards here and will continue to monetize over time. I don't think it causes any real acceleration in anything that they do. I'll also say on a retrospective basis here is Blackstone has been a really good partner for us. They provided a lot of capital, they helped us delever the business. But, I will also say that Blackstone acquired a team and a business plan here that really helped this be a successful investment for them. NOI has been positive in this Company every quarter since they acquired us -- 15 straight quarters. The last 12 quarters have been 3.4% or better. I'm proud of that. I'm proud of the team here. We have a great team. They've executed well. I know that they'll continue to execute well for us because we have tremendous upside here and a great plan and a great team of operators to execute it. On a retrospective basis, we feel very good about it.

Question

You also talked a lot about your efforts to recapture and re-tenant anchor boxes. Do you see being able to capture additional Kmart boxes in the near future? You talked about the office suppliers, but are there any other retailers that you're going after aggressively trying to get boxes back more than others?

Michael Carroll

In some instances like office supply, it's retailer specific. And Kmart can be retailer specific. Broadening out beyond that, it's really where we see space that's being underutilized. We own grocers today where we think the location is a great location and we don't think we have the right grocery operator in there and we'd like to make that change happen at some point. We have a couple of those things with the Baron's Market opening in California and we have another first time deal that we're working on in Minneapolis. It's a mix of different things. There was a conversation with Kmart last week and there continues to be a willingness to engage there and do something with us. We're actively trying to bring things to fruition there. They need to make sense to us on an economic basis. They also need to fit with capital plans of retailers who are looking at those sites. We are very focused on minimizing downtime and if I think about the office supply space this quarter, we thought it was very compelling to take those back and it was bite-sized enough that we could do it and we felt good about where we were with potential tenants. Although we don't have anything locked down yet completely, we felt like we were in the right space. It's a different story between taking down a 20,000 square foot store and taking down a 100,000 square foot store. We're trying to balance that all out and try to be consistent in our approach.

Question

On the re-anchoring projects, you've attacked a lot of those and I think they've been very helpful to you guys generating the NOI growth and leasing spreads we've seen the past few years. Going forward, do you expect to be able to maintain that mid-teen spread and same NOI growth pace given that your rollover schedule may be a slighter higher bar?

Michael Carroll

We do. I think we are one of the few who actually gave guidance on spreads and we think we're going to be mid-teens -- in that 12% to 17% range. So I think we can continue it. I think it's one of the things that we feel most confident about our business. We look at our expiry schedule and expirys for the balance of 2015 are under $11 PSF, 2016 they're $11.26 PSF. Huge mark to market opportunities. If anything, I could be expecting people on your side of this business to be pushing us for stronger spreads. We feel good about it. We think the business has this great runway because of just the maturity of the assets and the embedded mark-to-market opportunity. I think it's unlike any other.

Question

What's your outlook for small shop occupancy growth? I think that's been a big part of your story, I'm curious as to what your outlook is there?

Brian Finnegan

It's definitely been part of our story and is a direct result of what we've been doing in the anchor repositioning. We've had a simple thesis that basically says when we put better operators in, they're going to drive more sales, more foot traffic, and it's going to lead to better follow-on shop leasing. The result this quarter was a direct result of that. Further, in the last two years, when we put a new anchor in, small shop occupancy has increased over 400 basis points. It's something we think there's a lot of runway for as we continue to bring these projects online.

Michael Carroll

At the right rates too. That's important to us to make sure we're getting this at the right rate, and we're doing that, and the team is doing a really good job. Winning on Rate is our mantra here --that we've got to do that. They're doing a great job doing it.

Question

Has there been a change in the nature of the tenancy that you're signing, whether it's national or local, on the small shop front?

Brian Finnegan

It's similar to last quarter, still about 60/40 for us in terms of national and regional versus local tenants. We have seen a pickup in strong, local operators looking to expand. Mike mentioned Pacific Fish Grill in the West coast. A number of our restaurant tenants are similar to that, strong restaurant operators that are finally seeing that it's time to maybe open a second or third location. Our guys are out there canvassing the market and aware of those opportunities. We're optimistic in terms of local retailers. Overall, we're still pursuing national and regionals wherever we can. They typically have stronger brands, better credit profiles. We think it's a good mix.

Question

I saw that Brixmor is hiring some folks this year, I guess on its acquisitions and dispositions team. I'm not sure if that's new people or replacing existing, but I was curious if that might mean you're looking to turn up the volume on capital recycling overall or in a particular geography?

Michael Carroll

We have added people. Effectively we're building our team back up to support doing some external growth. It's more capital recycling. I think I may be misspeaking a little bit on external growth. It's more capital recycling. I think you'll see us continue to look to prune or just normal asset manage as we achieve our targets on different assets and buy a few things here or there.

Question

Just wanted to go back to the same property performance for the quarter, which was right at the midpoint of guidance, but I think expectations were for it to come in a little bit lower in the first half, and certainly in the first quarter, you'd think with the seasonality, it might be lower. Just curious was that primarily driven by better leasing volume and therefore better occupancy rates or if there was something else that was driving that performance and all else being the same obviously during the year. Does this put you ahead of plans in terms of the full year outlook for same property?

Michael Pappagallo

What was favorable is the amount of small shop leasing that did happen. On the margin, it was a better than expected performance. That said the repositioning effects or the downtime effect of repositioning will really happen in the second and third quarter. Most of the major anchors, their leases expire at the end of January, post-holiday timeframe. We did get some incremental rents from those tenants that were leaving. There will be most likely more of a dip in the second and third quarter and then a reacceleration towards the fourth quarter, as many of these new tenants in these repositioned boxes come online in advance of the 2015 holiday season. Exactly where those numbers are going to be -- that's why we have the range. There's a lot of things that could influence on a 10 or 20 basis point level.

Question

Just looking at the split out of rent spreads amongst the less than 10,000 square feet versus greater than 10,000 square feet, this quarter the less than 10,000 was actually better than the larger tenants and that hasn't been the case for awhile. Can you provide color on what you're seeing there? The demand is good, but anything in particular that caused that rent spread to reverse between the large and small size deals?

Brian Finnegan

I think it has to do with the quality and caliber of tenants that Mike mentioned. When you look at Buffalo Wild Wings, when you look at two Habit deals, these are strong operators that perform very well and have the ability to pay higher rent. I think it was a matter of the type and quality of tenants that we put in this year.

Question

The larger tenants seemed like the spread was a little bit lower than it's been. Just curious if there's anything that's pulling that down this quarter relative to past quarters?

Brian Finnegan

I don't think so. Last quarter we had a number of the Kmart leases in advance of that being in. I don't think it was anything other than just the comparable of what was rolling off versus what was coming in.

Question

I think I probably know the answer to this, but just curious if you could shed some color on what you're seeing in the Houston market for you guys? Any notable impact from either lower gasoline prices or fallout from the oil and gas sector?

Michael Carroll

On a macro level, we have not seen any real kick from the consumer. Any discussions we've had with retailers, they are just not feeling that added stimulus that you would think would be there from lower gas prices. So that continues to be a delayed phenomenon. As far as Texas, it's a little bit of the same story. Our first quarter in Houston our leasing spreads on a blended basis were 14%. Our same property NOI was above 6%. For Texas in total, it was just below 5%, the same property NOI growth. We're not seeing anything yet. I think it's going to need to be something that's prolonged for retail to see it. You look at our space, its necessity driven retail and contractual leases. We're in the grocery space, I would make the case that our properties are going to see it last because people are going to trade down to eating at home as opposed to eating out, if you think about that piece. Necessity and value in our centers is something that would play well into a little bit of a downturn in that market. We're watching it. As we see today, we don't see anything.

Question

I know in the past you talked about doing smaller size deals, nothing major. Just curious if you had any thoughts on the Morris portfolio that's out there? I think that's more of a power center portfolio. Just curious if you could share your thoughts on that?

Michael Carroll

This was part of the Prologis acquisition, primarily northeast and I think a little bit of Florida. Its power center assets.

Dean Bernstein

Yes, we're looking at it. I think it's a mixed portfolio. I think it does include a lot of power centers, which is not exactly what we're looking for. We're certainly going to give it a good look. It's just coming out on the market now.

Question

Sounds like a lot of the growth is in the food category on the small shop side, and you mentioned a handful of concepts and retailers. This is consistent with what we've heard for some time and from many landlords. I'm just curious, how much restaurant and food exposure is too much for a community center? Are you concerned at all with this segment of the market growing too quickly, and how deep is the market here for additional growth in this category?

Brian Finnegan

I would say there is a lot of food retailers that are expanding. There's also a ton of other uses in personal services category, in the health and fitness category. We did deals with Barre3, with Orange Theory Fitness and Core Power Yoga is coming to the East coast. We think it's more than food. Obviously, there are a lot of strong restaurant concepts. We look at our centers and see where we can add them, where there could be an impact on parking. For the most part, we don't see that runway slowing down at all, and we're happy with the fact that there's a lot of other uses out there just besides restaurants.

Michael Carroll

I think one other thing too that's driving why there's so much food, there's a major shift going on in the way people think about the foods they're buying and what they're eating. You see it in the grocery space with the movement towards fresh, local, natural and organic. You're seeing it in the restaurant space where its fresh ingredients made to order. There's an emerging class of restaurants coming out to take advantage of that, at the expense of McDonald's and Burger King and Taco Bell, and these other guys who are the old way of doing things. There is this mindset shift. I think we're uniquely kind of positioned to play it. These are not all freestanding restaurants that have to have drive-thrus. That is not their business, like the fast food business was. I think there's a shift going on. That's why it maybe seems more elevated than it is. I think it's just the cycle of what we're seeing out there between the decline of fast food and the emerging of this made to order fast casual concept.

Question

When we look at your MSA breakout in the supplement, it seems like it's really the 81 properties outside of the top 100 MSAs that screen below the portfolio average, in terms of occupancy, base rent trends and demographics. In the past, I know you've commented that you were seeing relative strengths in some of your secondary market properties. Is that consistent with the properties outside of the top 100 MSAs? How are they performing from a growth perspective? Is there any thought to siphoning off those properties at any point, just given your comments around capital recycling?

Michael Carroll

I think there's opportunities there. We're trying to mine those opportunities. If I look at our properties that are just in general outside the top 50 MSAs rather, we are at $11.00 of in-place ABR, and we're signing new leases at $18.00 a square foot in those assets. We have great growth there. Are we wed to those all long term? The answer would be yes in some cases and no in others. Where we see a $6 or $7 delta on the rents, it's certainly our job to mine that and try to maximize that and really focus on that effort. We're trying to do that. I think as you see some of the things we sold, we sold something in Durham this quarter, we've got other things that we think we've maximized that happen to be in smaller markets, but I wouldn't read into a major siphoning off. I think the opportunity has been too strong. Just looking at our spreads in those markets this quarter, we're almost 15%. So if the opportunity is strong, we're going to continue to focus on it.

Question

Just going back to your comments about external growth, you sounded like maybe you're going to recycle capital, but I was curious would you be a net acquirer over the next couple of years or is it dollar neutral and maybe FFO dilutive in the short term?

Michael Pappagallo

I think this year our guidance is to be net zero. I'd say for next year, I would assume similar. We're starting to see some off-market opportunities out there in some places where we think we can be effective. I think I reserve the right to change, but as we sit here today, we would generally consider ourselves to be just mainly in the recycling business.

Question

The G&A adjustment, is that something that we could possibly see again next year if your stock price is up a couple dollars? Would there be another possible adjustment in the first quarter?

Michael Pappagallo

No, that is it in terms of the special one-time adjustments. It represented an accumulative and acceleration of what was going to be recognized over time. Going forward, it will be a much more normalized G&A level, particularly as it relates to the current compensation plan, will be amortized on a very rateable, consistent level.

Question

Are there any possible potholes in terms of maybe occupancy slips? There's been a lot of M&A activity in your tenant base, I haven't seen a whole lot of closures impact you yet. Just curious to know, what are you, if any, are you expecting in space to come back in the next year or so?

Michael Carroll

There's always potholes in this business. Retail is very dynamic. Concepts come and go. Who would have thought Target would completely get out of Canada one year after opening? Not many. So I think we continue to monitor the normal watch list of tenants. I think private equity owners of some of these businesses may ultimately spur more store closures. So something like a Safeway or Albertson's could spur some store closures. But generally, it's bankruptcies that are going to have material impacts on occupancy. We would not anticipate non-bankruptcy store closures having big occupancy impacts.

Question

You mentioned that you have all these great grocer relationships. And I'm curious if any of them are asking you to build them a new center, find a new location where they actually want you to do something ground-up for them.

Michael Carroll

We've had a couple of discussions with Kroger about that. There's not many. One of the things that's been a nice tailwind of our business, there's not been many new grocery developments out there. And that's really kept new centers in check. I don't think there's an acceleration coming from any of our tenants anytime soon. I think there may be some spot opportunity. I don't see it being material mainly because there's just not a lot of demand to open new stores. There's a lot of demand to renovate, remodel, expand. Not a lot of net new demand out there.

Question

Just going back to acquisitions, it sounds like you have a team and you're pretty actively underwriting potential acquisitions, is that accurate?

Dean Bernstein

Yes, I'd say we are looking. It's matter of opportunity in this market. It's tough to find opportunities. We are finding some selective off-market opportunities. We have a few things in due diligence. We remain disciplined and selective in the process. We don't see major activity, but we expect some activity this year.

Question

You guys are active, it sounds like. That's great. And then last thing is, the economy was up and now it seems like it's slowing down again. It's hard to say I guess. No one really knows exactly where the thing is going to go. What do you guys hear overall -- you gave some good color, on some of the different retailers that are opening stores. In general, are you seeing any kind of slowdown in terms of how the broad retail community is thinking about store opening plans?

Michael Carroll

You really have to look at the large format retailers. The large format retailers are effectively going to track where retail sales are heading. They're the ones who effectively trade across the macro environment. And because it's been a soft recovery with tepid sales, those guys have been, generally, at all time lows. I'm talking about the home improvement stores, the Targets, Walmart continues to go down on store openings, and major grocers continue to be kind of flat in store growth. And so those are the guys who generally trade off of it. You continue to find good demand underneath in the junior category where we think the off-price guys are taking a lot of business from the department stores. They continue to ramp-up a lot of stores and we continue to see, whether it be small shop operators or regional category killers like Bed, Bath and Beyond, where they have runway for some of their concepts. They're active. I think we find very good demand that's operator-driven underneath, but when you look at the retailers who trade more off the macro basis, they continue to be tepid and be focused on their existing stores.

Question

You talked about doing some more unsecured issuance this year. Did you give us an idea of what kind of magnitude you're thinking? Also, what are your thoughts on interest rate hedging, whether you think that's worthwhile in the current environment or whether you're kind of going to let it play out?

Michael Pappagallo

We have just under $500 million of remaining maturities for the year. I think a good estimate to think about another unsecured issuance later in the year. Similarly, in 2016, we have roughly a billion dollars of maturity and we would look to hit the unsecured markets on a couple of occasions in 2016 as well. At this point, we are not actively considering any sort of hedging product in the market right now.

Question

Back to kind of the strong performance in the small shops, a 60 basis point gain sequentially, a really strong gain especially the time of the year. Is there anything abnormal about that? It seems really strong for the first quarter.

Brian Finnegan

No, it's simply a matter of the pipeline that we have and the tenants coming online. As we said earlier, it's a direct result of the anchor repositioning that we've been doing and our guys in the field have been marketing off that. So I think it's a matter of the fruit coming to bear in a lot of this. We expect it to continue.

Question

You mentioned increasing conversations with mall tenants in some prior calls, including meeting with Saks. I'm wondering if you can give us an update on what you're seeing there.

Michael Carroll

We think there's good traction there still. As I said, this is kind of a test lab for us and we're putting some effort behind it because that's the feedback we're getting from retailers and we're having lots of discussions. So we think that we're going to continue to build momentum there. It's pretty early days. Maybe we've got 15 leases signed to date, along those lines. So it's kind of an emerging business, as our program continues to gain traction, because we have to remerchandise with our anchors to a way that's suitable to bring in some of these tenants. As we sign more leases with Ulta, DSW, TJX, Ross, Nordstrom Rack, and some of the others of the world, that really helps us create the right merchandising environment to gain further traction there. It's evolving, is probably the best way I can describe it.

Question

In terms of potentially selling, can you give color on why it may make sense to bring in some of those that are lagging the rest of the portfolio, given some opportunity there, but it also seems like it's a very good time to be a seller, given the demand out there. I'm just wondering how you go about weighing the time and effort to lease those versus selling them outright and focusing more intention on the existing portfolio opportunities and recycling that capital into there. The second part to that would be if there was any sort of agreement out there with Blackstone not to show any dilution to earnings until they cleared out a return or hit some of those return hurdles and therefore, maybe with that happening, there's a chance to accelerate some sales here?

Michael Carroll

No. On the latter part of your question, there's really no relationship there at all. I'll just say again, Blackstone hitting their hurdles doesn't have any impact on how we fund the business. There's nothing there in place like that. For us, it's very specific on an asset level. I'll just say it again. We think, whether it be waiting for an anchor to exercise an option to have terms to be able to sell it. It's a good market to sell assets that have the right characteristics. You can't be a year or two years away from an anchor expiry. We want to lease up where we can around it. There's some structural things that lead to whether it's a good time to monetize something or not. I will assure you we've focused on this very much and we look opportunistically where we think we have the right thing in place to do it, but at the right metrics in place to sell it. Where we see growth that can continue at the rate we've been continuing it at, those are assets we want to hold where we still think we have value. We're in a market where maybe it's a good time to sell assets. It's also a very good time to own assets. You look at the spreads that we've been coining here, for three quarters running at roughly 14% and continuing to grow revenues every quarter, if we can't replace that, it doesn't really make a lot of sense for us to be selling streams that we believe will continue to grow.

Michael Pappagallo

The vast focus in trying to maximize the value of the assets that we are very persistent, maybe even stubborn with, we are not inclined to window dress the portfolio to remove assets that may be in the market that don't fit certain demographic streams. If we see an opportunity to create value and to execute our basis, we will. And then potentially distribution if it makes sense. It's just a consistency, and we've tried to impart upon the investor community, that we're not going to undertake dilutive or short-sighted activities when there's a value opportunity.

Question

What triggered the FAS straight line adjustment for guidance, the change?

Steve Splain

It's really just the write-off of any unamortized below market rents as we re-tenant the spaces. Anything unamortized for a tenant that's leaving either early or at the end of a lease where they have options that had value, we have to write that off. It's an accounting adjustment that you would write something off, or as leases terminate, but that is in fact the accounting rules.

Question

All that incurred in the first quarter or is some still expected for the year?

Steve Splain

There are more coming, if those tenants don’t exercise options as we would expect.

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